UNAUDITED RESULTS FOR HALF YEAR ENDED 27 JULY 2019

Focus on long-term investment and success despite short-term profit pressures

These results are for John Lewis plc only and do not represent the results for John Lewis Partnership plc which can be found on the John Lewis Partnership website or at www.johnlewispartnership.co.uk/financials.html

FINANCIAL OVERVIEW

	2019/20 £m	2018/19 £m	Change %
Gross sales	5,420.2	5,486.6	*(1.2)*
(Loss)/Profit before PB, tax, exceptional items and IFRS 16	(25.8)	1.0	*n/m*
Total net debts	2,389.8	2,859.0	*(16.4)*
Revenue	4,788.0	4,856.7	*(1.4)*
Profit before tax	191.6	6.2	*n/m*

Throughout this document, alternative performance measures related to profit for 2019/20 are presented before IFRS 16 adjustments related to depreciation expenses on right-of-use assets and, where relevant, interest charges on lease liabilities, and before the removal of operating lease rental expenses. This is to provide a more meaningful comparison to 2018/19. In addition in 2018/19 a charge of £0.4m has been reclassified from exceptional items to non-exceptional operating expenses. A glossary of financial and non-financial terms is included on pages 8 - 10 of this document.

Sir Charlie Mayfield, Partner and Chairman of the John Lewis Partnership, commented:
"The re-drawing of the UK retail landscape continues apace. While trading conditions have continued to be difficult, we have accelerated our differentiation strategy and significantly strengthened our balance sheet. The Group made a loss before Partnership Bonus, tax, exceptionals and IFRS 16 of £(25.8)m, down £26.8m. Within that, operating profit before exceptionals and IFRS 16 improved in Waitrose & Partners by £14.1m to £110.1m, largely due to property profits this year, but we also saw an improvement in gross margins and a strong operational performance. In John Lewis & Partners, operating losses before exceptionals and IFRS 16 increased by £42.5m to £(61.8)m, reflecting lower sales in categories with more considered purchasing, cost inflation (including non-management Partner pay) well ahead of the level of sales growth and higher IT costs. Our Profit before tax, which includes exceptional income and the charge from adopting IFRS 16 (further details on page 5) was £191.6m, up £185.4m.

We have continued to strengthen our balance sheet position. Total net debts have reduced by £469.2m compared to July 2018. This is due to strong cash generation and tight cash management as well as the decision to close our final salary defined benefit pension scheme. The latter is also the main contributor to our exceptional income. Our accounting pension deficit (post tax) has reduced to £62.8m (July 2018: £171.3m, January 2019: £404.7m) and our triennial actuarial valuation as at 31 March 2019 is currently underway. We have also maintained a strong liquidity position at £1,153m at July 2019, our highest liquidity position at this time of year for more than 10 years and up £116m compared to last year. This is lower than January 2019 due to the cyclicality of cash in our business through the year and because we repaid a £275m bond in April 2019.

As we continue with our strategy to compete through differentiation, not scale, we have maintained investment in Partners and innovation, despite profit pressures, and have seen encouraging results in several areas. In John Lewis & Partners we have seen strong sales growth in Fashion and Beauty and have grown market share significantly as customers responded to our investment in own-brand redesign, new brands, advisory services and personalised shopping experiences. In Waitrose & Partners, despite a weak grocery market, we had a good trading performance with only a marginal decline in like-for-like sales, and continued improvement in gross margins, benefiting from 47 completed category reviews. We also saw strong online grocery sales growth of 10.7%, well ahead of the market. In addition, our focus on innovation in areas that matter to our customers and us, was demonstrated by our successful trial of Waitrose Unpacked, which provides customers with new ways of shopping whilst supporting waste reduction.

Partners play an important role in our differentiation strategy and empowering them so that they are able to create more value for our business is a priority. We continue to invest in non-management Partner pay, well ahead of the level of sales growth. Our average hourly rate of pay for non-management Partners at £9.59, is up 4.7% from January 2019 and is 16.8% above the National Living Wage. In addition, the first half year also saw the greatest single investment we have made in leadership development reaching more than 7,500 people managers. In Waitrose & Partners, we launched the School of Food with 2,000 Partners having attended and a further 2,000 will do so in the second half. In a similar vein we are developing our first John Lewis Service Academy.

Outlook

We have historically made the majority of our profits in the second half of the year. Although we expect retail conditions to remain challenging, we are pressing on with key areas of innovation such as Waitrose Unpacked and the renewal of key ranges in areas like Menswear and Home. Over the next 12 months, we will also accelerate our transformation of the Group to deliver innovation faster and increase emphasis on the competitive difference of Partners.

However, should the UK leave the EU without a deal, we expect the effect to be significant and it will not be possible to mitigate that impact. In readiness, we have ensured our financial resilience and taken steps to increase our foreign currency hedging, to build stock where that is sensible, and to improve customs readiness. However, Brexit continues to weigh on consumer sentiment at a crucial time for the sector as we enter the peak trading period.

After a thorough process, I was delighted to announce in June that Sharon White will be the sixth Chairman of the John Lewis Partnership. She is an inspirational leader with the skills to take the Partnership forward and will take up her position in early 2020."

STRATEGIC PROGRESS

The structural changes in retail remain a challenge and an opportunity. Excess capacity of physical space coupled with subdued consumer confidence are adding to sales and margin pressure. In addition, a number of key operational costs continue to grow ahead of inflation. Our response is to build brands which remain consistently appealing to our customers so that we create more differentiated, valuable and long-term relationships with them. We continue to innovate in the products and services that we offer. Alongside this we are challenging and empowering Partners to seize opportunities to create significantly more value for our business.

Differentiation on products

In John Lewis & Partners, we saw our strongest sales growth in areas in which we have made the greatest investment. We launched our second season of own-brand Womenswear following the full redesign of our range last year; own-brand Womenswear sales have grown 5.7%. In Beauty, we also outperformed the market by 8.6%. In Home, we are redesigning every part of our range and have started with the relaunch of Upholstery. Having grown the size of our Home design team by 50% over the last 18 months, we will launch 3,000 new own-brand products this autumn. In addition, this month sees the relaunch of own-brand Menswear and the launch of our first ever own-brand Gift Food.

In Waitrose & Partners, we have completed 47 category reviews, with strong improvements in profitability and availability across these categories. We also launched our largest ever summer food range - Scrumptious Summer, which consisted of 200 products. Demonstrating our commitment to reducing waste, we trialled Waitrose Unpacked. Following a positive response from customers, we are extending the trial and introducing elements of it into three more shops. Looking ahead, we will complete our category reviews and will relaunch Waitrose 1 with 150 new product lines.

Investment in service excellence

We made additional service enhancements and have seen improvements in customer satisfaction ratings in Waitrose & Partners whilst customer experience ratings in John Lewis & Partners have remained high. To improve the speed and convenience of online shopping, John Lewis & Partners' customers can now return purchases to Waitrose & Partners delivery drivers at the same time as they receive their groceries. Our Click & Collect service is loved by our customers, giving us confidence to explore this area further. As such, we have trialled the service in six Co-ops and eight Booths shops. We will extend these trials further to 50 Co-op shops before the end of October. In Waitrose & Partners, we have plans to further strengthen our online capabilities this year with our new customer fulfilment centre in Enfield, as we build towards trebling the size of our online grocery operation to a £1bn business over the next three years. In mid-May, we announced a proposal to explore opportunities around automated online fulfilment with Today Development Partners (TDP). We have recently decided not to continue with that relationship and will instead pursue our online ambitions utilising existing expertise across the Group.

We continued to roll out several advisory services including the trial of our Beauty Studio and rollout of personal styling experiences in John Lewis & Partners, which saw women's personal styling sales increase 34%. Building on this, we will launch a new men’s personal styling experience at our Oxford Street flagship store this autumn. Our ambition to create a truly differentiated business in home improvement was supported by the expansion of Home Solutions and its integration with Opun. In October we will launch our first World of Design in our Peterborough shop, bringing together our Home Stylist expertise in one new dedicated space at the heart of our Home departments. We will also explore how shops can become ever more meaningful in our customers’ lives as Partner-led services and immersive experiences from both our brands will take centre stage on every floor in a new concept in Southampton from November onwards. In Waitrose & Partners, we are trialling a new deli proposition in 10 branches which offers antipasti, unique charcuterie and cured meats.

Investment in Partners

We invested significantly in leadership development, with more than 7,500 people managers across the Group attending a series of one day “Empowered Leadership” events in May to support our service ambitions. This marked the start of a broader programme of training for people managers. In Waitrose & Partners, we are building the passion and expertise of our Partners through the Waitrose School of Food and in John Lewis & Partners we are developing our first John Lewis Service Academy, equipping customer-facing Partners with what we believe to be the future skills of retail.

We are also expanding our apprenticeship programme, introducing new apprenticeships including Butchery, Fishmonger, Chef Specialisms, Customer Service, Vehicle maintenance and repair, and three senior leadership schemes. Among the apprentices that have completed their programmes in this half year, 83% passed with distinction where that was an achievable grade.

In line with our strategy, we continue to transform our organisation and in the year ahead we will accelerate our move towards ‘one Partnership’, obsessed with our customers. We have also made a number of divestments of shops and assets in the first half of the year.

Transforming sharing of knowledge and power

Alongside organisational change we are also focused on transforming our sharing of knowledge and power. In April, the Partnership Council, which is a body of democratically elected representatives that represent the views of Partners across the business, voted in support of changes to the Constitution which will ensure that the way in which power is shared across the business is fit for purpose in the future. These changes included the appointment of two new independent directors and a new enhanced role for President of Partnership Council.

In May the Partnership Council also unanimously agreed changes to our pension scheme. This concluded a year-long review and consultation with Partners. Our non-contributory final salary defined benefit section of our pension scheme will therefore close to future accrual next year and will be replaced by a defined contribution pension offer that is market-leading in retail.

PROFIT AND FINANCIAL STRENGTH

Our Group loss before PB, tax, exceptionals and IFRS 16 was £(25.8)m compared to £1.0m profit last year. The decline was principally due to the increase in operating losses before exceptionals and IFRS 16 in John Lewis & Partners, down £42.5m to £(61.8)m which was driven by:

- the impact of subdued consumer confidence. This was mainly on sales, particularly in Home and Electricals where demand for more considered purchases has remained depressed, but also in increased marketing costs as we responded to soft consumer demand;
- additional IT costs. We have steadily increased IT investment over the last few years to set ourselves up for the future. A number of significant new systems have become operational through the course of last year resulting in incremental maintenance, support and depreciation costs this year; and
- cost inflation well ahead of the level of sales growth, including the investment in non-management Partner pay.

Waitrose & Partners grew operating profits before exceptionals and IFRS 16 by £14.1m to £110.1m, with the increase largely due to property profits of £12.1m this year. Excluding this, profits were still ahead of last year with an improvement in gross margins and a strong operational performance offsetting the investment in non-management Partner pay and higher marketing costs.

This year we have adopted IFRS 16, the new accounting standard for leases, using the modified retrospective approach on transition. Our last year results are therefore not restated. Whilst IFRS 16 has decreased our reported Profit before tax by £26.5m for the half year, due to the length of our lease portfolio, it does not change the underlying economics of our business and it has no quantitative impact to cash flows. Further details of the impact of IFRS 16 are included on pages 15 to 17.

After including exceptional income of £243.9m (2018/19: £5.2m) and the charge from adopting IFRS 16, our Profit before tax was £191.6m, up £185.4m on last year. Exceptional items this half year mainly include income of £249.0m following the approved changes to our pension offer, which removed the future link with final salary on defined benefit pensions and instead increases future pensions up to retirement in line with inflation. In addition there was income of £20.9m from the reversal of previous branch impairments, income of £10.0m from a legal settlement and charges of £37.5m for strategic restructuring and redundancy costs. Further details of exceptional items are included on page 6.

We remain focused on maintaining a strong and flexible balance sheet. We have reduced our total net debts by £469.2m compared to July 2018 and one of our key priorities remains to reduce our Debt Ratio to around three times cash flow within four years.

In addition we have built up and maintained a strong liquidity position (£1,153m at July 2019), despite repaying our £275m bond in April 2019 and despite cash being at a cyclical intra-year low point. Our strong liquidity ensures we have adequate reserves as a defence against economic uncertainty and also enables us to maintain strong levels of investment in the business. Capital investment forms the major part of our business investment and at £127.8m it was slightly lower than last half year's £141.4m. We have also invested significantly in products and services, in leadership training, in change costs associated with restructuring and transformation of the business, and a greater proportion of our IT investment is revenue investment.

ADDITIONAL FINANCIAL INFORMATION

	Waitrose & Partners			John Lewis & Partners		
	2019/20 £m	**2018/19 £m**	***Change %***	**2019/20 £m**	**2018/19 £m**	***Change %***
Gross sales	3,365.4	3,393.2	*(0.8)%*	2,054.8	2,093.4	*(1.8)%*
LFL sales	(0.4)%			(2.3)%		
Revenue	3,170.8	3,193.4	*(0.7)%*	1,617.2	1,663.3	*(2.8)%*
Operating profit/(loss) before exceptional items and IFRS 16	110.1	96.0	*14.7%*	(61.8)	(19.3)	*(220.2)%*
Operating profit/(loss)	100.8	94.4	*6.8%*	(34.9)	(33.5)	*(4.2)%*

Note: Waitrose & Partners like-for-like sales excludes fuel

Exceptional items

Exceptional income totalled £243.9m (2018/19: £5.2m) with £23.1m charge in Waitrose & Partners (2018/19: £1.6m), £13.7m income in John Lewis & Partners (2018/19: charge of £14.2m) and £253.3m income in Group (2018/19: £21.0m). Further detail is included in the following table:

	2019/20 £m	**2018/19 £m**
Strategic restructuring and redundancy programmes	(37.5)	(8.2)
Branch impairments	20.9	(12.6)
John Lewis & Partners supply chain	1.5	-
Pay provision	-	26.0
Defined benefit pension closure	249.0	-
Legal settlement	10.0	-
	243.9	5.2

Further details explaining each of the exceptional items is included within Note 4 below.

In 2018/19 there was a charge of £0.4m for head office restructuring and redundancies in Waitrose & Partners, which was previously reflected as exceptional items and has subsequently been reclassified to non-exceptional operating expenses.

Net finance costs

Net finance costs increased by £56.3m to £88.0m, principally due to the interest charge on outstanding lease liabilities following the adoption of IFRS 16 this year. Excluding the impact of IFRS 16, net finance costs increased £4.4m to £36.1m. This increase is principally driven by higher long leave finance costs arising from volatility in the market driven assumptions, which has been partly offset by reduced interest costs on borrowings, following the repayment of financial debt, an increase in returns from short-term investments and reduced pension finance costs due to a lower accounting pension deficit at the beginning of the year compared to the beginning of the previous year.

ENQUIRIES

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GLOSSARY OF FINANCIAL AND NON-FINANCIAL TERMS

This glossary gives an explanation of financial and non-financial terms included in the results statement

<table>
<tr><th>TERM</th><th>DEFINITION</th></tr>
<tr><td>Above market reward</td><td>These are Partner benefits which are higher than those typically paid by our competitors, as a result of the Partnership model. Above market rewards principally includes pensions, long leave, Partner discount and costs of our democracy. This measure is important for adjusting our financial Key Performance Indicators (KPIs) to be able to assess them against our competitors.</td></tr>
<tr><td>Adjusted cash flow</td><td>Operating profit before PB, exceptional items, depreciation, amortisation, but after IFRS 16, interest and tax. This measure is important to assess our Debt Ratio.</td></tr>
<tr><td>Average NMP hourly rate of pay</td><td>Average non-management Partner hourly pay for Partners on permanent contracts and aged 18 years old and over.</td></tr>
<tr><td>Capital investment</td><td>Cash outflows in relation to additions to tangible fixed assets (property, plant, and equipment), and intangible assets (IT software) recognised on the balance sheet.</td></tr>
<tr><td>Debt Ratio</td><td>Comparison of our Total net debts to Adjusted cash flow. This measure is important as it provides an indication of our ability to repay our debts.</td></tr>
<tr><td>Exceptional items</td><td>Items of income and/or expense which are significant by virtue of their size and nature are presented as exceptional items. The separate reporting of exceptional items helps to provide an indication of the Group’s underlying business performance.</td></tr>
<tr><td>Full-time equivalent (FTE)</td><td>The hours worked by one Partner on a full time basis. The concept converts the hours worked by several part-time Partners into the hours worked by full-time Partners to enable like-for-like comparisons of resource.</td></tr>
<tr><td>Gross sales</td><td>Total sales of goods and services including sale or return sales and VAT, net of Partnership discount
<table>
<tr><th></th><th>2019/20
£m</th><th>2018/19
£m</th></tr>
<tr><td>Gross sales</td><td>5,420.2</td><td>5,486.6</td></tr>
<tr><td>less:</td><td></td><td></td></tr>
<tr><td>Sale or return sales</td><td>(128.1)</td><td>(114.4)</td></tr>
<tr><td>Value added tax</td><td>(504.1)</td><td>(515.5)</td></tr>
<tr><td>Revenue</td><td>4,788.0</td><td>4,856.7</td></tr>
</table>
</td></tr>
</table>

<table>
<tr><th>TERM</th><th>DEFINITION</th></tr>
<tr><td>IFRS 16 adjustments</td><td>The 2019/20 half year is the first period in which the Group has adopted the new accounting standard IFRS 16 – Leases. The adjustments required to reflect the pre-IFRS 16 profit measures are set out below. The Group adopted the modified retrospective approach on transition to IFRS 16 and therefore the 2018/19 half year measures have not been restated.

<table>
<tr><th></th><th>2019/20
£m</th><th>2018/19
£m</th></tr>
<tr><td>Add back of operating lease rental expenses</td><td>91.5</td><td>-</td></tr>
<tr><td>IFRS 16 depreciation expenses</td><td>(66.1)</td><td>-</td></tr>
<tr><td>IFRS 16 operating adjustment</td><td>25.4</td><td>-</td></tr>
<tr><td>IFRS 16 interest charges</td><td>(51.9)</td><td>-</td></tr>
<tr><td>IFRS 16 adjustment</td><td>(26.5)</td><td>-</td></tr>
</table></td></tr>
<tr><td>Like-for-like (LFL) sales</td><td>Comparison of sales between two periods in time (e.g. this year to last year), removing the impact of branch openings and closures. Waitrose & Partners like-for-like sales excludes fuel.</td></tr>
<tr><td>Liquidity</td><td>The cash and undrawn committed credit facilities we have available to us, which we can use to settle liabilities as they fall due.</td></tr>
<tr><td>(Loss)/Profit before PB, tax, exceptional items and IFRS 16</td><td>Loss or profit before PB, tax, exceptional items and IFRS 16. This measure is important as it allows for a comparison of underlying profit performance.

<table>
<tr><th></th><th>2019/20
£m</th><th>2018/19
£m</th></tr>
<tr><td>(Loss)/Profit before PB, tax, exceptional items and IFRS 16</td><td>(25.8)</td><td>1.0</td></tr>
<tr><td>Exceptional items</td><td>243.9</td><td>5.2</td></tr>
<tr><td>IFRS 16 adjustment</td><td>(26.5)</td><td>-</td></tr>
<tr><td>Profit before tax</td><td>191.6</td><td>6.2</td></tr>
</table></td></tr>
<tr><td>Market comparator</td><td>John Lewis & Partners - British Retail Consortium (BRC) market
Waitrose & Partners - Kantar Worldpanel</td></tr>
<tr><td>n/m</td><td>Not meaningful</td></tr>
<tr><td>Non-management Partners (NMP)</td><td>Level 9 and Level 10 Partners, excluding Assistant Section Managers in Waitrose & Partners</td></tr>
</table>

TERM	DEFINITION
Operating profit before exceptional items and IFRS 16	Operating profit before PB, exceptional items and IFRS 16. This measure is important as it allows for a comparison of underlying operating profit performance.

2019/20	W&P £m	JL&P £m	Group £m	Total £m
Operating profit/(loss) before exceptional items and IFRS 16	110.1	(61.8)	(38.0)	10.3
Exceptional items	(23.1)	13.7	253.3	243.9
IFRS 16 operating adjustment	13.8	13.2	(1.6)	25.4
Operating profit/(loss)	**100.8**	**(34.9)**	**213.7**	**279.6**

2018/19	W&P £m	JL&P £m	Group £m	Total £m
Operating profit/(loss) before exceptional items and IFRS 16	96.0	(19.3)	(44.0)	32.7
Exceptional items	(1.6)	(14.2)	21.0	5.2
IFRS 16 operating adjustment	-	-	-	-
Operating profit/(loss)	**94.4**	**(33.5)**	**(23.0)**	**37.9**

TERM	DEFINITION
PB	Partnership Bonus
Profit per average FTE	Profit before PB and exceptional items but after IFRS 16 and tax, adjusted for above market reward, divided by the average number of full-time equivalent Partners. This measure is important as it provides the best indication of Partner productivity.
Return on invested capital (ROIC)	Operating profit before PB and exceptional items, but after IFRS 16, adjusted for above market reward and a notional tax charge (at the statutory marginal tax rate for the year), as a proportion of average operating net assets. This is important because it demonstrates how effectively we are utilising our assets.
Revenue investment	Investment spend recognised directly in the income statement
Total net debts	The Group's borrowings and overdrafts, lease liabilities, derivative financial instruments and IAS 19 pension deficit net of deferred tax, less any liquid cash, short-term deposits and investments. The 2018/19 figure has not been restated for IFRS 16 and instead includes the comparative figures for finance lease liabilities and the present value of future rentals payable under operating leases calculated using a 5% discount rate.

	2019/20 £m	2018/19 £m
Borrowings and overdrafts	717.5	863.5
Amounts owed to Parent in respect of SIP shares	47.2	62.1
Finance lease liabilities	-	22.4
Derivative financial instruments	(19.5)	(7.5)
Pension deficit (net of deferred tax)	62.8	171.3
IFRS 16 lease liabilities	2,102.2	-
Present value of operating leases	-	2,164.0
Liquid cash, short-term deposits and investments	(520.4)	(416.8)
Total net debts	**2,389.8**	**2,859.0**

John Lewis plc
Unaudited condensed Interim Financial Statements for the half year ended 27 July 2019

Consolidated income statement
for the half year ended 27 July 2019

Notes		Half year to 27 July 2019* £m	Half year to 28 July 2018 £m	Year to 26 January 2019 £m
5	**Gross sales**	**5,420.2**	5,486.6	11,724.1
6	**Revenue**	**4,788.0**	4,856.7	10,316.7
	Cost of sales	**(3,222.1)**	(3,298.4)	(6,931.0)
	Gross profit	**1,565.9**	1,558.3	3,385.7
	Other operating income	**60.4**	56.2	112.1
	Operating expenses before exceptional items and Partnership Bonus [1]	**(1,590.0)**	(1,580.8)	(3,272.1)
	Share of loss of joint venture (net of tax)	**(0.6)**	(1.0)	(0.7)
5	**Operating profit before exceptional items and Partnership Bonus**	**35.7**	32.7	225.0
4	Exceptional items [1]	**243.9**	5.2	2.1
5	**Operating profit before Partnership Bonus**	**279.6**	37.9	227.1
7	Finance costs	**(95.4)**	(37.6)	(80.3)
7	Finance income	**7.4**	5.9	13.6
	Profit before Partnership Bonus and tax	**191.6**	6.2	160.4
	Partnership Bonus	**–**	–	(44.7)
	Profit before tax	**191.6**	6.2	115.7
8	Taxation	**(6.6)**	(1.9)	(39.7)
	Profit for the period	**185.0**	4.3	76.0

5	**(Loss)/profit before Partnership Bonus, tax, exceptional items and IFRS 16**	**(25.8)**	1.0	158.3

* The Group has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application (see note 2).

[1] Prior year reclassification from exceptionals to operating expenses £0.4m, see note 2.

Consolidated statement of comprehensive income
for the half year ended 27 July 2019

Notes		Half year to 27 July 2019* £m	Half year to 28 July 2018 £m	Year to 26 January 2019 £m
	Profit for the period	**185.0**	4.3	76.0
	Other comprehensive income/(expense):			
	Items that will not be reclassified to profit or loss:			
12	Remeasurement of defined benefit pension scheme	**161.2**	487.0	272.7
8	Movement in deferred tax on pension scheme	**(29.7)**	(90.0)	(55.3)
8	Movement in current tax on pension scheme	**2.3**	7.2	7.1
	Items that may be reclassified subsequently to profit or loss:			
	Fair value gain on cash flow hedges	**21.1**	33.3	21.8
8	Movement in deferred tax on cash flow hedges	**(3.2)**	(4.9)	(4.1)
	(Loss)/gain on foreign currency translations	**(0.8)**	–	0.2
	Other comprehensive income for the period	**150.9**	432.6	242.4
	Total comprehensive income for the period	**335.9**	436.9	318.4

* The Group has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application (see note 2).

Consolidated balance sheet
as at 27 July 2019

Notes		27 July 2019* £m	28 July 2018 £m	26 January 2019 £m
	Non–current assets			
9	Intangible assets and goodwill	**504.1**	505.7	512.1
9	Property, plant and equipment	**3,658.9**	3,850.9	3,809.7
9	Right-of-use assets	**1,908.6**	–	–
	Trade and other receivables	**16.5**	60.6	58.4
14	Derivative financial instruments	**2.6**	2.5	0.2
	Investment in and loans to joint venture	**2.1**	2.3	2.7
		6,092.8	4,422.0	4,383.1
	Current assets			
	Inventories	**611.4**	609.2	657.6
	Trade and other receivables[1]	**271.6**	272.0	259.3
	Current tax receivable	**52.5**	19.0	–
14	Derivative financial instruments	**20.6**	11.5	6.8
10	Assets held for sale	**38.4**	15.4	23.1
	Short-term investments	**164.4**	166.2	265.4
	Cash and cash equivalents	**488.4**	370.3	716.8
		1,647.3	1,463.6	1,929.0
	Total assets	**7,740.1**	5,885.6	6,312.1
	Current liabilities			
14	Borrowings and overdrafts	**–**	(275.0)	(274.9)
	Trade and other payables[1]	**(1,480.1)**	(1,497.6)	(1,660.7)
	Current tax payable	**–**	–	(7.7)
14	Lease liabilities	**(90.2)**	–	–
14	Finance lease liabilities**	**–**	(0.7)	(0.5)
11	Provisions	**(101.3)**	(108.6)	(112.3)
14	Derivative financial instruments	**(3.5)**	(6.3)	(7.5)
		(1,675.1)	(1,888.2)	(2,063.6)
	Non–current liabilities			
14	Borrowings	**(717.5)**	(588.5)	(713.8)
	Trade and other payables	**(51.5)**	(259.4)	(258.6)
14	Lease liabilities	**(2,012.0)**	–	–
14	Finance lease liabilities**	**–**	(21.7)	(20.6)
11	Provisions	**(148.9)**	(130.9)	(134.7)
14	Derivative financial instruments	**(0.2)**	(0.2)	(2.0)
12	Retirement benefit obligations	**(56.2)**	(186.9)	(468.1)
	Deferred tax liability	**(127.1)**	(81.1)	(36.2)
		(3,113.4)	(1,268.7)	(1,634.0)
	Total liabilities	**(4,788.5)**	(3,156.9)	(3,697.6)
	Net assets	**2,951.6**	2,728.7	2,614.5
	Equity			
	Share capital	**6.7**	6.7	6.7
	Share premium	**0.3**	0.3	0.3
	Other reserves	**14.4**	7.1	0.9
	Retained earnings	**2,930.2**	2,714.6	2,606.6
	Total equity	**2,951.6**	2,728.7	2,614.5

* The Group has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application (see note 2).

** Finance lease liabilities are shown for comparative purposes only and are no longer applicable under IFRS 16 (see note 2).

[1] Reclassified (see note 2).

Consolidated statement of changes in equity for the half year ended 27 July 2019

Notes		Share capital	Share premium	Capital reserve	Hedging reserve	Foreign currency translation reserve	Retained earnings	Total equity
		£m	£m	£m	£m	£m	£m	£m
	Balance at 27 January 2018	6.7	0.3	1.4	(16.9)	(0.1)	2,306.1	2,297.5
	Profit for the period	–	–	–	–	–	4.3	4.3
12	Remeasurement of defined benefit pension scheme	–	–	–	–	–	487.0	487.0
	Fair value gains on cash flow hedges	–	–	–	33.3	–	–	33.3
	Tax on above items recognised in equity	–	–	–	(4.9)	–	(82.8)	(87.7)
	Total comprehensive income for the period	–	–	–	28.4	–	408.5	436.9
	Hedging gains transferred to cost of inventory	–	–	–	(5.7)	–	–	(5.7)
	Balance at 28 July 2018	**6.7**	**0.3**	**1.4**	**5.8**	**(0.1)**	**2,714.6**	**2,728.7**
	Balance at 27 January 2018	6.7	0.3	1.4	(16.9)	(0.1)	2,306.1	2,297.5
	Profit for the year	–	–	–	–	–	76.0	76.0
12	Remeasurement of defined benefit pension scheme	–	–	–	–	–	272.7	272.7
	Fair value gains on cash flow hedges	–	–	–	21.8	–	–	21.8
	Tax on above items recognised in equity	–	–	–	(4.1)	–	(48.2)	(52.3)
	Gain on foreign currency translations	–	–	–	–	0.2	–	0.2
	Total comprehensive income for the year	–	–	–	17.7	0.2	300.5	318.4
	Hedging gains transferred to cost of inventory	–	–	–	(1.4)	–	–	(1.4)
	Balance at 26 January 2019	6.7	0.3	1.4	(0.6)	0.1	2,606.6	2,614.5
2	Restatement for IFRS 16	–	–	–	–	–	4.8	4.8
	Balance at 27 January 2019*	6.7	0.3	1.4	(0.6)	0.1	2,611.4	2,619.3
	Profit for the period	–	–	–	–	–	185.0	185.0
12	Remeasurement of defined benefit pension scheme	–	–	–	–	–	161.2	161.2
	Fair value gains on cash flow hedges	–	–	–	21.1	–	–	21.1
	Tax on above items recognised in equity	–	–	–	(3.2)	–	(27.4)	(30.6)
	Loss on foreign currency translations	–	–	–	–	(0.8)	–	(0.8)
	Total comprehensive income for the period	**–**	**–**	**–**	**17.9**	**(0.8)**	**318.8**	**335.9**
	Hedging gains transferred to cost of inventory	–	–	–	(3.6)	–	–	(3.6)
	Balance at 27 July 2019	**6.7**	**0.3**	**1.4**	**13.7**	**(0.7)**	**2,930.2**	**2,951.6**

* The Group has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application (see note 2).

Consolidated statement of cash flows
for the half year ended 27 July 2019

Notes		**Half year to 27 July 2019***	Half year to 28 July 2018	Year to 26 January 2019
		£m	£m	£m
13	**Cash generated from operations before Partnership Bonus**	**187.0**	66.5	595.0
	Net taxation paid	**(8.4)**	(15.4)	(33.9)
	Pension deficit reduction payments	**(12.0)**	(37.1)	(37.1)
	Finance costs paid	**(55.0)**	(0.6)	(1.8)
	Net cash generated from operating activities before Partnership Bonus	**111.6**	13.4	522.2
	Partnership Bonus paid	**(45.8)**	(74.7)	(74.9)
	Net cash generated from/(used in) operating activities after Partnership Bonus	**65.8**	(61.3)	447.3
	Cash flows from investing activities			
	Purchase of property, plant and equipment	**(61.4)**	(67.1)	(143.9)
	Purchase of intangible assets	**(66.4)**	(74.3)	(166.2)
	Proceeds from sale of property, plant and equipment and intangible assets	**73.9**	2.7	13.6
	Finance income received	**3.7**	0.9	2.4
	Cash outflow from investment in and loans to joint venture	**–**	(0.4)	(0.5)
	Cash inflow/(outflow) from short-term investments	**101.2**	–	(99.0)
	Cash outflow from acquisition of trade and assets	**–**	(1.0)	(1.0)
	Net cash from/(used in) investing activities	**51.0**	(139.2)	(394.6)
	Cash flows from financing activities			
	Finance costs paid in respect of bonds	**(23.0)**	(23.0)	(54.2)
	Finance costs paid in respect of financial instruments	**(3.2)**	(1.9)	(0.5)
	Payment of capital element of leases	**(44.0)**	–	–
	Payment of capital element of finance leases**	**–**	(0.4)	(1.7)
	Cash (outflow)/inflow from borrowings	**(275.0)**	–	124.4
	Net cash (used in)/from financing activities	**(345.2)**	(25.3)	68.0
	(Decrease)/increase in net cash and cash equivalents	**(228.4)**	(225.8)	120.7
	Net cash and cash equivalents at beginning of the period	**716.8**	596.1	596.1
	Effect of exchange rate changes on cash and cash equivalents	**–**	(0.2)	–
	Net cash and cash equivalents at end of the period	**488.4**	370.1	716.8
	Net cash and cash equivalents comprise:			
	Cash at bank and in hand	**161.6**	118.3	128.2
	Short-term deposits	**326.8**	252.0	588.6
	Bank overdrafts	**–**	(0.2)	–
		488.4	370.1	716.8

* The Group has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application (see note 2).

** The payment of the capital element of finance leases is shown for comparative purposes only and is no longer applicable under IFRS 16 (see note 2).

Notes to the financial statements

1 Basis of preparation

This condensed set of interim financial statements was approved by the Board on 11 September 2019. The condensed set of interim financial statements is unaudited, but has been reviewed by the auditor and their review report is set out on page 34. They do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. The comparative information for the half year to or as at 28 July 2018 has not been audited, but has been reviewed in accordance with the International Standard on Review Engagements (UK and Ireland) 2410.

The results for the half year to 27 July 2019 have been prepared using the discrete period approach, considering the half year as an accounting period in isolation. The tax charge is based on the effective rate estimated for the full year, which has been applied to the profits in the first half year.

The Group's published financial statements for the year ended 26 January 2019 have been reported on by the Group's auditor and filed with the Registrar of Companies. The report of the auditor was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

This condensed set of interim financial statements for the half year ended 27 July 2019 has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The condensed set of interim financial statements should be read in conjunction with the financial statements for the year ended 26 January 2019, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

This is the first set of the Group's interim financial statements in which IFRS 16 has been applied. Changes to significant accounting policies are described in note 2.

Going concern

Having reviewed the Group's principal risks, operating budgets, investment plans and financing arrangements, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the condensed set of interim financial statements.

2 Accounting policies

The Group's results for the half year to 27 July 2019 have been prepared on a basis consistent with the Group's accounting policies published in the financial statements for the year ended 26 January 2019, with the exception of the items noted below. The changes in accounting policies will also be reflected in the Group's consolidated financial statements as at and for the year ending 25 January 2020.

IFRS 16 'Leases', applicable from 27 January 2019

IFRS 16 'Leases' specifies how to recognise, measure, present and disclose leases and replaces IAS 17 'Leases'. The Group adopted IFRS 16 from 27 January 2019 using a modified retrospective transition approach, under which the cumulative effect of initial application is recognised in Retained earnings at 27 January 2019. The comparative information presented for the year ended 26 January 2019 and the half year ended 28 July 2018 has not been restated and therefore continues to be shown under IAS 17.

The main impact of IFRS 16 for the Group is the recognition of all future Lease liabilities on the Balance sheet. Corresponding Right-of-use assets have also been recognised on the Balance sheet representing the economic benefits of the Group's right to use the underlying leased assets. The Group's activities as a lessor are not material and therefore the Group has not recognised any changes to lessor accounting as a result of the transition to IFRS 16.

Definition of a lease

Previously the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 'Determining Whether an Arrangement contains a Lease'. Under IAS 17 'Leases', classification of leases between operating or finance leases was determined based on an assessment of whether the lease transferred substantially all of the risks and rewards of ownership.

The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group did not elect to apply the practical expedient to grandfather the assessment of which contracts are leases. At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

2 Accounting policies (continued)

Significant accounting policies

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

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

The Group has applied judgement to determine the lease term for those lease contracts that include a renewal or break option. The assessment of whether the Group is reasonably certain to exercise a renewal option or reasonably certain not to exercise a break option significantly impacts the value of Lease liabilities and Right-of-use assets recognised on the Balance sheet.

Right-of-use assets are initially measured at cost, which is an amount equal to the corresponding Lease liabilities adjusted for any lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are subsequently measured at cost less any accumulated depreciation and impairment losses, adjusted for certain remeasurements of the Lease liabilities. Depreciation is calculated on a straight-line basis over the expected useful economic life of a lease which is taken as the lease term.

IAS 17 – Operating leases
For all periods prior to 26 January 2019, the Group classified the majority of its property leases as operating leases under IAS 17. Operating lease rental payments were recognised as an expense in the income statement on a straight-line basis over the lease term.

IAS 17 – Finance leases
For all periods prior to 26 January 2019, the Group classified its vehicle and equipment leases as finance leases under IAS 17. These leases are on terms that transfer to the Group substantially all the risks and rewards of ownership. The accounting treatment for finance leases under IAS 17 is similar to the accounting treatment for leases under IFRS 16. Leased assets are capitalised at inception at fair value or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The interest element of the finance lease rentals is charged to the income statement and the capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

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

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

Exemptions on transition to IFRS 16
On transition to IFRS 16, the Group elected to apply the following practical expedients on a lease by lease basis:

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

2 Accounting policies (continued)

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

Transition

The Group's lease portfolio is principally comprised of property leases of land and buildings in relation to Waitrose & Partners and John Lewis & Partners stores, distribution centres and head offices. The leases typically run for terms between five and 100 years and may include break clauses or options to renew beyond the non-cancellable periods. The majority of the Group's lease payments are subject to market review, usually every five years, and some lease agreements include rental payments contingent on turnover or economic indices. These contingent lease payments are excluded from the calculation of Lease liabilities under IFRS 16.

The opening balance sheet position as at 27 January 2019 has been restated on transition to IFRS 16. The Group recognised additional Right-of-use assets, Lease liabilities and Deferred tax liabilities as well as a reduction in Prepayments, Deferred income, Provisions and Finance lease assets and liabilities, recognising the difference in Retained earnings. The impact on transition is summarised below. Comparative periods have not been restated.

£m	**27 January 2019**
Lease liabilities – current	(87.7)
Lease liabilities – non-current	(2,011.4)
Right-of-use assets	1,947.6
Net adjustment to existing rent Prepayments, Deferred income and Provisions	150.8
Net adjustment to existing Finance lease assets and Finance lease liabilities	6.5
Deferred tax liabilities	(1.0)
Retained earnings	(4.8)

When measuring Lease liabilities on transition to IFRS 16, the Group discounted lease payments using its incremental borrowing rate at 27 January 2019. The weighted-average rate applied is 5.1%.

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

Impacts for the period

As a result of initially applying IFRS 16, the Group recognised £1,908.6m of Right-of-use assets and £2,102.2m of Lease liabilities as at 27 July 2019. The Group also recognised a depreciation charge of £66.1m and interest costs of £51.9m in relation to the leases recognised under IFRS 16. This replaced an operating lease expense that would have otherwise been recognised under IAS 17 of £91.5m.

The carrying amounts of Right-of-use assets are set out below:

£m	**Property**	**Vehicles**	**Equipment**	**Assets associated with service agreements**	**Total**
Balance at 27 January 2019	1,942.7	0.3	1.1	3.5	1,947.6
Balance at 27 July 2019	1,904.3	0.2	0.9	3.2	1,908.6

During the period to 27 July 2019, the Group entered into sale and leaseback transactions in relation to four properties. The gain on sale relating to these transactions was £12.1m, see note 9 for further information.

2 Accounting policies (continued)

Reclassification of non-exceptional operating expenses and exceptional items

In the half year to 28 July 2018, restructuring and redundancy costs totalling £0.4m in Waitrose & Partners were reflected as exceptional items. These were subsequently reclassified to non-exceptional operating expenses for the year to 26 January 2019 as they were no longer considered to meet the Group's policy for presentation as exceptional. Therefore, the comparative for the half year to 28 July 2018 has been restated. This has resulted in an increase in net exceptional items from £4.8m income as previously reported to £5.2m income at 28 July 2018, and a decrease in Operating profit before exceptional items and Partnership Bonus from £33.1m to £32.7m at 28 July 2018.

Reclassification of BonusSave receivable

John Lewis Partnership plc operates the BonusSave scheme (the scheme), a Share Incentive Plan (SIP) which allows Partners to elect to invest part of their Partnership Bonus back into the Partnership. 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 John Lewis plc 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. John Lewis plc holds a receivable in respect of the loan made to the scheme for these unallocated shares.

Following a review of the scheme at January 2019, John Lewis Partnership plc 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 John Lewis plc in respect of the loan made to the BonusSave scheme for unallocated shares from Other receivables to an Intercompany receivable from the BonusSave scheme. 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 operating activities after Partnership Bonus or Net debt.

3 Risks and uncertainties

The principal and other significant risks and uncertainties affecting the Group were identified as part of the Group Strategic Report, set out on pages 7 to 9 of the John Lewis plc financial statements for the year ended 26 January 2019, a copy of which is available on the Partnership's website www.johnlewispartnership.co.uk.

The Group has a formal risk identification process, which includes a rigorous analysis of internal and external risks both at a Divisional Board and Partnership Board level. All risks remain relevant for the second half of the financial year.

- Competitive customer proposition: failure to deliver our customer promise and not maintain our competitive advantage due to: competitor actions putting pressure on market value, our margin and threatening our volumes in grocery; and the growth of online business models in the general merchandise sector, means customers focus more on value for money and are less loyal;
- Operating model strain: increasing external pressures, such as the ongoing move to online and increased spend on IT create strain on our operating model;
- Information security: a breach of Partner or customer data due to an external threat causing disruption or access to sensitive data;
- Pension obligations: 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;
- Change delivery: 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;
- External environment: 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; and
- Ownership model strain: Partners and their engagement are key to the success of our employee 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 employee ownership model.

4 Exceptional items

	Half year to 27 July 2019		Half year to 28 July 2018		Year to 26 January 2019	
	Operating (expenses)/ income	**Taxation credit/ (charge)**	Operating (expenses)/ income	Taxation credit/ (charge)	Operating (expenses)/ income	Taxation credit/ (charge)
	£m	**£m**	£m	£m	£m	£m
Strategic restructuring and redundancy programmes						
Head office reviews [1]	**(10.2)**	**4.3**	(6.6)	1.9	(19.3)	3.7
Physical estate	**(26.6)**	**6.9**	(0.7)	0.2	(5.1)	1.5
Shop operations	**(0.7)**	**0.3**	(0.9)	0.3	(6.7)	1.3
	(37.5)	**11.5**	(8.2)	2.4	(31.1)	6.5
Branch impairments – Waitrose & Partners	**8.3**	**–**	–	–	–	–
Branch impairment – John Lewis & Partners	**12.6**	**–**	(12.6)	–	(12.6)	1.2
John Lewis & Partners supply chain	**1.5**	**(0.6)**	–	–	0.5	(0.1)
Pay provision	**–**	**–**	26.0	(5.0)	30.3	(5.6)
Legal settlement	**10.0**	**(1.9)**	–	–	15.0	(2.9)
Pension closure	**249.0**	**(42.3)**	–	–	–	–
	243.9	**(33.3)**	5.2	(2.6)	2.1	(0.9)

[1] Reclassified exceptionals, see note 2.

Strategic restructuring and redundancy programmes
As set out in our January 2019 financial statements, in order to meet our One Partnership Profit objective, the Group is currently undergoing an unprecedented level of internal change. Given the scale of these changes, the programmes of activity will take a number of years to deliver. 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. Further detail on the nature and expected length of each programme is included within the 2019 financial statements. The financial impact of these for July 2019 and July 2018 is detailed below:

Head office: The transformation of pan-Partnership functions and other head office operations continues at pace. As at July 2019 we have incurred expenses of £10.2m (July 2018: £6.6m) in relation to this programme. The expense includes project costs, onerous contracts and, where announced, redundancy costs.

Physical estate: We have continued with our programme of optimising our existing estate and as at July 2019 we have recognised a net exceptional expense of £26.6m (July 2018: £0.7m). The net expense 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, where applicable, including onerous leases, dilapidations and, where closure has been approved and announced, redundancy costs. Where incomes in relation to previously estimated costs have been realised in the year, these have been shown net, reflecting that the original expenses were shown as exceptional.

Shop operations: The review of our shop operating models is now largely complete with costs of £0.7m (July 2018: £0.9m) recognised this half 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 £0.7m 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)
During 2017/18 a charge of £35.7m for branch impairments in Waitrose & Partners was recognised. At July 2019 at credit of £8.3m (July 2018: £nil) has been released as a result of improved branch performance.

4 Exceptional items (continued)

Branch impairment (John Lewis & Partners)

Following the signing of a lease contract in 2018, a charge of £12.6m was recorded in relation to branch impairment in John Lewis & Partners. This impairment has now been released due to changes in circumstances and a credit of £12.6m has been recognised at July 2019.

John Lewis & Partners supply chain

In 2017, a review of the John Lewis & Partners supply chain led to significant redundancy and restructuring provisions which were recognised as exceptional. During the year to January 2019, a credit of £1.5m (July 2018: £nil) was 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 2018, the methodology for calculating the liability was clarified and the project finalised, resulting in a £30.3m release of the provision. There is no pay provision charge in the half year to July 2019.

Legal settlement

The Group reached a settlement in relation to an ongoing legal dispute, receiving income of £10.0m (July 2018: £nil.). Due to the size and nature of this settlement, this income has been recognised as exceptional.

Pension Closure

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

5 Segmental reporting

The Group's three reporting segments are Waitrose & Partners, John Lewis & Partners and Group. The Group reporting segment includes the operating costs for our Group functions, costs for transformation programmes, our JLP Ventures operations, and certain pension operating costs. The operating profit/(loss) of each segment is reported after charging relevant Group costs based on the business segments' usage of these facilities and services, and after exceptional items.

The Waitrose & Partners business is not subject to highly seasonal fluctuations although there is an increase in trading in the fourth quarter of the year. There is a more marked increase in the fourth quarter for the John Lewis & Partners business.

	Waitrose & Partners £m	John Lewis & Partners £m	Group £m	Total £m
Half year to 27 July 2019 *				
Gross sales	**3,365.4**	**2,054.8**	**–**	**5,420.2**
Adjustment for sale or return sales	**–**	**(128.1)**	**–**	**(128.1)**
Value added tax	**(194.6)**	**(309.5)**	**–**	**(504.1)**
Revenue	**3,170.8**	**1,617.2**	**–**	**4,788.0**
Operating profit/(loss) before exceptional items, Partnership Bonus and net profit on sale of property [1]	**111.8**	**(49.6)**	**(39.8)**	**22.4**
Net profit on sale of property	**12.1**	**1.0**	**0.2**	**13.3**
Operating profit/(loss) before exceptional items and Partnership Bonus	**123.9**	**(48.6)**	**(39.6)**	**35.7**
Exceptional items	**(23.1)**	**13.7**	**253.3**	**243.9**
Operating profit/(loss) before Partnership Bonus	**100.8**	**(34.9)**	**213.7**	**279.6**
Finance costs				**(95.4)**
Finance income				**7.4**
Profit before tax				**191.6**
Taxation				**(6.6)**
Profit for the period				**185.0**
Loss before Partnership Bonus, tax, exceptional items and IFRS 16				**(25.8)**
27 July 2019 *				
Segment assets	**4,049.5**	**2,716.3**	**974.3**	**7,740.1**
Segment liabilities	**(2,097.4)**	**(1,433.4)**	**(1,257.7)**	**(4,788.5)**
Net assets/(liabilities)	**1,952.1**	**1,282.9**	**(283.4)**	**2,951.6**

* The Group has initially applied IFRS 16 at 27 January 2019, which requires the recognition of Right-of-use assets and Lease liabilities for lease contracts that were previously classified as operating leases. As a result the Group recognised £1.9bn of Right-of-use assets and £2.1bn of Lease liabilities from those lease contracts. The assets and liabilities are included in the results of the individual reporting segments presented above as at 27 July 2019. The Group has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated (see note 2).

[1] Included within Operating profit before exceptional items, Partnership Bonus and net profit on sale of property is a £0.6m share of loss of a joint venture in John Lewis & Partners.

5 Segmental reporting (continued)

	Waitrose & Partners	John Lewis & Partners	Group	Total
	£m	£m	£m	£m
Half year to 28 July 2018				
Gross sales	3,393.2	2,093.4	–	5,486.6
Adjustment for sale or return sales	–	(114.4)	–	(114.4)
Value added tax	(199.8)	(315.7)	–	(515.5)
Revenue	3,193.4	1,663.3	–	4,856.7
Operating profit/(loss) before exceptional items, Partnership Bonus and net profit on sale of property [1,2]	96.0	(19.3)	(44.0)	32.7
Net profit on sale of property	–	–	–	–
Operating profit/(loss) before exceptional items and Partnership Bonus [2]	96.0	(19.3)	(44.0)	32.7
Exceptional items [2]	(1.6)	(14.2)	21.0	5.2
Operating profit/(loss) before Partnership Bonus	94.4	(33.5)	(23.0)	37.9
Finance costs				(37.6)
Finance income				5.9
Profit before tax				6.2
Taxation				(1.9)
Profit for the period				4.3
Profit before Partnership Bonus, tax and exceptional items				1.0

28 July 2018				
Segment assets	2,844.9	2,059.6	981.1	5,885.6
Segment liabilities	(803.9)	(772.1)	(1,580.9)	(3,156.9)
Net assets/(liabilities)	2,041.0	1,287.5	(599.8)	2,728.7

[1] 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.

[2] Reclassification from exceptionals to operating expenses of £0.4m, see note 2.

5 Segmental reporting (continued)

	Waitrose & Partners £m	John Lewis & Partners £m	Group £m	Total £m
Year to 26 January 2019				
Gross sales	6,835.0	4,889.1	–	11,724.1
Adjustment for sale or return sales	–	(259.0)	–	(259.0)
Value added tax	(405.5)	(742.9)	–	(1,148.4)
Revenue	6,429.5	3,887.2	–	10,316.7
Operating profit/(loss) before exceptional items, Partnership Bonus and net profit on sale of property [1]	202.5	113.4	(93.8)	222.1
Net profit on sale of property	0.7	1.3	0.9	2.9
Operating profit/(loss) before exceptional items and Partnership Bonus	203.2	114.7	(92.9)	225.0
Exceptional items	(4.0)	(22.1)	28.2	2.1
Operating profit/(loss) before Partnership Bonus	199.2	92.6	(64.7)	227.1
Finance costs				(80.3)
Finance income				13.6
Partnership Bonus				(44.7)
Profit before tax				115.7
Taxation				(39.7)
Profit for the year				76.0
Profit before Partnership Bonus, tax and exceptional items				158.3

	Waitrose & Partners £m	John Lewis & Partners £m	Group £m	Total £m
26 January 2019				
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/(liabilities)	2,046.1	1,228.4	(660.0)	2,614.5

[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.

6 Revenue

Disaggregation of revenue from contracts with customers

The revenue recognition policy is unchanged from that described in the financial statements for the year ended 26 January 2019.

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 compromise free service guarantees on selected goods. This presentation is consistent with how our Partnership Board and Divisional Management Boards review performance throughout the year.

	Half year to 27 July 2019 £m	Half year to 28 July 2018 £m	Year to 26 January 2019 £m
Major product lines			
Goods			
- Grocery	**3,170.8**	3,193.4	6,429.5
- Home	**465.0**	482.0	1,085.8
- Fashion	**506.0**	500.5	1,215.7
- EHT	**557.6**	578.0	1,393.6
Services			
- Free service guarantee	**13.3**	19.4	41.3
Other revenue	**75.3**	83.4	150.8
	4,788.0	4,856.7	10,316.7

7 Net finance costs

	Half year to 27 July 2019	Half year to 28 July 2018	Year to 26 January 2019
	£m	£m	£m
Finance costs			
Finance costs in respect of borrowings and lease liabilites[1,2]	**(75.7)**	(26.8)	(57.1)
Fair value measurements and other	**(2.5)**	(2.1)	(5.9)
Net finance costs arising on defined benefit and other employee benefit schemes	**(17.2)**	(8.7)	(17.3)
Total finance costs	**(95.4)**	(37.6)	(80.3)
Finance income			
Finance income in respect of cash and short-term investments[3]	**5.6**	4.2	10.1
Fair value measurements and other	**1.8**	1.7	3.5
Total finance income	**7.4**	5.9	13.6
Net finance costs	**(88.0)**	(31.7)	(66.7)

[1] Finance costs in respect of borrowings include interest payable on interest rate swaps of £2.9m (July 2018: £2.8m) and Lease liabilities of £52.3m (July 2018: £0.4m).

[2] The Group has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application (see note 2).

[3] Finance income in respect of cash and short-term investments includes interest receivable on interest rate swaps of £3.2m (July 2018: £3.0m).

	Half year to 27 July 2019	Half year to 28 July 2018	Year to 26 January 2019
	£m	£m	£m
Finance costs in respect of borrowings and lease liabilities, excluding interest rate swaps[1]	**(72.8)**	(24.0)	(51.4)
Net interest receivable in respect of interest rate swaps	**0.3**	0.2	0.4
Finance income in respect of cash and short-term investments, excluding interest rate swaps	**2.4**	1.2	4.0
Net finance costs in respect of borrowings and short-term investments	**(70.1)**	(22.6)	(47.0)
Fair value measurements and other	**(0.7)**	(0.4)	(2.4)
Net finance costs arising on defined benefit retirement scheme	**(4.4)**	(8.5)	(17.0)
Net finance costs arising on other employee benefit schemes	**(12.8)**	(0.2)	(0.3)
Net finance costs	**(88.0)**	(31.7)	(66.7)

[1] The Group has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application (see note 2).

Capitalised borrowing costs totalled £2.4m (July 2018: £4.8m) of which £2.3m (July 2018: £4.2m) were capitalised within Intangible assets and £0.1m (July 2018: £0.6m) were capitalised within Property, plant and equipment.

8 Income taxes

Income tax expense is recognised based on management's best estimate of the full year effective tax rate based on estimated full year profits excluding any discrete items. The tax charge on discrete items at half year is calculated and disclosed separately. The effective tax rate at the half year is lower than would be expected for the full year. This is as a result of a significant number of discrete items at the half year.

9 Property, plant and equipment, Intangible assets, and Right-of-use assets

	Property, plant and equipment	Intangible assets	Right-of-use assets	Total
	£m	£m	£m	£m
Net book value at 26 January 2019	3,809.7	512.1	–	4,321.8
Restatement for IFRS 16	(14.6)	–	1,947.6	1,933.0
Net book value at 26 January 2019*	3,795.1	512.1	1,947.6	6,254.8
Additions [1,2]	44.9	66.4	37.1	148.4
Depreciation and amortisation [3]	(125.8)	(72.4)	(66.1)	(264.3)
Disposals and write-offs [4]	(40.0)	(2.0)	(10.0)	(52.0)
Transfers to assets held for sale (see note 10)	(15.3)	–	–	(15.3)
Net book value at 27 July 2019	**3,658.9**	**504.1**	**1,908.6**	**6,071.6**

* The Group has initially applied IFRS 16 at 27 January 2019, which requires the recognition of Right-of-use assets for Lease contracts that were previously classified as operating leases. As a result the Group recognised £1,908.6m of Right-of-use assets from those lease contracts as at 27 July 2019. The Group has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated (see note 2).

[1] For the period ending 27 July 2019, additions for the year include the non-cash capital expenditure accrual on property, plant and equipment of £12.1m (January 2019: £28.7m) and intangible assets of £4.8m (January 2019: £7.1m).

[2] Within the Right-of-use asset additions in the period, there is £20.2m arising from the leaseback of buildings recognised at the proportion of the previous carrying amount of each building (£32.9m) that relates to the rights to use the building retained by the Group. Therefore, the Group has only recognised a £12.1m gain that related to the rights transferred to the buyer-lessor in the period.

[3] For the period ending 27 July 2019 depreciation and amortisation includes a net impairment charge of £2.6m to land and buildings (January 2019: £18.6m), and £nil to intangible assets (January 2019: £2.0m).

[4] For the period ending 27 July 2019 disposals and write-offs includes intangible write-offs of £0.6m (January 2019: £18.8m)

Intangible assets primarily relate to internally developed computer software.

Right-of-use assets are recognised in relation to the Group's leases, representing the economic benefits of the Group's right to use the underlying leased assets. The Group's lease portfolio is principally comprised of property leases of land and buildings in relation to Waitrose & Partners and John Lewis & Partners stores, distribution centres and head offices. The Group also holds a number of vehicle and equipment leases and service agreements deemed to meet the definition of a lease under IFRS 16.

The impairment review methodology described in the financial statements for the year ended 26 January 2019 has been updated for the impact of transitioning to IFRS 16. Right-of-use assets are included in the net book value of the Group's cash-generating units and rent payments excluded from the discounted cash flow models used to calculate value in use for the period of the relevant lease term. All other aspects of the impairment review methodology remain unchanged from that described in the financial statements for the year ended 26 January 2019.

Key assumptions in the calculations are the discount rate, long-term growth rate and expected sales performance and branch costs. The discount rate is based on the Group's pre-tax weighted average cost of capital of 7.0% (July 2018: 8.0%) in Waitrose & Partners and 8.0% (July 2018: 8.0%) in John Lewis & Partners.

10 Assets held for sale

At 27 July 2019, seven property assets in Waitrose & Partners (£36.2m) and three in John Lewis & Partners (£2.2m) were recorded as held for sale with a total carrying value of £38.4m. Three of these properties have been sold since the half-year end and the remaining seven are expected to complete within the next 12 months.

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.

At 28 July 2018 two property assets in Waitrose & Partners (£6.0m) and one in John Lewis & Partners (£9.4m) were recorded as held for sale with a total carrying value of £15.4m.

11 Provisions

	Long leave £m	Customer refunds £m	Insurance claims £m	Reorganisation £m	Other £m	Total £m
At 26 January 2019	(141.8)	(34.3)	(24.9)	(24.5)	(21.5)	(247.0)
Restatement for IFRS 16	–	–	–	–	4.0	4.0
At 27 January 2019*	(141.8)	(34.3)	(24.9)	(24.5)	(17.5)	(243.0)
Charged to income statement	(14.7)	(23.5)	(7.9)	(12.9)	(8.4)	(67.4)
Released to income statement	–	–	1.0	2.9	0.6	4.5
Utilised	2.7	34.3	2.7	14.6	1.4	55.7
At 27 July 2019	**(153.8)**	**(23.5)**	**(29.1)**	**(19.9)**	**(23.9)**	**(250.2)**
Of which:						
Current	(35.4)	(23.5)	(9.3)	(19.9)	(13.2)	(101.3)
Non-current	(118.4)	–	(19.8)	–	(10.7)	(148.9)

*The Group has initially applied IFRS 16 at 27 January 2019. The Group has applied IFRS 16 using the modified retrospective approach and taken the exemption to reclassify onerous lease provisions as impairments to the Right-of-use assets on transition as at 27 January 2019. As a result the opening balance of Provisions has been restated as at 27 January 2019 (see note 2).

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, 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. The provisions are based on reserves held in the Group's captive insurance company, JLP Insurance Limited. These reserves are established using independent actuarial assessments wherever possible, or a reasonable assessment based on past claims experience.

Provisions for reorganisations reflect restructuring and redundancy costs, principally in relation to our branch, distribution and retail operations as well as functional restructuring in head office functions.

Other provisions include property related costs and pay provisions.

12 Retirement benefit obligations

The pension scheme operated by the Partnership is the John Lewis Partnership Trust for Pensions. The scheme includes a defined benefit section, providing pensions and death benefits to members. All contributions to the defined benefit section of the scheme are funded by the Partnership. The scheme also includes a defined contribution section. Contributions to the defined contribution section of the scheme are made by both Partners and the Partnership.

On 15 May 2019, the Partnership Council voted in favour of proposals by the Partnership Board to close the defined benefit section of the scheme to future accrual from 1 April 2020. Following closure, members' deferred pensions will now increase annually by inflation up to five per cent per annum (measured using CPI), which is generally lower than the previous pay growth assumption, resulting in a reduction of the defined benefit obligation. The accounting impact of the closure was a reduction in the defined benefit obligation of £156.0m. This reflects a past service gain of £249.0m, recognised as an exceptional credit at 27 July 2019, representing the break in future salary linkage. The gain is partially offset by a £93.0m actuarial loss, recognised through equity. This reflects a decrease in future expected commutation of the defined benefit pensions (i.e. exchanging defined benefit pensions for tax free cash), as the defined contribution element of Partners' total pension entitlement increases.

As part of the ongoing triennial actuarial valuation of the scheme, underlying membership data has been updated as at 31 March 2019. This has resulted in an actuarial gain, recognised through equity, of £174.2m, reflecting the difference between actual experience compared to assumptions made in estimating the liability. Pension commitments recognised in these financial statements have been calculated based on that updated membership data. The 31 March 2019 triennial actuarial valuation is currently in progress.

Scheme assets are stated at market value at 27 July 2019.

The following financial assumptions have been used:

	27 July 2019	28 July 2018	26 January 2019
Discount rate	**2.30%**	2.90%	2.80%
Future retail price inflation (RPI)	**3.10%**	3.10%	3.15%
Future consumer price inflation (CPI)	**2.10%**	2.10%	2.15%
Increase in earnings	**n/a**	3.20%	3.25%
Increase in pensions - in payment			
Pre-April 1997	**1.65%**	1.65%	1.65%
April 1997 - April 2016	**2.90%**	2.90%	2.95%
Post-April 2016	**1.65%**	1.65%	1.65%
Increase in pensions – deferred	**2.10%**	2.10%	2.15%

The movement in the net defined benefit liability in the period is as follows:

	Half year to 27 July 2019	Half year to 28 July 2018	Year to 26 January 2019
	£m	£m	£m
Net defined benefit liability at beginning of period	**(468.1)**	(731.3)	(731.3)
Operating cost/Pension expense	**(56.5)**	(72.5)	(140.7)
Past service gain as a result of closure	**249.0**	–	–
Interest cost on pension liabilities	**(82.0)**	(84.6)	(169.2)
Interest income on assets	**77.6**	76.1	152.2
Contributions	**62.6**	138.4	148.2
Total gains recognised in equity	**161.2**	487.0	272.7
Net defined benefit liability at end of period	**(56.2)**	(186.9)	(468.1)

The post-retirement mortality assumptions used in valuing the pension liabilities were based on the 'S2 Light' (26 January 2019: 'S2 Light'; 28 July 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 (26 January 2019: 127% for males and 106% for females; 28 July 2018: 127% for males and 106% for females). Future improvements in life expectancy have been allowed for in line with the latest CMI model projections subject to a long-term trend of 1.25% (26 January 2019: 1.25%; 28 July 2018: 1.25%).

12 Retirement benefit obligations (continued)

The average life expectancies assumed were as follows:

	27 July 2019		26 January 2019	
	Men	**Women**	Men	Women
Average life expectancy for a 65 year old (in years)	**20.9**	**23.3**	21.1	23.5
Average life expectancy at age 65, for a 50 year old (in years)	**21.8**	**24.4**	22.0	24.6

13 Reconciliation of profit before tax to cash generated from operations before Partnership Bonus

	Half year to 27 July 2019*	Half year to 28 July 2018 *(restated, see note 2)*	Year to 26 January 2019
	£m	£m	£m
Profit before tax	**191.6**	6.2	115.7
Amortisation and write offs of intangible assets [1]	**73.0**	70.2	141.7
Depreciation [1]	**191.9**	149.1	287.5
Share of loss of joint venture (net of tax)	**0.6**	1.0	0.7
Net finance costs	**88.0**	31.7	66.7
Partnership Bonus	**–**	–	44.7
Fair value (gains)/losses on derivative financial instruments	**(0.7)**	(0.7)	2.1
(Profit)/loss on disposal of property, plant and equipment and intangible assets	**(12.3)**	0.1	1.4
Decrease in inventories	**44.9**	52.3	3.9
(Increase)/decrease in receivables	**(39.5)**	(16.7)	8.3
Decrease in payables	**(101.8)**	(146.6)	(60.5)
(Decrease)/increase in retirement benefit obligations	**(243.1)**	(28.8)	29.6
Decrease in provisions	**(5.6)**	(51.3)	(46.8)
Cash generated from operations before Partnership Bonus	**187.0**	66.5	595.0

* The Group has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. In applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised depreciation and interest costs, instead of an operating lease expense (see note 2). During the half year to 27 July 2019, in relation to those leases, the Group recognised £66.1m of depreciation charges and £51.9m of additional interest costs from leases.

[1] Includes net impairment charges. Refer to note 9.

14 Analysis of net debt

	26 January 2019	Restatement for IFRS 16	27 January 2019*	Cash flow	Other non–cash movements	27 July 2019
	£m	£m	£m	£m	£m	£m
Non–current assets						
Derivative financial instruments	0.2	–	0.2	–	2.4	**2.6**
	0.2	–	0.2	–	2.4	**2.6**
Current assets						
Cash and cash equivalents	716.8	–	716.8	(228.4)	–	**488.4**
Short-term investments	265.4	–	265.4	(101.2)	0.2	**164.4**
Derivative financial instruments	6.8	–	6.8	(5.2)	19.0	**20.6**
	989.0	–	989.0	(334.8)	19.2	**673.4**
Current liabilities						
Borrowings and overdrafts	(275.0)	–	(275.0)	275.0	–	**–**
Unamortised bond transaction costs	0.1	–	0.1	–	(0.1)	**–**
Leases	–	(87.7)	(87.7)	97.0	(99.5)	**(90.2)**
Finance leases	(0.5)	0.5	–	–	–	**–**
Derivative financial instruments	(7.5)	–	(7.5)	2.9	1.1	**(3.5)**
	(282.9)	(87.2)	(370.1)	374.9	(98.5)	**(93.7)**
Non–current liabilities						
Borrowings	(725.0)	–	(725.0)	–	–	**(725.0)**
Unamortised bond transaction costs	10.4	–	10.4	–	(0.5)	**9.9**
Fair value adjustment for hedged element on bonds	0.8	–	0.8	–	(3.2)	**(2.4)**
Leases	–	(2,011.4)	(2,011.4)	–	(0.6)	**(2,012.0)**
Finance leases	(20.6)	20.6	–	–	–	**–**
Derivative financial instruments	(2.0)	–	(2.0)	–	1.8	**(0.2)**
	(736.4)	(1,990.8)	(2,727.2)	–	(2.5)	**(2,729.7)**
Total net debt	(30.1)	(2,078.0)	(2,108.1)	40.1	(79.4)	**(2,147.4)**

* The Group has initially applied IFRS 16 at 27 January 2019, which requires the recognition of Lease liabilities on the balance sheet for lease contracts that were previously classified as operating leases. As a result the Group recognised £2.1bn of Lease liabilities from those lease contracts as at 27 July 2019. The Group has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated (see note 2).

14. Analysis of net debt (continued)

Reconciliation of net cash flow to net debt

	Half year to 27 July 2019* **£m**	Half year to 28 July 2018 £m	Year to 26 January 2019 £m
(Decrease)/increase in net cash and cash equivalents in the period	**(228.4)**	(225.8)	120.7
Cash outflow from movement in short-term investments	**(101.2)**	–	99.0
Cash outflow from borrowing	**275.0**	–	–
Cash outflow/(inflow) from movement in other net debt items	**94.7**	7.1	(120.2)
Cash movement in net debt for the period	**40.1**	(218.7)	99.5
Opening net debt	**(30.1)**	(142.6)	(142.6)
Restatement for IFRS 16	**(2,078.0)**	–	–
Non-cash movements in net debt for the period	**(79.4)**	19.4	13.0
Closing net debt	**(2,147.4)**	(341.9)	(30.1)

* The Group has initially applied IFRS 16 at 27 January 2019, which requires the recognition of Lease liabilities on the balance sheet for lease contracts that were previously classified as operating leases. As a result the Group recognised £2.1bn of Lease liabilities from those lease contracts as at 27 July 2019. The Group has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated (see note 2).

15 Management of financial risks

The principal financial risks to which the Group is exposed are capital and long term funding risk, liquidity risk, interest rate risk, foreign currency risk, credit risk, and energy risk.

This condensed set of interim financial statements does not include all risk management information and disclosures required in the annual financial statements and should be read in conjunction with the financial statements for the year ended 26 January 2019. During the half year to 27 July 2019, the Group has continued to apply the financial risk management process and policies as detailed in the financial statements for the year ended 26 January 2019.

Valuation techniques and assumptions applied in determining the fair value of each class of asset or liability are consistent with those used as at 26 January 2019 and reflect the current economic environment.

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 half year to 27 July 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.

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. At 27 July 2019, the net fair value of derivative financial instruments was £19.5m, asset (26 January 2019: £2.5m, liability; 28 July 2018: £7.5m, asset).

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):

	27 July 2019		28 July 2018		26 January 2019	
	£m	**£m**	£m	£m	£m	£m
	CV	**FV**	CV	FV	CV	FV
Financial liabilities						
Listed bonds	**(590.1)**	**(630.9)**	(864.5)	(931.2)	(864.5)	(858.2)

The fair values of the Group's listed bonds have been determined by reference to market price quotations and 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.

16 Capital commitments

At 27 July 2019 contracts had been entered into for future capital expenditure of £87.8m (26 January 2019: £44.1m; 28 July 2018: £74.2m) of which £76.2m (26 January 2019: £33.0m; 28 July 2018: £63.6m) relates to property, plant and equipment and £11.6m (26 January 2019: £11.1m; 28 July 2018: £10.6m) relates to intangible assets.

17 Related party transactions

There have been no material changes to the principal subsidiaries listed in the John Lewis plc financial statements for the year ended 26 January 2019. All related party transactions arise during the ordinary course of business. There were no material changes in the transactions or balances during the half year ended 27 July 2019.

Statement of Directors' responsibilities

The Directors confirm that to the best of their knowledge:

- the condensed set of interim financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU; and

- the interim management report includes a fair review of the information required by:

  a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first 26 weeks of the financial year and their impact on the condensed set of interim financial statements; and a description of the principal risks and uncertainties for the remaining 26 weeks of the year; and

  b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first 26 weeks of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

For and by Order of the Board

Sir Charlie Mayfield, Chairman
Patrick Lewis, Group Finance Director

11 September 2019

Independent review report to John Lewis plc

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 27 July 2019 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 27 July 2019 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. 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. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

The annual financial statements of the company are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Michael Maloney
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
11 September 2019