Company No. 00233462

JOHN LEWIS PLC

Financial Statements for the year ended 26 January 2019

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Contents

Company information

Directors:	Sir Charlie Mayfield (Chairman) Tracey Killen Patrick Lewis Bérangère Michel Paula Nickolds
Company Secretary:	Peter Simpson
Registered office:	171 Victoria Street, London, SW1E 5NN
Company number:	00233462
Independent auditor:	KPMG LLP 15 Canada Square London E14 5GL

Strategic report for the year ended 26 January 2019

John Lewis plc ('the Group' or 'the Company') present their audited consolidated financial statements for the year ended 26 January 2019.

The Company is the principal trading subsidiary of John Lewis Partnership plc ('the Partnership'), and owns Waitrose Limited. The Group includes Waitrose & Partners and John Lewis & Partners and has 83,900 employees – or Partners – for whom the Partnership is owned in Trust.

Review of Performance

Key performance indicators

	2019	2018
Gross sales growth (%)	**1.0**	2.0
Like-for-like sales growth[1] (%)		
- John Lewis & Partners	**(1.4)**	0.4
- Waitrose & Partners (excludes fuel sales)	**1.3**	0.9
Increase in 'high spending' customers[2] (%)		
- John Lewis & Partners	**(2.2)**	(0.8)
- Waitrose & Partners	**(1.5)**	1.2
Net Promoter Score		
- John Lewis & Partners	**+67**	+64
- Waitrose & Partners	**+22**	+29
Average non-management Partner hourly pay above National Living Wage[3] (%)	**17.0**	18.8
Partner pay as a % of sales	**14.0**	13.8
Partner job satisfaction[4] (%)	**71.0**	70.0
Return on Invested Capital (ROIC)[7] (%)	**7.3**	9.1
Debt Ratio[5] – total net debts as a multiple of cash flow	**4.3x**	4.3x
Partnership profit per average full time equivalent (FTE)[6] (£000)	**5.0**	6.9

1 A measure of the year-on-year branch and online gross sales growth, removing the impact of branch openings and closures. This measure indicates the underlying sales performance on a consistent basis.

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. The historical KPIs are therefore restated each year to reflect the most recent data available.

3 For 2018/19, this is calculated as the percentage above the 2018/19 National Living Wage of £7.83.

4 From 2017/18, the Partnership created a satisfaction index, based on an aggregate of nine questions, to provide a wider view of satisfying employment.

5 The Debt Ratio is defined as total net debts as a multiple of cash flow. Total net debts represents the total borrowings of the Partnership including net debt (defined on page 28) adjusted for an estimate of non-liquid cash, the IAS 19 pension deficit net of deferred tax, and the present value of future rentals payable under operating leases.

6 Partnership profit before Partnership Bonus and exceptional items, but after tax, adjusted for above market rewards divided by the average number of full time equivalent Partners.

7 Prior year figure restated to adjust for above market reward.

Strategic report for the year ended 26 January 2019 (continued)

Performance summary

As we expected profits were substantially lower than last year, in what has been a challenging year, particularly in non food. Waitrose & Partners operating profit was up 18% due to like-for-like sales growth of 1.3% and improved gross margin. John Lewis & Partners profits were down 56%; weaker sales in the Home category combined with gross margin pressures drove around half of the reduction, with the remainder largely due to additional IT costs and property related items.

Partners' hard work during the year was key to delivering gross sales of £11.7bn, up 1.0%. However, profit before Partnership Bonus, tax and exceptional items was down 45.7% to £158.3m.

Our strategy update in the summer to Partners, media, analysts and our bondholders showed our focus on being different. Our strategy has become sharper, even more important and our pace has quickened, giving us the resilience to cope financially with market pressures. We have a strong liquidity position at nearly £1.5bn which is almost double the level five years ago, despite having made deficit reduction contributions of more than £250m to our pension fund over the last three years. We have reduced total net debts by over £400m whilst maintaining annual investment of £400m–£500m per year.

Partnership Bonus has been awarded at 3%. We also remain committed to increasing pay rates for non-management Partners. As at January 2019, the average hourly rate of pay for a non-management Partner was £9.16.

Waitrose & Partners

Waitrose & Partners achieved gross sales of £6.84bn, up 1.2%, with like-for-like sales, excluding fuel, up by 1.3%. This improvement was driven by better like-for-like volumes, as well as improved product availability and growth in online sales. Operating profit before exceptional items and bonus was £203.2m, up 18%, mainly due to improved gross margins.

Significant investment in waitrose.com, including new customer smartphone apps led to 14% growth in online grocery sales over the financial year and improvement in online customer satisfaction levels over the year. We closed the Pick Your Own customer offer and launched Just For You, a rewards programme of tailored vouchers and personalised offers, with the focus on customers' favourite products and rewarding most loyal customers.

In 14 London postcodes we are trialling a service of delivering groceries within two hours of ordering: Waitrose & Partners Rapid Delivery means customers can choose up to 25 items from more than 2,000 products, including fresh sushi. Rapid Delivery joins another trial, 'While You're Away' where Waitrose & Partners became the UK's first supermarket to deliver groceries to customers inside their homes and then put them away while they are out.

Our customers look to us for food inspiration. During the year we developed and updated more than 5,000 products, including an exclusive own-label range of over 48 vegan and vegetarian products. The opening of our £1.5m new food innovation studio also now gives us the edge when it comes to product innovation, with seven chefs working on new and unique products. We won 37 independent Christmas taste tests, almost twice the number as the previous year and considerably ahead of the next best retailer at 21.

We further developed our health and wellbeing offer at Waitrose & Partners, including training Partners as Healthy Eating Specialists in our shops to help customers who want to make healthier choices. We also launched Waitrose & Partners Health magazine.

Waitrose & Partners removed black plastic from hundreds of products including hard to recycle black plastic in fresh meat, fish, poultry, fruit and vegetables – amounting to a reduction of over 1,300 tonnes of black plastic per annum. This progress means we are more than halfway to achieving our goal to remove black plastic from all own-brand products by the end of 2019. We also brought forward our target to make all our own-brand packaging widely recyclable, reusable or home compostable from 2025 to 2023.

John Lewis & Partners

Operating profits in John Lewis & Partners were substantially lower due to weaker sales in the Home category, gross margin pressures, higher IT costs, the property impact of new shops and lower profit on assets sales. Gross sales were up 0.7% to £4.89bn with a 12.9% percentage growth in own-brand womenswear and 11.2% increase in own-brand electricals. Operating profit before exceptional items was £114.7m, down 56%.

During our peak trading Christmas period we saw our biggest number of Partnership Card applications in the last decade. This year Partnership Card applications are up 30% and foreign exchange transactions are up 38%.

Strategic report for the year ended 26 January 2019 (continued)

Net Promoter Score – which indicates customers' willingness to recommend us to others - increased. As part of our drive to improve customer experience we replatformed johnlewis.com and continued our investing in our digital capabilities. The roll out of two hour delivery windows and live online delivery tracking improved communications with customers. Our Click & Collect order service was expanded and is now available in 339 Waitrose & Partners shops.

Personal Styling was transformed this year, with specialised training, new appointment types, upgraded styling suites and dedicated fashion event spaces. A new Keeping in Touch service enables stylists to keep customers updated with exclusive offers, personalised suggestions and stock availability. Our Experience Desks are now available in 13 John Lewis & Partners shops, making it easier for customers to access the services and events offered by our expert Partners. A new Beauty Concierge service was launched in Leeds and Cambridge offering impartial and personalised beauty advice. And this summer the Oxford Street rooftop proved more popular than ever, with customers enjoying DJs and live bands. We also teamed up with Samsung to create an outdoor cinema experience.

Last autumn saw the most significant fashion investment to date launched - a 300-piece womenswear range, called John Lewis & Partners womenswear, which was created by the in house design studio team. At the same time, a new 40,000 sqft Womenswear experience was launched at our Oxford Street store, including a Style Studio where 12 personal stylist Partners offer customers complimentary appointments and daily fashion talks. The shoe department also increased in size and the first ever 'Shoe Room by Kurt Geiger' boutique was launched. We also opened two new shops in White City, Westfield London and in Cheltenham.

Group

Group includes the net operating costs for our Group offices, pan-Partnership initiatives, our JLP Ventures operation which develops new customer propositions, and certain pension operating costs. Overall Group net costs (before exceptional items) increased by £25.6m to £92.9m, primarily due to increased investment spend, higher IT costs and increased depreciation, offset by a reduction in recharges to other companies within the Group.

During the year, in alignment with Partnership group strategy, there has been increased functional centralisation. This is resulting in costs previously accounted for in Waitrose and John Lewis being recorded in Group. Group costs include: Central IT, Chairman, Group Development, Productivity & Change, Communications, Customer Insight, Finance, Pensions, Legal, Personnel, Infrastructure Security, Procurement, Property Services, Registry and Residential Clubs. Group also includes the costs for transformation programmes.

Rebranding & Partners

Our September relaunch of both brands to include & Partners was an important signal of our determination to place Partners at the heart of the competitive difference we offer to customers. Our difference comes from our Partners, and the energy, commitment and personality they bring to delivering excellent customer service and high quality products to our customers.

Greater investment in our Partners is key to our strategy. We invested significantly in leadership development for over 250 of our most senior leaders, and will extend that to many more this year. We expanded our apprenticeship programme, with over 900 apprentices enrolling in the year in areas such as retail, Large Goods Vehicle (LGV) driving, vehicle maintenance, hospitality and human resources. We made some of these 'open entry' to enable Partners to apply from any part of our business. Among the apprentices that have completed their programmes, 65% passed with distinction. Our average hourly rate for non-management Partners rose to £9.16, 17.0% above the National Living Wage. The average hourly rate of pay will increase by 4.5% following our April 2019 pay review.

In Waitrose & Partners we have been trialling Service Ambassadors, placing Partners at the front of stores to give a warm personal welcome and set the tone for fantastic service. We have set an ambition for all Partners to be food ambassadors: Partners who not only love food but love talking to customers about it and have an interest in issues surrounding food, such as packaging, sourcing and animal welfare.

In the year we stepped up our service difference. We made several improvements to convenience, with shorter delivery windows, live order tracking and trials of in-home services across both brands. We have also introduced several added value services including Personal Styling and Beauty Studios in John Lewis & Partners and more Healthy Eating specialists in Waitrose & Partners. We achieved our highest ever levels of customer experience ratings in John Lewis & Partners. Our focus on customer service in Waitrose & Partners was recognised by Which? with the publication giving it the top position in its 2019 supermarket survey.

Strategic report for the year ended 26 January 2019 (continued)

Pensions

The pension operating cost (before exceptional items) was £219.1m, an increase of £3.5m or 1.6% on the prior year costs. Pension finance costs were £17.0m, a decrease of £8.3m or 32.8% 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, and was further improved by prepaying a significant portion of contributions in February 2018. As a result, total pension costs (before exceptional items) were £236.1m, a decrease of £4.8m or 2.0% on the prior year.

Following the conclusion of the triennial actuarial valuation of our defined benefit pension scheme at 31 March 2016, we agreed the ongoing contribution rate for the defined benefit pension of 10.4% of members' gross taxable pay, down from 16.4%, and put in place a plan to eliminate the deficit of £479.0m over a 10 year period. As a result, in the year, we made deficit reduction contributions of £37.1m, and our total cash contributions to the pension scheme totalled £148.2m, a decrease of £56.0m or 27.4% on the previous year. At 26 January 2019, the estimated actuarial pension deficit is £189m.

The total accounting pension deficit at 26 January 2019 was £468.1m, a decrease of £263.2m (36.0%) since 27 January 2018. Last year, the methodology for deriving the nominal discount rate assumption used in valuing the pension obligation was revised as the Directors believe this more appropriately reflects expected yields on high quality corporate bonds over the duration of the Partnership's pension scheme as required by IAS 19 and a consistent methodology has been used this year.

Since January 2018 the nominal discount rate has increased by 5 basis points (bps) to 2.80%, contributing £62.5m to the overall reduction in the pension liability. Mortality assumptions were updated in July to reflect the most recently available mortality studies (CMI 2017). At the year-end, we adopted the new period smoothing parameter of 7.0 (2018: 7.5) to reflect recent experience showing mortality improvements weakening compared to historical trends. This resulted in a reduction in the pension liability of £103.0m for the current year. Overall the accounting valuation of pension fund liabilities decreased by £141.0m to £6,083.0m, while the pension fund assets increased by £122.2m to £5,614.9m.

Financing

At 26 January 2019, net debt for the Group was £30.1m, a decrease of £112.5m (78.9%) in the year, reflecting our focus on cash generation and the reduction in capital investment. During the year we have also further improved our liquidity position by the addition of £125.0m medium-term bank debt.

In addition to the reduction in net debt we have made positive progress in reducing our total net debts, which also includes our post-tax accounting pension deficit. During the year we have made £37.1m in pension deficit repair payments and our Debt Ratio has remained consistent at 4.3 times. We continue to target a long-term Debt Ratio of around three times.

Net finance costs on borrowings and investments decreased by £0.5m to £47.0m. After including the financing elements of pensions and long service leave and non-cash fair value adjustments, net finance costs decreased by £4.4m (6.2%) to £66.7m, benefiting from lower pension and long leave financing costs offset by adverse fair value adjustments on embedded derivatives.

Sustainability

A new app was launched by Waitrose & Partners to make it easier to donate surplus food. The FareShare Go programme enables over 280 shops to let local charities know about surplus goods by inputting details of available food into the app. Over 500,000 meals have been donated to more than 1,000 charities.

John Lewis & Partners primary schools programme - Bringing Skills To Life - reaches over 26,000 children annually, through defined themes and challenges pupils develop skills such as creative thought, teamwork and communications. Schools are most engaged in our Christmas prize draw and our Innovation Challenge. In 2018, 132 schools registered to take part with 226 amazing entries received.

Our flagship volunteering programme, the Golden Jubilee Trust, continued this year with 57 Partner secondments, across 52 charities, amounting to over 24,500 hours donated.

In 2018 we achieved a 70% reduction in our carbon intensity since 2010 – 4% better than last year. This year also saw Waitrose & Partners announce the removal of disposable coffee cups resulting in 52 million fewer takeaway tea and coffee cups used in Waitrose & Partners shops. Looking forward, we have committed to operating within net zero carbon emissions by 2050. In John Lewis & Partners, to help reduce the estimated 300,000 tonnes of clothing which gets sent to landfill each year in the UK, in an industry first, we piloted an innovative 'buyback' service, with an app based social enterprise business Stuffstr. We also pledged our own-label Christmas cards, wraps, crackers, tags, flowers and plants will either be glitter-free or will use an environmentally friendly alternative by Christmas 2020.

Strategic report for the year ended 26 January 2019 (continued)

Information on the strategies, policies or activities we pursue towards our environmental and social goals, and related risks, is in the John Lewis Partnership Corporate Responsibility Report, available at www.johnlewispartnership.co.uk.

Principal risks and uncertainties

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

1 Competitive customer proposition		
Description 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, mean customers focus more on value for money and are less loyal **Potential consequence** Customer proposition and service is negatively impacted, which may result in losing customers, impairing our ability to grow long-term profitability.	**Controls in place** • 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 by senior leaders and Executive team	**Progress in the year** • Updated Partnership strategy launched • New Partnership branding launched • Improved online and in store proposition in John Lewis & Partners; and continued price investment in Waitrose & Partners alongside new in store initiatives to improve customer experience • Product launches such as new Womenswear collection in John Lewis & Partners and a vegan range in Waitrose & Partners **Further actions** • Differentiate further on product • Continue to develop market-leading customer service and develop service offerings through Partners • Unlock further value between our brands • Develop online offering • Build greater customer insight
2 Operating model strain		
Description Increasing external pressures, such as the ongoing move to online and increased spend on IT create strain on our operating model. **Potential consequence** Stresses on our operating model may result in strain on our Partners, systems and operational potential. Ultimately these could impair our ability to meet customer needs and grow profitably.	**Controls in place** • Annual business plan process robustly reviewed on a quarterly basis • Monthly Executive team business performance review and action taken • Regular review of programmes to reprioritise and support the ongoing development of our operating model	**Progress in the year** • Improved stock management in John Lewis & Partners and new flexible operating structure implemented in Waitrose & Partners branches • Head office reorganisation • Benefits being realised from the new product sourcing office in Hong Kong • Robust business plan review **Further actions** • Implementation of further change programmes across IT, Supply Chain and other areas of head office • Development of proposition to increase value to our customers

Strategic report for the year ended 26 January 2019 (continued)

<table>
<tr><td colspan="3">3 Information security</td></tr>
<tr><td>Description
A breach of Partner or customer data due to an external threat causing disruption or access to sensitive data.
Potential consequence
A significant data breach and loss of either Partner or customer data could cause financial, regulatory, legal and/or reputational damage.</td><td>Controls in place
• Robust network security and regular testing to provide early identification of network or system vulnerabilities
• Continuous security monitoring
• Partner training</td><td>Progress in the year
• Significant enhancements made to the systems and controls that hold Partner and customer data to improve resilience
• Improvements to preventing, detecting and responding to external cyber attacks
Further actions
• Continue to implement the IT Security programme
• Continue the awareness campaign
• Simplify IT estate</td></tr>
<tr><td colspan="3">4 Pension obligations</td></tr>
<tr><td>Description
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.
Potential consequence
A larger pension deficit could result in additional funding required by the Partnership, diverting resources away from other investment opportunities.</td><td>Controls in place
• Regular review of valuation assumptions through internal and external monitoring
• Pension risk and funding strategy reviewed regularly</td><td>Progress in the year
• Continued cost reduction realised from the 2015 Pension Benefit Review
• A new Pension Benefit Review has commenced
• The pension deficit de-risking plan, through increased interest rate and equity hedging
Further actions
• Pension Benefit Review to be approved by Partnership Council and Board</td></tr>
<tr><td colspan="3">5 Change delivery</td></tr>
<tr><td>Description
The complex nature and scale of interdependencies of the change programmes may affect our ability to implement programmes/projects on time, to budget and quality, our ability to manage, and our ability to embed the change into the business and realise the benefits.
Potential consequence
Failure to develop, implement and embed change effectively 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
• Quarterly review of programme status at the Executive team level</td><td>Progress in the year
• Embedded new change governance and ways of working
• Partnership wide reporting continued to be improved to provide better insight
Further actions
• Continue to align the change operating model to support the delivery of the new Partnership strategy</td></tr>
</table>

Strategic report for the year ended 26 January 2019 (continued)

<table>
<tr><th colspan="3">6 External environment</th></tr>
<tr><td>Description
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.
Potential consequence
Our customers may move away from our core product offers or buy less. Key suppliers may demand higher prices or fail us. These could impair our ability to grow profitably.</td><td>Controls in place
• Monthly monitoring of business performance by the Executive team
• Horizon scanning
• The Brexit team regularly reviews and communicates on the potential impacts and opportunities to influence outcomes internally and externally</td><td>Progress in the year
• External economic factors and insights have been incorporated into the business plan
• Analysis and activity in relation to Brexit risk since vote
Further actions
• Ongoing monitoring, analysis and actions implementation to mitigate the potential impacts of Brexit
• Continued focus on differentiating our customer service, product quality and product innovation</td></tr>
<tr><th colspan="3">7 Ownership model strain</th></tr>
<tr><td>Description
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.
Potential consequence
Loss of belief in our co-ownership model could compromise individual Partner performance, collective productivity and brand advocacy (Principle 1), thus losing the competitive advantage of our co-ownership model.</td><td>Controls in place
• Leadership engagement through change
• Annual Your Voice Partner survey to assess Partner sentiment
• Registry Function support for Partners
• Oversight of Board, Executive team and our democratic bodies</td><td>Progress in the year
• Completed checks and balances review over our senior governance and controls to deliver the Constitution
• Unlocking Partner potential initiatives introduced to provide better career opportunities for Partners, improve total reward, continue to develop the quality of Leadership and increase purpose and learning across all roles
• Increased communication in response to Partner feedback
Further actions
• Continue to focus on developing the effectiveness of democratic channels and leading through change
• Lead on wellbeing in the workplace
• Continued focus on initiatives to empower Partners</td></tr>
</table>

Brexit

The Partnership continues to take a proactive approach to preparing for Brexit and managing the potential impacts it may have on the Partnership. Since the referendum in 2016, the Partnership has been preparing for a worst case, no deal scenario as this would cause the most disruption to Partners, customers and trade.

Throughout 2018 we have seen the impact of low consumer confidence, exacerbated by Brexit uncertainty and other external socio-economic drivers having a significant negative effect on the Partnership and retail more broadly. Brexit has placed additional strain on the Partnership's existing principal risk profile.

A Partnership-wide approach has been adopted to risk assess the potential impact of Brexit, develop plans and mitigate ongoing risks across both trading brands. A Partnership Brexit group with established risk leaders has been leading on planning, monitoring and actioning options to mitigate the potential impacts of Brexit.

Progress and recommendations in relation to our highest risks have been regularly reported through our existing governance structure. They have been reviewed by Divisional Risk Committees and Divisional Boards, the Executive team, and the Audit and Risk Committee on behalf of the Partnership Board on a quarterly basis.

Brexit affects the Partnership in a large number of ways. Our detailed analysis and activity has been focused on the areas that would have the largest impact on our Partners, customers and trade. The areas of most risk are detailed on page 42 of the Partnership's Annual Report and Accounts.

Strategic report for the year ended 26 January 2019 (continued)

Equal opportunities, diversity and inclusion

The Partnership 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 Partnership 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.

Ensuring the Partnership is diverse and inclusive is at the heart of our ultimate purpose, our commitment to the wider wellbeing of our communities, our commercial advantage and our future success.

It is vital that every Partner in our business has the opportunity to reach their potential. That is why the subject of diversity and inclusion is of such great importance to us. Investment in inclusion is fundamental as it is enabling a culture that will help people flourish. Therefore, we are developing our ability to understand and appreciate the different backgrounds and perspectives that each of our Partners bring. From a diversity perspective, our primary concern is to ensure we are achieving a great mix of Partners in our business. Our under-representation is more prominent for some groups. Where we see that our mix of Partners is not good enough we take action, which is why back in 2014 our Chairman set a Partnership goal to increase the representation of Black, Asian and minority ethnic (BAME) Partners in management positions to 10% by 2020. As at January 2019, 9.57% of management positions were held by BAME Partners.

There are various ways we have set about improving the representation of BAME managers in the Partnership including bias training, diverse recruitment panels and our UNITY Network.

We published our second annual Gender Pay Gap report. Taken from April 2018 data, Partnership results are 12.7% for the mean gap – a reduction of 1.2% and 8.2% for the median gap – a slight increase of 0.4%, since April 2017. We're committed to providing equal opportunities for all our Partners and our long-term goal is to significantly reduce the gap and achieve gender parity across all levels. We've already started to introduce new talent development programmes, strengthen access to coaches and mentors, explore new flexible working arrangements and build internal support networks. Our gender pay gap report is available at www.johnlewispartnership.co.uk/csr/reports.html.

Within the Partnership we run eight networks which exist to inspire and influence Partners around the business on the topic of inclusion. Our networks are: LinkAGE, Working Parents, UNITY, GEN, Pride in the Partnership, Faith, Belief and Religion, Ability and School of Thought. Most networks have senior sponsorship, for example our Group Finance Director, Patrick Lewis, sponsors our Gender Equality Network (GEN).

The Partnership 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 at an individual level to ensure our disabled applicants and Partners are supported. We are proud to have been awarded a 'Getting Started' gong by the Recruitment Industry Disability Initiative for making our recruitment process more accessible for disabled candidates; this accompanies the Disability Confident Leader employer status that we also gained.

Strategic report for the year ended 26 January 2019 (continued)

	2018/19	2017/18
Ethnicity split of the Partnership	%	%
Asian or Asian British	**6.76**	6.77
Black or Black British	**4.70**	4.85
Chinese or Other ethnic group	**1.32**	1.34
Mixed origin	**2.43**	2.29
Not given	**1.60**	1.58
White	**83.19**	83.17
Gender diversity of the Partnership 2018/19	Male %	Female %
Partnership Board	**62**	**38**
Directors and Management Board	**72**	**28**
Senior Managers	**50**	**50**
All other Partners	**42**	**58**
Gender diversity of the Partnership 2017/18	Male %	Female %
Partnership Board	**64**	**36**
Directors and Management Board	**71**	**29**
Senior Managers	**53**	**47**
All other Partners	**43**	**57**

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

Sir Charlie Mayfield
Director, John Lewis plc
11 April 2019

Directors' report for the year ended 26 January 2019

The Directors present their report and the audited consolidated financial statements for the year ended 26 January 2019.

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 6

— Risk management on pages 7 to 9

— Equal opportunities, diversity and inclusion on pages 10 to 11

— Research and development on pages 4 to 6

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 & Partners and John Lewis & Partners businesses: John Lewis & Partners operates in a number of different formats including John Lewis & Partners department stores, John Lewis & Partners at home stores, online (johnlewis.com), two international offices in India and one in Hong Kong; Waitrose & Partners operates Waitrose & Partners 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:

Sir Charlie Mayfield (Chairman)
Tracey Killen
Patrick Lewis
Bérangère Michel
Paula Nickolds
Keith Hubber (Company Secretary, resigned 31 January 2018)
Peter Simpson (Company Secretary, appointed 31 January 2018)

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 comprise certain Executive Directors and the Finance Director of John Lewis & Partners. 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 44 to 85 of the Partnership's Annual Report and Accounts.

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 Partnership'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 Partnership's relationship with it's external auditors; (iii) oversees the work and findings of the Partnership's Internal Audit function; (iv) oversees the Partnership's systems of risk management and internal control, including an annual review of the effectiveness of the Partnership's processes; and (v) oversees the effectiveness of the Partnership's whistleblowing procedures. The Committee's activities in these areas are detailed in the Partnership's Audit and Risk Committee report on pages 58 to 65 of the Partnership's Annual Report and Accounts.

KPMG LLP were the Partnership's external auditor for 2018/19. They provided the Committee with relevant reports, reviews, information and advice throughout the year, as set out in their engagement letter.

Directors' report for the year ended 26 January 2019 (continued)

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 Partnership has a risk management framework, including a process for how we identify, evaluate, manage and monitor the principal risks faced by the Partnership, 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 7 to 9 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 58 to 65 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 is 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, Audit & Risk reports functionally to the Chair of the Committee and operationally to the Group Finance Director.

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 Partnership's democratically elected bodies, including the Partnership Council and other elected councils and forum, 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 receive an annual Partnership Bonus from the profits of the business. This is a shared bonus for shared effort.

The Group seeks to embrace diversity and this is reflected in all we do.

Conflicts of interest

The Partnership Board maintains procedures that allow for the regular 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 Partnership 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 Director and the Company.

Directors' responsibilities

The statement of Directors' responsibilities in relation to the Strategic report, Directors' report and financial statements is set out on page 141 of the Partnership's Annual Report and Accounts.

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 26 January 2019, 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 three corporate bonds listed on the LSE. The Company has no securities carrying voting rights admitted to trading on a regulated market.

Directors' report for the year ended 26 January 2019 (continued)

Dividends

The Directors do not recommend the payment of a dividend on the Ordinary Shares (2018: nil).

Use of financial instruments

The notes to the financial statements, including note 7 from pages 74 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 these accounts. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the financial statements.

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 11.

Political donations

The Group made no political donations during the year (2018: £nil).

Corporate Responsibility Report and Modern Slavery Statement

The Partnership's Corporate Responsibility Report and Modern Slavery Statement are available at www.johnlewispartnership.co.uk/csr.

Annual General Meeting

The Annual General Meeting will be held on 17 July 2019 at 171 Victoria Street, London, SW1E 5NN.

Events after the balance sheet date

Since 26 January 2019, 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 reappointed 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

11 April 2019

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 26 JANUARY 2019

Notes		2019 £m	2018 (restated, see note 1.1.4) £m
1.2, 2.1	**Gross sales**	**11,724.1**	11,609.5
2.1, 2.2	**Revenue**	**10,316.7**	10,215.8
	Cost of sales	**(6,931.0)**	(6,847.7)
	Gross profit	**3,385.7**	3,368.1
2.3	Other operating income	**112.1**	111.3
2.4	Operating expenses before exceptional items and Partnership Bonus	**(3,272.1)**	(3,115.9)
3.3	Share of loss of joint venture (net of tax)	**(0.7)**	(1.0)
2.1	**Operating profit before exceptional items and Partnership Bonus**	**225.0**	362.5
2.5	Exceptional items	**2.1**	(111.3)
2.1	**Operating profit before Partnership Bonus**	**227.1**	251.2
5.1	Finance costs	**(80.3)**	(85.2)
5.1	Finance income	**13.6**	14.1
	Profit before Partnership Bonus and tax	**160.4**	180.1
	Partnership Bonus	**(44.7)**	(74.0)
2.6	**Profit before tax**	**115.7**	106.1
2.9	Taxation	**(39.7)**	(31.3)
	Profit for the year	**76.0**	74.8
2.1	**Profit before Partnership Bonus, tax and exceptional items**	**158.3**	291.4

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 26 JANUARY 2019

Notes		2019 £m	2018 (restated, see note 1.1.4) £m
	Profit for the year	**76.0**	74.8
	Other comprehensive income:		
	Items that will not be reclassified to profit or loss:		
6.1	Remeasurement of defined benefit pension scheme	**272.7**	247.5
2.9	Movement in deferred tax on pension scheme	**(55.3)**	(57.4)
2.9	Movement in current tax on pension scheme	**7.1**	17.2
	Items that may be reclassified subsequently to profit or loss:		
	Fair value gain/(loss) on cash flow hedges [1]	**21.8**	(30.9)
2.9	Movement in deferred tax on cash flow hedges	**(4.1)**	5.9
	Gain on foreign currency translations	**0.2**	0.4
	Other comprehensive income for the year	**242.4**	182.7
	Total comprehensive income for the year	**318.4**	257.5

1 Presentation has changed as a result of IFRS 9. See note 1.1.4.

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

CONSOLIDATED BALANCE SHEET

AS AT 26 JANUARY 2019

Notes		2019 £m	2018 (restated, see note 1.1.4) £m
	Non-current assets		
3.1	Intangible assets and goodwill	**512.1**	495.7
3.2	Property, plant and equipment	**3,809.7**	3,971.2
4.2	Trade and other receivables	**58.4**	65.3
7.2	Derivative financial instruments	**0.2**	–
3.3	Investment in and loans to joint venture	**2.7**	2.9
2.9	Deferred tax asset	**–**	28.0
		4,383.1	4,563.1
	Current assets		
4.1	Inventories	**657.6**	661.5
4.2	Trade and other receivables	**259.3**	261.6
7.2	Derivative financial instruments	**6.8**	5.2
3.4	Assets held for sale	**23.1**	–
5.3	Short-term investments	**265.4**	166.0
5.4	Cash and cash equivalents	**716.8**	596.2
		1,929.0	1,690.5
	Total assets	**6,312.1**	6,253.6
	Current liabilities		
5.5	Borrowings and overdrafts	**(274.9)**	(0.1)
4.3	Trade and other payables	**(1,660.7)**	(1,756.3)
	Current tax payable	**(7.7)**	(9.7)
5.6	Finance lease liabilities	**(0.5)**	(0.7)
4.4	Provisions	**(112.3)**	(167.9)
7.2	Derivative financial instruments	**(7.5)**	(19.8)
		(2,063.6)	(1,954.5)
	Non-current liabilities		
5.5	Borrowings	**(713.8)**	(862.8)
4.3	Trade and other payables	**(258.6)**	(252.1)
5.6	Finance lease liabilities	**(20.6)**	(22.6)
4.4	Provisions	**(134.7)**	(122.7)

7.2	Derivative financial instruments	**(2.0)**	(4.0)
6.1	Retirement benefit obligations	**(468.1)**	(731.3)
2.9	Deferred tax liability	**(36.2)**	(6.1)
		(1,634.0)	(2,001.6)
	Total liabilities	**(3,697.6)**	(3,956.1)
	Net assets	**2,614.5**	2,297.5
	Equity		
8.1	Share capital	**6.7**	6.7
	Share premium	**0.3**	0.3
	Other reserves	**0.9**	(15.6)
	Retained earnings	**2,606.6**	2,306.1
	Total equity	**2,614.5**	2,297.5

The financial statements on pages 15 to 82 were approved by the Board of Directors on 11 April 2019 and signed on its behalf by Sir Charlie Mayfield and Patrick Lewis, Directors, John Lewis PLC.

Registered number 00233462

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 26 JANUARY 2019

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 28 January 2017	6.7	0.3	1.4	8.1	(0.5)	2,037.4	2,053.4
1.1	Restatement for IFRS 15	–	–	–	–	–	(13.4)	(13.4)
	Balance at 28 January 2017 [1]	6.7	0.3	1.4	8.1	(0.5)	2,024.0	2,040.0
	Profit for the year[1]	–	–	–	–	–	74.8	74.8
6.1	Remeasurement of defined benefit pension scheme	–	–	–	–	–	247.5	247.5
	Fair value losses on cash flow hedges	–	–	–	(22.8)	–	–	(22.8)
	– transfers to inventories [2]	–	–	–	(8.1)	–	–	(8.1)
2.9	Tax on above items recognised in equity	–	–	–	5.9	–	(40.2)	(34.3)
	Gain on foreign currency translations	–	–	–	–	0.4	–	0.4
	Total comprehensive income/(expense) for the year	–	–	–	(25.0)	0.4	282.1	257.5
	Balance at 27 January 2018 [1]	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[2]	–	–	–	(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**

1 Restated, see note 1.1.4.
2 Presentation has changed as a result of IFRS 9. See note 1.1.4.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 26 JANUARY 2019

Notes		2019 £m	2018 (restated, see note 1.1.4) £m
2.7	**Cash generated from operations before Partnership Bonus**	**595.0**	637.3
	Net taxation paid	**(33.9)**	(44.1)
	Pension deficit reduction payments	**(37.1)**	(89.8)
	Finance costs paid	**(1.8)**	(2.5)
	Net cash generated from operating activities before Partnership Bonus	**522.2**	500.9
	Partnership Bonus paid	**(74.9)**	(89.2)
	Net cash generated from operating activities after Partnership Bonus	**447.3**	411.7
	Cash flows from investing activities		
3.2	Purchase of property, plant and equipment	**(143.9)**	(228.5)
3.1	Purchase of intangible assets	**(166.2)**	(169.8)
	Proceeds from sale of property, plant and equipment and intangible assets	**13.6**	68.0
	Finance income received	**2.4**	1.7
3.3	Cash outflow from investment in and loans to joint venture	**(0.5)**	–
5.2	Cash outflow from short-term investments[1]	**(99.0)**	(106.0)
	Cash outflow from acquisition of trade and assets	**(1.0)**	–
	Net cash used in investing activities	**(394.6)**	(434.6)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	**(54.2)**	(54.2)
	Finance (costs paid)/income received in respect of financial instruments	**(0.5)**	0.7
5.2	Payment of capital element of finance leases	**(1.7)**	(1.2)
	Cash inflow from borrowings	**124.4**	–
	Net cash from/(used in) financing activities	**68.0**	(54.7)
	Increase/(decrease) in net cash and cash equivalents	**120.7**	(77.6)
5.2	Net cash and cash equivalents at beginning of the year[1]	**596.1**	673.7
	Net cash and cash equivalents at end of the year	**716.8**	596.1

5.4	**Net cash and cash equivalents comprise:**		
	Cash at bank and in hand	**128.2**	128.4
	Short-term deposits	**588.6**	467.8
	Bank overdrafts	–	(0.1)
		716.8	596.1

1 Restated. See note 1.1.4.

The accompanying notes are an integral part of the 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.

During the year, we have adopted two new accounting standards, IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' as required by IFRS and prior year balances have been restated where appropriate. We have also revisited the presentation of the components of cash and cash equivalents and the split of current and non-current borrowings, reclassifying prior year balances, and we have updated our accounting policy for Exceptional items.

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 26 January 2019 (prior year: 52 weeks ended 27 January 2018).

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.

1.1.2 BASIS OF CONSOLIDATION

The consolidated Group 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.

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 policies were adopted by the Group for the year ended 26 January 2019 and have had a significant impact on the Group's profit for the year, Equity and disclosures:

- **IFRS 15 'Revenue from Contracts with Customers'** (applicable for the period beginning 28 January 2018)

  IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 'Revenue and related interpretations'. The Group adopted IFRS 15 from 28 January 2018 using a fully retrospective approach.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

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

The main impact for the Group on adoption was in respect of the timing of revenue recognition of free service guarantees in John Lewis & Partners, principally for certain electrical products. Under IAS 18, the full sale value paid by the customer was recognised in the Income statement at the time of sale and a Provision was recorded on the Balance sheet for the expected liability for future repair costs under the warranty. Under IFRS 15, the free warranty is considered a separate performance obligation, therefore the Group allocates a portion of the consideration received to providing the warranty. The allocation is based on the stand alone selling price of the product and the relative fair value of the warranty which includes an associated profit margin. 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.

The impact of these changes, going forward, is a decrease in Revenue recognised at the point of sale with a corresponding increase in the Deferred income liability held in Trade and other payables and the elimination of the Provision held in relation to the warranties on the Balance sheet.

The Opening balance sheet position and comparative periods have been restated through Retained earnings to reflect the decrease in Provisions and the increase in the Deferred income liability, as well as the impact of Taxation. On the transition date, Opening retained earnings mainly decreased as a result of previously recognised revenue being deferred under IFRS 15, and subsequently being released to Revenue over the period of the warranty resulting in an increase in the amounts previously reported as Revenue in 2018.

Following the application of IFRS 15, the impact on Revenue in any given year is the net of Revenue deferred in relation to warranties sold in year and the recognition of Revenue released from Deferred income in respect of warranties deferred in prior years (as illustrated in note 4.3).

As at 28 January 2017 there is a decrease of £13.4m to brought forward Retained earnings as a result of the fully retrospective approach.

The changes as at, and for the period ended 27 January 2018 are shown in the tables below:

Consolidated Balance Sheet	**2018 (restated) £m**	**Adjustments**	**2018 £m**
Assets			
Deferred tax asset	28.0	2.5	25.5
Other assets	6,225.6	–	6,225.6
Total assets	6,253.6	2.5	6,251.1
Liabilities			
Trade and other payables	(2,008.4)	(68.1)	(1,940.3)
Provisions	(290.6)	55.1	(345.7)
Other liabilities	(1,657.1)	–	(1,657.1)
Total liabilities	(3,956.1)	(13.0)	(3,943.1)
Equity			
Share capital	6.7	–	6.7
Share premium	0.3	–	0.3
Other reserves	(15.6)	–	(15.6)
Retained earnings	2,306.1	(10.5)	2,316.6
Total equity	2,297.5	(10.5)	2,308.0

Consolidated Income Statement	**2018 (restated) £m**	**Adjustments**	**2018 £m**
Gross sales	11,609.5	11.8	11,597.7
Revenue	10,215.8	11.8	10,204.0
Cost of sales	(6,847.7)	(8.2)	(6,839.5)
Gross profit	3,368.1	3.6	3,364.5
Operating expenses and finance costs	(3,262.0)	–	(3,262.0)
Profit before tax	106.1	3.6	102.5
Taxation	(31.3)	(0.7)	(30.6)
Profit for the year	74.8	2.9	71.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

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

- **IFRS 9 'Financial Instruments'** (applicable for the period beginning 28 January 2018)

  IFRS 9 'Financial Instruments' sets out the requirements for recognising, classifying and measuring financial assets and financial liabilities and includes guidance in respect of general hedge accounting. This standard replaces IAS 39 and sets out two key criteria for determining the classification and measurement of financial assets including the entity's business model for managing financial assets and the contractual cash flow characteristics. IFRS 9 also sets out a single impairment model to ensure expected credit losses on financial instruments are always recognised as soon as they are forecast. The Group has assessed the credit risk around the financial instruments and expected credit losses are not considered to be material. In relation to hedge accounting, IFRS 9 adopts a principles-based approach for testing hedge effectiveness instead of setting specific numerical thresholds.

  The adoption of IFRS 9 has had no material impact on the Group's financial statements. Under IAS 39, the cash flow hedging reserve relating to cash flow hedges for foreign currency risk associated with forecast inventory purchases were subsequently reclassified to inventory and the amount was presented within the Statement of other comprehensive income/(expense). Under IFRS 9, the amounts accumulated in the cash flow hedging reserve are instead included directly in the initial cost of the Inventory item when it is recognised and are no longer presented within the Statement of other comprehensive income/(expense). Prior year balances have not been restated. There has been no impact on the Group's Income statement, Balance sheet and Statement of cash flows.

The following standards, amendments and interpretations were applicable for the period beginning 28 January 2018, and were adopted by the Group for the year ended 26 January 2019. They have not had a significant impact on the Group's profit for the year, equity or disclosures:

- **Annual Improvements to IFRSs 2014-2016 Cycle (Amendments to IFRS 1 and IAS 28)**
- **IFRIC 22: Foreign Currency Transactions and Advance Consideration**
- **Amendments to IAS 40: Transfers of Investment Property**
- **Clarifications to IFRS 15 'Revenue from Contracts with Customers'**

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 27 January 2019 onwards, which the Group has not adopted early:

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

  IFRS 16 'Leases' specifies how to recognise, measure, present and disclose leases. The standard will be effective for the Group for the year ending 25 January 2020 and its adoption is expected to have a very significant impact on the Group's Consolidated income statement and Consolidated balance sheet. The Group intends to adopt the modified retrospective approach on transition. For each individual lease, the Right-of-use asset will be measured at the amount of the Lease liability on adoption (adjusted for any prepaid or accrued lease expenses and any provision for impairment).

  This will require an adjustment to Equity as at 27 January 2019, however prior year comparatives will not be restated. The Group will apply both the short-term and low value lease exemptions on transition and will adopt the transition reliefs in relation to initial direct costs and use of hindsight.

  The Group's IFRS 16 project is governed by a Steering Group which oversees the relevant project work streams, approves key decisions and provides regular updates to the Audit and Risk Committee. During the year to 26 January 2019, work has progressed to finalise the discount rate methodology, accounting policies and internal controls, complete the data collection and validation of the Group's portfolio of lease data and fully implement the IT system solution which will record and calculate the IFRS 16 impact.

  The Group's lease portfolio is principally comprised of property leases in relation to Waitrose & Partners and John Lewis & Partners stores, distribution centres and head offices. As shown in note 3.5, the undiscounted value of operating lease commitments in relation to the Group's leases is £3.7bn.

  On adoption of IFRS 16, the main impact for the Group will be the recognition of Right-of-use assets and Lease liabilities on the Consolidated opening balance sheet for all applicable leases. On 27 January 2019, the Group expects to recognise Lease liabilities of £2.1bn, representing the total cash commitments under Operating leases (£3.7bn) discounted to present value. The Group will also recognise Right-of-use assets of the equivalent value (£2.1bn). The Right-of-use assets will be adjusted for the reclassification of prepaid lease expenses, Deferred income and onerous lease provisions (£151m) and £62m of impairment, resulting in a net Right-of-use assets balance of £1.9bn on transition. Overall Net assets will decrease by £46m, after adjusting existing IAS 17 Finance leases by £7m and recognising £62m for impairment of the Right-of-use assets. A Deferred tax asset of £9m will also be recognised as a result of this adjustment to Equity.

  Going forward, a straight-line depreciation expense will be recognised in the Consolidated income statement in relation to the Right-of-use assets and an amortising interest charge will be recognised in the Consolidated income statement in relation to the Lease liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

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

The interest charge will be front-loaded in the earlier periods of a lease as the interest element unwinds. This will replace the Operating lease expense currently recognised in the Income statement under IAS 17. For the year ending 25 January 2020, assuming no changes in the lease portfolio, this will result in a material reduction in Profit before tax of approximately £40m, comprising an increase in Operating profit of approximately £63m offset by an estimated increase in Finance costs of £103m.

There will be no quantitative impact to cash flows (other than the phasing of tax cash flows related to movements in Profit), however the classification of cash flows will change. It is estimated that the Group's Operating cash outflows will decrease and Financing cash outflows will increase by approximately £88m as repayment of the principal portion of the Lease liabilities will be classified as Cash flows from financing activities.

The effect of these changes will also be reflected in the Group's KPIs including the Debt Ratio, Return on Invested Capital (ROIC) and Profit per average full-time equivalent (FTE). For the year ending 25 January 2020, assuming no changes in the lease portfolio, this will result in a 0.4% decrease in ROIC and a £550 decrease in Profit per average FTE. The Debt Ratio will remain consistent as the IFRS 16 Lease liabilities on transition are closely aligned to the estimates previously included in the published Debt Ratio figures.

The Group's activities as a lessor are not material and therefore the Group does not expect any significant impact on the financial statements. However, as required by IFRS 16, additional disclosures will be included within the notes to the financial statements for the year ending 25 January 2020.

- **IFRIC 23: Uncertainty over Income Tax Treatments.** The adoption of IFRIC 23 is not expected to have any impact on the Group's Consolidated income statement or Consolidated balance sheet.
- **Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures**
- **Annual Improvements to IFRSs 2015-17 Cycle – various standards**
- **Amendments to IAS 19: Plan Amendment, Curtailment or Settlement**
- **Amendments to IFRS 9: Prepayment Features with Negative Compensation**

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

- **Amendments to References to the Conceptual Framework in IFRS Standards** (applicable for the period beginning 26 January 2020)
- **IFRS 17: Insurance Contracts** (applicable for the period beginning 31 January 2021)
- **Amendments to IFRS 3: Business Combinations** (applicable for the period beginning 26 January 2020)
- **Amendments to IAS 1 and IAS 8: Definition of Material** (applicable for the period beginning 26 January 2020)

Change in accounting policy: Exceptional items

During the year, the Directors have reviewed the accounting policy for Exceptional items. As part of this review, the Directors have changed the accounting policy for Exceptional items to improve the transparency and clarity of the application of the policy. The new policy is described in note 1.2.2.

No restatement of items disclosed in prior periods is required as a result of this change in accounting policy, however the classifications of some balances within Exceptional items have been relabelled to more appropriate descriptions and provide clearer comparability year on year.

Reclassification of Short-term investments and Cash and cash equivalents

Following a review of the Group's Short-term deposits, certain deposits previously presented as Cash and cash equivalents at 27 January 2018 are now considered Short-term investments due to the risk of variability in value of these funds. As a result, £46.0m of deposits previously classified as Cash and cash equivalents have been reclassified to Short-term investments in the current and comparative periods, impacting the Balance sheet, Statement of cash flows and related notes to the accounts. There is no impact on Current assets, Cash generated from operations after Partnership Bonus or Net debt. For further details on Short-term investments and Cash and cash equivalents please refer to notes 5.3 and 5.4.

Reclassification of BonusSave receivable

John Lewis Partnership plc operates a 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. The 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 Partnership Bonus for this purpose.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

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

Where there are an excess number of shares in issue the shares are not cancelled, instead the Company provides a loan to the scheme in order to cover the cash outflows resulting from redemptions, and they are held as “unallocated” shares within the Plan. The Company holds a receivable in respect of the loan made to the scheme for these unallocated shares.

Following a review of the scheme, John Lewis Partnership plc has concluded that control of the scheme is held by John Lewis Partnership plc and accordingly the scheme is now consolidated within the Partnership's consolidated financial statements. This has resulted in a reclassification of the receivable held by the Company in respect of the loan made to the BonusSave scheme for unallocated shares from Other receivables to an Intercompany receivable from the BonusSave scheme. This is reflected in both the Company and the Group's consolidated accounts. The BonusSave scheme does not form part of the Group's consolidated financial statements. There is no impact on the Income statement, Cash generated from operations after Partnership Bonus or Net debt.

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 is 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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
Finance lease liabilities	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.

As a result of the introduction of IFRS 9, there has been no change to the method of measurement or carrying value of any of the Group's financial assets and liabilities.

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.

1.1.6 KEY JUDGEMENTS AND CRITICAL ACCOUNTING ESTIMATES

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

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

- **Retirement benefits:** Details of critical accounting estimates and assumptions are given in note 6.1
- **Provisions and liabilities:** Details of critical accounting estimates and assumptions are given in notes 4.3 and 4.4
- **Impairment:** Details of critical accounting estimates and assumptions are given in notes 3.1 and 3.2
- **Depreciation and amortisation:** Details of critical accounting estimates and assumptions are given in notes 3.1 and 3.2
- **Value of intangible work in progress:** Details of key judgements are given in note 3.1
- **Application of residual values:** Details of key judgements are given in note 3.2
- **Exceptional items:** Details of key judgements are given in note 2.5
- **Revenue/Deferred income:** Details of critical accounting estimates are given in notes 2.2 and 4.3.

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

Items which are significant by virtue of their size and nature are presented as Exceptional items within their relevant Consolidated income statement category.

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, if of a similar type, in aggregate, are significant by virtue of their size and nature and are separately reported to help users of the financial statements understand the underlying business performance of the Group.

In assessing whether an item is exceptional, the nature of the item is considered. This 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.

No restatement of items disclosed in prior periods is required as a result of this change in accounting policy. 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 obligations under Finance leases, 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 and operating leases.

2 GROUP PERFORMANCE

IN THIS SECTION

This section focuses on our performance during the year ended 26 January 2019. 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 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)

2019	Waitrose & Partners £m	John Lewis & Partners £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 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 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 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 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 & Partners (2018: £1.0m share of loss). See note 3.3.

2 Net profit on sale of property includes losses of £0.9m in Waitrose & Partners (2018: £2.1m), £0.5m in Group (2018: £nil), and £0.1m in John Lewis & Partners (2018: £nil.).

3 Includes net charges for impairment. See notes 3.1 and 3.2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.1 SEGMENTAL REPORTING (CONTINUED)

2018	Waitrose & Partners £m	John Lewis & Partners £m	Group £m	Total £m
Gross sales[1]	6,753.7	4,855.8	–	11,609.5
Adjustment for sale or return sales	–	(254.6)	–	(254.6)
Value added tax	(399.0)	(740.1)	–	(1,139.1)
Revenue[1]	6,354.7	3,861.1	–	10,215.8
Operating profit before exceptional items, Partnership Bonus and net profit on sale of property[1,5]	169.1	247.3	(67.3)	349.1
Net profit on sale of property[2]	2.9	10.5	–	13.4
Operating profit before exceptional items and Partnership Bonus[1]	172.0	257.8	(67.3)	362.5
Exceptional items	(52.2)	(21.3)	(37.8)	(111.3)
Operating profit before Partnership Bonus[1,3]	119.8	236.5	(105.1)	251.2
Finance costs				(85.2)
Finance income				14.1
Partnership Bonus				(74.0)
Profit before tax[1]				106.1
Taxation[1]				(31.3)
Profit for the year[1]				74.8
Reconciliation of Profit before Partnership Bonus, tax and exceptional items to Profit before tax:				
Profit before Partnership Bonus, tax and exceptional items[1]				291.4
Partnership Bonus				(74.0)
Exceptional items				(111.3)
Profit before tax[1]				106.1
Segment assets[1]	2,890.1	2,150.8	1,212.7	6,253.6
Segment liabilities[1]	(784.9)	(902.0)	(2,269.2)	(3,956.1)
Net assets[1]	2,105.2	1,248.8	(1,056.5)	2,297.5
Other segment items:				
– Depreciation[4]	(196.2)	(110.2)	(16.9)	(323.3)
– Amortisation[4]	(38.2)	(54.3)	(21.6)	(114.1)
– Capital expenditure – property, plant and equipment	109.0	72.8	45.0	226.8
– Capital expenditure – intangible assets	52.7	107.0	22.8	182.5
– Increase/(decrease) in provisions[1]	(2.0)	10.5	7.4	15.9

1 Restated, see note 1.1.4.
2 Net profit on sale of property includes losses of £2.1m in Waitrose & Partners.
3 Included within Operating profit before Partnership Bonus is an impairment charge of £52.3m, of which £42.7m is in Waitrose & Partners, £7.2m is in John Lewis & Partners, and £2.4m is in Group (see notes 3.1 and 3.2).
4 Includes net charges for impairment. See notes 3.1 and 3.2.
5 Included within Operating profit before exceptional items, Partnership Bonus and net profit on sale of property is a £1.0m share of loss of a joint venture in John Lewis & Partners (see note 3.3).

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. 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 review performance throughout the year.

Major product lines	2019 £m	2018 £m
Goods		
– Grocery	**6,429.5**	6,354.7
– Home	**1,085.8**	1,133.6
– Fashion	**1,215.7**	1,179.4
– EHT (Electricals and Home Technology)	**1,393.6**	1,370.1
Services		
– Free service guarantee	**41.3**	31.3
Other revenue	**150.8**	146.7
	10,316.7	10,215.8

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 service lines generating revenue.

Type of product/ service	Nature and timing of satisfaction of performance obligations	Revenue recognition under IFRS 15 (new accounting policy)	Revenue recognition under IAS 18 (previous accounting policy)
Grocery	Grocery products are principally sold by Waitrose & Partners 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 & Partners stores. Where a grocery product is ordered online, it is fulfilled by a Waitrose & Partners 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 & Partners 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.	Revenue is recognised when the goods have been received by the customer. Adjustments are recorded for returns where material, based on historic trends and recent sales patterns.
Home	Home products are principally sold by John Lewis & Partners 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 & Partners 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 & Partners 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.	Revenue is recognised when the goods have been received by the customer. Adjustments are recorded for returns where material, based on historic trends and recent sales patterns.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.2 REVENUE (CONTINUED)

2.2.2 REVENUE RECOGNITION POLICIES (CONTINUED)

Type of product/ service	Nature and timing of satisfaction of performance obligations	Revenue recognition under IFRS 15 (new accounting policy)	Revenue recognition under IAS 18 (previous accounting policy)
Fashion	Fashion products are principally sold by John Lewis & Partners 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 & Partners 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 & Partners 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.	Revenue is recognised when the goods have been received by the customer. Adjustments are recorded for returns where material, based on historic trends and recent sales patterns.
Electricals and Home Technology (EHT)	EHT products are principally sold by John Lewis & Partners 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 & Partners 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 & Partners 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.	Revenue is recognised when the goods have been received by the customer, for the full price of the goods sold, excluding VAT. Adjustments are recorded for returns where material, based on historic trends and recent sales patterns.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.2 REVENUE (CONTINUED)

2.2.2 REVENUE RECOGNITION POLICIES (CONTINUED)

Type of product/ service	Nature and timing of satisfaction of performance obligations	Revenue recognition under IFRS 15 (new accounting policy)	Revenue recognition under IAS 18 (previous accounting policy)
Free service guarantee	The free service guarantee is provided with certain EHT products which are sold by John Lewis & Partners. 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.	The free service guarantee was accounted for under IAS 37 Provisions. No adjustment was made to revenue which was fully recognised at the point of sale and the best estimate of the costs of fulfilling the free service warranty was recorded as a provision.
Other revenue	Other revenue products/services are principally sold by John Lewis & Partners and include catering, customer delivery, foodhalls and workrooms. Customers obtain control of other revenue when the products/services have been rendered and the performance obligations have been met. Customers pay at the point of sale in John Lewis & Partners 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.	Revenue is recognised when the products/services have been received by the customer.

2.3 OTHER OPERATING INCOME

ACCOUNTING POLICIES

Other operating income is income that does not relate to the main trading operations of the Group. Other operating income includes:

Commissions: Commissions are recognised when the Group has satisfied its performance obligations 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.

For those services below, within the scope of IFRS 15, there was no change in recognition policy upon adoption of the accounting standard, and therefore the comparatives have not been restated.

Other operating income	2019 £m	2018 £m
Commissions	**64.7**	66.1
Rental income	**7.6**	6.8
Licence fees	**2.7**	3.0
Other income	**37.1**	35.4
	112.1	111.3

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	2019 £m	2018 £m
Branch operating expenses	**(2,198.1)**	(2,158.4)
Administrative expenses	**(1,074.0)**	(957.5)
	(3,272.1)	(3,115.9)

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

2.5 EXCEPTIONAL ITEMS

Exceptional items are items of income and/or 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 therefore are 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 criteria alone classifies an item as exceptional, and therefore management must exercise judgement when determining whether, on balance, presenting an item as exceptional will help users of the financial statements understand the Group's underlying business performance.

Exceptional items	**2019 Operating (expense)/ income £m**	**2019 Taxation credit/ (charge) £m**	2018 Operating (expense)/ income £m	2018 Taxation credit £m
Strategic restructuring and redundancy programmes				
Head office reviews	**(19.3)**	**3.7**	(40.5)	7.6
Physical estate	**(5.1)**	**1.5**	(5.5)	0.4
Shop operations	**(6.7)**	**1.3**	(29.2)	5.5
	(31.1)	**6.5**	(75.2)	13.5
Branch impairments (Waitrose & Partners)	**–**	**–**	(35.7)	4.5
Branch impairment (John Lewis & Partners)	**(12.6)**	**1.2**	–	–
John Lewis & Partners supply chain	**0.5**	**(0.1)**	(3.1)	0.6
Pay provision	**30.3**	**(5.6)**	–	–
Legal settlement	**15.0**	**(2.9)**	–	–
Profit on disposal of items previously recognised as exceptional	**–**	**–**	2.7	–
	2.1	**(0.9)**	(111.3)	18.6

Strategic restructuring and redundancy programmes

In April 2016, the Group launched its long-term strategy: It's Your Business 2028 (IYB 2028). The IYB 2028 strategy outlined three key pillars centred on Customer, Partner and Profit and the steps we would need to take in order to adapt the Group for the future. The acceleration of our plans in order to ensure the Group's success is requiring an unprecedented level of internal change. In June 2018, the Group provided a strategy update outlining in more detail the key focus areas fundamental to meeting our Profit objective. Further detail on these can be found on pages 34 to 37 of the Strategic report in the Partnership's Annual Report and Accounts. Given the scale of these changes, the programmes of activity will take a number of years to deliver. These costs form part of our strategic transformation programme and therefore will recur across a number of financial years. As we move towards delivering our strategic vision, transformation programmes in other areas may be required. Over the life of the 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 2019 and 2018 is detailed below:

***Head office*:** As part of IYB 2028, an internal productivity agenda was launched in 2016 with the appointment of a Group Productivity Director, the main focus of which was a transformation of pan-Group functions and other head office operations. These principally included evaluations 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 the next two years as we finalise the reviews of the remaining functions. In 2019 we have incurred expenses of £19.3m (2018: £40.5m) in relation to this programme. The expense includes project costs, onerous contracts and, where announced, redundancy costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.5 EXCEPTIONAL ITEMS (CONTINUED)

***Physical estate*:** In 2017, we announced our intention to cut back on plans to open new shops and instead to prioritise investment in our existing estate. This led to exceptional charges in 2017 for the write down of property, other assets and related costs, principally in relation to future development plans of the Waitrose & Partners estate (previously presented in exceptional items as Strategic review). Since 2017, our focus has shifted to an assessment and optimisation of our existing estate, and as highlighted in our June 2018 update, this continues to be a key part of our strategy, which 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 and the associated costs and incomes to take a total of approximately five years to deliver. This year we have recognised a net exceptional expense of £5.1m (2018: £5.5m). 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 has been realised in the year, this has been shown net, reflecting that the original expenses were shown as exceptional.

***Shop operations*:** Alongside the assessment of our physical estate, we also identified that the way in which we run and manage our shops would require adjustment. In order to improve the customer experience and efficiencies in our 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, and aligning regional offerings in order to deliver a more flexible, multi-skilled and productive model. This programme is now largely complete with costs of £6.7m (2018: £29.2m) recognised this year. The expenses in the current year principally include redundancy costs, where announced, as specific elements of our shop operating models are restructured.

Included within operating expenses, and not separately reported as exceptional, are £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.

Branch impairments (Waitrose & Partners)

In 2018, £38.9m of impairment charges were recognised in relation to Waitrose & Partners stores. Of this, £3.2m related to stores due for closure, which have now been relabelled as Physical estate within the 2018 comparative balances above. The remaining £35.7m was driven by continuing uncertainty with respect to Brexit outcomes and changes to the grocery market, leading us to review our approach and assumptions with respect to possible impairment in Waitrose & Partners, where margins were trending significantly lower. This £35.7m was recognised as exceptional given the nature of the exercise and the size of the cost. In 2019 no such impairment charges have been recognised as exceptional, and any impairments as a result of store closures are included within Physical estate, while any impairments resulting from poor store performance have been included within operating expenses.

Branch impairment (John Lewis & Partners)

Following the signing of an amended lease contract, a charge of £12.6m (2018: £nil) has been recorded in relation to branch impairment in John Lewis & Partners.

John Lewis & Partners supply chain

In 2017, a review of the John Lewis & Partners supply chain led to significant redundancy and restructuring costs which were recognised as exceptional. During the year to January 2019, a small credit of £0.5m (2018: £3.1m charge) has been recognised as actual costs incurred have been smaller than anticipated.

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 the year, the methodology for calculating the liability has been clarified and the project finalised, resulting in a £30.3m (2018: £nil) release of the provision. Discussions with HMRC have now been completed and rectification payments have been made.

Legal settlement

In September 2018, the Group reached a settlement in relation to an ongoing legal dispute, receiving income of £15.0m. Due to the size and nature of this settlement, this income has been recognised as exceptional.

Profit on disposal of items previously recognised as exceptional

In 2018, income of £2.7m was recognised upon finalisation of a property disposal which was previously recorded as exceptional. In 2019 profit on disposal of items previously recognised as exceptional was £nil.

2.6 PROFIT BEFORE TAX

	2019 £m	2018 (restated, see note 1.1.4) £m
Staff costs (note 2.8.2)	**(1,863.2)**	(1,846.9)
Depreciation – owned assets[1]	**(286.8)**	(322.6)
Depreciation – assets held under finance leases	**(0.7)**	(0.7)
Amortisation of intangible assets[2]	**(122.9)**	(114.1)
Net profit on sale of property (including exceptional items)	**3.9**	16.1
Net loss on disposal of other plant and equipment and intangible assets	**(3.8)**	(0.3)
Inventory – cost of inventory recognised as an expense[3]	**(6,931.0)**	(6,847.7)
Operating lease rentals:		
– land and buildings	**(190.7)**	(186.9)
– plant and machinery	**(1.3)**	(0.5)
Sub-lease income:		
– land and buildings	**5.7**	5.8

1 Included within depreciation – owned assets is an impairment charge of £18.6m (2018: £40.7m) of which £6.0m (2018: £40.7m) is in Waitrose & Partners and £12.6m (2018: £nil) is in John Lewis & Partners.
2 Included within amortisation of intangible assets is an impairment charge of £2.0m (2018: £11.6m) of which £0.2m (2018: £2.0m) is in Waitrose & Partners, £nil (2018: £7.2m) is in John Lewis & Partners and £1.8m (2018: £2.4m) is in Group.
3 Restated, see note 1.1.4.

Contingent rents expensed during the year were £2.2m (2018: £0.8m). Contingent rents are determined based on store revenues.

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

Auditor's remuneration	**2019 £m**	2018 £m
Audit and audit-related services:		
– Audit of the parent Company and consolidated financial statements	**(0.4)**	(0.3)
– Audit of the Company's subsidiaries	**(0.6)**	(0.6)
	(1.0)	(0.9)
Non-audit services:		
– Other assurance services	**(0.1)**	(0.2)
	(0.1)	(0.2)
Total fees	**(1.1)**	(1.1)

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

	2019 £m	2018 £m
Profit before tax[1]	**115.7**	106.1
Amortisation and write-offs of intangible assets[2]	**141.7**	114.1
Depreciation[3]	**287.5**	323.3
Share of loss of joint venture (net of tax)	**0.7**	1.0
Net finance costs	**66.7**	71.1
Partnership Bonus	**44.7**	74.0
Fair value losses on derivative financial instruments	**2.1**	0.2
Loss/(profit) on disposal of property, plant and equipment and intangible assets[4]	**1.4**	(15.8)
Decrease/(increase) in inventories	**3.9**	(33.7)
Decrease/(increase) in receivables	**8.3**	(21.8)
(Decrease)/increase in payables[1]	**(60.5)**	(22.7)
Increase in retirement benefit obligations	**29.6**	29.5
(Decrease)/increase in provisions[1]	**(46.8)**	12.0
Cash generated from operations before Partnership Bonus	**595.0**	637.3

1 Restated, see note 1.1.4.
2 Includes net impairment charges. See note 3.1.
3 Includes net impairment charges. See note 3.2.
4 This amount represents only the cash received in the year, amounts due to be received next year of £1.5m are included within receivables. The net of these amounts is £0.1m per note 2.6.

2.8 PARTNERS

2.8.1 PARTNER NUMBERS

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

	2019	2018
John Lewis & Partners	**28,100**	28,500
Waitrose & Partners	**52,400**	53,000
Group	**3,200**	3,000
	83,700	84,500

2.8.2 PARTNER PAY AND BENEFITS

Employment and related costs were as follows:

	2019 £m	2018 £m
Staff costs		
Wages and salaries	**(1,480.0)**	(1,441.3)
Social security costs	**(110.5)**	(111.6)
Partnership Bonus	**(39.8)**	(65.7)
Employers' national insurance on Partnership Bonus	**(4.9)**	(8.3)
Other pension expenses (note 6.1.2)	**(219.1)**	(215.6)
Long leave cost	**(8.9)**	(4.4)
Total before Partner discounts	**(1,863.2)**	(1,846.9)
Partner discounts (excluded from revenue)	**(76.2)**	(69.3)
	(1,939.4)	(1,916.2)

2.8.3 KEY MANAGEMENT COMPENSATION

Salaries and short-term benefits	**(13.2)**	(13.1)
Post-employment benefits[1]	**(2.4)**	(2.0)
	(15.6)	(15.1)

1 Includes cash supplements in lieu of future pension accrual.

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.

2.8.4 DIRECTORS' EMOLUMENTS

An Executive Director with an external appointment may not retain any earnings from such appointment unless it dates from before he or she joined the Group.

Highest paid director

The total emoluments for the year ended 26 January 2019 and 27 January 2018 of the Chairman, who was also the highest paid Director, were £1,444,000 (2018: £1,411,000), comprising pay of £1,109,000 (2018: £1,109,000), Partnership Bonus of £33,000 (2018: £nil), pension supplement in lieu of further defined pension accrual of £288,000 (2018: £288,000) and benefits with a cash value of £14,000 (2018: £14,000).

Pension arrangements

Their accrued pensions increase in line with either price inflation or future pay increases, depending on their individual arrangements. Where there are any accrued defined benefit pensions remaining on an unfunded basis, the Group has made provision for the associated liability. During the year, the total pension supplement paid to the Directors was £0.8m (2018: £0.8m). The aggregate defined benefit pension entitlement accrued at the end of the year was £0.7m (2018: £0.7m) relating to five (2018: five) Directors. At the end of the reporting period, one (2018: one) Director continues to accrue further benefits in the Group's pension scheme. The aggregate value of the Company's contribution to this scheme in respect of that Director was £0.1m (2018: £0.1m).

The Chairman's aggregate defined benefit pension entitlement from the age of 60 accrued at the end of the year was £300,000 per annum (2018: £300,000 per annum). There was no increase in the accrued income entitlement above the consumer price inflation during the year.

No compensation for loss of office was paid to departing Directors of the Partnership Board during the period or to the date of this report.

Contracts of employment for the Directors provide for a notice period of between six months and one year. No contract contains a provision regarding early termination compensation.

Directors' emoluments have been summarised below.

	2019 £m	2018 £m
Aggregate emoluments	**(4.5)**	(4.4)

2.9 TAXATION

Our Tax Strategy aligns to the Principles of our Constitution and, as a responsible leading retailer, we believe 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 Group'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	**2019 £m**	2018 £m
Current tax – current year	**(45.8)**	(51.7)
Current tax – adjustment in respect of prior years	**2.3**	(1.6)
Current tax on IFRS 15 restatement	**2.5**	–
Total current tax charge	**(41.0)**	(53.3)
Deferred tax – current year[1]	**5.1**	21.7
Deferred tax – rate change	**–**	(7.3)
Deferred tax – adjustment in respect of prior years	**(1.3)**	7.6
Deferred tax on IFRS 15 restatement	**(2.5)**	–
Total deferred tax credit	**1.3**	22.0
	(39.7)	(31.3)

Tax (charged)/credited to other comprehensive income	**2019 £m**	2018 £m
Current tax on pension scheme[2]	**7.1**	17.2
Total current tax credit	**7.1**	17.2
Deferred tax on pension scheme	**(55.3)**	(57.4)
Deferred tax on cash flow hedges	**(4.1)**	5.9
Total deferred tax charge	**(59.4)**	(51.5)
	(52.3)	(34.3)

1 Restated, see note 1.1.4.

2 An additional deficit funding contribution of £37.1m has been paid by the Group during the year (2018: £89.8m) in relation to the defined benefit pension scheme, resulting in a tax credit of £7.1m (2018: £17.2m) to the Statement of other comprehensive income/(expense) and a corresponding reduction in our current tax liability.

2.9.2 FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax charge for the year is higher (2018: higher) than the standard corporation tax rate of 19.0% (2018: 19.2%[1]). The differences are explained below:

	2019 £m	2018 £m
Profit before tax [2]	**115.7**	106.1
Profit before tax multiplied by standard rate of corporation tax in the UK of 19.0% (2018: 19.2%[1])	**(22.0)**	(20.3)
Effects of:		
Changes in tax rate	**–**	(7.3)
Adjustment in respect of prior years	**1.0**	6.0
Depreciation on assets not qualifying for tax relief	**(14.4)**	(14.0)
Difference between accounting and tax base for land and buildings	**(2.0)**	5.0
Differences in overseas tax rates	**(0.1)**	(0.1)
Sundry disallowables	**(2.2)**	0.2
Other permanent differences on sale of property	**–**	(0.8)
Total tax charge [2]	**(39.7)**	(31.3)
Effective tax rate [2] (%)	**34.3**	29.5

1 Based on a blended corporation tax rate comprised of two months at 20.0% relating to the 2016/17 fiscal year and ten months at 19.0% relating to the 2017/18 fiscal year.
2 Restated, see note 1.1.4.

2.9.3 DEFERRED TAX

Deferred tax is calculated on temporary differences using a tax rate of 19% for deferred tax assets and liabilities expected to reverse before 1 April 2020, and 17% for those assets and liabilities expected to reverse after 1 April 2020. In the year to 27 January 2018, a tax rate of 19% was used for deferred tax assets and liabilities expected to reverse before 1 April 2020 and 17% for those assets and liabilities expected to reverse after 1 April 2020.

The movement on the deferred tax account is shown below:

Deferred tax	2019 £m	2018 £m
Opening net asset [1]	**21.9**	51.4
Credited to income statement [1]	**1.3**	22.0
Charged to other comprehensive income/(expense)	**(59.4)**	(51.5)
Closing net asset [1]	**(36.2)**	21.9

1 Restated, see note 1.1.4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.9 TAXATION (CONTINUED)

2.9.3 DEFERRED TAX (CONTINUED)

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

Deferred tax liabilities	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Rollover gains £m	Total £m
At 28 January 2017	(101.5)	(8.8)	(38.7)	(149.0)
Credited to income statement	2.6	0.5	0.4	3.5
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)**

Deferred tax assets	Capital gains tax on land and buildings £m	Pensions and provisions £m	Other £m	Total £m
At 28 January 2017 [1]	12.8	181.2	6.4	200.4
Credited/(charged) to income statement[1]	1.4	17.2	(0.1)	18.5
(Charged)/credited to other comprehensive income/(expense)	–	(57.4)	5.9	(51.5)
At 27 January 2018 [1]	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**

1 Restated, see note 1.1.4.

The deferred tax asset in relation to the defined benefit pension scheme is £63.3m (2018: £109.9m).

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	**2019 £m**	2018 £m
Deferred tax assets [1]	**–**	28.0
Deferred tax liabilities	**(36.2)**	(6.1)
Deferred tax net	**(36.2)**	21.9

1 Restated, see note 1.1.4.

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 26 January 2019 relating to losses in John Lewis Hong Kong Limited of £0.7m (2018: £nil).

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

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

2.9 TAXATION (CONTINUED)

2.9.3 DEFERRED TAX (CONTINUED)

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 to reduce the UK corporation tax rate from 19% to 17% from 1 April 2020.

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, 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 three and ten 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 profit and loss. 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.

During the year to 26 January 2019, the Group has capitalised a significant proportion of WIP that has built up over recent years. Management's review has concluded that the remaining 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3.1 INTANGIBLE ASSETS (CONTINUED)

	Goodwill	Computer software			
Intangible assets and goodwill	£m	Purchased £m	Internally developed £m	Work in progress £m	Total £m
Cost					
At 28 January 2017	–	216.6	491.3	157.4	865.3
Additions [1]	–	–	–	182.5	182.5
Transfers	–	23.4	72.0	(95.4)	–
Disposals and write-offs	–	(26.6)	(60.6)	(5.4)	(92.6)
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**
Accumulated amortisation					
At 28 January 2017	–	(139.1)	(293.5)	–	(432.6)
Charge for the year [2]	–	(30.5)	(83.6)	–	(114.1)
Disposals and write-offs	–	27.2	60.0	–	87.2
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)**
Net book value at January 2017	–	77.5	197.8	157.4	432.7
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**

1 For the year ended 26 January 2019, additions for the year include the non-cash capital expenditure accrual on intangible assets of £7.1m (2018: £22.3m).

2 For the year ended 26 January 2019, this includes an impairment charge of £2.0m (2018: £11.6m) to intangible assets of which £0.2m (2018: £2.0m) is in Waitrose & Partners, £nil (2018: £7.2m) is in John Lewis & Partners and £1.8m (2018: £2.4m) 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 26 January 2019: two are customer projects (£139.0m, 2018: £126.8m) and two are distribution projects (£126.2m, 2018: £126.2m).

During the year to 26 January 2019, computer systems valued at £241.1m (2018: £95.4m) were brought into use. This covered a range of selling, support, supply chain, administration and information technology infrastructure applications, with asset lives ranging from three to ten 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 the year.

3.2 PROPERTY, PLANT AND EQUIPMENT

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.

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 – 25-50 years

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

Building fixtures – 10-40 years

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

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

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 immediately as a credit to the Income statement.

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 has therefore concluded that the application of residual values is consistent with the definition set out in IAS 16.

CRITICAL ACCOUNTING ESTIMATES

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

Impairment: In line with the Group's accounting policy, management must assess the value in use of each CGU when testing for impairment. This requires estimation of the present value of future cash flows expected to arise from the continuing operation of the CGU. These estimates require assumptions over future sales performance; future costs; and long-term growth rates, as well as the application of an appropriate discount rate. Were there to be significant changes in these assumptions, it could materially impact the amount charged as impairment during the year, or lead to the reversal of impairment charges recognised in previous years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3.2 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Property, plant and equipment	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in course of construction £m	Total £m
Cost				
At 28 January 2017	4,569.5	1,957.2	85.9	6,612.6
Additions [1]	–	–	226.8	226.8
Transfers	136.0	95.3	(231.3)	–
Disposals and write-offs	(62.2)	(133.3)	(0.4)	(195.9)
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**
Accumulated depreciation				
At 28 January 2017	(1,161.2)	(1,339.0)	–	(2,500.2)
Charge for the year [2]	(172.9)	(150.4)	–	(323.3)
Disposals and write-offs	18.0	133.2	–	151.2
At 27 January 2018	(1,316.1)	(1,356.2)	–	(2,672.3)
Charge for the year [2]	(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)**
Net book value at January 2017	3,408.3	618.2	85.9	4,112.4
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**

1 For the year ended 26 January 2019, additions for the year include the non-cash capital expenditure accrual on property, plant and equipment of £28.7m (2018: £12.7m).

2 For the year ended 26 January 2019, this includes a net impairment charge of £18.6m to land and buildings (2018: £40.7m).

Included above are land and building assets held under finance leases with a net book value of £14.6m (2018: £15.8m).

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. The key assumptions used in the calculations are the discount rate, long-term growth rate, 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. 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. The discount rate is derived from the Group's pre-tax weighted average cost of capital of 8% (2018: 8%).

3.2 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 an impairment charge to land and buildings in the year of £6.0m in Waitrose & Partners (2018: £40.7m) and £12.6m in John Lewis & Partners (2018: £nil).

A reduction of 0.5% in the long-term growth rate would result in an additional impairment charge of £1.5m (2018: £9.3m). An increase in the discount rate of 0.5% would result in an additional impairment charge of £0.9m (2018: £4.6m).

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 28 January 2017	2.1	1.5	3.6
Additions	–	–	–
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**
Share of (loss)/profit			
At 28 January 2017	0.3	–	0.3
Share of loss	(1.0)	–	(1.0)
At 27 January 2018	(0.7)	–	(0.7)
Share of loss	(0.7)	–	(0.7)
At 26 January 2019	**(1.4)**	**–**	**(1.4)**
At 27 January 2018	1.4	1.5	2.9
At 26 January 2019	**0.7**	**2.0**	**2.7**

3.4 ASSETS HELD FOR SALE

At 26 January 2019, five property assets in Waitrose & Partners (£13.7m) and one in John Lewis & Partners (£9.4m) were recorded as held for sale with a total carrying value of £23.1m. Two of these properties have been sold since the year-end and the remaining four are expected to complete within the next 12 months.

At 27 January 2018, there were no assets recorded as held for sale.

3.5 COMMITMENTS AND CONTINGENCIES

3.5.1 CAPITAL COMMITMENTS

At 26 January 2019, contracts had been entered into for future capital expenditure of £44.1m (2018: £36.0m) of which £33.0m (2018: £29.3m) relates to property, plant and equipment and £11.1m (2018: £6.7m) relates to intangible assets.

3.5.2 LEASE GUARANTEES

Previously, John Lewis plc provided lease guarantees in favour of the Group's former associate company, Ocado Limited, in respect of leased land and buildings. For 2018, the maximum liability due from the Group as the guarantor was £6.8m which would have become payable had Ocado Limited defaulted on rental payments. For 2019, this guarantee is no longer provided.

3.5.3 COMMITMENTS UNDER OPERATING LEASES

The Group's operating leases relate to supermarkets, department stores, offices and distribution centres. Leases may include break clauses or options to renew (options to renew are not included in the commitments table). The majority of our lease payments are subject to market review, usually every five years, to reflect market rentals, but because of the uncertainty over the amount of any future changes, such changes have not been reflected in the table below. Some of our lease agreements include rental payments contingent on turnover or economic indices. These contingent rents are also excluded from the table below.

Future aggregate minimum lease payments under non-cancellable operating leases, payable:	**2019 Land and buildings £m**	2018 Land and buildings £m
Within one year	**(192.5)**	(188.9)
Later than one year and less than five years	**(757.4)**	(738.2)
After five years	**(2,716.1)**	(3,148.5)

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years:	**2019 Land and buildings £m**	2018 Land and buildings £m
Later than five years and less than 10 years	**(825.7)**	(847.6)
Later than 10 years and less than 20 years	**(1,087.5)**	(1,152.0)
Later than 20 years and less than 40 years	**(517.7)**	(598.0)
Later than 40 years and less than 80 years	**(248.9)**	(271.1)
After 80 years	**(36.3)**	(279.8)
	(2,716.1)	(3,148.5)

For the year ending 25 January 2020, the Group will adopt the new accounting standard for leases, IFRS 16. Under this standard the commitments under operating leases reflected in the tables above (£3.7bn) will be recognised on the Consolidated balance sheet as lease liabilities discounted to present value (£2.1bn). See note 1.1.4.

Total future sub-lease payments receivable relating to the above operating leases amounted to £10.9m (2018: £10.9m).

Amounts recognised in the income statement	**2019 £m**	2018 £m
Operating lease rentals:		
– land and buildings	**(190.7)**	(186.9)
– plant and machinery	**(1.3)**	(0.5)
Sub-lease income:		
– land and buildings	**5.7**	5.8

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 held 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 Partnership's returns policy. The expected level of returns is based on past experience.

Inventory	**2019 £m**	2018 £m
Raw materials	**3.6**	4.2
Work in progress	**0.1**	0.1
Finished goods and goods for resale	**653.9**	657.2
	657.6	661.5

Provisions against inventories of £27.7m were charged (2018: £10.7m charged) to cost of sales.

Finished goods and goods for resale include a 'right to return goods' asset of £20.0m (2018: £22.5m).

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 an allowance for expected credit losses. 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 life of each 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.

Trade and other receivables	**2019 £m**	2018 £m
Current:		
Trade receivables	**74.5**	84.5
Other receivables[1]	**39.1**	39.7
Prepayments	**110.6**	101.5
Accrued income	**35.1**	35.9
	259.3	261.6
Non-current:		
Other receivables	**16.2**	18.3
Prepayments	**42.2**	47.0
	58.4	65.3

1 Restated, 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 that has been invoiced but not paid of £15.4m (2018: £9.7m). Supplier income that has been invoiced but not yet settled against future trade payable balances is included in trade payables (see note 4.3).

Within accrued income, there is £12.7m (2018: £9.3m) in relation to supplier income which has not yet been invoiced. Additionally, accrued income includes £20.5m (2018: £24.6m) 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 individually not material for further disclosures and had no significant changes during the period.

The Partnership recognises loss allowances for expected credit losses within operating expenses in the Income statement. As at 26 January 2019, trade and other receivables of £4.0m (2018: £2.9m) were partially or fully impaired. As at 26 January 2019, trade and other receivables of £23.3m (2018: £26.2m) were past due but not impaired. The ageing analysis of the past due amounts is as follows.

Ageing analysis	2019 £m	2018 £m
Up to 3 months past due	**22.9**	24.5
3 to 12 months past due	**0.4**	1.1
Over 12 months past due	–	0.6
	23.3	26.2

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.

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 costs for all goods sold plus a margin. The expected future costs are based on historical evidence of claims and cost to repair. Management exercise a degree of estimation regarding the margin percentage.

Trade and other payables	2019 £m	2018 £m
Current:		
Trade payables	**(919.7)**	(943.3)
Amounts owing to parent undertakings[1]	**(65.3)**	(79.4)
Other payables	**(178.7)**	(184.3)
Other taxation and social security	**(178.4)**	(178.8)
Accruals	**(189.9)**	(192.1)
Deferred income[1]	**(89.0)**	(111.9)
Partnership Bonus	**(39.7)**	(66.5)
	(1,660.7)	(1,756.3)
Non-current:		
Other payables	**(0.2)**	(0.3)
Deferred income[1]	**(258.4)**	(251.8)
	(258.6)	(252.1)

1 Restated, see note 1.1.4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4.3 TRADE AND OTHER PAYABLES (CONTINUED)

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 £41.3m (2018: £31.3m restated) was released to the Income statement. The charge for the year was £25.6m (2018: £21.5m restated). The year-end position of free service guarantees is £50.0m (2018: £65.8m restated). The remaining balance in deferred income relates to goods and services sold but not yet delivered and lease incentives.

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 27 January 2018[1]	(139.6)	(39.4)	(25.0)	(30.2)	(56.4)	(290.6)
Charged to income statement	(14.1)	(34.3)	(8.0)	(27.2)	(8.2)	(91.8)
Released to income statement	4.8	–	0.8	5.8	35.3	46.7
Utilised	7.1	39.4	7.3	27.1	7.8	88.7
At 26 January 2019	**(141.8)**	**(34.3)**	**(24.9)**	**(24.5)**	**(21.5)**	**(247.0)**
Of which:						
Current	(35.9)	(34.3)	(9.8)	(24.4)	(7.9)	(112.3)
Non-current	(105.9)	–	(15.1)	(0.1)	(13.6)	(134.7)

1 Restated, 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, and using economic assumptions consistent with those used for the Group's retirement benefits (note 6.1), with the exception of the real discount rate, where a rate appropriate to the shorter duration of the long leave liability is used, so as to accrue the cost over Partners' service periods.

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 employers, public and vehicle third party liability insurances and extended warranty products.

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 functional restructurings in Finance, Personnel and IT.

Other provisions include property related costs and pay provisions. The release of £35.3m in the year principally relates to releases in respect of the National Minimum Wage provision of £30.3m, as detailed in note 2.5.

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 finance leases.

5.1 NET FINANCE COSTS

	2019 £m	2018 £m
Finance costs		
Net interest payable on:		
Commitment fees and bank overdrafts	**(1.5)**	(1.3)
Other loans repayable within five years	**(19.5)**	(18.3)
Other loans repayable in more than five years[1]	**(33.6)**	(32.2)
Finance lease interest payable	**(0.9)**	(0.9)
Amortisation of issue costs of bonds and credit facilities	**(1.6)**	(1.5)
Finance costs in respect of borrowings	**(57.1)**	(54.2)
Fair value measurements and other	**(5.9)**	(1.8)
Net finance costs arising on defined benefit and other employee benefit schemes	**(17.3)**	(29.2)
Total finance costs	**(80.3)**	(85.2)
Finance income		
Finance income in respect of cash and short-term investments[2]	**10.1**	6.8
Fair value measurements and other	**3.5**	7.3
Total finance income	**13.6**	14.1
Net finance costs	**(66.7)**	(71.1)

1 Other loans repayable in more than five years includes interest payable on interest rate swaps of £5.7m (2018: £4.7m).
2 Finance income in respect of cash and short-term investments includes interest receivable on interest rate swaps of £6.1m (2018: £5.4m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5.1 NET FINANCE COSTS (CONTINUED)

	2019 £m	2018 £m
Total finance costs in respect of borrowings, excluding interest rate swaps	**(51.4)**	(49.5)
Net interest receivable in respect of interest rate swaps	**0.4**	0.7
Finance income in respect of cash and short-term investments, excluding interest rate swaps	**4.0**	1.4
Net finance costs in respect of borrowings and short-term investments	**(47.0)**	(47.4)
Fair value measurements and other	**(2.4)**	5.5
Net finance costs arising on defined benefit retirement scheme	**(17.0)**	(25.3)
Net finance costs arising on other employee benefit schemes	**(0.3)**	(3.9)
Net finance costs	**(66.7)**	(71.1)

Capitalised borrowing costs totalled £7.4m (2018: £8.4m) of which £6.1m (2018: £7.2m) were capitalised within intangible assets and £1.3m (2018: £1.2m) were capitalised within property, plant and equipment.

5.2 ANALYSIS OF NET DEBT

	2018 £m	Cash movements £m	Other non-cash movements £m	**2019** **£m**
Non-current assets				
Derivative financial instruments	–	–	0.2	**0.2**
	–	–	0.2	**0.2**
Current assets				
Cash and cash equivalents[1]	596.2	120.6	–	**716.8**
Short-term investments[1]	166.0	99.0	0.4	**265.4**
Derivative financial instruments	5.2	(0.2)	1.8	**6.8**
	767.4	219.4	2.2	**989.0**
Current liabilities				
Borrowings and overdrafts	(0.1)	0.1	(275.0)	**(275.0)**
Unamortised bond transaction costs	–	–	0.1	**0.1**
Finance leases	(0.7)	1.7	(1.5)	**(0.5)**
Derivative financial instruments	(19.8)	2.6	9.7	**(7.5)**
	(20.6)	4.4	(266.7)	**(282.9)**
Non-current liabilities				
Borrowings	(875.0)	(125.0)	275.0	**(725.0)**
Unamortised bond transaction costs	11.1	0.7	(1.4)	**10.4**
Fair value adjustment for hedged element on bonds	1.1	–	(0.3)	**0.8**
Finance leases	(22.6)	–	2.0	**(20.6)**
Derivative financial instruments	(4.0)	–	2.0	**(2.0)**
	(889.4)	(124.3)	277.3	**(736.4)**
Total net debt	(142.6)	99.5	13.0	**(30.1)**

1 Restated, see note 1.1.4.

Reconciliation of net cash flow to net debt	**2019** **£m**	2018 £m
Increase/(decrease) in net cash and cash equivalents in the year[1]	**120.7**	(77.6)
Cash outflow from movement in short-term investments[1]	**99.0**	106.0
Cash (inflow)/outflow from movement in other net debt items	**(120.2)**	9.3
Cash movement in net debt for the year	**99.5**	37.7
Opening net debt	**(142.6)**	(146.4)
Non-cash movement in net debt for the year	**13.0**	(33.9)
Closing net debt	**(30.1)**	(142.6)

1 Restated, see note 1.1.4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5.2 ANALYSIS OF NET DEBT (CONTINUED)

Our total borrowings and finance lease liabilities are summarised below.

	Borrowings £m	Finance lease liabilities £m	**Total £m**
At 28 January 2017	(875.0)	(24.5)	(899.5)
Movements arising from financing cash flows	(0.1)	1.2	1.1
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)**

Borrowings exclude unamortised bond transaction costs of £10.5m (2018: £11.1m) and the fair value adjustment for the hedged element on bonds of £0.8m (2018: £1.1m).

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	**2019 £m**	2018 £m
Short-term investments[1]	**265.4**	**166.0**

1 Restated, see note 1.1.4.

For the year ended 26 January 2019, the effective interest rate on short-term investments was 1.0% (2018: 0.5%[1]) and these investments had an average maturity of 116 days (2018: 99 days[1]).

5.4 CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

Cash and cash equivalents: Cash and cash equivalents in 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	**2019 £m**	2018 £m
Cash at bank and in hand	**128.2**	128.4
Short-term deposits[1]	**588.6**	467.8
	716.8	596.2

1 Restated, see note 1.1.4.

For the year ended 26 January 2019, the effective interest rate on short-term deposits was 0.6% (2018: 0.3%) and these deposits had an average maturity of 3 days (2018: 1 day).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5.4 CASH AND CASH EQUIVALENTS (CONTINUED)

At 26 January 2019, £19.6m (2018: £20.5m) of the Group's cash balance and £0.1m (2018: £nil) of the Group's accrued interest balance was pledged as collateral. This is part of the Group's insurance arrangements and the release of these funds is subject to approval from third parties.

In the consolidated statement of cash flows, net cash and cash equivalents are shown after deducting bank overdrafts, as follows:

	2019 £m	2018 £m
Cash and cash equivalents, as above[1]	**716.8**	596.2
Less bank overdrafts	**–**	(0.1)
Net cash and cash equivalents	**716.8**	596.1

1 Restated, see note 1.1.4.

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 6.5%.

Borrowings and Overdrafts	**2019 £m**	2018 £m
Current:		
Bank overdraft	**–**	(0.1)
8⅜% Bonds, 2019	**(275.0)**	–
Unamortised bond transaction costs	**0.1**	–
	(274.9)	(0.1)
Non-current:		
Bank loans	**(125.0)**	–
8⅜% Bonds, 2019	**–**	(275.0)
6⅛% Bonds, 2025	**(300.0)**	(300.0)
4¼% Bonds, 2034	**(300.0)**	(300.0)
Unamortised bond and loan transaction costs	**10.4**	11.1
Fair value adjustment for hedged element on bonds	**0.8**	1.1
	(713.8)	(862.8)

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

During the year, the Group entered into new loan arrangements with its banking partners totalling £125.0m. These loans mature between 2021 and 2023.

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

5.6 FINANCE LEASE LIABILITIES

ACCOUNTING POLICY

Leased assets: Assets used by the Group which have been funded through finance leases on terms that transfer to the Group substantially all the risks and rewards of ownership are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are 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 is charged to the Income statement. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the Group does not retain substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease rental payments, other than contingent rentals, are recognised as an expense in the Income statement on a straight-line basis over the lease term. Contingent rentals are recognised as an expense in the Income statement when incurred.

Operating lease premiums and inducements are recognised in current and non-current assets or liabilities as appropriate, and amortised or released on a straight-line basis over the lease term.

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. (See note 3.5).

For the year ending 25 January 2020, the Group will adopt the new accounting standard for leases, IFRS 16. See notes 1.1.4 and 3.5 for further details.

Finance lease liabilities	**2019 £m**	2018 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	**(1.3)**	(1.6)
Later than one year but not more than five	**(4.8)**	(5.5)
More than five years	**(30.4)**	(35.2)
	(36.5)	(42.3)
Future finance charge on finance leases	**15.4**	19.0
Present value of finance lease liabilities	**(21.1)**	(23.3)
Of which:		
Not later than one year	**(0.5)**	(0.7)
Later than one year but not more than five	**(2.2)**	(2.6)
More than five years	**(18.4)**	(20.0)

The Group's finance lease liabilities relate to property, plant and equipment that have been classified as finance leases in accordance with IAS 17.

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

The Group's pension scheme is made up of two parts: the defined benefit section and the defined contribution section. The defined benefit section provides a non-contributory pension in retirement based on Partners' pensionable pay and pensionable service. The defined contribution section is where contributions made by Partners and the Group are invested in a choice of funds and then the contributions and investment returns are used to buy benefits on retirement.

The Consolidated balance sheet includes a retirement benefit liability, which is the expected future cash flows to be paid out by the defined benefit section of the pension scheme, offset by assets held by the scheme to meet these liabilities. The expected liabilities are calculated by an actuary using a number of financial and demographic assumptions whilst the assets are held at fair value. Changes arising from the Pension Benefit Review, which principally reduced the rate of defined benefit pension build up, were effective from 1 April 2016.

The defined contribution section of the scheme is available to all Partners. Once Partners complete five years' service with the Group, they automatically join the defined benefit section of the scheme.

The defined contribution section of the pension scheme pays contributions into individual investment funds on Partners' behalf. There is therefore no liability on the Group balance sheet relating to the defined contribution section of the pension scheme.

This note details the financial and demographic assumptions made in estimating the defined benefit obligation, together with an analysis of the components of the pension liability. It also explains where these amounts have been recorded in the Consolidated balance sheet and the Consolidated income statement.

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 Partners' 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 Partners' 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 Partners covered by the scheme. Past service costs are also included within operating profit, along with any gains or losses on settlement.

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

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

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

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

CRITICAL ACCOUNTING ESTIMATES

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

Retirement benefits
The pension scheme operated by the Group is the John Lewis Partnership Trust for Pensions. The scheme includes a funded final salary defined benefit section, providing pensions and death benefits to members, and is open to new members. All contributions to the defined benefit section of the pension scheme are funded by the Group. 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.

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. During 2014/15, the Chairman, Partnership Board and Partnership Council of John Lewis Partnership plc approved changes to the level and form of future provision of

6.1 RETIREMENT BENEFITS (CONTINUED)

pension benefits to Partners. This was the output of the Pension Benefit Review which commenced in 2013. The changes took place in two stages. From 1 April 2015 the waiting period to join the defined benefit section of the scheme was increased from three to five years. Then from 1 April 2016, the principal changes were to reduce the annual defined benefit accrual rate from 1/60th to 1/120th of final salary, and to provide an enhanced level of defined contribution pension for those Partners who have completed the waiting period. Other changes, applying only to any pension built up after 1 April 2016, included linking the Group normal retirement age to the State Pension Age, and a change in the rate of pension increases in payment.

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 RPI inflation (up to a maximum of 5%). From January 2017, this increase is expected to be granted in line with CPI inflation (up to a maximum of 2.5%).

The Group's pension scheme is not affected by a judgement published on 26 October 2018 resulting from a recent High Court hearing in respect of the equalisation of guaranteed minimum pensions. This is because the Group's pension scheme did not contract out of the Additional State Pension (formerly known as the State Earnings Related Pension Scheme).

The Group is currently engaged in discussions with Partnership Council on the level and form of future provision of pension benefits to Partners.

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 was carried out by an independent professionally qualified actuary as at 31 March 2016 and 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 £468.1m. 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 26 January 2019.

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 most recent funding valuation 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%; 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 2019/20, under this agreement are expected to be £108.5m, subject to any changes as a result of the next triennial actuarial valuation of the scheme (as at 31 March 2019), which will be completed during the 2019/20 financial year.

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 most recent actuarial valuation, as at 31 March 2016, which has been updated by actuaries to reflect the assets and liabilities of the scheme as at 26 January 2019, calculated on assumptions that are appropriate for accounting under IAS 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6.1 RETIREMENT BENEFITS (CONTINUED)

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 increases in life expectancy leading to an increase in the scheme’s liabilities: An increase in life expectancy would mean pensions are expected to be paid for a longer period, so increasing the liability and the scheme’s deficit. This is offset in part by the scheme applying a Life Expectancy Adjustment Factor, whereby future pensions coming into payment are adjusted to allow for increases in life expectancy.

6.1.1 ASSUMPTIONS

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

Financial assumptions
Scheme assets are stated at market values at 26 January 2019.

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

	2019	2018
Discount rate	**2.80%**	2.75%
Future retail price inflation (RPI)	**3.15%**	3.25%
Future consumer price inflation (CPI)	**2.15%**	2.25%
Increase in earnings	**3.25%**	3.45%
Increase in pensions – in payment		
- Pre-April 1997	**1.65%**	1.70%
- April 1997-April 2016	**2.95%**	3.00%
- Post-April 2016	**1.65%**	1.70%
Increase in pensions – deferred	**2.15%**	2.25%

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.

Increases in earnings: Increases in earnings are projected to be at 3.25% until 2022 and then at a long-term rate of 1.0% above consumer price inflation (2018: 1.0% above consumer price inflation). Increases in pensions in payment are projected to be 0.50% below consumer price inflation (2018: 0.55% below consumer price inflation) for pensionable service built up before April 1997, 0.20% (2018: 0.25%) below retail price inflation for pensionable service built up between April 1997 and April 2016, and 0.50% (2018: 0.55%) below consumer price inflation for pensionable service built up after April 2016, reflecting the impact of a cap on the level of pension increases. Increases in deferred pensions are projected to be in line with consumer price inflation.

Demographic assumptions
The post-retirement mortality assumptions used in valuing the pension liabilities were based on the S2 Light (2018: 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 2017 improvements model with a smoothing parameter of 7.0 (2018: CMI 2016, smoothing parameter of 7.5), subject to a long-term trend of 1.25%.

The average life expectancies assumed were as follows:

	2019		2018	
	Men	**Women**	Men	Women
Average life expectancy for a 65 year old (in years)	**21.1**	**23.5**	21.5	23.8
Average life expectancy at age 65, for a 50 year old (in years)	**22.0**	**24.6**	22.5	25.0

6.1.2 AMOUNTS RECOGNISED IN THE FINANCIAL STATEMENTS

This section details the amounts recognised in our consolidated financial statements in relation to 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 pension scheme.

Amounts recognised in the balance sheet	**2019 £m**	2018 £m
Defined benefit obligation for funded arrangements	**(6,060.0)**	(6,200.0)
Defined benefit obligation for unfunded arrangements	**(23.0)**	(24.0)
Total defined benefit obligation	**(6,083.0)**	(6,224.0)
Total value of scheme assets	**5,614.9**	5,492.7
Defined benefit liability at end of year	**(468.1)**	(731.3)

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	**2019 £m**	2018 £m
Current service cost	**(134.6)**	(138.7)
Contribution expense[1]	**(72.5)**	(66.9)
Administrative expenses – funded by the pension scheme	**(6.1)**	(5.3)
Administrative expenses – funded by the employer	**(5.9)**	(4.7)
Total operating expenses	**(219.1)**	(215.6)
Net interest on net defined benefit liability	**(17.0)**	(25.3)
Total pension charge	**(236.1)**	(240.9)

[1] Includes Group contributions to the defined contribution section of the pension scheme of £68.5m (2018: £62.5m), together with cash supplements in respect of certain Partners in lieu of future pension accrual of £4.0m (2018: £4.4m).

Amounts recognised in equity	**2019 £m**	2018 £m
Return on plan assets (less)/greater than the discount rate	**(15.0)**	243.2
Remeasurements:		
– gain/(loss) from changes in financial assumptions	**184.9**	(97.7)
– gain from changes in demographic assumptions	**102.4**	124.5
– experience gains/(losses)	**0.4**	(22.5)
Total gains recognised in equity	**272.7**	247.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 total pension charge set out in note 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 the discount rate and remeasurements (explained further below).

Reconciliation of net defined benefit liability	**2019 £m**	2018 £m
Net defined benefit liability at beginning of year	**(731.3)**	(1,013.7)
Pension expense	**(157.7)**	(169.3)
Contributions	**148.2**	204.2
Total gains recognised in equity	**272.7**	247.5
Net defined benefit liability at end of year	**(468.1)**	(731.3)

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.

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	**2019 £m**	2018 £m
Defined benefit obligation at beginning of year	**(6,224.0)**	(6,059.0)
Current service cost	**(134.6)**	(138.7)
Interest on pension liabilities	**(169.2)**	(173.7)
Remeasurements		
– gain/(loss) from changes in financial assumptions	**184.9**	(97.7)
– gain from changes in demographic assumptions	**102.4**	124.5
– experience gains/(losses)	**0.4**	(22.5)
Benefits paid	**157.1**	143.1
Defined benefit obligation at end of year	**(6,083.0)**	(6,224.0)

The scheme liabilities are 31.5% in respect of active scheme participants, 41.8% in respect of deferred scheme participants and 26.7% in respect of retirees.

The weighted average duration of the scheme liabilities at the end of the year is 22 years (2018: 22 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6.1 RETIREMENT BENEFITS (CONTINUED)

6.1.3 RECONCILIATION OF RETIREMENT BENEFITS CONTINUED

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 the discount rate 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	**2019 £m**	2018 £m
Value of assets at the beginning of year	**5,492.7**	5,045.3
Interest income on assets	**152.2**	148.4
Return on plan assets (less)/greater than discount rate	**(15.0)**	243.2
Benefits paid	**(157.1)**	(143.1)
Administrative expenses paid	**(6.1)**	(5.3)
Contributions	**148.2**	204.2
Value of assets at the end of year	**5,614.9**	5,492.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6.1 RETIREMENT BENEFITS (CONTINUED)

6.1.4 ANALYSIS OF ASSETS

	2019				2018			
	Quoted £m	**Unquoted £m**	**Total £m**	**Total %**	Quoted £m	Unquoted £m	Total £m	Total %
Equities								
UK	**33.2**	**34.1**	**67.3**	**1.2%**	55.4	39.8	95.2	1.7%
Rest of the world	**641.5**	**999.1**	**1,640.6**	**29.2%**	623.0	1,058.4	1,681.4	30.6%
Bonds								
Government – Rest of the world	**102.3**	**2.5**	**104.8**	**1.9%**	76.7	5.3	82.0	1.5%
Corporates – UK	**5.2**	**1.8**	**7.0**	**0.1%**	2.9	2.1	5.0	0.1%
Corporates – Rest of the world	**95.5**	**80.9**	**176.4**	**3.1%**	52.2	124.4	176.6	3.2%
Property								
UK	**–**	**550.3**	**550.3**	**9.8%**	–	515.4	515.4	9.4%
Rest of the world	**–**	**0.4**	**0.4**	**<0.1%**	–	0.9	0.9	<0.1%
Alternative assets								
Liability driven investments	**–**	**937.7**	**937.7**	**16.7%**	–	848.7	848.7	15.5%
Hedge funds	**–**	**1,002.9**	**1,002.9**	**17.9%**	–	957.8	957.8	17.4%
Private equity	**–**	**340.9**	**340.9**	**6.1%**	–	294.0	294.0	5.4%
Other alternative assets	**–**	**670.8**	**670.8**	**11.9%**	–	671.6	671.6	12.2%
Cash and other	**115.8**	**–**	**115.8**	**2.1%**	164.1	–	164.1	3.0%
Total market value of assets	**993.5**	**4,621.4**	**5,614.9**	**100%**	974.3	4,518.4	5,492.7	100.0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 27 September 2018 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 has increased the level of liability matching to 60% in line with its stated target. As this will be achieved using derivatives and repurchase agreements, the allocation to return seeking assets is not intended to reduce.

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 £2,397.9m (2018: £1,561.7m) and associated repurchase agreements and swaps valued at £(1,460.2)m (2018:£(713.0)m). This is part of the Trustee's interest rate and inflation hedging strategy.

Other alternative assets include investments in infrastructure funds of £275.3m (2018: £236.6m), insurance linked funds £193.6m (2018: £201.6m), private debt £205.6m (2018: £233.4m) and equity options £3.7m (2018: £nil).

Cash and other includes cash deposits of £101.7m (2018: £118.3m), forward foreign exchange contracts valued at £13.8m (2018: £40.3m) and other items valued at £0.3m (2018: £5.5m)

Actual return on assets	2019 £m	2018 £m
Interest income on assets	**152.2**	148.4
Return on plan assets (less)/greater than discount rate	**(15.0)**	243.2
Actual return on assets	**137.2**	391.6

6.1.5 SENSITIVITY ANALYSIS

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

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

	£m	% change
Deficit as at 26 January 2019	**(468.1)**	
Sensitivity of 0.1% increase to:		
– Discount rate[1]	**55.0**	**11.7**
– Retail price inflation	**(35.0)**	**(7.5)**
– Consumer price inflation	**(20.0)**	**(4.3)**
– Salary increases	**(30.0)**	**(6.4)**
Sensitivity of one-year increase in life expectancy	**(230.0)**	**(49.1)**

1 The discount rate sensitivity allows 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.

6.1.6 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 £71.7m (2018: £80.8m) investment in JLP Scottish Limited Partnership held by the pension scheme. The distribution of JLP Scottish Limited Partnership profits to the pension scheme is reflected as pension contributions in these consolidated financial statements on a cash basis.

John Lewis Properties plc guarantee
As part of agreeing the funding valuation in 2017, John Lewis Properties plc provided a corporate guarantee to the pension scheme. This guarantee means that if John Lewis plc fails to make any payments due to the scheme 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 employee 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 6), 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 finance leases, assets obtained for use via operating 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 (2018: £500.0m). In addition to these facilities, the Group had listed bonds at the year-end totalling £875.0m (2018: £875.0m), of which £275.0m matured in April 2019, 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 (2018: £nil) were agreed during the year, 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 in note 7.3.

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 and is expected to do so into the foreseeable future.

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:

	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	**(275.0)**	**–**	**(725.0)**
Interest payments on borrowings	**(57.2)**	**(34.2)**	**(254.2)**
Finance lease liabilities	**(1.3)**	**(1.3)**	**(33.9)**
Trade and other payables	**(1,328.0)**	**(0.2)**	**–**
Derivative financial liabilities			
Derivative contracts – receipts	**360.4**	**70.6**	**24.6**
Derivative contracts – payments	**(360.1)**	**(72.3)**	**(23.5)**
At 26 January 2019	**(1,661.2)**	**(37.4)**	**(1,012.0)**

	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[1]	(0.1)	(275.0)	(600.0)
Interest payments on borrowings	(54.2)	(54.2)	(283.1)
Finance lease liabilities	(1.5)	(1.4)	(39.4)
Trade and other payables	(1,386.2)	(0.3)	–
Derivative financial liabilities			
Derivative contracts – receipts	335.1	97.7	30.7
Derivative contracts – payments	(349.2)	(99.6)	(31.8)
At 27 January 2018	(1,456.1)	(332.8)	(923.6)

1 Restated, see note 1.1.4.

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

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 in note 7.3. 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 & Partners and John Lewis & Partners, 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 £418.5m (2018: £437.1m) had been entered into, to hedge purchases in foreign currencies which will mature over the next 18 months.

In order to help manage its indirect currency risk, the Group held $200.0m of Sterling/US dollar options and €100.0m of Sterling/Euro options at the Balance sheet date and as at the date of this report. Fair value movements in the option contracts are 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:

	2019 £m	2018 £m
Trade and other receivables	**129.8**	142.5
Short-term investments[1]	**265.4**	166.0
Cash and cash equivalents[1]	**716.8**	596.2
Derivative financial instruments	**7.0**	5.2
	1,119.0	909.9

1 Restated, see note 1.1.4.

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 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 £1.1m (2018: £1.0m) had been entered into, to hedge purchases of diesel that will mature within the next month.

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 post-retirement obligations and provisions, which is addressed in note 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.

	2019		2018	
	Income statement +/- £m	**Equity +/- £m**	Income statement +/- £m	Equity +/- £m
UK interest rates +/- 1% (2018: +/- 1%)	**6.3**	**–**	5.7	–
US Dollar exchange rate (GBP/USD) +/- 10% (2018: +/- 10%)	**12.4**	**20.1**	12.2	21.9
Euro exchange rate (GBP/EUR) +/- 10% (2018: +/- 10%)	**7.3**	**15.8**	0.7	15.7

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

7.2 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES

7.2.1 BASIS OF FAIR VALUE

Fair value estimation

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

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

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

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

During the year ended 26 January 2019, 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.

7.2.2 FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is as follows:

				2019				2018
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 flow hedge	**0.2**	**(1.4)**	**(1.2)**	**–**	–	(2.9)	(2.9)	–
Other derivatives	**–**	**(0.6)**	**–**	**(0.6)**	–	(1.1)	–	(1.1)
	0.2	**(2.0)**	**(1.2)**	**(0.6)**	–	(4.0)	(2.9)	(1.1)
Current								
Currency derivatives – cash flow hedge	**6.4**	**(5.9)**	**0.5**	**–**	1.5	(19.8)	(18.3)	–
Other derivatives	**0.4**	**(1.6)**	**–**	**(1.2)**	3.7	–	–	3.7
	6.8	**(7.5)**	**0.5**	**(1.2)**	5.2	(19.8)	(18.3)	3.7

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):

	2019 £m		2018 £m	
	CV	**FV**	CV	FV
Financial liabilities				
Listed bonds	**(864.5)**	**(858.2)**	(863.9)	(982.6)

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.

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	883.6	98.2	981.8
Other financial assets	0.4	–	0.4
At 26 January 2019	**884.0**	**98.2**	**982.2**
Sterling financial assets	663.1	98.4	761.5
Other financial assets	0.7	–	0.7
At 27 January 2018	663.8	98.4	762.2

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 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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 26 January 2019	**(786.3)**	**(224.3)**	**(1,010.6)**
At 27 January 2018	(787.2)	(100.1)	(887.3)

Maturity of financial liabilities	2019 £m	2018 £m
Repayable within one year		
Bank overdrafts	**–**	(0.1)
Property finance leases	**(0.5)**	(0.7)
Bonds	**(275.0)**	–
Unamortised bond transaction costs	**0.1**	–
	(275.4)	(0.8)
Repayable between one and two years		
Property finance leases	**(0.6)**	(0.6)
Bonds	**–**	(275.0)
Unamortised bond transaction costs	**–**	0.4
	(0.6)	(275.2)
Repayable between two and five years		
Property finance leases	**(1.6)**	(2.0)
Loan	**(125.0)**	–
Unamortised loan transaction costs	**0.7**	–
	(125.9)	(2.0)
Repayable in more than five years		
Property finance leases	**(18.4)**	(20.0)
Bonds	**(600.0)**	(600.0)
Unamortised bond transaction costs	**9.7**	10.7
	(608.7)	(609.3)
	(1,010.6)	(887.3)

8 OTHER NOTES

IN THIS SECTION

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

8.1 SHARE CAPITAL

Share capital	2019 Authorised £m	2019 Issued and fully paid £m	2018 Authorised £m	2018 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.

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 £84,000 (2018: £81,000). The Group also made donations totalling £0.7m (2018: £0.6m) to the John Lewis Foundation.

8.3 SUBSEQUENT EVENTS

Events that take place after the Balance sheet date of 26 January 2019 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 COMMERCIAL OPERATING MODEL

On 31 January 2019, Waitrose & Partners announced changes to the Commercial Operating Model in head offices. No accounting for potential redundancies was recorded for the year ended 26 January 2019 in respect of these changes.

8.3.2 COMMERCIAL AGREEMENT WITH OCADO

On 27 February 2019, Waitrose & Partners confirmed that following careful review of the relationship, the commercial arrangement with Ocado will come to an end in September 2020, in line with contractual terms. We have strengthened our own online business significantly in recent years, and said last summer that we will double waitrose.com within five years. This change will be a major part of achieving this, and in future, waitrose.com and our shops will be the exclusive places in the UK to buy Waitrose & Partners products. We plan to open a second fulfilment centre to support growing volumes in the London area.

8.3.3 WAITROSE & PARTNERS STORE CLOSURES

On 6 March 2019, Waitrose & Partners informed Partners that five shops will be sold to other retailers. No accounting for potential redundancies was recorded for the year ended 26 January 2019 in respect of these shop disposals.

COMPANY BALANCE SHEET
as at 26 January 2019

Notes		2019 £m	2018 (restated, see note 9.3) £m
	Non-current assets		
12	Intangible assets	**369.8**	372.2
13	Property, plant and equipment	**943.6**	1,005.0
18	Trade and other receivables	**42.5**	45.7
28	Derivative financial instruments	**0.2**	–
14	Investments in subsidiaries	**1,135.3**	1,400.6
15	Investments in and loans to joint venture	**2.7**	2.9
26	Deferred tax asset	**73.6**	135.2
		2,567.7	2,961.6
	Current assets		
17	Inventories	**428.3**	401.9
18	Trade and other receivables	**148.7**	142.0
	Current tax receivable	**30.8**	21.3
28	Derivative financial instruments	**6.8**	5.2
16	Assets held for sale	**9.4**	–
19	Short-term investments	**265.4**	166.0
20	Cash and cash equivalents	**630.6**	505.7
		1,520.0	1,242.1
	Total assets	**4,087.7**	4,203.7
	Current liabilities		
22	Borrowings and overdrafts	**(274.9)**	(0.1)
23	Trade and other payables	**(1,492.2)**	(1,614.5)
24	Finance lease liabilities	**(0.1)**	(0.2)
25	Provisions	**(101.9)**	(148.0)
28	Derivative financial instruments	**(7.5)**	(19.8)
		(1,876.6)	(1,782.6)
	Non-current liabilities		
22	Borrowings	**(713.8)**	(862.8)
23	Trade and other payables	**(203.1)**	(193.7)
24	Finance lease liabilities	**(13.2)**	(13.3)
25	Provisions	**(125.3)**	(115.8)
28	Derivative financial instruments	**(2.0)**	(4.0)
32	Retirement benefit obligations	**(396.5)**	(650.5)
		(1,453.9)	(1,840.1)
	Total liabilities	**(3,330.5)**	(3,622.7)
	Net assets	**757.2**	581.0

	Equity		
33	Share capital	**6.7**	6.7
	Share premium	**0.3**	0.3
	Other reserves	**–**	(16.5)
	Retained earnings	**750.2**	590.5
	Total equity	**757.2**	581.0

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

The financial statements on pages 83 to 109 were approved by the Board of Directors on 11 April 2019 and signed on its behalf by

Sir Charlie Mayfield and Patrick Lewis
Directors, John Lewis plc

Registered number 00233462

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 26 January 2019

Notes		Share capital £m	Share premium £m	Hedging reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Total equity £m
	Balance at 28 January 2017	6.7	0.3	8.1	–	329.3	344.4
9.3	Restatement for IFRS 15	–	–	–	–	(13.4)	(13.4)
	Balance at 28 January 2017[1]	6.7	0.3	8.1	–	315.9	331.0
10	Profit for the year[1]	–	–	–	–	67.6	67.6
	Remeasurement of defined benefit pension scheme	–	–	–	–	249.4	249.4
	Fair value losses on cash flow hedges	–	–	(22.8)	–	–	(22.8)
	- transfers to inventories[2]	–	–	(8.1)	–	–	(8.1)
	Tax on above items recognised in equity	–	–	5.9	–	(42.4)	(36.5)
	Gains on foreign currency translations	–	–	–	0.4	–	0.4
	Total comprehensive income/(expense) for the year	–	–	(25.0)	0.4	274.6	250.0
	Balance at 27 January 2018[1]	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[2]	–	–	(1.4)	–	–	(1.4)
	Balance at 26 January 2019	6.7	0.3	(0.6)	0.6	750.2	757.2

1 Restated, see note 9.3.
2 Presentation has changed as a result of IFRS 9. See note 9.3.

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

COMPANY STATEMENT OF CASH FLOWS

for the year ended 26 January 2019

Notes		2019 £m	2018 (restated, see note 9.3) £m
30	**Cash generated from operations before Partnership Bonus**	**182.1**	340.2
	Net taxation paid	**(9.7)**	(7.9)
	Pension deficit reduction payments	**(37.1)**	(89.8)
	Finance costs paid	**(1.2)**	(2.3)
	Net cash generated from operating activities before Partnership Bonus	**134.1**	240.2
	Partnership Bonus paid	**(34.3)**	(40.4)
	Net cash generated from operating activities after Partnership Bonus	**99.8**	199.8
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(52.4)**	(91.7)
	Purchase of intangible assets	**(116.0)**	(119.3)
	Proceeds from sale of property, plant and equipment and intangible assets	**2.4**	30.6
	Cash inflow from loans to group companies	**223.2**	37.7
	Cash outflow from investment in subsidiaries	**(9.8)**	–
	Dividend income received	**5.4**	29.5
	Finance income received	**2.5**	1.6
	Cash outflow from investment in and loans to joint venture	**(0.5)**	–
	Cash outflow from short-term investments[1]	**(99.0)**	(106.0)
	Net cash used in investing activities	**(44.2)**	(217.6)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	**(54.2)**	(54.2)
	Finance (costs paid)/income received in respect of financial instruments	**(0.5)**	0.7
	Payment of capital element of finance leases	**(0.2)**	(0.2)
	Cash inflow from borrowings	**124.3**	–
	Net cash from/(used in) financing activities	**69.4**	(53.7)
	Increase/(decrease) in net cash and cash equivalents	**125.0**	(71.5)
	Net cash and cash equivalents at beginning of the year[1]	**505.6**	577.1
	Net cash and cash equivalents at end of the year	**630.6**	505.6
20	**Net cash and cash equivalents comprise:**		
	Cash at bank and in hand	**61.5**	58.4
	Short-term deposits	**569.1**	447.3
	Bank overdrafts	**–**	(0.1)
		630.6	505.6

1 Restated. 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

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 the 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 policies were adopted by the Company for the year ended 26 January 2019 and have had a significant impact on the Company's profit for the year, Equity and disclosures:

- **IFRS 15 'Revenue from Contracts with Customers'** (applicable for the period beginning 28 January 2018)

  IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 'Revenue and related interpretations'. The Company adopted IFRS 15 from 28 January 2018 using a fully retrospective approach.

  The main impact for the Company on adoption was in respect of the timing of revenue recognition of free service guarantees in John Lewis & Partners, principally for certain electrical products. Under IAS 18, the full sale value paid by the customer was recognised in the Income statement at the time of sale and a provision was recorded on the Balance sheet for the expected liability for future repair costs under the warranty. Under IFRS 15, the free warranty is considered a separate performance obligation, therefore the Company allocates a portion of the consideration received to providing the warranty. The allocation is based on the stand alone selling price of the product and the relative fair value of the warranty which includes an associated profit margin. 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.

  The impact of these changes, going forward, is a decrease in revenue recognised at the point of sale with a corresponding increase in the Deferred income liability held in Trade and other payables and the elimination of the provision held in relation to the warranties on the Balance sheet.

  The Opening balance sheet position and comparative periods have been restated through Retained earnings to reflect the decrease in Provisions and the increase in the Deferred income liability, as well as the impact of taxation. On the transition date, Opening retained earnings mainly decreased as a result of previously recognised revenue being deferred under IFRS 15, subsequently being released to revenue over the period of the warranty resulting in an increase in the amounts previously reported as Revenue in 2018.

  As at 28 January 2017 there is a decrease of £13.4m to brought forward retained earnings as a result of the full retrospective approach.

9.3 AMENDMENTS TO ACCOUNTING STANDARDS (CONTINUED)

The changes as at, and for the period ended 27 January 2018 are shown in the tables below:

Company Balance Sheet	2018 (restated) £m	Adjustments	2018 £m
Assets			
Deferred tax asset	135.2	2.5	132.7
Other assets	4,068.5	–	4,068.5
Total assets	4,203.7	2.5	4,201.2
Liabilities			
Trade and other payables	(1,808.2)	(68.1)	(1,740.1)
Provisions	(263.8)	55.1	(318.9)
Other liabilities	(1,550.7)	–	(1,550.7)
Total liabilities	(3,622.7)	(13.0)	(3,609.7)
Equity			
Share capital	6.7	–	6.7
Share premium	0.3	–	0.3
Other reserves	(16.5)	–	(16.5)
Retained earnings	590.5	(10.5)	601.0
Total equity	581.0	(10.5)	591.5

Company Income Statement	2018 (restated) £m	Adjustments	2018 £m
Taxation	(5.8)	(0.7)	(5.1)
Profit for the year	67.6	2.9	64.7

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 27 January 2019 onwards, which the Company has not adopted early:

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

IFRS 16 'Leases' specifies how to recognise, measure, present and disclose leases. The standard will be effective for the Company for the year ending 25 January 2020 and its adoption is expected to have a very significant impact to the Company income statement and Company balance sheet. The Company intends to adopt the modified retrospective approach on transition. For each individual lease, the Right-of-use asset will be measured at the amount of the Lease liability on adoption (adjusted for any prepaid or accrued lease expenses and any provision for impairment).

This will require an adjustment to Equity as at 27 January 2019, however prior year comparatives will not be restated. The Company will apply both the short-term and low value lease exemptions on transition and will adopt the transition reliefs in relation to initial direct costs and use of hindsight.

The Company's IFRS 16 project is governed by a Steering Group which oversees the relevant project work streams, approves key decisions and provides regular updates to the Audit and Risk Committee. During the year to 26 January 2019, work has progressed to finalise the discount rate methodology, accounting policies and internal controls, complete the data collection and validation of the Company's portfolio of lease data and fully implement the IT system solution which will record and calculate the IFRS 16 impact.

The Company's lease portfolio is principally comprised of property leases in relation to stores, distribution centres and head offices. As shown in note 31.3, the undiscounted value of operating lease commitments in relation to the Company's leases is £1.7bn.

On adoption of IFRS 16, the main impact for the Company will be the recognition of Right-of-use assets and Lease liabilities on the Opening balance sheet for all applicable leases. On 27 January 2019, the Company expects to recognise Lease liabilities of £1.5bn, representing the total cash commitments under operating leases (£1.7bn) plus the intercompany arrangements recognised as leases under the new accounting standard IFRS 16, discounted to present value. The Company will also recognise Right-of-use assets of the equivalent value (£1.5bn). The Right-of-use assets will be adjusted for the reclassification of prepaid lease expenses and Deferred income (£120m) and £0.5m of impairment, resulting in a net Right-of-use assets balance of £1.4bn on transition. Overall Net assets will increase by £2m, after adjusting existing IAS 17 Finance leases by £2.5m and recognising

9.3 AMENDMENTS TO ACCOUNTING STANDARDS (CONTINUED)

£0.5m for impairment of the Right-of-use assets. A Deferred tax liability of £0.3m will also be recognised as a result of this adjustment to Equity.

Going forward, a straight-line depreciation expense will be recognised in the Company income statement in relation to the Right-of-use assets and an amortising interest charge will be recognised in the Company income statement in relation to the Lease liabilities. The interest charge will be front-loaded in the earlier periods of a lease as the interest element unwinds. This will replace the Operating lease expense currently recognised in the Income statement under IAS 17. For the year ending 25 January 2020, assuming no changes in the lease portfolio, this will result in a material reduction in Profit before tax of approximately £20m, comprising an increase in Operating profit of approximately £60m offset by an estimated increase in Finance costs of £80m.

There will be no quantitative impact to cash flows (other than the phasing of tax cash flows related to movements in Profit), however the classification of cash flows will change. It is estimated that the Company's Operating cash outflows will decrease and Financing cash outflows will increase by approximately £30m as repayment of the principal portion of the Lease liabilities will be classified as Cash flows from financing activities.

The Company's activities as a lessor are not material and therefore the Company does not expect any significant impact on the financial statements. However, as required by IFRS 16, additional disclosures will be included within the notes to the financial statements for the year ending 25 January 2020.

Reclassification of Short-term investments and Cash and cash equivalents

Following a review of the Company's Short-term deposits, certain deposits previously presented as Cash and cash equivalents at 27 January 2018 are now considered Short-term investments due to the risk of variability in value of these funds. As a result, £46.0m of deposits previously classified as Cash and cash equivalents have been reclassified to Short-term investments in the current and comparative periods, impacting the Balance sheet, Statement of cash flows and related notes to the accounts. There is no impact on Current assets, Cash generated from operations after Partnership Bonus or Net debt. For further details on Short-term investments and Cash and cash equivalents please refer to notes 19 and 20.

Reclassification of BonusSave receivable

The John Lewis Partnership plc operates a 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. The 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 Partnership Bonus for this purpose.

Where there are an excess number of shares in issue the shares are not cancelled, instead the Company provides a loan to the scheme in order to cover the cash outflows resulting from redemptions, and they are held as "unallocated" shares within the Plan. The Company holds a receivable in respect of the loan made to the scheme for these unallocated shares.

Following a review of the scheme, John Lewis Partnership plc has concluded that defacto control of the scheme is held by John Lewis Partnership plc and accordingly the scheme is now consolidated within the Partnership's consolidated financial statements. This has resulted in a reclassification of the receivable held by the Company in respect of the loan made to the BonusSave scheme for unallocated shares from Other receivables to an Intercompany receivable from the BonusSave scheme. This is reflected in both the Company and the Group's consolidated accounts. The BonusSave scheme does not form part of the Group's consolidated financial statements. There is no impact on the Income Statement, Cash generated from operations after Partnership Bonus or Net Debt.

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 £59.4m loss (2018: £67.6m profit). This result includes an impairment of an historic intercompany balance of £51.9m. During the year an intra-group dividend of £5.4m (2018: £29.5m) was received: £nil (2018: £11.5m) from JLP Insurance Limited, £5.4m (2018: £18.0m) from Waitrose Limited.

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

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 & Partners and Group, who are employees of the John Lewis plc 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:

	2019	2018
John Lewis & Partners	**28,100**	28,500
Other	**3,200**	3,000
	31,300	31,500

11.2 PARTNER PAY AND BENEFITS

Employment and related costs were as follows:

	2019 £m	2018 £m
Staff costs		
Wages and salaries	**(676.2)**	(652.4)
Social security costs	**(57.1)**	(56.4)
Partnership Bonus	**(18.2)**	(30.4)
Employers' national insurance on Partnership Bonus	**(2.3)**	(3.9)
Other pension expenses	**(126.4)**	(123.9)
Long leave cost	**(5.3)**	(0.8)
Total before Partner discounts	**(885.5)**	(867.8)
Partner discounts (excluded from revenue)	**(47.6)**	(41.0)
	(933.1)	(908.8)

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

Salaries and short-term benefits	**(8.4)**	(8.0)
Post-employment benefits[1]	**(1.6)**	(1.3)
	(10.0)	(9.3)

1 Includes cash supplements in lieu of future pension accrual.

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 28 January 2017	130.3	314.9	128.5	573.7
Additions[1]	–	–	126.5	126.5
Transfers	12.1	54.1	(66.2)	–
Disposals and write-offs	(21.9)	(45.2)	–	(67.1)
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**
Accumulated amortisation				
At 28 January 2017	(80.0)	(172.1)	–	(252.1)
Charge for the year[2]	(19.5)	(56.4)	–	(75.9)
Disposals and write-offs	21.9	45.2	–	67.1
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)**
Net book value at January 2017	50.3	142.8	128.5	321.6
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**

1 For the year ended 26 January 2019, additions for the year include the non-cash capital expenditure accrual on intangible assets of £3.8m (2018: £19.4m).

2 For the year ended 26 January 2019, this includes an impairment charge of £1.8m (2018: £9.6m) 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 26 January 2019: two are customer projects (£139.0m, 2018: £126.8m) and one relates to a distribution project (£87.6m, 2018: £104.3m).

During the year to 26 January 2019 computer systems valued at £222.9m (2018: £66.2m) were brought into use. This covered a range of selling, support, supply chain, administration and information technology infrastructure applications, with asset lives ranging from three to ten 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 28 January 2017	946.7	954.7	58.5	1,959.9
Additions[1]	–	0.4	89.3	89.7
Transfers	21.5	61.4	(82.9)	–
Disposals and write-offs	(10.6)	(71.6)	–	(82.2)
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**
Accumulated depreciation				
At 28 January 2017	(269.3)	(638.5)	–	(907.8)
Charge for the year[2]	(42.3)	(80.9)	–	(123.2)
Disposals and write-offs	(3.5)	72.1	–	68.6
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)**
Net book value at January 2017	677.4	316.2	58.5	1,052.1
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**

1 For the year ended 26 January 2019, additions for the year include the non-cash capital expenditure accrual on property, plant and equipment of £14.2m (2018: £0.8m).

2 For the year ended 26 January 2019, this includes a net impairment charge of £12.6m to land and buildings (27 January 2018: £nil).

Included above are land and building assets held under finance leases with a net book value of £11.1m (2018: £11.6m).

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. The key assumptions used in the calculations are the discount rate, long term growth rate, expected sales performance and costs.

14 INVESTMENTS IN SUBSIDIARIES

The Company has the following investments in subsidiaries at 26 January 2019.

	Shares in Group companies	Loan to Group companies	Total
	£m	£m	£m
At 28 January 2017	41.7	1,391.4	1,433.1
Movements	2.1	(34.6)	(32.5)
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**

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 28 January 2017	2.1	1.5	3.6
Additions	–	–	–
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**
Share of profit/(loss)			
At 28 January 2017	0.3	–	0.3
Share of loss	(1.0)	–	(1.0)
At 27 January 2018	(0.7)	–	(0.7)
Share of loss	(0.7)	–	(0.7)
At 26 January 2019	**(1.4)**	–	**(1.4)**
At 27 January 2018	1.4	1.5	2.9
At 26 January 2019	**0.7**	**2.0**	**2.7**

16 ASSETS HELD FOR SALE

At 26 January 2019, one property asset (£9.4m) was recorded as held for sale.

At 27 January 2018, there were no assets recorded as held for sale.

17 INVENTORIES

Inventory	2019 £m	2018 £m
Raw materials	–	0.6
Finished goods and goods for resale	**428.3**	401.3
	428.3	401.9

The cost of inventory recognised as an expense by the Company in the year was £2,344.7m (2018: £2,291.0m). Provisions against inventories of £27.7m were charged (2018: £10.7m charged) to cost of sales.

Finished goods and goods for resale include a right to return goods asset of £20.0m (2018: £22.5m). This relates to the Group's expected returns inventory based on previous rates of return.

18 TRADE AND OTHER RECEIVABLES

Trade and other receivables	2019 £m	2018 £m
Current:		
Trade receivables	**41.8**	42.1
Other receivables[1]	**25.6**	25.5
Prepayments	**63.9**	60.2
Accrued income	**17.4**	14.2
	148.7	142.0
Non-current:		
Other receivables	**4.0**	4.5
Prepayments	**38.5**	41.2
	42.5	45.7

1 Restated, 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 accrued rebate income of £11.6m (2018: £4.5m). Supplier income that has been invoiced but not paid is included in trade receivables and supplier income that has been invoiced but not yet settled against future trade payable balances is included in trade payables.

As at 26 January 2019, trade and other receivables of £2.6m (2018: £1.5m) were partially or fully impaired.

The creation and release of the allowance for impaired receivables have been included in branch operating expenses in the Income statement.

As at 26 January 2019, trade and other receivables of £19.0m (2018: £18.1m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

	2019 £m	2018 £m
Up to 3 months past due	**18.7**	16.9
3 to 12 months past due	**0.3**	0.7
Over 12 months past due	–	0.5
	19.0	18.1

19 SHORT-TERM INVESTMENTS

Short-term investments	2019 £m	2018 £m
Short-term investments[1]	**265.4**	166.0

For the year ended 26 January 2019, the effective interest rate on Short-term investments was 1.0% (2018: 0.5%[1]) and these investments had an average maturity of 116 days (2018: 99 days[1]).

1 Restated, see note 9.3.

20 CASH AND CASH EQUIVALENTS

Cash and cash equivalents	2019 £m	2018 £m
Cash at bank and in hand	**61.5**	58.4
Short-term deposits[1]	**569.1**	447.3
	630.6	505.7

1 Rested, see note 9.3.

For the year ended 26 January 2019, the effective interest rate on Short-term deposits was 0.6% (2018: 0.3%) and these deposits had an average maturity of 3 days (2018: 1 day).

In the Company statement of cash flows, net Cash and cash equivalents are shown after deducting bank overdrafts, as follows:

	2019 £m	2018 £m
Cash and cash equivalents, as above[1]	**630.6**	505.7
Less bank overdrafts	–	(0.1)
Net cash and cash equivalents	**630.6**	505.6

1 Restated, see note 9.3.

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	**834.1**	**61.5**	**895.6**
Other financial assets	**0.4**	–	**0.4**
At 26 January 2019	**834.5**	**61.5**	**896.0**
Sterling financial assets	612.6	58.4	671.0
Other financial assets	0.7	–	0.7
At 27 January 2018	613.3	58.4	671.7

Floating rate assets are Short-term deposits and investments at market rates or the base rate of the relevant currency. Non-interest bearing balances include cash in 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

	2019 £m	2018 £m
Current:		
Bank overdraft	**–**	(0.1)
$8^3/_8$% Bonds, 2019	**(275.0)**	–
Unamortised bond transaction costs	**0.1**	–
	(274.9)	(0.1)
Non-current:		
Medium term loan	**(125.0)**	–
$8^3/_8$% Bonds, 2019	**–**	(275.0)
$6^1/_8$% Bonds, 2025	**(300.0)**	(300.0)
$4^1/_4$% Bonds, 2034	**(300.0)**	(300.0)
Unamortised bond transaction costs	**10.4**	11.1
Fair value adjustment for hedged element on bonds	**0.8**	1.1
	(713.8)	(862.8)

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

During the year, the Group entered into new loan arrangements with its banking partners totalling £125.0m. These loans mature between 2021 and 2023.

23 TRADE AND OTHER PAYABLES

	2019 £m	2018 £m
Current:		
Trade payables	**(416.2)**	(408.5)
Amounts owed to parent company[1]	**(65.1)**	(79.4)
Amounts owed to Group companies	**(482.8)**	(539.9)
Other payables	**(133.8)**	(140.5)
Other taxation and social security	**(142.2)**	(140.8)
Accruals	**(131.9)**	(137.3)
Deferred income[1]	**(81.0)**	(102.4)
Partnership Bonus	**(39.2)**	(65.7)
	(1,492.2)	(1,614.5)
Non-current:		
Deferred income[1]	**(203.1)**	(193.7)
	(203.1)	(193.7)

1 Restated, see note 9.3.

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

24 FINANCE LEASE LIABILITIES

	2019 £m	2018 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	**(0.4)**	(0.5)
Later than one year but not more than five	**(1.6)**	(1.6)
More than five years	**(21.9)**	(22.3)
	(23.9)	(24.4)
Future finance charge on finance leases	**10.6**	10.9
Present value of finance lease liabilities	**(13.3)**	(13.5)
Of which:		
Not later than one year	**(0.1)**	(0.2)
Later than one year but not more than five	**–**	(0.6)
More than five years	**(13.2)**	(12.7)

The Company's finance lease liabilities relate to property, plant and equipment that have been classified as finance leases in accordance with IAS 17.

25 PROVISIONS

	Long leave £m	**Customer refunds £m**	**Insurance claims £m**	**Reorganisation £m**	**Other £m**	**Total[1] £m**
At 27 January 2018	(139.6)	(39.4)	(10.0)	(27.4)	(47.4)	(263.8)
Charged to income statement	(12.4)	–	(8.0)	(24.6)	(8.0)	(53.0)
Released to income statement	4.8	–	–	4.3	34.8	43.9
Utilised	7.1	5.1	4.8	23.6	5.1	45.7
At 26 January 2019	**(140.1)**	**(34.3)**	**(13.2)**	**(24.1)**	**(15.5)**	**(227.2)**
Of which:						
Current	(34.2)	(34.3)	(4.2)	(24.0)	(5.2)	(101.9)
Non-current	(105.9)	–	(9.0)	(0.1)	(10.3)	(125.3)

1 Restated, see note 9.3.

The Company has a long leave scheme, open to all Partners, which provides up to six months' paid leave after 25 years' service. There is no proportional entitlement for shorter periods of service. The provision for the liabilities under the scheme is assessed on an actuarial basis, reflecting Partners' expected service profiles, and using economic assumptions consistent with those used for the Group's retirement benefits (note 6.1 to the consolidated financial statements), with the exception of the real discount rate, where a rate appropriate to the shorter duration of the long leave liability is used, so as to accrue the cost over Partners' service periods.

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

Provisions for reorganisation reflect restructuring and redundancy costs, principally in relation to our branch, distribution and retail operations as well as functional restructurings in Finance, Personnel and IT.

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 tax rate of 19% for those expected to reverse before 1 April 2020, and 17% for those assets or liabilities expected to reverse after 1 April 2020. In the year to 26 January 2019, a tax rate of 19% is used for deferred tax assets or liabilities expected to reverse before 1 April 2020 and 17% for those assets or liabilities expected to reverse after 1 April 2020. The movement on the deferred tax account is shown below:

	2019	2018
	£m	£m
Opening asset[1]	**135.2**	156.2
Credited to income statement[1]	**0.3**	17.4
Charged to other comprehensive income/(expense)	**(61.9)**	(38.4)
Closing asset	**73.6**	135.2

1 Restated, see note 9.3.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

26.1 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 28 January 2017	(39.9)	(3.0)	(5.6)	2.7	(45.8)
Credited/(charged) to income statement	3.8	0.1	–	(2.0)	1.9
Credited to other comprehensive income/(expense)	–	–	–	5.9	5.9
At 27 January 2018	(36.1)	(2.9)	(5.6)	6.6	(38.0)
Credited/(charged) to income statement	4.3	0.1	–	(0.9)	3.5
Credited to other comprehensive income/(expense)	–	–	–	(6.6)	(6.6)
At 26 January 2019	**(31.8)**	**(2.8)**	**(5.6)**	**(0.9)**	**(41.1)**

Deferred tax assets	Capital gains tax on land and buildings £m	Pensions and provisions £m	Total £m
At 28 January 2017[1]	11.7	190.3	202.0
Credited to income statement[1]	1.1	14.4	15.5
Credited to other comprehensive income/(expense)	–	(44.3)	(44.3)
At 27 January 2018[1]	12.8	160.4	173.2
Charged to income statement	(1.6)	(1.6)	(3.2)
Charged to other comprehensive income/(expense)	–	(55.3)	(55.3)
At 26 January 2019	**11.2**	**103.5**	**114.7**

1 Restated, see note 9.3.

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 to reduce the UK corporation tax rate from 19% to 17% from 1 April 2020.

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:

	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	**(274.9)**	**–**	**(725.0)**
Interest payments on borrowings	**(57.2)**	**(34.2)**	**(254.2)**
Finance lease liabilities	**(0.4)**	**–**	**(23.5)**
Trade and other payables	**(1,269.0)**	**–**	**–**
Derivative financial liabilities			
Derivative contracts – receipts	**360.4**	**70.6**	**24.6**
Derivative contracts – payments	**(360.1)**	**(72.3)**	**(23.5)**
At 26 January 2019	**(1,601.2)**	**(35.9)**	**(1,001.6)**

	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[1]	(0.1)	(275.0)	(600.0)
Interest payments on borrowings	(54.2)	(54.2)	(283.1)
Finance lease liabilities	(0.5)	(0.4)	(23.5)
Trade and other payables	(1,371.3)	–	–
Derivative financial liabilities			
Derivative contracts – receipts	335.1	97.7	30.7
Derivative contracts – payments	(349.2)	(99.6)	(31.8)
At 27 January 2018	(1,440.2)	(331.5)	(907.7)

1 Restated, see note 9.3.

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

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 Partnership 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:

	2019	2018
	£m	£m
Trade and other receivables	**71.4**	72.1
Short-term investments[1]	**265.4**	166.0
Cash and cash equivalents[1]	**630.6**	505.7
Derivative financial instruments	**7.0**	5.2
	974.4	749.0

1 Restated, see note 9.3.

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 26 January 2019, 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.

28.2 FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is as follows:

				2019				2018
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 flow hedge	**0.2**	**(1.4)**	**(1.2)**	**–**	–	(2.9)	(2.9)	–
Other derivatives	**–**	**(0.6)**	**–**	**(0.6)**	–	(1.1)	–	(1.1)
	0.2	**(2.0)**	**(1.2)**	**(0.6)**	–	(4.0)	(2.9)	(1.1)
Current								
Currency derivatives – cash flow hedge	**6.4**	**(5.9)**	**0.5**	**–**	1.5	(19.8)	18.3	–
Other derivatives	**0.4**	**(1.6)**	**–**	**(1.2)**	3.7	–	–	3.7
	6.8	**(7.5)**	**0.5**	**(1.2)**	5.2	(19.8)	18.3	3.7

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):

		2019 £m		2018 £m
	CV	**FV**	CV	FV
Financial liabilities				
Listed bonds	**(864.5)**	**(883.4)**	(862.8)	(982.6)

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.

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 26 January 2019	**(778.4)**	**(224.3)**	**(1,002.7)**
At 27 January 2018	(777.4)	(100.1)	(877.5)

Maturity of financial liabilities	**2019 £m**	2018 £m
Repayable within one year		
Bank overdrafts	–	(0.1)
Property finance leases	**(0.1)**	(0.2)
Bonds	**(274.9)**	–
Unamortised bonds transaction costs	**0.1**	–
	(274.9)	(0.3)
Repayable between one and two years		
Property finance leases	–	(0.1)
Bonds	–	(275.0)
Unamortised bond transaction costs	–	0.4
	–	(274.7)
Repayable between two and five years		
Property finance leases	–	(0.5)
Bonds	**(125.0)**	–
Unamortised bond transaction costs	**0.7**	–
	(124.3)	(0.5)
Repayable in more than five years		
Property finance leases	**(13.2)**	(12.7)
Bonds	**(600.0)**	(600.0)
Unamortised bond transaction costs	**9.7**	10.7
	(603.5)	(602.0)
	(1,002.7)	(877.5)

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

	2019	2018
	£m	£m
Profit before tax[1]	**(48.3)**	73.4
Dividend income received	**(5.4)**	(29.5)
Amortisation and write offs of intangible assets[2]	**106.9**	75.9
Depreciation[3]	**117.2**	123.2
Share of loss of joint venture (net of tax)	**0.7**	1.0
Net finance costs	**66.2**	70.5
Partnership Bonus	**20.5**	34.2
Fair value losses on derivative financial instruments	**2.1**	0.2
Loss/(profit) on disposal of property, plant and equipment and intangible assets	**3.4**	(9.0)
Increase in inventories	**(26.4)**	(7.0)
Decrease/(increase) in receivables	**31.3**	(14.1)
Decrease in payables[1]	**(79.7)**	(31.0)
Increase in retirement benefit obligations	**33.4**	33.6
(Decrease)/increase in provisions[1]	**(39.8)**	18.8
Cash generated from operations before Partnership Bonus	**182.1**	340.2

1 Restated, see note 9.3.
2 Includes net impairment charges. See note 12.
3 Includes net impairment charges. See note 13.

31 COMMITMENTS AND CONTINGENCIES

31.1 CAPITAL COMMITMENTS

At 26 January 2019 contracts had been entered into for future capital expenditure of £19.4m (2018: £14.9m) of which £18.1m (2018: £14.4m) relates to property, plant and equipment and £1.3m (2018: £0.5m) relates to intangible assets.

31.2 LEASE GUARANTEES

Previously, John Lewis plc provided lease guarantees in favour of the Company's former associate company, Ocado Limited, in respect of leased land and buildings. For 2018, the maximum liability due from the Partnership as the guarantor was £6.8m which would have become payable had Ocado Limited defaulted on rental payments. For 2019, this guarantee is no longer provided.

31.3 COMMITMENTS UNDER OPERATING LEASES

The Company's operating leases relate to supermarkets, department stores, offices and distribution centres. Leases may include break clauses or options to renew (options to renew are not included in the commitments table). The majority of our lease payments are subject to market review, usually every five years, to reflect market rentals, but because of the uncertainty over the amount of any future changes, such changes have not been reflected in the table below. Some of our lease agreements include rental payments contingent on turnover or economic indices. These contingent rents are also excluded from the table below.

Future aggregate minimum lease payments under non-cancellable operating leases, payable:	**2019 Land and buildings £m**	2018 Land and buildings £m
Within one year	**(68.7)**	(65.1)
Later than one year and less than five years	**(263.9)**	(244.1)
After five years	**(1,335.9)**	(1,711.6)

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years:	**2019 Land and buildings £m**	2018 Land and buildings £m
Later than five years and less than 10 years	**(292.8)**	(289.7)
Later than 10 years and less than 20 years	**(464.8)**	(485.8)
Later than 20 years and less than 40 years	**(366.8)**	(441.9)
Later than 40 years and less than 80 years	**(199.4)**	(243.7)
After 80 years	**(12.1)**	(250.5)
	(1,335.9)	(1,711.6)

For the year ending 25 January 2020, the Company will adopt the new accounting standard for leases, IFRS 16. Under this standard the commitments under operating leases reflected in the tables above (£1.7bn) plus the intercompany arrangements recognised as leases under the new accounting standard IFRS 16, will be recognised on the Company balance sheet as lease liabilities discounted to present value (£1.5bn). See note 9.3.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

31.3 COMMITMENTS UNDER OPERATING LEASES (CONTINUED)

Total future sub-lease payments receivable relating to the above operating leases amounted to £1.5m (2018: £1.3m).

Amounts recognised in the income statement	2019 £m	2018 £m
Operating lease rentals:		
– land and buildings	**(68.2)**	(66.6)
– plant and machinery	–	(0.5)
Sub-lease income:		
– land and buildings	**0.5**	0.8

32 RETIREMENT BENEFIT OBLIGATIONS

As disclosed in note 6.1 to the consolidated financial statements, the Company's investment in the pension scheme in JLP Scottish Partnership of £71.6m (2018: £80.8m), represents a plan asset for the Company accounts which is offset against the Group's obligation of £468.1m (2018: £731.3m). The retirement benefit obligation of the Company as at 26 January 2019 was £396.5m (2018: £650.5m). Note 6.1 of the consolidated financial statements details the financial assumptions used.

33 SHARE CAPITAL

	2019		2018	
	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 £11.6m (2018: £11.6m), purchase of goods for resale totalling £12.3m (2018: £54.6m), the supply of administrative and other shared services totalling £146.5m (2018: £40.3m) and the hire of vehicles totalling £28.1m (2018: £27.0m).

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 £84,000 (2018: £81,000). The Company also made donations totalling £0.7m (2018: £0.6m) to the John Lewis 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 26 January 2019 were as follows:

Name	Principal activity	Country of incorporation	Class of share	Percentage shareholdings
Admiral Park Retail Management Limited	Property holding company	Guernsey[2]	Ordinary	54%
Buy.Com Limited	Dormant	England & Wales[1]	Ordinary	100%
Carlisle Place Ventures	Home improvement services	England & Wales[1]	Ordinary	100%
Clicklink Logistics Limited	Logistical services	England & Wales[8]	Ordinary	50%
Herbert Parkinson Limited*	Manufacturing and making up	England & Wales[1]	Ordinary	100%
JLP Insurance Limited*	Insurance	Guernsey[7]	Ordinary	100%
JLP Scotland Limited	Dormant	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[1]	Ordinary	100%
John Lewis Delivery Limited (in liquidation)	-	England & Wales[9]	Ordinary	100%
John Lewis Hong Kong Limited	Sourcing company	Hong Kong[4]	Ordinary	100%
John Lewis Properties plc*	Property holding company	England & Wales[1]	Ordinary	100%
John Lewis PT Holdings Limited	Holding company	England & Wales[1]	Ordinary	100%
John Lewis Partnership Pensions Trust	Non-trading	England & Wales[1]	Ordinary	100%
John Lewis International Limited*	International online retail	England & Wales[1]	Ordinary	100%
Jonelle Jewellery Limited	Dormant	England & Wales[1]	Ordinary	100%
Jonelle Limited	Dormant	England & Wales[1]	Ordinary	100%
Park One Management Limited	Provision of management services	England & Wales[1]	Ordinary	37%
Peter Jones Limited	Dormant	England & Wales[1]	Ordinary	100%
The Odney Estate Limited	Dormant	England & Wales[1]	Ordinary	100%
Waitrose (Jersey) Limited*	Food retailing	Jersey[3]	Ordinary	100%
Waitrose (Guernsey) Limited*	Food retailing	Guernsey[2]	Ordinary	100%
Waitrose Limited*	Food retailing	England & Wales[1]	Ordinary	100%

* Principal subsidiary undertaking as at 26 January 2019.
1 The address of the registered office is 171 Victoria Street, London SW1E 5NN.
2 The address of the registered office is Martello Court, Admiral Park, St Peter Port, Guernsey GY1 3HB.
3 The address of the registered office is 44 Esplanade, St Helier Jersey JE4 9WG.
4 The address of the registered office is Suite 3201, Jardine House, 1 Connaught Place, Central, Hong Kong.
5 The address of the registered office is John Lewis Aberdeen, George Street, Aberdeen AB25 1BW.
6 The address of the registered office is 60 Leith Street, Edinburgh EH1 3SP.
7 The address of the registered office is St. Martins House Le Bordage, St Peter Port, Guernsey GY1 4AU.
8 The address of the registered office is Clipper Logistics Group, Gelderd Road, Leeds, West Yorkshire LS12 6LT.
9 The address of the registered office is Hill House, 1 Little New Street, London EC4A 3TR.
(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 Group. 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, 69 St James Centre, Edinburgh, EH1 3SP. This is consolidated within John Lewis plc.

The Group 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 for 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 financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

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.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, and Corporate Governance Statement that complies with that law and those regulations.

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.

Responsibility statement of the Directors in respect of the Annual Report and Accounts

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

Sir Charlie Mayfield and Patrick Lewis

Directors, John Lewis plc

11 April 2019

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") for the year ended 26 January 2019 which com prise 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 26 January 2019 and of the Partnership's profit for the year then ended;
- the Partnership 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 Partnership 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.

We were first appointed as auditor by the Board on 8 June 2016. The period of total uninterrupted engagement is for the three financial years ended 26 January 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Partnership in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality: Partnership financial statements as a whole	£13.5m (2018:£14.4m) 5% of the 3-year average (2018: 5%) of consolidated profit before tax, Partnership Bonus and exceptional item s
Coverage	85% (2018:97%) of Partnership consolidated profit before tax, Partnership Bonus and exceptional item s

Key audit matters		**vs 2018**
Recurring risks	Carrying amount of property, plant and equipment (PPE)	◀▶
	Net defined benefit obligation	◀▶
	Long leave provision	◀▶
	New: Fair value of free-service warranty	
Event driven	**New:** Brexit	
	New: Going concern	

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

1. 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 page 9 (Principal Risks)*	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in carrying amount of PPE, 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 at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, 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 Brexitrelated disclosures together, including those in the Strategic report, com paring the overall picture against our understanding of the risks. **Our results** — As reported under carrying amount of PPE, net defined benefit obligation and long leave provision, we found the resulting estimates and related disclosures and disclosures in relation to going concern to be 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
Carrying amount of property, plant and equipment **£3,809.7 million (2017: £3,971.2 million)** *Page 51 (accounting policy) and page 51 (financial disclosures)*	**Forecast-based valuation** Impairment considerations: The Partnership has significant Property, Plant and Equipment (PPE) assets held on its consolidated balance sheet. In particular, PPE in Waitrose & Partners is significant. 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 Waitrose & Partners and hence impact the recoverable amount of its PPE. 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. **Subjective judgement** Residual values of buildings: The judgement around determination of residual values drives the depreciation charged to the income statement. In particular, the determination of such residual value requires specific expertise and knowledge of the market. The Directors engage third party specialists to review a sample of the property portfolio to assist them in determining the value of the residual values. These valuations include, in most cases, land and buildings together and therefore the Directors need to exercise judgement over the amount that is to be allocated to the buildings which, unlike land, are depreciated. Given the magnitude of the PPE balance, movements in these judgements could result in a material misstatement if there were to be a significant decrease in the value allocated to the property portfolio as a whole. However, in conducting our final audit work, we reassessed the degree of estimation uncertainty of residual values to be less than that materiality over depreciation expense in any particular year.	**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 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. — **Our property valuation expertise:** With the assistance of our property valuation specialist, we reviewed the third party valuation reports produced for a sample of the assets to establish residual values. Our specialist critically assessed the methodology and assumptions behind these valuations by using their own expertise and market understanding. — **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. **Our results:** — We found the resulting estimate of the recoverable amount of PPE in Waitrose & Partners and the Partnership's assessment of residual values of its buildings to be acceptable (2018 result: acceptable).

	The risk	Our response
Net defined benefit obligation **£468.1 million (2018: £731.3 million)** *Refer to page 67 (accounting policy) and pages 67 to 77 (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. 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 complete 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 35.2 % (£1.9 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 2016. We used our actuarial specialists to challenge the methodology used to roll-forward the results of the triennial valuation as at 31 March 2016. — **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 (2018 result: acceptable).
Long leave provision **£141.8 million (2018: £13 9.6 million)** *Refer to page 59 (accounting policy) and page 59 (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 com paring 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 (2018 result: acceptable).

	The risk	Our response
Fair value of free-service warranty **£5 0.0million (2018: £65.8 million)** *Refer to pages 35 and 58 (accounting policy) and page 58 (financial disclosures)*	**Subjective estimate** Following the adoption of IFRS 15, the timing of revenue recognition of free service warranty in John Lewis & Partners, principally for certain electrical products, has changed because the free warranty is now considered a separate performance obligation. 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 com prises 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 26 January 2019 to be acceptable.
Parent comp any financial statements – Valuation of investments **£1,135.3 million (2018: £1,400.6 million)** *Refer to page 97 (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:** Com paring 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 by the audit team on 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 (2018 result: acceptable).

	The risk	Our response
Going concern *Refer to page 23 (financial disclosures)*	**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 Brexit on the Partnership's and Company's 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. — **Benchmarking assumptions:** We compared the projected growth rates to externally derived data; — **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 (2018 result: acceptable).

The service guarantee provision is no longer required after adopting IFRS 15 in 2019. We continue to perform procedures over the carrying amount of intangibles, customer refunds provision, and other provisions in respect of national minim um wage. However, intangibles capitalised in the prior year were brought into use this year and the degree of estimation and uncertainty over these other provisions has been reassessed to be less than materiality. Therefore, we have not assessed these as the most significant risks in our current year audit and they are not separately identified in our report this year.

2. **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 profit before tax, normalised to exclude Partnership Bonus and exceptional item s (as disclosed in notes 2.6.2 and 2.3, respectively) by averaging over the last three years due to fluctuations in the business cycle, of £273.6 million, of which it represents 5.0% (2018: 5.0% of actual Partnership profit before tax, Partnership Bonus and exceptional items.

Materiality for the parent company financial statements as a whole was set at £12.0 million (2018: £14.0 million), determined with reference to a benchmark of £2,943.8 million which is total assets. Materiality on this basis represents 0.5% (2018: 0.3%).

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

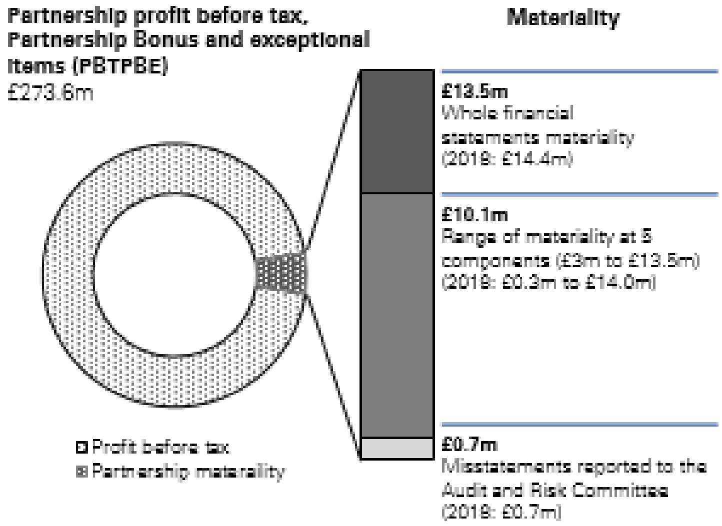
The Partnership has 16 reporting components each representing a statutory entity based in the UK or Channel Islands.

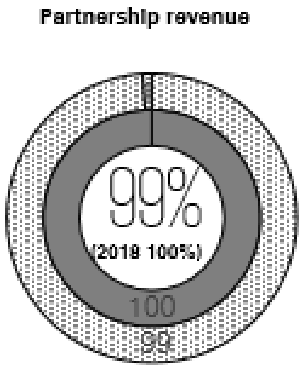
Of the Partnership's 16 reporting components, we subjected 5 (2018: 10) to full scope audits for Partnership purposes. The decrease in components subject to full scope audits is attributable to the statutory audits of 5 subsidiaries being substantially completed at the same time as the audit of the Partnership in the previous year. In addition, 1 component (2018: 1) was subjected to specified risk-focused audit procedures. The latter was not individually financially 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.

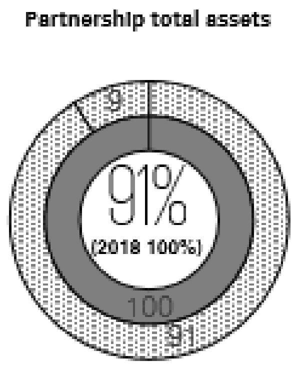
The components within the scope of our work accounted for the percentages illustrated opposite.

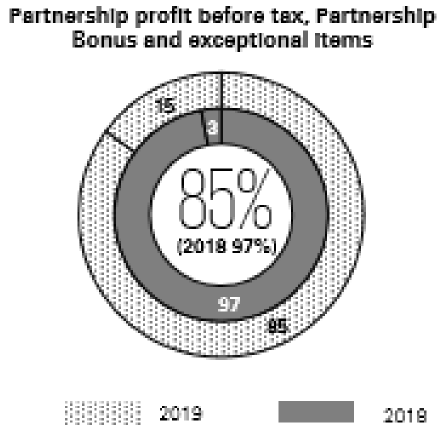
The remaining 1% of total Partnership revenue, 15% of Partnership profit before tax and 9% of total Partnership assets is represented by 10 reporting components, none of which individually represented more than 4% of any of total Partnership revenue, Partnership profit before tax or total Partnership 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 £13.5 million to £3.0 million, having regard to the mix of size and risk profile of the Partnership across the components. The work on 2 of the 6 components (2018: 1 of the 10 components) was performed by component auditors and the rest, including the audit of the parent company was performed by the Group team. The Group team performed procedures on the items excluded from normalised Partnership profit before tax, Partnership Bonus and exceptional items.









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3. 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 and the Company will continue in operation.

We 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 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.

4. 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.

5. 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.

6. Respective respossibilities

Directors' responsibilities

As explained more fully in their statement set out on page 140, 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 Partnership 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 Partnership 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.

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) 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 license to operate. We identified the following areas as those most likely to have such an effect: health and safety,General Data Protection Regulation (GDPR); anti-bribery and employment law recognising the nature of the Partnership's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement item s. 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 with 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.

7. 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.

Michael Maloney (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square, London E14 5GL 11

April 2019