Consolidated income statement

For the year ended 26 January 2019

Our Revenue minus our incurred expenses showing the Partnership's overall Profit for the year.

Notes		2019 £m	2018 (restated, see note 1.1.4) £m
1.2, 2.1	**Gross sales**	**11,724.1**	11,609.5
2.1, 2.2	**Revenue**	**10,316.7**	10,215.8
	Cost of sales	**(6,931.0)**	(6,847.7)
	Gross profit	**3,385.7**	3,368.1
2.3	Other operating income	**112.1**	111.3
2.4	Operating expenses before exceptional items and Partnership Bonus	**(3,270.1)**	(3,114.0)
3.3	Share of loss of joint venture (net of tax)	**(0.7)**	(1.0)
2.1	**Operating profit before exceptional items and Partnership Bonus**	**227.0**	364.4
2.5	Exceptional items	**2.1**	(111.3)
2.1	**Operating profit before Partnership Bonus**	**229.1**	253.1
5.1	Finance costs	**(80.6)**	(85.7)
5.1	Finance income	**13.6**	14.1
	Profit before Partnership Bonus and tax	**162.1**	181.5
	Partnership Bonus	**(44.7)**	(74.0)
2.6	**Profit before tax**	**117.4**	107.5
2.9	Taxation	**(40.1)**	(30.5)
	Profit for the year	**77.3**	77.0
2.1	**Profit before Partnership Bonus, tax and exceptional items**	**160.0**	292.8

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

Consolidated statement of comprehensive income

For the year ended 26 January 2019

Profit as shown in the Income statement plus other income and expenses not yet realised, giving Total comprehensive income for the year.

Notes		2019 £m	2018 (restated, see note 1.1.4) £m
	Profit for the year	**77.3**	77.0
	Other comprehensive income:		
	Items that will not be reclassified to profit or loss:		
6.1	Remeasurement of defined benefit pension scheme	**272.7**	247.5
2.9	Movement in deferred tax on pension scheme	**(55.3)**	(57.4)
2.9	Movement in current tax on pension scheme	**7.1**	17.2
	Items that may be reclassified subsequently to profit or loss:		
	Fair value gain/(loss) on cash flow hedges[1]	**21.8**	(30.9)
2.9	Movement in deferred tax on cash flow hedges	**(4.1)**	5.9
	Gain on foreign currency translations	**0.2**	0.4
	Other comprehensive income for the year	**242.4**	182.7
	Total comprehensive income for the year	**319.7**	259.7

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

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

Consolidated balance sheet

As at 26 January 2019

Notes		2019 £m	2018 (restated, see note 1.1.4) £m
	Non-current assets		
3.1	Intangible assets and goodwill	**512.1**	495.7
3.2	Property, plant and equipment	**3,809.7**	3,971.2
4.2	Trade and other receivables	**58.4**	65.3
7.2	Derivative financial instruments	**0.2**	–
3.3	Investment in and loans to joint venture	**2.7**	2.9
2.9	Deferred tax asset	**–**	28.0
		4,383.1	4,563.1
	Current assets		
4.1	Inventories	**657.6**	661.5
4.2	Trade and other receivables	**259.3**	261.7
7.2	Derivative financial instruments	**6.8**	5.2
3.4	Assets held for sale	**23.1**	–
5.3	Short-term investments[1]	**265.4**	166.0
5.4	Cash and cash equivalents[1]	**716.8**	596.2
		1,929.0	1,690.6
	Total assets	**6,312.1**	6,253.7
	Current liabilities		
5.5	Borrowings and overdrafts[1]	**(331.2)**	(68.7)
4.3	Trade and other payables	**(1,595.7)**	(1,677.3)
	Current tax payable	**(8.7)**	(10.7)
5.6	Finance lease liabilities	**(0.5)**	(0.7)
4.4	Provisions	**(112.3)**	(167.9)
7.2	Derivative financial instruments	**(7.5)**	(19.8)
		(2,055.9)	(1,945.1)
	Non-current liabilities		
5.5	Borrowings[1]	**(716.0)**	(868.1)
4.3	Trade and other payables	**(258.6)**	(252.1)
5.6	Finance lease liabilities	**(20.6)**	(22.6)
4.4	Provisions	**(134.7)**	(122.7)
7.2	Derivative financial instruments	**(2.0)**	(4.0)
6.1	Retirement benefit obligations	**(468.1)**	(731.3)
2.9	Deferred tax liability	**(36.2)**	(6.1)
		(1,636.2)	(2,006.9)
	Total liabilities	**(3,692.1)**	(3,952.0)
	Net assets	**2,620.0**	2,301.7
	Equity		
8.1	Share capital	**0.6**	0.6
	Other reserves	**5.9**	(10.6)
	Retained earnings	**2,613.5**	2,311.7
	Total equity	**2,620.0**	2,301.7

1 Reclassified. See note 1.1.4.

The financial statements on pages 86 to 136 were approved by the Board of Directors on 11 April 2019 and signed on its behalf by Sir Charlie Mayfield and Patrick Lewis, Directors, John Lewis Partnership plc.

Registered number 00238937

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

A financial snapshot of the Partnership, showing our assets and how they are financed.

Consolidated statement of changes in equity

For the year ended 26 January 2019

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.

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 28 January 2017	0.6	5.0	1.4	8.1	(0.5)	2,040.8	2,055.4
1.1	Restatement for IFRS 15	–	–	–	–	–	(13.4)	(13.4)
	Balance at 28 January 2017[1]	0.6	5.0	1.4	8.1	(0.5)	2,027.4	2,042.0
	Profit for the year[1]	–	–	–	–	–	77.0	77.0
6.1	Remeasurement of defined benefit pension scheme	–	–	–	–	–	247.5	247.5
	Fair value losses on cash flow hedges	–	–	–	(22.8)	–	–	(22.8)
	– transfers to inventories[2]	–	–	–	(8.1)	–	–	(8.1)
2.9	Tax on above items recognised in equity	–	–	–	5.9	–	(40.2)	(34.3)
	Gain on foreign currency translations	–	–	–	–	0.4	–	0.4
	Total comprehensive income/(expense) for the year	–	–	–	(25.0)	0.4	284.3	259.7
	Balance at 27 January 2018[1]	0.6	5.0	1.4	(16.9)	(0.1)	2,311.7	2,301.7
	Profit for the year	–	–	–	–	–	77.3	77.3
6.1	Remeasurement of defined benefit pension scheme	–	–	–	–	–	272.7	272.7
	Fair value gains on cash flow hedges	–	–	–	21.8	–	–	21.8
2.9	Tax on above items recognised in equity	–	–	–	(4.1)	–	(48.2)	(52.3)
	Gain on foreign currency translations	–	–	–	–	0.2	–	0.2
	Total comprehensive income for the year	–	–	–	17.7	0.2	301.8	319.7
	Hedging gains transferred to cost of inventory[2]	–	–	–	(1.4)	–	–	(1.4)
	Balance at 26 January 2019	**0.6**	**5.0**	**1.4**	**(0.6)**	**0.1**	**2,613.5**	**2,620.0**

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

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

Consolidated statement of cash flows

For the year ended 26 January 2019

Notes		2019 £m	2018 (restated, see note 1.1.4) £m
2.7	**Cash generated from operations before Partnership Bonus**	610.8	668.5
	Net taxation paid	(33.9)	(44.1)
	Pension deficit reduction payments	(37.1)	(89.8)
	Finance costs paid	(1.8)	(2.5)
	Net cash generated from operating activities before Partnership Bonus	538.0	532.1
	Partnership Bonus paid	(74.9)	(89.2)
5.5	Net cash flow in relation to Share Incentive Plan shares[1]	(15.4)	(30.3)
	Net cash generated from operating activities after Partnership Bonus	447.7	412.6
	Cash flows from investing activities		
3.2	Purchase of property, plant and equipment	(143.9)	(228.5)
3.1	Purchase of intangible assets	(166.2)	(169.8)
	Proceeds from sale of property, plant and equipment and intangible assets	13.6	68.0
	Finance income received	2.4	1.7
3.3	Cash outflow from investment in and loans to joint venture	(0.5)	–
5.2	Cash outflow from short-term investments[1]	(99.0)	(106.0)
	Cash outflow from acquisition of trade and assets	(1.0)	–
	Net cash used in investing activities	(394.6)	(434.6)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	(54.2)	(54.2)
	Finance (costs paid)/income received in respect of financial instruments	(0.5)	0.7
5.2	Payment of capital element of finance leases	(1.7)	(1.2)
5.5	Payments to Share Incentive Plan shareholders	(0.4)	(0.9)
	Cash inflow from borrowings	124.4	–
	Net cash from/(used in) financing activities	67.6	(55.6)
	Increase/(decrease) in net cash and cash equivalents	120.7	(77.6)
5.2	Net cash and cash equivalents at beginning of the year[1]	596.1	673.7
	Net cash and cash equivalents at end of the year	716.8	596.1
5.4	**Net cash and cash equivalents comprise:**		
	Cash at bank and in hand	128.2	128.4
	Short-term deposits	588.6	467.8
	Bank overdrafts	–	(0.1)
		716.8	596.1

1 Reclassified. See note 1.1.4.

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

The Partnership's cash inflows and outflows analysed by various key activities.

Notes to the consolidated financial statements

1	Accounting information	90
2	Partnership performance	95
3	Operating assets and liabilities	108
4	Working capital and provisions	114
5	Financing	118
6	Pensions	123
7	Financial risk management	130
8	Other notes	135

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

These boxes explain the purpose of each note.

ACCOUNTING POLICIES

These boxes contain information about our accounting policies.

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.

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

1.1.1 BASIS OF PREPARATION

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

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

The financial year is the 52 weeks ended 26 January 2019 (prior year: 52 weeks ended 27 January 2018).

Going concern

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

1.1.2 BASIS OF CONSOLIDATION
The consolidated 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 AND CHANGES FROM PRIOR YEAR
The following policies have been consistently applied to all the years presented, unless otherwise stated.

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

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

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

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

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

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

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

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

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

Consolidated balance sheet

	2018 (restated) £m	Adjustments	2018 £m
Assets			
Deferred tax asset	28.0	2.5	25.5
Other assets	6,225.7	–	6,225.7
Total assets	6,253.7	2.5	6,251.2
Liabilities			
Trade and other payables	(1,929.4)	(68.1)	(1,861.3)
Provisions	(290.6)	55.1	(345.7)
Other liabilities	(1,732.0)	–	(1,732.0)
Total liabilities	(3,952.0)	(13.0)	(3,939.0)
Equity			
Share capital	0.6	–	0.6
Other reserves	(10.6)	–	(10.6)
Retained earnings	2,311.7	(10.5)	2,322.2
Total equity	2,301.7	(10.5)	2,312.2

Consolidated income statement

	2018 (restated) £m	Adjustments	2018 £m
Gross sales	11,609.5	11.8	11,597.7
Revenue	10,215.8	11.8	10,204.0
Cost of sales	(6,847.7)	(8.2)	(6,839.5)
Gross profit	3,368.1	3.6	3,364.5
Operating expenses and finance costs	(3,260.6)	–	(3,260.6)
Profit before tax	107.5	3.6	103.9
Taxation	(30.5)	(0.7)	(29.8)
Profit for the year	77.0	2.9	74.1

– 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 'Financial Instruments: Recognition and Measurement' and sets out two key criteria for determining the classification and measurement of financial assets including the entity's business model for managing financial assets and the contractual cash flow characteristics. IFRS 9 also sets out a single impairment model to ensure expected credit losses on financial instruments are always recognised as soon as they are forecast. The Partnership has assessed the credit risk around the financial instruments and expected credit losses are not considered to be material. In relation to hedge accounting, IFRS 9 adopts a principles-based approach for testing hedge effectiveness instead of setting specific numerical thresholds.

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

Notes to the consolidated financial statements — continued

1.1 ACCOUNTING PRINCIPLES AND POLICIES CONTINUED
1.1.4 AMENDMENTS TO ACCOUNTING STANDARDS AND CHANGES FROM PRIOR YEAR CONTINUED
The following standards, amendments and interpretations were applicable for the period beginning 28 January 2018, and were adopted by the Partnership for the year ended 26 January 2019. They have not had a significant impact on the Partnership's profit for the year, equity or disclosures:
– Annual Improvements to IFRSs 2014-2016 Cycle (Amendments to IFRS 1 and IAS 28)
– IFRIC 22: Foreign Currency Transactions and Advance Consideration
– Amendments to IAS 40: Transfers of Investment Property
– Clarifications to IFRS 15: 'Revenue from Contracts with Customers'

The following are new accounting standards and amendments to existing standards that have been published and are applicable for the Partnership's accounting periods beginning 27 January 2019 onwards, which the Partnership has not adopted early:
– IFRS 16 'Leases' (applicable for the period beginning 27 January 2019)
  IFRS 16 'Leases' specifies how to recognise, measure, present and disclose leases. The standard will be effective for the Partnership for the year ending 25 January 2020 and its adoption is expected to have a very significant impact on the Partnership's Consolidated income statement and Consolidated balance sheet. The Partnership intends to adopt the modified retrospective approach on transition. For each individual lease, the Right-of-use asset will be measured at the amount of the Lease liability on adoption (adjusted for any prepaid or accrued lease expenses and any provision for impairment).

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

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

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

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

  Going forward, a straight-line depreciation expense will be recognised in the Consolidated income statement in relation to the Right-of-use assets and an amortising interest charge will be recognised in the Consolidated income statement in relation to the Lease liabilities. The interest charge will be front-loaded in the earlier periods of a lease as the interest element unwinds. This will replace the Operating lease expense currently recognised in the Income statement under IAS 17. For the year ending 25 January 2020, assuming no changes in the lease portfolio, this will result in a material reduction in Profit before tax of approximately £40m, comprising an increase in Operating profit of approximately £63m offset by an estimated increase in Finance costs of £103m.

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

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

  The Partnership's activities as a lessor are not material and therefore the Partnership does not expect any significant impact on the financial statements. However, as required by IFRS 16, additional disclosures will be included within the notes to the financial statements for the year ending 25 January 2020.
– IFRIC 23: Uncertainty over Income Tax Treatments. The adoption of IFRIC 23 is not expected to have any impact on the Partnership's Consolidated income statement or Consolidated balance sheet.
– Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
– Annual Improvements to IFRSs 2015-17 Cycle – various standards
– Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
– Amendments to IFRS 9: Prepayment Features with Negative Compensation

The Partnership is also currently assessing the impact of the following new and amended standards, which have been issued and are awaiting endorsement by the European Union:
– Amendments to References to the Conceptual Framework in IFRS Standards (applicable for the period beginning 26 January 2020)
– IFRS 17: Insurance Contracts (applicable for the period beginning 31 January 2021)
– Amendment to IFRS 3: Business Combinations (applicable for the period beginning 26 January 2020)
– Amendments to IAS 1 and IAS 8: Definition of Material (applicable for the period beginning 26 January 2020)

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

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

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

Reclassification of Current and Non-current borrowings
The Partnership operates the BonusSave scheme (the scheme), a Share Incentive Plan (SIP) which allows Partners to elect to invest part of their Partnership Bonus back into the Partnership. The scheme is operated by John Lewis Partnership Trust Limited which purchases SIP shares on behalf of Partners who have chosen to invest a portion of their Partnership Bonus for this purpose.

The amounts in respect of SIP shares are classified as debt as the Partnership has a clear obligation to repay the amounts.

Following a review of the scheme, the Partnership has concluded that as per the definitions of accounting standards, control of the scheme is held by John Lewis Partnership plc and accordingly the scheme is now consolidated within the Partnership's consolidated financial statements. As a result, the Partnership now shows amounts owed directly to Partners rather than the Partnership's liability to the scheme. Necessarily, these amounts owed are presented as current and non-current dependent on the withdrawal profile of the SIP shares. This has resulted in a reclassification of Non-current borrowings amounting to £68.6m to Current borrowings as at 27 January 2018, impacting the Balance sheet, Statement of cash flow and related notes to the accounts. There is no impact on the Income statement, Net assets, Cash generated from operations after Partnership Bonus or Net debt.

1.1.5 SIGNIFICANT ACCOUNTING POLICIES

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

Financial instruments

The 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.

Derivative financial instruments are initially measured at fair value. The fair value of a Derivative financial instrument represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the forward rates of exchange and interest rates prevailing at the Balance sheet date. Subsequent to initial recognition, unless designated as hedging instruments, derivatives are measured at fair value and any gains or losses arising from changes in fair value are taken directly to the Income statement.

Hedge accounting has been adopted for Derivative financial instruments where possible. At inception of designated hedging relationships, the risk management objective and strategy for undertaking the hedge is documented. Additionally, the Partnership documents the economic relationship between the item being hedged and the hedging instrument, and a qualitative and forward-looking approach is taken to assessing whether the hedge will be effective on an ongoing basis. At the end of each financial reporting period, for each Derivative financial instrument, prospective testing is performed to ensure that the economic relationship remains, the impact of credit risk on changes in values is reviewed, and the hedging ratio is reassessed.

Hedge accounting is discontinued when the hedging instrument matures, is terminated or exercised, the designation is revoked or it no longer qualifies for hedge accounting.

A cash flow hedge is a hedge of the exposure to variability of cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction. The effective portion of changes in the intrinsic fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Equity. All other changes in fair value are recognised immediately in the Income statement within other gains or losses. When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as Inventory, the amount accumulated in the hedging reserve is included directly in the initial cost of the non-financial item when it is recognised. For all other hedged forecast transactions, amounts accumulated in Equity are recycled to the Income statement in the periods when the hedged item affects Profit or loss. Derivative financial instruments qualifying for cash flow hedge accounting are principally forward currency contracts.

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

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

	Note	Measurement
Financial assets:		
Trade receivables	4.2	Amortised cost
Other receivables	4.2	Amortised cost
Short-term investments	5.3	Amortised cost
Cash and cash equivalents	5.4	Amortised cost
Derivative financial instruments	7.2	Fair value through profit and loss or OCI[1]
Financial liabilities:		
Borrowings and overdrafts	5.5	Amortised cost
Trade payables	4.3	Amortised cost
Other payables	4.3	Amortised cost
Accruals	4.3	Amortised cost
Partnership Bonus	4.3	Amortised cost
Finance lease liabilities	5.6	Amortised cost
Derivative financial instruments	7.2	Fair value through profit and loss or OCI[1]

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

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

Offsetting

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

Foreign currencies

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

Notes to the consolidated financial statements — continued

1.1 ACCOUNTING PRINCIPLES AND POLICIES CONTINUED

1.1.6 KEY JUDGEMENTS AND CRITICAL ACCOUNTING ESTIMATES

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

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

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

1.2 NON-GAAP MEASURES

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. For definitions, and where applicable, reconciliations, of other non-GAAP measures, please see the glossary on pages 152 to 157.

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

1.2.2 EXCEPTIONAL ITEMS

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

The separate reporting of Exceptional items helps to provide an indication of the Partnership's underlying business performance. Exceptional items relate to certain costs or incomes that individually or, if of a similar type, in aggregate, are significant by virtue of their size and nature and are separately reported to help users of the financial statements understand the underlying business performance of the Partnership.

In assessing whether an item is exceptional, the nature of the item is considered. This assessment includes, both individually and collectively, each of the following:

- Whether the item is outside of the principal activities of the business;
- The specific circumstances which have led to the item arising;
- The likelihood of recurrence; and
- If the item is likely to recur, whether the item is unusual by virtue of its size.

No restatement of items disclosed in prior periods is required as a result of this change in accounting policy. For details of our Exceptional items see note 2.5.

1.2.3 PROFIT BEFORE PARTNERSHIP BONUS AND TAX

Profit before Partnership Bonus and tax is presented as a separate financial statement caption within the Consolidated income statement. This measure provides further information on the 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.

2. PARTNERSHIP PERFORMANCE

IN THIS SECTION

This section focuses on our performance during the year ended 26 January 2019. Information is provided on segmental performance, revenue, other operating income, operating expenses, exceptional items, Partner-related costs and taxation. This section also includes a reconciliation of our profit before tax to the cash generated from operations before Partnership Bonus, which shows how our performance translates into cash.

2.1 SEGMENTAL REPORTING

PURPOSE

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

The Group reporting segment includes the operating costs for our Group offices and shared services, costs for transformation programmes, our JLP Ventures operations, and certain pension operating costs. The operating profit/(loss) of each segment is reported after charging relevant Group costs based on the business segments' usage of these facilities and services, and after exceptional items.

ACCOUNTING POLICIES

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.

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.

Notes to the consolidated financial statements — continued

2.1 SEGMENTAL REPORTING CONTINUED

2019	Waitrose & Partners £m	John Lewis & Partners £m	Group £m	Total £m
Gross sales	6,835.0	4,889.1	–	11,724.1
Adjustment for sale or return sales	–	(259.0)	–	(259.0)
Value added tax	(405.5)	(742.9)	–	(1,148.4)
Revenue	6,429.5	3,887.2	–	10,316.7
Operating profit before exceptional items, Partnership Bonus and net profit on sale of property[1]	202.5	113.4	(91.8)	224.1
Net profit on sale of property[2]	0.7	1.3	0.9	2.9
Operating profit before exceptional items and Partnership Bonus	203.2	114.7	(90.9)	227.0
Exceptional items	(4.0)	(22.1)	28.2	2.1
Operating profit before Partnership Bonus	199.2	92.6	(62.7)	229.1
Finance costs				(80.6)
Finance income				13.6
Partnership Bonus				(44.7)
Profit before tax				117.4
Taxation				(40.1)
Profit for the year				77.3
Reconciliation of Profit before Partnership Bonus, tax and exceptional items to Profit before tax:				
Profit before Partnership Bonus, tax and exceptional items				160.0
Partnership Bonus				(44.7)
Exceptional items				2.1
Profit before tax				117.4
Segment assets	2,839.8	2,105.7	1,366.6	6,312.1
Segment liabilities	(793.7)	(877.3)	(2,021.1)	(3,692.1)
Net assets	2,046.1	1,228.4	(654.5)	2,620.0
Other segment items:				
– Depreciation[3]	(153.3)	(119.6)	(14.6)	(287.5)
– Amortisation[3]	(32.3)	(61.3)	(29.3)	(122.9)
– Capital expenditure – property, plant and equipment	93.0	61.3	9.8	164.1
– Capital expenditure – intangible assets	52.8	65.6	39.7	158.1
– Decrease in provisions	(3.8)	(7.9)	(31.9)	(43.6)

1 Included within Operating profit before exceptional items, Partnership Bonus and net profit on sale of property is a £0.7m share of loss of a joint venture in John Lewis & Partners (2018: £1.0m share of loss). See note 3.3.
2 Net profit on sale of property includes losses of £0.9m in Waitrose & Partners (2018: £2.1m), £0.5m in Group (2018: £nil), and £0.1m in John Lewis & Partners (2018: £nil.).
3 Includes net charges for impairment. See notes 3.1 and 3.2.

2018	Waitrose & Partners £m	John Lewis & Partners £m	Group £m	Total £m
Gross sales[1]	6,753.7	4,855.8	–	11,609.5
Adjustment for sale or return sales	–	(254.6)	–	(254.6)
Value added tax	(399.0)	(740.1)	–	(1,139.1)
Revenue[1]	6,354.7	3,861.1	–	10,215.8
Operating profit before exceptional items, Partnership Bonus and net profit on sale of property[1,5]	169.1	247.3	(65.4)	351.0
Net profit on sale of property[2]	2.9	10.5	–	13.4
Operating profit before exceptional items and Partnership Bonus[1]	172.0	257.8	(65.4)	364.4
Exceptional items	(52.2)	(21.3)	(37.8)	(111.3)
Operating profit before Partnership Bonus[1,3]	119.8	236.5	(103.2)	253.1
Finance costs				(85.7)
Finance income				14.1
Partnership Bonus				(74.0)
Profit before tax[1]				107.5
Taxation[1]				(30.5)
Profit for the year[1]				77.0
Reconciliation of Profit before Partnership Bonus, tax and exceptional items to Profit before tax:				
Profit before Partnership Bonus, tax and exceptional items[1]				292.8
Partnership Bonus				(74.0)
Exceptional items				(111.3)
Profit before tax[1]				107.5
Segment assets[1]	2,890.1	2,150.8	1,212.8	6,253.7
Segment liabilities[1]	(784.9)	(902.0)	(2,265.1)	(3,952.0)
Net assets[1]	2,105.2	1,248.8	(1,052.3)	2,301.7
Other segment items:				
– Depreciation[4]	(196.2)	(110.2)	(16.9)	(323.3)
– Amortisation[4]	(38.2)	(54.3)	(21.6)	(114.1)
– Capital expenditure – property, plant and equipment	109.0	72.8	45.0	226.8
– Capital expenditure – intangible assets	52.7	107.0	22.8	182.5
– Increase/(decrease) in provisions[1]	(2.0)	10.5	7.4	15.9

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

Notes to the consolidated financial statements — continued

2.2 REVENUE

PURPOSE

During the year, as required by IFRS, a new accounting standard has been adopted – IFRS 15 'Revenue from Contracts with Customers'. This introduces the concept of a performance obligation which is effectively a written or unwritten contract for a good or a service. Note 1.1.4 describes the impact of restating for IFRS 15 and this note reflects the new disclosure requirements.

Revenue is generated solely from contracts with customers.

Revenue is measured based on the consideration specified in a contract with a customer. The Partnership recognises revenue when it transfers control over a good or service to a customer.

ACCOUNTING POLICIES

Revenue: We evaluate our Revenue with customers based on the five-step model under IFRS 15: 'Revenue from Contracts with Customers': (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognise revenues when (or as) each performance obligation is satisfied. We generate the majority of our revenue from the sale of goods or from providing services to our customers.

Revenue from the sale of goods and services is recognised when the Partnership has satisfied its performance obligations by transferring a promised good or service to the customer. The good or service is considered to be transferred when the customer obtains control of that good, or the service is complete. Revenue in respect of 'sale or return sales' which represents concession income is stated at the value of the margin that the Partnership receives on the transaction. Revenue is also net of Partner discounts and VAT, adjustments for the sale of free service guarantees and adjustments for expected customer returns. Revenue is recognised in respect of sales under bill and hold arrangements when the buyer takes control of the asset, even if it has not physically been transferred to the customer. Revenue under bill and hold arrangements is not recognised when there is simply an intention to acquire.

Sales of gift vouchers and gift cards are treated as liabilities, and revenue is recognised when the gift vouchers or cards are redeemed against a later transaction. Non-redemption revenue is recognised in proportion to the pattern of rights exercised by the customer. Certain entities within the 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. This is further discussed under inventory note 4.1.

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

2.2.1 DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

We analyse our revenue between goods and services. Goods are split into four major product lines: Grocery, Home, Fashion and Electricals and Home Technology (EHT). Services comprise free service guarantees on selected goods. This presentation is consistent with how our Partnership Board and Divisional Management Boards review performance throughout the year.

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

2.2.2 REVENUE RECOGNITION POLICIES

The following table provides information about the nature of the major product service lines generating revenue.

Type of product/ service	Nature and timing of satisfaction of performance obligations	Revenue recognition under IFRS 15 (new accounting policy)	Revenue recognition under IAS 18 (previous accounting policy)
Grocery	Grocery products are principally sold by Waitrose & Partners and include food, drink, household and other items. Additionally, fuel sales are shown here. Customers obtain control of grocery products when the goods are received by the customer. Customers pay at the point of sale in Waitrose & Partners stores. Where a grocery product is ordered online, it is fulfilled by a Waitrose & Partners store and customers are charged on the day of delivery. For business to business (B2B) customers, invoices are raised and are usually payable within 30 days. Waitrose & Partners accepts returns in accordance with a customer's statutory rights under consumer laws in the United Kingdom and has a discretionary goodwill policy. Under the goodwill policy, customers can return products within 35 days after receipt, if not entirely satisfied.	Revenue is recognised when the goods have been received by the customer and control obtained. Adjustments are recorded for returns where material, based on historic trends and recent sales patterns. The right to return goods is included under inventory, note 4.1.	Revenue is recognised when the goods have been received by the customer. Adjustments are recorded for returns where material, based on historic trends and recent sales patterns.

Type of product/ service	Nature and timing of satisfaction of performance obligations	Revenue recognition under IFRS 15 (new accounting policy)	Revenue recognition under IAS 18 (previous accounting policy)
Home	Home products are principally sold by John Lewis & Partners and include items intended for use in the home environment. Customers obtain control of home products when the goods are received by the customer. Customers pay at the point of sale in John Lewis & Partners stores. Where a home product is ordered online, it is generally fulfilled from a centralised location. For B2B customers, invoices are raised and are payable on a variety of payment terms up to 30 days. John Lewis & Partners accepts returns in accordance with a customer's statutory rights under consumer laws in the United Kingdom and has a discretionary goodwill policy. Under the goodwill policy, customers can return products within 35 days after receipt, if not entirely satisfied.	Revenue is recognised when the goods have been received by the customer and control obtained. Adjustments are recorded for returns where material, based on historic trends and recent sales patterns. The right to return goods is included under inventory, note 4.1.	Revenue is recognised when the goods have been received by the customer. Adjustments are recorded for returns where material, based on historic trends and recent sales patterns.
Fashion	Fashion products are principally sold by John Lewis & Partners and include clothing, jewellery and other items. This also includes 'sale or return' sales. Customers obtain control of fashion products when the goods are received by the customer. Customers pay at the point of sale in John Lewis & Partners stores. Where a fashion product is ordered online, it is generally fulfilled from a centralised location. For B2B customers, invoices are raised and are payable on a variety of payment terms up to 30 days. John Lewis & Partners accepts returns in accordance with a customer's statutory rights under consumer laws in the United Kingdom and has a discretionary goodwill policy. Under the goodwill policy, customers can return products within 35 days after receipt, if not entirely satisfied.	Revenue is recognised when the goods have been received by the customer and control obtained. Adjustments are recorded for returns where material, based on historic trends and recent sales patterns. The right to return goods is included under inventory, note 4.1.	Revenue is recognised when the goods have been received by the customer. Adjustments are recorded for returns where material, based on historic trends and recent sales patterns.
Electricals and Home Technology (EHT)	EHT products are principally sold by John Lewis & Partners and include televisions, computers, tablets and other electrical items. Customers obtain control of EHT products when the goods are received by the customer. Customers pay at the point of sale in John Lewis & Partners stores. Where an EHT product is ordered online, it is generally fulfilled from a centralised location. For B2B customers, invoices are raised and are payable on a variety of payment terms up to 30 days. John Lewis & Partners accepts returns in accordance with a customer's statutory rights under consumer laws in the United Kingdom and has a discretionary goodwill policy. Under the goodwill policy, customers can return products within 35 days after receipt, if not entirely satisfied.	Revenue is recognised when the goods have been received by the customer. When EHT products are sold with a free service guarantee an element of the sales price is allocated to the performance of that service (see below). Adjustments are recorded for returns where material, based on historic trends and recent sales patterns. The right to return goods is included under inventory, note 4.1.	Revenue is recognised when the goods have been received by the customer, for the full price of the goods sold, excluding VAT. Adjustments are recorded for returns where material, based on historic trends and recent sales patterns.
Free service guarantee	The free service guarantee is provided with certain EHT products which are sold by John Lewis & Partners. Customers receive a free service guarantee of between two and five years on the purchase of specified EHT products. No separate payment is made for the free service guarantee. An element of the sales price of the EHT product is allocated to the free service guarantee on a cost plus margin basis. This amount is deducted from revenue and deferred on the Balance sheet. The deferred income is released to the Income statement over the period of the guarantee on a straight-line basis.	Revenue is deferred on the Balance sheet and then released to the Income statement over the period of the guarantee on a straight-line basis. Deferred income is shown under trade and other payables, see note 4.3.	The free service guarantee was accounted for under IAS 37 Provisions. No adjustment was made to revenue which was fully recognised at the point of sale and the best estimate of the costs of fulfilling the free service warranty was recorded as a provision.
Other revenue	Other revenue products/services are principally sold by John Lewis & Partners and include catering, customer delivery, foodhalls and workrooms. Customers obtain control of other revenue when the products/services have been rendered and the performance obligations have been met. Customers pay at the point of sale in John Lewis & Partners stores. Where other revenue products/services are ordered online, these are generally fulfilled from a centralised location.	Revenue is recognised when the products/services have been received by the customer and the performance obligations have been met.	Revenue is recognised when the products/services have been received by the customer.

Notes to the consolidated financial statements — continued

2.3 OTHER OPERATING INCOME

PURPOSE

Detailed below is income received that does not relate to the Partnership's main activities.

ACCOUNTING POLICIES

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

Commissions: Commissions are recognised when the Partnership has satisfied its performance obligation by delivering a promised service to the customer in accordance with the transaction price agreed.

Rental income: Rental income is recognised on a straight-line basis based on the length of the contract and when the performance obligation of the contract is satisfied.

Other income: Other income is recognised when the services have been rendered to the customer and performance obligations have been met.

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

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

Other income mainly relates to: car parking income; backhauling; concession income; and compensation for loss of profit under landlord commercial agreements where development work has impacted branch sales. It is made up of items that individually are not material and no other material groups were considered to be shown.

2.4 OPERATING EXPENSES BEFORE EXCEPTIONAL ITEMS AND PARTNERSHIP BONUS

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	2019 £m	2018 £m
Branch operating expenses	(2,198.1)	(2,158.4)
Administrative expenses	(1,072.0)	(955.6)
	(3,270.1)	(3,114.0)

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

2.5 EXCEPTIONAL ITEMS

PURPOSE

Exceptional items are items of income and/or expense that are significant by virtue of their size and nature (see note 1.2.2). We believe these exceptional items are relevant for a better understanding of our underlying business performance, and therefore are highlighted separately on the face of the income statement. This note provides detail of the exceptional items reported in both the current and prior year.

KEY JUDGEMENTS

Exceptional items: Exceptional items are those where, in management's opinion, their separate reporting provides a better understanding of the Partnership's underlying business performance; and which are significant by virtue of their size and nature. In considering the nature of an item, management's assessment includes, both individually and collectively, whether the item is outside the principal activities of the business; the specific circumstances which have led to the item arising; the likelihood of recurrence; and if the item is likely to recur, whether it is unusual by virtue of its size.

No single criteria alone classifies an item as exceptional, and therefore management must exercise judgement when determining whether, on balance, presenting an item as exceptional will help users of the financial statements understand the Partnership's underlying business performance.

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

Strategic restructuring and redundancy programmes

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

Head office: As part of IYB 2028, an internal productivity agenda was launched in 2016 with the appointment of a Group Productivity Director, the main focus of which was a transformation of pan-Partnership functions and other head office operations. These principally included evaluations of a number of functions which began at the end of 2017. Given the scale of the change, the delivery of these was expected to take four years, and is now well progressed, but further costs are expected over the next two years as we finalise the reviews of the remaining functions. In 2019 we have incurred expenses of £19.3m (2018: £40.5m) in relation to this programme. The expense includes project costs, onerous contracts and, where announced, redundancy costs.

Physical estate: In 2017, we announced our intention to cut back on plans to open new shops and instead to prioritise investment in our existing estate. This led to exceptional charges in 2017 for the write down of property, other assets and related costs, principally in relation to future development plans of the Waitrose & Partners estate (previously presented in exceptional items as Strategic review). Since 2017, our focus has shifted to an assessment and optimisation of our existing estate, and as highlighted in our June 2018 update, this continues to be a key part of our strategy, which includes ensuring that the size and shape of our physical estate is delivering on both our customer proposition, and financial returns. We expect this programme and the associated costs and incomes to take approximately five years to deliver. This year we have recognised a net exceptional expense of £5.1m (2018: £5.5m). The net charge includes the impairment of assets (reflecting the shortening of the useful economic life), accelerated depreciation of buildings, fixtures and fittings and management's best estimate of closure costs including onerous leases, dilapidations and, where closure has been approved and announced, redundancy costs. Where income in relation to previously estimated costs has been realised in the year, this has been shown net, reflecting that the original expenses were shown as exceptional.

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

Included within operating expenses, and not separately reported as exceptional, are £12.7m of restructuring and redundancy costs which are considered by the Partnership to be separate from our strategic programmes and part of the underlying business performance.

Branch impairments (Waitrose & Partners)

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

Branch impairment (John Lewis & Partners)

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

John Lewis & Partners supply chain

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

Notes to the consolidated financial statements — continued

2.5 EXCEPTIONAL ITEMS CONTINUED

Pay provision

In 2017, a £36.0m provision was recorded as an exceptional charge to cover the potential costs of complying with the National Minimum Wage Regulations. During the year, the methodology for calculating the liability has been clarified and the project finalised, resulting in a £30.3m (2018: £nil) release of the provision. Discussions with HMRC have now been completed and rectification payments have been made.

Legal settlement

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

Profit on disposal of items previously recognised as exceptional

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

2.6 PROFIT BEFORE TAX

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.

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

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

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

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

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

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

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, or 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 Statement of cash flows.

	2019 £m	2018 £m
Profit before tax[1]	117.4	107.5
Amortisation and write-offs of intangible assets[2]	141.7	114.1
Depreciation[3]	287.5	323.3
Share of loss of joint venture (net of tax)	0.7	1.0
Net finance costs	67.0	71.6
Partnership Bonus	44.7	74.0
Fair value losses on derivative financial instruments	2.1	0.2
Loss/(profit) on disposal of property, plant and equipment and intangible assets[4]	1.4	(15.8)
Decrease/(increase) in inventories	3.9	(33.7)
Decrease/(increase) in receivables	8.3	(21.8)
(Decrease)/increase in payables[1]	(46.7)	6.6
Increase in retirement benefit obligations	29.6	29.5
(Decrease)/increase in provisions[1]	(46.8)	12.0
Cash generated from operations before Partnership Bonus	**610.8**	668.5

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

2.8 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 83,900 (2018: 85,500). This note also covers Partner benefits, including pay for senior Partners and the Partnership Board.

2.8.1 PARTNER NUMBERS

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

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

Notes to the consolidated financial statements — continued

2.8 PARTNERS CONTINUED

2.8.2 PARTNER PAY AND BENEFITS

Employment and related costs were as follows:

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

2.8.3 KEY MANAGEMENT COMPENSATION

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

1 Includes cash supplements in lieu of future pension accrual.

Key management includes the Directors of the Company, members of the 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. Costs of key management compensation are included within operating expenses and exceptional items as applicable.

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

2.8.4 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 75 to 77.

	2019 £m	2018 £m
Aggregate emoluments	(5.5)	(6.1)

2.9 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 believe that paying taxes arising from our activities is an important part of how our business contributes to the societies in which we operate. The Tax Strategy adopted by the Partnership Board is available on the Partnership's website. In addition our total tax contributions are shown on page 21.

ACCOUNTING POLICIES

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

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

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

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

2.9.1 ANALYSIS OF TAX CHARGE FOR THE YEAR

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 2.9.3.

Tax (charged)/credited to the income statement	2019 £m	2018 £m
Current tax – current year	(46.2)	(52.1)
Current tax – adjustment in respect of prior years	2.3	(0.4)
Current tax on IFRS 15 restatement	2.5	–
Total current tax charge	(41.4)	(52.5)
Deferred tax – current year[1]	5.1	21.7
Deferred tax – rate change	–	(7.3)
Deferred tax – adjustment in respect of prior years	(1.3)	7.6
Deferred tax on IFRS 15 restatement	(2.5)	–
Total deferred tax credit	1.3	22.0
	(40.1)	(30.5)

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

1 Restated, see note 1.1.4.
2 An additional deficit funding contribution of £37.1m has been paid by the Partnership during the year (2018: £89.8m) in relation to the defined benefit pension scheme, resulting in a tax credit of £7.1m (2018: £17.2m) to the statement of other comprehensive income/(expense) and a corresponding reduction in our current tax liability.

2.9.2 FACTORS AFFECTING TAX CHARGE FOR THE YEAR

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

	2019 £m	2018 £m
Profit before tax[2]	117.4	107.5
Profit before tax multiplied by standard rate of corporation tax in the UK of 19.0% (2018: 19.2%[1])	(22.3)	(20.6)
Effects of:		
Changes in tax rate	–	(7.3)
Adjustment in respect of prior years	1.0	7.2
Depreciation on assets not qualifying for tax relief	(14.4)	(14.0)
Difference between accounting and tax base for land and buildings	(2.0)	4.9
Differences in overseas tax rates	(0.1)	(0.1)
Sundry disallowables	(2.3)	0.2
Other permanent differences on sale of property	–	(0.8)
Total tax charge[2]	(40.1)	(30.5)
Effective tax rate[2] (%)	34.2	28.4

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

Notes to the consolidated financial statements — continued

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

The movement on the deferred tax account is shown below:

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

1 Restated, see note 1.1.4.

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

Deferred tax liabilities	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Rollover gains £m	Total £m
At 28 January 2017	(101.5)	(8.8)	(38.7)	(149.0)
Credited to income statement	2.6	0.5	0.4	3.5
At 27 January 2018	(98.9)	(8.3)	(38.3)	(145.5)
Credited to income statement	7.3	0.3	–	7.6
At 26 January 2019	**(91.6)**	**(8.0)**	**(38.3)**	**(137.9)**

Deferred tax assets	Capital gains tax on land and buildings £m	Pensions and provisions £m	Other £m	Total £m
At 28 January 2017[1]	12.8	181.2	6.4	200.4
Credited/(charged) to income statement[1]	1.4	17.2	(0.1)	18.5
(Charged)/credited to other comprehensive income/(expense)	–	(57.4)	5.9	(51.5)
At 27 January 2018[1]	14.2	141.0	12.2	167.4
(Charged)/credited to income statement	(3.1)	0.7	(3.9)	(6.3)
Charged to other comprehensive income/(expense)	–	(55.3)	(4.1)	(59.4)
At 26 January 2019	**11.1**	**86.4**	**4.2**	**101.7**

1 Restated, see note 1.1.4.

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

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

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

1 Restated, see note 1.1.4.

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

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future profits is probable. There are unrecognised deferred tax assets in respect of losses for the year ended 26 January 2019 relating to losses in John Lewis Hong Kong Limited of £0.7m (2018: £nil).

The deferred tax balance associated with the pension deficit has been adjusted to reflect the current tax benefit obtained in the financial year ended 30 January 2010, following the contribution of the limited 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.

As a result of exemptions on dividends from subsidiaries and capital gains on disposal, there are no significant taxable temporary differences associated with investments in subsidiaries and interests in joint arrangements.

2.9.4 FACTORS AFFECTING TAX CHARGES IN CURRENT AND FUTURE YEARS

PURPOSE

Here we explain any changes to the current or future tax rates that have been announced or substantively enacted.

Legislation has been enacted to reduce the UK corporation tax rate from 19% to 17% from 1 April 2020.

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

3.1 INTANGIBLE ASSETS AND GOODWILL

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.

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

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

KEY JUDGEMENTS

Value of intangible work in progress: The 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.

During the year to 26 January 2019, the Partnership has capitalised a significant proportion of WIP that has built up over recent years. Management's review has concluded that the remaining intangible WIP balances presented at the reporting date are expected to result in intangible assets as defined by IAS 38.

CRITICAL ACCOUNTING ESTIMATES

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

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

Intangible assets and goodwill	Goodwill £m	Computer software Purchased £m	Internally developed £m	Work in progress £m	Total £m
Cost					
At 28 January 2017	–	216.6	491.3	157.4	865.3
Additions[1]	–	–	–	182.5	182.5
Transfers	–	23.4	72.0	(95.4)	–
Disposals and write-offs	–	(26.6)	(60.6)	(5.4)	(92.6)
At 27 January 2018	–	213.4	502.7	239.1	955.2
Additions[1]	1.1	–	–	157.0	158.1
Transfers	–	46.9	194.2	(241.1)	–
Disposals and write-offs	(1.1)	(8.6)	(19.5)	(17.7)	(46.9)
At 26 January 2019	**–**	**251.7**	**677.4**	**137.3**	**1,066.4**
Accumulated amortisation					
At 28 January 2017	–	(139.1)	(293.5)	–	(432.6)
Charge for the year[2]	–	(30.5)	(83.6)	–	(114.1)
Disposals and write-offs	–	27.2	60.0	–	87.2
At 27 January 2018	–	(142.4)	(317.1)	–	(459.5)
Charge for the year[2]	–	(43.4)	(79.5)	–	(122.9)
Disposals and write-offs	–	8.6	19.5	–	28.1
At 26 January 2019	**–**	**(177.2)**	**(377.1)**	**–**	**(554.3)**
Net book value at January 2017	–	77.5	197.8	157.4	432.7
Net book value at January 2018	–	71.0	185.6	239.1	495.7
Net book value at January 2019	**–**	**74.5**	**300.3**	**137.3**	**512.1**

1 For the year ended 26 January 2019, additions for the year include the non-cash capital expenditure accrual on intangible assets of £7.1m (2018: £22.3m).
2 For the year ended 26 January 2019, this includes an impairment charge of £2.0m (2018: £11.6m) to intangible assets of which £0.2m (2018: £2.0m) is in Waitrose & Partners, £nil (2018: £7.2m) is in John Lewis & Partners and £1.8m (2018: £2.4m) is in Group.

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

There are four individually significant assets within the total carrying amount of intangible assets as at 26 January 2019: two are customer projects (£139.0m, 2018: £126.8m) and two are distribution projects (£126.2m, 2018: £126.2m).

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

Amortisation of intangible assets is charged within operating expenses.

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

Notes to the consolidated financial statements — continued

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.

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 to 50 years

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

Building fixtures – 10 to 40 years

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

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

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

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

KEY JUDGEMENTS

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

CRITICAL ACCOUNTING ESTIMATES

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

Impairment: In line with the 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.

Property, plant and equipment	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in course of construction £m	Total £m
Cost				
At 28 January 2017	4,569.5	1,957.2	85.9	6,612.6
Additions[1]	–	–	226.8	226.8
Transfers	136.0	95.3	(231.3)	–
Disposals and write-offs	(62.2)	(133.3)	(0.4)	(195.9)
At 27 January 2018	4,643.3	1,919.2	81.0	6,643.5
Additions[1]	2.9	–	161.2	164.1
Transfers	89.1	99.0	(188.1)	–
Disposals and write-offs	(31.4)	(69.8)	(1.1)	(102.3)
Transfers to assets held for sale	(77.7)	–	–	(77.7)
At 26 January 2019	**4,626.2**	**1,948.4**	**53.0**	**6,627.6**
Accumulated depreciation				
At 28 January 2017	(1,161.2)	(1,339.0)	–	(2,500.2)
Charge for the year[2]	(172.9)	(150.4)	–	(323.3)
Disposals and write-offs	18.0	133.2	–	151.2
At 27 January 2018	(1,316.1)	(1,356.2)	–	(2,672.3)
Charge for the year[2]	(142.4)	(145.1)	–	(287.5)
Disposals and write-offs	19.8	67.5	–	87.3
Transfers to assets held for sale	54.6	–	–	54.6
At 26 January 2019	**(1,384.1)**	**(1,433.8)**	**–**	**(2,817.9)**
Net book value at January 2017	3,408.3	618.2	85.9	4,112.4
Net book value at January 2018	3,327.2	563.0	81.0	3,971.2
Net book value at January 2019	**3,242.1**	**514.6**	**53.0**	**3,809.7**

1 For the year ended 26 January 2019, additions for the year include the non-cash capital expenditure accrual on property, plant and equipment of £28.7m (2018: £12.7m).
2 For the year ended 26 January 2019, this includes a net impairment charge of £18.6m to land and buildings (2018: £40.7m).

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

In accordance with IAS 36, the 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% (2018: 8%).

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 £6.0m in Waitrose & Partners (2018: £40.7m) and £12.6m in John Lewis & Partners (2018: £nil).

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

Notes to the consolidated financial statements — continued

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 POLICIES

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
Additions	–	0.5	0.5
At 26 January 2019	**2.1**	**2.0**	**4.1**
Share of (loss)/profit			
At 28 January 2017	0.3	–	0.3
Share of loss	(1.0)	–	(1.0)
At 27 January 2018	(0.7)	–	(0.7)
Share of loss	(0.7)	–	(0.7)
At 26 January 2019	**(1.4)**	**–**	**(1.4)**
At 27 January 2018	1.4	1.5	2.9
At 26 January 2019	**0.7**	**2.0**	**2.7**

3.4 ASSETS HELD FOR SALE

PURPOSE

Assets held for sale are non-current assets which are expected to be sold rather than held for continuing use in the Partnership. These have principally arisen as part of the Partnership's review of its physical estate. Assets held for sale 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 26 January 2019, five property assets in Waitrose & Partners (£13.7m) and one in John Lewis & Partners (£9.4m) were recorded as held for sale with a total carrying value of £23.1m. Two of these properties have been sold since the year-end and the remaining four are expected to complete within the next 12 months.

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

3.5 COMMITMENTS AND CONTINGENCIES

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.

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

3.5.2 LEASE GUARANTEES

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

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:	**2019 Land and buildings £m**	2018 Land and buildings £m
Within one year	**(192.5)**	(188.9)
Later than one year and less than five years	**(757.4)**	(738.2)
After five years	**(2,716.1)**	(3,148.5)

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

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

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

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

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 POLICIES

Inventory valuation: Inventory is stated at the lower of cost, which is computed on the basis of average unit cost, and net realisable value. Inventory excludes merchandise held by the 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 also includes a 'right to return goods' asset, which represents the value of inventory expected to be returned as a result of customers exercising their rights under the Partnership's returns policy. The expected level of returns is based on past experience.

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

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

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

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 one 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.

ACCOUNTING POLICIES

Trade receivables: Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less an allowance for expected credit losses. Such allowances are based on an individual assessment of each receivable, which is informed by past experience, and are recognised at amounts equal to the losses expected to result from all possible default events over the life of each financial asset. The Partnership also performs analysis on a case by case basis for particular trade receivables with irregular payment patterns or history.

Supplier income (shown as part of accrued income): The price that the 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 (shown as part of trade receivables) 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	2019 £m	2018 £m
Current:		
Trade receivables	**74.5**	84.5
Other receivables	**39.1**	39.8
Prepayments	**110.6**	101.5
Accrued income	**35.1**	35.9
	259.3	261.7
Non-current:		
Other receivables	**16.2**	18.3
Prepayments	**42.2**	47.0
	58.4	65.3

Trade receivables are non-interest bearing and generally on credit terms of less than 90 days. Concentrations of credit risk are considered to be very limited. The carrying amount of trade and other receivables approximates to fair value and is denominated in Sterling. Within trade receivables is supplier income that has been invoiced but not yet paid of £15.4m (2018: £9.7m). Supplier income that has been invoiced but not yet settled against future trade payable balances is included in trade payables (see note 4.3).

Within accrued income, there is £12.7m (2018: £9.3m) in relation to supplier income which has not yet been invoiced. Additionally, accrued income includes £20.5m (2018: £24.6m) in relation to other operating income items (see note 2.3) which has not been billed at the reporting date. The unbilled amounts of other operating income is made up of items that are individually not material for further disclosures and had no significant changes during the period.

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

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

Notes to the consolidated financial statements — continued

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 or services to be delivered, including in respect of warranties 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 POLICIES

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

Deferred income: Deferred income is recognised when the Partnership has received cash in advance of providing a good or service. It includes revenue in respect of free service guarantees for EHT products. The Partnership allocates a portion of the consideration received for the EHT product to the free service guarantee on a cost plus margin basis. The amount allocated to the free service guarantee is deferred and recognised as revenue over the period of the guarantee on a straight-line basis.

CRITICAL ACCOUNTING ESTIMATES

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

Deferred income: In relation to free service guarantees, deferred income is based on the expected future repair costs for all goods sold plus a margin. The expected future costs are based on historic evidence of claims and cost to repair. Management exercise a degree of estimation regarding the margin percentage.

Trade and other payables	2019 £m	2018 £m
Current:		
Trade payables	**(919.7)**	(943.3)
Other payables	**(179.0)**	(184.7)
Other taxation and social security	**(178.4)**	(178.8)
Accruals	**(189.9)**	(192.1)
Deferred income[1]	**(89.0)**	(111.9)
Partnership Bonus	**(39.7)**	(66.5)
	(1,595.7)	(1,677.3)
Non-current:		
Other payables	**(0.2)**	(0.3)
Deferred income[1]	**(258.4)**	(251.8)
	(258.6)	(252.1)

1 Restated, see note 1.1.4.

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

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

4.4 PROVISIONS

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, 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.

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

1 Restated, see note 1.1.4.

The 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 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. The release of £35.3m in the year principally relates to releases in respect of the National Minimum Wage provision of £30.3m, as detailed in note 2.5.

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.

	2019 £m	2018 £m
Finance costs		
Net interest payable on:		
Commitment fees and bank overdrafts	**(1.5)**	(1.3)
Other loans repayable within five years	**(19.6)**	(18.3)
Other loans repayable in more than five years[1]	**(33.6)**	(32.2)
Finance lease interest payable	**(0.9)**	(0.9)
Amortisation of issue costs of bonds and credit facilities	**(1.6)**	(1.5)
Share Incentive Plan dividends	**(0.2)**	(0.4)
Finance costs in respect of borrowings	**(57.4)**	(54.6)
Fair value measurements and other	**(5.9)**	(1.9)
Net finance costs arising on defined benefit and other employee benefit schemes	**(17.3)**	(29.2)
Total finance costs	**(80.6)**	(85.7)
Finance income		
Finance income in respect of cash and short-term investments[2]	**10.1**	6.8
Fair value measurements and other	**3.5**	7.3
Total finance income	**13.6**	14.1
Net finance costs	**(67.0)**	(71.6)

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

	2019 £m	2018 £m
Total finance costs in respect of borrowings, excluding interest rate swaps	**(51.7)**	(49.9)
Net interest receivable in respect of interest rate swaps	**0.4**	0.7
Finance income in respect of cash and short-term investments, excluding interest rate swaps	**4.0**	1.4
Net finance costs in respect of borrowings and short-term investments	**(47.3)**	(47.8)
Fair value measurements and other	**(2.4)**	5.4
Net finance costs arising on defined benefit retirement scheme	**(17.0)**	(25.3)
Net finance costs arising on other employee benefit schemes	**(0.3)**	(3.9)
Net finance costs	**(67.0)**	(71.6)

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

5.2 ANALYSIS OF NET DEBT

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.

	2018 £m	Cash movements £m	Other non-cash movements £m	**2019 £m**
Non-current assets				
Derivative financial instruments	–	–	0.2	**0.2**
	–	–	0.2	**0.2**
Current assets				
Cash and cash equivalents[1]	596.2	120.6	–	**716.8**
Short-term investments[1]	166.0	99.0	0.4	**265.4**
Derivative financial instruments	5.2	(0.2)	1.8	**6.8**
	767.4	219.4	2.2	**989.0**
Current liabilities				
Borrowings and overdrafts	(68.7)	12.4	(275.0)	**(331.3)**
Unamortised bond transaction costs	–	–	0.1	**0.1**
Finance leases	(0.7)	1.7	(1.5)	**(0.5)**
Derivative financial instruments	(19.8)	2.6	9.7	**(7.5)**
	(89.2)	16.7	(266.7)	**(339.2)**
Non-current liabilities				
Borrowings	(880.3)	(121.9)	275.0	**(727.2)**
Unamortised bond transaction costs	11.1	0.7	(1.4)	**10.4**
Fair value adjustment for hedged element on bonds	1.1	–	(0.3)	**0.8**
Finance leases	(22.6)	–	2.0	**(20.6)**
Derivative financial instruments	(4.0)	–	2.0	**(2.0)**
	(894.7)	(121.2)	277.3	**(738.6)**
Total net debt	(216.5)	114.9	13.0	**(88.6)**

1 Reclassified, see note 1.1.4.

Reconciliation of net cash flow to net debt	**2019 £m**	2018 £m
Increase/(decrease) in net cash and cash equivalents in the year[1]	**120.7**	(77.6)
Cash outflow from movement in short-term investments[1]	**99.0**	106.0
Cash outflow from SIP shares	**15.4**	–
Cash (inflow)/outflow from movement in other net debt items	**(120.2)**	9.3
Cash movement in net debt for the year	**114.9**	37.7
Opening net debt	**(216.5)**	(250.6)
Non-cash movement in net debt for the year	**13.0**	(3.6)
Closing net debt	**(88.6)**	(216.5)

1 Reclassified, see note 1.1.4.

Our total borrowings and finance lease liabilities are summarised below.

	Borrowings £m	Finance lease liabilities £m	Total £m
At 28 January 2017	(979.2)	(24.5)	(1,003.7)
Movements arising from financing cash flows	30.2	1.2	31.4
At 27 January 2018	(949.0)	(23.3)	(972.3)
Movements arising from financing cash flows	(109.5)	1.7	(107.8)
Other non-cash movements	–	0.5	0.5
At 26 January 2019	**(1,058.5)**	**(21.1)**	**(1,079.6)**

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

Notes to the consolidated financial statements — continued

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 POLICIES

Short-term investments: Short-term investments comprise tradable securities and deposits with original maturities of greater than 90 days but less than one year. Maturity periods are not the sole factor. Given the AA VNAVs have a weighted average maturity of less than 90 days they have been included within Short-term investments due to the fact they do not bear an insignificant risk of changes in value.

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

1 Reclassified, see note 1.1.4.

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

5.4 CASH AND CASH EQUIVALENTS

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 POLICIES

Cash and cash equivalents: Cash and cash equivalents in the Balance sheet comprise cash at bank and in hand and short-term deposits with original maturities of less than 90 days which are subject to an insignificant risk of changes in value. In the consolidated statement of cash flows, net cash and cash equivalents comprise cash and cash equivalents, as defined above, net of bank overdrafts.

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

1 Reclassified, see note 1.1.4.

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

At 26 January 2019, £19.6m (2018: £20.5m) of the Partnership's cash balance and £0.1m (2018: £nil) 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:

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

1 Reclassified, see note 1.1.4.

5.5 BORROWINGS AND OVERDRAFTS

PURPOSE

Our borrowings comprise bonds, bank loans, 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	2019 £m	2018 £m
Current:		
Bank overdraft	–	(0.1)
8⅜% Bonds, 2019	(275.0)	–
Share Incentive Plan shares (SIP)[1]	(56.3)	(68.6)
Unamortised bond transaction costs	0.1	–
	(331.2)	(68.7)
Non-current:		
Bank loans	(125.0)	–
8⅜% Bonds, 2019	–	(275.0)
6⅛% Bonds, 2025	(300.0)	(300.0)
4¼% Bonds, 2034	(300.0)	(300.0)
Unamortised bond and loan transaction costs	10.4	11.1
Fair value adjustment for hedged element on bonds	0.8	1.1
Share Incentive Plan shares (SIP)[1]	(2.2)	(5.3)
	(716.0)	(868.1)

1 Reclassified, see note 1.1.4.

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

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

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

The Partnership operates the BonusSave scheme, a Share Incentive Plan (SIP) which allows Partners to elect to invest part of their Partnership Bonus back into the Partnership. SIP shares are issued as part of the BonusSave scheme. Partners who wish to invest part of their Partnership Bonus in SIP shares 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 Partnership Bonus for this purpose. At 26 January 2019, the value of SIP shares purchased by John Lewis Partnership Trust Limited on behalf of Partners was £58.5m (2018: £73.9m), £45.7m lower than the total value of SIP shares issued of £104.2m (2018: £104.2m).

The SIP shares shown as current and non-current borrowings above reflect amounts owed directly to Partners in respect of the scheme. The cash flow movement as a result of the net subscriptions and redemptions of shares of £15.4m (2018: £30.3m) is shown as an operating cash flow in the Statement of cash flows alongside the Partnership Bonus paid during the year.

Payments made to SIP shareholders in respect of interest of £0.4m (2018: £0.9m) are shown as cash flows used in financing operations.

Notes to the consolidated financial statements — continued

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 POLICIES

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 (see note 3.5).

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

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

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

6. PENSIONS

IN THIS SECTION

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

6.1 RETIREMENT BENEFITS

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 while 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, they automatically join the defined benefit section of the scheme.

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

Employee benefits: The defined benefit scheme assets are 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 allows for projected future salary increases.

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

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

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

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

Contributions to the Partnership's defined contribution section are charged to the Income statement as they are incurred. The Partnership has no further obligation 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). The liability relating to long leave is included within Provisions in note 4.4.

CRITICAL ACCOUNTING ESTIMATES

Retirement benefits: This section details the assumptions used to calculate the total defined benefit pension obligation. This is the estimate of the current cost of meeting future benefits to be paid out by the pension scheme. The calculation requires the application of a discount rate to estimate the present day fair value of the pension payments, as well as assumptions on mortality rates, salary increases and inflation. Given the size of the 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.

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.

Notes to the consolidated financial statements — continued

6.1 RETIREMENT BENEFITS CONTINUED

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

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

The Partnership is currently engaged in discussions with Partnership Council on the level and form of future provision of pension benefits to Partners (see page 35).

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 £468.1m. Differences arise between the funding valuation and accounting valuation, mainly due to the use of different assumptions to value the liabilities and changes in market conditions between the two valuation dates, of 31 March 2016 and 26 January 2019.

For funding valuation purposes the liabilities are determined based on assumptions set by the Trustee following consultation with the 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 ten-year period. Contributions agreed as part of this plan are as follows:

- A reduction in the contribution rate from 16.4% to 10.4% of eligible monthly payroll;
- Deficit reducing contributions from 1 April 2016 to 31 March 2019 of £33.0m per annum to be paid in equal monthly instalments, increasing by 3% at 31 March 2017 and 31 March 2018;
- Deficit reducing contributions from 1 April 2019 to 31 March 2026 of £6.6m per annum to be paid in equal monthly instalments, increasing on 31 March each year by 3%; and
- One-off contributions of £100.0m and £50.0m due by 31 January 2017 and 31 March 2017 respectively, of which the £100.0m was paid on 18 January 2017 and £50.0m was paid on 24 February 2017.

The balance of the deficit is expected to be met by investment returns on the scheme assets. Total contributions to the scheme in 2019/20 under this agreement are expected to be £108.5m, subject to any changes as a result of the next triennial actuarial valuation of the scheme (as at 31 March 2019), which will be completed during the 2019/20 financial year.

Subsequent to the funding valuation being agreed, it was identified that certain pension scheme members were omitted from the calculation of the pension liabilities. Including these additional members increased the estimated pension liabilities by £31.0m (0.6%), from £4,856.0m to £4,887.0m. As a result, the 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%.

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

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

6.1.1 ASSUMPTIONS

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 26 January 2019.

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

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

Nominal discount rate: IAS 19 Employee Benefits requires that the nominal discount rate is set by reference to market yields on high quality corporate bonds of a suitable term consistent with the scheme cash flows. Where there are no high quality corporate bonds of appropriate duration to reference, an extrapolation from other bond yields is required.

The 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 model 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 reflecting expected yields on high quality corporate bonds over the duration of the Partnership's pension scheme.

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

Demographic assumptions

The post-retirement mortality assumptions used in valuing the pension liabilities were based on the S2 Light (2018: S2 Light) series standard tables. Based on scheme experience, the probability of death at each age was multiplied by 127% for males and 106% for females. Future improvements in life expectancy have been allowed for in line with the most recent CMI 2017 improvements model with a smoothing parameter of 7.0 (2018: CMI 2016, smoothing parameter of 7.5), subject to a long-term trend of 1.25%.

The average life expectancies assumed were as follows:

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

Notes to the consolidated financial statements — continued

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 the pension scheme.

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

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 is attributable to members' service in the current period.

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.

Administrative expenses are in relation to the pension scheme.

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

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

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

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

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 during the year. Movements in scheme assets are explained further in 6.1.4.

Movements in the net defined benefit liability are as follows:

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

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

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

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

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 period. The service cost is charged to the Income statement, along with any gains or losses on settlement.

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

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

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

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

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

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

Notes to the consolidated financial statements — continued

6.1 RETIREMENT BENEFITS CONTINUED
6.1.3 RECONCILIATION OF RETIREMENT BENEFITS CONTINUED

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 during the year. The movements are broken down into key areas that impact the pension assets as follows:

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

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

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

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

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

6.1.4 ANALYSIS OF ASSETS

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

The Trustee's investment strategy as set out in their Statement of Investment Principles dated 27 September 2018 is to hold 80% of assets in a return seeking portfolio that aims to reduce concentrations of risk by diversifying across a range of asset classes and geographies. The remaining assets are used to provide a liability matching portfolio with the intention of matching movements in the assessed values of the pension liabilities due to movements in interest rates and inflation. In 2016 the Trustee initiated a three to five year interest rate and inflation hedging programme which has increased the level of liability matching to 60% in line with its stated target. As this will be achieved using derivatives and repurchase agreements, the allocation to return seeking assets is not intended to reduce.

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

Liability driven investments include UK government bond and cash equivalent assets valued at £2,397.9m (2018: £1,561.7m) and associated repurchase agreements and swaps valued at £(1,460.2)m (2018: £(713.0)m). This is part of the Trustee's interest rate and inflation hedging strategy.

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

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

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

6.1.5 SENSITIVITY ANALYSIS

PURPOSE

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

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

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

1 The discount rate sensitivity allows for the impact of the Trustee's investment strategy. As set out in note 6.1.4 this is designed to offset movements in the discount rate and their impact on the liabilities.

6.1.6 OTHER ARRANGEMENTS

JLP Scottish Limited Partnership

On 30 January 2010, the 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 £71.7m (2018: £80.8m) investment in JLP Scottish Limited Partnership held by the pension scheme. The distribution of JLP Scottish Limited Partnership profits to the pension scheme is reflected as pension contributions in these consolidated financial statements on a cash basis.

John Lewis Properties plc guarantee

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

Notes to the consolidated financial statements — continued

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 employee 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 152), whilst maintaining an appropriate level of cash and committed debt headroom and a managed debt maturity profile to reduce refinancing risk and ensure continuity of funding. Forms of borrowing include bond issues, bank debt, assets acquired via finance leases, assets obtained for use via operating leases, 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 £450.0m committed credit facility, maturing in November 2021 and a £50.0m committed credit facility maturing in March 2021. At the year-end, the Partnership had undrawn committed credit facilities of £500.0m (2018: £500.0m). In addition to these facilities, the Partnership had listed bonds at the year-end totalling £875.0m (2018: £875.0m), of which £275.0m matured in April 2019, with £300.0m due to mature in 2025 and the remaining £300.0m due to mature in 2034. The bonds have fixed coupons. Bank loans totalling £125.0m (2018: £nil) were agreed during the year, of which £75.0m matures in 2021 and £50.0m in 2023. The loans have variable interest payments. The maturity profiles of financial debt are set out in note 7.3.

The Partnership's listed bonds, bank loans 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.

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	**(331.3)**	**–**	**(727.2)**
Interest payments on borrowings	**(57.2)**	**(34.2)**	**(254.2)**
Finance lease liabilities	**(1.3)**	**(1.3)**	**(33.9)**
Trade and other payables	**(1,328.3)**	**(0.2)**	**–**
Derivative financial liabilities			
Derivative contracts – receipts	**360.4**	**70.6**	**24.6**
Derivative contracts – payments	**(360.1)**	**(72.3)**	**(23.5)**
At 26 January 2019	**(1,717.8)**	**(37.4)**	**(1,014.2)**

	Due within 1 year £m	Due between 1 and 2 years £m	Due 2 years and beyond £m
Non-derivative financial liabilities			
Borrowings and overdrafts[1]	(68.7)	(275.0)	(605.3)
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	335.1	97.7	30.7
Derivative contracts – payments	(349.2)	(99.6)	(31.8)
At 27 January 2018	(1,525.1)	(332.8)	(928.9)

1 Restated, see note 1.1.4.

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

7.1.3 INTEREST RATE RISK

In order to manage the risk of interest rate fluctuations on the 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. The Partnership has converted £100.0m of fixed rate debt to floating rate debt using interest rate swap contracts. The interest rate swap contracts are designated as fair value hedges and fair value movements are recognised within the Income statement. Derivative financial instruments recognised as fair value hedges during the year were effective.

7.1.4 FOREIGN CURRENCY RISK

The 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 Waitrose & Partners and John Lewis & Partners and they meet regularly to oversee the foreign exchange purchasing activities for each brand. Foreign currency exposures are hedged primarily using forward foreign exchange contracts covering up to 100% of forecast direct exposures on a rolling basis. Forward foreign exchange contracts used to hedge forecast currency requirements are designated as cash flow hedges with fair value movements recognised in equity. Derivative financial instruments that were designated as cash flow hedges during the year were effective. At the balance sheet date, the notional value of open forward foreign currency contracts of £418.5m (2018: £437.1m) had been entered into, to hedge purchases in foreign currencies which will mature over the next 18 months.

In order to help manage its indirect currency risk, the Group held $200.0m of Sterling/US dollar options and €100.0m of Sterling/Euro options at the Balance sheet date and as at the date of this report. Fair value movements in the option contracts are recognised within the Income statement. The indirect risk being hedged is defined as the Group's economic exposure to the change in price of goods and services which have foreign currency input costs, but which are predominantly paid for in Sterling.

Notes to the consolidated financial statements — continued

7.1 MANAGEMENT OF FINANCIAL RISKS

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:

	2019 £m	2018 £m
Trade and other receivables	129.8	142.6
Short-term investments[1]	265.4	166.0
Cash and cash equivalents[1]	716.8	596.2
Derivative financial instruments	7.0	5.2
	1,119.0	910.0

1 Restated, see note 1.1.4.

7.1.6 ENERGY RISK

The Partnership operates risk management processes for the energy costs associated with the Partnership's 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 strategies for forward purchasing and hedging of energy costs using flexible purchase contracts and by entering into over-the-counter diesel swap contracts.

Diesel cost exposures are hedged using over-the-counter diesel swaps covering up to 100% of forecast direct exposures on a rolling basis. Diesel swaps used to hedge forecast diesel requirements are designated as fair value hedges with fair value movements recognised in profit or loss. Derivative financial instruments that were designated as fair value hedges during the year were effective. At the Balance sheet date, the notional value of open diesel swaps of £1.1m (2018: £1.0m) had been entered into, to hedge purchases of diesel that will mature within the next month.

7.1.7 SENSITIVITY ANALYSIS

The following analysis illustrates the sensitivity of the 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; and
- All derivative financial instruments designated as hedges are assumed to be fully effective.

	2019		2018	
	Income statement +/- £m	Equity +/- £m	Income statement +/- £m	Equity +/- £m
UK interest rates +/- 1% (2018: +/- 1%)	5.7	–	4.9	–
US Dollar exchange rate (GBP/USD) +/- 10% (2018: +/- 10%)	12.4	20.1	12.2	21.9
Euro exchange rate (GBP/EUR) +/- 10% (2018: +/- 10%)	7.3	15.8	0.7	15.7

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

7.2 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES

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 26 January 2019, there have been no transfers between any levels of the IFRS 13 fair value hierarchy and there were no reclassifications of financial assets as a result of a change in the purpose or use of those assets.

7.2.2 FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is as follows:

	2019				2018			
Fair value of derivative financial instruments	Assets £m	Liabilities £m	Recognised in Other Comprehensive Income £m	Recognised in Income Statement £m	Assets £m	Liabilities £m	Recognised in Other Comprehensive Income £m	Recognised in Income Statement £m
Non-current								
Currency derivatives – cash flow hedge	0.2	(1.4)	(1.2)	–	–	(2.9)	(2.9)	–
Other derivatives	–	(0.6)	–	(0.6)	–	(1.1)	–	(1.1)
	0.2	(2.0)	(1.2)	(0.6)	–	(4.0)	(2.9)	(1.1)
Current								
Currency derivatives – cash flow hedge	6.4	(5.9)	0.5	–	1.5	(19.8)	(18.3)	–
Other derivatives	0.4	(1.6)	–	(1.2)	3.7	–	–	3.7
	6.8	(7.5)	0.5	(1.2)	5.2	(19.8)	(18.3)	3.7

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

The fair value of the derivative financial instruments held by the 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.

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):

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

The fair values of the 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.

Notes to the consolidated financial statements — continued

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

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

7.3.2 ANALYSIS OF FINANCIAL LIABILITIES

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

Currency analysis	Fixed rate £m	Floating rate £m	Total £m
All Sterling			
At 26 January 2019	**(786.3)**	**(282.8)**	**(1,069.1)**
At 27 January 2018	(787.2)	(174.0)	(961.2)

Maturity of financial liabilities	2019 £m	2018 £m
Repayable within one year		
Bank overdrafts	**–**	(0.1)
Property finance leases	**(0.5)**	(0.7)
Bonds	**(275.0)**	–
Share Incentive Plan shares	**(56.3)**	(68.6)
Unamortised bond transaction costs	**0.1**	–
	(331.7)	(69.4)
Repayable between one and two years		
Property finance leases	**(0.6)**	(0.6)
Bonds	**–**	(275.0)
Unamortised bond transaction costs	**–**	0.4
	(0.6)	(275.2)
Repayable between two and five years		
Property finance leases	**(1.6)**	(2.0)
Loan	**(125.0)**	–
Unamortised loan transaction costs	**0.7**	–
	(125.9)	(2.0)
Repayable in more than five years		
Property finance leases	**(18.4)**	(20.0)
Bonds	**(600.0)**	(600.0)
Unamortised bond transaction costs	**9.7**	10.7
Share Incentive Plan shares	**(2.2)**	(5.3)
	(610.9)	(614.6)
	(1,069.1)	(961.2)

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.

	2019		2018	
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.

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 £58.5m (2018: £73.9m), £45.7m lower than the total value of SIP shares issued of £104.2m (2018: £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 £45.7m (2018: £30.3m). See note 5.5.

8.2.4 OTHER TRANSACTIONS

Key management compensation has been disclosed in note 2.8.

During the year the Partnership provided administrative support services to charities related to the Partnership. The estimated value of these support services is £84,000 (2018: £81,000). The Partnership also made donations totalling £0.7m (2018: £0.6m) to the John Lewis Foundation.

Notes to the consolidated financial statements — continued

8.3 SUBSEQUENT EVENTS

PURPOSE

Events that take place after the Balance sheet date of 26 January 2019 and before the date the financial statements are signed are recorded in this note. In order to be disclosed, these events must be sufficiently material to warrant disclosure.

8.3.1 COMMERCIAL OPERATING MODEL

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

8.3.2 COMMERCIAL AGREEMENT WITH OCADO

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

8.3.3 WAITROSE & PARTNERS STORE CLOSURES

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

Company financial statements

A financial snapshot of the Company showing our assets and how they are financed.

Company Balance sheet

As at 26 January 2019

Notes		2019 £m	2018 £m
	Non-current assets		
11	Investments	122.4	121.1
	Total assets	122.4	121.1
	Current liabilities		
13	Trade and other payables	(1.3)	(1.4)
	Non-current liabilities		
12	Borrowings	(104.2)	(104.2)
	Total liabilities	(105.5)	(105.6)
	Net assets	16.9	15.5
	Equity		
14	Share capital	0.6	0.6
	Capital redemption reserve	5.0	5.0
	Retained earnings	11.3	9.9
	Total equity	16.9	15.5

The financial statements on pages 137 to 140 were approved by the Board of Directors on 11 April 2019 and signed on its behalf by:

SIR CHARLIE MAYFIELD AND PATRICK LEWIS
Directors, John Lewis Partnership plc

Registered number 00238937

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

A reconciliation between the beginning and the end of the year which discloses Profit or loss.

Company Statement of changes in equity

For the year ended 26 January 2019

Notes		Share capital £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
	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
10	Profit for the year and total comprehensive income	–	–	1.4	1.4
	Balance at 26 January 2019	0.6	5.0	11.3	16.9

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

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 at the date of approval of this report. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the Company financial statements.

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 is 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 statement of cash flows 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 £1.4m profit (2018: £1.0m profit).

Details of auditor's remuneration are provided in note 2.6 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 26 January 2019.

	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 27 January 2018	11.3	109.7	0.1	121.1
Movements	–	1.3	–	1.3
At 26 January 2019	**11.3**	**111.0**	**0.1**	**122.4**

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

12 BORROWINGS

PURPOSE

Borrowings consist of long-term loans from Group companies in respect of Share Incentive Plan shares, which are allocated to Partners who are entitled to a dividend.

Borrowings	2019 £m	2018 £m
Non-current:		
Loans from Group companies	**(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	2019 £m	2018 £m
Other payables	**(1.3)**	(1.4)

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.

Share capital	2019 Authorised £m	2019 Issued and fully paid £m	2018 Authorised £m	2018 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 26 January 2019 was:

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

1 The address of the registered office is 171 Victoria Street, London SWIE 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%
Carlisle Place Ventures Limited*	Home improvement services	England & Wales[1]	Ordinary	100%
Clicklink Logistics Limited	Logistical services	England & Wales[8]	Ordinary	50%
Herbert Parkinson Limited*	Manufacturing and making up	England & Wales[1]	Ordinary	100%
JLP Insurance Limited*	Insurance	Guernsey[7]	Ordinary	100%
JLP Scotland Limited	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 (in liquidation)	–	England & Wales[9]	Ordinary	100%
John Lewis Hong Kong Limited	Sourcing company	Hong Kong[4]	Ordinary	100%
John Lewis Properties plc*	Property holding company	England & Wales[1]	Ordinary	100%
John Lewis PT Holdings Limited	Holding company	England & Wales[1]	Ordinary	100%
John Lewis Partnership Pensions Trust	Non-trading	England & Wales[1]	Ordinary	100%
John Lewis International Limited*	International online retail	England & Wales[1]	Ordinary	100%
Jonelle Jewellery Limited	Dormant	England & Wales[1]	Ordinary	100%
Jonelle Limited	Dormant	England & Wales[1]	Ordinary	100%
Park One Management Limited	Provision of management services	England & Wales[1]	Ordinary	37%
Peter Jones Limited	Dormant	England & Wales[1]	Ordinary	100%
The Odney Estate Limited	Dormant	England & Wales[1]	Ordinary	100%
Waitrose (Jersey) Limited*	Food retailing	Jersey[3]	Ordinary	100%
Waitrose (Guernsey) Limited*	Food retailing	Guernsey[2]	Ordinary	100%
Waitrose Limited*	Food retailing	England & Wales[1]	Ordinary	100%

* Principal subsidiary undertaking as at 26 January 2019.
1 The address of the registered office is 171 Victoria Street, London SWIE 5NN.
2 The address of the registered office is Martello Court, Admiral Park, St Peter Port, Guernsey GY1 3HB.
3 The address of the registered office is 44 Esplanade, St Helier, Jersey JE4 9WG.
4 The address of the registered office is Suite 3201, Jardine House, 1 Connaught Place, Central, Hong Kong.
5 The address of the registered office is John Lewis Aberdeen, George Street, Aberdeen AB25 1BW.
6 The address of the registered office is 60 Leith Street, Edinburgh EH1 3SP.
7 The address of the registered office is St. Martins House Le Bordage, St Peter Port, Guernsey GY1 4AU.
8 The address of the registered office is Clipper Logistics Group, Gelderd Road, Leeds, West Yorkshire LS12 6LT.
9 The address of the registered office is Hill House, 1 Little New Street, London EC4A 3TR.
(i) John Lewis Partnership Pensions Trust and JLP Scotland Limited are the Limited Partners. John Lewis plc is the General Partner.
(ii) JLP Scottish Limited Partnership and John Lewis Properties plc are the General Partners.

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 Register of Companies.

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

The Directors are responsible for preparing the Partnership and parent Company financial statements 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 as adopted by the EU (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; and
– 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 are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board.

SIR CHARLIE MAYFIELD AND PATRICK LEWIS
Directors, John Lewis Partnership plc
11 April 2019

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 26 January 2019 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows, company balance sheet, company statement of changes in equity, company statement of cash flows and the related notes, including the accounting policies in note 1.

IN OUR OPINION:

- the financial statements give a true and fair view of the state of the Partnership's[1] and of the parent company's affairs as at 26 January 2019 and of the Partnership's profit for the year then ended;
- the Partnership financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit and risk committee.

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

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

OVERVIEW

Materiality: Partnership financial statements as a whole	£13.7m (2018: £14.5m) 5% of the 3-year average (2018: 5% of actual) of consolidated profit before tax, Partnership Bonus and exceptional items	
Coverage	86% (2018: 97%) of Partnership consolidated profit before tax, Partnership Bonus and exceptional items	
Key audit matters	**vs 2018**	
Recurring risks	Carrying amount of property, plant and equipment (PPE)	◀▶
	Net defined benefit obligation	◀▶
	Long leave provision	◀▶
	New: Fair value of free service warranty (IFRS 15)	
Event driven	**New:** Brexit	
	New: Going concern	

2. KEY AUDIT MATTERS: INCLUDING 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. We summarise below the key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	THE RISK	OUR RESPONSE
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 38 to 42 (Principal Risks), page 43 (Viability Statement) and page 62 (Audit and Risk Committee Report)*	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in carrying amount of PPE, net defined benefit obligation, long leave provision, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements below. All of these depend on assessments of the future economic environment and the Partnership's future prospects and performance. In addition we are required to consider the other information presented in the Annual Report and Accounts including the principal risks disclosure and the viability statement and to consider the Directors' statement that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Partnership's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: – **Our Brexit knowledge:** We considered the Directors' assessment of Brexit-related sources of risk for the Partnership and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. – **Sensitivity analysis:** When addressing carrying amount of PPE, net defined benefit obligation and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. – **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on carrying amount of PPE, net defined benefit obligation and other areas, we considered all of the Brexit related disclosures together, including those in the Strategic report, comparing the overall picture against our understanding of the risks. **Our results** – As reported under carrying amount of PPE, net defined benefit obligation and long leave provision, we found the resulting estimates and related disclosures and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Independent auditor's report to the members of John Lewis Partnership plc — continued

	THE RISK	OUR RESPONSE
Carrying amount of property, plant and equipment **£3,809.7 million** **(2018: £3,971.2 million)** *Refer to page 60 (Audit and Risk Committee Report), page 110 (accounting policy) and page 111 (financial disclosures)*	**Forecast-based valuation** Impairment considerations: The Partnership has significant Property, Plant and Equipment (PPE) assets held on its consolidated balance sheet. In particular, PPE in Waitrose & Partners is significant and at risk of irrecoverability due to continuing decelerated sales growth and margins achieved. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The key assumptions used in the value-in-use (VIU) calculations for estimating the recoverable amount are expected sales and costs in the short-term cash-flow forecasts, the long-term (LT) growth rate and the discount rate. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the VIU has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than that materiality. **Subjective judgement** Residual values of buildings: The judgement around determination of residual values drives the depreciation charged to the income statement. In particular, the determination of such residual value requires specific expertise and knowledge of the market. The Directors engage third party specialists to review a sample of the property portfolio to assist them in determining the value of the residual values. These valuations include, in most cases, land and buildings together and therefore the Directors need to exercise judgement over the amount that is to be allocated to the buildings which, unlike land, are depreciated. Given the magnitude of the PPE balance, movements in these judgements could result in a material misstatement if there were to be a significant decrease in the value allocated to the property portfolio as a whole. However, in conducting our final audit work, we reassessed the degree of estimation uncertainty of residual values to be less than that materiality over depreciation expense in any particular year.	**Our procedures included:** – **Re-performance:** We re-performed the calculations the Directors performed for determining the VIU of each cash generating unit and compared data used in the model against source information, when applicable. – **Our sector experience:** We evaluated assumptions used, in particular those relating to forecast revenue growth and profit margins for each Waitrose & Partners branch. We also challenged the Directors as to the achievability of their forecasts and business plan, taking into account the historical accuracy of previous forecasts and wider market factors (such as performance of competitors). – **Benchmarking assumptions:** We compared the Directors' assumptions to externally derived data in relation to key inputs such as projected economic growth, competition, cost inflation and discount rates. – **Sensitivity analysis:** We performed sensitivity analysis to stress-test the assumptions noted above. – **Our property valuation expertise:** With the assistance of our property valuation specialist, we reviewed the third-party valuation reports produced for a sample of the assets to establish residual values. Our specialist critically assessed the methodology and assumptions behind these valuations by using their own expertise and market understanding. – **Assessing disclosures:** We also assessed whether the Partnership's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the carrying amount of PPE. **Our results:** – We found the resulting estimate of the recoverable amount of PPE in Waitrose & Partners and the Partnership's assessment of residual values of its buildings to be acceptable (2018 result: acceptable).

	THE RISK	OUR RESPONSE
Net defined benefit obligation **£468.1 million (2018: £731.3 million)** *Refer to page 61 (Audit and Risk Committee Report), page 123 (accounting policy) and pages 123 to 129 (financial disclosures)*	Subjective valuation A significant level of estimation is required in order to determine the valuation of the gross liability. Small changes in the key assumptions (in particular, discount rates, inflation, mortality rates and salary increases) can have a material impact on the gross liability. Due to the volume of members both joining and moving categories (i.e. between active, deferred and pensioner) errors in the membership records could result in a material misstatement if not complete and accurately included in the calculation of the gross liability. In addition, within the Partnership's pension asset portfolio are a number of assets whose valuation require significant judgement as a result of quoted prices being unavailable (level 3 assets). These holdings together represented 35.2% (£1.9 billion) of the total pension assets held. The asset categories within this where significant audit effort and judgement was focused were investment property, special purpose investment vehicles and private equity investments. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the gross defined benefit obligation and level 3 pension assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 6.1.5) disclose the sensitivity estimated by the Partnership.	Our procedures included: – **Benchmarking assumptions:** We used our actuarial specialists to challenge the key assumptions (in particular, discount rates, inflation, mortality rates and salary increases). This involved comparing the assumptions to available market data, our expectation and to other similar UK pension schemes' assumptions. – **Assessing base data:** We have confirmed the data used in the current year valuation is consistent with that prepared at the triennial valuation as at 31 March 2016. We 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. – **Our valuation expertise:** For hard-to-value plan assets, we used our own property valuation specialists to assess the key inputs and assumptions used by external valuers by reference to our own market and industry benchmarks. For private equity funds we obtained direct confirmations and assessed historical accuracy of valuations to help inform whether current valuations were appropriate. – **Methodology choice:** We have assessed the pricing model methodologies used with reference to the Royal Institute of Chartered Surveyors for property and the International Private Equity and Venture Capital Valuation guidance for private equity funds included in plan assets. – **Assessing disclosures:** We also considered the adequacy of the Partnership's disclosures in respect of the sensitivity of the deficit to these assumptions. Our results – We found the valuation of the net defined benefit obligation to be acceptable (2018 result: acceptable).
Long leave provision **£141.8 million (2018: £139.6 million)** *Refer to page 61 (Audit and Risk Committee Report), page 117 (accounting policy) and page 117 (financial disclosures)*	Subjective estimate The Partnership has a long leave scheme, open to all Partners, which provides up to six months' paid leave after 25 years' service. The basis of the calculation of the liability is based upon a significant level of estimation and judgement. Small changes in the key assumptions, for example the discount rate, staff turnover rates and salary increases can have a material impact on the liability. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the long leave liability has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than that materiality.	Our procedures included: – **Benchmarking assumptions:** We used our own actuarial specialists to consider the key assumptions used. This involved comparing the assumptions to available market data and our expected range. – **Sensitivity analysis:** We also performed sensitivity analysis over these assumptions. Our results – From the evidence obtained, we considered the level of provisioning to be acceptable (2018 result: acceptable).

Independent auditor's report to the members of John Lewis Partnership plc — continued

	THE RISK	OUR RESPONSE
Fair value of free-service warranty **£50.0 million (2018: £65.8 million)** *Refer to page 61 (Audit and Risk Committee Report), page 91 (accounting policy) and pages 98 to 99 and 116 (financial disclosures)*	**Accounting application and subjective estimate** Following the adoption of IFRS 15, the timing of revenue recognition of free service warranty in John Lewis & Partners, principally for certain electrical products, has changed because the free warranty is now considered a separate performance obligation. Accordingly, the Partnership allocates a portion of the product's full sale value (consideration received) to providing such warranty. This allocation is based on the stand alone selling price of the product and the relative fair value of the warranty. The amount allocated to free warranties is then recorded as deferred income on the balance sheet and released to revenue over the period of the warranty. In order to determine the fair value of the extended free warranty, management uses a cost-plus approach, which comprises of a valuation technique that reflects the amount that would be required to replace or repair the service capacity of the good sold. Therefore, a significant level of estimation is required for the assumptions around frequency and value of the expected future costs of servicing the free warranty and use of appropriate historical data to form the assumptions. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the fair value of free service warranty has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than that materiality.	**Our procedures included:** – **Assessing methodology and assumptions:** We have considered the underlying calculations for the free-service warranty calculation, including assessing the underlying data/historical data used and comparing this to source documentation, the methodology and appropriateness of assumptions used in calculating the cost to repair for item sold in the period to a margin is applied. In particular, we evaluated whether the source of the historical data was reasonable based on our understanding of the industry and business and performed trend analyses in respect of historical cost per unit. – **Sensitivity analysis:** We have performed sensitivity analysis on the assumptions made, including the product repair and replace frequency rates. – **Independent re-performance:** We have re-performed the calculation using the underlying data inputs. **Our results** – We found the amounts of revenue deferred at 26 January 2019 to be acceptable.
Parent company financial statements – Valuation of investments **£122.4 million (2018 £121.1 million)** *Refer to page 138 (financial disclosures)*	**Low risk, high value** The carrying amount of the Company's investment in subsidiaries are valued at cost, less allowances for impairment. We do not consider the valuation of these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	**Our procedures included:** – **Test of details:** Comparing the investment carrying values to the net assets of the investment to identify whether the net asset values of the subsidiaries, being an approximation of their minimum recoverable amount, were in excess of their carrying amount. – **Assessing subsidiary audits:** Assessing the work performed by the audit team on the subsidiaries and considering the results of the work on those subsidiaries' profit and net assets. **Our results** – We found assessment of the carrying value of investments to be acceptable (2018 result: acceptable).

	THE RISK	OUR RESPONSE
Going concern *Refer to page 62 (Audit and Risk Committee Report) and page 90 (accounting policy)*	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Partnership and parent company. That judgement is based on an evaluation of the inherent risks to the Partnership's and Company's business model and how those risks might affect the Partnership's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Partnership's and Company's available financial resources over this period were the impact of Brexit on the Partnership's and Company's supply chain, recruitment needs and cost base both relating to foreign exchange and import/export tariffs. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	**Our procedures included:** – **Test of details:** Evaluated the process and models the Directors used in its assessment, including use of the work of specialists. – **Test of details:** Evaluated whether the assumptions are realistic and achievable and consistent with the external and/or internal environment and other matters identified in the audit. – **Sensitivity analysis:** We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively. – **Test of details:** Evaluated management's assessment of the entity's compliance with debt covenants. – **Historical comparisons:** Considering the historical accuracy of the group's cash flow forecasts and growth rates by assessing the accuracy of previous forecasts made by the group against actual performance. – **Our expertise:** Consultation with our restructuring specialists to assess the directors' going concern assessment. – **Benchmarking assumptions:** We compared the projected growth rates to externally derived data. – **Our sector expertise:** Challenged management's plans for future actions, and verified the reliability and relevance of data used including plans to refinance external debt against our own knowledge of the industry. – **Assessing transparency:** Assessing the reasonableness of the going concern disclosure. **Our results** We found the going concern disclosure without any material uncertainty to be acceptable (2018 result: acceptable).

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

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 Partnership financial statements as a whole was set at £13.7 million, determined with reference to a benchmark of Partnership profit before tax, normalised to exclude this year's Partnership Bonus and exceptional items (as disclosed in notes 2.8.2 and 2.5, respectively) by averaging over the last three years due to fluctuations in the business cycle, of £273.6 million, of which it represents 5.0% (2018: 5.0% of actual partnership profit before tax, Partnership Bonus and exceptional items).

Materiality for the parent company financial statements as a whole was set at £3.6 million (2018: £3.6 million), determined with reference to a benchmark of company total assets, of £122.4 million, of which it represents 3.0% (2018: 3.0%).

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

Of the Partnership's 17 (2018: 16) reporting components, we subjected 6 (2018: 11) to full scope audits for Partnership purposes. The decrease in components subject to full scope audits is attributable to the statutory audits of 5 subsidiaries being substantially completed at the same time as the audit of the Partnership in the previous year. In addition, 1 component (2018: 1) was subjected to specified risk-focused audit procedures. The latter was not individually financially significant enough to require a full scope audit for Partnership purposes, but did present specific individual risks that needed to be addressed over a liability balance.

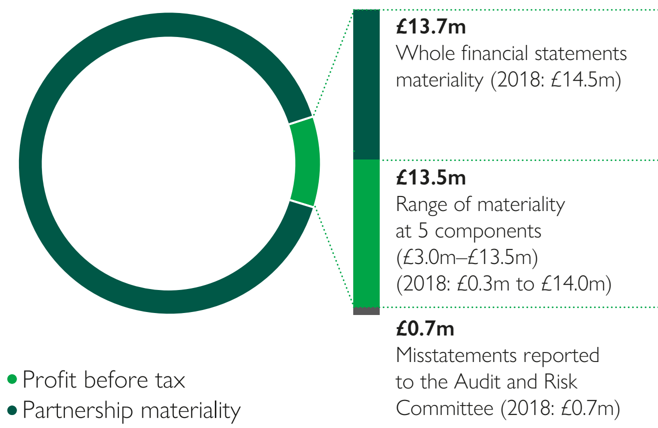
The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 1% of total Partnership revenue, 14% of Partnership profit before tax and 9% of total Partnership assets is represented by 10 reporting components, none of which individually represented more than 4% of any of total Partnership revenue, Partnership profit before tax or total Partnership assets. For these residual components, we performed analysis at an aggregated Partnership level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £13.5 million to £3.0 million, having regard to the mix of size and risk profile of the Partnership across the components. The work on 2 of the 7 components (2018: 1 of the 11 components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team. The Group team performed procedures on the items excluded from normalised Partnership profit before tax, Partnership Bonus and exceptional items.

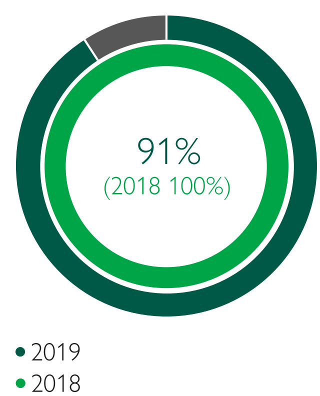
Partnership profit before tax, Partnership Bonus and exceptional items (3 year average) £273.6m

Materiality

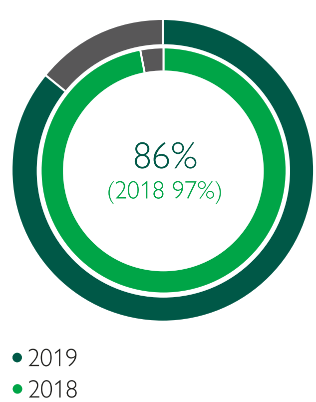


Partnership revenue

Partnership total assets



Partnership profit before tax, Partnership Bonus and exceptional items



4. WE HAVE NOTHING TO REPORT ON GOING CONCERN

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Partnership or to cease their operations, and as they have concluded that the Company's and the Partnership's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Partnership and the Company will continue in operation.

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

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. WE HAVE NOTHING TO REPORT ON THE STRATEGIC REPORT AND THE DIRECTORS' REPORT

The Directors are responsible for the Strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic report and the Directors' report 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 those reports;
– in our opinion the information given in the Strategic report and the Directors' report for the financial year is consistent with the financial statements; and
– in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

Under the Companies Act 2006, we are required to report to you if, in our opinion:
– adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
– the parent Company financial statements are not in agreement with the accounting records and returns; or
– certain disclosures of Directors' remuneration specified by law are not made; or
– we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. RESPECTIVE RESPONSIBILITIES

DIRECTORS' RESPONSIBILITIES

As explained more fully in their statement set out on page 141, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Partnership and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Partnership or the parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES

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

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

Independent auditor’s report to the members of John Lewis Partnership plc — continued

IRREGULARITIES – ABILITY TO DETECT

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Directors and other management (as required by auditing standards), and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Partnership is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation) and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Partnership is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Partnership’s licence to operate. We identified the following areas as those most likely to have such an effect: health and safety, General Data Protection Regulation (GDPR), anti-bribery and employment law recognising the nature of the Partnership’s activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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
11 April 2019

Five year financial record

For the year ended January

Income statement	2019 £m	2018[3] £m	2017[3] £m	2016[3] £m	2015[1,3] £m
Gross sales					
Waitrose & Partners	6,835.0	6,753.7	6,633.2	6,461.4	6,508.9
John Lewis & Partners	4,889.1	4,855.8	4,741.0	4,557.4	4,433.7
	11,724.1	11,609.5	11,374.2	11,018.8	10,942.6
Revenue					
Waitrose & Partners	6,429.5	6,354.7	6,245.5	6,086.0	6,135.3
John Lewis & Partners	3,887.2	3,861.1	3,780.7	3,662.8	3,565.7
	10,316.7	10,215.8	10,026.2	9,748.8	9,701.0
Operating profit before exceptional items and Partnership Bonus					
Waitrose & Partners	203.2	172.0	253.5	232.6	237.4
John Lewis & Partners	114.7	257.8	243.2	250.2	250.5
Group and other	(90.9)	(65.4)	(18.5)	(80.7)	(45.6)
	227.0	364.4	478.2	402.1	442.3
Net finance costs	(67.0)	(71.6)	(107.8)	(96.6)	(99.6)
Profit before Partnership Bonus, tax and exceptional items	160.0	292.8	370.4	305.5	342.7
Exceptional items	2.1	(111.3)	171.2	129.3	7.9
Partnership Bonus	(44.7)	(74.0)	(89.4)	(145.0)	(156.2)
As a percentage of eligible pay	3%	5%	6%	10%	11%
Taxation	(40.1)	(30.5)	(98.7)	(66.6)	(50.9)
Profit for the year	77.3	77.0	353.5	223.2	143.5
Number of employees at year-end	83,900	85,500	86,700	91,500	93,800
Average number of full-time equivalent employees[2]	60,800	60,600	63,300	63,900	64,500

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.
3 Restated, see note 1.1.4. Although IFRS 15 has been adopted on a fully retrospective basis, figures for 2015–2017 have not been restated.

Balance sheet	2019 £m	2018[2] £m	2017[2] £m	2016[2] £m	2015[1,2] £m
Non-current assets	4,383.1	4,563.1	4,661.7	4,677.0	4,682.1
Current assets	1,929.0	1,690.6	1,627.6	1,534.7	1,170.4
Total assets	6,312.1	6,253.7	6,289.3	6,211.7	5,852.5
Current liabilities	(2,055.9)	(1,945.1)	(1,843.3)	(1,848.7)	(1,692.0)
Non-current liabilities	(1,636.2)	(2,006.9)	(2,404.0)	(2,297.9)	(2,641.7)
Total liabilities	(3,692.1)	(3,952.0)	(4,247.3)	(4,146.6)	(4,333.7)
Net assets	2,620.0	2,301.7	2,042.0	2,065.1	1,518.8
Borrowings	(716.0)	(868.1)	(966.9)	(1,031.8)	(1,030.2)
Net debt	(88.6)	(216.5)	(250.6)	(372.5)	(721.7)

1 Restated to reflect changes made in 2016 to classify cash in transit balances as payables rather than to recognise an overdraft.
2 Restated, see note 1.1.4. Although IFRS 15 has been adopted on a fully retrospective basis, figures for 2015–2016 have not been restated.

Glossary: Alternative performance measures

Throughout the Annual Report and Accounts, alternative performance measures (APMs) have been reported which are non-GAAP measures and are presented to provide stakeholders with additional financial information on the performance of the Partnership.

These APMs should not be viewed in isolation or as an alternative to the equivalent GAAP measure.

The measures detailed below are not defined by IFRS and therefore may not be directly comparable with other companies' APMs – this includes those in the retail industry.

APM	CLOSEST EQUIVALENT GAAP MEASURE	DEFINITION, PURPOSE AND RECONCILIATION
Adjusted cash flow	None	Operating profit before PB, exceptional items, depreciation, amortisation and average one-year lease payments, but after lease adjusted interest and tax. This measure is important to assess our Debt Ratio.

	2018/19 £m	2017/18 £m
Operating profit before PB and exceptional items	227.0	364.4
add back:		
Depreciation,amortisation and write-offs	414.4	398.5
Average one year lease payments	190.7	186.1
less:		
Lease adjusted interest	(175.1)	(183.9)
Tax	(39.2)	(49.1)
Adjusted cash flow	617.8	716.0

APM	CLOSEST EQUIVALENT GAAP MEASURE	DEFINITION, PURPOSE AND RECONCILIATION
Average NMP hourly pay above National Living Wage	None	Average non-management Partner hourly pay for Partners on permanent contracts and aged 18 years old or over, as a percentage above the 2018/19 National Minimum Wage of £7.83. Non-management Partners are Level 9 and Level 10 Partners, excluding Assistant Section Managers.

	2018/19 £	2017/18 £
National Minimum Wage	7.83	7.50
JLP Pay	9.16	8.91
Differential	17.0%	18.8%

APM	CLOSEST EQUIVALENT GAAP MEASURE	DEFINITION, PURPOSE AND RECONCILIATION
Debt Ratio	None	Comparison of our Total net debts to Adjusted cash flow. This measure is important as it provides an indication of our ability to repay our debts.

	2018/19 £m	2017/18 £m
Total net debts	2,682.2	3,083.5
Adjusted cash flow	617.8	716.0
Debt Ratio	4.3	4.3

APM	CLOSEST EQUIVALENT GAAP MEASURE	DEFINITION, PURPOSE AND RECONCILIATION
Gross sales	None	Total sales of goods and services including sale or return sales and VAT, net of Partnership discount.

	2018/19[1] £m	2017/18 £m
Current year gross sales	11,724.1	11,597.7
Prior year gross sales	11,609.5	11,374.2
Gross sales growth	1.0%	2.0%

1 based on restated 2018 figures for IFRS 15.

APM	CLOSEST EQUIVALENT GAAP MEASURE	DEFINITION, PURPOSE AND RECONCILIATION
Like-for-like sales	Year on year movement in revenue per the income statement	Comparison of sales between two periods in time (e.g. this year to last year), removing the impact of non like-for-like sales (mainly the impact of branch openings and closings), business to business and fuel sales.

	2018/19 £m	2017/18 £m
Waitrose & Partners	6,657.0	6,572.0
John Lewis & Partners	4,772.0	4,839.0
Total LFL Sales	**11,429.0**	11,411.0
Non like-for-like sales	126.0	49.0
Business to business	143.0	134.0
Fuel sales	12.0	17.0
Accounting adjustments	14.1	(1.5)
Gross Sales	**11,724.1**	11,609.5

APM	CLOSEST EQUIVALENT GAAP MEASURE	DEFINITION, PURPOSE AND RECONCILIATION
Partner pay as a % of sales	None	This APM takes the total cost of wages and salaries for the year and divides this by the gross sales for the year (excluding VAT). This APM is a guide of how much money each Partner generates for the Partnership and is an indication of Partner productivity.

	2018/19 £m	2017/18 £m
Wages & salaries (note 2.8)	1,480.0	1,441.3
Gross sales (note 2.1)	11,724.1	11,597.7
VAT	1,148.4	1,139.1
Partner pay as a percentage of sales	**14.0%**	13.8%

APM	CLOSEST EQUIVALENT GAAP MEASURE	DEFINITION, PURPOSE AND RECONCILIATION
Operating cash	None	A measure of the amount of cash generated by the regular trading activities of the Partnership. Includes trading and excludes costs associated with long-term investment on capital items such as interest. This APM is important as it provides a clearer picture of the current reality of business operations. See note 2.7.
Profit before PB, tax and exceptionals	Profit before tax	This APM gives a high level view of the Partnership's performance. The measure is based on profit before the impact of items which are due to events during the year or transactions that are large in terms of size or nature. See note 2.6.

Glossary: Alternative performance measures — continued

APM	CLOSEST EQUIVALENT GAAP MEASURE	DEFINITION, PURPOSE AND RECONCILIATION
Profit per average FTE	None	Profit before PB and exceptional items but after tax, adjusted for above market rewards, divided by the average number of full-time equivalent Partners. This measure provides the best indication of Partner productivity. Our 2017/18 measure has been restated to adjust for above market rewards.

	2018/19 £m	2017/18 £m
Profit before PB, tax and exceptional items	160.0	292.8
Tax	(39.2)	(49.1)
Above market rewards	183.3	174.4
	304.1	418.1
Average FTEs	60,800	60,600
Profit per average FTE (£k)	5.0	6.9

APM	CLOSEST EQUIVALENT GAAP MEASURE	DEFINITION, PURPOSE AND RECONCILIATION
Return on Invested Capital (ROIC)	None	Operating profit before PB and exceptionals, adjusted for above market rewards, a notional interest on leases (at a 5% interest rate on lease liabilities) and a notional tax charge (at the statutory marginal tax rate for the year), as a proportion of average operating net assets, adjusted to reflect the value of leased assets. This is important because it demonstrates how effectively we are utilising our assets. Our 2017/18 measure has been restated to adjust for above market rewards.

	2018/19 £m	2017/18 £m
Operating profit before PB and exceptional items	227.0	364.4
Above market rewards	183.3	174.4
Notional interest on leases	105.1	104.1
Notional tax	(97.9)	(122.2)
	417.5	520.7
Net assets	2,620.0	2,301.7
add back:		
Borrowings and overdrafts	1,047.2	936.8
Finance lease liabilities	21.1	23.3
Pension deficit (net of deferred tax)	404.7	623.1
Present value of operating leases	2,076.4	2,126.2
Operational cash	479.8	453.0
less:		
Cash and short-term investments	(982.2)	(762.2)
Operating net assets	5,667.0	5,701.9
Average operating net assets	5,684.5	5,681.5
ROIC	7.3%	9.1%

APM	CLOSEST EQUIVALENT GAAP MEASURE	DEFINITION, PURPOSE AND RECONCILIATION
Total net debts	None	The Partnership's borrowings and overdrafts, finance lease liabilities and derivative financial instruments, IAS 19 pension deficit net of deferred tax, and the present value of future rentals payable under operating leases calculated using a 5% discount rate, less any liquid cash, short-term deposits and investments.

	2018/19 £m	2017/18 £m
Borrowings and overdrafts	1,047.2	936.8
Finance lease liabilities	21.1	23.3
Derivative financial instruments	2.5	18.6
Pension deficit (net of deferred tax)	404.7	623.1
Present value of operating leases	2,076.4	2,126.2
Liquid cash, short-term deposits and investments	(869.7)	(644.5)
Total net debts	2,682.2	3,083.5

Glossary: Financial terms

Above market rewards – these are Partner benefits which are higher than those typically paid by our competitors, as a result of the Partnership model. Above market rewards principally includes pensions, long leave, Partner discount and costs of our democracy. This measure is important for adjusting our financial Key Performance Indicators (KPIs) to be able to assess them against our competitors.

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 Partnership/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.

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.

Full-time equivalent – 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.

Financial year – the period of 364 days, or 52 weeks, running from 28 January 2018 to 26 January 2019.

Foreign exchange (FX) exposure – the risk that Partnership faces when a financial transaction is denominated in a currency other than GBP (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.

Hedging – a financial technique that helps to reduce or mitigate the effects of a measurable type of risk.

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.

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

Market comparator – John Lewis & Partners – British Retail Consortium (BRC), Waitrose & Partners – Kantar Worldpanel.

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.

Glossary: Financial terms — continued

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 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.

PB – Partnership Bonus.

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 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.

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.

Restated – The Partnership adopted IFRS 15 'Revenue from Contracts with Customers' 28 January 2018 using a fully retrospective approach. The main impact is in respect of the timing of revenue recognition of free service guarantees in John Lewis & Partners, principally for certain electrical products. The impact on the prior year financial statements was disclosed in the Partnership's Unaudited condensed Interim Financial Statements for the half-year ended 28 July 2018 published on 13 September 2018.

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.

Revenue investment – Investment spend recognised directly in the income statement.

Segments (reporting) – the three segments through which we analyse our reporting are Waitrose & Partners, John Lewis & Partners 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 three 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 HMRC.

Variable Net Asset Value (VNAV) – Fund prices change on a daily basis in relation to the net asset value of the underlying holdings included within the fund.

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.

Glossary: 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 auditor is 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 & Partners or John Lewis & Partners.

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.

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 & Partners' 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 (NMP) – Level 9 and Level 10 Partners, excluding Assistant Section Managers in Waitrose & Partners.

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 employee ownership objectives.

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

Notes

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.

MORE INFORMATION
For more information about the John Lewis Partnership please visit:
www.johnlewispartnership.co.uk
twitter.com/JLPartnership
linkedin.com/company/john-lewis-partnership

For more information about Waitrose & Partners or John Lewis & Partners please visit:
www.waitrose.com
facebook.com/waitroseandpartners
twitter.com/waitrose
youtube.com/waitroseandpartners
pinterest.co.uk/waitroseandpartners
instagram.com/waitroseandpartners
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instagram.com/JohnLewisandPartners
linkedin.com/company/johnlewisandpartners

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.

PHOTOGRAPHY
Darren Bell, David Cotter, Angela Robertson, BGA Photography, Stonehouse Photographic, James Mackenzie, Mark Mackenzie, Neil Cooper, Jeff Hopkins, Julia Toplis.

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