FINANCIAL STATEMENTS

Results matter

Our results matter to all of us.
In this section, we look at everything we need to know about our 2017/18 financials, from key figures to consolidated statements.

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 27 JANUARY 2018

Notes		2018 £m	2017 £m
1.2, 2.1	**Gross sales**	**11,597.7**	11,374.2
2.1	**Revenue**	**10,204.0**	10,026.2
	Cost of sales	**(6,839.5)**	(6,633.1)
	Gross profit	**3,364.5**	3,393.1
	Other operating income	**111.3**	92.6
2.2	Operating expenses before exceptional items and Partnership Bonus	**(3,114.0)**	(3,007.8)
3.3	Share of (loss)/profit of joint venture (net of tax)	**(1.0)**	0.3
2.1	**Operating profit before exceptional items and Partnership Bonus**	**360.8**	478.2
2.3	Exceptional items	**(111.3)**	171.2
2.1	**Operating profit before Partnership Bonus**	**249.5**	649.4
5.1	Finance costs	**(85.7)**	(109.7)
5.1	Finance income	**14.1**	1.9
	Profit before Partnership Bonus and tax	**177.9**	541.6
	Partnership Bonus	**(74.0)**	(89.4)
2.4	**Profit before tax**	**103.9**	452.2
2.7	Taxation	**(29.8)**	(98.7)
	Profit for the year	**74.1**	353.5
2.1	**Profit before Partnership Bonus, tax and exceptional items**	**289.2**	370.4

OUR EARNED REVENUE MINUS OUR INCURRED EXPENSES SHOWING THE PARTNERSHIP'S OVERALL PROFIT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(EXPENSE)

FOR THE YEAR ENDED 27 JANUARY 2018

Notes		2018 £m	2017 £m
	Profit for the year	**74.1**	353.5
	Other comprehensive income/(expense):		
	Items that will not be reclassified to profit or loss:		
6.1	Remeasurement of defined benefit pension scheme	**247.5**	(432.6)
2.7	Movement in deferred tax on pension scheme	**(57.4)**	46.1
2.7	Movement in current tax on pension scheme	**17.2**	24.7
	Items that may be reclassified subsequently to profit or loss:		
	Net loss on cash flow hedges	**(30.9)**	(1.1)
2.7	Movement in deferred tax on cash flow hedges	**5.9**	0.3
	Gain/(loss) on currency translations	**0.4**	(0.6)
	Other comprehensive income/(expense) for the year	**182.7**	(363.2)
	Total comprehensive income/(expense) for the year	**256.8**	(9.7)

REALISED PROFIT AS SHOWN IN THE INCOME STATEMENT PLUS OTHER INCOME AND EXPENSES NOT YET REALISED, GIVING TOTAL COMPREHENSIVE INCOME FOR THE YEAR

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

AS AT 27 JANUARY 2018

A FINANCIAL SNAPSHOT OF THE PARTNERSHIP, SHOWING OUR ASSETS AND HOW THEY ARE FINANCED

Notes		2018 £m	2017 £m
	Non-current assets		
3.1	Intangible assets	**495.7**	432.7
3.2	Property, plant and equipment	**3,971.2**	4,112.4
4.2	Trade and other receivables	**65.3**	61.2
7.2	Derivative financial instruments	**–**	0.1
3.3	Investment in and loans to joint venture	**2.9**	3.9
2.7	Deferred tax asset	**25.5**	48.2
		4,560.6	4,658.5
	Current assets		
4.1	Inventories	**661.5**	627.8
4.2	Trade and other receivables	**261.7**	242.7
7.2	Derivative financial instruments	**5.2**	15.3
3.4	Assets held for sale	**–**	8.1
5.3	Short-term investments	**120.0**	60.0
5.4	Cash and cash equivalents	**642.2**	673.7
		1,690.6	1,627.6
	Total assets	**6,251.2**	6,286.1
	Current liabilities		
5.5	Borrowings and overdrafts	**(0.1)**	–
4.3	Trade and other payables	**(1,637.9)**	(1,638.5)
	Current tax payable	**(10.7)**	(19.6)
5.6	Finance lease liabilities	**(0.7)**	(1.2)
4.4	Provisions	**(187.8)**	(167.7)
7.2	Derivative financial instruments	**(19.8)**	(7.2)
		(1,857.0)	(1,834.2)
	Non-current liabilities		
5.5	Borrowings	**(936.7)**	(966.9)
4.3	Trade and other payables	**(223.4)**	(219.7)
5.6	Finance lease liabilities	**(22.6)**	(23.3)
4.4	Provisions	**(157.9)**	(171.8)
7.2	Derivative financial instruments	**(4.0)**	(1.1)
6.1	Retirement benefit obligations	**(731.3)**	(1,013.7)
2.7	Deferred tax liability	**(6.1)**	–
		(2,082.0)	(2,396.5)
	Total liabilities	**(3,939.0)**	(4,230.7)
	Net assets	**2,312.2**	2,055.4
	Equity		
8.1	Share capital	**0.6**	0.6
	Other reserves	**(10.6)**	14.0
	Retained earnings	**2,322.2**	2,040.8
	Total equity	**2,312.2**	2,055.4

The financial statements on pages 84 to 135 were approved by the Board of Directors on 12 April 2018 and signed on its behalf by Sir Charlie Mayfield and Patrick Lewis – Directors, John Lewis Partnership plc.
Registered number 00238937

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 27 JANUARY 2018

Notes		Share capital £m	Capital redemption reserve £m	Capital reserve £m	Hedging reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Total equity £m
	Balance at 30 January 2016	0.6	5.0	1.4	8.9	0.1	2,049.1	2,065.1
	Profit for the year	–	–	–	–	–	353.5	353.5
6.1	Remeasurement of defined benefit pension scheme	–	–	–	–	–	(432.6)	(432.6)
	Fair value losses on cash flow hedges	–	–	–	(30.3)	–	–	(30.3)
	– transfers to inventories[1]	–	–	–	28.2	–	–	28.2
	– transfers to property, plant and equipment[1]	–	–	–	1.0	–	–	1.0
2.7	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	0.6	5.0	1.4	8.1	(0.5)	2,040.8	2,055.4
	Profit for the year	–	–	–	–	–	74.1	74.1
6.1	Remeasurement of defined benefit pension scheme	–	–	–	–	–	247.5	247.5
	Fair value losses on cash flow hedges	–	–	–	(22.8)	–	–	(22.8)
	– transfers to inventories	–	–	–	(8.1)	–	–	(8.1)
2.7	Tax on above items recognised in equity	–	–	–	5.9	–	(40.2)	(34.3)
	Gain on currency translations	–	–	–	–	0.4	–	0.4
	Balance at 27 January 2018	**0.6**	**5.0**	**1.4**	**(16.9)**	**(0.1)**	**2,322.2**	**2,312.2**

1 For the year ended 28 January 2017, transfers to inventories, previously reported as £1.0m, and transfers to property, plant and equipment, previously reported as £28.2m, have been corrected to be £28.2m and £1.0m respectively.

A RECONCILIATION BETWEEN THE BEGINNING AND THE END OF THE YEAR WHICH DISCLOSES PROFIT OR LOSS, ITEMS OF COMPREHENSIVE INCOME/(EXPENSE) AND ANY CHANGES IN OWNERSHIP INTERESTS

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 27 JANUARY 2018

Notes		2018 £m	2017 £m
2.5	**Cash generated from operations before Partnership Bonus**	**638.2**	912.1
	Net taxation paid	**(44.1)**	(49.8)
	Pension deficit reduction payments	**(89.8)**	(124.8)
	Finance costs paid	**(2.5)**	(2.7)
	Net cash generated from operating activities before Partnership Bonus	**501.8**	734.8
	Partnership Bonus paid	**(89.2)**	(144.8)
	Net cash generated from operating activities after Partnership Bonus	**412.6**	590.0
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(228.5)**	(265.6)
	Purchase of intangible assets	**(169.8)**	(153.7)
	Proceeds from sale of property, plant and equipment and intangible assets	**68.0**	13.7
	Finance income received	**1.7**	1.7
3.3	Cash outflow from investment in and loans to joint venture	**–**	(3.6)
	Cash outflow from short-term investments	**(60.0)**	(50.0)
	Net cash used in investing activities	**(388.6)**	(457.5)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	**(54.2)**	(56.0)
	Finance income received in respect of interest rate swaps	**0.7**	–
5.2	Payment of capital element of finance leases	**(1.2)**	(2.8)
	Payments to preference shareholders	**–**	(0.5)
	Payments to Share Incentive Plan shareholders	**(0.9)**	(1.2)
	Cash outflow from borrowings	**–**	(65.7)
	Net cash used in financing activities	**(55.6)**	(126.2)
	(Decrease)/increase in net cash and cash equivalents	**(31.6)**	6.3
	Net cash and cash equivalents at beginning of the year	**673.7**	667.3
	Effects of exchange rate changes on cash and cash equivalents	**–**	0.1
	Net cash and cash equivalents at end of the year	**642.1**	673.7
5.4	**Net cash and cash equivalents comprise:**		
	Cash at bank and in hand	**128.4**	115.2
	Short-term deposits	**513.8**	558.5
	Bank overdrafts	**(0.1)**	–
		642.1	673.7

THE PARTNERSHIP'S CASH INFLOWS AND OUTFLOWS ANALYSED BY VARIOUS KEY ACTIVITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Reading the notes

IN ORDER TO MAKE OUR NOTES MORE USER-FRIENDLY AND UNDERSTANDABLE, WE HAVE GROUPED THEM UNDER EIGHT HEADINGS AND PROVIDED ADDITIONAL EXPLANATIONS

PURPOSE

Boxes explain the purpose of each note

ACCOUNTING POLICIES

Boxes contain information about our accounting policies

THE NOTES PROVIDE A MORE IN-DEPTH LOOK AT THE DETAIL BEHIND OUR PRIMARY STATEMENTS ALONGSIDE SOME ADDITIONAL INFORMATION NOT CAPTURED ELSEWHERE

1 ACCOUNTING INFORMATION

IN THIS SECTION

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

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

1.1 ACCOUNTING PRINCIPLES AND POLICIES

PURPOSE

We prepare our financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. We have set out our significant accounting policies in these notes. These have been applied in the current reporting period and apply to the financial statements as a whole. All of the Partnership's accounting policies are set in line with the requirements of IFRS. There have been no changes in accounting policies in the year.

1.1.1 BASIS OF PREPARATION

The financial statements are prepared under the historical cost convention, with the exception of certain land and buildings which are included at their deemed cost amounts, and financial assets and financial liabilities (including derivative financial instruments) which are valued at fair value through profit or loss, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

The financial year is the 52 weeks ended 27 January 2018 (prior year: 52 weeks ended 28 January 2017).

Going concern

The Directors, after reviewing the Partnership's operating budgets, investment plans and financing arrangements, consider that the Company and Partnership have sufficient financing available over a period of at least 12 months from the date of approval of this report. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the Annual Report and Accounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING INFORMATION
1.1 ACCOUNTING PRINCIPLES AND POLICIES CONTINUED

1.1.2 BASIS OF CONSOLIDATION

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

1.1.3 SUBSIDIARIES AND RELATED UNDERTAKINGS

Subsidiary undertakings are all entities over which the Partnership has control. Control exists when the Partnership has the power to direct the relevant activities of an entity so as to affect the return on investment. Joint ventures are investments for which the Partnership shares joint control with a third party.

All intercompany balances, transactions and unrealised gains are eliminated upon consolidation.

1.1.4 AMENDMENTS TO ACCOUNTING STANDARDS

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

The following standards, amendments and interpretations were adopted by the Partnership for the year ended 27 January 2018 and have not had a significant impact on the Partnership's profit for the year, equity or disclosures:

– **Annual Improvements to IFRSs 2014-2016 Cycle – various standards** (issued on 8 December 2016)
– **Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses** (issued on 19 January 2016)
– **Amendments to IAS 7: Disclosure Initiative** (issued on 29 January 2016)

The following are new accounting standards and amendments to existing standards that have been published and are applicable for the Partnership's accounting periods beginning 28 January 2018 onwards, which the Partnership has not adopted early:

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

  IFRS 9 'Financial Instruments' sets out the requirements for recognising, classifying and measuring financial assets and financial liabilities and includes guidance in respect of general hedge accounting. This standard replaces IAS 39 and sets out two key criteria for determining the classification and measurement of financial assets including the entity's business model for managing financial assets and the contractual cash flow characteristics. IFRS 9 also sets out a single impairment model to ensure expected credit losses on financial instruments are always recognised as soon as they are forecast. In relation to hedge accounting, IFRS 9 adopts a principles-based approach for testing hedge effectiveness instead of setting specific numerical thresholds.

  The adoption of IFRS 9 is not expected to have a material impact to the Partnership's consolidated income statement or consolidated balance sheet however it will result in increased disclosures within the notes to the accounts.

  For 27 January 2018, had IFRS 9 been applied, there would not have been any changes to the Partnership's consolidated financial statements. Financial assets would continue to be classified as 'amortised cost' and derivative financial assets would continue to be classified as 'fair value through profit or loss'. Applying the IFRS 9 impairment model to the Partnership's financial assets would not result in any material adjustments. Hedge effectiveness testing performed in accordance with IFRS 9 would not change the conclusions on effectiveness or the amounts recognised in the consolidated income statement or consolidated statement of comprehensive income/(expense).

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

  IFRS 15 'Revenue from Contracts with Customers' sets out the principles for the measurement and recognition of revenue and will replace IAS 18. The standard provides a five step model to determine when an entity should recognise revenue and at what amount, by allocation of the transaction price to separate performance obligations.

  An exercise to review the quantitative impact of IFRS 15 for the Partnership has been completed and a full retrospective approach will be adopted on transition from IAS 18 to IFRS 15.

  The main impact for the Partnership will be in respect of the timing of revenue recognition of warranties and extended warranties. Currently, under IAS 18, the full sale value of the warranty is recognised in the income statement at the time of sale and a provision recorded on the balance sheet. Under IFRS 15, the value of the warranty including the associated profit margin will be deferred on the balance sheet and released to revenue over the period of the warranty. However, there will be no material impact to the Partnership's income statement and no net material impact to the Partnership's balance sheet. There will be a material reclassification of balances from Provisions to Trade and other payables on the face of the balance sheet.

  For the year ended 27 January 2018, had IFRS 15 been applied on a full retrospective basis, the current and non-current Provisions balance of £345.7m would have decreased to £293.4m, and the current and non-current Trade and other payables balance of £1,861.3m would have increased to £1,929.2m. The impact on net assets would be a decrease of £15.6m. Additionally, there would have been a decrease of £14.1m to brought forward retained earnings as a result of the full retrospective approach. There would have been a net impact on the income statement of £1.5m, reducing profit before tax.

– **Clarifications to IFRS 15 'Revenue from Contracts with Customers'** (issued on 12 April 2016)
– **Amendments to IAS 40: Transfers of Investment Property** (issued on 8 December 2016)
– **IFRIC 22: Foreign Currency Transactions and Advance Consideration** (issued on 8 December 2016)

The Partnership is currently assessing the impact of the following new standards, which have been published and are applicable for the Partnership's accounting period beginning 27 January 2019 onwards:

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

  IFRS 16 'Leases' specifies how to recognise, measure, present and disclose leases. The adoption of IFRS 16 is expected to have a very significant impact to the Partnership's consolidated income statement and consolidated balance sheet.

  The main impact for the Partnership will be the recognition of right-of-use assets and lease liabilities on the balance sheet for all applicable leases. Depending on the chosen transition option, this may lead to a material reduction in net assets and equity at the date of transition. The operating lease expense recognised in the income statement under IAS 17, will be replaced with separate interest and depreciation expenses, with front-loading of the interest in the earlier periods of a lease as the interest element unwinds. This is likely to result in a reduction in profit before tax, the magnitude of which will depend on the chosen transition option. The effect of these changes will also be reflected in the Partnership's KPIs including the Debt Ratio, Return on Invested Capital and Partnership profit per average Full Time Equivalent (FTE).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING INFORMATION
1.1 ACCOUNTING PRINCIPLES AND POLICIES CONTINUED
1.1.4 AMENDMENTS TO ACCOUNTING STANDARDS CONTINUED

The Partnership is currently performing a thorough assessment of the impact of IFRS 16. A modelling exercise has been undertaken to inform the choice of transition option and an approach to key accounting judgements is under review. Representatives from the wider business have been engaged as part of the IFRS 16 working group to develop a methodology for data collection and validation. Work is also underway to identify an appropriate system solution which will capture all lease data and calculate the required IFRS 16 adjustments. During 2018/19, the gathering of data points will be completed and a decision on both the chosen transition option and system solution will have been finalised. Until that time, it remains impractical to provide a reliable quantitative estimate of the impact to the consolidated financial statements.

Included within the KPIs disclosed on page 30, is a measure of total net debts as a multiple of cash flow. Total net debts represents the total borrowings of the Partnership including net debt (defined on page 91), adjusted for an estimate of non-liquid cash, the IAS 19 pension deficit net of deferred tax, and the present value of future rentals payable under operating leases. The present value of future rentals payable under operating leases has been calculated using a discount rate of 5%. This is not an estimate of the impact of IFRS 16.

– **Amendments to IFRS 9: Prepayment Features with Negative Compensation** (issued on 12 October 2017)

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

– **IFRIC 23: Uncertainty over Income Tax Treatments** (issued on 7 June 2017)
– **Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures** (issued on 12 October 2017)
– **Annual Improvements to IFRSs 2015-17 Cycle – various standards** (issued on 12 December 2017)
– **Amendments to IAS 19: Plan Amendment, Curtailment or Settlement** (issued on 7 February 2018)

1.1.5 SIGNIFICANT ACCOUNTING POLICIES

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

Other operating income
Other operating income is income that does not satisfy the definition of revenue in that it is not related to the main trading operations of the Partnership. Other operating income includes commission income, backhauling income and income from other services.

Financial instruments
The Partnership uses derivative financial instruments to manage its exposure to fluctuations in financial markets, including foreign exchange rates, interest rates and certain commodity prices. Derivative financial instruments used by the Partnership include forward currency and commodity contracts, interest rate swaps and foreign exchange options. Hedge accounting has been adopted for derivative financial instruments where possible. Such derivative financial instruments are measured at fair value. The fair value of a derivative financial instrument represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the forward rates of exchange and interest rates prevailing at the balance sheet date.

In order to qualify for hedge accounting, the relationship between the item being hedged and the hedging instrument is documented in advance of entering into the hedge, and assessed to show that the hedge will be highly effective on an ongoing basis. This effectiveness testing is also then performed at the end of each financial reporting period to ensure that the hedge remains highly effective.

Hedge accounting is discontinued when the hedging instrument matures, is terminated or exercised, the designation is revoked or it no longer qualifies for hedge accounting. For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

A cash flow hedge is a hedge of the exposure to variability of cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction. The effective portion of changes in the intrinsic fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. All other changes in fair value are recognised immediately in the income statement within other gains or losses. Amounts accumulated in equity are recycled to the income statement in the periods when the hedged item affects profit or loss. Derivative financial instruments qualifying for cash flow hedge accounting are principally forward currency contracts.

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

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

	Note	Classification	Measurement
Financial assets:			
Trade receivables	4.2	Loans and receivables	Amortised cost
Other receivables	4.2	Loans and receivables	Amortised cost
Short-term investments	5.3	Loans and receivables	Amortised cost
Cash and cash equivalents	5.4	Loans and receivables	Amortised cost
Derivative financial instruments	7.2	Financial assets at fair value through profit or loss*	Fair value*
Financial liabilities:			
Borrowings and overdrafts	5.5	Financial liabilities	Amortised cost
Trade payables	4.3	Financial liabilities	Amortised cost
Other payables	4.3	Financial liabilities	Amortised cost
Accruals	4.3	Financial liabilities	Amortised cost
Partnership Bonus	4.3	Financial liabilities	Amortised cost
Finance lease liabilities	5.6	Financial liabilities	Amortised cost
Derivative financial instruments	7.2	Financial liabilities at fair value through profit or loss*	Fair value*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

1.1.6 KEY JUDGEMENTS AND CRITICAL ACCOUNTING ESTIMATES

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

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

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

1.1.7 CHANGE IN ACCOUNTING ESTIMATE – RETIREMENT BENEFITS

During the period, the Directors reviewed the methodology for deriving the nominal discount rate assumption in valuing the Partnership's pension obligation under IAS 19 Employee Benefits. Further details of this change and its impact in the period are disclosed in note 6.1.

1.2 NON-GAAP MEASURES

PURPOSE

Our financial statements disclose financial measures which are required under IFRS. We also report additional financial measures that we believe enhance the relevance and usefulness of the financial statements. These are important for understanding underlying business performance, and they are described as non-GAAP measures. In this note, we have explained what the non-GAAP financial measures are and why we use them.

1.2.1 GROSS SALES

Gross sales represents the amount receivable by the Partnership for goods and services supplied to customers, including the sale of stock purchased on a sale or return basis. Gross sales includes VAT but is net of any discount offered. This measure shows the headline sales trend.

1.2.2 EXCEPTIONAL ITEMS

Items which are both material and non-recurring are presented as exceptional items within their relevant consolidated income statement category. The separate reporting of exceptional items helps provide an indication of the Partnership's underlying business performance.

1.2.3 PROFIT BEFORE PARTNERSHIP BONUS AND TAX

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

1.2.4 NET DEBT

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE

IN THIS SECTION

This section focuses on our performance during the year ended 27 January 2018. Information is provided on segmental performance, exceptional items, operating expenses, Partner-related costs and taxation. This section also includes a reconciliation of our profit before tax to the cash generated from operations before Partnership Bonus, which shows how our performance translates into cash.

2.1 SEGMENTAL REPORTING

PURPOSE

We analyse our performance between our three reporting segments. These are Waitrose, John Lewis and Group. This analysis is consistent with how our Partnership Board reviews performance throughout the year.

Group includes operating costs for our Group offices and shared services, as well as 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.

Some of the Group activities described above were previously carried out by the former Partnership Services Division. From 29 January 2017, Partnership Services ceased to exist as a separate division and its activities became part of the responsibility of the Group Division.

The prior year's comparators include Partnership Services within Group's figures.

ACCOUNTING POLICIES

Revenue: Sales of goods and services, including warranties and extended warranties, are recognised as revenue when the goods have been delivered or the services rendered. Revenue in respect of 'sale or return sales' which represents concession income is stated at the value of the margin that the Partnership receives on the transaction. Revenue is also net of Partner discounts and VAT. Revenue is recognised in respect of sales under bill and hold arrangements when the goods are segregated for the customer's benefit at their request, and made available for delivery.

Sales of gift vouchers and gift cards are treated as liabilities, and revenue is recognised when the gift vouchers or cards are redeemed against a later transaction. Certain entities within the Partnership sell products with a right of return, and experience is used to estimate and provide for the value of such returns at the time of sale.

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

Partnership Bonus: The Partnership Bonus is announced and paid to Partners each March and is determined in relation to the performance for the previous financial year. No liability is recorded for Partnership Bonus at the half-year as the majority of the Partnership's profit and cash flows are earned in the second half of the year. Consequently, it is not possible to make a reliable estimate of the liability until the annual profit is known.

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

It is recorded in the year it relates to rather than the year it was declared because there is a constructive obligation to pay a Partnership Bonus and the amount can be reliably estimated once the results for the year are known and prior to the approval of the Partnership's financial statements.

Segmental reporting: The Partnership's reporting segments are determined based on business activities for which operating results are reviewed by the chief operating decision maker (CODM). The Partnership's CODM is the Partnership Board and the reporting segments reflect the management structure of the Partnership. The Partnership's reporting segments for the year ended 28 January 2017 were: Waitrose, John Lewis and Partnership Services and Group. In the year ended 27 January 2018, these reporting segments are: Waitrose, John Lewis and Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE
2.1 SEGMENTAL REPORTING CONTINUED

2018	Waitrose £m	John Lewis £m	Group[1] £m	Total £m
Gross sales	6,753.7	4,844.0	–	11,597.7
Adjustment for sale or return sales	–	(254.6)	–	(254.6)
Value added tax	(399.0)	(740.1)	–	(1,139.1)
Revenue	6,354.7	3,849.3	–	10,204.0
Operating profit before exceptional items, Partnership Bonus and net profit on sale of property[2]	169.1	243.7	(65.4)	347.4
Net profit on sale of property[3]	2.9	10.5	–	13.4
Operating profit before exceptional items and Partnership Bonus	172.0	254.2	(65.4)	360.8
Exceptional items	(52.2)	(21.3)	(37.8)	(111.3)
Operating profit before Partnership Bonus	119.8	232.9	(103.2)	249.5
Finance costs				(85.7)
Finance income				14.1
Partnership Bonus				(74.0)
Profit before tax				103.9
Taxation				(29.8)
Profit for the year				74.1
Reconciliation of Profit before Partnership Bonus, tax and exceptional items to Profit before tax:				
Profit before Partnership Bonus, tax and exceptional items				289.2
Partnership Bonus				(74.0)
Exceptional items				(111.3)
Profit before tax				103.9
Segment assets	2,890.1	2,150.8	1,210.3	6,251.2
Segment liabilities	(784.9)	(889.0)	(2,265.1)	(3,939.0)
Net assets	2,105.2	1,261.8	(1,054.8)	2,312.2
Other segment items:				
– Depreciation[4]	(196.2)	(110.2)	(16.9)	(323.3)
– Amortisation[4]	(38.2)	(54.3)	(21.6)	(114.1)
– Capital expenditure – property, plant and equipment	109.0	72.8	45.0	226.8
– Capital expenditure – intangible assets	52.7	107.0	22.8	182.5
– (Decrease)/increase in provisions	(2.0)	0.8	7.4	6.2

1 In the year to 28 January 2017, this reporting segment was Partnership Services and Group. From 29 January 2017, this reporting segment is Group, as the activities of Partnership Services have become the responsibility of the Group Division.
2 Included within operating profit before exceptional items, Partnership Bonus and net profit on sale of property is a £1.0m loss (2017: £0.3m profit) share of loss/(profits) of a joint venture in the John Lewis Division (see note 3.3) and an impairment charge of £52.3m (2017: £38.0m) of which £42.7m (2017: £37.7m) is in the Waitrose Division, £7.2m (2017: £0.3m) is in the John Lewis Division, and £2.4m (2017: £nil) is in the Group Division (see notes 3.1 and 3.2).
3 Net profit on sale of property includes losses of £2.1m in the Waitrose Division (2017: £nil).
4 Includes charges for impairment. See notes 3.1 and 3.2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE
2.1 SEGMENTAL REPORTING CONTINUED

2017	Waitrose £m	John Lewis £m	Group[1] £m	Total £m
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 net profit on sale of property[2]	252.7	241.5	(18.5)	475.7
Net profit on sale of property	0.8	1.7	–	2.5
Operating profit before exceptional items and Partnership Bonus	253.5	243.2	(18.5)	478.2
Exceptional items	(47.3)	(11.8)	230.3	171.2
Operating profit before Partnership Bonus	206.2	231.4	211.8	649.4
Finance costs				(109.7)
Finance income				1.9
Partnership Bonus				(89.4)
Profit before tax				452.2
Taxation				(98.7)
Profit for the year				353.5
Reconciliation of Profit before Partnership Bonus, tax and exceptional items to Profit before tax:				
Profit before Partnership Bonus, tax and exceptional items				370.4
Partnership Bonus				(89.4)
Exceptional items				171.2
Profit before tax				452.2
Segment assets[3]	2,946.1	2,136.9	1,203.1	6,286.1
Segment liabilities	(789.5)	(908.7)	(2,532.5)	(4,230.7)
Net assets	2,156.6	1,228.2	(1,329.4)	2,055.4
Other segment items:				
– Depreciation[4]	(191.0)	(112.1)	(16.6)	(319.7)
– Amortisation[4]	(45.1)	(44.8)	(18.9)	(108.8)
– Capital expenditure – property, plant and equipment	113.5	143.0	8.9	265.4
– Capital expenditure – intangible assets	52.4	83.8	21.0	157.2
– Increase in provisions	2.0	0.4	47.3	49.7

1 In the year to 28 January 2017, this reporting segment was Partnership Services and Group. From 29 January 2017, this reporting segment is Group, as the activities of Partnership Services have become the responsibility of the Group Division.
2 Included within operating profit before exceptional items, Partnership Bonus and net profit on sale of property is a £0.3m share of profits of a joint venture in the John Lewis Division (see note 3.3) and an impairment charge of £38.0m of which £37.7m is in the Waitrose Division and £0.3m is in the John Lewis Division (see notes 3.1 and 3.2).
3 Included within segment assets at 28 January 2017 is one property asset in the John Lewis Division which was recorded as held for sale totalling £8.1m.
4 Includes charges for impairment. See notes 3.1 and 3.2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE

2.2 OPERATING EXPENSES BEFORE EXCEPTIONAL ITEMS AND PARTNERSHIP BONUS

PURPOSE

We analyse operating expenses into branch operating expenses and administrative expenses. Branch operating expenses are directly associated with the sale of goods and services. Administrative expenses are those which are not directly related to the sale of goods and services.

Operating expenses before exceptional items and Partnership Bonus	2018 £m	2017 £m
Branch operating expenses	(2,158.4)	(2,310.8)
Administrative expenses	(955.6)	(697.0)
	(3,114.0)	(3,007.8)

During the year, the Directors reviewed and amended the allocation of certain costs between branch operating expenses and administrative expenses. The comparative balances have not been restated.

2.3 EXCEPTIONAL ITEMS

PURPOSE

Exceptional items are items of income and/or expense that are both material and non-recurring. We believe these exceptional items are relevant for an understanding of our underlying financial performance, and are highlighted separately on the face of the income statement. This note provides detail of the exceptional items reported in both the current and prior year.

Exceptional items	2018 Operating (expense)/ income £m	2018 Taxation credit £m	2017 Operating (expense)/ income £m	2017 Taxation credit / (charge) £m
Restructuring and redundancy (a)	(72.8)	13.7	(20.7)	3.9
Branch impairments (b)	(38.9)	4.5	–	–
Profit on disposal of items previously recognised as exceptional (c)	2.7	–	0.8	(0.1)
Strategic review (d)	(2.3)	0.4	(42.9)	5.1
Reduction in pension obligation (e)	–	–	270.0	(48.6)
Pay provision (f)	–	–	(36.0)	7.1
	(111.3)	18.6	171.2	(32.6)

In the year to 27 January 2018, a net exceptional charge of £111.3m (2017: £171.2m net exceptional income) was recognised, as follows:

(a) Charge of £72.8m for restructuring and redundancy costs, principally in relation to branch, distribution and retail operations as well as functional restructurings in Finance, Personnel and IT, in line with the move from divisional to Partnership functions. In 2017, the restructuring and redundancy charge of £20.7m was principally in relation to distribution and contact centres and head office operations.

(b) Continuing uncertainty with respect to Brexit outcomes and changes to the grocery market have led us to review our approach and assumptions with respect to the possible impairment of Waitrose stores, where margins have trended significantly lower. This has resulted in an impairment charge of £38.9m in 2018, which given the nature of the exercise this year and the size of the charge, has been included within exceptional items. The 2017 exercise, conducted on a less pessimistic basis, resulted in a charge of £4.9m, which was not material and was charged against operating expenses.

(c) Income of £2.7m was recognised upon finalisation of a property disposal which was previously recorded as exceptional (2017: £0.8m income).

(d) Net charge of £2.3m in Waitrose relating to the further write-downs of property, other assets and related costs that were no longer intended to be developed or were being exited, following the strategic review carried out in the prior year. In the prior year, an exceptional charge of £42.9m was recognised in Waitrose.

(e) In the prior year, income of £270.0m was recognised in relation to an exceptional past service credit following the change to annual discretionary increases for pension in retirement built up before 6 April 1997.

(f) In the prior year, a £36.0m provision was recorded as an exceptional charge to cover the potential costs of complying with the National Minimum Wage Regulations. Since then we have been working with HMRC regarding our pay arrangements and compliance with the Regulations, which are complex in nature. These discussions with HMRC are ongoing, and as we work through this we continue to hold a provision, which remains our best estimate. The ultimate resolution of the liability may result in an amount that is different from that provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE

2.4 PROFIT BEFORE TAX

PURPOSE

Detailed below are items (charged)/credited to arrive at our profit before tax as defined by IFRS and required to be reported under IFRS.

	2018 £m	2017 £m
Staff costs (note 2.6.2)	**(1,846.9)**	(1,817.2)
Depreciation – owned assets[1]	**(322.6)**	(317.8)
Depreciation – assets held under finance leases	**(0.7)**	(1.9)
Amortisation of intangible assets[2]	**(114.1)**	(108.8)
Net profit on sale of property (including exceptional items)	**16.1**	3.3
Loss on disposal of other plant and equipment and intangible assets	**(0.3)**	–
Inventory – cost of inventory recognised as an expense	**(6,839.5)**	(6,633.1)
Operating lease rentals:		
– land and buildings	**(186.9)**	(177.7)
– plant and machinery	**(0.5)**	(0.5)
Sub-lease income:		
– land and buildings	**5.8**	5.9

1 Included within depreciation – owned assets is an impairment charge of £40.7m (2017: £34.7m) of which £40.7m (2017: £34.4m) is in the Waitrose Division and £nil (2017: £0.3m) is in the John Lewis Division.
2 Included within amortisation of intangible assets is an impairment charge of £11.6m (2017: £3.3m) of which £2.0m (2017: £3.3m) is in the Waitrose Division, £7.2m (2017: £nil) is in the John Lewis Division and £2.4m (2017: £nil) is in the Group Division.

Contingency rents expensed during the year were £0.8m (2017: £1.0m). Contingency rents are determined based on store revenues.

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

Auditor's remuneration	2018 £m	2017 £m
Audit and audit-related services:		
– Audit of the parent Company and consolidated financial statements	**(0.3)**	(0.3)
– Audit of the Company's subsidiaries	**(0.6)**	(0.6)
	(0.9)	(0.9)
Non-audit services:		
– Other assurance services	**(0.2)**	(0.2)
	(0.2)	(0.2)
Total fees	**(1.1)**	(1.1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE

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

PURPOSE

We have analysed how our profit before tax reconciles to the cash generated from our operating activities before Partnership Bonus. Items added back to/deducted from profit before tax are non-cash items that are adjusted to arrive at cash generated from operations before Partnership Bonus which is shown in the cash flow statement.

	2018 £m	2017 £m
Profit before tax	**103.9**	452.2
Amortisation of intangible assets	**114.1**	108.8
Depreciation	**323.3**	319.7
Share of loss/(profit) of joint venture (net of tax)	**1.0**	(0.3)
Net finance costs	**71.6**	107.8
Partnership Bonus	**74.0**	89.4
Fair value losses/(gains) on derivative financial instruments	**0.2**	(1.9)
Profit on disposal of property, plant and equipment and intangible assets	**(15.8)**	(0.3)
Increase in inventories	**(33.7)**	(5.9)
Increase in receivables	**(21.8)**	(15.3)
Increase in payables	**19.9**	90.9
Increase/(decrease) in retirement benefit obligations	**29.5**	(265.3)
Decrease in non-cash borrowings	**(30.3)**	–
Increase in provisions	**2.3**	32.3
Cash generated from operations before Partnership Bonus	**638.2**	912.1

2.6 PARTNERS

PURPOSE

The average number of Partners employed during the year, together with details of the area of the Partnership in which they work, and total employment related costs are shown in the tables below. At the end of the year, our total number of Partners was 85,500. This note also covers Partner benefits, including pay for senior Partners and the Partnership Board.

2.6.1 PARTNER NUMBERS

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

	2018	2017
John Lewis	**28,500**	29,300
Waitrose	**53,000**	57,000
Group[1,2]	**3,000**	1,700
	84,500	88,000

1 In the year to 28 January 2017, this reporting segment was Partnership Services and Group. From 29 January 2017, this reporting segment is Group, as the activities of Partnership Services have become the responsibility of the Group Division.

2 As a result of the move from divisional to pan-Partnership functions in Finance, Personnel and IT, in the year to 27 January 2018, the number of Partners within the Group Division has increased.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE
2.6 PARTNERS CONTINUED

2.6.2 PARTNER PAY AND BENEFITS

Employment and related costs were as follows:

	2018 £m	2017 £m
Staff costs (excluding exceptional items):		
Wages and salaries	**(1,441.3)**	(1,423.7)
Social security costs	**(111.6)**	(107.6)
Partnership Bonus	**(65.7)**	(79.0)
Employers' national insurance on Partnership Bonus	**(8.3)**	(10.4)
Other pension expenses (note 6.1.2)	**(215.6)**	(187.9)
Long leave cost	**(4.4)**	(8.6)
Total before Partner discounts	**(1,846.9)**	(1,817.2)
Partner discounts (excluded from revenue)	**(69.3)**	(73.4)
	(1,916.2)	(1,890.6)
Included above are the following amounts in respect of key management compensation:		
Salaries and short-term benefits	**(12.5)**	(17.0)
Post-employment benefits[1]	**(2.0)**	(2.5)
	(14.5)	(19.5)

1 Includes cash supplements in lieu of future pension accrual.

Key management includes the Directors of the Company, members of the Partnership's Divisional Management Boards and other officers of the Partnership. Key management compensation includes salaries, Partnership Bonus, national insurance costs, pension costs and the cost of other employment benefits, such as company cars, private medical insurance and termination payments where applicable.

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

2.6.3 DIRECTORS' EMOLUMENTS

Directors' emoluments have been summarised below. Further details of the remuneration of Directors is given in the parts of the Remuneration Committee report noted as audited on pages 76 to 77.

	2018 £m	2017 £m
Aggregate emoluments	**(6.1)**	(6.7)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE

2.7 TAXATION

PURPOSE

Our tax charge for the year is shown below. This includes an explanation of how each item is calculated, a reconciliation of our effective tax rate to the UK standard tax rate, and an update on any tax rate changes. We have placed explanatory boxes within the note to explain each table.

Our Tax Strategy aligns to the Principles of our Constitution and, as a responsible leading retailer, we recognise that paying taxes arising from our activities is an important part of how our business contributes to the societies in which we operate. The Tax Strategy adopted by the Partnership Board is available on the Partnership's website.

ACCOUNTING POLICY

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

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

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax arising from the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, is not recognised. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

2.7.1 ANALYSIS OF TAX CHARGE FOR THE YEAR

PURPOSE

The components of our tax charge are below. The tax charge is made up of current and deferred tax. Current tax is the amount payable on the taxable income for the year, and any adjustments to tax payable in previous years. Current tax is charged through the consolidated income statement and consolidated statement of comprehensive income/(expense). Deferred tax is explained in note 2.7.3.

Recognised in the income statement	2018 £m	2017 £m
Current tax – current year	**(52.1)**	(72.7)
Current tax – adjustment in respect of prior years	**(0.4)**	5.8
Total current tax charge	**(52.5)**	(66.9)
Deferred tax – current year	**22.4**	(38.3)
Deferred tax – rate change	**(7.3)**	9.3
Deferred tax – adjustment in respect of prior years	**7.6**	(2.8)
	(29.8)	(98.7)

Tax (charged)/credited to other comprehensive income	2018 £m	2017 £m
Current tax on pension scheme[1]	**17.2**	24.7
Deferred tax on pension scheme	**(57.4)**	46.1
Deferred tax on cash flow hedges	**5.9**	0.3
	(34.3)	71.1

1 An additional deficit funding contribution of £89.8m has been paid by the Partnership during the year (2017: £124.8m) in relation to the defined benefit pension scheme, resulting in a tax credit of £17.2m (2017: £24.7m) to the statement of other comprehensive income/(expense) and a corresponding reduction in our current tax liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE
2.7 TAXATION CONTINUED

2.7.2 FACTORS AFFECTING TAX CHARGE FOR THE YEAR

PURPOSE

Taxable profit differs from profits as reported in the income statement because some items of income or expense may never be taxable or deductible. The table below shows the reconciliation between the tax charge on profits at the standard UK tax rate and the actual tax charge recorded in the income statement ignoring the effects of temporary differences. The effective tax rate is the tax charge as a percentage of Partnership profit before tax.

The tax charge for the year is higher (2017: higher) than the standard corporation tax rate of 19.2%[1] (2017: 20.0%). The differences are explained below:

	2018 £m	2017 £m
Profit before tax	**103.9**	452.2
Profit before tax multiplied by standard rate of corporation tax in the UK of 19.2% (2017: 20.0%)	**(19.9)**	(90.4)
Effects of:		
Changes in tax rate	**(7.3)**	9.3
Adjustment in respect of prior years	**7.2**	3.0
Depreciation on assets not qualifying for tax relief	**(14.0)**	(12.3)
Difference between accounting and tax base for land and buildings	**4.9**	(5.1)
Differences in overseas tax rates	**(0.1)**	2.0
Sundry disallowables	**0.2**	(5.1)
Other permanent differences on sale of property	**(0.8)**	(0.1)
Total tax charge	**(29.8)**	(98.7)
Effective tax rate (%)	**28.7**	21.8

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

2.7.3 DEFERRED TAX

PURPOSE

Deferred tax is the tax expected to be payable or recoverable in the future due to temporary differences that arise when the carrying value of assets and liabilities differ between accounting and tax treatments. Deferred tax assets represent the amounts of income taxes recoverable in the future in respect of these differences, while deferred tax liabilities represent the amounts of income taxes payable in the future in respect of these differences. Here we show the movements in deferred tax assets and liabilities during the year.

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% for deferred tax assets and liabilities expected to reverse before 1 April 2020, and 17% for those assets or liabilities expected to reverse after 1 April 2020. In the year to 28 January 2017, a tax rate of 20% was used for deferred tax assets or liabilities expected to reverse before 1 April 2017, 19% for those assets or liabilities expected to reverse before 1 April 2020, and 17% for those assets or liabilities expected to reverse after 1 April 2020.

The movement on the deferred tax account is shown below:

Deferred tax	2018 £m	2017 £m
Opening net asset	**48.2**	33.6
Credited/(charged) to income statement	**22.7**	(31.8)
(Charged)/credited to other comprehensive income/(expense)	**(51.5)**	46.4
Closing net asset	**19.4**	48.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE
2.7 TAXATION CONTINUED
2.7.3 DEFERRED TAX CONTINUED

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

Deferred tax liabilities	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Rollover gains £m	Total £m
At 30 January 2016	(109.6)	(2.3)	(40.3)	(152.2)
Credited/(charged) to income statement	8.1	(6.5)	1.6	3.2
At 28 January 2017	(101.5)	(8.8)	(38.7)	(149.0)
Credited to income statement	2.6	0.5	0.4	3.5
At 27 January 2018	**(98.9)**	**(8.3)**	**(38.3)**	**(145.5)**

Deferred tax assets	Capital gains tax on land and buildings £m	Pensions and provisions £m	Other £m	Total £m
At 30 January 2016	6.5	178.1	1.2	185.8
Credited/(charged) to income statement	6.3	(43.0)	1.7	(35.0)
Credited to other comprehensive income/(expense)	–	46.1	0.3	46.4
At 28 January 2017	12.8	181.2	3.2	197.2
Credited to income statement	1.4	17.2	0.6	19.2
(Charged)/credited to other comprehensive income/(expense)	–	(57.4)	5.9	(51.5)
At 27 January 2018	**14.2**	**141.0**	**9.7**	**164.9**

The deferred tax asset in relation to the defined benefit pension scheme is £109.9m (2017: £157.9m).

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

Deferred tax	2018 £m	2017 £m
Deferred tax assets	**25.5**	48.2
Deferred tax liabilities	**(6.1)**	–
Deferred tax net	**19.4**	48.2

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

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future profits is probable. There were no unrecognised deferred tax assets in respect of losses for the year ended 27 January 2018 (2017: £nil).

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

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

No deferred tax liability is recognised on temporary differences of £31.9m (2017: £24.3m) relating to the unremitted earnings of overseas subsidiaries of the Partnership. UK tax legislation relating to company distributions provides for exemption from tax for most UK and overseas distributed profits, subject to certain exceptions and no dividend withholding tax is levied in the Partnership's overseas entity jurisdictions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE
2.7 TAXATION CONTINUED

2.7.4 FACTORS AFFECTING TAX CHARGES IN CURRENT AND FUTURE YEARS

PURPOSE

Here we explain any changes to the current or future tax rates that have been announced or substantively enacted. It also explains the impact on the Partnership of any rate changes that are already effective.

Legislation has been enacted to reduce the UK corporation tax rate from 20% to 19% with effect from 1 April 2017 with a further reduction to 17% from 1 April 2020. The 17% rate was substantively enacted in September 2016. The effect of these rate changes this year was to increase the deferred tax asset by £5.9m, with a £1.6m charge to the income statement and a £7.5m credit to other comprehensive income/(expense).

The State of Jersey increased the main rate of corporation tax for large corporate retailers from 0% to 20% for the 2018 accounting period. The effect of this rate change this year was to increase the deferred tax liability by £5.8m, with a charge being taken to the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 OPERATING ASSETS AND LIABILITIES

IN THIS SECTION

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

3.1 INTANGIBLE ASSETS

PURPOSE

Our balance sheet contains non-physical assets in relation to computer software which are used to support our business and the generation of our profits.

This note shows the cost of the assets, which is the amount we initially paid for them, and details any additions and disposals during the year. Additionally, the note shows amortisation, which is an expense in the income statement to reflect the usage of these assets. Amortisation is calculated by estimating how many years we expect to use the assets, which is also known as the useful economic life (UEL). The amortisation charge reduces the initial value of the assets over time spread evenly over their useful economic lives. The value after deducting accumulated amortisation is known as the amortised value.

Each year we review the value of our assets to ensure that their expected future value in use in the business has not fallen below their amortised value. This might occur where there has been a system replacement in the year. If an asset's expected value in use falls below its amortised value, this is reflected through an additional impairment expense, which reduces profits.

ACCOUNTING POLICIES

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

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

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

KEY JUDGEMENTS

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

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

CRITICAL ACCOUNTING ESTIMATES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 OPERATING ASSETS AND LIABILITIES
3.1 INTANGIBLE ASSETS CONTINUED

	Computer software			
Intangible assets	Purchased £m	Internally developed £m	Work in progress £m	Total £m
Cost				
At 30 January 2016	195.5	394.7	137.2	727.4
Additions	–	–	157.2	157.2
Transfers	24.8	108.6	(133.4)	–
Disposals and write-offs	(3.7)	(12.0)	(3.6)	(19.3)
At 28 January 2017	216.6	491.3	157.4	865.3
Additions	–	–	182.5	182.5
Transfers	23.4	72.0	(95.4)	–
Disposals and write-offs	(26.6)	(60.6)	(5.4)	(92.6)
At 27 January 2018	**213.4**	**502.7**	**239.1**	**955.2**
Accumulated amortisation				
At 30 January 2016	(106.5)	(232.5)	–	(339.0)
Charge for the year*	(36.3)	(72.5)	–	(108.8)
Disposals and write-offs	3.7	11.5	–	15.2
At 28 January 2017	(139.1)	(293.5)	–	(432.6)
Charge for the year*	(30.5)	(83.6)	–	(114.1)
Disposals and write-offs	27.2	60.0	–	87.2
At 27 January 2018	**(142.4)**	**(317.1)**	**–**	**(459.5)**
Net book value at January 2016	89.0	162.2	137.2	388.4
Net book value at January 2017	77.5	197.8	157.4	432.7
Net book value at January 2018	**71.0**	**185.6**	**239.1**	**495.7**

* For the year ended 27 January 2018, this includes an impairment charge of £11.6m (2017: £3.3m) to intangible assets of which £2.0m (2017: £3.3m) is in the Waitrose Division, £7.2m (2017: £nil) is in the John Lewis Division and £2.4m (2017: £nil) is in the Group Division.

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

There are four individually significant assets within the total carrying amount of intangible assets as at 27 January 2018: two are customer projects (£126.8m, 2017: £100.9m) and two relate to distribution projects (£126.2m, 2017: £53.4m).

During the year to 27 January 2018, computer systems valued at £95.4m (2017: £133.4m) were brought into use. This covered a range of selling, support, supply chain, administration and information technology infrastructure applications, with asset lives ranging from three to ten years.

Amortisation of intangible assets is charged within operating expenses.

3.2 PROPERTY, PLANT AND EQUIPMENT

PURPOSE

Our balance sheet contains significant property, plant and equipment, primarily made up of branches, distribution centres, offices and vehicles.

This note shows the cost of the assets, which is the amount we initially paid for them, or deemed cost if the assets were purchased before January 2004 when the Partnership transitioned to report under IFRS. It also details any additions and disposals during the year. Additionally, the note shows depreciation, which is an expense in the income statement to reflect the usage of these assets. Depreciation is calculated by estimating how many years we expect to use the assets, which is also known as the useful life. The depreciation charge reduces the initial value of the assets over time spread evenly over their useful lives. The value after deducting accumulated depreciation is known as the net book value.

Each year we review the value of our assets to ensure that the value in use or resale value has not fallen below their net book value. This might occur where there is a decline in forecast performance. If an asset value falls below its net book value, this is reflected through an additional impairment expense, which reduces profit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 OPERATING ASSETS AND LIABILITIES
3.2 PROPERTY, PLANT AND EQUIPMENT CONTINUED

ACCOUNTING POLICIES

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

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

Other assets are held at cost.

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

Freehold and long leasehold buildings – 25-50 years
Other leaseholds – over the shorter of the useful economic life and the remaining period of the lease
Building fixtures – 10-40 years
Fixtures, fittings and equipment (including vehicles and information technology equipment) – 3-10 years

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

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

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

KEY JUDGEMENTS

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

CRITICAL ACCOUNTING ESTIMATES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 OPERATING ASSETS AND LIABILITIES
3.2 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Property, plant and equipment	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in course of construction £m	Total £m
Cost				
At 30 January 2016	4,465.5	1,877.6	135.3	6,478.4
Additions	–	–	265.4	265.4
Transfers	145.2	168.1	(313.3)	–
Disposals and write-offs	(26.7)	(88.5)	(1.5)	(116.7)
Transfers to assets held for sale	(14.5)	–	–	(14.5)
At 28 January 2017	4,569.5	1,957.2	85.9	6,612.6
Additions	–	–	226.8	226.8
Transfers	136.0	95.3	(231.3)	–
Disposals and write-offs	(62.2)	(133.3)	(0.4)	(195.9)
At 27 January 2018	**4,643.3**	**1,919.2**	**81.0**	**6,643.5**
Accumulated depreciation				
At 30 January 2016	(1,024.8)	(1,264.3)	–	(2,289.1)
Charge for the year*	(159.5)	(160.2)	–	(319.7)
Disposals and write-offs	16.7	85.5	–	102.2
Transfers to assets held for sale	6.4	–	–	6.4
At 28 January 2017	(1,161.2)	(1,339.0)	–	(2,500.2)
Charge for the year*	(172.9)	(150.4)	–	(323.3)
Disposals and write-offs	18.0	133.2	–	151.2
At 27 January 2018	**(1,316.1)**	**(1,356.2)**	**–**	**(2,672.3)**
Net book value at January 2016	3,440.7	613.3	135.3	4,189.3
Net book value at January 2017	3,408.3	618.2	85.9	4,112.4
Net book value at January 2018	**3,327.2**	**563.0**	**81.0**	**3,971.2**

* For the year ended 27 January 2018, this includes an impairment charge of £40.7m to land and buildings (2017: £34.7m).

Included above are land and building assets held under finance leases with a net book value of £15.8m (2017: £16.5m).

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

The impairment review compares the recoverable amount for each CGU to the carrying value on the balance sheet. The key assumptions used in the calculations are the discount rate, long-term growth rate, expected sales performance and costs.

The value in use calculation is based on three year cash flow projections using the latest budget and forecast data. Any changes in sales performance and costs are based on past experience and expectations of future changes in the market. The forecasts are then extrapolated beyond the three year period using a long-term growth rate. The discount rate is derived from the Partnership's pre-tax weighted average cost of capital of 8% (2017: 7% to 9%).

The impairment review performed considers the value in use calculation based on the above methodology and assumptions, as well as other potential impairment triggers such as strategy changes. Following the impairment review, the Partnership recognised an impairment charge to land and buildings in the year of £40.7m in the Waitrose Division (2017: £34.4m) and £nil in the John Lewis Division (2017: £0.3m). The impairment charge reflects the revision of the long-term forecast cash flows as a result of continued uncertainty with respect to Brexit outcomes and changes in the grocery market. This has led to a review of the approach and assumptions with respect to the possible impairment of Waitrose stores, where margins have trended significantly lower.

A reduction of 0.5% in the long-term growth rate would result in an additional impairment charge of £9.3m (2017: £2.4m). An increase in the discount rate of 0.5% would result in an additional impairment charge of £4.6m (2017: £1.5m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 OPERATING ASSETS AND LIABILITIES

3.3 INVESTMENT IN AND LOANS TO JOINT VENTURE

PURPOSE

Our balance sheet includes an investment in a joint venture, Clicklink Logistics Limited, which is used to support our business and the generation of our profits.

This note shows the cost of the investment in, and loans made to, the joint venture. It also includes details of the share of profit/loss and any dividends received from the joint venture during the year.

ACCOUNTING POLICY

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

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

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

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

Joint venture	Investment £m	Loan £m	Total £m
Cost			
At 28 January 2017	2.1	1.5	3.6
Additions	–	–	–
At 27 January 2018	**2.1**	**1.5**	**3.6**
Share of profit/(loss)			
At 28 January 2017	0.3	–	0.3
Share of loss	(1.0)	–	(1.0)
At 27 January 2018	**(0.7)**	**–**	**(0.7)**
At 28 January 2017	2.4	1.5	3.9
At 27 January 2018	**1.4**	**1.5**	**2.9**

3.4 ASSETS HELD FOR SALE

PURPOSE

Assets held for sale are non-current assets which are expected to be sold rather than held for continuing use in the Partnership. They have not been sold at the balance sheet date but are being actively marketed for sale, with a high probability of completion within 12 months.

At 27 January 2018, there were no assets recorded as held for sale. At 28 January 2017, one property asset was recorded as held for sale totalling £8.1m, in the John Lewis Division.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 OPERATING ASSETS AND LIABILITIES

3.5 COMMITMENTS AND CONTINGENCIES

PURPOSE

A commitment represents a contractual obligation to make a payment in the future. We have commitments for capital expenditure and operating leases. Contingent liabilities are potential future cash outflows where the likelihood of payment is more than remote but is not considered probable or cannot be measured reliably. We have contingencies in the form of lease guarantees arising from our former associate company, Ocado Limited.

In line with accounting standards, commitments and contingencies are not included within the balance sheet, but are detailed in the note below. The amounts below represent the maximum amounts that we are obliged to pay, with the exception of commitments under operating leases, where the future minimum payments under non-cancellable operating leases are disclosed. See note 5.6 for the leases accounting policy.

3.5.1 CAPITAL COMMITMENTS

At 27 January 2018, contracts had been entered into for future capital expenditure of £36.0m (2017: £19.5m) of which £29.3m (2017: £18.7m) relates to property, plant and equipment and £6.7m (2017: £0.8m) relates to intangible assets.

3.5.2 LEASE GUARANTEES

John Lewis plc continues to provide lease guarantees in favour of the Partnership's former associate company, Ocado Limited, in respect of leased land and buildings. The maximum liability due from the Partnership as the guarantor is £6.8m (2017: £6.8m) which will become payable if Ocado Limited defaults on rental payments. The likely timing of this cash flow is therefore uncertain.

3.5.3 COMMITMENTS UNDER OPERATING LEASES

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

Future aggregate minimum lease payments under non-cancellable operating leases, payable:	2018 Land and buildings £m	2017 Land and buildings £m
Within one year	**(188.9)**	(183.3)
Later than one year and less than five years	**(738.2)**	(711.4)
After five years	**(3,148.5)**	(2,954.6)

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years:	2018 Land and buildings £m	2017 Land and buildings £m
Later than five years and less than 10 years	**(847.6)**	(833.7)
Later than 10 years and less than 20 years	**(1,152.0)**	(1,116.9)
Later than 20 years and less than 40 years	**(598.0)**	(488.3)
Later than 40 years and less than 80 years	**(271.1)**	(205.1)
After 80 years	**(279.8)**	(310.6)
	(3,148.5)	(2,954.6)

Total future sub-lease payments receivable relating to the above operating leases amounted to £10.9m (2017: £10.4m).

Amounts recognised in the income statement	2018 £m	2017 £m
Operating lease rentals:		
– land and buildings	**(186.9)**	(177.7)
– plant and machinery	**(0.5)**	(0.5)
Sub-lease income:		
– land and buildings	**5.8**	5.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 WORKING CAPITAL AND PROVISIONS

IN THIS SECTION

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

4.1 INVENTORIES

PURPOSE

Our inventory is the stock available for sale or for manufacturing our products. This note sets out the make-up of our inventories between raw materials, work in progress and finished goods and goods for resale. Our raw materials and work in progress are primarily related to Herbert Parkinson and Leckford Farm. Slow moving and obsolete inventory is assessed each reporting period and an appropriate provision is made against the inventory balance. The value of inventory is shown net of provisions. Once the inventory is sold, it is charged to cost of sales in the consolidated income statement.

ACCOUNTING POLICY

Inventory valuation: Inventory is stated at the lower of cost, which is computed on the basis of average unit cost, and net realisable value. Inventory excludes merchandise purchased by the Partnership on a sale or return basis, where the Partnership does not have the risks and rewards of ownership. Slow moving and obsolete inventory is assessed for impairment at each reporting period based on past experience and an appropriate provision is made.

Inventory	2018 £m	2017 £m
Raw materials	**4.2**	5.2
Work in progress	**0.1**	0.2
Finished goods and goods for resale	**657.2**	622.4
	661.5	627.8

Provisions against inventories of £10.7m were charged (2017: £11.8m charged) in branch operating expenses.

4.2 TRADE AND OTHER RECEIVABLES

PURPOSE

Our receivables are amounts owed to the Partnership. This note provides a split of receivables into trade receivables, other receivables and prepayments and accrued income.

Trade receivables are amounts owed to us from customers and from suppliers if we are owed rebates. Other receivables include interest receivable from third parties and amounts due from our Partners in respect of the Partnership's car finance scheme. Prepayments are payments made in advance of the delivery of goods or rendering of services. Accrued income is income earned by the Partnership for providing a product or service which has not yet been invoiced.

Other receivables and prepayments are split into current and non-current to show those amounts due within a year and those which will be recovered over a longer period. Trade receivables are shown net of an allowance for debts which we do not consider to be recoverable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 WORKING CAPITAL AND PROVISIONS
4.2 TRADE AND OTHER RECEIVABLES CONTINUED

ACCOUNTING POLICIES

Trade receivables: Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less allowances for situations where recovery is doubtful. Such allowances are based on an individual assessment of each receivable.

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

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

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

Rebate income is recognised when the Partnership has contractual entitlement to the income, it can be estimated reliably and it is probable that it will be received.

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

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

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

Trade and other receivables	2018 £m	2017 £m
Current:		
Trade receivables	**84.5**	67.8
Other receivables	**39.8**	59.7
Prepayments	**101.5**	81.4
Accrued income	**35.9**	33.8
	261.7	242.7
Non-current:		
Other receivables	**18.3**	17.1
Prepayments	**47.0**	44.1
	65.3	61.2

Trade receivables are non-interest bearing and generally on credit terms of less than 90 days. Concentrations of credit risk are considered to be very limited. The carrying amount of trade and other receivables approximates to fair value and is denominated in Sterling. Within trade receivables is accrued rebate income of £9.7m (2017: £9.8m). Supplier income that has been invoiced but not paid is included in trade receivables and supplier income that has been invoiced but not yet settled against future trade payable balances is included in trade payables. As at 27 January 2018, trade and other receivables of £2.9m (2017: £1.2m) were fully impaired.

The creation and release of the allowance for impaired receivables has been included in branch operating expenses in the income statement. As at 27 January 2018, trade and other receivables of £26.2m (2017: £17.1m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

Ageing analysis	2018 £m	2017 £m
Up to 3 months past due	**24.5**	15.0
3 to 12 months past due	**1.1**	0.9
Over 12 months past due	**0.6**	1.2
	26.2	17.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 WORKING CAPITAL AND PROVISIONS

4.3 TRADE AND OTHER PAYABLES

PURPOSE

Trade and other payables include amounts owed by the Partnership. We owe payments to suppliers for goods or services that have been invoiced or accrued, and to HMRC in the form of taxes and social security. Amounts are payable to our Partners, through salaries and our annual profit share, the Partnership Bonus. Deferred income includes amounts owed to customers through goods to be delivered and incentives on property leases spread over the duration of the lease. Non-current trade and other payables and non-current deferred income balances are not expected to be settled within the next financial year.

ACCOUNTING POLICY

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

CRITICAL ACCOUNTING ESTIMATES

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

Trade and other payables	2018 £m	2017 £m
Current:		
Trade payables	**(943.3)**	(961.7)
Other payables	**(184.7)**	(169.1)
Other taxation and social security	**(178.8)**	(176.9)
Accruals	**(192.1)**	(170.6)
Deferred income	**(72.5)**	(78.4)
Partnership Bonus	**(66.5)**	(81.8)
	(1,637.9)	(1,638.5)
Non-current:		
Other payables	**(0.3)**	(0.3)
Deferred income	**(223.1)**	(219.4)
	(223.4)	(219.7)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 WORKING CAPITAL AND PROVISIONS

4.4 PROVISIONS

PURPOSE

We incur liabilities which have some uncertainty regarding the timing or the future cost required to settle them. These are termed provisions and have been estimated and provided for at the year-end. Our provisions primarily relate to the expected cost of long leave, service guarantees provided to customers, expected customer refunds, insurance claims, reorganisation costs, property related costs and pay provisions.

ACCOUNTING POLICIES

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

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

CRITICAL ACCOUNTING ESTIMATES

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

The provisions balance recognised in this note at the reporting date also includes the estimated cost of complying with the National Minimum Wage Regulations. The Partnership is in discussions with HMRC with regards to our pay arrangements and compliance with the Regulations, which are complex in nature. As these discussions with HMRC are ongoing we continue to hold a provision. The ultimate resolution of the liability may result in an amount that is different from that provided.

Provisions	Long leave £m	Service guarantee £m	Customer refunds £m	Insurance claims £m	Reorganisation £m	Other £m	Total £m
At 28 January 2017	(140.1)	(64.8)	(35.1)	(26.3)	(16.3)	(56.9)	(339.5)
Charged to income statement	(12.5)	(17.4)	(38.1)	(8.0)	(58.5)	(17.2)	(151.7)
Released to income statement	4.1	7.6	–	4.7	6.2	4.5	27.1
Utilised	8.9	19.5	33.8	4.6	38.4	13.2	118.4
At 27 January 2018	**(139.6)**	**(55.1)**	**(39.4)**	**(25.0)**	**(30.2)**	**(56.4)**	**(345.7)**
Of which:							
Current	(31.0)	(19.7)	(39.4)	(16.6)	(29.7)	(51.4)	(187.8)
Non-current	(108.6)	(35.4)	–	(8.4)	(0.5)	(5.0)	(157.9)

The Partnership 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 Partnership's retirement benefits (note 6.1), with the exception of the real discount rate, where a rate appropriate to the shorter duration of the long leave liability is used, so as to accrue the cost over Partners' service periods.

Provisions for service guarantee costs reflect the Partnership'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 Partnership's expected liability for returns of goods sold based on experience of rates of return.

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

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

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

Other provisions include property related costs and pay provisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 FINANCING

IN THIS SECTION

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

5.1 NET FINANCE COSTS

PURPOSE

Net finance costs include our costs in respect of interest payable on borrowings, our defined benefit pension and other employee benefit schemes. Finance income includes interest received from short-term deposits, short-term investments and fair value movements.

	2018 £m	2017 £m
Finance costs		
Net interest payable on:		
Commitment fees and bank overdrafts	**(1.3)**	(1.1)
Other loans repayable within five years	**(18.3)**	(23.6)
Other loans repayable in more than five years[1]	**(32.2)**	(31.0)
Finance lease interest payable	**(0.9)**	(1.0)
Amortisation of issue costs of bonds and credit facilities	**(1.5)**	(2.0)
Preference Share dividends	**–**	(0.2)
Share Incentive Plan dividends	**(0.4)**	(1.0)
Finance costs in respect of borrowings	**(54.6)**	(59.9)
Fair value measurements and other	**(1.9)**	(2.8)
Net finance costs arising on defined benefit and other employee benefit schemes	**(29.2)**	(47.0)
Total finance costs	**(85.7)**	(109.7)
Finance income		
Finance income in respect of cash and short-term investments[2]	**6.8**	1.7
Fair value measurements and other	**7.3**	0.2
Total finance income	**14.1**	1.9
Net finance costs	**(71.6)**	(107.8)

1 Other loans repayable in more than five years includes interest payable on interest rate swaps of £4.7m (2017: £nil).
2 Finance income in respect of cash and short-term investments includes interest receivable on interest rate swaps of £5.4m (2017: £nil).

	2018 £m	2017 £m
Total finance costs in respect of borrowings, excluding interest rate swaps	**(49.9)**	(59.9)
Net interest receivable in respect of interest rate swaps	**0.7**	–
Finance income in respect of cash and short-term investments, excluding interest rate swaps	**1.4**	1.7
Net finance costs in respect of borrowings and short-term investments	**(47.8)**	(58.2)
Fair value measurements and other	**5.4**	(2.6)
Net finance costs arising on defined benefit retirement scheme	**(25.3)**	(29.6)
Net finance costs arising on other employee benefit schemes	**(3.9)**	(17.4)
Net finance costs	**(71.6)**	(107.8)

Borrowing costs totalling £8.4m have been capitalised within Intangible assets (£7.2m) and Property, plant and equipment (£1.2m) in the year to 27 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 FINANCING

5.2 ANALYSIS OF NET DEBT

PURPOSE

Net debt summarises our debt position as at the year-end, excluding the pension deficit and operating leases. Net debt incorporates the Partnership's borrowings, bank overdrafts, fair value of derivative financial instruments and obligations under finance leases. These liabilities are offset by cash and cash equivalents, short-term investments and a portion of bond transaction costs that relate to the remaining duration of the bond. This note shows how our net debt position has moved from the prior year-end, split out between cash movements and non-cash movements.

	2017 £m	Cash movements £m	Other non-cash movements £m	**2018** **£m**
Non-current assets				
Derivative financial instruments	0.1	–	(0.1)	**–**
	0.1	–	(0.1)	**–**
Current assets				
Cash and cash equivalents	673.7	(31.5)	–	**642.2**
Short-term investments	60.0	60.0	–	**120.0**
Derivative financial instruments	15.3	14.9	(25.0)	**5.2**
	749.0	43.4	(25.0)	**767.4**
Current liabilities				
Borrowings and overdrafts	–	(0.1)	–	**(0.1)**
Finance leases	(1.2)	1.2	(0.7)	**(0.7)**
Derivative financial instruments	(7.2)	(6.8)	(5.8)	**(19.8)**
	(8.4)	(5.7)	(6.5)	**(20.6)**
Non-current liabilities				
Borrowings	(979.2)	–	30.3	**(948.9)**
Unamortised bond transaction costs	12.3	–	(1.2)	**11.1**
Fair value adjustment for hedged element on bonds	–	–	1.1	**1.1**
Finance leases	(23.3)	–	0.7	**(22.6)**
Derivative financial instruments	(1.1)	–	(2.9)	**(4.0)**
	(991.3)	–	28.0	**(963.3)**
Total net debt	(250.6)	37.7	(3.6)	**(216.5)**

Reconciliation of net cash flow to net debt	**2018** **£m**	2017 £m
(Decrease)/increase in net cash and cash equivalents in the year	**(31.6)**	6.3
Cash outflow from movement in short-term investments	**60.0**	50.0
Cash outflow from movement in other net debt items	**9.3**	97.7
Cash movement in net debt for the year	**37.7**	154.0
Opening net debt	**(250.6)**	(372.5)
Non-cash movement in net debt for the year	**(3.6)**	(32.1)
Closing net debt	**(216.5)**	(250.6)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 FINANCING
5.2 ANALYSIS OF NET DEBT CONTINUED

Our total borrowings and finance lease liabilities are summarised below.

	Borrowings £m	Finance lease liabilities £m	**Total £m**
At 30 January 2016	(1,041.6)	(27.3)	**(1,068.9)**
Movements arising from financing cash flows	62.5	2.8	**65.3**
Other non-cash movements	(0.1)	–	**(0.1)**
At 28 January 2017	(979.2)	(24.5)	**(1,003.7)**
Movements arising from financing cash flows	(0.1)	1.2	**1.1**
Other non-cash movements	30.3	–	**30.3**
At 27 January 2018	**(949.0)**	**(23.3)**	**(972.3)**

Other non-cash changes in 2018 relate to the reduction in the value of allocated SIP shares as explained in more detail in note 5.5.

Borrowings exclude unamortised bond transaction costs of £11.1m (2017: £12.3m) and the fair value adjustment for hedged element on bonds of £1.1m (2017: £nil).

5.3 SHORT-TERM INVESTMENTS

PURPOSE

Our short-term investments represent amounts on short-term deposits. They are deposited for a period of greater than 90 days but less than one year with financial institutions.

ACCOUNTING POLICY

Short-term investments: Short-term investments comprise tradable securities and deposits with original maturities of greater than 90 days but less than one year.

Short-term investments	**2018 £m**	2017 £m
Short-term investments	**120.0**	60.0

For the year ended 27 January 2018, the effective interest rate on short-term investments was 0.5% (2017: 0.5%) and these investments had an average maturity of 106 days (2017: 93 days).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 FINANCING

5.4 CASH AND CASH EQUIVALENTS

PURPOSE

Our cash and cash equivalents include cash in hand and cash placed on short-term deposits of less than 90 days with financial institutions and money market funds.

ACCOUNTING POLICY

Cash and cash equivalents: Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with original maturities of less than 90 days. In the consolidated statement of cash flows, net cash and cash equivalents comprise cash and cash equivalents, as defined above, net of bank overdrafts.

Cash and cash equivalents	2018 £m	2017 £m
Cash at bank and in hand	**128.4**	115.2
Short-term deposits	**513.8**	558.5
	642.2	673.7

For the year ended 27 January 2018, the effective interest rate on short-term deposits was 0.3% (2017: 0.4%) and these deposits had an average maturity of 1 day (2017: 1 day).

At 27 January 2018, £20.5m (2017: £33.4m) of the Partnership's cash balance and £nil (2017: £0.1m) of the Partnership's accrued interest balance was pledged as collateral. This is part of the Partnership's insurance arrangements and the release of these funds is subject to approval from third parties.

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

	2018 £m	2017 £m
Cash and cash equivalents, as above	**642.2**	673.7
Less bank overdrafts	**(0.1)**	–
Net cash and cash equivalents	**642.1**	673.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 FINANCING

5.5 BORROWINGS AND OVERDRAFTS

PURPOSE

Our borrowings comprise bonds, bank overdrafts and Share Incentive Plan shares, which are held in trust for the benefit of Partners.

ACCOUNTING POLICIES

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

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

Borrowing costs attributable to the acquisition or construction of a qualifying asset are capitalised. Qualifying assets are those that take a substantial period of time to get ready for their intended use. Capitalisation commences when both expenditure on the asset and borrowing costs are being incurred. Capitalisation ceases when the asset is ready for its intended use. The capitalisation rate used to determine the borrowing costs eligible for capitalisation is 6.5%.

Share Incentive Plan: The Share Incentive Plan (SIP or BonusSave) is initially measured at fair value and the liability is subsequently measured at amortised cost. It is de-recognised once the liability has been settled.

Borrowings and overdrafts	2018 £m	2017 £m
Current:		
Bank overdraft	**(0.1)**	–
	(0.1)	–
Non-current:		
8⅜% Bonds, 2019	**(275.0)**	(275.0)
6⅛% Bonds, 2025	**(300.0)**	(300.0)
4¼% Bonds, 2034	**(300.0)**	(300.0)
Unamortised bond transaction costs	**11.1**	12.3
Fair value adjustment for hedged element on bonds	**1.1**	–
Share Incentive Plan shares (SIP)	**(73.9)**	(104.2)
	(936.7)	(966.9)

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

SIP shares are issued as part of the BonusSave scheme. The SIP shares that are allocated to Partners are entitled to a dividend, the amount of which is determined from year to year by the Partnership Board. The amounts receivable in a winding up would be limited to the amounts that have been paid on the SIP shares. The amounts in respect of SIP shares are classified as debt as the Partnership has a clear obligation to repay the amounts.

The BonusSave scheme is operated by John Lewis Partnership Trust Limited which purchases SIP shares on behalf of Partners who have chosen to invest a portion of their bonus for this purpose. At 27 January 2018, the value of SIP shares purchased by John Lewis Partnership Trust Limited on behalf of Partners was £73.9m, £30.3m lower than the value of SIP shares issued of £104.2m.

In previous years, the Annual Report and Accounts would display the £104.2m of SIP shares issued and a receivable from John Lewis Partnership Trust Limited to John Lewis plc. On 25 January 2018, the Directors of John Lewis plc, John Lewis Partnership plc and John Lewis Partnership Trust Limited signed a tripartite net settlement agreement in relation to any potential future settlement of SIP balances. The net settlement agreement sets out that at the time of settlement, the parties (John Lewis plc, John Lewis Partnership plc, and John Lewis Partnership Trust Limited) will settle net (i.e. offset to the greatest extent possible). Hence the value of SIP shares is shown net as a balance of £73.9m, being the £104.2m (2017: £104.2m) SIP shares issued, offset by a receivable from John Lewis Partnership Trust Limited of £30.3m (2017: £18.7m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 FINANCING

5.6 FINANCE LEASE LIABILITIES

PURPOSE

We enter into leases for property, plant and equipment. Finance leases arise when the terms of the lease agreement substantially transfer all the risks and rewards of ownership of an asset to the Partnership. This note details the schedule of payments due over the life of the finance leases, together with the present value of the finance leases recorded in the consolidated balance sheet.

ACCOUNTING POLICY

Leased assets: Assets used by the Partnership which have been funded through finance leases on terms that transfer to the Partnership substantially all the risks and rewards of ownership are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The interest element of finance lease rentals is charged to the income statement. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

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

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

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

Finance lease liabilities	2018 £m	2017 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	**(1.6)**	(2.0)
Later than one year but not more than five	**(5.5)**	(5.9)
More than five years	**(35.2)**	(36.4)
	(42.3)	(44.3)
Future finance charge on finance leases	**19.0**	19.8
Present value of finance lease liabilities	**(23.3)**	(24.5)
Of which:		
Not later than one year	**(0.7)**	(1.2)
Later than one year but not more than five	**(2.6)**	(2.8)
More than five years	**(20.0)**	(20.5)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 PENSIONS

IN THIS SECTION

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

6.1 RETIREMENT BENEFITS

PURPOSE

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

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

The defined contribution section of the scheme is available to all Partners. Once Partners complete five years' service with the Partnership (three years' service for those who joined the Partnership before 1 April 2015), they will automatically join the defined benefit section of the scheme.

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

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

ACCOUNTING POLICY

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

The current service cost is the increase in the present value of the retirement benefit obligation resulting from employees' service in the current year. The current service cost is included within operating profit in the consolidated income statement.

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

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

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

Contributions to the Partnership's defined contribution section are charged to the income statement as they fall due. The Partnership has no further obligations once the contributions have been made.

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

CRITICAL ACCOUNTING ESTIMATES

Retirement benefits: This section details the assumptions used to calculate the total defined benefit pension obligation. This is the estimate of the current cost of meeting future benefits to be paid out by the pension scheme. The calculation requires the application of a discount rate to estimate the present day fair value of the pension payments, as well as assumptions on mortality rates, salary increases and inflation. Given the size of the Partnership's defined benefit obligation, relatively small movements in these assumptions could cause a material adjustment to the carrying amount of the obligation. Sensitivity analysis on the discount rate and other key assumptions is provided in note 6.1.5. During the year, management revised the methodology for deriving the nominal discount rate assumption used in valuing the pension obligation (please see page 121 for further information on this change in estimate).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 PENSIONS
6.1 RETIREMENT BENEFITS CONTINUED

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

The scheme is governed by a corporate Trustee which is independent of the Partnership. The Trustee is responsible for the operation and governance of the scheme, including making decisions regarding the scheme's investment strategy. During 2014/15, the Chairman, Partnership Board and Partnership Council of John Lewis Partnership plc approved changes to the level and form of future provision of pension benefits to Partners. This was the output of the Pension Benefit Review which commenced in 2013. The changes took place in two stages. From 1 April 2015 the waiting period to join the defined benefit section of the scheme was increased from three to five years. Then from 1 April 2016, the principal changes were to reduce the annual defined benefit accrual rate from 1/60th to 1/120th of final salary, and to provide an enhanced level of defined contribution pension for those Partners who have completed the waiting period. Other changes, applying only to any pension built up after 1 April 2016, included linking the Partnership normal retirement age to the State Pension Age, and a change in the rate of pension increases in payment.

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

Funding valuation
The pension scheme is subject to a full actuarial valuation every three years using assumptions agreed between the Trustee and the Partnership. The purpose of this valuation is to design a funding plan to ensure that the pension scheme has sufficient funds available to meet future benefit payments. The most recent valuation was carried out by an independent professionally qualified actuary as at 31 March 2016 and resulted in a funding deficit of £479.0m (31 March 2013: £840.0m). The market value of the assets of the scheme as at 31 March 2016 was £4,377.0m (31 March 2013: £3,169.0m). The actuarial valuation showed that these assets were sufficient to cover 90% (31 March 2013: 79%) of the benefits which had accrued to members.

The valuation calculated under the funding valuation basis of £479.0m is different from the accounting valuation which is presented on the balance sheet in the Partnership's financial statements of £731.3m. Differences arise between the funding valuation and accounting valuation, mainly due to the use of different assumptions to value the liabilities and changes in market conditions between the two valuation dates, of 31 March 2016 and 27 January 2018.

For funding valuation purposes the liabilities are determined based on assumptions set by the Trustee following consultation with the Partnership and scheme actuaries. The discount rate used for the most recent funding valuation is based on index linked gilt yields plus 1.6%.

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

As a result of the funding valuation, the Partnership and the Trustee agreed to put in place a plan to eliminate the deficit of £479.0m over a 10-year period. Contributions agreed as part of this plan are as follows:

- A reduction in the contribution rate from 16.4% to 10.4% of eligible monthly payroll.
- Deficit reducing contributions from 1 April 2016 to 31 March 2019 of £33m per annum to be paid in equal monthly instalments, increasing by 3% at 31 March 2017 and 31 March 2018.
- Deficit reducing contributions from 1 April 2019 to 31 March 2026 of £6.6m per annum to be paid in equal monthly instalments, increasing on 31 March each year by 3%.
- One-off contributions of £100m and £50m due by 31 January 2017 and 31 March 2017 respectively, of which the £100m was paid on 18 January 2017 and £50m was paid on 24 February 2017.

The balance of the deficit is expected to be met by investment returns on the scheme assets. Total contributions to the scheme in 2018/19, under this agreement are expected to be £146.9m.

Subsequent to the funding valuation being agreed, it was identified that certain pension scheme members were omitted from the calculation of the pension liabilities. Including these additional members increased the estimated pension liabilities by £31m (0.6%), from £4,856m to £4,887m. As a result, the Partnership has agreed to payments, in addition to the contributions described above, of £6.1m made in December 2017 and a further £3.2m per annum payable in equal monthly instalments from 1 April 2018 to 31 March 2026, increasing on 31 March each year by 3%.

The next triennial actuarial valuation of the scheme will take place as at 31 March 2019.

Pension commitments recognised in these accounts have been calculated based on the most recent actuarial valuation, as at 31 March 2016, which has been updated by actuaries to reflect the assets and liabilities of the scheme as at 27 January 2018, calculated on assumptions that are appropriate for accounting under IAS 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 PENSIONS
6.1 RETIREMENT BENEFITS CONTINUED

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

Specific risks include:

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

Change in accounting estimate – discount rate
During the year, the Directors have reviewed the methodology for deriving the nominal discount rate assumption in valuing the Partnership's pension obligation under IAS 19 Employee Benefits.]IAS 19 Employee Benefits requires that the nominal discount rate is set by reference to market yields on high quality corporate bonds of a suitable term consistent with the scheme cash flows. Where there are no high quality corporate bonds of appropriate duration to reference, an extrapolation from other bond yields is required.

The Partnership's pension scheme has cash flows spanning out over 50 years and an average duration of 22 years. At long durations there are few suitable high quality corporate bonds to reference in setting the nominal discount rate assumption. The Partnership's previous methodology was to take the yield on the iBoxx over 15 year AA corporate bond index plus an adjustment to reflect the duration of the Partnership's pension scheme. This adjustment was informed by reference to both observable corporate bond yields and government bond yields. The model now adopted by the Partnership is a yield curve approach, based on corporate bonds within the iBoxx AA corporate bond index. At very long durations, where there are no high quality corporate bonds of appropriate duration to reference, the yield curve is extrapolated based on observable corporate bond yields of mid to long durations. The Directors believe this more appropriately reflects expected yields on high quality corporate bonds over the duration of the Partnership's pension scheme.

The change in estimation methodology of the nominal discount rate model has resulted in a £210m gain from changes in financial assumptions recognised in equity, and a corresponding reduction in the retirement benefit obligations. The estimated impact of the change in methodology on the income statement for the year ended 26 January 2019 is a reduction in current service costs within operating expenses of £6.5m and a reduction in net interest on the net defined benefit liability included in finance costs of £4.4m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 PENSIONS
6.1 RETIREMENT BENEFITS CONTINUED

6.1.1 ASSUMPTIONS

PURPOSE

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

Financial assumptions
Scheme assets are stated at market values at 27 January 2018.

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

	2018	2017
Discount rate	**2.75%**	2.90%
Future retail price inflation (RPI)	**3.25%**	3.40%
Future consumer price inflation (CPI)	**2.25%**	2.40%
Increase in earnings	**3.45%**	3.50%
Increase in pensions – in payment		
Pre-April 1997	**1.70%**	1.75%
April 1997-April 2016	**3.00%**	3.10%
Post-April 2016	**1.70%**	1.75%
Increase in pensions – deferred	**2.25%**	2.40%

Increases in earnings are projected to be at 3.6% until 2021 and then at a long-term rate of 1.0% above consumer price inflation (2017: 1.0% above consumer price inflation). Increases in pensions in payment are projected to be 0.55% below consumer price inflation (2017: 0.65% below consumer price inflation) for pensionable service built up before April 1997, 0.25% (2017: 0.30%) below retail price inflation for pensionable service built up between April 1997 and April 2016, and 0.55% (2017: 0.65%) below consumer price inflation for pensionable service built up after April 2016, reflecting the impact of a cap on the level of pension increases. Increases in deferred pensions are projected to be in line with consumer price inflation.

Demographic assumptions
The post-retirement mortality assumptions used in valuing the pension liabilities were based on the S2 Light (2017: S2 Light) series standard tables. Based on scheme experience, the probability of death at each age was multiplied by 127% for males and 106% for females. Future improvements in life expectancy have been allowed for in line with the standard CMI 2016 (2017: CMI 2015) model projections subject to a long-term trend of 1.25%.

The average life expectancies assumed were as follows:

	2018		2017	
	Men	Women	Men	Women
Average life expectancy for a 65 year old (in years)	**21.5**	**23.8**	21.6	24.1
Average life expectancy at age 65, for a 50 year old (in years)	**22.5**	**25.0**	22.8	25.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 PENSIONS
6.1 RETIREMENT BENEFITS CONTINUED

6.1.2 AMOUNTS RECOGNISED IN THE FINANCIAL STATEMENTS

PURPOSE

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

Amounts recognised in the balance sheet	2018 £m	2017 £m
Defined benefit obligation for funded arrangements	(6,200.0)	(6,035.0)
Defined benefit obligation for unfunded arrangements	(24.0)	(24.0)
Total defined benefit obligation	(6,224.0)	(6,059.0)
Total value of scheme assets	5,492.7	5,045.3
Defined benefit liability at year-end	**(731.3)**	(1,013.7)

PURPOSE

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

Service cost is the cost to the Partnership of future benefits earned by members which are attributable to members' service in the current or past periods. The past service cost represents the change in the present value of the retirement benefit obligation in relation to employees' service in prior years.

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

Administration expenses are in relation to the pension scheme.

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

Amounts recognised in the income statement	2018 £m	2017 £m
Current service cost	(138.7)	(124.2)
Past service credit	–	270.0
Contribution expense*	(66.9)	(53.7)
Administrative expenses – funded by the pension scheme	(5.3)	(4.9)
Administrative expenses – funded by the employer	(4.7)	(5.1)
Total operating (expenses)/income	(215.6)	82.1
Net interest on net defined benefit liability	(25.3)	(29.6)
Total pension (charge)/income	**(240.9)**	52.5

* Includes Partnership contributions to the defined contribution section of the pension scheme of £62.5m (2017: £49.0m), together with cash supplements in respect of certain Partners in lieu of future pension accrual of £4.4m (2017: £4.7m).

In the year to 28 January 2017, the past service credit of £270.0m related to a reduction in pension liabilities arising from the changes to the annual discretionary increase for pension in retirement built up before 6 April 1997. See note 2.3.

Amounts recognised in equity	2018 £m	2017 £m
Return on plan assets greater than the discount rate	243.2	581.7
Remeasurements:		
– loss from changes in financial assumptions	(97.7)	(1,164.1)
– gain from changes in demographic assumptions	124.5	150.4
– experience losses	(22.5)	(0.6)
Total gains/(losses) recognised in equity	**247.5**	(432.6)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 PENSIONS
6.1 RETIREMENT BENEFITS CONTINUED

6.1.3 RECONCILIATION OF RETIREMENT BENEFITS

PURPOSE

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

Movements in the net defined benefit liability are as follows:

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

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

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

Reconciliation of net defined benefit liability	2018 £m	2017 £m
Net defined benefit liability at beginning of year	**(1,013.7)**	(941.6)
Pension (expense)/income	**(169.3)**	111.3
Contributions	**204.2**	249.2
Total gains/(losses) recognised in equity	**247.5**	(432.6)
Net defined benefit liability at end of year	**(731.3)**	(1,013.7)

PURPOSE

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

Service cost is the cost to the Partnership of future benefits earned by members which are attributable to members' service in the current or past periods. Current service costs relate to benefits accrued by Partners during the current year, and past service credits/costs are changes in the present value of the defined benefit obligation relating to members' service in prior years, which may arise as a result of changes made to the scheme during the year. Both current and past service costs are charged to the income statement, along with any gains or losses on settlement.

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

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

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

Reconciliation of defined benefit obligation	2018 £m	2017 £m
Defined benefit obligation at beginning of year	**(6,059.0)**	(5,140.0)
Current service cost	**(138.7)**	(124.2)
Past service credit	**–**	270.0
Interest on pension liabilities	**(173.7)**	(187.9)
Remeasurements		
– loss from changes in financial assumptions	**(97.7)**	(1,164.1)
– gain from changes in demographic assumptions	**124.5**	150.4
– experience losses	**(22.5)**	(0.6)
Benefits paid	**143.1**	137.4
Defined benefit obligation at end of year	**(6,224.0)**	(6,059.0)

The scheme liabilities are 45.4% in respect of active scheme participants, 32.9% in respect of deferred scheme participants and 21.7% in respect of retirees.

The weighted average duration of the scheme liabilities at the end of the year is 22 years (2017: 22 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 PENSIONS
6.1 RETIREMENT BENEFITS CONTINUED
6.1.3 RECONCILIATION OF RETIREMENT BENEFITS CONTINUED

PURPOSE

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

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

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

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

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

Reconciliation of value of assets	2018 £m	2017 £m
Value of assets at the beginning of year	**5,045.3**	4,198.4
Interest income on assets	**148.4**	158.3
Return on plan assets greater than discount rate	**243.2**	581.7
Benefits paid	**(143.1)**	(137.4)
Administrative expenses paid	**(5.3)**	(4.9)
Contributions	**204.2**	249.2
Value of assets at the end of year	**5,492.7**	5,045.3

6.1.4 ANALYSIS OF ASSETS

				2018				2017
	Quoted £m	Unquoted £m	Total £m	Total %	Quoted £m	Unquoted £m	Total £m	Total %
Equities								
UK	**55.4**	**39.8**	**95.2**	**1.7%**	50.2	33.1	83.3	1.7%
Rest of the world	**623.0**	**1,058.4**	**1,681.4**	**30.6%**	510.8	867.9	1,378.7	27.3%
Bonds								
Government – Rest of the world	**76.7**	**5.3**	**82.0**	**1.5%**	49.2	–	49.2	1.0%
Corporates – UK	**2.9**	**2.1**	**5.0**	**0.1%**	5.3	–	5.3	0.1%
Corporates – Rest of the world	**52.2**	**124.4**	**176.6**	**3.2%**	80.7	131.1	211.8	4.2%
Property								
UK	**–**	**515.4**	**515.4**	**9.4%**	–	468.4	468.4	9.3%
Rest of the world	**–**	**0.9**	**0.9**	**<0.1%**	–	1.7	1.7	<0.1%
Alternative assets								
Liability driven investments	**–**	**848.7**	**848.7**	**15.5%**	–	837.9	837.9	16.6%
Hedge funds	**–**	**957.8**	**957.8**	**17.4%**	–	942.5	942.5	18.7%
Private equity	**–**	**294.0**	**294.0**	**5.4%**	–	332.0	332.0	6.6%
Other alternative assets	**–**	**671.6**	**671.6**	**12.2%**	–	611.9	611.9	12.1%
Cash and other	**164.1**	**–**	**164.1**	**3.0%**	122.6	–	122.6	2.4%
Total market value of assets	**974.3**	**4,518.4**	**5,492.7**	**100.0%**	818.8	4,226.5	5,045.3	100.0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 PENSIONS
6.1 RETIREMENT BENEFITS CONTINUED
6.1.4 ANALYSIS OF ASSETS CONTINUED

The Trustee's investment strategy as set out in their Statement of Investment Principles dated 28 July 2017 is to hold 80% of assets in a return-seeking portfolio that aims to reduce concentrations of risk by diversifying across a range of asset classes and geographies. The remaining assets are used to provide a liability matching portfolio with the intention of matching movements in the assessed values of the pension liabilities due to movements in interest rates and inflation. In 2016 the Trustee initiated a three to five year interest rate and inflation hedging programme which will increase the level of liability matching to 60% over this time period (the current level is 36%). This will be achieved using derivatives, and therefore the allocation to return seeking assets is not intended to reduce.

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

Liability driven investments include UK government bond and cash equivalent assets valued at £1,561.7m (2017: £1,201.7m) and associated repurchase agreements and swaps valued at £(713.0)m (2017: £(363.8)m). This is part of the Trustee's interest rate and inflation hedging strategy.

Other alternative assets include investments in infrastructure funds of £236.6m (2017: £205.7m), insurance linked funds £201.6m (2017: £115.4m) and private debt £233.4m (2017: £290.8m).

Cash and other includes cash deposits of £118.3m (2017: £129.4m), forward foreign exchange contracts valued at £40.3m (2017: (£4.4)m) and other items valued at £5.5m (2017: (£2.4)m).

Actual return on assets	2018 £m	2017 £m
Interest income on assets	**148.4**	158.3
Return on plan assets greater than discount rate	**243.2**	581.7
Actual return on assets	**391.6**	740.0

6.1.5 SENSITIVITY ANALYSIS

PURPOSE

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

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

	£m	% change
Liability as at 27 January 2018	**(731.3)**	
Sensitivity of 0.1% increase to:		
– Discount rate*	**120.0**	**16.4**
– Retail price inflation	**(65.0)**	**(8.9)**
– Consumer price inflation	**(55.0)**	**(7.5)**
– Salary increases	**(35.0)**	**(4.8)**
Sensitivity of one-year increase in life expectancy	**(230.0)**	**(31.5)**

* The discount rate sensitivity does not allow for the impact of the Trustee's investment strategy. As set out in note 6.1.4 this is designed to offset movements in the discount rate and their impact on the liabilities. At 27 January 2018, an increase of 0.1% to the discount rate would have also resulted in an increase in assets of 0.7%. The increase in the assets would have reduced the impact on the net liability by £39.7m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 PENSIONS
6.1 RETIREMENT BENEFITS CONTINUED

6.1.6 OTHER ARRANGEMENTS

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

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

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

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

Under IAS 19, the investment held by the pension scheme in JLP Scottish Limited Partnership, a consolidated entity, does not represent a plan asset for the purpose of the Partnership's consolidated financial statements. Accordingly, the pension deficit position presented in these consolidated accounts does not reflect the £80.8m (2017: £82.8m) investment in JLP Scottish Limited Partnership held by the pension scheme. The distribution of JLP Scottish Limited Partnership profits to the pension scheme is reflected as pension contributions in these consolidated financial statements on a cash basis.

John Lewis Properties plc guarantee
As part of agreeing the funding valuation in 2017, John Lewis Properties plc provided a corporate guarantee to the pension scheme. This guarantee means that if John Lewis plc fails to make any payments due to the scheme for any reason, then the pension scheme can claim against John Lewis Properties plc for those payments. As part of the guarantee, John Lewis Properties plc is required to maintain at least £800.0m of net assets. The guarantee has improved the recovery to the pension scheme in the event of insolvency of the Partnership.

7 FINANCIAL RISK MANAGEMENT

IN THIS SECTION

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

7.1 MANAGEMENT OF FINANCIAL RISKS

PURPOSE

The principal financial risks that we are exposed to relate to the capital structure and long-term funding of the Partnership and also to the markets and counterparties we are exposed to in our operations. These risks can be summarised as: capital and long-term funding risk, liquidity risk, interest rate risk, foreign currency risk, credit risk and energy risk. This note details how each of these risks is managed.

7.1.1 CAPITAL AND LONG-TERM FUNDING RISK

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

The Partnership's capital management strategy is to maintain a prudent capital structure, seeking to ensure the long-term financial sustainability of the Partnership by maintaining a financial risk profile consistent with an investment grade credit rating. Although the Partnership does not have an external credit rating, it routinely monitors its capital and liquidity requirements, primarily through the Debt Ratio (see page 30), whilst maintaining an appropriate level of cash and committed debt headroom and a managed debt maturity profile to reduce refinancing risk and ensure continuity of funding. Forms of borrowing include bond issues, assets acquired via finance leases, assets obtained for use via operating leases, the pension deficit and Share Incentive Plan shares as part of the BonusSave scheme.

7.1.2 LIQUIDITY RISK

In line with the Partnership Board approved Treasury Standard, the Partnership is required to hold a minimum amount of liquidity, made up of a mixture of cash and undrawn committed credit facilities. Liquidity requirements are managed in line with short and long-term cash flow forecasts and reviewed against the Partnership's debt portfolio and maturity profile. Surplus cash is invested in interest bearing accounts, short-term deposits and other short-term investments with sufficient, prudent liquidity determined by the above mentioned cash flow forecasts. The Partnership actively reviews and manages its cash holdings, sources of debt and committed credit facilities. Greater emphasis has been placed on cash balances providing a material portion of the Partnership's overall liquidity, with undrawn committed credit facilities complementing these balances. The Partnership has a £450m committed credit facility, maturing November 2021 and a £50m committed credit facility maturing in March 2021. At the year-end, the Partnership had total undrawn committed credit facilities of £500m (2017: £450m). In addition to these facilities, the Partnership has listed bonds totalling £875m (2017: £875m) of which £275m mature in 2019, £300m in 2025 and £300m in 2034. The bonds have fixed coupons, and their maturity profiles are set out in note 7.3.

The Partnership's listed bonds and committed credit facilities contain financial covenants. Throughout the year the Partnership maintained comfortable headroom against its covenants and is expected to do so into the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 FINANCIAL RISK MANAGEMENT
7.1 MANAGEMENT OF FINANCIAL RISKS CONTINUED
7.1.2 LIQUIDITY RISK CONTINUED

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

	Due within 1 year £m	Due between 1 and 2 years £m	Due 2 years and beyond £m
Non-derivative financial liabilities			
Borrowings and overdrafts	(0.1)	(275.0)	(673.9)
Interest payments on borrowings	(54.2)	(54.2)	(283.1)
Finance lease liabilities	(1.5)	(1.4)	(39.4)
Trade and other payables	(1,386.6)	(0.3)	–
Derivative financial liabilities			
Derivative contracts – receipts	342.2	106.5	30.7
Derivative contracts – payments	(356.4)	(108.3)	(31.8)
At 27 January 2018	**(1,456.6)**	**(332.7)**	**(997.5)**

	Due within 1 year £m	Due between 1 and 2 years £m	Due 2 years and beyond £m
Non-derivative financial liabilities			
Borrowings and overdrafts	–	–	(979.2)
Interest payments on borrowings	(54.2)	(54.2)	(337.3)
Finance lease liabilities	(2.1)	(1.5)	(40.7)
Trade and other payables	(1,383.2)	(0.3)	–
Derivative financial liabilities			
Derivative contracts – receipts	288.6	62.1	–
Derivative contracts – payments	(275.5)	(62.6)	–
At 28 January 2017	(1,426.4)	(56.5)	(1,357.2)

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

7.1.3 INTEREST RATE RISK

In order to manage the risk of interest rate fluctuations on the Partnership's financial debt and cash, the Partnership targets a range of fixed and floating rate debt in line with the Partnership Board approved Treasury Standard. An analysis of the Partnership's financial liabilities is detailed in note 7.3. Exposures to interest rate fluctuations are managed, when required, using interest rate derivatives. During the year, the Partnership converted £100.0m of fixed rate debt to floating rate debt using interest rate swap contracts. The interest rate swap contracts were designated as fair value hedges and fair value movements have been recognised within the income statement. Derivative financial instruments recognised as fair value hedges during the year were effective.

7.1.4 FOREIGN CURRENCY RISK

The Partnership uses derivative financial instruments to manage exposures to movements in exchange rates arising from transactions with overseas based suppliers and other organisations. Foreign exchange management committees exist for each of the Waitrose and John Lewis Divisions and they meet regularly to oversee the foreign exchange purchasing activities for each Division. Foreign currency exposures are hedged primarily using forward foreign exchange contracts covering up to 100% of forecast direct exposures on a rolling basis. Forward foreign exchange contracts used to hedge forecast currency requirements are designated as cash flow hedges with fair value movements recognised in equity. Derivative financial instruments that were designated as cash flow hedges during the year were effective. At the balance sheet date, the notional value of open forward foreign currency contracts of £453.1m (2017: £349.5m) had been entered into, to hedge purchases in foreign currencies which will mature over the next 24 months.

In addition, the Partnership has purchased $200m (£142m) of Sterling/US Dollar options, which expire in October 2018, in order to help manage its indirect currency risk. Fair value movements in the option contracts will be recognised within the income statement. The indirect risk being hedged is defined as the Partnership's economic exposure to the change in price of goods and services which have foreign currency input costs but which are predominantly paid for in Sterling.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 FINANCIAL RISK MANAGEMENT
7.1 MANAGEMENT OF FINANCIAL RISKS CONTINUED

7.1.5 CREDIT RISK

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

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

	2018 £m	2017 £m
Trade and other receivables	**142.6**	144.6
Short-term investments	**120.0**	60.0
Cash and cash equivalents	**642.2**	673.7
Derivative financial instruments	**5.2**	15.4
	910.0	893.7

7.1.6 ENERGY RISK

The Partnership operates risk management processes for the Partnership's energy costs associated with its activities. The Partnership's energy policy is reviewed by an energy committee, which meets regularly to review pricing exposure to diesel, electricity and gas consumption and determines strategy for forward purchasing and hedging of energy costs using flexible purchase contracts and by entering into over-the-counter diesel swap contracts.

7.1.7 SENSITIVITY ANALYSIS

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

The analysis excludes the impact of movements in market variables on the carrying value of pension and other post-retirement obligations and provisions, which is addressed in note 6.1.5.

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

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

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

	2018		2017	
	Income statement +/- £m	Equity +/- £m	Income statement +/- £m	Equity +/- £m
UK interest rates +/- 1% (2017: +/- 1%)	**4.9**	**–**	7.5	–
US Dollar exchange rate (GBP/USD) +/- 10% (2017: +/- 10%)	**12.2**	**21.9**	0.9	19.2
Euro exchange rate (GBP/EUR) +/- 10% (2017: +/- 10%)	**0.7**	**15.7**	0.8	10.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 FINANCIAL RISK MANAGEMENT

7.2 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES

PURPOSE

We use cash flow hedges to manage the risk of adverse currency movements.

This note details the fair value of these financial instruments and financial liabilities, together with the valuation techniques and key assumptions made in determining the fair value, as required by IFRS. The fair value represents the amount that would be received from the sale of an asset or the amount that would be paid to pass on a liability.

7.2.1 BASIS OF FAIR VALUE

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

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

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

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

During the year ended 27 January 2018, there have been no transfers between any levels of the IFRS 13 fair value hierarchy and there were no reclassifications of financial assets as a result of a change in the purpose or use of those assets.

7.2.2 FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is as follows:

	2018		2017	
Fair value of derivative financial instruments	**Assets £m**	**Liabilities £m**	Assets £m	Liabilities £m
Non-current				
Currency derivatives – cash flow hedge	**–**	**(2.9)**	0.1	(1.1)
Other derivatives	**–**	**(1.1)**	–	–
	–	**(4.0)**	0.1	(1.1)
Current				
Currency derivatives – cash flow hedge	**1.5**	**(19.8)**	14.1	(3.3)
Other derivatives	**3.7**	**–**	1.2	(3.9)
	5.2	**(19.8)**	15.3	(7.2)

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 FINANCIAL RISK MANAGEMENT
7.2 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES CONTINUED

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

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

	2018 £m		2017 £m	
	CV	**FV**	CV	FV
Financial liabilities				
Listed bonds	**(863.9)**	**(982.6)**	(862.7)	(997.3)

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

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

7.3 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

PURPOSE

This note sets out the currency exposure of our financial assets and liabilities. The currency analysis details the amount of financial assets, primarily cash and cash equivalents, and financial liabilities, held in Sterling or other currencies, together with the amounts at floating or fixed interest rates. The maturity analysis provides an indication of repayment phasing for the financial liabilities.

7.3.1 ANALYSIS OF FINANCIAL ASSETS

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

Currency analysis	Floating rate £m	Non-interest bearing £m	Total £m
Sterling financial assets	663.1	98.4	761.5
Other financial assets	0.7	–	0.7
At 27 January 2018	**663.8**	**98.4**	**762.2**
Sterling financial assets	617.6	115.2	732.8
Other financial assets	0.9	–	0.9
At 28 January 2017	618.5	115.2	733.7

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 FINANCIAL RISK MANAGEMENT
7.3 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES CONTINUED

7.3.2 ANALYSIS OF FINANCIAL LIABILITIES

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

Currency analysis	Fixed rate £m	Floating rate £m	Total £m
All Sterling			
At 27 January 2018	**(787.2)**	**(174.0)**	**(961.2)**
At 28 January 2017	(887.2)	(104.2)	(991.4)

Maturity of financial liabilities	2018 £m	2017 £m
Repayable within one year		
Bank overdrafts	**(0.1)**	–
Property finance leases	**(0.7)**	(1.2)
	(0.8)	(1.2)
Repayable between one and two years		
Property finance leases	**(0.6)**	(0.7)
Bonds	**(275.0)**	–
Unamortised bond transaction costs	**0.4**	–
	(275.2)	(0.7)
Repayable between two and five years		
Property finance leases	**(2.0)**	(2.1)
Bonds	**–**	(275.0)
Unamortised bond transaction costs	**–**	0.8
	(2.0)	(276.3)
Repayable in more than five years		
Property finance leases	**(20.0)**	(20.5)
Bonds	**(600.0)**	(600.0)
Unamortised bond transaction costs	**10.7**	11.5
Share Incentive Plan shares	**(73.9)**	(104.2)
	(683.2)	(713.2)
	(961.2)	(991.4)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8 OTHER NOTES

IN THIS SECTION

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

8.1 SHARE CAPITAL

PURPOSE

Share capital consists of Ordinary Shares. It is measured as the number of shares issued and fully paid, multiplied by their nominal value.

	2018		2017	
Share capital	**Authorised £m**	**Issued and fully paid £m**	Authorised £m	Issued and fully paid £m
Equity				
Deferred Ordinary Shares				
612,000 of £1 each	**0.6**	**0.6**	0.6	0.6

The Deferred Ordinary Shares rank in all respects as equity shares except that each share has 1,000 votes in a vote taken on a poll.

The Deferred Ordinary Shares are held by John Lewis Partnership Trust Limited in trust for the benefit of Partners. Ultimate control rests with John Lewis Partnership Trust Limited.

8.2 RELATED PARTY TRANSACTIONS

PURPOSE

Two or more parties are considered to be related if one party has direct or indirect control or significant influence over financial or operating policies of the other party. We have a number of related parties with whom we transact, including the Pension Scheme Trustee, John Lewis Partnership Trust Limited, key management personnel and certain related charities. We are required by IFRS to detail the transactions made in the year with related parties to draw attention to the possibility that our financial position and results may have been affected by them. This disclosure allows us to demonstrate that we are transacting fairly with all our related parties.

8.2.1 SUBSIDIARIES AND RELATED UNDERTAKINGS

All transactions between the Partnership and its subsidiaries and related undertakings are eliminated upon consolidation, and therefore do not need to be disclosed separately. A list of subsidiaries and related undertakings within the Partnership is included within note 16. Loans to joint ventures are disclosed in note 3.3.

8.2.2 ARRANGEMENTS WITH PENSION SCHEME TRUSTEE

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

In December 2011 the Partnership sold a property to the main pension scheme for £10.6m and entered into an operating lease in respect of the property. These transactions were at market values. In the year to 28 January 2017, the pension scheme disposed of the property, therefore no payments were made in respect of the operating lease (2017: £0.8m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8 OTHER NOTES
8.2 RELATED PARTY TRANSACTIONS CONTINUED

8.2.3 ARRANGEMENTS WITH JOHN LEWIS PARTNERSHIP TRUST LIMITED

John Lewis Partnership Trust Limited is a related party and holds the Deferred Ordinary Shares in the Partnership on behalf of the Partners. John Lewis Partnership Trust Limited facilitates the approval and payment of the Partnership Bonus and BonusSave. At the year-end, the value of Share Incentive Plan shares purchased by John Lewis Partnership Trust Limited on behalf of Partners was £73.9m, £30.3m lower than the value of SIP shares issued of £104.2m. The £104.2m of SIP shares issued are recorded in the Company's balance sheet within borrowings, offset by a receivable from the John Lewis Partnership Trust Limited of £30.3m (2017: £18.7m). See note 5.5.

8.2.4 OTHER TRANSACTIONS

Key management compensation has been disclosed in note 2.6.

During the year the Partnership provided administrative support services to charities related to the Partnership. The estimated value of these support services is £81,000 (2017: £116,000). The Partnership also made donations totalling £0.6m (2017: £1.1m) to the John Lewis Foundation.

8.3 SUBSEQUENT EVENTS

PURPOSE

Events that take place after the balance sheet date of 27 January 2018 and before the date the financial statements are signed are recorded in this note. In order to be disclosed, these events must be sufficiently material to warrant disclosure.

8.3.1 PENSION CONTRIBUTIONS

On 22 February 2018, the Partnership made a contribution to the pension fund of £90.5m. This is an early payment of 10 months of normal contributions due between March 2018 and December 2018. No accounting was recorded for the year ended 27 January 2018 in respect of these payments.

COMPANY FINANCIAL STATEMENTS

COMPANY BALANCE SHEET

AS AT 27 JANUARY 2018

Notes		2018 £m	2017 £m
	Non-current assets		
11	Investments	**121.1**	121.2
	Total assets	**121.1**	121.2
	Current liabilities		
13	Trade and other payables	**(1.4)**	(2.5)
	Non-current liabilities		
12	Borrowings	**(104.2)**	(104.2)
	Total liabilities	**(105.6)**	(106.7)
	Net assets	**15.5**	14.5
	Equity		
14	Share capital	**0.6**	0.6
	Capital redemption reserve	**5.0**	5.0
	Retained earnings	**9.9**	8.9
	Total equity	**15.5**	14.5

WE SEPARATELY DISCLOSE THE FINANCIAL STATEMENTS OF THE PARENT COMPANY, JOHN LEWIS PARTNERSHIP PLC, AS REQUIRED BY ACCOUNTING STANDARDS.

The financial statements on pages 136 to 139 were approved by the Board of Directors on 12 April 2018 and signed on its behalf by

Sir Charlie Mayfield and **Patrick Lewis**

Directors, John Lewis Partnership plc

Registered number 00238937

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 27 JANUARY 2018

Notes		Share capital £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
	Balance at 30 January 2016	0.6	5.0	8.1	13.7
10	Profit for the year and total comprehensive income	–	–	0.8	0.8
	Balance at 28 January 2017	0.6	5.0	8.9	14.5
10	Profit for the year and total comprehensive income	–	–	1.0	1.0
	Balance at 27 January 2018	**0.6**	**5.0**	**9.9**	**15.5**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

9 ACCOUNTING POLICIES

PURPOSE

John Lewis Partnership plc (the Company) prepares its accounts under International Financial Reporting Standards (IFRS) as adopted by the European Union. Below we set out significant accounting policies applied by the Company in the current reporting period where they are different, or additional, to those used by the Partnership. The accounting policies are set in line with the requirements of IFRS and there have been no changes in accounting policies during the year other than those set out under 'Amendments to accounting standards' in note 1 to the Partnership's consolidated financial statements.

Basis of preparation

The separate financial statements of the Company are drawn up in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and with the Companies Act 2006.

The Company's accounting policies are aligned with the Partnership's accounting policies as described in note 1 to the Partnership's consolidated financial statements. Additional accounting policies are noted below.

The Directors, after reviewing the Company's operating budgets, investment plans and financing arrangements, consider that the Company has sufficient financing available over a period of at least 12 months from the date of approval of this report. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the Company financial statements.

John Lewis plc settles transactions on behalf of John Lewis Partnership plc for administrative convenience, including amounts in respect of subscription for BonusSave, dividend payments and amounts owed to tax authorities. The settlement of these transactions are reflected in the intercompany loan. As a result, no cash flows through John Lewis Partnership plc and no cash is generated from its operations, so a Company cash flow statement is not required.

Investment in subsidiary undertakings

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

10 PROFIT AND LOSS OF THE COMPANY FOR THE YEAR

PURPOSE

The Company is exempt from disclosing a full income statement as allowed by the Companies Act 2006, therefore the profit for the Company for the year is disclosed within this note.

As permitted by Section 408 of the Companies Act 2006, John Lewis Partnership plc has not presented its own income statement or statement of comprehensive income/(expense).

The result dealt with in the accounts of the Company amounted to £1.0m profit (2017: £0.8m profit).

Details of auditor's remuneration are provided in note 2.4 to the Partnership's consolidated financial statements.

11 INVESTMENTS

PURPOSE

This note sets out the value of the shares owned or amounts loaned to subsidiary companies directly invested in by the Company, which, together with their own subsidiaries, consolidate to form the Partnership.

The Company has the following investments at 27 January 2018.

	Subsidiary		Other	
Investments	Shares in John Lewis plc £m	Loan to John Lewis plc £m	Shares in John Lewis Partnership Trust Limited £m	Total £m
At 28 January 2017	11.3	109.8	0.1	121.2
Movements	–	(0.1)	–	(0.1)
At 27 January 2018	**11.3**	**109.7**	**0.1**	**121.1**

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

12 BORROWINGS

PURPOSE

Borrowings consist of Share Incentive Plan shares, which are allocated to Partners who are entitled to a dividend.

Borrowings	2018 £m	2017 £m
Non-current:		
Share Incentive Plan shares	**(104.2)**	(104.2)
	(104.2)	(104.2)

13 TRADE AND OTHER PAYABLES

PURPOSE

Trade and other payables include amounts we owe in respect of BonusSave dividends, and to HMRC in the form of taxes.

Trade and other payables	2018 £m	2017 £m
Other payables	**(1.4)**	(2.5)

All of the Company's trade and other payables are current. The carrying amount of trade and other payables approximates to fair value.

14 SHARE CAPITAL

PURPOSE

Share capital consists of Ordinary Shares and is measured as the number of shares issued and fully paid multiplied by their nominal value.

	2018		2017	
Share capital	Authorised £m	Issued and fully paid £m	Authorised £m	Issued and fully paid £m
Equity				
Deferred Ordinary Shares				
612,000 of £1 each	**0.6**	**0.6**	0.6	0.6

The Deferred Ordinary Shares rank in all respects as equity shares except that each share has 1,000 votes in a vote taken on a poll. The Deferred Ordinary Shares are held by John Lewis Partnership Trust Limited in trust for the benefit of Partners. Ultimate control rests with John Lewis Partnership Trust Limited.

15 RELATED PARTY TRANSACTIONS

PURPOSE

Two or more parties are considered to be related if one party has direct or indirect control or significant influence over financial or operating policies of the other party. We have a number of related parties with whom we transact, including the Pension Scheme Trustee and John Lewis Partnership Trust Limited. We are required by IFRS to detail the transactions made in the year with related parties to draw attention to the possibility that our financial position and results may have been affected by them. This disclosure allows us to demonstrate that we are transacting fairly with all our related parties.

15.1 LOAN TO JOHN LEWIS PLC

The loan to John Lewis plc has been disclosed in note 11.

15.2 OTHER TRANSACTIONS

Arrangements with Pension Scheme Trustee and John Lewis Partnership Trust Limited are disclosed within note 8.2 to the Partnership's consolidated financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

16 SUBSIDIARIES AND RELATED UNDERTAKINGS

The Company has a number of subsidiaries which contribute to the overall profitability of the Partnership.

The Company's only direct 100% owned subsidiary as at 27 January 2018 was:

Name	Principal activity	Country of incorporation	Class of share	Percentage shareholdings
John Lewis plc	Department store retailing, corporate and shared services	England & Wales[1]	Ordinary	100%

1 The address of the registered office is 171 Victoria Street, London SW1E 5NN.

Subsidiary and related undertakings of John Lewis plc:

Name	Principal activity	Country of incorporation	Class of share	Percentage shareholdings
Admiral Park Retail Management Limited	Property holding company	Guernsey[2]	Ordinary	54%
Buy.Com Limited	Dormant	England & Wales[1]	Ordinary	100%
Herbert Parkinson Limited*	Manufacturing and making up	England & Wales[1]	Ordinary	100%
JLP Insurance Limited*	Insurance	Guernsey[7]	Ordinary	100%
JLP Scotland Limited	Non-trading	Scotland[5]	Ordinary	100%
JLP Scottish Limited Partnership*(i)	Investment holding undertaking	Scotland[6]	Partnership interest	100%
JLP Scottish Partnership*(ii)	Investment holding undertaking	Scotland[6]	Partnership interest	100%
John Lewis Car Finance Limited*	Car finance	England & Wales[1]	Ordinary	100%
John Lewis Delivery Limited	Dormant	England & Wales[1]	Ordinary	100%
John Lewis Hong Kong Limited	Sourcing company	Hong Kong[4]	Ordinary	100%
John Lewis Properties plc*	Property holding company	England & Wales[1]	Ordinary	100%
John Lewis PT Holdings Limited	Holding company	England & Wales[1]	Ordinary	100%
John Lewis Partnership Pensions Trust	Non-trading	England & Wales[1]	Ordinary	100%
John Lewis International Limited*	International retail	England & Wales[1]	Ordinary	100%
Jonelle Jewellery Limited	Dormant	England & Wales[1]	Ordinary	100%
Jonelle Limited	Dormant	England & Wales[1]	Ordinary	100%
Leckford Estate Limited	Dormant	England & Wales[1]	Ordinary	100%
Park One Management Limited	Provision of management services	England & Wales[1]	Ordinary	37%
Peter Jones Limited	Dormant	England & Wales[1]	Ordinary	100%
The Odney Estate Limited	Dormant	England & Wales[1]	Ordinary	100%
Waitrose (Jersey) Limited*	Food retailing	Jersey[3]	Ordinary	100%
Waitrose (Guernsey) Limited*	Food retailing	Guernsey[2]	Ordinary	100%
Waitrose Limited*	Food retailing	England & Wales[1]	Ordinary	100%
Clicklink Logistics Limited	Joint venture	England & Wales[8]	Ordinary	50%

* Principal subsidiary undertaking as at 27 January 2018.

1 The address of the registered office is 171 Victoria Street, London SW1E 5NN.
2 The address of the registered office is Martello Court, Admiral Park, St Peter Port, Guernsey GY1 3HB.
3 The address of the registered office is 44 Esplanade, St Helier, Jersey JE4 9WG.
4 The address of the registered office is Suite 3201, Jardine House, 1 Connaught Place, Central, Hong Kong.
5 The address of the registered office is John Lewis Aberdeen, George Street, Aberdeen AB25 1BW.
6 The address of the registered office is John Lewis, 69 St James Centre, Edinburgh EH1 3SP.
7 The address of the registered office is St. Martins House Le Bordage, St Peter Port, Guernsey GY1 4AU.
8 The address of the registered office is Clipper Logistics Group, Gelderd Road, Leeds, West Yorkshire LS12 6LT.
(i) John Lewis Partnership Pensions Trust and JLP Scotland Limited are the Limited Partners. John Lewis plc is the General Partner.
(ii) JLP Scottish Limited Partnership and John Lewis Properties plc are the General Partners.

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

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE ANNUAL REPORT AND ACCOUNTS

THE DIRECTORS ARE RESPONSIBLE FOR PREPARING THE ANNUAL REPORT AND ACCOUNTS IN ACCORDANCE WITH APPLICABLE LAW AND REGULATIONS

Company law requires the Directors to prepare Partnership and parent Company financial statements for each financial year. Under that law they have elected to prepare the Partnership and the parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Partnership and parent Company and of their profit or loss for that period. In preparing each of the Partnership and parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable, relevant and reliable
- State whether they have been prepared in accordance with IFRSs as adopted by the EU
- Assess the Partnership and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- Use the going concern basis of accounting unless they either intend to liquidate the Partnership or the parent Company or to cease operations, or have no realistic alternative but to do so

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

The Directors have decided to prepare voluntarily a Corporate Governance Statement as if the Company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report and a Directors' report that complies with that law and those regulations.

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

The Directors consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Partnership's and the parent Company's position and performance, business model and strategy.

On behalf of the Board

Sir Charlie Mayfield and Patrick Lewis
Directors, John Lewis Partnership plc

12 April 2018

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC

1. OUR OPINION IS UNMODIFIED

We have audited the financial statements of John Lewis Partnership plc ("the Company") for the year ended 27 January 2018 which comprise the consolidated income statement, consolidated statement of comprehensive income/(expense), consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows, Company balance sheet, Company statement of changes in equity, Company statement of cash flows and the related notes, including the accounting policies in note 1.

In our opinion:

– the financial statements give a true and fair view of the state of the Partnership's and of the parent Company's affairs as at 27 January 2018 and of the Partnership's profit for the year then ended;

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

– the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and

– the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Partnership in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview		
Materiality Partnership financial statements as a whole		£14.5m (2017: £16.0m) 5.0% (2017: 4.3%) of Partnership profit before tax, Partnership Bonus and exceptional items
Coverage		97% (2017: 99.0%) of Partnership profit before tax
Risks of material misstatement		**vs 2017**
Recurring risks	Carrying amount of Property, Plant and Equipment	◀▶
	Pensions defined benefit obligation	◀▶
	Rebates/supplier income	▼
	Provisions – long leave, service guarantee and customer returns	◀▶
	Carrying amount of Intangibles	◀▶
Event driven	Provisions – pay provision in respect of National Minimum Wage	◀▶

2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon and we do not provide a separate opinion on these matters. In arriving at our audit opinion, the key audit matters in decreasing order of audit significance, were as follows:

CARRYING AMOUNT OF PROPERTY, PLANT AND EQUIPMENT £3,971.2M (2017: £4,112.4M)

Refer to page 62 (Audit and Risk Committee Report), page 105 (accounting policy) and page 106 (financial disclosures).

The risk

Forecast-based valuation

Impairment considerations:

The Partnership has significant Property, Plant and Equipment (PPE) assets held on its consolidated balance sheet. The impairment risk relates to the Waitrose Division. The Directors perform trigger testing annually to identify any assets which may require impairment. The recoverable amount is calculated for those assets which fail the trigger tests to determine any impairment. The trigger tests take into account recent performance of the individual branches and any changes made to the business plan. If the trigger tests do not include suitable assumptions, or are incorrectly performed, branches possibly requiring impairment may not be identified. In the current year 73 branches at Waitrose failed these initial trigger tests. For all such branches, an impairment is recorded against the carrying value of the assets within that related cash generating unit to the extent that the carrying value would otherwise exceed its recoverable amount.

In relation to the Waitrose branches, an impairment charge of £38.9m has been recognised.

The key assumptions used in the value in use (ViU) calculations for estimating the recoverable amounts are short-term cash-flow forecasts, the long-term (LT) growth rate and the discount rate. These assumptions are based on forecasts which give risk to estimation uncertainty within the impairment test.

Subjective judgement

Residual values and useful economic lives:

The judgement around allocating residual values and useful economic lives (UELs) drives the depreciation charged to the income statement. In particular the valuation of the allocated residual value requires specific expertise and knowledge of the market. Given the magnitude of the PPE balance, movements in these judgements could result in a material misstatement. The Directors engage third party specialists to review a sample of the property portfolio to assist them determine the value of the residual values.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

Our response

Our procedures included:

- Assessing principles: We challenged whether the assumptions used in the trigger tests were suitable, through discussions with divisional management, our own knowledge of the business and market, inspection of Board minutes and other management information.
- Re-performance: We re-performed the calculations that management performed for the initial trigger testing and ViU, checking the source of the information was reasonable.
- Our business knowledge: For the cash flows that drive the ViU calculation forecasts, we considered the risks built into the Board approved short-term (three year) forecasts and challenged the Directors as to the achievability of the plan, taking into account the historical accuracy of previous forecasts and wider market factors (such as performance of competitors).
- Benchmarking assumptions: Evaluating assumptions used, in particular those relating to i) LT growth rate, ii) the discount rate and iii) the margin rate applied, comparing these with externally derived data.
- Sensitivity analysis: For all of the above key assumptions we performed sensitivity analysis to stress-test the assumptions.
- Our property valuation expertise: With the assistance of our property valuation specialist we examined the third party valuation reports produced for a sample of the assets to establish residual values. Our specialist critically assessed the methodology and assumptions behind the valuations, using their own expertise and market understanding.
- Assessing application: We compared the UELs on each of the categories of assets to industry averages. We also examined the Fixed Asset Register to identify any assets fully depreciated but still in use or disposals of assets which still had a Net Book Value. For those assets identified we considered whether this indicated the UEL was incorrect.
- Assessing disclosures: We considered the appropriateness of the disclosure of Waitrose impairment as an exceptional item.
- We also assessed whether the Partnership's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the carrying amount of PPE.

Our results:

- We found the resulting estimate of the recoverable amount of PPE and the Partnership's treatment of residual values and UELs as adopted policy to be acceptable (2017 result: acceptable).

PENSIONS DEFINED BENEFIT OBLIGATION £6,224.0M (2017: £6,059.0M)

Refer to page 63 (Audit and Risk Committee Report), page 119 (accounting policy) and pages 120 to 127 (financial disclosures).

The risk

Subjective valuation

A significant level of estimation is required in order to determine the valuation of the gross liability. Small changes in the key assumptions (in particular, discount rates, inflation, mortality rates and salary increases) can have a material impact on the gross liability. During the year management changed the methodology used to calculate the discount rate, please see page 121 for further detail.

Due to the volume of members both joining and moving categories (i.e. between active, deferred and pensioner) errors in the membership records could result in a material misstatement if not complete and accurately included in the calculation of the gross liability.

Our response

Our procedures included:

- Benchmarking assumptions: We used our actuarial specialists to challenge the key assumptions and the new discount rate methodology. This involved comparing the assumptions to available market data, our expectations and other similar UK pension schemes' assumptions.
- Assessing base data: We performed trend analysis comparing current year movement in members to historical movements. We also confirmed that there have been no changes to membership terms in the current year. We used our actuarial specialists to challenge the methodology used to roll-forward the results of the triennial valuation as at 31 March 2016.
- Assessing disclosures: We also considered the adequacy of the Partnership's disclosures in respect of the sensitivity of the deficit to these assumptions.

Our results:

- We found the valuation of the pensions defined benefit obligation to be acceptable (2017 result: acceptable).

PROVISIONS LONG LEAVE £139.6M (2017: £140.1M), SERVICE GUARANTEE £55.1M (2017: £64.8M), CUSTOMER RETURNS £39.4M (2017: £35.1M), PAY PROVISION IN RESPECT OF NATIONAL MINIMUM WAGE £34.6M (2017: £36.0M)

Refer to page 63 (Audit and Risk Committee Report), page 112 (accounting policy) and page 112 (financial disclosures).

The risk

Subjective estimate

The financial statements contain a number of provisions which when considered in aggregate are significant and involve estimation. The key assumptions are:

- Long leave: Assumptions relating to salary increases, staff turnover rates and discount rate.
- Service guarantee costs: Assumptions around frequency and value of the expected future service costs and use of appropriate historical data to form the assumptions.
- Customer returns: Assumptions around the expected customer returns from the sales made in the period.
- Pay provision in respect of National Minimum Wage: The use of appropriate data to form the calculation and the assumptions around the scope and associated costs of the probable settlement amount.

Our response

Our procedures included:

Long leave:

- Benchmarking assumptions: We used our own actuarial specialists to consider the key assumptions used. This involved comparing the assumptions to available market data and our expected range.
- Sensitivity analysis: We also performed sensitivity analysis over these assumptions.

Service guarantee costs:

- Assessing base data: We considered the underlying data inputs into the management's calculations, checking the source of the historical data was accurate based on our understanding of the industry and business and performing trend analysis in respect of historical costs per unit.
- Sensitivity analysis: We performed sensitivity analysis over the assumptions made, including the product repair and replacement frequency rates.
- Independent re-performance: We have re-performed the calculation using the underlying data inputs.

Customer returns:
- Historical comparisons and assessed base data: We have considered the appropriateness of the base data used in the calculation by checking the data inputs to historical data and performing a trend analysis.
- Sensitivity analysis: We have performed sensitivity analysis around the year end period over which the customer return liability is calculated.

Pay provision in respect of National Minimum Wage:
- Assessing application: We examined the legal advice from the Partnership's external legal advisers and the correspondence with HMRC.
- Our expertise: We used our own specialists to challenge the assumptions based on their experience of similar scenarios.
- Test of detail: We also re-calculated the liability, including sampling the relevant information used in the calculation back to source data.
- Assessing disclosures: We considered the disclosure of the fact that the ultimate settlement amount may change.

Assessing disclosures: We also considered the adequacy of the Partnership's disclosures in respect of these provisions.

Our results:
- From the evidence obtained, we considered the level of provisioning to be acceptable (2017 result: acceptable).

CARRYING AMOUNT OF INTANGIBLES £495.7M (2017: £432.7M)

Refer to page 62 (Audit and Risk Committee Report), page 103 (accounting policy) and page 104 (financial disclosures).

Forecast-based valuation
In order to continually improve its operating systems the Partnership develops a significant amount of software, which is capitalised on the balance sheet. For the year-ended January 2018, there were £182.5m (2017: £157.2m) of additions to computer software. When developing software the Directors have regularly to judge whether the projects are still expected to bring sufficient economic value to the Partnership. Work in progress of £239.1m (2017: £157.4m) is made up of a number of projects being undertaken in the Partnership, the most significant of which are:
- New supply chain systems;
- Enhancements to the customer-facing websites; and
- New ordering systems.

We continue to focus on the material work in progress amounts as judgement is required to assess the economic benefits that would flow from each project and whether any elements of the projects need to be impaired.

Our response
Our procedures included:
- Our business knowledge: We challenged the Directors' assessment of the economic benefits that would flow from a sample of projects, comparing this to our understanding of the business and the future strategy to confirm it was aligned.
- Personnel interviews: At a more granular level, we also met with the project managers to understand the work being undertaken and the expected benefits of the projects. Through our understanding of the business, discussions with divisional management and inspection of management information and Board minutes we challenged any changes in scope or any work performed which did not yield a successful output.
- Assessing recognition: We considered the ageing profile of work in progress to challenge whether any elements of the project previously capitalised needed to be impaired.

Our results:
- The results of our testing were satisfactory and we considered the carrying amount of intangibles recognised to be acceptable (2017 result: acceptable).

PARENT COMPANY FINANCIAL STATEMENTS – VALUATION OF INVESTMENTS £121.1M (2017: £121.2M)

Refer to page 137 (financial disclosures).

The risk
Low risk, high value
The carrying amount of the Company's investments in subsidiaries are valued at cost, less allowances for impairment. We do not consider the valuation of these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement.

However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.

Our response
Our procedures included:
- Test of details: Comparing the investment carrying values to the net assets of the investment to identify whether the net asset values of the subsidiaries, being an approximation of their minimum recoverable amount, were in excess of their carrying amount.
- Assessing subsidiary audits: Assessing the work performed by the audit team on the subsidiaries and considering the results of the work on those subsidiaries' profits and net assets.

Our results:
- We found the assessment of the carrying value of investments to be acceptable (2017 result: acceptable).

REBATES AND SUPPLIER INCOME

We continue to perform procedures over rebates/supplier income across Waitrose and John Lewis. However, following our assessment of the processes in place across the two divisions around supplier income and examining the contracts in place, we consider there to be limited estimation. We have not assessed this as one of the risks that has the greatest effect on our audit and, therefore, it is not separately identified in our report this year.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

3. OUR APPLICATION OF PARTNERSHIP MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Materiality for the consolidated financial statements as a whole was set at £14.5m, determined with reference to a benchmark of £289.2m which is Partnership profit before tax, normalised to exclude this year's Partnership Bonus as disclosed in note 2.6.2 'Partner pay and benefits', of £74.0m, and exceptional items as disclosed in note 2.3 'Exceptional items', of £111.3m. Materiality on this basis represents 5.0%. Audit work was performed over the exceptional items and Partnership Bonus separately.

Materiality for the parent Company financial statements was set at £3.6m, determined with reference to a benchmark of £121.1m which is total assets. Materiality on this basis represents 3.0%.

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

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

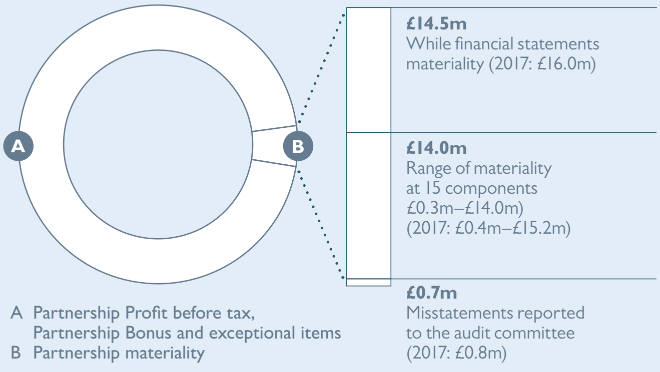
Of the Partnership's 16 reporting components, we subjected 11 to audits for group reporting purposes, including the audit of the parent Company, and one to specified risk-focused audit procedures over an account balance. The latter was not individually financially significant enough to require an audit for group reporting purposes, but did present specific individual risks that needed to be addressed. We conducted reviews of financial information (including enquiry) at the remaining four non-significant components.

The Partnership operates a shared service centre, the outputs of which are included in the financial information of the reporting components it services and therefore it is not a separate reporting component. The service centre is subject to specified risk-focused audit procedures, predominantly the testing of transaction processing and review controls. Additional procedures are performed at certain reporting components to address the audit risks not covered by the work performed over the shared service centre. The components within the scope of our work accounted for the percentages of the Partnership's results noted in the chart opposite. We have performed specific risk-focused audit procedures over a liability balance which is not totalled in the chart opposite.

The senior statutory auditor is also responsible for all of the reporting components including setting the component materialities, which ranged from £0.3m to £14.0m, having regard to the mix of size and risk profile of the Partnership across the components.

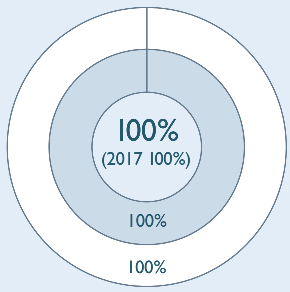
PARTNERSHIP PROFIT BEFORE TAX, PARTNERSHIP BONUS AND EXCEPTIONAL ITEMS £289.2M

MATERIALITY £14.5M



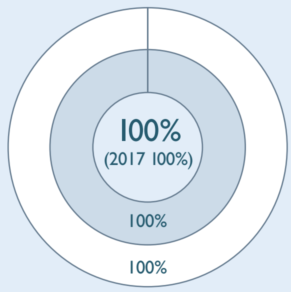
A Partnership Profit before tax, Partnership Bonus and exceptional items
B Partnership materiality

PARTNERSHIP REVENUE



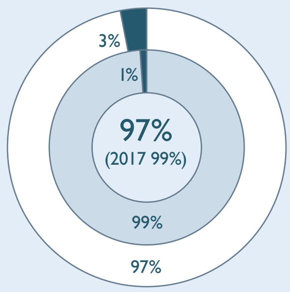
2018	100%
2017	100%

PARTNERSHIP TOTAL ASSETS



2018	100%
2017	100%

PARTNERSHIP PROFIT BEFORE TAX



2018	97%
2017	99%

4. WE HAVE NOTHING TO REPORT ON GOING CONCERN

We are required to report to you if we have anything material to add or draw attention to in relation to the Directors' statement in note 1.1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Partnership and Company's use of that basis for a period of at least 12 months from the date of approval of the financial statements. We have nothing to report in these respects.

5. WE HAVE NOTHING TO REPORT ON THE OTHER INFORMATION IN THE ANNUAL REPORT

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- We have not identified material misstatements in the Strategic report and the Directors' report;
- In our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- In our opinion those reports have been prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- The Directors' confirmation within the viability statement on pages 79 to 80 that they have carried out a robust assessment of the principal risks facing the Partnership, including those that would threaten its business model, future performance, solvency and liquidity;
- The principal risks and disclosures describing these risks and explaining how they are being managed and mitigated; and
- The Directors' explanation in the viability statement of how they have assessed the prospects of the Partnership, over what period they have done so, why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Partnership will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Corporate governance disclosures

We are required to report to you if:

- We have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the Annual Report and Accounts taken as a whole are fair, balanced and understandable and provides the information necessary for members to assess the Partnership's position and performance, business model and strategy; or
- The section of the Annual Report describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We have nothing to report in these respects.

6. WE HAVE NOTHING TO REPORT ON THE OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent Company financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. RESPECTIVE RESPONSIBILITIES

Directors' responsibilities

As explained more fully in their statement set out on page 140, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Partnership and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Partnership or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities**

8. THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

M Maloney

Michael Maloney (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square, London, E14 5GL
12 April 2018

FIVE YEAR FINANCIAL RECORD

FOR THE YEAR ENDED JANUARY

Income statement	2018 £m	2017 £m	2016 £m	2015[1] £m	2014 £m
Gross sales					
Waitrose	**6,753.7**	6,633.2	6,461.4	6,508.9	6,111.9
John Lewis	**4,844.0**	4,741.0	4,557.4	4,433.7	4,059.6
	11,597.7	11,374.2	11,018.8	10,942.6	10,171.5
Revenue					
Waitrose	**6,354.7**	6,245.5	6,086.0	6,135.3	5,753.7
John Lewis	**3,849.3**	3,780.7	3,662.8	3,565.7	3,274.1
	10,204.0	10,026.2	9,748.8	9,701.0	9,027.8
Operating profit before exceptional items and Partnership Bonus					
Waitrose	**172.0**	253.5	232.6	237.4	310.1
John Lewis	**254.2**	243.2	250.2	250.5	226.1
Group and other	**(65.4)**	(18.5)	(80.7)	(45.6)	(65.3)
	360.8	478.2	402.1	442.3	470.9
Net finance costs	**(71.6)**	(107.8)	(96.6)	(99.6)	(94.5)
Exceptional items	**(111.3)**	171.2	129.3	7.9	(47.3)
Profit before Partnership Bonus, tax and exceptional items	**289.2**	370.4	305.5	342.7	376.4
Partnership Bonus	**(74.0)**	(89.4)	(145.0)	(156.2)	(202.5)
As a percentage of eligible pay	**5%**	6%	10%	11%	15%
Taxation	**(29.8)**	(98.7)	(66.6)	(50.9)	(25.0)
Profit for the year	**74.1**	353.5	223.2	143.5	101.6
Number of employees at year-end	**85,500**	86,700	91,500	93,800	91,000
Average number of full time equivalent employees[2]	**60,600**	63,300	63,900	64,500	60,600

1 53-week year.
2 As we have fully transitioned the It's Your Business 2028 strategy, the Partnership has reviewed and reassessed the FTE measure and its basis. As a result, the Directors have decided that a measurement of FTEs that reflects Partners' total hours, rather than just contractual hours, gives a more appropriate measure, and have therefore restated comparatives accordingly. Figures are stated on a 52-week basis.

Balance sheet	2018 £m	2017 £m	2016 £m	2015[1] £m	2014 £m
Non-current assets	**4,560.6**	4,658.5	4,677.0	4,682.1	4,384.5
Current assets	**1,690.6**	1,627.6	1,534.7	1,170.4	1,139.5
Total assets	**6,251.2**	6,286.1	6,211.7	5,852.5	5,524.0
Current liabilities	**(1,857.0)**	(1,834.2)	(1,848.7)	(1,692.0)	(1,705.6)
Non-current liabilities	**(2,082.0)**	(2,396.5)	(2,297.9)	(2,641.7)	(2,036.7)
Total liabilities	**(3,939.0)**	(4,230.7)	(4,146.6)	(4,333.7)	(3,742.3)
Net assets	**2,312.2**	2,055.4	2,065.1	1,518.8	1,781.7
Borrowings	**(936.7)**	(966.9)	(1,031.8)	(1,030.2)	(728.2)
Net debt	**(216.5)**	(250.6)	(372.5)	(721.7)	(485.8)

1 Restated to reflect changes made in 2016 to classify cash in transit balances as payables rather than to recognise an overdraft. 2014 has not been restated.

GLOSSARY

FINANCIAL TERMS

Amortised cost – the value of an intangible asset after accounting for amortisation and impairment. Sometimes referred to as carrying value or net book value

Amortisation – an expense recorded to write down intangible assets to their residual values over their useful economic lives (UELs)

Assets – something of value that the Partnership owns, benefits from, or has use of, in generating income or cash

Average hourly pay – the pay received per hour, calculated from pay received divided by hours worked

Balance sheet – a financial statement that shows assets, liabilities, and capital/equity at a particular point in time, giving a summary of what the company owns and what it owes

Capital investment/expenditure – additions to tangible fixed assets (property, plant, and equipment), and intangible assets (IT software)

Cash equivalents – short-term deposits which the Partnership can quickly and easily convert into cash

Cash flow (statement of) – a financial statement that shows how changes in balance sheet accounts, income, and expenses affect cash and cash equivalents. It breaks the analysis down to operating, investing and financing activities. It is a measure of cash generation, working capital efficiency and capital discipline of the business

Committed credit facilities – similar to a personal overdraft, this is an agreement with banks to provide the Partnership with additional funds as and when we might require

Cost of sales – the cost to the business of producing and purchasing goods sold over a specific period of time

Cost price inflation – increases in the costs paid by the Partnership for the raw materials and products which will then be sold to customers

Debt – money the Partnership has borrowed which it is required to repay

Debt Ratio – comparison of the Partnership's total net debts (including pension deficit and operating leases) to the cash flow we generate each year

Depreciation – an expense recorded to write down non-current assets to their residual values over their useful economic lives (UELs)

Exceptional items – one-off and material items of significant value relating to events or transactions which do not occur every year, such as redundancy and restructuring

Financial year – the period of 364 days, or 52 weeks, running from 29 January 2017 to 27 January 2018

Foreign exchange (FX) exposure – the risk that Partnership faces when a financial transaction is denominated in a currency other than GBP (pound sterling). This will primarily be for products the Partnership sells which we buy from suppliers in another currency

GAAP – Generally Accepted Accounting Practice. Non-GAAP measures are those which are not required under IFRS, but are included to enhance the relevance and usefulness of the financial statements

Gross domestic product (GDP) – a measure of a country's economy, the total value of goods produced and services provided by a country during one year

Gross sales – total sales of goods and services including VAT, net of Partnership discount, reported for a particular time period

IAS – International Accounting Standards

IFRS – International Financial Reporting Standards

Impairment – a reduction in the value of an asset due to a fall in the expected future economic benefits generated by the asset

Lease – a contract in which one party lends land, property, or services to another for a specified period of time, usually in return for payment

Liabilities – a present obligation arising from past events, the settlement of which is expected to result in an outflow of resources

Like-for-like (LFL) sales – comparison of sales between two periods in time (e.g. this year to last year), removing the impact of branch openings and closures

(Total) liquidity – the money and committed credit facilities we have available to us, which we can use to settle liabilities as they fall due

Margin (gross) – the difference between a product or service's selling price and its cost of purchase/production

Margin (operating) – the difference between a product or service's selling price and all costs, including purchase/production, distribution and other operating costs

Material items – items in the financial statements are material if their omission or misstatement could influence the economic decisions of users. Items may be material by size or by nature

Materiality concept – the universally accepted accounting principle that all material matters should be disclosed in the accounts

Net debt – the Partnership's outstanding borrowings and overdraft balances at a particular point in time (excluding pension deficit and operating leases), less any cash and short-term investments

Net book value – the value of an asset after accounting for amortisation/depreciation and impairment. Sometimes referred to as carrying value

Net finance costs – interest payable on our borrowings, our defined benefit pension scheme and long leave scheme, offset by interest received from investments

Operating profit before exceptional items – profit earned by the Partnership over a specific period of time, before accounting for exceptional items, net finance costs and tax

Operating profit – profit earned by the Partnership over a specific period of time, before accounting for net finance costs and tax

Pension deficit (accounting) – the accounting deficit is the pension deficit presented in the balance sheet. It is presented in accordance with the requirements of IAS 19, which requires all companies to assume their pension fund grows at a standard rate reflecting a relatively low level of risk

Pension deficit (actuarial/funding) – the actuarial or funding deficit is a measure that is used to judge the money that the Partnership needs to contribute to the pension scheme based on predicted growth rates and risks specific to the Partnership's scheme

Profit before tax (PBT) before exceptional items – profit the Partnership earned earned over a specific period of time, before accounting for tax and exceptional items

Profit before tax (PBT) – profit generated by the Partnership over a specific period of time, before accounting for tax

Profit per average FTE – total profit over a specific period of time, divided by the average number of FTEs across the same period

Residual value – property residual values are assessed as the price in current terms that a property would be expected to realise, if the buildings were at the end of their useful economic life

Return on Invested Capital (ROIC) – post tax profit, adjusted for non-operating and exceptional items, as a proportion of average operating net assets, adjusted to reflect a deemed capital value for property lease rentals

GLOSSARY

Revenue – sales of goods and services, including warranties, extended warranties, commission income and margin in respect of sale or return transactions, net of Partner discounts and VAT

Segments (reporting) – the three segments through which we analyse our reporting are Waitrose, John Lewis and Group. This is consistent with how the Partnership Board review performance throughout the year

Short-term investments – cash placed with financial institutions (such as banks) for a period of between 3 months and a year. The Partnership receives more interest on these short-term investments compared to immediately accessible cash kept in bank accounts

Solvency – ability of the Partnership to meet its long-term financial obligations (e.g. repayment of its debts)

Total net debts – all the borrowings and overdrafts (including pension deficit and operating leases) the Partnership has outstanding, less any liquid cash and short-term investments, at a particular point in time

Value added tax (VAT) – a tax on the sales value of a product or service which is collected by the HMRC

Working capital – the cash the Partnership utilises as part of its day-to-day trading operations. This includes aspects such as the money tied up in stock, the money we owe to suppliers for goods we haven't yet paid for, and any money we may be owed from customers and suppliers

NON-FINANCIAL TERMS

Audit – a detailed review and inspection of accounts, disclosures and procedures, checking for consistency, accuracy, and adherence to accounting and reporting standards. The objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement.

Auditor – an individual or body who undertakes the work required for an audit. The Partnership's auditors are KPMG LLP.

Biomethane – an alternative to fossil fuels, similar to natural gas, which is produced from organic waste, and is suitable for use as vehicle fuel

BREEAM (Building Research Establishment Environmental Assessment Method) – a sustainability assessment method for assets, which takes into account an asset's environmental, social and economic sustainability performance

Click & collect – a service offered through johnlewis.com to enable customers to buy or order goods and collect from a local Waitrose or John Lewis

Executive Team – responsible for developing and recommending Partnership strategy to the Partnership Board and setting the direction for the Partnership in the execution of that strategy; and responsible for prioritising the allocation of capital and resources

Freehold – outright ownership of land and buildings and the right to control usage for an unlimited period without any future obligation to transfer ownership to another party

Full Time Equivalent (FTE) – 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

General Data Protection Regulation (GDPR) – an EU directive, approved on 14 April 2016 and enforced from 25 May 2018, which governs the way personal data is handled by organisations

Her Majesty's Revenue and Customs (HMRC) – the UK Government department that administers and collects taxes, including corporation tax and value added tax (VAT)

KPI – a Key Performance Indicator is a type of performance measurement used by businesses to check progress towards their goals

Leasehold – ownership of land and buildings and the right to control usage for a fixed period of time after which ownership reverts back to the freeholder

Net Promoter Score (NPS) – an external benchmark which calculates a measure between -100 and +100, that shows the willingness of customers to recommend products and services to others. A larger positive figure represents a higher level of customer satisfaction and loyalty to a brand

Never Knowingly Undersold (NKU) – John Lewis' price promise to customers to match the prices of high street competitors and monitor the prices of branded products on a daily basis

Non-management Partners – Level 9 and Level 10 Partners, excluding Assistant Section Managers in Waitrose

OCCO – Omni Channel Customer Ordering

Partners (members) – the name given to all employees of the John Lewis Partnership

Partnership Board – the Partnership Board is one of the three Governing Authorities of the Partnership. As stated by Rule 38 of the Constitution, the Board has ultimate responsibility for issues of major policy and for allocating the financial and other resources of the business to keep the Partnership true to its principles – both in terms of the vitality of its commercial progress and its distinctive co-ownership objectives

Restructuring – a change to internal organisational structures, designed to streamline processes and create more efficient and cost effective ways of working

GENERAL INFORMATION

Independent auditor
KPMG LLP

Registered office
John Lewis Partnership plc
171 Victoria Street, London SW1E 5NN

Incorporated and registered in England & Wales, under Company no. 00238937

Preference Shares
Any remaining queries relating to the Preference Shares previously in issue (which were cancelled in November 2016) should be directed to Company Secretary, John Lewis Partnership plc,
Partnership House, Carlisle Place,
London SW1P 1BX

For more information about the John Lewis Partnership please visit our Partnership website and social media channels:

www.johnlewispartnership.co.uk
twitter.com/JLPartnership
linkedin.com/company/john-lewis-partnership

Designed by Radley Yeldar
Photography: Darren Bell, James McKenzie, Jeff Hopkins, John Robertson, Mark McKenzie, Neil Cooper

For more information about Waitrose or John Lewis shops please visit our websites and social media channels

www.waitrose.com
facebook.com/Waitrose
twitter.com/waitrose
pinterest.com/waitrose
youtube.com/Waitrose
instagram.com/Waitrose
linkedin.com/company/waitrose

www.johnlewis.com
facebook.com/johnlewisretail
twitter.com/johnlewisretail
twitter.com/jlcustserv
youtube.com/johnlewisretail
plus.google.com/+johnlewis
pinterest.com/johnlewisretail
instagram.com/johnlewisretail
linkedin.com/company/john-lewis

Contact information
You are invited to contact us with your enquiry or comments. To enable us to respond to your enquiry as quickly as possible, please use the 'Contact us' section on the Partnership website.

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