

John Lewis plc
 Unaudited condensed Interim Financial Statements for the half year ended 29 July 2017
 Thursday 14 September 2017

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 at johnlewispartnership.co.uk/media.html

Financial Summary

	Waitrose		John Lewis		Group	
	£m	YoY change	£m	YoY change	£m	YoY change
Gross sales ⁽¹⁾	3,324.2	2.3%	2,070.9	2.3%	5,395.1	2.3%
LFL sales ⁽²⁾	0.7%		0.1%			
Revenue	3,131.1	2.2%	1,645.3	2.4%	4,776.4	2.2%
Operating profit before exceptional items ⁽³⁾⁽⁴⁾	100.8	(17.4)%	50.2	38.7%	125.4	(12.8)%
Operating profit ⁽³⁾	88.1	(8.5)%	29.1	(10.2)%	69.0	(39.3)%
PBT ⁽⁵⁾ before exceptional items ⁽³⁾⁽⁴⁾					83.3	(4.8)%
PBT ⁽³⁾⁽⁵⁾					26.9	(53.1)%
Net debt					317.0	28.4%

Sir Charlie Mayfield, Chairman of John Lewis Partnership, commented: “Gross sales were up 2.3% in both Waitrose and John Lewis; a solid performance in a difficult market. Our Group profit before tax and exceptional items was down 4.8%, but this was flattered by property profits and after excluding these it was down 17.4%.

As we anticipated in our full year results statement in March, the first half of this year has seen inflationary pressures driven by exchange rates and political uncertainty. These have dampened customer demand, especially in categories connected to the housing market. Against that backdrop, our market share⁽⁶⁾ gains in Fashion stood out. The exchange rate driven increase in cost prices has also put pressure on margin. We have chosen to hold back on increasing prices across many areas.

Our results also reflect the acceleration of our strategy to ensure the Group’s success in the future. This has included: changing the way we operate Waitrose branches, creating new flexible team structures with broader responsibilities; further changes in John Lewis to adapt the business for the future; and moving from divisional to Group functions across Finance, Personnel and IT. As a result, we incurred exceptional costs of £56.4m. Given the key role our Partners play, we are very focussed on managing the risk of these changes carefully.

Sales growth has continued in the first few weeks of the second half. We are well set for our all-important seasonal peak, but we expect the headwinds that have dampened consumer demand and put pressure on margins to continue into next year. In addition, we will incur higher pension accounting charges in the second half year, as a result of low market interest rates. These will all impact our full year profits.”

(1) Gross sales includes sale or return sales and VAT

(2) Waitrose like-for-like sales excludes fuel

(3) Includes property profits of £0.9m in Waitrose and £10.5m in John Lewis (2016/17: £0.5m in Waitrose). Excluding property profits, operating profit before exceptionals down 17.8% in Waitrose and up 9.7% in John Lewis, and Group PBT before exceptionals down 17.4%

(4) Exceptional charges totalling £56.4m with £12.7m in Waitrose, £21.1m in John Lewis and £22.6m in Group. Restructuring and redundancy costs totalling £0.7m in Waitrose, £3.8m in John Lewis and £0.6m in Group for 2016/17 were previously reflected as non-exceptional operating expenses in the first half of last year and have subsequently been reclassified to exceptional items

(5) Profit before tax

(6) British Retail Consortium

Financial key points

- Gross sales growth of 2.3% and increased customer numbers
- Profit before tax and exceptional items down 4.8% to £83.3m
- Exceptional charge of £56.4m mainly for restructuring and redundancy costs (2016/17: charge of £30.1m for the write-down of property and other assets, and related costs, and for restructuring and redundancy costs)
- Net debt of £317.0m, £125.7m (28.4%) lower than 30 July 2016, reflecting our focus on cash generation and the reduction in capital investment. Increase in net debt since January 2017 of £170.6m (116.5%), as expected due to seasonality of our cash flows
- Accounting pension deficit, net of deferred tax, of £881.3m, £23.8m (2.8%) higher than January 2017 with additional deficit contributions largely offsetting the impact of further decreases in the real discount rate used to value the liabilities. The estimated actuarial pension deficit is £290m at July 2017

Chairman's overview and strategic update

Group gross sales grew by 2.3% to £5.40bn, with Waitrose and John Lewis gross sales both up by 2.3%, and with both brands increasing customer numbers as we continued to deliver great service and launch new brands and products. Our customer net promoter scores, which measure service experience, remain strong in both Waitrose and John Lewis.

Group PBT before exceptional items was down 4.8% to £83.3m. Operating profit, before exceptional items and property profits, was up 10% in John Lewis, while in Waitrose it was down 18%, held back by lower margin due to higher cost prices, very few of which were passed on to our customers. We also incurred higher pension accounting charges⁽⁷⁾ due to the effect of lower market interest rates. Conversely we benefitted from higher property profits and lower accounting charges for our long leave scheme⁽⁷⁾.

As we explained in our Christmas trading statement in January, and again in March in our full year results, we are making a number of changes this year as part of accelerating our strategy to ensure the Group's future success. In Waitrose branches we are reducing management numbers and creating new flexible team structures with broader responsibilities. In John Lewis we are adapting the business to allow us to better serve our customers as their needs change. We are also moving from running some of our key support operations on a divisional basis and consolidating them to create leaner and more efficient Group functions across Finance, Personnel and IT. We have incurred exceptional charges of £56.4m in the first half of the year, mainly for restructuring and redundancy costs.

We have also continued to invest in pay, with the average hourly rate of pay for non-management Partners increasing to £8.87 after the April 2017 pay review. Since the year end, we have entered into discussions with HMRC with regards to our pay arrangements which have technically not complied with the National Minimum Wage regulations. As we work through this we continue to hold a provision, as described in our full year results.

(7) Pension accounting charges are £9.2m higher and long leave accounting charges are £12.5m lower than the six months ended July 2016, largely due to volatility in the market driven assumptions used to determine the respective costs

Our strategy has three main objectives: 1) stronger brands and new growth; 2) better jobs, for better performing Partners, on better pay; and 3) financial sustainability.

Stronger brands and new growth

There are three aspects to this objective. The first is developing an increasingly distinct product proposition loved by customers. During the first half year we launched our first in-house denim lifestyle brand for women – AND/OR – and our first Spring/Summer collection for modern rarity in John Lewis, while in Waitrose we successfully re-launched our Food to Go range and a significant proportion of our Ready Meal range. The John Lewis own brand developments continue to perform comfortably ahead of our expectations and across the total John Lewis product mix, the John Lewis brand is the number one in total sales. In Waitrose, our essential Waitrose brand makes up 21% of sales by volume.

Secondly, we are systematically improving the quality of the experience and service proposition across both Waitrose and John Lewis. In Waitrose, 68 of our branches have received investment in the first half of this year, including the roll-out of fresh sushi counters which are now in over 50 of our branches. In John Lewis, large-scale refurbishments are underway in Nottingham and Edinburgh as well as 43 propositional enhancement projects across our full estate and our most service-led and experiential shop to date will open in Oxford in October this year.

Thirdly, we are extending the use of technology to enhance our ability to engage customers directly in shops and across all channels. Before our Peak trading period, we will continue the roll-out of Partner hand-held devices across all of our shops, which provide product information, stock enquiries and direct ordering capability, providing a platform for a range of enhanced customer services. Waitrose has also successfully trialled and will roll-out multi-functional devices in branches to make life easier for Partners and increase efficiency. We are also rolling out 'auto-check in' technology across Waitrose to support Click & Collect, which now accounts for over half of all John Lewis online orders.

The second half year will see acceleration in all of these areas, with a major campaign on essential Waitrose, where we are lowering the price of hundreds of lines, and Only Here - our high impact visual Autumn/Winter John Lewis campaign, which launched on 1 September.

Better jobs, for better performing Partners, on better pay

We have anticipated major and accelerating changes in the workplace as a result of technology changing both the way customers shop and how Partners add most value. It has never been more important that we equip Partners for the changing nature of work. We are taking several steps to address this including providing more time for development and strengthening career development support.

In the first half year, sales per average FTE⁽⁸⁾ Partner increased by 7.1% to £90,200. Partners have worked hard and been resourceful in achieving this, and were assisted by deployment of more technology and the introduction of more productive ways to organise and to operate the Group.

We have continued to invest in pay. Average hourly pay for non-management Partners increased to £8.87 following the pay review in April.

The second half year will see acceleration across this theme, including a re-launch of our Partner Development website and the creation of nine apprenticeship schemes covering areas such as retail and hospitality management, and distribution operations. We have already launched LGV Driver and Vehicle Maintenance Technician apprenticeships and plan to launch another four schemes by the autumn meaning that we are on track to have 500 apprentices enrolled by March 2018.

(8) Full time equivalent

Financial sustainability

We continue to target a long-term Debt ratio⁽⁹⁾ of around three times. To strengthen our balance sheet we made £83.7m of pension deficit reduction contributions and acquired the freehold of one of our trading branches at a cost of £22.1m, thereby reducing our future operating lease commitments. In August 2017, given the Group's strong liquidity position, we made a cash payment of £53.6m to the pension scheme to prepay approximately five months of normal contributions. Net debt has reduced by 28.4% compared to last year.

Despite this, we continue to expect, our Debt ratio to worsen at January 2018 compared to last year due to the challenging trading conditions combined with the impact of higher pension accounting charges and restructuring costs as we adapt the Group for the future. Our Debt ratio will also be impacted by the accounting pension deficit at January 2018, which will be determined using market interest rates at that time.

Outlook 2017/18

For the first six weeks of the second half, Group gross sales were up 2.4%. Waitrose gross sales were up 1.2% (0.4% like-for-like, excluding fuel) and John Lewis gross sales were up 4.5% (2.6% like-for-like). We are well set for our all-important seasonal peak, but expect the headwinds that have dampened consumer demand and put pressure on margins to continue into next year.

Our full year profits will depend, as they always do, on the final quarter which typically accounts for well over half of our profits before exceptional items. We expect margin pressure to continue into the second half year and we will incur higher pension accounting charges, as a result of low market interest rates at the start of the year. These will impact our overall profits.

Financial Results

In the first six months of the year, Group gross sales were £5.40bn, an increase of £120.8m, or 2.3%, on last year. Revenue was £4.78bn, up by £105.0m or 2.2%.

Group operating profit was £69.0m, down £44.7m, or 39.3% on last year. This includes an exceptional charge of £56.4m, as explained in the table below (2016/17 exceptional charge of £30.1m). Group operating profit before exceptional items was £125.4m, down £18.4m or 12.8% on last year.

Exceptional items	2017/18 £m	2016/17 £m
Restructuring and redundancy (a)	(55.5)	(5.1)
Strategic review (b)	(0.9)	(25.0)
	<u>(56.4)</u>	<u>(30.1)</u>

- a) Charge of £55.5m for restructuring and redundancy costs, principally in relation to our branch, distribution and retail operations as well as functional restructurings in Finance, Personnel and IT, as we move from divisional to Group functions.
- b) Charge of £0.9m in Waitrose for a further write-down of a property that is no longer intended to be developed following the strategic review carried out during the prior year.

Profit before tax was £26.9m, down £30.5m, or 53.1% on last year. Excluding the exceptional items it was £83.3m, down £4.2m or 4.8%.

⁽⁹⁾ The Debt ratio is a measure of the Group's total debt relative to its cash flow and stood at 4.0x on 28 January 2017. For definition see page 3 of our 2017 Annual Report and Accounts

Waitrose

Gross sales were up by 2.3% to £3.32bn and like-for-like sales were up 0.7%. Operating profit before exceptional items was down by 17.4%, held back by lower margin due to higher cost prices, very few of which were passed on to our customers. However this was offset by strong cost control across Waitrose including significant improvements in productivity.

Our Head Office costs were down 2.4% on last year and we saw an improvement in productivity in our shops, with items sold per hour up by 1.6%. Improved branch productivity is being driven by the successful roll-out of our flexible working programme. This has been happening throughout the first half of the year and will be completed by the end of September. This new model enables Partners to work across the entire shop where appropriate so that we can be even more responsive to customer needs. The early signs are encouraging both in terms of customer feedback and in productivity uplift.

In line with our strategy of investing more heavily in our existing estate we are on track to achieve a range of improvements in 130 of our branches, with 68 having received investment in the first half of this year. A further 62 are due to receive investment in the second half of the year.

Food service is an important strategic focus as it gives customers additional reasons to visit our branches. We have appointed our first-ever Director of Food Service to build on our progress to date - which includes sushi counters in over 50 branches - and to develop the capabilities to achieve our potential in this market. We have also invested significantly in our website, including in a more efficient and intuitive search facility. Our e-commerce grocery operation made good progress with our continued priority of growing our loyal core of online customers helping to build profitable sales growth of 4.3%. Our convenience shops also achieved strong results with sales up by 14.6% and 3.3% on a like-for-like basis.

Overseas, we export Waitrose products to 58 countries, and sales were up 9.1%, achieved through additional volume with existing customers.

The essential Waitrose range remains a strong differentiator. We have just launched a major campaign to remind customers of the quality and value of essential Waitrose, highlighted by lower prices on hundreds of lines.

In the half year we opened two convenience shops in Faringdon and Bromsgrove as well as a core supermarket in Haywards Heath. We have since opened convenience shops in Addlestone and, today, at Finchley Central. We closed our convenience shops in Cardiff, Queen Street and Palmers Green. We will be opening two more branches in Winchmore Hill and Banbury in the second half and closing four more branches in line with our previous announcement.

Looking ahead we continue to focus on our Waitrose points of difference by developing new products and further enhancing our customer experience through our team of Partners. We are well placed for Christmas trading with a high quality range of inspiring and delicious food for the festive period.

John Lewis

In a market that remains challenging, John Lewis has delivered gross sales of £2.07bn, up 2.3% and like-for-like sales up 0.1%. We have also grown market share and customer numbers. Operating profit before exceptional items increased by 38.7% to £50.2m. This included property profits of £10.5m, and after excluding these, it grew 9.7% to £39.7m.

Sales during the Clearance period were particularly strong, with a compelling customer offer, up 4.5% compared to last year, with EHT a standout up 8.1%.

In the first half year, Fashion was up 3.5%, gaining market share, with standout performances in Womenswear, up 5.8%, and Beauty, up 10.0%. Despite a tougher market, Home sales remained flat. EHT was up 2.5%, supported by strong sales in Communication Technology, up 10.4%, with Wearable Technology, Mobile, and Imaging performing well.

Online sales represented 37.3% of total merchandise sales, up from 34.5% last year. We maintained our investment across all online channels, with the roll-out of mobile-optimised online buying guides and plans to launch digital myJL gift vouchers available to customers via our app later this year.

Our shops are an invitation to customers to experience our brand and as part of our Summer-long National Treasures campaign, we hosted more than 150 customer events in our shops. These included customer styling sessions with Vogue, bespoke afternoon tea in our Wedgwood Tea Room at Peter Jones, and scent and wellbeing workshops.

We integrated Fashion into our 50,000 sq ft cutting edge photography and content studio based in Origin Park, London, enabling us to respond faster than ever to the growing customer demand for inspirational, design-led content.

Only Here, our high impact visual Autumn/Winter campaign, launched on 1 September. It supports our ambition for 50% of our products to be exclusive to John Lewis, and celebrates the very best of our new season products, collections and brands that can only be found at John Lewis.

In addition to the roll-out of Partner hand-held devices across all of our shops, we are introducing new initiatives to enhance the customer experience including: two hour delivery slots, self-service Click & Collect kiosks in Waitrose and the ability to see more detailed product information and branch stock availability through the John Lewis app.

We are confident that our relentless focus on the customer and differentiating our brand from our competitors will set us up for success in the second half, where the majority of our sales and profit are delivered.

Group

Group includes the net operating costs for our Group offices and shared services, Group-wide initiatives and transformation programmes, our JLP Ventures operations, and certain pension operating costs. Overall net costs (before exceptional items) increased by £11.2m to £25.6m, largely due to the increase in pension operating costs.

Investment in the future

Capital investment in the first half of the year was £171.2m, a decrease of £29.3m (14.6%) on the previous year. This includes £22.1m for the acquisition of the freehold for one of our trading branches, and excluding this, our operating capital investment was £149.1m, a decrease of £51.4m (25.6%). We expect our full year operating capital investment to also remain below the previous year's spend.

Investment in Waitrose was £61.1m, down £13.3m (17.9%) on the previous year, and in John Lewis investment was £78.1m, down £37.6m (32.5%). Our investment continues to be focussed in IT and distribution, which now represents 62% of our operating capital investment, up from 55% last year.

Pensions

The pension operating cost was £107.5m, an increase of £11.1m or 11.5% on the prior year costs, reflecting the substantial decline in the real discount rate used to determine the cost to -0.50% at the beginning of the year from 0.70% at the beginning of the previous year, partly offset by the impact of our move to a hybrid defined benefit and defined contribution pension scheme in April last year. Pension finance costs were £12.9m, a decrease of £1.9m or 12.8% on the prior year, reflecting a reduction in the nominal discount rate used to determine the finance cost at the beginning of the year from the beginning of the previous year. As a result, total pension costs were £120.4m, an increase of £9.2m or 8.3% on the prior year. We expect that our full year total pension costs will be approximately £25m higher than the previous year.

Following the conclusion of the triennial actuarial valuation of our defined benefit pension scheme at 31 March 2016, we agreed the ongoing contribution rate for the defined benefit pension of 10.4% of members' gross taxable pay, down from 16.4%, and put in place a plan to eliminate the deficit of £479m over a 10 year period. As a result, in the first half of the year, we made deficit reduction contributions of £83.7m, and our total cash contributions to the pension scheme totalled £138.9m, a decrease of £0.4m or 0.3% on the previous year. At 29 July 2017, the estimated actuarial pension deficit has reduced to £290m.

The total accounting pension deficit at 29 July 2017 was £1,042.3m, an increase of £28.6m (2.8%) since 28 January 2017. Net of deferred tax, the deficit was £881.3m, an increase of £23.8m (2.8%). Pension fund assets increased by £237.4m (4.7%) to £5,282.7m, while the accounting valuation of pension fund liabilities increased by £266.0m (4.4%) to £6,325.0m.

Financing

At 29 July 2017, net debt was £317.0m, £125.7m (28.4%) lower than 30 July 2016, reflecting our focus on cash generation and the reduction in capital investment. Net debt is £170.6m (116.5%) higher than January 2017, as expected due to seasonality of our cash flows.

Net finance costs on borrowings and investments decreased by £0.6m (2.1%) to £28.0m. After including the financing elements of pensions and long service leave and non-cash fair value adjustments, net finance costs decreased by £14.2m (25.2%) to £42.1m.

Sustainability

We are clear about our responsibilities as a retailer and have made significant progress across our broad strategic aims: to be the happiest, healthiest retailer; to enhance community wellbeing; to source and sell with integrity; and to deliver more with less.

Waitrose made advances in its aim for all own brand packaging to be widely recyclable, reusable or home compostable by 2025. We also donated £500,000 from the carrier bag fund to the Marine Conservation Society to support beach and river clean ups during 2017 and 2018, in addition to our ongoing support for the UK Dementia Research Institute.

John Lewis continued to demonstrate leadership on the Human Rights agenda. In August, we released the names and addresses of the factories where all our own brand clothing, accessories, footwear and homeware products are made in support of better transparency in the retail sector as part of the Clean Clothes Campaign. Further to that, as part of an ambitious circular economy strategy, through the Furniture Reuse Network, John Lewis also collected and re-used over 1,000 sofas. We also trialled a responsible recycling scheme for used laptops, mobile phones, tablets and PCs, collaborating with the British Heart Foundation as part of a wider EU initiative to address critical raw material recycling.

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Notes to editors

The **John Lewis Partnership** operates 48 John Lewis shops across the UK, johnlewis.com, 353 Waitrose shops, waitrose.com and business to business contracts in the UK and abroad. The business has annual gross sales of over £11bn. It is the UK's largest example of an employee-owned business where all 84,000 staff are Partners in the business.

Waitrose has 353 shops in England, Scotland, Wales and the Channel Islands, including 65 convenience branches, and another 27 shops at Welcome Break locations. It combines the convenience of a supermarket with the expertise and service of a specialist shop - dedicated to offering quality food that has been responsibly sourced, combined with high standards of customer service. Waitrose also exports products to 58 countries worldwide and has eight shops which operate under licence in the Middle East. Waitrose's omnichannel business includes the online grocery service, waitrose.com, as well as specialist online shops including waitrosecellar.com for wine and waitroseflorist.com for plants and flowers.

In recent months, Waitrose has been awarded the much-coveted European-wide Compassion in World Farming '*Best Retailer Award*', Soil Association's '*Best Organic Supermarket Award 2017*' and The Drinks Business' '*Retail Buying Team of the Year Award*'.

John Lewis operates 48 John Lewis shops across the UK (34 department stores, 12 John Lewis at home and shops at St Pancras International and Heathrow Terminal 2) as well as johnlewis.com. John Lewis, 'Best In-Store Experience 2017', 'Best Furniture Retailer 2017', 'Best Homewares Retailer 2017'* stocks around 350,000 separate lines in its department stores and johnlewis.com across fashion, home and technology. [Johnlewis.com](http://johnlewis.com) is consistently ranked one of the top online shopping destinations in the UK. John Lewis Insurance offers a range of comprehensive insurance products - home, car, wedding and event, travel and pet insurance and life cover - delivering the values of expertise, trust and customer service expected from the John Lewis brand.

* Verdict Consumer Satisfaction Awards 2017

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www.johnlewis.com/twitter

www.johnlewis.com/facebook

www.johnlewis.com/youtube

Consolidated income statement
for the half year ended 29 July 2017

Notes		Half year to 29 July 2017	Half year to 30 July 2016	Year to 28 January 2017
		£m	£m	£m
5	Gross sales	5,395.1	5,274.3	11,374.2
5	Revenue	4,776.4	4,671.4	10,026.2
	Cost of sales	(3,222.2)	(3,095.4)	(6,633.1)
	Gross profit	1,554.2	1,576.0	3,393.1
	Other operating income	53.4	46.4	92.6
	Operating expenses before exceptional items and Partnership Bonus	(1,481.3)	(1,478.6)	(3,010.3)
	Share of (loss)/profit of joint venture (net of tax)	(0.9)	–	0.3
5	Operating profit before exceptional items and Partnership Bonus	125.4	143.8	475.7
4	Exceptional items	(56.4)	(30.1)	171.2
5	Operating profit before Partnership Bonus	69.0	113.7	646.9
6	Finance costs	(48.5)	(57.8)	(108.6)
6	Finance income	6.4	1.5	1.9
	Profit before Partnership Bonus and tax	26.9	57.4	540.2
	Partnership Bonus	–	–	(89.4)
	Profit before tax	26.9	57.4	450.8
7	Taxation	(7.9)	(15.0)	(97.9)
	Profit for the period	19.0	42.4	352.9
5	<i>Profit before Partnership Bonus, tax and exceptional items</i>	<i>83.3</i>	<i>87.5</i>	<i>369.0</i>

Consolidated statement of comprehensive income/(expense)
for the half year ended 29 July 2017

Notes		Half year to 29 July 2017	Half year to 30 July 2016	Year to 28 January 2017
		£m	£m	£m
	Profit for the period	19.0	42.4	352.9
	Other comprehensive (expense)/income:			
	Items that will not be reclassified to profit or loss:			
11	Remeasurement of defined benefit pension scheme	(82.8)	(564.0)	(432.6)
7	Movement in deferred tax on pension scheme	(2.0)	101.5	46.1
7	Movement in current tax on pension scheme	16.1	–	24.7
	Items that may be reclassified subsequently to profit or loss:			
	Net (loss)/gain on cash flow hedges	(8.7)	14.0	(1.1)
7	Movement in deferred tax on cash flow hedges	1.5	(2.7)	0.3
	Loss on currency translations	–	(0.4)	(0.6)
	Other comprehensive expense for the period	(75.9)	(451.6)	(363.2)
	Total comprehensive expense for the period	(56.9)	(409.2)	(10.3)

Consolidated balance sheet
as at 29 July 2017

Notes		29 July 2017 £m	30 July 2016 £m	28 January 2017 £m
	Non-current assets			
8	Intangible assets	448.6	402.1	432.7
8	Property, plant and equipment	4,013.6	4,146.3	4,112.4
	Trade and other receivables	60.9	64.6	61.2
14	Derivative financial instruments	2.0	–	0.1
	Investment in and loans to joint venture	3.0	–	3.9
	Deferred tax asset	56.0	133.6	48.2
		4,584.1	4,746.6	4,658.5
	Current assets			
	Inventories	608.1	589.6	627.8
	Trade and other receivables	284.1	258.0	242.6
	Current tax receivable	1.9	–	–
14	Derivative financial instruments	7.2	25.6	15.3
9	Assets held for sale	8.3	6.8	8.1
	Short-term investments	60.0	25.0	60.0
	Cash and cash equivalents	510.8	403.8	673.7
		1,480.4	1,308.8	1,627.5
	Total assets	6,064.5	6,055.4	6,286.0
	Current liabilities			
13	Borrowings and overdrafts	–	(0.3)	–
	Trade and other payables	(1,521.3)	(1,523.6)	(1,745.6)
	Current tax payable	–	(17.6)	(18.6)
13	Finance lease liabilities	(0.9)	(1.5)	(1.2)
10	Provisions	(205.5)	(118.3)	(167.7)
14	Derivative financial instruments	(7.9)	(3.5)	(7.2)
		(1,735.6)	(1,664.8)	(1,940.3)
	Non-current liabilities			
13	Borrowings	(864.3)	(867.9)	(862.7)
	Trade and other payables	(226.6)	(218.1)	(219.7)
13	Finance lease liabilities	(23.0)	(23.9)	(23.3)
10	Provisions	(175.3)	(172.5)	(171.8)
14	Derivative financial instruments	(0.9)	–	(1.1)
11	Retirement benefit obligations	(1,042.3)	(1,453.7)	(1,013.7)
		(2,332.4)	(2,736.1)	(2,292.3)
	Total liabilities	(4,068.0)	(4,400.9)	(4,232.6)
	Net assets	1,996.5	1,654.5	2,053.4
	Equity			
	Share capital	6.7	6.7	6.7
	Share premium	0.3	0.3	0.3
	Other reserves	1.8	21.3	9.0
	Retained earnings	1,987.7	1,626.2	2,037.4
	Total equity	1,996.5	1,654.5	2,053.4

Consolidated statement of changes in equity
for the half year ended 29 July 2017

Notes	Share capital	Share premium	Capital reserve	Hedging reserve	Foreign currency translation reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m
	6.7	0.3	1.4	8.9	0.1	2,046.3	2,063.7
	–	–	–	–	–	42.4	42.4
//	–	–	–	–	–	(564.0)	(564.0)
	–	–	–	21.1	–	–	21.1
– transfers to inventories	–	–	–	(7.5)	–	–	(7.5)
– transfers to property, plant and equipment	–	–	–	0.4	–	–	0.4
Tax on above items recognised in equity	–	–	–	(2.7)	–	101.5	98.8
Loss on currency translations	–	–	–	–	(0.4)	–	(0.4)
Balance at 30 July 2016	6.7	0.3	1.4	20.2	(0.3)	1,626.2	1,654.5
	6.7	0.3	1.4	8.9	0.1	2,046.3	2,063.7
	–	–	–	–	–	352.9	352.9
//	–	–	–	–	–	(432.6)	(432.6)
	–	–	–	(30.3)	–	–	(30.3)
– transfers to inventories	–	–	–	28.2	–	–	28.2
– transfers to property, plant and equipment	–	–	–	1.0	–	–	1.0
Tax on above items recognised in equity	–	–	–	0.3	–	70.8	71.1
Loss on currency translations	–	–	–	–	(0.6)	–	(0.6)
Balance at 28 January 2017	6.7	0.3	1.4	8.1	(0.5)	2,037.4	2,053.4
	–	–	–	–	–	19.0	19.0
//	–	–	–	–	–	(82.8)	(82.8)
	–	–	–	(1.4)	–	–	(1.4)
– transfers to inventories	–	–	–	(7.3)	–	–	(7.3)
Tax on above items recognised in equity	–	–	–	1.5	–	14.1	15.6
Balance at 29 July 2017	6.7	0.3	1.4	0.9	(0.5)	1,987.7	1,996.5

Consolidated statement of cash flows
for the half year ended 29 July 2017

<i>Notes</i>	Half year to 29 July 2017	Half year to 30 July 2016	Year to 28 January 2017
	£m	£m	£m
<i>12</i> Cash generated from operations before Partnership Bonus	182.9	203.7	908.2
Net taxation paid	(21.4)	(25.3)	(49.8)
Pension deficit reduction payments	(83.7)	–	(124.8)
Finance costs paid	(0.5)	(0.6)	(2.4)
Net cash generated from operating activities before Partnership Bonus	77.3	177.8	731.2
Partnership Bonus paid	(89.1)	(144.5)	(144.8)
Net cash (used in)/generated from operating activities after Partnership Bonus	(11.8)	33.3	586.4
Cash flows from investing activities			
Purchase of property, plant and equipment	(102.0)	(131.2)	(265.6)
Purchase of intangible assets	(69.2)	(69.3)	(153.7)
Proceeds from sale of property, plant and equipment and intangible assets	45.0	1.9	13.7
Finance income received	0.6	1.1	1.7
Cash outflow from investment in and loans to joint venture	–	–	(3.6)
Cash outflow from short-term investments	–	(15.0)	(50.0)
Net cash used in investing activities	(125.6)	(212.5)	(457.5)
Cash flows from financing activities			
Finance costs paid in respect of bonds	(23.0)	(24.9)	(56.0)
Finance costs paid in respect of interest rate swaps	(1.9)	–	–
Payment of capital element of finance leases	(0.6)	(1.9)	(2.8)
Payments to preference shareholders	–	–	(0.4)
Cash outflow from borrowings	–	(57.8)	(63.4)
Net cash used in financing activities	(25.5)	(84.6)	(122.6)
(Decrease)/increase in net cash and cash equivalents	(162.9)	(263.8)	6.3
Net cash and cash equivalents at beginning of the period	673.7	667.3	667.3
Effect of exchange rate changes on cash and cash equivalents	–	–	0.1
Net cash and cash equivalents at end of the period	510.8	403.5	673.7
Net cash and cash equivalents comprise:			
Cash at bank and in hand	119.5	117.0	115.2
Short-term deposits	391.3	286.8	558.5
Bank overdrafts	–	(0.3)	–
	510.8	403.5	673.7

Notes to the financial statements

I Basis of preparation

This condensed set of interim financial statements was approved by the Board on 13 September 2017. 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 29. 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 30 July 2016 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 29 July 2017 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 28 January 2017 has 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 29 July 2017 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and 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 Annual Report and Accounts for the year ended 28 January 2017, which has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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.

Supplier income

Within trade receivables is accrued rebate income of £23.9m (28 January 2017: £9.8m, 30 July 2016: £18.6m). During the interim period, supplier income was received in line with estimates recorded at 28 January 2017. There has been no change in the criteria used to recognise supplier income, though at the half year specific judgement is required to estimate the amount that will be received from suppliers in relation to annual agreements. These judgements have been based on management's best estimates of full year purchases using the latest information available.

2 Accounting policies

The Group's results for the half year to 29 July 2017 have been prepared on a basis consistent with the Group's accounting policies published in the financial statements for the year ended 28 January 2017.

Restatement

In assessing whether income and expense items met the Group's criteria as exceptional for the year to 28 January 2017, restructuring and redundancy costs totalling £0.7m in Waitrose, £3.8m in John Lewis and £0.6m in Partnership Services and Group which were reflected as non-exceptional operating expenses in the half year to 30 July 2016, were subsequently reclassified to exceptional. This has resulted in an increase in Exceptional items from £25.0m as previously reported to £30.1m and an increase in Operating profit before exceptional items and Partnership Bonus from £138.7m as previously reported to £143.8m as at 30 July 2016.

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 32 to 35 of the John Lewis Partnership Annual Report and Accounts 2017, a copy of which is available on the Partnership's website www.johnlewispartnership.co.uk.

The Partnership 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. The Partnership added one further risk to its principal risk portfolio, Ownership model strain, with all other risks remaining relevant for the second half of the financial year.

- Competition: failure to deliver our customer promise and not maintain our competitive advantage due to: competitor actions putting pressure on market value, our margin and threatening our volumes in grocery; and the growth of online business models in the general merchandise sector, mean customers focus more on value for money and less on loyalty;
- Operating model strain: increasing external pressures such as the ongoing move to online and increased spend on IT (depreciation) create strain on our operating model;
- Information security: a breach of Partner or customer data due to the external threat to cause disruption or access sensitive data;
- Pension obligations: increases in the pension liabilities, driven by an increase 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 to time, budget and quality, ability to manage, and ability to embed the change into the business and realise the benefits;
- Economic environment: external economic pressures, due to the impact of government policy, Brexit, a static economy and a lack of pay increases, reduce our customers' spending power and harm our suppliers' financial resilience; and
- Ownership model strain: decisions and leadership actions undertaken in the current commercial context, whilst securing the economic success of the business, could unconsciously impact Partners' belief in, and commitment to, our co-ownership model. The resulting reduction in Partner engagement could compromise individual Partner performance, collective productivity and brand advocacy (Principle 1), thus losing the competitive advantage of our co-ownership model.

4 Exceptional items

	Half year to 29 July 2017		Half year to 30 July 2016		Year to 28 January 2017	
	Operating expenses £m	Taxation £m	Operating expenses £m	Taxation £m	Operating (expenses)/ income £m	Taxation £m
Restructuring and redundancy (a)	(55.5)	10.2	(5.1)	1.0	(20.7)	3.9
Strategic review (b)	(0.9)	–	(25.0)	–	(42.9)	5.1
Reduction in pension obligation (c)	–	–	–	–	270.0	(48.6)
Pay provision (d)	–	–	–	–	(36.0)	7.1
Profit on disposal of items previously recognised as exceptional (e)	–	–	–	–	0.8	(0.1)
	(56.4)	10.2	(30.1)	1.0	171.2	(32.6)

At 29 July 2017, the Group recognised an exceptional charge of £56.4m, as follows:

- a) A charge of £55.5m for restructuring and redundancy costs, principally in relation to our branch, distribution and retail operations as well as functional restructurings in Finance, Personnel and IT, as we move from divisional to Group functions.
- b) A charge of £0.9m in Waitrose for a further write-down of a property that is no longer intended to be developed following the strategic review carried out during the prior year.

At 28 January 2017, the Group recognised the following items as exceptional income and expenses:

- a) Exceptional restructuring and redundancy costs of £20.7m were recognised principally in relation to distribution and contact centres and head office operations.
- b) Following a strategic review, the Group recognised an exceptional charge of £42.9m in Waitrose. This is in relation to the write-down of property, other assets and related costs that are no longer intended to be developed or are now being exited. £27.5m relates to strategic land holdings, £13.9m relates to stores, and abortive property project costs and £1.5m relates to other assets.
- c) On 20 January 2017, the Group announced a change to the annual discretionary increase for pension in retirement built up before 6 April 1997, resulting in an exceptional past service credit in the year to 28 January 2017 of £270.0m.
- d) An exceptional charge of £36.0m was recorded in relation to payments and associated costs in connection with some of our pay practices which have technically not complied with the National Minimum Wage (NMW) Regulations. This charge principally relates to payments that are required to be made to recipient Partners and former Partners for the previous six years. This has come about in the main because our pay averaging arrangements do not meet the strict timing requirements of the NMW Regulations; although Partners will, over the course of a year, usually have received the correct pay, in some months where greater than average hours are worked they will have been paid less than the hourly rate stipulated in the NMW Regulations.

Since the 28 January 2017 year end, the Group has entered into discussions with HMRC with regards to our pay arrangements. The complexity involved in applying the NMW Regulations to our pay arrangements means that the ultimate resolution of the liability may result in an amount that is different from our best estimate and any difference will be reflected in the period in which new information becomes available.

4 Exceptional items (continued)

- e) Exceptional operating income of £0.8m was recognised on finalisation of a prior year property disposal, which was previously recorded as exceptional.

In assessing whether income and expense items met the Group's criteria as exceptional for the year to 28 January 2017, restructuring and redundancy costs totalling £0.7m in Waitrose, £3.8m in John Lewis and £0.6m in Partnership Services and Group which were reflected as non-exceptional operating expenses in the half year to 30 July 2016, were subsequently reclassified to exceptional. Refer to note 2 for further details.

5 Segmental reporting

The Group's three reporting segments are Waitrose, John Lewis and Group. The activities of Partnership Services became part of the responsibility of the Group Division on 29 January 2017. Prior to this, the Group reporting segment was known as Partnership Services and Group. The Group reporting segment includes the operating costs for our Group offices and shared services, costs for transformation programmes, our JLP Ventures operations, and certain pension operating costs. The operating profit 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.

Waitrose's 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 business.

5 Segmental reporting (continued)

	Waitrose	John Lewis	Group	Total
	£m	£m	£m	£m
Half year to 29 July 2017				
Gross sales	3,324.2	2,070.9	–	5,395.1
Adjustment for sale or return sales	–	(110.4)	–	(110.4)
Value added tax	(193.1)	(315.2)	–	(508.3)
Revenue	3,131.1	1,645.3	–	4,776.4
Operating profit before exceptional items, Partnership Bonus and profit on sale of property ¹	99.9	39.7	(25.6)	114.0
Profit on sale of property	0.9	10.5	–	11.4
Operating profit before exceptional items and Partnership Bonus	100.8	50.2	(25.6)	125.4
Exceptional items	(12.7)	(21.1)	(22.6)	(56.4)
Operating profit before Partnership Bonus	88.1	29.1	(48.2)	69.0
Finance costs				(48.5)
Finance income				6.4
Profit before tax				26.9
Taxation				(7.9)
Profit for the period				19.0
<i>Profit before Partnership Bonus, tax and exceptional items</i>				<i>83.3</i>
29 July 2017				
Segment assets	2,865.4	2,066.3	1,132.8	6,064.5
Segment liabilities	(772.9)	(803.5)	(2,491.6)	(4,068.0)
Net assets/(liabilities)	2,092.5	1,262.8	(1,358.8)	1,996.5

¹Included within Operating profit before exceptional items, Partnership Bonus and profit on sale of property is a share of loss of joint venture of £0.9m (28 January 2017: £0.3m profit; 30 July 2016: £nil).

5 Segmental reporting (continued)

	Waitrose	John Lewis	Partnership Services and Group	Total
	£m	£m	£m	£m
Half year to 30 July 2016				
Gross sales	3,250.6	2,023.7	–	5,274.3
Adjustment for sale or return sales	–	(106.7)	–	(106.7)
Value added tax	(186.2)	(310.0)	–	(496.2)
Revenue	3,064.4	1,607.0	–	4,671.4
Operating profit before exceptional items, Partnership Bonus and profit on sale of property	121.5	36.2	(14.4)	143.3
Profit on sale of property	0.5	–	–	0.5
Operating profit before exceptional items and Partnership Bonus	122.0	36.2	(14.4)	143.8
Exceptional items	(25.7)	(3.8)	(0.6)	(30.1)
Operating profit before Partnership Bonus	96.3	32.4	(15.0)	113.7
Finance costs				(57.8)
Finance income				1.5
Profit before tax				57.4
Taxation				(15.0)
Profit for the period				42.4
<i>Profit before Partnership Bonus, tax and exceptional items</i>				<i>87.5</i>
30 July 2016				
Segment assets	2,955.9	2,096.8	1,002.7	6,055.4
Segment liabilities	(777.4)	(790.1)	(2,833.4)	(4,400.9)
Net assets/(liabilities)	2,178.5	1,306.7	(1,830.7)	1,654.5

5 Segmental reporting (continued)

	Waitrose	John Lewis	Partnership Services and Group	Total
	£m	£m	£m	£m
Year to 28 January 2017				
Gross sales	6,633.2	4,741.0	–	11,374.2
Adjustment for sale or return sales	–	(229.2)	–	(229.2)
Value added tax	(387.7)	(731.1)	–	(1,118.8)
Revenue	6,245.5	3,780.7	–	10,026.2
Operating profit before exceptional items, Partnership Bonus and profit on sale of property ¹	252.7	241.5	(21.0)	473.2
Profit on sale of property	0.8	1.7	–	2.5
Operating profit before exceptional items and Partnership Bonus	253.5	243.2	(21.0)	475.7
Exceptional items	(47.3)	(11.8)	230.3	171.2
Operating profit before Partnership Bonus	206.2	231.4	209.3	646.9
Finance costs				(108.6)
Finance income				1.9
Partnership Bonus				(89.4)
Profit before tax				450.8
Taxation				(97.9)
Profit for the year				352.9
<i>Profit before Partnership Bonus, tax and exceptional items</i>				<i>369.0</i>
28 January 2017				
Segment assets	2,946.1	2,136.9	1,203.0	6,286.0
Segment liabilities	(789.5)	(908.7)	(2,534.4)	(4,232.6)
Net assets/(liabilities)	2,156.6	1,228.2	(1,331.4)	2,053.4

¹Included within Operating profit before exceptional items, Partnership Bonus and profit on sale of property is a share of profit of joint venture of £0.3m.

6 Net finance costs

	Half year to 29 July 2017	Half year to 30 July 2016	Year to 28 January 2017
	£m	£m	£m
Finance costs			
Finance costs in respect of borrowings	(30.9)	(29.4)	(58.8)
Fair value measurements and other	(1.2)	(2.4)	(2.8)
Net finance costs arising on defined benefit and other employee benefit schemes	(16.4)	(26.0)	(47.0)
Total finance costs	(48.5)	(57.8)	(108.6)
Finance income			
Finance income in respect of cash and short-term investments	2.9	0.8	1.7
Fair value measurements and other	3.5	0.7	0.2
Total finance income	6.4	1.5	1.9
Net finance costs	(42.1)	(56.3)	(106.7)

	Half year to 29 July 2017	Half year to 30 July 2016	Year to 28 January 2017
	£m	£m	£m
Finance costs in respect of borrowings, excluding interest rate swaps	(28.9)	(29.4)	(58.8)
Net interest receivable in respect of interest rate swaps	0.3	–	–
Finance income in respect of cash and short-term investments, excluding interest rate swaps	0.6	0.8	1.7
Net finance costs in respect of borrowings and short-term investments	(28.0)	(28.6)	(57.1)
Fair value measurements and other	2.3	(1.7)	(2.6)
Net finance costs arising on defined benefit retirement scheme	(12.9)	(26.0)	(29.6)
Net finance costs arising on other employee benefit schemes	(3.5)	–	(17.4)
Net finance costs	(42.1)	(56.3)	(106.7)

7 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. Legislation to reduce the standard rate of corporation tax from 18% to 17% from 1 April 2020 was included in the Finance Bill 2016 and substantively enacted on 6 September 2016.

8 Property, plant and equipment and Intangible assets

	Property, plant and equipment	Intangible assets	Total
	£m	£m	£m
Net book value at 28 January 2017	4,112.4	432.7	4,545.1
Additions	88.2	69.2	157.4
Depreciation and amortisation *	(153.4)	(53.3)	(206.7)
Disposals and write-offs	(25.3)	–	(25.3)
Transfers to assets held for sale	(8.3)	–	(8.3)
Net book value at 29 July 2017	4,013.6	448.6	4,462.2

* Depreciation and amortisation for the period ending 29 July 2017 includes a net impairment charge of £8.2m (£9.0m net impairment charge to land and buildings, and £0.8m net impairment reversal to intangible assets).

Intangible assets primarily relate to internally developed computer software.

The impairment review methodology is unchanged from that described in the Annual Report and Accounts for the year ended 28 January 2017.

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% to 8% (28 January 2017: 7% to 9%; 30 July 2016: 8% to 9%).

9 Assets held for sale

At 29 July 2017, one property asset is recorded as held for sale totalling £8.3m in the Waitrose Division. It is expected to be disposed of within 12 months.

At 28 January 2017, one property asset was recorded as held for sale totalling £8.1m in the John Lewis Division. The property asset was sold in March 2017.

At 30 July 2016, two property assets were recorded as held for sale totalling £6.8m. One property asset was disposed of in December 2016 in the John Lewis Division and one property asset was disposed of in August 2016 in the Waitrose Division.

10 Provisions

	Long leave	Service guarantee	Customer refunds	Insurance claims	Reorganisation	Other	Total
	£m	£m	£m	£m	£m	£m	£m
At 28 January 2017	(140.1)	(64.8)	(35.1)	(26.3)	(16.5)	(56.7)	(339.5)
Charged to income statement	(6.3)	(7.4)	(31.4)	(9.8)	(52.4)	(6.5)	(113.8)
Released to income statement	–	2.8	–	–	3.1	1.6	7.5
Utilised	3.4	6.7	35.1	3.6	9.9	6.3	65.0
At 29 July 2017	(143.0)	(62.7)	(31.4)	(32.5)	(55.9)	(55.3)	(380.8)
Of which:							
Current	(30.2)	(22.8)	(31.4)	(17.2)	(55.3)	(48.6)	(205.5)
Non-current	(112.8)	(39.9)	–	(15.3)	(0.6)	(6.7)	(175.3)

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 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 service guarantee costs reflect the Group's expected liability for future repair costs for warranties and extended warranties based on estimated failure rates and unit repair costs for the classes of goods sold.

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

Provisions for insurance claims are in respect of the Group's employer's, public and vehicle third-party liability insurances and extended warranty products.

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

Provisions for reorganisations reflect restructuring and redundancy costs, principally in relation to our branch, distribution and retail operations as well as functional restructurings as we move from divisional to Group functions.

Other provisions include property related costs and pay provisions.

The exact timing of utilisation of these provisions will vary according to the individual circumstances. However, the Group's best estimate of utilisation is provided above.

II Retirement benefit obligations

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

Pension commitments have been calculated based on the most recent actuarial valuations, as at 31 March 2016, which have been updated by the actuaries to reflect the assets and liabilities of the scheme as at 29 July 2017. The next triennial actuarial valuation of the scheme will take place as at 31 March 2019.

Scheme assets are stated at market value at 29 July 2017.

The following financial assumptions have been used:

	29 July 2017	30 July 2016	28 January 2017
Discount rate	2.60%	2.45%	2.90%
Future retail price inflation (RPI)	3.15%	2.70%	3.40%
Future consumer price inflation (CPI)	2.15%	1.70%	2.40%
Increase in earnings	3.30%	3.17%	3.50%
Increase in pensions - in payment			
Pre-April 1997	1.65%	2.60%	1.75%
April 1997 - April 2016	2.95%	2.60%	3.10%
Post-April 2016	1.65%	1.45%	1.75%
Increase in pensions - deferred	2.15%	1.70%	2.40%

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

	Half year to 29 July 2017	Half year to 30 July 2016	Year to 28 January 2017
	£m	£m	£m
Net defined benefit liability at beginning of period	(1,013.7)	(941.6)	(941.6)
Operating (cost)/credit	(71.8)	(72.6)	140.9
Interest cost on pension liabilities	(86.9)	(94.4)	(187.9)
Interest income on assets	74.0	79.6	158.3
Contributions	138.9	139.3	249.2
Total losses recognised in equity	(82.8)	(564.0)	(432.6)
Net defined benefit liability at end of period	(1,042.3)	(1,453.7)	(1,013.7)

The post-retirement mortality assumptions used in valuing the pension liabilities were based on the 'S2 Light' (28 January 2017: 'S2 Light'; 30 July 2016: '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 (28 January 2017: 127% for males and 106% for females; 30 July 2016: 127% for males and 106% for females). Future improvements in life expectancy have been allowed for in line with the standard CMI model projections subject to a long-term trend of 1.25% (28 January 2017: 1.25%; 30 July 2016: 1.25%).

11 Retirement benefit obligations (continued)

The average life expectancies were as follows:

	29 July 2017		28 January 2017	
	Men	Women	Men	Women
Average life expectancy for a 65 year old (in years)	21.6	24.1	21.6	24.1
Average life expectancy at age 65, for a 50 year old (in years)	22.8	25.5	22.8	25.5

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

	Half year to 29 July 2017	Half year to 30 July 2016	Year to 28 January 2017
	£m	£m	£m
Profit before tax	26.9	57.4	450.8
Amortisation of intangible assets*	53.3	55.0	108.8
Depreciation*	153.4	171.9	319.7
Share of loss/(profit) of joint venture (net of tax)	0.9	–	(0.3)
Net finance costs	42.1	56.3	106.7
Partnership Bonus	–	–	89.4
Fair value losses/(gains) on derivative financial instruments	1.3	(1.0)	(1.9)
(Profit)/loss on disposal of property, plant and equipment and intangible assets	(11.6)	3.8	(0.3)
Decrease/(increase) in inventories	19.7	32.3	(5.9)
Increase in receivables	(39.8)	(33.6)	(15.4)
(Decrease)/increase in payables	(117.7)	(61.5)	89.6
Increase/(decrease) in retirement benefit obligations	16.6	(66.7)	(265.3)
Increase/(decrease) in provisions	37.8	(10.2)	32.3
Cash generated from operations before Partnership Bonus	182.9	203.7	908.2

* Includes net impairment charges and reversals. Refer to note 8.

13 Analysis of net debt

	28 January 2017	Cash flow	Other non– cash movements	29 July 2017
	£m	£m	£m	£m
Non–current assets				
Derivative financial instruments	0.1	–	1.9	2.0
	0.1	–	1.9	2.0
Current assets				
Cash and cash equivalents	673.7	(162.9)	–	510.8
Short-term investments	60.0	–	–	60.0
Derivative financial instruments	15.3	9.1	(17.2)	7.2
	749.0	(153.8)	(17.2)	578.0
Current liabilities				
Finance leases	(1.2)	0.6	(0.3)	(0.9)
Derivative financial instruments	(7.2)	(1.7)	1.0	(7.9)
	(8.4)	(1.1)	0.7	(8.8)
Non–current liabilities				
Borrowings	(875.0)	–	–	(875.0)
Unamortised bond transaction costs	12.3	–	(0.7)	11.6
Fair value adjustment for hedged element on bonds	–	–	(0.9)	(0.9)
Finance leases	(23.3)	–	0.3	(23.0)
Derivative financial instruments	(1.1)	–	0.2	(0.9)
	(887.1)	–	(1.1)	(888.2)
Total net debt	(146.4)	(154.9)	(15.7)	(317.0)

Reconciliation of net cash flow to net debt

	Half year to 29 July 2017	Half year to 30 July 2016	Year to 28 January 2017
	£m	£m	£m
(Decrease)/increase in net cash and cash equivalents in the period	(162.9)	(263.8)	6.3
Cash outflow from movement in debt, lease financing and derivative financial instruments	8.0	59.7	95.4
Cash outflow from short-term investments	–	15.0	50.0
Movement in net debt for the period	(154.9)	(189.1)	151.7
Opening net debt	(146.4)	(266.0)	(266.0)
Non-cash movements	(15.7)	12.4	(32.1)
Closing net debt	(317.0)	(442.7)	(146.4)

14 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 Annual Report and Accounts for the year ended 28 January 2017. During the half year to 29 July 2017, the Group has continued to apply the financial risk management process and policies as detailed in the Annual Report and Accounts for the year ended 28 January 2017.

Valuation techniques and assumptions applied in determining the fair value of each class of asset or liability are consistent with those used as at 28 January 2017 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 29 July 2017, 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 29 July 2017, the net fair value of derivative financial instruments was £0.4m, asset (28 January 2017: £7.1m, asset; 30 July 2016: £22.1m, 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):

	29 July 2017		30 July 2016		28 January 2017	
	£m CV	£m FV	£m CV	£m FV	£m CV	£m FV
Financial liabilities						
Listed bonds	(863.4)	(989.5)	(865.7)	(1,006.9)	(862.7)	(997.3)
Preference Stock	–	–	(2.3)	(2.0)	–	–

The fair values of the Group's listed bonds and Preference Stock have been determined by reference to market price quotations and classified as Level 1 under the IFRS 13 fair value hierarchy. In November 2016, the Group cancelled and repaid its 5% first and 7% Cumulative Preference Stock. For other financial assets and liabilities, there are no material differences between carrying value and fair value.

15 Capital commitments

At 29 July 2017 contracts had been entered into for future capital expenditure of £28.6m (28 January 2017: £19.5m; 30 July 2016: £36.2m) of which £26.8m (28 January 2017: £18.7m; 30 July 2016: £31.9m) relates to property, plant and equipment and £1.8m (28 January 2017: £0.8m; 30 July 2016: £4.3m) relates to intangible assets.

16 Related party transactions

There have been no material changes to the principal subsidiaries listed in the Annual Report and Accounts for the year ended 28 January 2017. 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 29 July 2017.

17 Events after the balance sheet date

On 18 August 2017, the Group made contributions into the pension fund of £53.6m. This was a prepayment of 5 months of normal pension payments for 2017/18. No accounting has been recorded in the period ended 29 July 2017 in respect of these payments.

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

13 September 2017

Independent review report to John Lewis plc

Conclusion

We have been engaged by John Lewis plc (the Company) to review the condensed set of interim financial statements in the half-yearly financial report for the 26 weeks ended 29 July 2017 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 interim financial statements in the half-yearly financial report for the 26 weeks ended 29 July 2017 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 interim 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.

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 interim 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 interim 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
13 September 2017