Company No. 233462

JOHN LEWIS PLC

Financial Statements for the year ended 30 January 2016

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Company information

Directors:	Sir Charlie Mayfield (Chairman) Tracey Killen Patrick Lewis Andy Street Berangere Michel
Company Secretary:	Keith Hubber
Registered Office:	171 Victoria Street, London, SW1E 5NN
Company Number:	233462
Independent Auditor:	PricewaterhouseCoopers LLP

Strategic report for the year ended 30 January 2016

John Lewis plc ('the Group' or 'the Company') present their audited consolidated financial statements for the year ended 30 January 2016.

The Company is the principal trading subsidiary of John Lewis Partnership plc ('the Partnership'), and owns Waitrose Limited. The Group includes John Lewis and Waitrose and has 91,500 employees – or Partners – for whom the Partnership is owned in trust.

Review of Performance

Key performance indicators

	2016	2015
Gross sales per average FTE (£000)	187.1	181.6*
Group profit before Partnership Bonus, tax and exceptional item per average FTE (£)	5,200	5,700*
Number of Partners	91,500	93,800
Number of stores	392	379
Selling space (m sq ft)	11.0	10.5
Gross sales per selling sq ft (£) – Waitrose	1,086	1,124*
Gross sales per selling sq ft (£) – John Lewis	964	947*
Gross sales growth (%)	2.5	5.7
Operating profit[β] margin (%)	4.1	4.5
Profit before Partnership Bonus, tax and exceptional item (£m)	304.1	341.6
Group profit[α] margin (%)	3.1	3.5
Cash flow from operations (£m)	916	881[#]
Capital expenditure (£m)	494	671
Return on invested capital (ROIC) %	7.1	7.7

The Group's year end is always the last Saturday in January. Usually we have a 52-week year but last year was 53-weeks. Unless indicated otherwise, the 2014/15 and 2015/16 year-on-year financial percentage movements have been presented on a 52-week basis for sales and profit so that they are comparable across periods. This has been done to provide a more consistent comparison and meaningful understanding of this year's financial performance.

[*] *Calculated on a 52-week basis*
[β] *Before exceptional items*
[α] *Before Partnership Bonus, tax and exceptional item*
[#] *Restated. Refer to note 1.1.5*

Performance summary

John Lewis plc has delivered a healthy trading performance and increased market shares in challenging conditions. Although Profit before Partnership Bonus, tax and exceptionals was down by 9.4% on last year (11.0% on a 53-week basis), this was entirely due to higher pension charges arising from volatility in the market-driven assumptions, and lower property profits. Excluding these, our profits were around 9% up on last year (7% on a 53-week basis) which, together with a strengthening balance sheet, represents good progress over the year.

Market conditions were challenging through the year with deflation in grocery of -2.6%[1] and subdued demand in non-food. Quality, value and product innovation were therefore all the more important alongside greater convenience and service. Our Partners performed well on all those fronts and did so while controlling costs tightly and increasing margin.

As a result, Waitrose gained market share and grew profits. We attracted more customers while rewarding the loyalty of existing customers through hugely popular initiatives like myWaitrose, which now has six million members.

In John Lewis we achieved sales growth and market share gains in Fashion, Home and Electricals and Home Technology and an increase in profits[2]. Online sales growth[3] was especially strong at 17%, and although sales in shops were down 1%, our results were very much a result of the effective combination of shops and online, demonstrated by the fact that more than three-quarters of our customers shopped in one of our stores.

[1] ONS Food and non-alcoholic beverages CPI for 12 months to January 2016.
[2] Before property profits.
[3] Online returns to shops in John Lewis are deducted from online sales. Previously these were deducted from shop sales. The 2014/15 comparatives have been restated so that the year-on-year movement in online sales and shop sales are on a consistent basis.

Strategic report for the year ended 30 January 2016 continued

We also benefitted from the combination of Waitrose and John Lewis. Click & collect is the most obvious demonstration of that. It accounted for over half of all johnlewis.com deliveries with 70% of them collected in Waitrose.

Our 91,500 Partners received a Bonus of 10%, which is equivalent to more than 5 weeks' pay. Partners worked especially hard this year coping with unpredictable patterns of trade and the need to keep costs tight, making these results hard won and their Bonus well deserved. Taken together with the rising cost of pensions, the total combined cost we have set aside in our income statement for Bonus and pensions was higher than prior years.

Outlook 2016/17

Conditions in the market will remain difficult, especially in grocery. However, given our continued investment in both our operations and the customer offer, we expect sales in both Waitrose and John Lewis to continue to perform comparatively well against the market.

Financial results

In 2015/16 the Group delivered solid sales growth. Both Waitrose and John Lewis grew sales ahead of their respective markets, increasing their market shares. Group gross sales (inc VAT) were £11.0bn, an increase of 2.5%, on last year (0.7% on a 53-week basis). Revenue, which is adjusted for sale or return sales and excludes VAT, was £9.7bn, up 2.2% (0.5% on a 53-week basis).

Profit before Partnership Bonus and tax was £433.4m, up 26.1% on last year (up 24.0% on a 53-week basis). This includes exceptional income of £129.3m following the sale of the Clearings building (2014/15: income of £7.9m from release of remaining liabilities following the 2013/14 review of holiday pay policy). Excluding exceptional items, it was £304.1m, down by 9.4% (11.0% on a 53-week basis).

Gross margin improved in both Divisions reflecting continued investment in our assortments and long-term relationships with our suppliers. Good cost control, particularly in the second half, helped counteract the deflationary pressures in the grocery market and the incremental costs of omnichannel trading in non-food. This resulted in operating profits before property profits increasing by £8.7m (3.9%) in Waitrose and £1.8m (0.7%) in John Lewis, on a 52-week basis. Looking ahead we need to build profits further so that we can invest sufficiently to stay ahead in a fast changing market.

Our Partners, as co-owners, each receive the same percentage of pay as Partnership Bonus, which flexes from year-to-year reflecting the performance of our business. Partners will share £145.0m in profit, which represents 10% of pay or the equivalent of more than 5 weeks' pay.

Partners also continue to receive a number of other benefits. In total we have paid £452m in benefits to our Partners, including Partnership Bonus, pensions, Partner discount, catering subsidy, long service leave, leisure spending and the running of our five holiday centres.

Waitrose

As a result of effective management of costs and a focus on efficiency throughout the business, operating profit was £232.6m. This was down 0.8% (down 2.0% on a 53-week basis), but excluding property profits it was up 3.9% (up 2.5% on a 53-week basis), despite absorbing a greater share of centrally incurred functional costs. This profit improvement came against a backdrop of exceptionally tough market conditions and continuing food price deflation, as a result of improved productivity in our branches, reduced head office costs and operational improvements in our supply chain.

Gross sales were up by 1.1% to £6.5bn (down 0.7% on a 53-week basis), with like-for-like sales down 1.3%. We continued to increase our market share, up by 0.1 per cent to 5.5%, and have outperformed the market on sales for 80 consecutive months. We have also grown customer numbers and had, on average, 220,000 more customer transactions a week compared to last year.

The UK grocery market is changing rapidly and our response to advances in technology and the significant changes in how customers wish to shop is to create Modern Waitrose; we made good progress with this strategy over the last 12 months.

Giving customers additional reasons to visit our shops in an online age is a core part of our approach. We now have 117 cafes, six wine bars, nine juice bars, 66 eat-in bakeries and three recently opened sushi bars. Together, these drove a 20% uplift in hospitality sales. We continued to add services, including foreign currency Click & collect – now available in 300 branches – and dry cleaning, now in 148 shops.

Waitrose was awarded Best Supermarket in the 2015 Which? Favourite Supermarket survey.

Building our online business included opening our first purpose-built .com fulfilment centre in Coulsdon in March 2015; this increased capacity in London by one-third. Online grocery gross sales were down 2.9% (on a 52-week basis), held back by the first half of the year when sales were down 13.0%, impacted by a strong promotion-driven performance last year. Sales accelerated in

Strategic report for the year ended 30 January 2016 continued

the second half of the year, up 8.3%. The Waitrose Kitchen website was launched in October with over 3,000 lines of cookware, bakeware and gadgets. In total our Direct Services sites saw sales growth of 21%.

The popularity of Click & collect grew, with collections of John Lewis orders from Waitrose up by 19% and 70% of all Click & collect orders now picked up from Waitrose branches.

The myWaitrose scheme deepens relationships with our customers and 6.0 million have now signed up and 70% of sales are to cardholders. Our ground-breaking Pick Your Own Offers scheme launched in June and well over a million customers have joined. We also launched a new app, which has made it more convenient for customers to change their selection of the ten products (out of more than a thousand) on which they would like discount.

The strength of our own-label product ranges was recognised last year when consumer watchdog Which? named Waitrose the top supermarket for own-brand products.

We now export Waitrose products to 58 countries around the world. Sales grew strongly in a number of territories – 47% up in Bermuda and 70% in Malta – and we started exporting to five new international destinations last year, with Mauritius and Dominica being the most recent additions.

We opened 12 new branches in the year – 10 supermarkets and two little Waitrose shops. This included two relocations and one acquisition. Two of the new branches, Basingstoke and Horsham, are in combined premises with John Lewis shops while our King's Cross branch includes our third Waitrose cookery school.

We carried out major redevelopments of our shops in Saffron Walden and Bayswater and managed the closure of two convenience stores in Sutton Coldfield and Walton-on-Thames. We have also announced the planned closure of our convenience store in Tottenham Court Road.

Our first National Distribution Centre opened in Milton Keynes at the end of July, and will build capacity to handle 25,000 longer-life ambient products.

John Lewis

John Lewis has continued to outperform the market in uncertain trading conditions, with gross sales up 4.4% to £4.6bn (2.8% on a 53-week basis). To ensure that customers can shop with us whenever and however they want, we have continued to invest in our shops, website and infrastructure. Operating profit was up 0.2% to £250.2m (down 0.1% on a 53-week basis), but excluding property profits it was up 0.7% (up 0.4% on a 53-week basis), held back by restructuring costs and absorbing a greater share of centrally incurred functional costs.

In line with changing customer expectations, we are redesigning shops to offer additional services and instore experiences, while delivering convenience and added flexibility through our online channels. Of total merchandise sales, shops contributed 67% while online represents 33%. On a 52-week basis, online sales increased by 17.3%, and while sales in shops were down 1.0%, their role in the omnichannel journey is demonstrated by the fact that more than three-quarters of our customers made a purchase from one of our shops, and online sales increase in catchment where we open a new shop. Click & collect orders grew by 11% and account for 53% of online orders, while sales through mobile devices increased by 34% and smartphones by 86%.

Our shops are increasingly becoming places of inspiration and leisure destinations. In Birmingham, we opened our first full-line department store for four years, with brand new concepts including our fashion-led lifestyle concept loved&found, and the first ever &Beauty spa. We invested £14m in a brand new Home floor at John Lewis Oxford Street, and across the estate our shops continued to diversify with further third-party catering and service concepts opening this year.

All three product areas saw gross sales growth and market share increases, reflecting the strength of our offer. On a 52-week basis:

- Fashion was up 6.2%, confirming our strategy of combining signature own-labels, an edited selection of brands and exclusive collaborations. Menswear was up 8.8% and Womenswear was up 6.5%.
- Sales in Home were up by 4.1%. Our in-house collections including the House and Croft ranges complement the best of design from the industry, and we are building our personalisation offer to allow customers to create bespoke interiors. This year we also launched US brand West Elm at our Oxford Street shop.
- Electricals and Home Technology (EHT) had a much stronger second half, ending the year up 3.0%. Technology sales this year were characterised by increasing customer demand for 'smart' products, along with premium and design-focused technology. Our mobile phone business also continues to win market share in the sim-free market.

We continued to invest in our distribution infrastructure. Once Magna Park 2 is fully operational, it will provide customers with combined online orders for hanging fashion and small items so they receive fewer separate parcels. Magna Park 3 brings the distribution of our larger products to the Milton Keynes area.

Overseas we are continuing to build a premium John Lewis brand through shop-in-shops, where our successful ventures in Singapore, the Philippines and South Korea will be joined by Dubai and Holland announced this year.

Strategic report for the year ended 30 January 2016 continued

Our my John Lewis programme increased members by 32% to 1.8 million customers, and we continued to grow customer numbers.

John Lewis Financial Services continues to play an important role in the business, and commissions grew by 22%.

In 2016, we will open two shops in Leeds and Chelmsford, two major distribution centres in Milton Keynes and invest in significant changes to our technology infrastructure.

Partnership Services and Group

Partnership Services and Group includes the operating costs for our Group offices and shared services, as well as the costs for transformation programmes and certain pension operating costs. Partnership Services and Group net operating costs decreased by £15.7m or 26.8% (27.9% on a 53-week basis) reflecting lower costs for transformational programmes and an increase in the share of functional costs charged to Waitrose and John Lewis. However, overall costs increased by £35.3m to £83.4m predominantly due to the increase in pension operating costs resulting from volatility in the market-driven assumptions.

Investment in the future

Capital investment in 2015/16 was £493.8m, a decrease of £177.1m (26.4%) on the previous year. However, we have continued to increase our investment in IT and distribution, which now represents 50% of our total capital investment.

Investment in Waitrose was £224.5m, down £164.0m (42.2%) on the previous year, and in John Lewis investment was £227.7m, down £4.2m (1.8%).

Pensions

The pension operating cost was £245.3m, an increase of £54.2m or 28.4% on the prior year costs, with £48.2m of the increase reflecting the substantial decline in the real discount rate used to determine the cost to 0.35% at the beginning of the year from 1.10% at the beginning of the previous year. Pension finance costs were £36.9m, a decrease of £0.7m or 1.9% on the prior year, reflecting a reduction due to the lower discount rate partly offset by a higher accounting pension deficit at the beginning of the year than at the beginning of the previous year. As a result, total pension costs were £282.2m, an increase of £53.5m or 23.4% on the prior year.

Total cash contributions to the pension scheme totalled £166.0m, a decrease of £326.8m or 66.3% on the prior year. The reduction reflects the additional contribution of £294m in December 2014 to prepay almost seven years of previously-agreed deficit reduction contributions to the pension scheme. Subsequent to our year end, in February 2016, we made a contribution of £137.0m to the pension scheme to prepay approximately ten months of contributions. Our next triennial actuarial valuation will take place as at 31 March 2016.

The total accounting pension deficit at 30 January 2016 was £941.6m, a decrease of £307.7m (24.6%) since 31 January 2015. Net of deferred tax, the deficit was £789.2m. The accounting valuation of pension fund liabilities decreased by £161.0m (3.0%) to £5,140.0m, mainly reflecting an increase in the real discount rate used to value the liabilities. Pension fund assets increased by £146.7m (3.6%) to £4,198.4m.

The pension continues to be one of the most important benefits offered to Partners. We are moving to a hybrid pension scheme combining defined benefit and defined contribution pensions, where future pension risk is shared between Partners and the Group. Although our pension operating cost will start to be impacted by the changes that came into effect in April 2016, it will take a number of years for all the changes to take full effect.

Financing

At 30 January 2016, net debt was £266.0m, a decrease of £349.2m (56.8%) in the year. The reduction reflects our focus on cash generation driven by good cost control, the reduction in capital investment and the completion of the sale of our Clearings building.

Net finance costs on borrowings and investments increased by £8.6m (16.7%) to £60.0m, reflecting additional finance costs on the £300m bond issued in December 2014. After including the financing elements of pensions and long service leave and non-cash fair value adjustments, net finance costs decreased by £2.9m (3.0%) to £95.3m.

Strategic report for the year ended 30 January 2016 continued

Sustainability

We are further embedding sustainability in our business, underlined by new targets and a deeper understanding of our sustainability issues and impacts. We completed a review of our approach to Human Rights and invested in additional projects in supplier communities overseas through our Foundations. Waitrose continued to reformulate food and drink lines, including sugar in soft drinks, and was awarded Compassion in World Farming Retailer of the Year Award for the fifth time. Through our carbon strategy we are committed to increasing the energy efficiency of our buildings - John Lewis Birmingham is designed to be our most efficient full-line department store. Further details on our strategy and performance can be found on www.johnlewispartnership.co.uk/csr.html.

Principal risks and uncertainties

John Lewis plc's principal risk and uncertainties are in line with John Lewis Partnership plc ('the Partnership'). Details of the Partnership's principal risks and uncertainties are included within pages 52 to 57 of the Partnership's Annual Report and Accounts.

Inclusive ownership

Our ultimate purpose is the happiness of our Partners through their worthwhile and satisfying employment in a successful business.

We aim to ensure that our Partners' experience of the Group is relevant, consistent and rewarding. Through our diversity strategy, we aim to treat Partners as individuals and to address their specific needs.

We aim to operate without discrimination and embrace diversity. Our aim this year has been on recruiting and developing people of all backgrounds, ethnicities and ages, with a focus on developing the talent of our BAME (Black, Asian and Minority Ethnic) Partners.

We want the Group to be representative of the communities in which we operate. Where we see disparities in this, we take action. For example, BAME people are well represented in our Partner population (comprising 14%, which is on a par with their representation in the general UK population). Currently 8.5% of the Group's management positions are held by BAME Partners, and at more senior levels the proportion is just 3.7%. To address this, we will focus on recruiting and developing BAME Partners to ensure promotion and equal opportunity. The goal is for 10% of our management positions (Level 1-9) to be held by BAME Partners by 2020.

We have an established programme of reverse mentoring and have in place mandatory unconscious bias training for all Level 5 Partners and above.

It is important that our Group has a culture in which people can be themselves and thrive. We have made unconscious-bias training and diversity e-learning available to Partners to let them consider how we nurture a more inclusive culture in our business.

Growing the Group's networks has been one of the key priorities for diversity and inclusion during 2015. We now have four Partner networks with over 1,200 members. These cover areas as diverse as faith and beliefs, to women in the workplace. These currently include Pride in the Partnership (the LGBT+ network), our Faith and Belief network, Unity (the black, asian and minority ethnic network), and TEN: Think.Evolve.Network (the gender network). These networks offer a new way for our Partners' voice to influence the business.

Diversity and Inclusion are intrinsic to the 4Ps (as described on pages 24 to 27 of the Partnership's Annual Report and Accounts) and will be at the core of our actions to implement the new framework. For example, we will be reviewing our approach to equal pay, balancing productivity with individual flexibility, and creating a diverse pipeline of Partners for the future.

We have a desire and a responsibility to ensure that people with disabilities are supported in their employment with us. Our reasonable adjustment process is informed by the Equality Act 2010. This states that businesses must take reasonable steps to accommodate people with disabilities in the workplace. We began work in 2015 to improve our process for accommodating Partners with disabilities. We have worked with the Business Disability Forum to ensure this process is robust, and we expect to conclude our work on this in 2016.

Strategic report for the year ended 30 January 2016 continued

Gender diversity of the Group

	2016		2015	
	Male	**Female**	Male	Female
Partnership Board	**67%**	**33%**	60%	40%
Directors and Management Board numbers*	**71%**	**29%**	71%	29%
Senior managers**	**54%**	**46%**	55%	45%
All other Partners	**42%**	**58%**	42%	58%
All Partners	**43%**	**57%**	43%	57%

* Other than Partnership Board members

** Other than Partnership Board members, Directors and Management Board Members

Ethnicity of senior manager population (levels 1-5)

	2016	2015
White	**91.3%**	91.1%
Asian or Asian British	**1.8%**	2.1%
Black or Black British	**0.2%**	0.3%
Chinese or other ethnic group	**0.5%**	0.5%
Mixed origin	**0.8%**	0.8%
Not given	**5.4%**	5.1%

Our Partnership Aims

This year we have reviewed performance against our three Partnership Aims and also set out a new strategy of It's Your Business 2028. In the short-term, Partners will see continuity in our key initiatives. It's Your Business 2028 will address the longer term opportunities and challenges of delivering Principle 1.

Principle 1: The Partnership's ultimate purpose is the happiness of all its members, through their worthwhile and satisfying employment in a successful business. Because the Partnership is owned in trust for its members, they share the responsibilities of ownership as well as its rewards – profit, knowledge and power.

Partnership Aim		**Our Progress in 2015/16**
Increase advantage of Partners	Define and enable the worthwhile and satisfying employment of Partners.	• 2,400 John Lewis managers attended development workshops across Retail, Distribution and Head Office. • 1,700 Waitrose Partners have completed nearly 7,000 days of specialised training to develop flexible leadership skills in response to changing shopping habits. Invested in our biggest ever training programme for shop managers.
Realise market potential	Deliver a market-leading offer to customers.	• Waitrose launched Pick Your Own Offers. More than one million customers are now signed up to the service, choosing 10 products on which to save 20% every time they shop. • John Lewis launched collections to inspire, including Bruce by Bruce Oldfield, our Croft home collection, and sim-free mobile phone offers.
Grow efficiently	Generate sustainable returns for the Group and appropriate return for Partners' ownership.	• Invested in our John Lewis IT infrastructure to provide an end-to-end view of customer deliveries as they move through the different stages of order fulfilment. • Opened our first Waitrose National Distribution Centre in Summer 2015 at Magna Park, Milton Keynes which will handle around 25,000 nationally available grocery and home products. • Continued work on our new John Lewis distribution centres in Milton Keynes. Once Magna Park 2 is fully operational, it will provide customers with combined online orders for hanging fashion and small items, so they receive fewer parcels. Magna Park 3 brings the distribution for our larger products to the Milton Keynes area.

Strategic report for the year ended 30 January 2016 continued

It's Your Business 2028

The future is uncertain and we can expect things to change – in society, the workplace and retail. Thankfully we have a clear plan to navigate the challenges and opportunities on the road ahead. It's Your Business 2028 will guide us over the coming years on our delivery of Principle 1, which remains our 'north star'. The vibrant glow of our democracy will give us energy and focus on our journey.

There are three strands to our It's Your Business 2028 strategy: 1. Stronger brands and new growth, 2. Better jobs, better performing Partners, better pay, and 3. Financial sustainability.

Our Group strategy has three strands which define what 'good' looks like as we progress towards 2028:

1	**Stronger brands and new growth**	• Improving our offer and experience for customers • Building new business in high growth areas • Continuing to grow market share
2	**Better jobs, better performing Partners, better pay**	• Improving productivity, increasing the sales and profit we can make per Partner • Achieving higher job satisfactions, as Partners enjoy and contribute more in their roles • Partners receiving above market pay, because they achieve above market performance
3	**Financial sustainability**	• Improving profitability so that we can invest more in Partners and customers • Building our financial strength so we are resilient and can take advantage of commercial opportunities

From our three core objectives, we have picked out 'Better jobs, for better performing Partners on better pay' and put a spotlight on how we will drive performance, progression, productivity and pay.

Our Divisional strategies, Modern Waitrose and Be the Revolution are the important vehicles which will take us to 2028.

Divisional strategy and business plans		**Our future priorities**
Waitrose	**Modern Waitrose** Our strategy to create Modern Waitrose has Partners at its heart, helping customers enjoy the quality, inspiration and service they trust – whenever, wherever and however they want to shop.	• Efficiency – transforming the way we work • Being brilliant online • Building our convenience offer • Giving customers compelling reasons to visit our branches • Deepening relationships with our customers • Inspiring product and reassurance on value
John Lewis	**Be the Revolution** Our strategy, Be the Revolution, is focused on John Lewis cementing itself as Britain's leading omnichannel retailer. We will do this by empowering Partners, driving productivity, inspiring customers and delivering a seamless customer experience.	• Empower Partners to lead a winning organisation • Create an inspiring targeted proposition • Deliver a seamless customer experience • Drive productivity in everything we do

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

Sir Charlie Mayfield
Director, John Lewis plc

14 April 2016

Directors' report for the year ended 30 January 2016

The Directors present their report and the audited consolidated financial statements for the year ended 30 January 2016.

Principal activities

John Lewis plc is incorporated and registered in England and Wales. The principal activity of John Lewis plc is retailing, with the main trading operations being the Waitrose and John Lewis businesses. The Company controls the entities listed in note 33, comprising the John Lewis department stores, John Lewis at home stores, johnlewis.com, a John Lewis liaison office in Gurgaon, India, Waitrose supermarkets, Waitrose convenience stores, waitrose.com, business to business contracts in the UK and abroad and ancillary manufacturing activities.

Future developments of John Lewis plc are discussed in the Strategic report.

Directors and Company Secretary

The Directors of the Company at the date of this report are shown on page 3. During the year under review, Rachel Osborne resigned as Director with effect from 31 August 2015 and Berangere Michel was appointed as Director with effect from 1 September 2015. Loraine Woodhouse resigned as a Director with effect from 13 September 2015 and Patrick Lewis was appointed as a Director with effect from 14 September 2015. Since the year-end, Mark Price ceased to be a Director of the Company on 18 March 2016.

Corporate governance

John Lewis plc, as the principal trading subsidiary of John Lewis Partnership plc, falls within the governance auspices of the Partnership. To comply with the Disclosure and Transparency Rules applicable to John Lewis plc, its corporate governance arrangements are provided by the Partnership Board and its Committees. These arrangements are explained in the Governance section on pages 58 to 99 of the Annual Report and Accounts of John Lewis Partnership plc.

The principal risks and uncertainties and mitigations for those risks for the John Lewis plc group are explained on pages 52 to 57 of the Strategic Report in the Partnership's Annual Report and Accounts. These risks are reviewed and monitored by the Partnership's Audit and Risk Committee. The work undertaken by the Partnership's Audit and Risk Committee during the year to review these risks are detailed in the Committee's Report on pages 82 to 87 of the Annual Report and Accounts of John Lewis Partnership plc.

The management functions for preparing consolidated financial statements for John Lewis plc and its internal audit and risk management functions are provided by the Partnership. The Partnership's Audit and Risk Committee is responsible for monitoring the financial reporting process, including the process for preparing consolidated financial statements, and the effectiveness of internal controls, internal audit and risk management systems for John Lewis plc. The Committee's activities in these areas are detailed in the Partnership's Audit and Risk Committee Report on pages 82 to 87 of the Annual Report and Accounts of John Lewis Partnership plc.

Employees

The Constitution of the Partnership provides for the democratic involvement of employees (our "Partners") as co-owners of the business. Partners are provided with extensive information on all aspects of business operations and are encouraged to take an active interest in promoting its commercial success.

The aim is to ensure that the co-owners are given the information they need to be able to decide whether the Chairman, the Partnership Board and management are being effective. The Partnership's democratically elected bodies, including the Partnership Council and other elected councils and forum, provide regular opportunities at all levels of the business for management to report to Partners and for Partners to question management. Additionally, there is an open system of journalism, including the weekly Gazette, which provides a means of sharing information extensively with all Partners and contributes to effective accountability.

Partners receive an annual Partnership Bonus from the profits of the business. This is a shared bonus for shared effort.

The Group seeks to embrace diversity and this is reflected in all we do. See page 8 and 9 of the Strategic Report for more detail.

Human rights

Respecting the rights of the people that we interact with has always been integral to John Lewis plc, and addressing modern slavery is a core part of our human rights and responsible sourcing strategy. We have published a human rights report to share this strategy. For further detail, see our Human Rights & Modern Slavery Report 2015/16: www.johnlewispartnership.co.uk

Directors' report for the year ended 30 January 2016 continued

Conflicts of interest

The Partnership Board maintains procedures that allow for the regular review of potential conflicts of interest. All Directors are required to declare pertinent interests and absent themselves from any discussion that might give rise to a conflict of interest. A register of interests is maintained by the General Counsel and Company Secretary.

At no time during the year did any Director hold a material interest in any contract of significance with the Partnership or any of its subsidiary undertakings, other than a third party indemnity between each Director and the Company, as granted by the Company's Articles of Association and service contracts between each Director and the Company.

Greenhouse Gas Emissions

We are committed to increasing the energy efficiency of our buildings, continuing to purchase low carbon energy and finding more efficient ways to distribute our goods. See page 47 of the Partnership's Annual Report and Accounts for detail on our Global greenhouse gas emissions.

Corporate Social Responsibility

We encourage our Partners to actively forge links and become involved in the local communities in which they live and work. We work with organisations like Business in the Community (BITC) to continually improve the impact we have as a business on society.

Directors' responsibilities

The statement of Directors' responsibilities in relation to the Strategic Report, Directors' Report and financial statements is set out on page 76.

Directors' interests

Under the constitution of the Partnership all the Directors, as employees of John Lewis plc, are necessarily interested in the 612,000 Deferred Ordinary Shares in John Lewis Partnership plc which are held in trust for the benefit of employees of John Lewis plc and of certain other Group companies. No Director has or had a material interest in any contract or arrangement to which the Company is or was a party.

Capital structure

At 30 January 2016, the Company has in issue 1,457,500 5% First Cumulative Preference Stock of which 83.3% was held by John Lewis Partnership plc and 750,000 7% Cumulative Preference Stock of which 75.6% is held by John Lewis Partnership plc and bonds and 6,750,000 ordinary shares of £1 each. The rights attaching to the Cumulative Preference Stock are set out in note 5.5 of these accounts.

Each ordinary share carries the right to one vote at a general meeting of the Company. The ordinary shares are wholly owned by John Lewis Partnership plc.

Listing on the London Stock Exchange (LSE)

Both the Company and its parent, John Lewis Partnership plc, have Standard Listings on the LSE. Many years ago, both companies issued Cumulative Preference Stocks. This is a form of share with a right to receive fixed rate of dividend payment per annum, which cumulates if not paid annually. It has to be paid before any dividend to ordinary shareholders. If the preference dividends are three months in arrears, in the event of capital reduction, winding up, sanction of a sale of the undertaking, any alteration of the Articles which affects the interests of Preference Shareholders or any Resolution which affects the rights or privileges of the Preference Shareholders, the 5% First Cumulative Preference Stock and the 7% Cumulative Preference Stock have one vote per share. Otherwise, the holders of preference stock have one vote for every ten shares, whereas the holders of Ordinary Shares have one vote for every ordinary share held. The Cumulative Preference Stocks are treated in the balance sheet as a long-term liability of the business and not as equity share capital.

John Lewis plc has also issued Bonds which are listed on the LSE.

Directors' report for the year ended 30 January 2016 continued

Dividends

Dividends on Cumulative Preference Stocks for the year ended 30 January 2016 were £125,000 (2015: £125,000).

The Directors do not recommend the payment of a dividend on the Ordinary shares (2015: nil).

Going concern

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

Political donations

The Group made no political donations.

Annual General Meeting

The Annual General Meeting will be held at 2.15pm on Thursday 9 June 2016 at Longstock House, Leckford, Stockbridge, Hampshire SO20 6EH.

Events after the balance sheet date

Since 30 January 2016, there have been two events which require disclosure in the financial statements, the prepayment of regular pension contributions and the repayment of the Partnership Bond. See note 8.3.

Disclosure of information to auditors

Each of the persons who are Directors at the date of approval of this report confirms that:

1. The Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish the Group's auditors are aware of that information.
2. So far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware.

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

Keith Hubber
Company Secretary

14 April 2016

Consolidated income statement

for the year ended 30 January 2016

Notes		2016 £m	2015* £m
1.2, 2.1	**Gross sales**	**11,018.8**	10,942.6
2.1	**Revenue**	**9,748.8**	9,701.0
	Cost of sales	**(6,442.1)**	(6,426.9)
	Gross profit	**3,306.7**	3,274.1
	Other operating income	**85.2**	86.1
2.2	Operating expenses before exceptional item	**(2,992.5)**	(2,920.4)
2.1	**Operating profit before exceptional item**	**399.4**	439.8
2.3	Exceptional item	**129.3**	7.9
2.1	**Operating profit**	**528.7**	447.7
5.1	Finance costs	**(99.5)**	(101.0)
5.1	Finance income	**4.2**	2.8
	Profit before Partnership Bonus and tax	**433.4**	349.5
	Partnership Bonus	**(145.0)**	(156.2)
2.4	**Profit before tax**	**288.4**	193.3
2.7	Taxation	**(66.0)**	(50.2)
	Profit for the year	**222.4**	143.1
2.1	**Profit before Partnership Bonus, tax and exceptional item**	**304.1**	341.6

* 53-week year

Consolidated statement of comprehensive income/(expense)

for the year ended 30 January 2016

Notes		2016 £m	2015* £m
	Profit for the year	**222.4**	143.1
	Other comprehensive income/(expense):		
	Items that will not be reclassified to profit or loss:		
6.1	Remeasurement of defined benefit pension schemes	**411.1**	(523.5)
2.7	Movement in deferred tax on pension schemes	**(94.6)**	38.3
2.7	Movement in current tax on pension schemes	**–**	70.8
	Items that may be reclassified subsequently to profit or loss:		
	Net gain on cash flow hedges	**7.9**	8.8
2.7	Movement in deferred tax on cash flow hedges	**(1.4)**	(0.6)
	Gain/(loss) on currency translations	**0.1**	(0.2)
	Other comprehensive income/(expense) for the year	**323.1**	(406.4)
	Total comprehensive income/(expense) for the year	**545.5**	(263.3)

* 53-week year

Consolidated balance sheet

as at 30 January 2016

Notes		2016 £m	2015 (restated)# £m
	Non-current assets		
3.1	Intangible assets	**388.4**	335.5
3.2	Property, plant and equipment	**4,189.3**	4,160.1
4.2	Trade and other receivables	**65.7**	62.7
2.7	Deferred tax asset	**33.6**	123.8
		4,677.0	4,682.1
	Current assets		
4.1	Inventories	**621.9**	580.7
4.2	Trade and other receivables	**223.7**	208.3
	Current tax receivable	**–**	19.2
7.2	Derivative financial instruments	**11.5**	9.6
3.3	Assets held for sale	**–**	15.7
5.3	Short-term investments	**10.0**	–
5.4	Cash and cash equivalents	**667.4**	336.9
		1,534.5	1,170.4
	Total assets	**6,211.5**	5,852.5
	Current liabilities		
5.5	Borrowings and overdrafts	**(57.7)**	–
4.3	Trade and other payables	**(1,725.4)**	(1,679.3)
	Current tax payable	**(26.8)**	–
5.6	Finance lease liabilities	**(2.6)**	(3.1)
4.4	Provisions	**(141.6)**	(110.1)
7.2	Derivative financial instruments	**(2.3)**	(6.6)
		(1,956.4)	(1,799.1)
	Non-current liabilities		
5.5	Borrowings	**(867.6)**	(923.7)
4.3	Trade and other payables	**(209.3)**	(175.9)
5.6	Finance lease liabilities	**(24.7)**	(28.3)
4.4	Provisions	**(148.2)**	(158.0)
6.1	Retirement benefit obligations	**(941.6)**	(1,249.3)
		(2,191.4)	(2,535.2)
	Total liabilities	**(4,147.8)**	(4,334.3)
	Net assets	**2,063.7**	1,518.2
	Equity		
8.1	Share capital	**6.7**	6.7
	Share premium	**0.3**	0.3
	Other reserves	**10.4**	3.8
	Retained earnings	**2,046.3**	1,507.4
	Total equity	**2,063.7**	1,518.2

Refer to note 1.1.5

The financial statements on pages 14 to 56 were approved by the Board of Directors on 14 April 2016 and signed on its behalf by
Sir Charlie Mayfield and **Patrick Lewis**
Directors, John Lewis plc

Consolidated statement of changes in equity

for the year ended 30 January 2016

Notes		Share capital £m	Share premium £m	Capital reserve £m	Hedging reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Total equity £m
	Balance at 25 January 2014	6.7	0.3	1.4	(5.8)	0.2	1,778.7	1,781.5
	Profit for the year*	–	–	–	–	–	143.1	143.1
6.1	Remeasurement of defined benefit pension scheme	–	–	–	–	–	(523.5)	(523.5)
	Fair value gains on cash flow hedges	–	–	–	0.4	–	–	0.4
	– transfers to inventories	–	–	–	9.1	–	–	9.1
	– transfers to property, plant and equipment	–	–	–	(0.7)	–	–	(0.7)
2.7	Tax on above items recognised in equity	–	–	–	(0.6)	–	109.1	108.5
	Loss on currency translations	–	–	–	–	(0.2)	–	(0.2)
	Balance at 31 January 2015	6.7	0.3	1.4	2.4	–	1,507.4	1,518.2
	Profit for the year	–	–	–	–	–	222.4	222.4
6.1	Remeasurement of defined benefit pension scheme	–	–	–	–	–	411.1	411.1
	Fair value gains on cash flow hedges	–	–	–	9.7	–	–	9.7
	– transfers to inventories	–	–	–	(0.2)	–	–	(0.2)
	– transfers to property, plant and equipment	–	–	–	(1.6)	–	–	(1.6)
2.7	Tax on above items recognised in equity	–	–	–	(1.4)	–	(94.6)	(96.0)
	Gain on currency translations	–	–	–	–	0.1	–	0.1
	Balance at 30 January 2016	**6.7**	**0.3**	**1.4**	**8.9**	**0.1**	**2,046.3**	**2,063.7**

* 53-week year

Retained earnings comprise £1,660.4m (2015: £1,115.2m) of distributable and £385.9m (2015: £392.2m) of non-distributable reserves, arising on the revaluation of freehold and long leasehold properties prior to 31 January 2004.

Consolidated statement of cash flows

for the year ended 30 January 2016

Notes		2016 £m	2015* (restated)[#] £m
2.5	**Cash generated from operations**	**915.7**	881.4
	Net taxation paid	**(26.4)**	(16.1)
	Partnership Bonus paid	**(156.1)**	(202.8)
6.1	Additional contribution to the Pension Scheme	**–**	(294.1)
	Finance costs paid	**(2.9)**	(3.0)
	Net cash generated from operating activities	**730.3**	365.4
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(347.4)**	(526.2)
	Purchase of intangible assets	**(146.4)**	(144.7)
	Proceeds from sale of property, plant and equipment and intangible assets	**163.8**	44.7
	Finance income received	**1.4**	0.5
	Cash outflow from investments	**(10.0)**	–
	Net cash used in investing activities	**(338.6)**	(625.7)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	**(57.2)**	(44.0)
	Payment of capital element of finance leases	**(4.0)**	(4.4)
	Payments to preference shareholders	**(0.1)**	(0.1)
	Cash inflow from borrowings	**–**	293.8
	Net cash (used in)/generated from financing activities	**(61.3)**	245.3
	Increase/(decrease) in net cash and cash equivalents	**330.4**	(15.0)
	Net cash and cash equivalents at beginning of the year	**336.9**	351.9
	Net cash and cash equivalents at end of the year	**667.3**	336.9
5.4	**Net cash and cash equivalents comprise:**		
	Cash at bank and in hand	**89.1**	96.8
	Short-term deposits	**578.3**	240.1
	Bank overdrafts	**(0.1)**	–
		667.3	336.9

* 53-week year

[#] Refer to note 1.1.5

Notes to the consolidated financial statements

1. Accounting information

In this section

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

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

1.1 Accounting principles and policies

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 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 estimates and assumptions 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 judgements made by management are disclosed in section 1.1.7.

The financial period is the year ended 30 January 2016 (prior period: 53-weeks ended 31 January 2015).

Going concern

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

1.1.2 Basis of consolidation

The consolidated Group financial statements incorporate the results for the Company and all its subsidiary undertakings made up to the year end date.

1.1.3 Subsidiaries

Subsidiary undertakings are all entities over which the Group has control. Control exists when the Group has the power to direct the relevant activities of an entity so as to affect the return on investment.

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

1.1.4 Amendments to accounting standards

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

The following standards, amendments and interpretations were adopted by the Group for the year ended 30 January 2016 and have not had a significant impact on the Group's profit for the year, equity or disclosures:

- Amendments to IFRS 10, IFRS 11 and IFRS 12 'Transition guidance';
- Amendments to IAS 19 'Defined Benefit Plans: Employee contributions';
- IAS 27 (revised 2011) 'Separate financial statements'.

The following are new accounting standards and amendments to existing standards that have been published and are applicable for the Group's accounting periods beginning 31 January 2016 onwards, which the Group has not adopted early:

- Annual improvements to IFRSs 2010-2012 Cycle – various standards;
- Annual improvements to IFRSs 2011-2013 Cycle – various standards.

These are not expected to have a material impact on profit or equity for future years, but may affect disclosures.

Notes to the consolidated financial statements continued

The Group is currently assessing the impact of the following standards, which have been issued but not yet been endorsed by the EU:

- Amendment to IAS 1, 'Presentation of financial statements' on the disclosure initiative (applicable for the period beginning 31 January 2016);
- IFRS 9 'Financial Instruments' (applicable for the period beginning 28 January 2018);
- IFRS 15 'Revenue from Contracts with Customers' (applicable for the period beginning 28 January 2018);
- IFRS 16 'Leases' (applicable for the period beginning 26 January 2019).

1.1.5 Restatement

During the year, the Directors reviewed the accounting for certain cash in transit balances and determined that, because outgoing payments have been instructed but not completed at the balance sheet date, it is more appropriate to retain the associated payables balance than to recognise an overdraft. In addition, it was determined that certain outstanding payments are more appropriately recognised as a reduction in cash than in overdrafts, in line with the Group's cash pooling arrangements. This has resulted in a reclassification of the overdraft balance into current trade and other payables of £58.5m and into cash of £2.9m at 31 January 2015. Net debt, borrowings and overdrafts, segmental net assets, opening cash balances, trade and other payables, analysis of financial assets and liabilities, management of financial risks and working capital movements in the cash flow have been restated. Net assets are unchanged.

1.1.6 Significant accounting policies

Other operating income

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

Financial instruments

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

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

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

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

Notes to the consolidated financial statements continued

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

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

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

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 held at branches in foreign currencies, movements go through the foreign currency translation reserve.

1.1.7 Critical accounting estimates and judgements
Estimates and judgements are continually evaluated and are based on historical experience and other relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

i. Retirement benefits: Details of estimates, judgements and assumptions are given in note 6.1.
ii. Provisions and liabilities: Details of estimates, judgements and assumptions are given in notes 4.3 and 4.4.
iii. Impairment: Details of estimates, judgements and assumptions are given in note 3.2.
iv. Depreciation and amortisation: Details of estimates, judgements and assumptions are given in notes 3.1 and 3.2.

Notes to the consolidated financial statements continued

1.2 Non-GAAP measures

1.2.1 Gross sales
Gross sales represents the amounts receivable by the Group for goods and services supplied to customers, net of discounts but including sale or return sales and VAT. This measure shows the headline sales trend.

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

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

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

Notes to the consolidated financial statements continued

2. Group performance

In this section

This section focuses on our performance during the year ended 30 January 2016. Information is provided on segmental performance, exceptional items, operating expenses, Partner related costs and taxation. This section also includes a reconciliation of our profit before tax to the cash generated from operations, which shows how our performance translates into cash.

2.1 Segmental reporting

Accounting policies

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

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

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

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

A liability for the Partnership Bonus is included in the year end accounts, with the amount confirmed by the 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 it can be reliably estimated once the results for the year are known and prior to the approval of the Group's financial statements.

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

Notes to the consolidated financial statements continued

2.1 Segmental reporting continued

Segmental reporting

The Group has three reporting segments which are Waitrose, John Lewis and Partnership Services and Group. Partnership Services and Group includes operating costs for our Group offices, Partnership Services, transformation programmes and certain pension operating costs. The operating profit of each reporting segment is reported after charging relevant Partnership Services and Group costs based on the business segments' usage of these facilities and services, and before the exceptional item.

2016	Waitrose £m	John Lewis £m	Partnership Services and Group £m	Total £m
Gross sales	**6,461.4**	**4,557.4**	**–**	**11,018.8**
Adjustment for sale or return sales	**–**	**(181.9)**	**–**	**(181.9)**
Value added tax	**(375.4)**	**(712.7)**	**–**	**(1,088.1)**
Revenue	**6,086.0**	**3,662.8**	**–**	**9,748.8**
Operating profit before exceptional item and profit on sale of property	**232.6**	**248.7**	**(83.4)**	**397.9**
Profit on sale of property	**–**	**1.5**	**–**	**1.5**
Operating profit before exceptional item	**232.6**	**250.2**	**(83.4)**	**399.4**
Exceptional item				**129.3**
Operating profit				**528.7**
Finance costs				**(99.5)**
Finance income				**4.2**
Partnership Bonus				**(145.0)**
Profit before tax				**288.4**
Taxation				**(66.0)**
Profit for the year				**222.4**
Reconciliation of Profit before Partnership Bonus, tax and exceptional item to Profit before tax:				
Profit before Partnership Bonus, tax and exceptional item				**304.1**
Partnership Bonus				**(145.0)**
Exceptional item				**129.3**
Profit before tax				**288.4**
Segment assets	**2,998.8**	**2,049.1**	**1,163.6**	**6,211.5**
Segment liabilities	**(742.6)**	**(876.8)**	**(2,528.4)**	**(4,147.8)**
Net assets	**2,256.2**	**1,172.3**	**(1,364.8)**	**2,063.7**
Other segment items:				
– Depreciation	**(166.1)**	**(103.8)**	**(16.1)**	**(286.0)**
– Amortisation	**(37.2)**	**(35.5)**	**(18.5)**	**(91.2)**
– Capital expenditure – property, plant and equipment	**174.4**	**136.9**	**24.9**	**336.2**
– Capital expenditure – intangible assets	**41.9**	**88.9**	**15.6**	**146.4**
– Movement in provisions – increase	**2.4**	**11.9**	**7.4**	**21.7**

Notes to the consolidated financial statements continued

2.1 Segmental reporting continued

2015	Waitrose £m	John Lewis £m	Partnership Services and Group £m	Total £m
Gross sales	6,508.9	4,433.7	–	10,942.6
Adjustment for sale or return sales	–	(173.1)	–	(173.1)
Value added tax	(373.6)	(694.9)	–	(1,068.5)
Revenue	6,135.3	3,565.7	–	9,701.0
Operating profit before exceptional item and profit on sale of property	226.9	247.7	(49.0)	425.6
Profit on sale of property	10.5	2.8	0.9	14.2
Operating profit before exceptional item	237.4	250.5	(48.1)	439.8
Exceptional item				7.9
Operating profit				447.7
Finance costs				(101.0)
Finance income				2.8
Partnership Bonus				(156.2)
Profit before tax				193.3
Taxation				(50.2)
Profit for the year				143.1
Reconciliation of Profit before Partnership Bonus, tax and exceptional item to Profit before tax:				
Profit before Partnership Bonus, tax and exceptional item				341.6
Partnership Bonus				(156.2)
Exceptional item				7.9
Profit before tax				193.3
Segment assets (restated)[#]	2,946.1	2,001.9	904.5	5,852.5
Segment liabilities (restated) [#]	(710.9)	(789.7)	(2,833.7)	(4,334.3)
Net assets	2,235.2	1,212.2	(1,929.2)	1,518.2
Other segment items:				
– Depreciation	(172.3)	(93.5)	(15.9)	(281.7)
– Amortisation	(33.2)	(26.0)	(16.9)	(76.1)
– Capital expenditure – property, plant and equipment	334.6	151.9	27.6	514.1
– Capital expenditure – intangible assets	39.5	80.9	24.3	144.7
– Movement in provisions – increase	6.4	3.0	0.6	10.0

[#] Refer to note 1.1.5

2.2 Operating expenses before exceptional item

	2016 £m	2015 £m
Branch operating expenses	**(2,235.6)**	(2,228.0)
Administrative expenses	**(756.9)**	(692.4)
	(2,992.5)	(2,920.4)

Notes to the consolidated financial statements continued

2.3 Exceptional item

On 16 April 2015, the Group disposed of a property which was previously held for sale. The profit on disposal of £129.3m has been recorded as exceptional operating income in the period to 30 January 2016. A tax charge of £25.1m was recognised on the exceptional item.

In the year ending 31 January 2015, exceptional operating income was recorded totalling £7.9m in respect of a review of the Group's holiday pay policy in 2014. This comprised a release of £3.4m from the pension liability and a release of £4.5m from other provisions, as the estimated costs for correcting our systems following the review, and updating pension scheme members' entitlements were lower than originally expected. A tax charge of £1.7m was recognised on the exceptional item.

2.4 Profit before tax

	2016 £m	2015 £m
Staff costs (note 2.6.2)	**(1,889.3)**	(1,814.8)
Depreciation – owned assets	**(283.2)**	(278.8)
Depreciation – assets held under finance leases	**(2.8)**	(2.9)
Amortisation of intangible assets	**(91.2)**	(76.1)
Net profit on sale of property (including exceptional item)	**127.7**	14.2
Loss on disposal of other plant and equipment and intangible assets	**(2.9)**	(1.9)
Inventory – cost of inventory recognised as an expense	**(6,442.1)**	(6,426.9)
Reorganisation costs	**(12.8)**	(6.9)
Operating lease rentals:		
– land and buildings	**(168.4)**	(158.2)
– plant and machinery	**(0.5)**	(0.4)
Sub lease income:		
– land and buildings	**6.1**	8.1

Contingency rents expensed during the year were £2.5m (2015: £3.1m). Contingency rents are determined based on store revenues.

Total auditors' remuneration is included within administrative expenses, and is payable to our auditors, PricewaterhouseCoopers LLP, as analysed below:

Auditors' remuneration	**2016 £m**	2015 £m
Audit and audit-related services:		
– Audit of the parent company and consolidated financial statements	**(0.3)**	(0.3)
– Audit of the Company's subsidiaries	**(0.5)**	(0.5)
	(0.8)	(0.8)
Non-audit services:		
– Other assurance services	**(0.1)**	(0.1)
– Other non-audit services	**–**	(0.2)
	(0.1)	(0.3)
Total fees	**(0.9)**	(1.1)

In addition to the above, the Group's auditors also acted as auditors to the Group's pension scheme. The aggregate fee for audit services to the pension scheme during the year was £57,900 (2015: £51,300).

Notes to the consolidated financial statements continued

2.5 Reconciliation of profit before tax to cash generated from operations

	2016 £m	2015 (restated)# £m
Profit before tax	**288.4**	193.3
Amortisation of intangible assets	**91.2**	76.1
Depreciation	**286.0**	281.7
Net finance costs	**95.3**	98.2
Partnership Bonus	**145.0**	156.2
Fair value losses on derivative financial instruments	**0.7**	-
Profit on disposal of property, plant and equipment and intangible assets	**(124.8)**	(12.3)
Increase in inventories	**(41.2)**	(26.7)
(Increase)/decrease in receivables	**(18.9)**	19.3
Increase in payables	**103.5**	116.7
Increase/(decrease) in retirement benefit obligations	**66.6**	(21.2)
Increase in provisions	**23.9**	0.1
Cash generated from operations	**915.7**	881.4

Refer to note 1.1.5

2.6 Partners

2.6.1 Partner numbers

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

	2016	2015
John Lewis	**29,700**	29,900
Waitrose	**59,000**	60,300
Partnership Services and Group	**2,000**	1,900
	90,700	92,100

Notes to the consolidated financial statements continued

2.6 Partners continued

2.6.2 Partner benefits

Employment and related costs were as follows:

	2016 £m	2015 £m
Staff costs:		
Wages and salaries	**(1,380.3)**	(1,359.5)
Social security costs	**(101.9)**	(102.2)
Partnership Bonus	**(128.6)**	(139.0)
Employers' national insurance on Partnership Bonus	**(16.4)**	(17.2)
Other pension costs (note 6.1.3)	**(245.3)**	(191.1)
Long leave cost	**(16.8)**	(5.8)
Total before Partner discounts	**(1,889.3)**	(1,814.8)
Partner discounts (excluded from revenue)	**(74.7)**	(72.3)
	(1,964.0)	(1,887.1)
Included above are the following amounts in respect of key management compensation:		
Salaries and short-term benefits	**(16.4)**	(15.2)
Post-employment benefits*	**(3.6)**	(5.0)
Termination benefits#	**(2.3)**	(1.0)
	(22.3)	(21.2)

* Includes cash supplements in lieu of future pension accrual
\# Includes contractual payments and compensation for loss of office

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

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

2.6.3 Directors' emoluments

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

Highest paid director

The total emoluments for the year ended 30 January 2016 and 31 January 2015 of the Chairman, who was also the highest paid Director, were £1,526,000 (2015: £1,529,000), comprising pay of £1,051,000 (2015: £941,000), Partnership Bonus of £105,000 (2015: £104,000), pension supplement in lieu of further defined pension accrual of £356,000 (2015: £470,000) and benefits with a cash value of £14,000 (2015: £14,000).

	2016 £m	2015 £m
Aggregate emoluments	**(5.2)**	(6.2)

Pension arrangements

All Directors, except one, have ceased to accrue further pension benefits in the Partnership's defined benefit pension scheme. Their accrued pensions increase in line with either price inflation or future pay increases, depending on their individual arrangements. Where there are any accrued defined benefit pensions remaining on an unfunded basis, the Partnership has made provision for the associated liability.

One Executive Director joined the John Lewis plc Board in 2015/16 and is a member of the defined benefit pension scheme.

Notes to the consolidated financial statements continued

2.6 Partners continued

The Chairman's aggregate defined benefit pension entitlement from the age of 60 accrued at the end of the year was £256,000 per annum (2015: £255,000 per annum). There was no increase in the accrued income entitlement above the consumer price inflation during the year.

Following the announcement in October of his intention to leave the Partnership, Lord Price ceased to be a Director of the Partnership Board on 18 March 2016 and Managing Director of Waitrose and Deputy Chairman of the Partnership on 3 April 2016. In connection with his leaving the Partnership he is being paid £988,523 as payment in lieu of salary, car, pension and other benefits for the remainder of his contractual notice period and compensation for loss of office totalling £237,132. In addition, he will receive £642,541 as payment in lieu of his accrued six months' long leave entitlement. In March 2017, he will receive Partnership Bonus prorated for the year including the long leave entitlement. All of these payments relate to 2016/17 and are subject to deduction of applicable taxes.

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

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

2.7 Taxation

Accounting policy

Taxation: The charge for corporation tax is based on the results for the year adjusted for items which are not taxed or are disallowed. It is calculated using tax rates under legislation that has been enacted or substantively enacted by the balance sheet date.

Deferred income 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 expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged to other comprehensive expense, in which case the deferred tax is also dealt with in other comprehensive expense.

2.7.1 Analysis of tax charge for the year

Analysis of tax charge	**2016 £m**	2015 £m
Corporation tax – current year	**(74.2)**	(70.0)
Corporation tax – adjustment in respect of prior years	**2.4**	2.8
Total current tax charge	**(71.8)**	(67.2)
Deferred tax – current year	**5.9**	17.1
Deferred tax – adjustment in respect of prior years	**(0.1)**	(0.1)
	(66.0)	(50.2)

Tax (charged)/credited to other comprehensive income	**2016 £m**	2015 £m
Movement in current tax on pension schemes	**–**	70.8
Movement in deferred tax on pension schemes	**(94.6)**	38.3
Movement in deferred tax on cash flow hedges	**(1.4)**	(0.6)
	(96.0)	108.5

Notes to the consolidated financial statements continued

2.7 Taxation continued

2.7.2 Factors affecting tax charge in the year

The tax charge for the year is higher (2015: higher) than the standard corporation tax rate of 20.17% (2015: 21.33%). The differences are explained below:

	2016 £m	2015 £m
Profit before tax	**288.4**	193.3
Profit before tax multiplied by standard rate of corporation tax in the UK of 20.17% (2015: 21.33%)	**(58.2)**	(41.2)
Effects of:		
Changes in tax rate	**6.2**	(1.1)
Adjustment to current tax in respect of prior years	**2.4**	2.8
Adjustment to deferred tax in respect of prior years	**(0.1)**	(0.1)
Depreciation on assets not qualifying for tax relief	**(13.4)**	(13.9)
Difference between accounting and tax base for land and buildings	**(1.8)**	1.5
Differences in overseas tax rates	**2.0**	2.0
Sundry disallowables	**(1.0)**	(2.2)
Other permanent differences on sale of property	**(2.1)**	2.0
Total tax charge	**(66.0)**	(50.2)
Effective tax rate (%)	**22.9**	26.0

2.7.3 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 20% for deferred tax assets or liabilities expected to reverse before 1 April 2017, 19% for deferred tax assets and liabilities expected to reverse before 1 April 2020, and 18% for those assets or liabilities expected to reverse after 1 April 2020. In the year to 31 January 2015, a tax rate of 21% was used for deferred tax assets or liabilities expected to reverse before April 2015, and 20% for those assets expected to reverse after April 2015.

The movement on the deferred tax account is shown below:

Deferred tax	2016 £m	2015 £m
Opening asset	**123.8**	69.1
Credited to income statement	**5.8**	17.0
(Charged)/credited to other comprehensive income	**(96.0)**	37.7
Closing asset	**33.6**	123.8

The movements in deferred tax assets and liabilities during the year (prior to the offsetting of balances within the same jurisdiction, as permitted by IAS 12) are shown below.

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.

Notes to the consolidated financial statements continued

2.7 Taxation continued

2.7.3 Deferred tax continued

Deferred tax liabilities	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Rollover Gains £m	Total £m
At 25 January 2014	(125.3)	(3.8)	(17.2)	(146.3)
Credited to income statement	2.9	1.0	1.0	4.9
At 31 January 2015	(122.4)	(2.8)	(16.2)	(141.4)
Credited/(charged) to income statement	12.8	0.5	(24.1)	(10.8)
At 30 January 2016	**(109.6)**	**(2.3)**	**(40.3)**	**(152.2)**

Deferred tax assets	Capital gains tax on land and buildings £m	Pensions and provisions £m	Other £m	Total £m
At 25 January 2014	7.2	208.2	–	215.4
(Charged)/credited to income statement	(0.4)	11.1	1.4	12.1
Credited/(charged) to other comprehensive income	–	38.3	(0.6)	37.7
At 31 January 2015	6.8	257.6	0.8	265.2
(Charged)/credited to income statement	(0.3)	15.1	1.8	16.6
(Charged)/credited to other comprehensive income	–	(94.6)	(1.4)	(96.0)
At 30 January 2016	**6.5**	**178.1**	**1.2**	**185.8**

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future profits is probable. There were no unrecognised deferred tax assets in respect of losses for the year ended 30 January 2016 (2015: £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).

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax asset at 30 January 2016 was £33.6m (2015: £123.8m asset). The net deferred tax asset is recoverable after more than one year.

2.7.4 Factors affecting tax charges in current and future years

The Finance Act 2015 reduced the main rate of corporation tax from 21% to 20% from 1 April 2015. Further reductions to reduce the main rate of corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020 have also been enacted.

The effect of the 1% rate change from 1 April 2017 and a further 1% rate change from 1 April 2020 was to decrease the deferred tax asset by £14.9m, with a £20.5m charge being taken to other comprehensive income and a £5.6m tax credit to the income statement.

Notes to the consolidated financial statements continued

3. Operating assets and liabilities

In this section

This section shows the assets used in generating the Group's performance and related future commitments. This includes intangible assets and property, plant and equipment, 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

Accounting policy

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. 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. 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 lives are reviewed and adjusted if appropriate at each balance sheet date.

Critical accounting estimates and judgements

Amortisation: Amortisation is recorded to write down non-current assets to their residual values over their estimated useful lives. The selection and review of these residual values and estimated useful lives requires the exercise of management judgement.

	Computer software			
Intangible assets	**Purchased £m**	**Internally developed £m**	**Work in progress £m**	**Total £m**
Cost				
At 25 January 2014	123.4	263.9	88.1	475.4
Additions	–	–	144.7	144.7
Transfers	49.0	83.9	(132.9)	–
Disposals	(4.2)	(16.3)	–	(20.5)
At 31 January 2015	168.2	331.5	99.9	599.6
Additions	–	–	146.4	146.4
Transfers	34.7	74.4	(109.1)	–
Disposals	(7.4)	(11.2)	–	(18.6)
At 30 January 2016	**195.5**	**394.7**	**137.2**	**727.4**
Accumulated amortisation				
At 25 January 2014	(52.4)	(156.1)	–	(208.5)
Charge for the year	(30.6)	(45.5)	–	(76.1)
Disposals	4.2	16.3	–	20.5
At 31 January 2015	(78.8)	(185.3)	–	(264.1)
Charge for the year	(34.2)	(57.0)	–	(91.2)
Disposals	6.5	9.8	–	16.3
At 30 January 2016	**(106.5)**	**(232.5)**	–	**(339.0)**
Net book value at January 2014	71.0	107.8	88.1	266.9
Net book value at January 2015	89.4	146.2	99.9	335.5
Net book value at January 2016	**89.0**	**162.2**	**137.2**	**388.4**

Notes to the consolidated financial statements continued

3.1 Intangible assets continued

For the year to 30 January 2016, computer systems valued at £109.1m (2015: £132.9m) were brought into use. This covered a range of selling, support, supply chain, administration and information technology infrastructure applications, with asset lives ranging from three to ten years.

Amortisation of intangible assets is charged within operating expenses.

3.2 Property, plant and equipment

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 to its working condition for its intended use.

The Group's freehold and long leasehold properties were last valued by the Directors, after consultation with CB Richard Ellis, Chartered Surveyors, at 31 January 2004, at fair value. These values have been incorporated as deemed cost, subject to the requirement to test for impairment in accordance with IAS 36. The Group 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 and 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 their expected useful life, at the following rates:

- Freehold and long leasehold buildings – 2% to 4%;
- Other leaseholds – over the shorter of the useful economic life and the remaining period of the lease;
- Building fixtures – 2.5% to 10%;
- Fixtures, fittings and equipment (including vehicles and information technology equipment) – 10% to 33%.

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 whenever events or circumstances indicate that the net book value may not be recoverable. Impairment testing is on cash generating units which are branches, 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.

Critical accounting estimates and judgements

Impairment: The Group is required to test whether assets in use in operations have suffered any impairment. The recoverable amounts of cash generating units have been determined based on the higher of fair value less costs to sell and value in use. The calculation of value in use requires the estimation of future cash flows expected to arise from the continuing operation of the cash generating unit, and the selection of a suitable discount rate in order to calculate the present value. Given the degree of subjectivity involved, actual outcomes could vary significantly from these estimates.

Depreciation: Depreciation is recorded to write down non-current assets to their residual values over their estimated useful lives. The selection and review of these residual values and estimated useful lives requires the exercise of management judgement.

Notes to the consolidated financial statements continued

3.2 Property, plant and equipment continued

Property, plant and equipment	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in course of construction £m	Total £m
Cost				
At 25 January 2014	4,034.6	1,738.0	192.7	5,965.3
Additions	–	1.4	512.7	514.1
Transfers	331.0	210.8	(541.8)	–
Disposals	(64.6)	(135.3)	–	(199.9)
Transfers to assets held for sale	(13.3)	–	(6.2)	(19.5)
At 31 January 2015	4,287.7	1,814.9	157.4	6,260.0
Additions	–	0.6	335.6	336.2
Transfers	220.5	137.2	(357.7)	–
Disposals	(42.7)	(75.1)	–	(117.8)
At 30 January 2016	**4,465.5**	**1,877.6**	**135.3**	**6,478.4**
Accumulated depreciation				
At 25 January 2014	(833.4)	(1,144.7)	–	(1,978.1)
Charge for the year*	(116.6)	(165.1)	–	(281.7)
Disposals	21.5	134.6	–	156.1
Transfers to assets held for sale	3.8	–	–	3.8
At 31 January 2015	(924.7)	(1,175.2)	–	(2,099.9)
Charge for the year*	(123.5)	(162.5)	–	(286.0)
Disposals	23.4	73.4	–	96.8
At 30 January 2016	**(1,024.8)**	**(1,264.3)**	**–**	**(2,289.1)**
Net book value at January 2014	3,201.2	593.3	192.7	3,987.2
Net book value at January 2015	3,363.0	639.7	157.4	4,160.1
Net book value at January 2016	**3,440.7**	**613.3**	**135.3**	**4,189.3**

*Charge for the year ending 30 January 2016 includes an impairment charge of £5.7m to land and buildings (31 January 2015: charge of £10.3m to land and buildings).

Included above are land and building assets held under finance leases with a net book value of £20.7m (2015: £24.4m).

In accordance with IAS 36 'Impairment of Assets', the Group tests its property, plant and equipment for impairment, whenever events or circumstances indicate that the value on the balance sheet may not be recoverable. For the purpose of impairment testing, each branch is a Cash Generating Unit ('CGU').

The impairment test 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 and expected sales performance and branch costs.

The value in use calculation is based on five year cash flow projections using the latest budget and forecast data. Any changes in sales performance and branch costs are based on past experience and expectations of future changes in the market. The forecasts are then extrapolated beyond the five year period using a long-term growth rate. The discount rate is based on the Group's pre-tax weighted average cost of capital of 9% to 10% (2015: 9 to 10%).

Having applied the above methodology and assumptions, the Group recognised an impairment charge in the year of £5.7m to land and buildings in the Waitrose Division (2015: £10.3m). The impairment charge reflects the revision of the long-term forecast cashflows as a result of trading in a highly competitive and deflationary market.

An increase in the discount rate of 0.5% would result in an additional impairment charge of £3.3m (2015: £2.1m). An increase in the discount rate of 0.5% would result in an additional impairment charge of £3.3m (2015: £2.1m).

Notes to the consolidated financial statements continued

3.3 Assets held for sale

At 31 January 2015, one property asset was recorded as held for sale totalling £15.7m. It was disposed of during the year ended 31 January 2016 and the gain was recorded as an exceptional item during the year.

3.4 Commitments and contingencies

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 minimum amounts we are obliged to pay.

3.4.1 Capital commitments

At 30 January 2016 contracts had been entered into for future capital expenditure of £30.3m (2015: £39.4m) of which £26.5m (2015: £36.0m) relates to property, plant and equipment and £3.8m (2015: £3.4m) relates to intangible assets.

3.4.2 Lease guarantees

John Lewis plc continues to provide lease guarantees in favour of the Group's former associate company, Ocado Limited, of £6.8m (2015: £6.8m).

3.4.3 Commitments under operating leases

Future aggregate minimum lease payments Under non-cancellable operating leases, payable:	**2016 Land and buildings £m**	2015 Land and buildings £m
Within one year	**(176.9)**	(170.3)
Later than one year and less than five years	**(676.6)**	(587.8)
After five years	**(2,709.5)**	(2,661.8)

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years comprise the following:	**2016 Land and buildings £m**	2015 Land and buildings £m
Later than five years and less than 10 years	**(763.5)**	(745.3)
Later than 10 years and less than 20 years	**(990.8)**	(932.3)
Later than 20 years and less than 40 years	**(466.0)**	(465.1)
Later than 40 years and less than 80 years	**(207.9)**	(238.2)
After 80 years	**(281.3)**	(280.9)
	(2,709.5)	(2,661.8)

Total future sub-lease payments receivable relating to the above operating leases amounted to £11.0m (2015: £6.8m).

Notes to the consolidated financial statements continued

4. Working capital and provisions

In this section

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

4.1 Inventories

Accounting policy

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

Inventory	2016 £m	2015 £m
Raw materials	**4.7**	4.4
Work in progress	**1.4**	1.0
Finished goods and goods for resale	**615.8**	575.3
	621.9	580.7

Provisions against inventories of £7.1m were charged (2015: £5.1m charged) in branch operating expenses.

4.2 Trade and other receivables

Accounting policies

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

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

- *Volume rebates*: Volume rebates are earned based on sales or purchase triggers set over specific periods, such as the number of units sold to customers or purchased from the supplier. Volume rebates are recognised over the period set out in the supplier agreement.
- *Marketing rebates*: Marketing rebates include promotions, mark downs or marketing support provided by suppliers. Marketing rebates are agreed with suppliers for specific periods and products.

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

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

For promotions which are confirmed after the balance sheet date, the Group is sometimes required to estimate the amounts due from suppliers at the year end. Estimates of supplier income are accrued within prepayments and 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.

Notes to the consolidated financial statements continued

4.2 Trade and other receivables continued

Trade and other receivables	2016 £m	2015 £m
Current:		
Trade receivables	**61.0**	57.3
Other receivables	**61.1**	57.9
Prepayments and accrued income	**101.6**	93.1
	223.7	208.3
Non-current:		
Other receivables	**20.6**	16.1
Prepayments and accrued income	**45.1**	46.6
	65.7	62.7

Trade receivables are non-interest bearing and generally on credit terms of less than 90 days. Concentrations of credit risk are considered to be very limited. The carrying amount of trade and other receivables approximates to fair value and is denominated in sterling. Within trade receivables is accrued rebate income of £7.8m (2015: £6.5m). Supplier income that has been invoiced but not paid is included in trade receivables and supplier income that has been invoiced but not yet settled against future trade payable balances is included in trade payables. As of 30 January 2016, trade and other receivables of £1.4m (2015: £1.6m) were fully impaired.

The creation and release of the allowance for impaired receivables has been included in branch operating expenses in the income statement. As of 30 January 2016, trade and other receivables of £17.6m (2015: £18.3m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

Ageing analysis	2016 £m	2015 £m
Up to 3 months past due	**15.3**	16.5
3 to 12 months past due	**1.0**	0.9
Over 12 months past due	**1.3**	0.9
	17.6	18.3

Notes to the consolidated financial statements continued

4.3 Trade and other payables

Accounting policy

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

Critical accounting estimates and judgements

Liabilities: Liabilities recognised in this note at the balance sheet date include amounts for unredeemed gift vouchers and gift cards. Although liabilities are reviewed on a regular basis and adjusted to reflect management's best current estimates, the judgemental nature of these items means that future amounts settled may be different from those provided.

Trade and other payables	**2016** **£m**	2015 (restated)# £m
Current:		
Trade payables	**(924.6)**	(891.2)
Amounts owed to parent undertaking	**(109.4)**	(108.5)
Other payables	**(157.0)**	(136.9)
Other taxation and social security	**(157.6)**	(161.1)
Accruals	**(179.0)**	(187.7)
Deferred income	**(66.6)**	(52.5)
Partnership Bonus	**(131.2)**	(141.4)
	(1,725.4)	(1,679.3)
Non-current:		
Other payables	**(2.4)**	(0.5)
Deferred income	**(206.9)**	(175.4)
	(209.3)	(175.9)

Refer to note 1.1.5

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

4.4 Provisions

Accounting policy

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

Critical accounting estimates and judgements

Provisions: Provisions recognised in this note at the balance sheet date include amounts for long leave, service guarantee costs, customer refunds, insurance claims, reorganisation costs and property related costs.

Although provisions are reviewed on a regular basis and adjusted to reflect management's best current estimates the judgemental nature of these items means that future amounts settled may be different from those provided.

	Long leave £m	**Service guarantee £m**	**Customer refunds £m**	**Insurance claims £m**	**Other £m**	**Total £m**
At 31 January 2015	(119.7)	(61.5)	(29.6)	(27.0)	(30.3)	(268.1)
Charged to income statement	(14.5)	(30.7)	(31.5)	(12.7)	(22.6)	(112.0)
Released to income statement	-	5.6	-	-	3.7	9.3
Utilised	10.0	19.2	29.6	10.8	11.4	81.0
At 30 January 2016	**(124.2)**	**(67.4)**	**(31.5)**	**(28.9)**	**(37.8)**	**(289.8)**
Of which:						
Current	(38.2)	(29.1)	(31.5)	(14.8)	(28.0)	(141.6)
Non-current	(86.0)	(38.3)	-	(14.1)	(9.8)	(148.2)

Notes to the consolidated financial statements continued

4.4 Provisions continued

The Group has a long leave scheme, open to all Partners, which provides up to six months paid leave after 25 years' service. There is no proportional entitlement for shorter periods of service. The provision for the liabilities under the scheme is assessed on an actuarial basis, reflecting Partners' expected service profiles, and using economic assumptions consistent with those used for the Group's retirement benefit obligations (section 6), with the exception of the discount rate, where a rate appropriate to the shorter duration of the long leave liability is used, so as to accrue the cost over Partners' service periods.

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

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

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

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

Other provisions include reorganisation costs and property related costs.

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

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 net debt and pensions. Information on the significant components of net debt is given in this section, including cash and cash equivalents, borrowings and overdrafts and finance leases. Also included in this section is information on our retirement benefit obligation, as this represents the largest liability on our balance sheet and a significant finance cost.

5.1 Net finance costs

	2016 £m	2015 £m
Finance costs		
Interest payable on:		
Bank loans and overdrafts	**(1.4)**	(1.9)
Other loans repayable within five years	**(26.1)**	(26.6)
Other loans repayable in more than five years	**(31.0)**	(20.7)
Finance lease interest payable	**(1.3)**	(1.4)
Amortisation of issue costs of bonds and loan facilities	**(1.6)**	(1.3)
Preference dividends	**(0.1)**	(0.1)
Finance costs in respect of borrowings	**(61.5)**	(52.0)
Fair value measurements and other	**(1.1)**	(1.5)
Net finance costs arising on defined benefit and other employee benefit schemes	**(36.9)**	(47.5)
Total finance costs	**(99.5)**	(101.0)
Finance income		
Finance income in respect of cash and short-term investments	**1.5**	0.6
Fair value measurements and other	**0.4**	2.2
Net finance income arising on other employee benefit schemes	**2.3**	-
Total finance income	**4.2**	2.8
Net finance costs	**(95.3)**	(98.2)

	2016 £m	2015 £m
Total finance costs in respect of borrowings	**(61.5)**	(52.0)
Total finance income in respect of cash and short-term investments	**1.5**	0.6
Net finance costs in respect of borrowings and short-term investments	**(60.0)**	(51.4)
Fair value measurements and other	**(0.7)**	0.7
Net finance costs arising on defined benefit retirement schemes	**(36.9)**	(37.6)
Net finance income/(costs) arising on other employee benefit schemes	**2.3**	(9.9)
Net finance costs	**(95.3)**	(98.2)

Notes to the consolidated financial statements continued

5.2 Analysis of net debt

	2015 (restated)[#] £m	Cash flow £m	Other non-cash movements £m	**2016 £m**
Current assets				
Cash and cash equivalents	336.9	330.5	-	**667.4**
Short-term investments	-	10.0	-	**10.0**
Derivative financial instruments	9.6	-	1.9	**11.5**
	346.5	340.5	1.9	**688.9**
Current liabilities				
Borrowings and overdrafts	-	(0.1)	(57.7)	**(57.8)**
Unamortised bond transaction costs	-	-	0.1	**0.1**
Finance leases	(3.1)	4.0	(3.5)	**(2.6)**
Derivative financial instruments	(6.6)	-	4.3	**(2.3)**
	(9.7)	3.9	(56.8)	**(62.6)**
Non-current liabilities				
Borrowings	(934.4)	-	57.1	**(877.3)**
Unamortised bond transaction costs	10.7	-	(1.0)	**9.7**
Finance leases	(28.3)	-	3.6	**(24.7)**
	(952.0)	-	59.7	**(892.3)**
Total net debt	(615.2)	344.4	4.8	**(266.0)**

Reconciliation of net cash flow to net debt

	2016 £m	2015 (restated)[#] £m
Increase/(decrease) in net cash and cash equivalents in the year	**330.4**	(15.0)
Cash outflow/(inflow) from movement in debt and lease financing	**4.0**	(289.4)
Cash outflow from short-term investments	**10.0**	-
Movement in debt for the year	**344.4**	(304.4)
Opening net debt	**(615.2)**	(317.7)
Non-cash movements	**4.8**	6.9
Closing net debt	**(266.0)**	(615.2)

[#] Refer to note 1.1.5

5.3 Short-term investments

Accounting policy

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

	2016 £m	2015 £m
Short-term investments	**10.0**	–

For the year ended 30 January 2016, the effective interest rate on short-term investments was 0.6% and these investments had an average maturity of 91 days.

Notes to the consolidated financial statements continued

5.4 Cash and cash equivalents

Accounting policy

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

	2016 **£m**	2015 (restated)# £m
Cash at bank and in hand	**89.1**	96.8
Short-term deposits	**578.3**	240.1
	667.4	336.9

For the year ended 30 January 2016, the effective interest rate on short-term deposits was 0.5% (2015: 0.5%) and these deposits had an average maturity of 1 day (2015: 1 day).

At 30 January 2016, £35.5m (2015: £38.3m) of the Group's cash balance and £1.0m (2015: £0.1m) of the Group's accrued interest balance was pledged as collateral. This is part of the Group's insurance arrangements and the release of these funds is subject to approval from third parties.

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

	2016 **£m**	2015 (restated)# £m
Cash and cash equivalents, as above	**667.4**	336.9
Less bank overdrafts	**(0.1)**	-
Net cash and cash equivalents	**667.3**	336.9

Refer to note 1.1.5

5.5 Borrowings and overdrafts

Accounting policies

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

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

Notes to the consolidated financial statements continued

5.5 Borrowings and overdrafts continued

Borrowings and overdrafts	2016 £m	2015 (restated)[#] £m
Current:		
Bank overdraft	**(0.1)**	-
Partnership Bond, 2016[*]	**(57.7)**	-
Unamortised bond transaction costs	**0.1**	-
	(57.7)	-
Non-current:		
Partnership Bond, 2016[*]	**-**	(57.1)
8⅜% Bonds, 2019	**(275.0)**	(275.0)
6⅛% Bonds, 2025	**(300.0)**	(300.0)
4¼% Bonds, 2034	**(300.0)**	(300.0)
Unamortised bond transaction costs	**9.7**	10.7
5% First Cumulative Preference Stock	**(1.5)**	(1.5)
7% Cumulative Preference Stock	**(0.8)**	(0.8)
	(867.6)	(923.7)

[#] Refer to note 1.1.5

* The Partnership Bond is a five year investment product offering a fixed annual return of 4.5% in cash and a further 2% in John Lewis Partnership gift vouchers.

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

If the preference dividends are three months in arrears, in the event of capital reduction, winding up, sanction of a sale of the undertaking, any alteration of the Articles which affects the interests of Preference Shareholders or any Resolution which affects the rights or privileges of the Preference Shareholders, the 5% First Cumulative Preference Stock and the 7% Cumulative Preference Stock have one vote per share. Otherwise, the holders of preference stock have one vote for every ten shares, whereas the holders of Ordinary Shares have one vote for every ordinary share held. The amounts receivable in a winding up would be limited to the amounts paid up, the 5% First Cumulative Preference Stock taking priority over the 7% Cumulative Preference Stock.

Notes to the consolidated financial statements continued

5.6 Finance lease liabilities

Accounting policy

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

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

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

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

Finance lease liabilities	**2016 £m**	2015 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	**(3.6)**	(4.3)
Later than one year but not more than five	**(7.1)**	(10.5)
More than five years	**(37.5)**	(38.8)
	(48.2)	(53.6)
Future finance charge on finance leases	**20.9**	22.2
Present value of finance lease liabilities	**(27.3)**	(31.4)
Of which:		
Not later than one year	**(2.6)**	(3.1)
Later than one year but not more than five	**(3.8)**	(6.9)
More than five years	**(20.9)**	(21.4)

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

Notes to the consolidated financial statements continued

6. Pensions

In this section

This section sets out our 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 benefit obligations

Accounting policy

Employee benefits: The Group's retirement benefit scheme is a pension scheme made up of two parts: the defined benefit section and defined contribution section. The defined benefit section of the scheme is a pension fund with assets held separately from the Group. The cost of providing benefits under the defined benefit section of the scheme is determined using the projected unit credit actuarial valuation method, which measures the liability based on service completed and allowing for projected future salary increases.

The current service cost, which is the increase in the present value of the retirement benefit obligation resulting from employee service in the current year, and gains and losses on settlements and curtailments, which arise on transactions that eliminate part or all of the benefits provided or when there are amendments to terms such that a significant element of future service will no longer qualify for benefits or will qualify only for reduced benefits, are included within operating profit in the consolidated income statement. Past service costs are recognised immediately in the consolidated income statement.

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

The Group pension scheme also includes a defined contribution section. Contributions are charged in the income statement as they fall due. The Group has no further obligations once the contributions have been made.

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.

The Group also 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. Long leave is included in Provisions in note 4.4.

Critical accounting estimates and judgements

Retirement benefits: Pension accounting requires certain assumptions to be made in order to value our obligations and to determine the charges to be made to the income statement. These figures are particularly sensitive to assumptions for discount rates, mortality and inflation rates.

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

The scheme is governed by a corporate Trustee which is independent of the Group. The Trustee is responsible for the operation and governance of the scheme, including making decisions regarding the scheme's investment strategy.

During 2014/15, the Chairman, Partnership Board and Partnership Council of John Lewis Partnership plc approved changes to the level and form of future provision of pension benefits to Partners. This was the output of the Pension Benefit Review which commenced in 2013. The changes take 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 are to reduce the 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, include linking the Group normal retirement age to the State Pension Age, and a change in the rate of pension increases in payment.

The scheme is subject to a full actuarial valuation every three years using assumptions agreed between the Trustee and the Group. The most recent valuation was carried out by an independent professionally qualified actuary as at 31 March 2013 and resulted in a funding deficit of £840.0m. The market value of the assets of the scheme as at 31 March 2013 was £3,169.0m. The actuarial valuation showed that these assets were sufficient to cover 79% of the benefits which had accrued to members.

Notes to the consolidated financial statements continued

6.1 Retirement benefit obligations continued

Following this valuation, the Group and the Trustee agreed to increase the normal future annual contribution rate to 16.4% of gross taxable pay of members and put in place a plan to eliminate the deficit over a 10 year period through deficit reduction contributions of £44.3m per year, increasing on 31 March each year by 3%, in addition to a one-off contribution of £85.0m made in January 2014. In December 2014, the Group paid £294.1m to meet the scheduled deficit reduction contributions up to July 2021.

The balance of the deficit is expected to be met by investment returns on the scheme assets. Total contributions to the scheme in 2017 under this agreement are expected to be £173.0m.

The next triennial actuarial valuation of the scheme will take place as at 31 March 2016.

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

Specific risks include:

- Changes in future expectations of price inflation: The majority of the scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities. Hence, an increase in inflation will increase the deficit.
- 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.
- 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.
- 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.
- Unanticipated increase in life expectancy leading to an increase in the scheme's liabilities: An increase in life expectancy would mean pensions are expected to be paid for a longer period, so increasing the liability and the scheme's deficit. This is offset in part by the scheme applying a Life Expectancy Adjustment Factor, whereby future pensions coming into payment are adjusted to allow for increases in life expectancy.

Pension commitments recognised in these accounts have been calculated based on the most recent actuarial valuation, as at 31 March 2013, which has been updated by actuaries to reflect the assets and liabilities of the scheme as at 30 January 2016, calculated on assumptions that are appropriate for accounting under IAS 19, 'Employee Benefits'.

6.1.1 Financial assumptions

Scheme assets are stated at market values at 30 January 2016. The following financial assumptions have been used:

	2016	2015
Discount rate	**3.70%**	3.15%
Future Retail Price Inflation (RPI)	**3.00%**	2.80%
Future Consumer Price Inflation (CPI)	**2.00%**	1.80%
Increase in earnings	**3.54%**	3.30%
Increase in pensions – in payment		
Pre-April 2016	**2.85%**	2.70%
Post-April 2016	**1.60%**	-
Increase in pensions – deferred	**2.00%**	1.80%

Increases in earnings are projected to be at 3.90% until 2020 and then at a long-term rate of 1.0% above consumer price inflation (2015: 0.5% above retail price inflation). Increases in pensions in payment are projected to be 0.15% (2015: 0.1%) below retail price inflation for pensionable service built up before April 2016 and 0.40% 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.

The post-retirement mortality assumptions used in valuing the pensions liabilities were based on the 'S1 Light' series standard tables. Based on scheme experience, the probability of death at each age was multiplied by 127% for males and 114% for females. Future improvements in life expectancy have been allowed for in line with the standard CMI model projections subject to a long-term trend of 1.25%.

Notes to the consolidated financial statements continued

6.1 Retirement benefit obligations continued

6.1.2 Demographic assumptions

The average life expectancies assumed were as follows:

	2016		2015	
	Men	**Women**	Men	Women
Average life expectancy for a 60 year old (in years)	**27.0**	**29.1**	26.9	29.0
Average life expectancy at age 60, for a 40 year old (in years)	**28.9**	**31.1**	28.8	31.0

6.1.3 Amounts recognised in the financial statements

Amounts recognised in the balance sheet	**2016 £m**	2015 £m
Defined benefit obligation for funded arrangements	**(5,120.0)**	(5,280.0)
Defined benefit obligation for unfunded arrangements	**(20.0)**	(21.0)
Total defined benefit obligation	**(5,140.0)**	(5,301.0)
Total value of assets	**4,198.4**	4,051.7
Defined benefit liability at year end	**(941.6)**	(1,249.3)

Amounts recognised in the income statement	**2016 £m**	2015 £m
Current service cost	**(228.3)**	(170.1)
Past service cost	**-**	(3.1)
Contribution expense*	**(10.0)**	(11.1)
Administrative expenses – funded by the pension scheme	**(4.2)**	(4.4)
Administrative expenses – funded by the employer	**(2.8)**	(2.4)
Total operating expenses	**(245.3)**	(191.1)
Net interest on net defined benefit liability	**(36.9)**	(37.6)
Total pension charge	**(282.2)**	(228.7)

* Includes Group contributions to the defined contribution section of the pension scheme, together with cash supplements in respect of certain Partners in lieu of future pension accrual.

In 2015, the past service cost of £3.1m related to additional pension liabilities of £6.5m arising from a legislative change in the calculation of holiday pay, offset by a release of £3.4m following the finalisation of the review of the Group's holiday pay policy, which is described in note 2.3.

Amounts recognised in equity	**2016 £m**	2015 £m
Return on plan assets (less)/greater than the discount rate	**(24.3)**	312.8
Remeasurements:		
– gain/(loss) from changes in financial assumptions	**432.0**	(844.2)
– experience gains	**3.4**	7.9
Total gains/(losses) recognised in equity	**411.1**	(523.5)

Notes to the consolidated financial statements continued

6.1 Retirement benefit obligations continued

6.1.4 Retirement benefit obligations

Reconciliation of net defined benefit liability	2016 £m	2015 £m
Net defined benefit liability at beginning of year	**(1,249.3)**	(1,003.4)
Pension expense	**(269.4)**	(215.2)
Contributions	**166.0**	492.8
Total gains/(losses) recognised in equity	**411.1**	(523.5)
Net defined benefit liability at end of year	**(941.6)**	(1,249.3)

Reconciliation of defined benefit obligation	2016 £m	2015 £m
Defined benefit obligation at beginning of year	**(5,301.0)**	(4,218.2)
Service cost	**(228.3)**	(173.2)
Interest on pension liabilities	**(165.2)**	(183.1)
Remeasurements		
– gain/(loss) from changes in financial assumptions	**432.0**	(844.2)
– experience gains	**3.4**	7.9
Benefits paid	**119.1**	109.8
Defined benefit obligation at end of year	**(5,140.0)**	(5,301.0)

The scheme liabilities are 50.5% in respect of active scheme participants, 16.2% in respect of deferred scheme participants and 33.3% in respect of retirees.
The weighted average duration of the scheme liabilities at the end of the period is 21 years.

6.1.5 Scheme assets

Reconciliation of value of assets	2016 £m	2015 £m
Value of assets at the beginning of year	**4,051.7**	3,214.8
Interest income on assets	**128.3**	145.5
Return on plan assets (less)/ greater than discount rate	**(24.3)**	312.8
Benefits paid	**(119.1)**	(109.8)
Administrative expenses paid	**(4.2)**	(4.4)
Contributions	**166.0**	492.8
Value of assets at the end of year	**4,198.4**	4,051.7

Notes to the consolidated financial statements continued

6.1 Retirement benefit obligations continued

6.1.6 Analysis of assets

	2016		2015	
Analysis of assets	**£m**	**%**	£m	%
Listed equities	**1,224.2**	**29%**	1,288.2	32%
Private equities	**303.7**	**7%**	256.6	6%
Properties	**472.5**	**11%**	373.1	9%
Government bonds*	**703.6**	**17%**	609.5	15%
Credit**	**393.6**	**9%**	344.2	9%
Infrastructure	**149.0**	**4%**	127.4	3%
Investment funds	**927.1**	**22%**	914.1	23%
Cash and other	**24.7**	**1%**	138.6	3%
	4,198.4		4,051.7	

* Government bond holdings at 30 January 2016 consisted of a portfolio of long dated index linked government bonds.

** Credit holdings consist of short dated listed corporate bond holdings (£92.1m at 30 January 2016) and unlisted credit (£301.5m at 30 January 2016).

The Trustee's investment strategy as set out in their Statement of Investment Principles dated 10 November 2015 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, consisting mainly of government bonds, and other financial instruments with the intention of matching movements in the assessed value of the pension liabilities due to changing market conditions. The target allocation to the liability matching portfolio is due to increase from 20% to 60% over a period of three to five years from the balance sheet date by use of derivative instruments.

Actual return on assets	**2016 £m**	2015 £m
Interest income on assets	**128.3**	145.5
Return on plan assets (less)/greater than discount rate	**(24.3)**	312.8
Actual return on assets	**104.0**	458.3

6.1.7 Sensitivity analysis

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

	£m	**% change**
Liability as at 30 January 2016	**(941.6)**	
Sensitivity of 0.1% increase to:		
– Discount rate	**103.0**	**10.9%**
– Retail price inflation	**(92.0)**	**(9.8%)**
– Consumer price inflation	**(15.0)**	**(1.6%)**
– Salary increases	**(25.0)**	**(2.7%)**
Sensitivity of one year increase in life expectancy	**(160.0)**	**(17.0%)**

6.1.8 Other arrangements

On 30 January 2010, the Group entered into an arrangement with the Pension Scheme Trustees to address an element of the scheme deficit that existed at that time.

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

Notes to the consolidated financial statements continued

6.1 Retirement benefit obligations continued

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 Group retains control over these properties, including the flexibility to substitute alternative properties. The Properties held in JLP Scottish Partnership have been leased back to John Lewis plc and Waitrose Limited. In January 2015 the Group withdrew a property with a market value of £9.0m.

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 Group capital allocated to the pension scheme will be reassessed, depending on the funding position of the pension scheme at that time, with a potential value in the range of £0.5m to £99.5m. At that point, the Group may be required to transfer this amount in cash to the scheme.

Under IAS 19, the investment held by the pension scheme in JLP Scottish Limited Partnership, a consolidated entity, does not represent a plan asset for the purpose of the Group's consolidated financial statements. Accordingly, the pension deficit position presented in these consolidated accounts does not reflect the £80.5m (2015: £83.9m) 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.

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 Group is exposed. A breakdown of our derivative financial instruments is given here as they are used by the Group to manage financial volatility. An analysis of our financial assets and liabilities is also given.

7.1 Management of financial risks

7.1.1 Capital and long-term funding risk

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

The Group manages capital to ensure an appropriate balance between investing in Partner, customer and profit. The policy is to maintain a prudent capital structure, consistent with the financial risk profile of an investment grade credit rating. Although the Group does not have an external credit rating, it routinely monitors its capital and liquidity requirements using leverage and performance ratios similar to those used by rating agencies to assess risk, 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. The Group borrows centrally to meet the requirements of its Divisions using a mix of funding including capital market issues and bank facilities. The Group further diversified its funding sources through the issue of a Partnership bond to its Partners and customers in April 2011. Other forms of borrowing include assets acquired via finance leases, assets obtained for use via operating leases, and a small amount of cumulative preference stock.

7.1.2 Liquidity risk

Liquidity requirements are managed in line with short and long-term cash flow forecasts and reviewed against the Group's debt portfolio and maturity profile. Surplus cash is invested in interest bearing accounts, term deposits and money market funds with sufficient, prudent liquidity determined by the above mentioned cash flow forecasts. The Group actively reviews and manages its cash holdings, sources of debt and committed credit facilities. Greater emphasis is being placed on cash balances providing a portion of the Group's overall liquidity, with committed credit facilities complementing these balances. In January 2015, the Group extended for 18 months a £150m bilateral borrowing facility which was subsequently cancelled in November 2015. At the year end, the Group had undrawn committed revolving borrowings facilities of £325m (2015: £475m). In addition to these facilities, the Group has listed bonds totalling £875m (2015: £875m) of which £275m mature in 2019, £300m in 2025 and £300m in 2034. The Group has a retail bond, the 'Partnership bond', issued in April 2011 and maturing in 2016, which raised gross proceeds of £58m. The bonds are not subject to repricing, and their maturity profiles are set out in note 7.3.

The Group's bank borrowing facilities contain financial covenants. Throughout the year the Group maintained comfortable headroom against its covenants and is expected to do so into the foreseeable future.

The Group's total committed sources of available funds at the date of signing these accounts are £1,200m (2015: £1,408m).

Notes to the consolidated financial statements continued

7.1 Management of financial risks continued

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

	Due within 1 year £m	**Due between 1 and 2 years £m**	**Due 2 years and beyond £m**
Non-derivative financial liabilities			
Borrowings and overdrafts	**(57.7)**	**–**	**(877.3)**
Interest payments on borrowings*	**(54.6)**	**(54.2)**	**(378.7)**
Finance lease liabilities	**(3.6)**	**(2.7)**	**(41.9)**
Trade and other payables	**(1,391.8)**	**(2.4)**	**–**
Derivative financial liabilities			
Derivative contracts – receipts	**197.7**	**4.3**	**–**
Derivative contracts – payments	**(188.3)**	**(3.9)**	**–**
At 30 January 2016	**(1,498.3)**	**(58.9)**	**(1,297.9)**

	Due within 1 year (restated)# £m	Due between 1 and 2 years £m	Due 2 years and beyond £m
Non-derivative financial liabilities			
Borrowings and overdrafts	–	(57.8)	(877.3)
Interest payments on borrowings*	(56.8)	(56.8)	(432.8)
Finance lease liabilities	(4.3)	(4.9)	(44.4)
Trade and other payables	(1,357.2)	(0.5)	–
Derivative financial liabilities			
Derivative contracts – receipts	208.9	22.8	–
Derivative contracts – payments	(206.1)	(22.9)	–
At 31 January 2015 (restated)#	(1,415.5)	(120.1)	(1,354.5)

* Excludes annual interest of £0.1m on cumulative preference stock which have no fixed redemption date.

\# Refer to note 1.1.5

Interest on borrowings is calculated based on the borrowing position throughout the financial year, without taking account of future issues.

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

7.1.3 Interest rate risk

In order to manage the risk of interest rate fluctuations on the Group's financial debt and cash, the Group targets a range of fixed and floating rate debt in line with the Board approved treasury policy. An analysis of the Group's financial liabilities is detailed in note 7.3. Exposures to interest rate fluctuations are managed, when required, using interest rate derivatives. The Group did not have any interest rate derivatives in place at year end.

Notes to the consolidated financial statements continued

7.1 Management of financial risks continued

7.1.4 Foreign currency risk

The Group uses derivative financial instruments to manage exposures to movements in exchange rates arising from transactions with overseas based suppliers and retailers. Foreign exchange management committees exist for each of the Waitrose and John Lewis Divisions and they meet regularly to oversee the foreign exchange purchasing activities for each Division. Foreign currency exposures are hedged primarily using forward foreign exchange contracts covering up to 100% of forecast 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 £201.8m (2015: £231.7m) had been entered into, to hedge purchases in foreign currencies which will mature over the next 18 months.

7.1.5 Credit risk

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

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

	2016 **£m**	2015 (restated)# £m
Trade and other receivables	**142.7**	131.3
Cash and cash equivalents	**667.4**	336.9
Derivative financial instruments	**11.5**	9.6
	821.6	477.8

Refer to note 1.1.5

7.1.6 Energy risk

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

7.1.7 Sensitivity analysis

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

The analysis excludes the impact of movements in market variables on the carrying value of pension and other post-retirement obligations and provisions.

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.

Notes to the consolidated financial statements continued

7.1 Management of financial risks continued

	2016		2015	
	Income Statement +/- £m	**Equity +/- £m**	Income Statement +/- £m	Equity +/- £m
UK interest rates +/- 1% (2015: +/- 1%)	**5.2**	**-**	2.4	–
US dollar exchange rate (GBP/USD) +/- 10% (2015: +/- 10%)	**0.6**	**11.1**	0.4	10.7
Euro exchange rate (GBP/EUR) +/- 10% (2015: +/- 10%)	**0.6**	**5.9**	1.3	8.8

7.2 Derivative financial instruments and financial liabilities

7.2.1 Basis of fair value

Fair value estimation

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

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

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

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

During the year ended 30 January 2016, 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:

	2016		2015	
Fair value of derivative financial instruments	**Assets £m**	**Liabilities £m**	Assets £m	Liabilities £m
Currency derivatives – cash flow hedge	**11.5**	**(2.3)**	9.6	(6.6)

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

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

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

7.2.3 Fair value of financial assets and liabilities held at amortised cost

The following table compares the Group's liabilities held at amortised cost, where there is a difference between Carrying Value (CV) and Fair Value (FV):

	2016 £m		2015 £m	
	CV	**FV**	CV	FV
Financial liabilities				
Listed bonds	**(865.3)**	**(980.2)**	(864.5)	(1,031.2)
Preference stock	**(2.3)**	**(2.1)**	(2.3)	(2.1)

The fair values of the Group's listed bonds and preference stock 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

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 deposited in sterling.

Currency analysis	Floating rate £m	Non-interest bearing £m	Total £m
Sterling financial assets	588.3	89.1	677.4
At 30 January 2016			
Sterling financial assets	239.8	96.8	336.6
Other	0.3	–	0.3
At 31 January 2015 (restated)#	240.1	96.8	336.9

Refer to note 1.1.5

Floating rate assets are bank balances and short-term deposits and investments at market rates or the base rate of the relevant currency. Non-interest bearing balances include cash floats, primarily held in the stores.

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	Total £m
All sterling		
At 30 January 2016	**(952.6)**	**(952.6)**
At 31 January 2015 (restated)#	(955.1)	(955.1)

Refer to note 1.1.5

Notes to the consolidated financial statements continued

7.3 Analysis of financial assets and liabilities continued

Maturity of financial liabilities	2016 £m	2015 (restated)[#] £m
Repayable within one year		
Bank overdrafts	**(0.1)**	-
Property finance leases	**(2.6)**	(3.1)
Bonds	**(57.7)**	-
Unamortised bond transaction costs	**0.1**	-
	(60.3)	(3.1)
Repayable between one and two years		
Property finance leases	**(2.5)**	(3.8)
Bonds	**-**	(57.1)
Unamortised bond transaction costs	**-**	0.2
	(2.5)	(60.7)
Repayable between two and five years		
Property finance leases	**(1.3)**	(3.1)
Bonds	**(275.0)**	(275.0)
Unamortised bond transaction costs	**1.1**	1.2
	(275.2)	(276.9)
Repayable in more than five years		
Property finance leases	**(20.9)**	(21.4)
Bonds	**(600.0)**	(600.0)
Unamortised bond transaction costs	**8.6**	9.3
Cumulative Preference Stock	**(2.3)**	(2.3)
	(614.6)	(614.4)
	(952.6)	(955.1)

[#] Refer to note 1.1.5

Notes to the consolidated financial statements continued

8. Other notes

In this section

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

8.1 Share capital

	2016		2015	
	Authorised £m	**Issued and fully paid £m**	Authorised £m	Issued and fully paid £m
Equity				
Ordinary Shares				
6,750,000 of £1 each	**6.7**	**6.7**	6.7	6.7

8.2 Related party transactions

8.2.1 Subsidiaries

All transactions between the Group and its subsidiaries are eliminated upon consolidation, and therefore do not need to be disclosed separately. A list of subsidiaries within the Group are included within note 33.

8.2.2 Arrangements with Pension Scheme Trustee

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

In December 2011 the Group sold a property to the main pension scheme for £10.6m and entered into an operating lease in respect of the property. These transactions were at market values. In the year to 30 January 2016, £1.1m was paid in respect of the operating lease (2015: £1.1m).

8.2.3 Arrangements with the John Lewis Partnership Trust Limited

The John Lewis Partnership Trust Limited is a related party and holds the Deferred Ordinary Shares in the Group on behalf of the Partners. The John Lewis Partnership Trust Limited facilitates the approval and payment of the Partnership Bonus.

8.2.4 Other transactions

Key management compensation has been disclosed in note 2.6.

8.3 Subsequent events

8.3.1 Prepayment of regular pension contributions

In February 2016, the Group pre-paid £137.0m of normal pension contributions to the Pension Trust. This represents an estimate of ten months of normal pension payments for 2016/17. No accounting was recorded for the year ended 30 January 2016 in respect of this payment.

8.3.2 Repayment of bond

In April 2016, the Group repaid the Partnership Bond amounting to £57.8m. This was paid out of free cash.

Company balance sheet

As at 30 January 2016

Notes		2016 £m	2015 (restated)# £m
	Non-current assets		
12	Intangible assets	**284.0**	234.4
13	Property, plant and equipment	**1,013.8**	1,005.8
16	Trade and other receivables	**48.0**	49.3
14	Investments in subsidiaries	**1,301.4**	1,389.3
24	Deferred tax asset	**149.0**	233.1
		2,796.2	2,911.9
	Current assets		
15	Inventories	**391.5**	352.2
16	Trade and other receivables	**115.4**	105.7
	Current tax receivable	**15.1**	63.7
26	Derivative financial instruments	**11.5**	9.6
17	Short-term investments	**10.0**	–
18	Cash and cash equivalents	**566.7**	231.0
		1,110.2	762.2
	Total assets	**3,906.4**	3,674.1
	Current liabilities		
20	Borrowings and overdrafts	**(57.6)**	–
21	Trade and other payables	**(1,543.4)**	(1,385.1)
22	Finance lease liabilities	**(0.2)**	(0.5)
23	Provisions	**(120.8)**	(97.6)
26	Derivative financial instruments	**(2.3)**	(6.6)
		(1,724.3)	(1,489.8)
	Non-current liabilities		
20	Borrowings	**(867.6)**	(923.7)
21	Trade and other payables	**(153.6)**	(127.8)
22	Finance lease liabilities	**(13.7)**	(14.9)
23	Provisions	**(132.0)**	(134.1)
30	Retirement benefit obligations	**(861.1)**	(1,165.4)
		(2,028.0)	(2,365.9)
	Total liabilities	**(3,752.3)**	(3,855.7)
	Net assets/(liabilities)	**154.1**	(181.6)
	Equity		
31	Share capital	**6.7**	6.7
	Share premium	**0.3**	0.3
	Other reserves	**8.9**	2.4
	Retained earnings	**138.2**	(191.0)
	Total equity	**154.1**	(181.6)

Refer to note 9.1

The financial statements on pages 57 to 75 were approved by the Board of Directors on 14 April 2016 and signed on its behalf by
Sir Charlie Mayfield and **Patrick Lewis**
Directors, John Lewis plc

Company statement of changes in equity

For the year ended 30 January 2016

Notes		Share capital £m	Share premium £m	Hedging reserve £m	Retained earnings £m	Total equity £m
	Balance at 25 January 2014	6.7	0.3	(5.8)	178.4	179.6
10	Profit for the year	–	–	–	43.8	43.8
30	Remeasurement of defined benefit pension schemes	–	–	–	(522.0)	(522.0)
	Fair value gains on cash flow hedges	–	–	0.4	–	0.4
	– transfers to inventories	–	–	9.1	–	9.1
	– transfers to property, plant and equipment	–	–	(0.7)	–	(0.7)
	Tax on above items recognised in equity	–	–	(0.6)	108.8	108.2
	Balance at 31 January 2015*	6.7	0.3	2.4	(191.0)	(181.6)
10	Profit for the year	–	–	–	11.2	11.2
30	Remeasurement of defined benefit pension schemes	–	–	–	412.1	412.1
	Fair value gains on cash flow hedges	–	–	9.7	–	9.7
	– transfers to inventories	–	–	(0.2)	–	(0.2)
	– transfers to property, plant and equipment	–	–	(1.6)	–	(1.6)
	Tax on above items recognised in equity	–	–	(1.4)	(94.1)	(95.5)
	Balance at 30 January 2016	**6.7**	**0.3**	**8.9**	**138.2**	**154.1**

*53-week year

Company statement of cash flows

for the year ended 30 January 2016

Notes		2016 £m	2015* (restated)# £m
28	**Cash generated from operations**	**537.2**	353.5
	Net taxation (paid)/received	**(14.0)**	5.2
	Partnership Bonus paid	**(74.4)**	(113.7)
6.1	Additional contribution to the Pension Scheme	**–**	(294.1)
	Finance costs paid	**(2.0)**	(2.1)
	Net cash generated from/(used in) operating activities	**446.8**	(51.2)
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(136.8)**	(223.6)
	Purchase of intangible assets	**(104.4)**	(103.5)
	Proceeds from sale of property, plant and equipment and intangible assets	**11.9**	26.8
	Loans to group companies	**185.6**	101.9
	Finance income received	**1.4**	0.5
	Cash outflow from investments	**(10.0)**	–
	Net cash used in investing activities	**(52.3)**	(197.9)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	**(57.2)**	(44.0)
	Payment of capital element of finance leases	**(1.5)**	(0.6)
	Payments to preference shareholders	**(0.1)**	(0.1)
	Cash inflow from borrowings	**–**	293.8
	Net cash (used in)/generated from financing activities	**(58.8)**	249.1
	Increase in net cash and cash equivalents	**335.7**	–
	Net cash and cash equivalents at beginning of the year	**231.0**	231.0
	Net cash and cash equivalents at end of the year	**566.7**	231.0
18	**Net cash and cash equivalents comprise:**		
	Cash at bank and in hand	**24.0**	29.2
	Short-term deposits	**542.7**	201.8
		566.7	231.0

* 53-week year

\# Refer to note 9.1

Notes to the Company financial statements

9 Accounting policies

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

The Company's accounting policies are aligned with the Group's accounting policies as described in note 1. Additional accounting policies are noted below.

Investment in subsidiary undertakings

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

9.1 Restatement

During the year, the Directors reviewed the accounting for certain cash in transit balances and determined that, because outgoing payments have been instructed but not completed at the balance sheet date, it is more appropriate to retain the associated payables balance than to recognise an overdraft. In addition, it was determined that certain outstanding payments are more appropriately recognised as a reduction in cash than in overdrafts, in line with the Group's cash pooling arrangements. This has resulted in a reclassification of the overdraft balance into current trade and other payables of £58.7m and into cash of £1.1m at 31 January 2015. Net debt, borrowings and overdrafts, segmental net assets, opening cash balances, trade and other payables, analysis of financial assets and liabilities, management of financial risks and working capital movements in the cash flow have been restated. Net assets are unchanged.

10 Profit and loss of the Company for the year

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

The result dealt with in the accounts of the Company amounted to £11.2m profit (2015: £43.8m profit).

Details of auditors' remuneration are provided in note 2.4 to the consolidated financial statements of the Group.

11 Partners

11.1 Partner numbers

During the year the average number of Partners employed by the Company was as follows:

	2016	2015
John Lewis	**29,700**	29,900
Other	**2,000**	1,900
	31,700	31,800

Notes to the company financial statements continued

11 Partners continued

11.2 Partner benefits

Employment and related costs were as follows:

	2016 £m	2015 £m
Staff costs:		
Wages and salaries	**(596.6)**	(578.5)
Social security costs	**(50.2)**	(49.0)
Partnership Bonus	**(56.8)**	(60.1)
Employers' national insurance on Partnership Bonus	**(7.2)**	(7.4)
Other pension costs	**(145.7)**	(94.4)
Long leave cost	**(4.0)**	(3.6)
Total before Partner discounts	**(860.5)**	(793.0)
Partner discounts (excluded from revenue)	**(42.9)**	(40.6)
	(903.4)	(833.6)
Included above are the following amounts in respect of key management compensation:		
Salaries and short-term benefits	**(11.5)**	(10.5)
Post-employment benefits*	**(2.4)**	(3.2)
Termination benefits[#]	**(2.3)**	(1.0)
	(16.2)	(14.7)

* Includes pension supplements in lieu of future pension accrual.

[#] Includes contractual payments and compensation for loss of office.

Key management include Directors of the Group and the Company, members of the John Lewis and Partnership Services Management Boards and other officers of the Company. Key management compensation includes salaries, national insurance costs, pension costs and the cost of other employment benefits, such as company cars, private medical insurance and termination payments where applicable.

Key management participate in the Group's long leave scheme, which is open to all employees 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 so no allowance has been made for this benefit in the amounts disclosed.

11.3 Directors' emoluments

Directors' emoluments are disclosed in note 2.6.

Notes to the company financial statements continued

12. Intangible assets

	Computer software			
	Purchased	Internally developed	Work in progress	Total
	£m	£m	£m	£m
Cost				
At 25 January 2014	71.8	150.9	64.6	287.3
Additions	–	–	103.5	103.5
Transfers	36.4	46.6	(83.0)	–
Disposals	(1.2)	(5.7)	–	(6.9)
At 31 January 2015	107.0	191.8	85.1	383.9
Additions	–	0.7	103.7	104.4
Transfers	15.7	60.3	(76.0)	–
Disposals	(4.6)	(2.5)	–	(7.1)
At 30 January 2016	**118.1**	**250.3**	**112.8**	**481.2**
Accumulated amortisation				
At 25 January 2014	(27.5)	(86.2)	–	(113.7)
Charge for the year	(18.5)	(24.2)	–	(42.7)
Disposals	1.2	5.7	–	6.9
At 31 January 2015	(44.8)	(104.7)	–	(149.5)
Charge for the year	(19.9)	(34.1)	–	(54.0)
Disposals	3.8	2.5	–	6.3
At 30 January 2016	**(60.9)**	**(136.3)**	**–**	**(197.2)**
Net book value at January 2014	44.3	64.7	64.6	173.6
Net book value at January 2015	62.2	87.1	85.1	234.4
Net book value at January 2016	**57.2**	**114.0**	**112.8**	**284.0**

For the year to 30 January 2016 computer systems valued at £76.0m (2015: £83.0m) were brought into use. This covered a range of selling, support, supply chain, administration and information technology infrastructure applications, with asset lives ranging from three to ten years.

Amortisation of intangible assets is charged within operating expenses.

Notes to the company financial statements continued

13. Property, plant and equipment

	Land and building	Fixtures, fittings and equipment	Assets in course of construction	Total
	£m	£m	£m	£m
Cost				
At 25 January 2014	764.5	788.8	58.6	1,611.9
Additions	45.2	0.7	178.5	224.4
Transfers	52.2	87.8	(140.0)	–
Disposals	(34.5)	(43.8)	–	(78.3)
At 31 January 2015	827.4	833.5	97.1	1,758.0
Additions	3.3	0.3	130.2	133.8
Transfers	43.9	84.4	(128.3)	–
Disposals	(15.1)	(30.6)	–	(45.7)
At 30 January 2016	**859.5**	**887.6**	**99.0**	**1,846.1**
Accumulated depreciation				
At 25 January 2014	(174.2)	(517.7)	–	(691.9)
Charge for the year	(40.7)	(75.9)	–	(116.6)
Disposals	13.0	43.3	–	56.3
At 31 January 2015	(201.9)	(550.3)	–	(752.2)
Charge for the year	(33.1)	(81.0)	–	(114.1)
Disposals	5.0	29.0	–	34.0
At 30 January 2016	**(230.0)**	**(602.3)**	–	**(832.3)**
Net book value at January 2014	590.3	271.1	58.6	920.0
Net book value at January 2015	625.5	283.2	97.1	1,005.8
Net book value at January 2016	**629.5**	**285.3**	**99.0**	**1,013.8**

Included above are land and buildings assets held under finance leases with a net book value of £12.1m (2015: £12.3m).

In accordance with IAS 36 ‘Impairment of Assets’, the Company tests its property, plant and equipment for impairment, whenever events or circumstances indicate that the value on the balance sheet may not be recoverable. For the purpose of impairment testing, each branch is a cash-generating unit (‘CGU’).

14. Investments

The Company has the following investments in subsidiaries at 30 January 2016.

	Shares in group companies	Loan to group companies	Total
	£m	£m	£m
At 31 January 2015	41.7	1,347.6	1,389.3
Movements	-	(87.9)	(87.9)
At 30 January 2016	**41.7**	**1,259.7**	**1,301.4**

A list of subsidiary undertakings is provided in note 33.

Notes to the company financial statements continued

15. Inventories

	2016 £m	2015 £m
Finished goods and goods for resale	**391.5**	352.2
	391.5	352.2

The cost of inventory recognised as an expense by the Company in the year was £2,177.3m (2015: £2,113.5m). Provisions against inventories of £7.0m were charged (2015: £4.9m charged) in branch operating expenses.

16. Trade and other receivables

	2016 £m	2015 £m
Current:		
Trade receivables	**23.0**	20.2
Other receivables	**38.9**	39.3
Prepayments and accrued income	**53.5**	46.2
	115.4	105.7
Non-current:		
Other receivables	**5.0**	4.8
Prepayments and accrued income	**43.0**	44.5
	48.0	49.3

Trade receivables are non-interest bearing and generally on credit terms of less than 90 days. Concentrations of credit risk are considered to be very limited. The carrying amount of trade and other receivables approximates to fair value and is denominated in sterling. Within trade receivables is accrued rebate income of £4.1m (2015: £3.3m). Supplier income that has been invoiced but not paid is included in trade receivables and supplier income that has been invoiced but not yet settled against future trade creditor balances is included in trade creditors.

As of 30 January 2016, trade and other receivables of £0.9m (2015: £1.3m) were fully impaired.

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

As of 30 January 2016, trade and other receivables of £14.0m (2015: £14.9m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

	2016 £m	2015 £m
Up to 3 months past due	**12.1**	13.6
3 to 12 months past due	**0.9**	0.9
Over 12 months past due	**1.0**	0.4
	14.0	14.9

17. Short-term investments

	2016 £m	2015 £m
Short-term investments	**10.0**	–

For the year ended 30 January 2016, the effective interest rate on short-term investments was 0.6% and these investments had an average maturity of 91 days.

Notes to the company financial statements continued

18. Cash and cash equivalents

	2016 £m	2015 (restated)[#] £m
Cash at bank and in hand	**24.0**	29.2
Short-term deposits	**542.7**	201.8
	566.7	231.0

[#] Refer to note 9.1

For the year ended 30 January 2016, the effective interest rate on short-term deposits was 0.5% (2015: 0.5%) and these deposits had an average maturity of 1 day (2015: 1 day).

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

	2016 £m	2015 (restated)[#] £m
Cash and cash equivalents, as above	**566.7**	231.0
Less bank overdrafts	**–**	–
Net cash and cash equivalents	**566.7**	231.0

[#] Refer to note 9.1

19. 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.

Interest rate and currency analysis	**Floating rate £m**	**Non-interest bearing £m**	**Total £m**
Sterling	552.7	24.0	576.7
At 30 January 2016	**552.7**	**24.0**	**576.7**
Sterling	201.5	29.2	230.7
Other	0.3	–	0.3
At 31 January 2015 (restated)[#]	201.8	29.2	231.0

[#] Refer to note 9.1

Floating rate assets are bank balances and short-term deposits and investments at market rates or the base rate of the relevant currency. Non-interest bearing balances include cash floats, primarily held in the stores.

Notes to the company financial statements continued

20. Borrowings and overdrafts

	2016 £m	2015 (restated)# £m
Current:		
Partnership Bond, 2016*	**(57.7)**	–
Unamortised bond transaction costs	**0.1**	–
	(57.6)	–
Non-current:		
Partnership Bond, 2016*	**–**	(57.1)
$8^3/_8$% Bonds, 2019	**(275.0)**	(275.0)
$6^1/_8$% Bonds, 2025	**(300.0)**	(300.0)
$4^1/_4$% Bonds, 2034	**(300.0)**	(300.0)
Unamortised bond transaction costs	**9.7**	10.7
5% First Cumulative Preference Stock	**(1.5)**	(1.5)
7% Cumulative Preference Stock	**(0.8)**	(0.8)
	(867.6)	(923.7)

* The Partnership Bond is a five year investment product offering a fixed annual return of 4.5% in cash and a further 2% in John Lewis Partnership gift vouchers.
# Refer to note 9.1

All borrowings are unsecured, denominated in sterling, and are repayable on the dates shown, at par.
If the preference dividends are three months in arrears, in the event of capital reduction, winding up, sanction of a sale of the undertaking, any alteration of the Articles which affects the interests of Preference Shareholders or any Resolution which affects the rights or privileges of the Preference Shareholders, the 5% First Cumulative Preference Stock and the 7% Cumulative Preference Stock have one vote per share. Otherwise, the holders of preference stock have one vote for every ten shares, whereas the holders of Ordinary Shares have one vote for every ordinary share held. The amounts receivable in a winding up would be limited to the amounts paid up, the 5% First Cumulative Preference Stock taking priority over the 7% Cumulative Preference Stock.

21. Trade and other payables

	2016 £m	2015 (restated)# £m
Current:		
Trade payables	**(405.1)**	(366.7)
Amounts owed to parent company	**(111.1)**	(109.8)
Amounts owed to Group companies	**(453.2)**	(357.4)
Other payables	**(130.7)**	(115.5)
Other taxation and social security	**(134.2)**	(131.0)
Accruals	**(119.6)**	(115.4)
Deferred income	**(59.8)**	(49.4)
Partnership Bonus	**(129.7)**	(139.9)
	(1,543.4)	(1,385.1)
Non-current:		
Deferred income	**(153.6)**	(127.8)
	(153.6)	(127.8)

Refer to note 9.1

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

Notes to the company financial statements continued

22. Finance lease liabilities

	2016 £m	2015 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	**(0.5)**	(0.9)
Later than one year but not more than five	**(1.8)**	(2.8)
More than five years	**(23.1)**	(23.6)
	(25.4)	(27.3)
Future finance charge on finance leases	**11.5**	11.9
Present value of finance lease liabilities	**(13.9)**	(15.4)
Of which:		
Not later than one year	**(0.2)**	(0.5)
Later than one year but not more than five	**(0.7)**	(1.6)
More than five years	**(13.0)**	(13.3)

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

23. Provisions

	Long leave £m	Service guarantee £m	Customer refunds £m	Insurance £m	Other £m	Total £m
At 31 January 2015	(119.7)	(61.5)	(29.6)	–	(20.9)	(231.7)
Charged to income statement	(14.5)	(30.7)	(31.5)	(5.0)	(13.1)	(94.8)
Released to income statement	–	5.6	–	–	2.0	7.6
Utilised	10.0	19.2	29.6	1.3	6.0	66.1
At 30 January 2016	**(124.2)**	**(67.4)**	**(31.5)**	**(3.7)**	**(26.0)**	**(252.8)**
Of which:						
Current	(38.2)	(29.1)	(31.5)	(3.7)	(18.3)	(120.8)
Non-current	(86.0)	(38.3)	–	–	(7.7)	(132.0)

The Company has a long leave scheme, open to all Partners, which provides up to six months' paid leave after 25 years' service. There is no proportional entitlement for shorter periods of service. The provision for the liabilities under the scheme is assessed on an actuarial basis, reflecting Partners' expected service profiles, and using economic assumptions consistent with those used for the Group's retirement benefit obligations (note 6), with the exception of the discount rate, where a rate appropriate to the shorter duration of the long leave liability is used, so as to accrue the cost over Partners' service periods.

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

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

Other provisions include reorganisation costs, accrued holiday pay and property related costs.

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

Notes to the company financial statements continued

24. Deferred tax

24.1 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 20% for deferred tax assets or liabilities expected to reverse before April 2017, 19% for deferred tax assets and liabilities expected to reverse before 1 April 2020 and 18% for those assets or liabilities expected to reverse after 1 April 2020. In the year to 31 January 2015, a tax rate of 21% was used for deferred tax assets or liabilities expected to reverse before April 2015 and 20% for those assets expected to reverse after April 2015.The movement on the deferred tax account is shown below:

	2016 £m	2015 £m
Opening asset	**233.1**	187.1
Credited to income statement	**11.4**	8.3
(Charged)/credited to other comprehensive income	**(95.5)**	37.7
Closing asset	**149.0**	233.1

The movements in deferred tax assets and liabilities during the year (prior to the offsetting of balances within the same jurisdiction, as permitted by IAS 12) are shown below.

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.

Deferred tax liabilities	**Accelerated tax depreciation** £m	**Revaluation of land and buildings** £m	**Rollover gains** £m	**Other** £m	**Total** £m
At 25 January 2014	(50.2)	(0.1)	(6.3)	–	(56.6)
Credited to income statement	1.0	–	–	0.2	1.2
Charged to other comprehensive income	–	–	–	(0.6)	(0.6)
At 31 January 2015	(49.2)	(0.1)	(6.3)	(0.4)	(56.0)
Credited to income statement	5.9	–	0.4	0.3	6.6
Charged to other comprehensive income	–	–	–	(1.4)	(1.4)
At 30 January 2016	**(43.3)**	**(0.1)**	**(5.9)**	**(1.5)**	**(50.8)**

Deferred tax assets	**Capital gains tax on land and buildings** £m	**Pensions and provisions** £m	**Total** £m
At 25 January 2014	10.0	233.7	243.7
Credited to income statement	0.1	7.0	7.1
Charged to other comprehensive income	–	38.3	38.3
At 31 January 2015	10.1	279.0	289.1
(Charged)/credited to income statement	(1.2)	6.0	4.8
Charged to other comprehensive income	–	(94.1)	(94.1)
At 30 January 2016	**8.9**	**190.9**	**199.8**

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future profits is probable. There were no unrecognised deferred tax assets in respect of losses for the year ended 30 January 2016 (2015: £nil).

Notes to the company financial statements continued

24. Deferred tax continued

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).

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax asset at 30 January 2016 was £149.0m (2015: £233.1m asset). The net deferred tax asset is recoverable after more than one year.

24.2 Factors affecting tax charges in current and future years

The Finance Act 2015 reduced the main rate of corporation tax from 21% to 20% from 1 April 2015. Further reductions to reduce the main rate of corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020 have also been enacted.

The effect of the 1% rate change from 1 April 2017 and a further 1% rate change from 1 April 2020 was to decrease the deferred tax asset by £24.2m with a £20.0m charge being taken to other comprehensive income and a £4.2m tax charge to the income statement.

25 Management of financial risks

25.1 Capital and long-term funding risk

The approach to capital and long-term funding risks has been discussed in note 7.1.1.

25.2 Liquidity risk

The approach to liquidity risks has been discussed in note 7.1.2.

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	**(57.7)**	**–**	**(877.3)**
Interest payments on borrowings*	**(54.6)**	**(54.2)**	**(378.7)**
Finance lease liabilities	**(0.5)**	**(0.5)**	**(24.4)**
Trade and other payables	**(1,349.4)**	**–**	**–**
Derivative financial liabilities			
Derivative contracts – receipts	**197.7**	**4.3**	**–**
Derivative contracts – payments	**(188.3)**	**(3.9)**	**–**
At 30 January 2016	**(1,452.8)**	**(54.3)**	**(1,280.4)**

	Due within 1 year (restated)# £m	Due between 1 and 2 years £m	Due 2 years and beyond £m
Non-derivative financial liabilities			
Borrowings and overdrafts	–	(57.8)	(877.3)
Interest payments on borrowings*	(56.8)	(56.8)	(432.8)
Finance lease liabilities	(0.9)	(0.9)	(25.5)
Trade and other payables	(1,204.7)	–	–
Derivative financial liabilities			
Derivative contracts – receipts	208.9	22.8	–
Derivative contracts – payments	(206.1)	(22.9)	–
At 31 January 2015	(1,259.6)	(115.6)	(1,335.6)

* Excludes annual interest of £0.1m on cumulative preference stock which have no fixed redemption date.

Refer to note 9.1

Notes to the company financial statements continued

25 Management of financial risks continued

25.2 Liquidity risk continued

Interest on borrowings is calculated based on the borrowing position throughout the financial year, without taking account of future issues.

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.

25.3 Interest rate risk

The approach to interest rate risks has been discussed in note 7.1.3.

25.4 Foreign currency risk

The approach to foreign currency risks has been discussed in note 7.1.4.

25.5 Credit risk

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

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

	2016	2015
		(restated)#
	£m	£m
Trade and other receivables	**66.9**	64.3
Cash and cash equivalents	**566.7**	231.0
Derivative financial instruments	**11.5**	9.6
	645.1	304.9

Refer to note 9.1

25.6 Energy risk
The approach to energy risks has been discussed in note 7.1.6.

25.7 Sensitivity analysis
A sensitivity analysis has been performed in note 7.1.7.

26. Derivative financial instruments and financial liabilities

26.1 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 30 January 2016, 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.

Notes to the company financial statements continued

26. Derivative financial instruments and financial liabilities continued

26.2 Fair value of derivative financial instruments
The fair value of derivative financial instruments is as follows:

	2016		2015	
Fair value of derivative financial instruments	**Assets £m**	**Liabilities £m**	Assets £m	Liabilities £m
Currency derivatives – cash flow hedge	**11.5**	**(2.3)**	9.6	(6.6)

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

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

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

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

	2016 £m		2015 £m	
	CV	**FV**	CV	FV
Financial liabilities				
Listed bonds	**(865.3)**	**(980.2)**	(864.5)	(1,031.2)
Preference stock	**(2.3)**	**(2.1)**	(2.3)	(2.1)

The fair values of the Company's listed bonds and preference stock 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.

27. Analysis of financial liabilities

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

Interest rate and currency analysis	**Fixed rate £m**	**Total £m**
All sterling		
At 30 January 2016	**(939.1)**	**(939.1)**
At 31 January 2015 (restated)#	(939.1)	(939.1)

Refer to note 9.1

Notes to the company financial statements continued

27. Analysis of financial liabilities continued

Maturity of financial liabilities	2016 £m	2015 (restated)# £m
Repayable within one year		
Bonds	**(57.7)**	-
Unamortised bond transaction costs	**0.1**	-
Property finance leases	**(0.2)**	(0.5)
	(57.8)	(0.5)
Repayable between one and two years		
Property finance leases	**(0.2)**	(0.6)
Bonds	**-**	(57.1)
Unamortised bond transaction costs	**-**	0.2
	(0.2)	(57.5)
Repayable between two and five years		
Property finance leases	**(0.5)**	(1.0)
Bonds	**(275.0)**	(275.0)
Unamortised bond transaction costs	**1.1**	1.2
	(274.4)	(274.8)
Repayable in more than five years		
Property finance leases	**(13.0)**	(13.3)
Bonds	**(600.0)**	(600.0)
Unamortised bond transaction costs	**8.6**	9.3
Cumulative Preference Stock	**(2.3)**	(2.3)
	(606.7)	(606.3)
	(939.1)	(939.1)

28 Reconciliation of profit before tax to cash generated from operations

	2016 £m	2015 (restated)# £m
Profit before tax	**61.9**	70.6
Amortisation of intangible assets	**54.0**	42.7
Depreciation	**114.1**	116.6
Net finance costs	**94.5**	97.5
Partnership Bonus	**63.3**	67.5
Fair value losses on derivative financial instruments	**0.7**	-
Profit on disposal of property, plant and equipment and intangible assets	**0.6**	(2.9)
Increase in inventories	**(39.3)**	(38.7)
Decrease/(increase) in receivables	**(8.9)**	4.5
Increase in payables	**102.1**	18.9
Decrease in retirement benefit obligations	**71.0**	(15.7)
Increase/(decrease) in provisions	**23.2**	(7.5)
Cash generated from operations	**537.2**	353.5

Refer to note 9.1

Notes to the company financial statements continued

29 Commitments and contingencies

29.1 Capital commitments
At 30 January 2016 contracts had been entered into for future capital expenditure of £26.0m (2015: £27.2m) of which £22.2m (2015: £23.8m) relates to property, plant and equipment and £3.8m (2015: £3.4m) relates to intangible assets.

29.2 Lease guarantees
John Lewis plc continues to provide lease guarantees in favour of the Group's former associate company, Ocado Limited, of £6.8m (2015: £6.8m).

29.3 Commitments under operating leases

Future aggregate minimum lease payments Under non-cancellable operating leases, payable:	2016 Land and buildings £m	2015 Land and buildings £m
Within one year	**(58.6)**	(53.4)
Later than one year and less than five years	**(215.1)**	(168.5)
After five years	**(1,147.3)**	(1,059.5)

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years comprise the following:	2016 Land and buildings £m	2015 Land and buildings £m
Later than five years and less than 10 years	**(244.0)**	(217.8)
Later than 10 years and less than 20 years	**(328.0)**	(289.1)
Later than 20 years and less than 40 years	**(224.1)**	(182.8)
Later than 40 years and less than 80 years	**(118.0)**	(132.1)
After 80 years	**(233.2)**	(237.7)
	(1,147.3)	(1,059.5)

Total future sub-lease payments receivable relating to the above operating leases amounted to £1.5m (2015: £1.5m).

30 Retirement benefit obligations
As disclosed in note 6 to the Group financial statements, the Company's investment in the pension scheme in JLP Scottish Limited Partnership of £80.5m (2015: £83.9m), represents a plan asset for the Company accounts which is offset against the Group's obligation of £941.6m (2015: £1,249.3m). The retirement benefit obligation of the Company as at 30 January 2016 was £861.1m (2015: £1,165.4m). Note 6 of the Group financial statements details the financial assumptions used.

31 Share capital

	2016 Authorised £m	2016 Issued and fully paid £m	2015 Authorised £m	2015 Issued and fully paid £m
Equity				
Deferred Ordinary Shares				
6,750,000 of £1 each	**6.7**	**6.7**	6.7	6.7

Notes to the company financial statements continued

32 Related party transactions

32.1 Loan from John Lewis Partnership plc

The loan from John Lewis Partnership plc has been disclosed in note 21. The loan is non-interest bearing with no specific repayment terms.

32.2 Transactions with other group companies

During the year John Lewis plc entered into transactions with other group companies in respect of supply of goods for resale and associated services totalling £12.6m (2015: £14.3m), purchase of goods for resale totalling £55.9m (2015: £56.6m), the supply of administrative and other shared services totalling £74.0m (2015: £69.4m) and the hire of vehicles totalling £24.9m (2015: £24.9m).

In addition, John Lewis plc settled other transactions on behalf of group companies for administrative convenience, such as payroll and supplier settlement. All such transactions were charged at cost to the relevant group company. It is not practical to quantify these recharges.

33 Subsidiary and related undertakings

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

Subsidiary and related undertakings as at 30 January 2016 were as follows:

Name	Principal activity	Country of Incorporation	Class of share	Percentage shareholdings
Admiral Park Retail Management Limited	Property holding company	Guernsey	Ordinary	54%
Buy.Com Limited	Dormant	England & Wales	Ordinary	100%
Cavendish Trustees Limited	Dormant	England & Wales	Ordinary	100%
Herbert Parkinson Limited*	Weaving and making up	England & Wales	Ordinary	100%
JLP Insurance Limited*	Insurance	Guernsey	Ordinary	100%
JLP Scotland Limited	Non-trading	Scotland	Ordinary	100%
JLP Scottish Limited Partnership*	Investment holding undertaking	Scotland	Ordinary	100%
JLP Scottish Partnership*	Investment holding undertaking	Scotland	Ordinary	100%
John Lewis Car Finance Limited*	Car finance	England & Wales	Ordinary	100%
John Lewis Delivery Limited*	International delivery	England & Wales	Ordinary	100%
John Lewis Properties plc*	Property holding company	England & Wales	Ordinary	100%
John Lewis PT Holdings Limited	Holding company	England & Wales	Ordinary	100%
John Lewis Partnership Pensions Trust	Non-trading	England & Wales	Ordinary	100%
John Lewis International Limited	Dormant	England & Wales	Ordinary	100%
Jonelle Jewellery Limited	Dormant	England & Wales	Ordinary	100%
Jonelle Limited	Dormant	England & Wales	Ordinary	100%
Leckford Estate Limited	Dormant	England & Wales	Ordinary	100%
Park One Management Limited	Provision of management services	England & Wales	Ordinary	37%
Peter Jones Limited	Dormant	England & Wales	Ordinary	100%
The Odney Estate Limited	Dormant	England & Wales	Ordinary	100%
Waitrose (Jersey) Limited*	Food retailing	Jersey	Ordinary	100%
Waitrose (Guernsey) Limited*	Food retailing	Guernsey	Ordinary	100%
Waitrose Limited*	Food retailing	England & Wales	Ordinary	100%

*Principal subsidiary undertaking as at 30 January 2016.

Notes to the company financial statements continued

33 Subsidiary and related undertakings continued

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

Ultimate control rests with the John Lewis Partnership Trust Limited, which holds the equity of John Lewis Partnership plc in trust for the benefit of the employees. Both of these companies are registered in England and Wales.

Copies of these accounts may be obtained from the Company Secretary, John Lewis Partnership plc, 171 Victoria Street, London, SW1E 5NN.

The Company is a General Partner of JLP Scottish Limited Partnership, a qualifying limited partnership registered at 69 St James Centre, Edinburgh, EH1 3SP. This is consolidated within John Lewis plc.

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

Statement of Directors' responsibilities for the annual report and accounts

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable laws and regulations.

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent; and
- State whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

Each of the Directors, listed on page 3, confirm that, to the best of their knowledge:

- The Group and Company financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company; and
- The Strategic report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

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

14 April 2016

Independent auditors' report to the members of John Lewis plc

Report on the financial statements

Our opinion

In our opinion:

- John Lewis plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 30 January 2016 and of the group's profit and the group's and the company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Financial Statements (the "Annual Report"), comprise:

- the consolidated balance sheet and the balance sheet of the company as at 30 January 2016;
- the consolidated income statement and consolidated statement of comprehensive income/(expense) for the year then ended;
- the consolidated statement of cash flows and company statement of cash flows for the year then ended;
- the consolidated statement of changes in equity and the company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors report to the members of John Lewis plc continued

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 76, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Ranjan Sriskandan
(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

14 April 2016

Notice of AGM

Notice is hereby given that the eighty-eighth Annual General Meeting of the Company will be held at 2.15pm on 9 June 2016 at Longstock House, Leckford, Stockbridge, Hampshire SO20 6EH:

- To receive the Company's Annual Report and Accounts, together with the Strategic Report, the Directors' Report, and the Auditor's Report on those Accounts for the year ended 30 January 2016.
- To re-elect, as separate resolutions, Tracey Killen, Patrick Lewis, Berangere Michel and Andy Street as Directors.
- To appoint KPMG LLP as Auditor of the Company to hold office from the conclusion of the meeting until the conclusion of the next meeting of the Company at which accounts are laid.
- To authorise the Directors to determine the remuneration of the Auditor.

By Order of the Board

Keith Hubber
Company Secretary

171 Victoria Street, London SW1E 5NN
14 April 2016

The Annual Report and Accounts are sent to or made available to all members in accordance with instructions received.

A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote instead of him.

A proxy need not be a member of the company, but a proxy who is not a member has only the rights conferred by section 329 of the Companies Act 2006. To be effective, a proxy form must reach the company's registered office not later than forty-eight hours before the time for holding the meeting. For the convenience of members a form of proxy is enclosed.