Company No. 00233462

JOHN LEWIS PLC

Financial Statements for the year ended 28 January 2017

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Company information

Directors:	Sir Charlie Mayfield (Chairman) Tracey Killen Patrick Lewis Berangere Michel Paula Nickolds
Company Secretary:	Keith Hubber
Registered office:	171 Victoria Street, London, SW1E 5NN
Company number:	00233462
Independent auditor:	KPMG LLP 15 Canada Square London E14 5GL

Strategic report for the year ended 28 January 2017

John Lewis plc ('the Group' or 'the Company') present their audited consolidated financial statements for the year ended 28 January 2017.

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 86,700 employees – or Partners – for whom the Partnership is owned in trust.

Review of Performance

Key performance indicators

	2017	2016
Gross sales growth[1] (%)	**3.2**	2.5
Like-for-like sales[2] (%)		
- John Lewis	**2.7**	3.1
- Waitrose (excludes petrol sales)	**(0.2)**	(1.3)
Increase in 'Best' customers (%)		
- John Lewis	**0.7**	4.6
- Waitrose	**2.8**	2.3
Net promoter score		
- John Lewis	**+62**	+59
- Waitrose	**+34**	+29
Average non-management Partner hourly pay above National Living Wage[3] (%)	**20.4**	20.1
Partner job satisfaction (%)	**68**	71
Return on invested capital (ROIC) (%)	**8.1**	7.1
Partnership profit per average full time equivalent Partner (FTE)[4] (£000)	**5.8**	4.8
Debt ratio[5]	**4.0x**	4.4x

[1] Gross sales growth for 2016 was calculated by comparing to 2015 gross sales stated on a 52-week basis.

[2] A measure of the year-on-year branch and online gross sales growth, removing the impact of branch openings and closures. This measure indicates the underlying sales performance on a consistent basis.

[3] For 2016/17, this is calculated as the increment above the National Living Wage at the time of £7.20. For 2015/16, this is calculated as the increment above the National Minimum Wage at the time of £6.70.

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

[5] The Debt ratio is defined as Total indebtedness as a multiple of adjusted funds from operations (Adjusted FFO). Total indebtedness represents the total borrowings of the Group including net debt (defined on page 20) adjusted for an estimate of non-liquid cash, the IAS 19 pension deficit net of deferred tax, and the present value of future rentals payable under operating leases calculated using a discount rate of 5% in 2016/17.

Performance summary

Waitrose and John Lewis have achieved growth in sales and market share, and our profits before Partnership Bonus, tax and exceptional items are up 21.3%. A large part of this profit increase was due to lower pension accounting charges. After excluding these and our long leave accounting charges, our profits before Partnership Bonus, tax and exceptional items increased by 1.9%* in spite of trading pressures and investment in Partner pay. This figure is the best indicator of our trading performance. Our debt position also improved.

*Profit before Partnership Bonus, tax and exceptional items adjusted for pension charges of £217.5m (2016: £282.2m) and long leave charges of £26.0m (2016: £14.5m).

Strategic report for the year ended 28 January 2017 (continued)

There are also a number of exceptional items in our results this year, which reflect the steps we are taking to adapt the Partnership for the future. Since announcing the Partnership's unaudited profit before tax on 9 March 2017, a further exceptional charge of £36.0m has been recorded for the year ended 28 January 2017. We have identified that some of our pay practices, though designed to help Partners, have technically not complied with the National Minimum Wage (NMW) Regulations. This has come about in the main because our pay averaging arrangements do not meet the strict timing requirements of the NMW Regulations; although Partners will, over the course of a year, usually have received the correct pay, in some months where greater than average hours are worked they will have been paid less than the hourly rate stipulated in the NMW Regulations. The £36.0m exceptional charge principally relates to payments that are required to be made to recipient Partners and former Partners for the previous six years. We are now required to make good those amounts.

Clearly this is very disappointing, not least because the vast majority of payments to affected Partners and former Partners relate to technical underpayments rather than actual underpayments of their contractual pay. Nevertheless the NMW Regulations create a strict liability regime and these payments are therefore required to be paid even in cases where Partners have over the course of a year been paid the correct contractual amount. Arrangements have already been made to make these payments and contact former Partners.

In January, we said Partnership Bonus was likely to be significantly lower this year. The Board has awarded a Bonus of 6%, which is equivalent to more than 3 weeks' pay.

Bonus is lower because the Board has decided to retain more of our annual profits in order to strengthen our balance sheet. This allows us to maintain our level of investment in the face of what we expect to be an increasingly uncertain market this year, while absorbing the costs associated with adapting the Group for the future.

We have also continued to put more money into Partner pay. During the year, the average pay rates for our non-management Partners rose 5.0%. Simplifying our pay arrangements in the future will help to ensure that they are easy to administer in a fast changing market and reduce the risk of non-compliance.

This reflects our determination to create Better jobs, for better performing Partners, on better pay, which is one of three elements to our strategy. As a part of that we are changing the nature and shape of roles within the Group and we have made a number of announcements to that effect this year. We will also be accelerating investment in innovation for customers across Waitrose and John Lewis. For example, from May we will begin rolling out technology to ensure Partners have access to more information at their fingertips to enhance service delivery and, in Waitrose, 2017 will see a significant investment in existing shops.

Outlook 2017/18

In the year ahead, trading pressures will continue as a result of the wider changes taking place in retail. The two major influences are pricing, where the rate of change in selling prices is likely to be significantly slower than the rate of change in input costs as a result of weakness in the sterling exchange rate, and the continued shift from shops to online. These factors are significant for the outlook where we expect both inflationary cost pressures and competition to intensify in the market as a whole.

In addition, we expect our short-term profits to be impacted by significant one-off costs of change as we accelerate aspects of our strategy to ensure the Group's success. We have already announced a number of changes this year - some of which will lead to fewer Partners in the business. We understand that this may be an uncertain time for those affected Partners and we are providing them with support during this period of change. We expect that in the longer term, we will create new opportunities for Partners, supporting our ambition to create better jobs. We start from a position of strength and our plans will navigate the Group through the uncertainty in the year ahead.

Financial results

In 2016/17 the Group delivered sales growth with both Waitrose and John Lewis increasing their market shares and customer numbers. Group gross sales were £11.37bn, an increase of £355.4m, or 3.2%, on last year. Revenue was £10.03bn, up by £277.4m or 2.8%.

Group operating profit before Partnership Bonus was £646.9m, up £118.2m or 22.4% on last year. This includes exceptional income of £171.2m, as explained in note 2.3 (2015/16: exceptional income of £129.3m). Group operating profit before exceptional items and Partnership Bonus, was £475.7m, up £76.3m or 19.1% on last year.

Profit before Partnership Bonus and tax was £540.2m, up £106.8m or 24.6% on last year. Excluding exceptional items, it was £369.0m, up by £64.9m or 21.3%.

Strategic report for the year ended 28 January 2017 (continued)

Waitrose

Gross sales were up 2.7% to £6.63bn and we grew market share and customer numbers. Although like-for-like sales decreased by 0.2%, these improved in the second half of the year.

Operating profit before exceptional items and Partnership Bonus was up 9.0% to £253.5m, as a result of effective management of costs and improved productivity in branches, supply chain and head offices. In our core supermarkets, items sold per worked hour improved by 2.4%, and in our distribution centres, cases picked per hour improved by 2.4%. Exceptional items were a charge of £47.3m, and after including these, operating profit before Partnership Bonus was down 11.3% to £206.2m.

As set out in our half year results, we are shifting our strategic focus towards investment in our existing shops, with fewer new shops. This investment will cover the majority of our branches over the next three years. This regeneration programme underlines our commitment to high quality and service. It will be shaped by our successful experience in bakery grazing, other food service concepts and the outcome of the current trials in our shops at Barbican and Twyford.

We continue to develop our food service business. We have 121 cafes, 85 bakery grazing areas, 9 juice bars and 7 wine bars in our branches. Sushi Daily counters, which are operated under licence, have been rolled out to 24 branches, offering further variety and excitement in our shops. Convenient options also performed strongly with Food to Go sales seeing a 7.3% uplift.

We opened five core supermarkets and five convenience shops in the year, and we closed two convenience shops. In addition, in February 2017 we announced the proposed closure of four core supermarkets and two convenience shops. In 2017/18 we plan to open two core supermarkets and five convenience shops - the first of which, Faringdon (Oxfordshire) opened in February.

High quality and provenance are at the heart of our brand. Waitrose 1, our premium range with 766 best-in-class products, launched in May and is proving to be extremely popular, with a sales uplift of products in this range of 17.5%. Top selling products within the range include Scottish salmon fillets, sourdough bread and croissants made with Charentes butter.

To drive productivity and build on our excellence in customer service we have been successfully piloting our Working Flexibly model in a number of branches. This is about fewer but better trained, multi-skilled Partners doing the right task in the right way at the right time, supported by managers with broader accountability across the whole branch. Encouraged by the results, we plan to roll this model out to all our core supermarkets by the end of July.

We continue to seek new growth opportunities. Our export sales grew by 14.9% with a new partnership with British Corner Shop - an online retailer for people in more than 100 countries - and a new export deal with the Alibaba Group, which allows us to sell products in China for the first time.

John Lewis

Against a backdrop of a changing and competitive retail landscape, John Lewis has continued to outperform the market. Gross sales were up 4.0% to £4.74bn, with strong like-for-like sales growth of 2.7%.

Operating profit before exceptional items and Partnership Bonus was slightly down at £243.2m, 2.8% lower than last year. We have invested in our supply chain to ensure we were able to support a large, faster and more convenient multi-channel business and this showed in the second half of the year, as the investments made enabled a strengthening performance with operating profit before exceptional items and Partnership Bonus up 3.8%. Exceptional items were a charge of £11.8m, and after including these, the full year operating profit was down 7.5% to £231.4m.

During the year we continued to focus on the customer, building a business which allows customers to combine convenient online shopping with visiting shops which provide inspiration and experiences. Our customer numbers increased by 2.7% this year to 12.1 million.

All three product areas saw gross sales growth. In our product offer, we have invested in our in-house design capability to grow our own-brand fashion and home credentials, and combined this with exclusive branded ranges.

EHT sales were up 6.8%. We opened Smart Home areas in three shops, leading to a 16.7% increase for Audio and Smart Home. New products such as the Dyson Supersonic hairdryer and an exclusive high street launch of the Oculus Rift helped to drive sales.

Fashion sales were up 3.8%. Our first own-brand luxury label, modern rarity, boosted our own-brand womenswear (up 6.8%), and we were the first high street retailer to stock online brands Hush and Finery. A £9.0m investment in our beauty halls helped Beauty sales increase by 6.7%.

Home sales were up 3.0%. The launch of our own-brand Design Project range further established our credentials as a destination for quality and beautifully designed products and will support our ambition to reach £1bn own-brand sales. We also launched exclusive collaborations with external brands including Loaf and Leon.

We integrated our online platforms so that our mobile, desktop and app can seamlessly offer the same shopping experience whichever platform our customers use. Total online sales were up 16.2%. We opened two new shops in Chelmsford and Leeds - our most experiential shop to date and our second &Beauty spa - and later this year we will open a shop in Oxford. Sales in our shops were down 1.0%.

Strategic report for the year ended 28 January 2017 (continued)

We completed our investment in two new distribution centres at Magna Park in Milton Keynes, allowing us to combine fashion and non-fashion deliveries to deepen efficiencies and deliver orders to our customers in fewer parcels. We also invested in a dedicated content hub in West London, where our Partners deliver creative content and photography.

Internationally, we expanded our physical and online international footprint by opening ten shops-in-shops in Australia, Malaysia, Ireland, and Holland, and extended our online international delivery locations from 32 to 39 countries. In March 2017 we opened our largest shop-in-shop to date in Dubai.

We rebranded our financial services business under a new John Lewis Finance umbrella, and relaunched Partnership Card to offer contactless payments.

Partnership Services and Group

Partnership Services and Group includes the operating costs for our Group offices and shared services, the costs for pan-Partnership initiatives and transformation programmes, and certain pension operating costs. Partnership Services and Group net operating costs (before exceptional items) increased by £5.1m or 13.5%, principally reflecting additional costs supporting initiatives to either drive sales growth through new business opportunities or to reduce costs through increased productivity. However, overall costs (before exceptional items) decreased by £62.4m to £21.0m, largely due to the decrease in pension operating costs.

For the year beginning 29 January 2017, Partnership Services will not operate as a standalone Division. The Finance, IT and Personnel shared service operations have become part of the end-to-end responsibility of the respective pan-Partnership function which will provide a platform for improved service delivery and lower costs in the future.

Investment in the future

Capital investment in 2016/17 was £419.3m, a decrease of £74.5m (15.1%) on the previous year. Investment in Waitrose was £161.5m, down £63.0m (28.1%) on the previous year, and in John Lewis investment was £230.7m, up £3.0m (1.3%).

We have continued to focus our investment in IT and distribution, which now represents 62% of our total capital investment, up from 50% last year. In addition, as set out in our half year results, we have decided to prioritise future investment in Waitrose in our existing shops ahead of new space.

Pensions

The pension operating cost (before exceptional items) was £187.9m, a decrease of £57.4m or 23.4% on the prior year costs, reflecting the impact of our move to a hybrid pension scheme combining defined benefit and defined contribution pensions from April 2016, as well as an increase in the real discount rate used to determine the cost to 0.70% at the beginning of the year from 0.35% at the beginning of the previous year. Pension finance costs were £29.6m, a decrease of £7.3m or 19.8% on the prior year, reflecting a reduction due to a lower accounting pension deficit at the beginning of the year than at the beginning of the previous year. As a result, total pension costs (before exceptional items) were £217.5m, a decrease of £64.7m or 22.9% on the prior year.

In January 2017 we announced that the annual discretionary increase for pension in retirement built up before 6 April 1997 will be expected to increase in line with CPI inflation (up to a maximum of 2.5%), instead of RPI inflation (up to a maximum of 5%). This has resulted in a reduction in pensions obligations of £270.0m and this change is classified as exceptional income.

In January 2017 we also concluded the triennial actuarial valuation of our defined benefit pension scheme as at 31 March 2016 with a deficit of £479m. This was significantly lower than the deficit of £840m at the previous valuation in March 2013. We have agreed the ongoing contribution rate for the defined benefit pension of 10.4% of members' gross taxable pay, down from 16.4%, and put in place a plan to eliminate the deficit over a 10 year period. This includes cash contributions of £303m, of which £208m has been paid to date and the remainder is due to be paid over the 9 years to 31 March 2026. The balance of the deficit is expected to be met by investment returns on the scheme's assets.

The total accounting pension deficit at 28 January 2017 is £1,013.7m, which is higher than the £941.6m deficit at 30 January 2016. Pension fund assets have increased to £5,045.3m. However, despite the reduction in pension obligations following the change to annual discretionary pension increases, the accounting valuation of pension fund liabilities has increased to £6,059.0m, mainly reflecting a decrease in the real discount rate used to value the liabilities to (0.50%) at January 2017 compared to 0.70% at January 2016, due to historically low bond yields. This decrease in the real discount rate will be the main factor for driving an increase in our pension operating costs for the next financial year, the year ending 27 January 2018, which we expect to be approximately £30.0m higher.

Financing

At 28 January 2017, net debt was £146.4m, a decrease of £119.6m (45.0%) in the year, reflecting our focus on cash generation and the reduction in capital investment. During the year we repaid our £57.8m Partnership Bond issued in 2011 and we cancelled and repaid expensive preference stock, all through our cash reserves. We have refinanced our main committed credit facility, increasing it from £325m to £450m, and extending the maturity to November 2021, whilst lowering the 'cost per £' of the facility.

Strategic report for the year ended 28 January 2017 (continued)

Net finance costs on borrowings and short-term investments decreased by £2.9m (4.8%) to £57.1m, mainly reflecting reduced finance costs following the repayment of the Partnership Bond in April 2016. After including the financing elements of pensions and long service leave and non-cash fair value adjustments, net finance costs increased by £11.4m (12.0%) to £106.7m, impacted by higher long leave financing costs arising from volatility in market driven assumptions.

Sustainability

Issues of environmental and social sustainability are becoming ever more important to our long term success. As such, our strategy continues to be underpinned by the values that our Founder expressed through the Constitution – in particular our responsibilities not only towards our Partners and customers, but also the communities in which we operate, our suppliers and the environment. This year we have put significant effort behind tracing key raw materials back to source, reducing our operational environmental footprint and continuing to support Partners' contribution to the communities in which we operate. We encourage our Partners to actively forge links and become involved in the local communities in which they live and work.

Principal risks and uncertainties

John Lewis plc's principal risks and uncertainties are in line with those of the Partnership. Details of the Partnership's principal risks and uncertainties are included within pages 32 to 35 of the Partnership's Annual Report and Accounts.

The top six risks for the Group include:

1. Competition
2. Operating model strain
3. Information security
4. Pension obligations
5. Change delivery
6. Economic environment

Equal opportunities, diversity and inclusion

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.

The Group aims to attract and retain the best people with a wide range of talents, skills and experience and is committed to investing in their development, progression and success. It is important that the Group has a culture in which people can be themselves and thrive – we call it 'Bring Yourself to Work'. The Group therefore aims to operate without discrimination and embrace diversity. We believe that every Partner should feel respected for their contribution, work to the best of their ability and feel supported to develop to their full potential.

This approach applies equally to all Partners covered by the protected characteristics of the Equality Act 2010 and we arrange reasonable adjustments required at an individual level to ensure our disabled applicants and Partners are supported. The Group recruits people with disabilities to suitable vacancies on merit. We offer tailored support through the recruitment process for applicants who declare their disability. Where disability occurs during the period of employment, every effort is made to continue to provide suitable employment with the provision of appropriate and bespoke training, equipment and flexibility. We work with the Business Disability Forum to help ensure the environment within the Group is disability friendly. This has included an audit of our recruitment website, recruitment process, plus the provision of specialist advice for our policy teams.

For more information on the Partnership's strategic objective of Better jobs, better performing Partners and better pay and equal opportunities, diversity and inclusion in the work-place, please see pages 18 to 22 of the Partnership's Annual Report and Accounts.

The Partnership Board has adopted a Diversity Statement, as set out on page 65 of the Partnership's Annual Report and Accounts, regarding the composition of the Partnership Board, the aims of which are supported by the Diversity and Inclusion Policy.

Strategic report for the year ended 28 January 2017 (continued)

Gender diversity of the Group

	2016/17		2015/16	
	Male	**Female**	Male	Female
Directors and Management Board members*	**71%**	**29%**	71%	29%
Senior managers**	**54%**	**46%**	54%	46%
All other Partners	**42%**	**58%**	42%	58%
All Partners	**42%**	**58%**	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)

	2016/17	2015/16
White	**90.9%**	91.2%
Asian or Asian British	**2.2%**	2.1%
Black or Black British	**0.5%**	0.3%
Chinese or other ethnic group	**0.4%**	0.5%
Mixed origin	**1.0%**	0.8%
Not given	**5.0%**	5.1%

It's Your Business 2028

In 2015 we set out the foundations for future success in our It's Your Business (IYB) 2028 strategy, which will guide us over the coming years. By looking ahead and trying to predict what the world might be like in 2028 we can make better decisions now about how we run our business.

While the world of 2028 may be very different, there is one thing which is certain – the Group will still be owned by Partners.
It is our job to ensure it stays successful for the Partners of the future. IYB 2028 recognises the speed at which the world around us is changing and the impact this could have on our business. It draws out three key themes that are affecting the world – changes in society, retail and the workplace.

We chose the year 2028 as it was both far enough into the future for there to be significant changes to think about, and because 2028 will be 100 years since the creation of the Partnership's first Constitution. This year we are taking the time to provide more information on the direction we will take as a Group.

Our direction has three priorities – a focus on the customer through the lead priority 'Stronger brands and new growth', placing Partners at the heart of what makes us different through 'Better jobs, for better performing Partners, on better pay', and a drive to ensure we strengthen the Group's 'Financial sustainability'.

Strategic report for the year ended 28 January 2017 (continued)

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 satisfaction, 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

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

Sir Charlie Mayfield
Director, John Lewis plc
26 April 2017

Directors' report for the year ended 28 January 2017

The Directors present their report and the audited consolidated financial statements for the year ended 28 January 2017.

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: John Lewis operates in a number of different formats including John Lewis department stores, John Lewis at home stores, johnlewis.com, a John Lewis liaison office in Gurgaon, India, an additional office in Chennai, India and a sourcing office in Hong Kong; Waitrose operates Waitrose supermarkets, Waitrose convenience stores, waitrose.com, Leckford Farm, business to business contracts in the UK and abroad and ancillary manufacturing activities. The Company's subsidiaries and related undertakings are listed in note 35.

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

Directors and Company Secretary

The Directors and Company Secretary of the Company who held office during the year, and up to the date of signing the financial statements unless otherwise stated, were as follows:

Sir Charlie Mayfield (Chairman)
Tracey Killen
Patrick Lewis
Berangere Michel
Mark Price (resigned 18 March 2016)
Andy Street (resigned 28 October 2016)
Paula Nickolds (appointed 11 January 2017)
Keith Hubber (Company Secretary)

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 36 to 76 of the Partnership's Annual Report and Accounts.

The principal risks and uncertainties and mitigations for those risks for John Lewis plc are explained on pages 32 to 35 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 52 to 58 of the Partnership's Annual Report and Accounts.

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 52 to 58 of the Partnership's Annual Report and Accounts.

Employees

The Constitution of the Partnership provides for the democratic involvement of 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 7 of the Strategic report for more detail.

Directors' report for the year ended 28 January 2017 (continued)

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 2016/17: www.johnlewispartnership.co.uk/csr

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 60 of the Partnership's Annual Report and Accounts for detail on our global greenhouse gas emissions.

Corporate social responsibility

During 2016/17 we began to review our corporate responsibility strategy against the changing context of the business, feedback from stakeholders and emerging trends. The output from this exercise will allow us to ensure we are continuing to align our approach with our most critical stakeholder and business needs. For further detail please see www.johnlewispartnership.co.uk/csr

Directors' responsibilities

The statement of Directors' responsibilities in relation to the Strategic report, Directors' report and financial statements is set out on page 85.

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 28 January 2017, the Company has in issue 6,750,000 Ordinary Shares of £1 each. 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.

Directors' report for the year ended 28 January 2017 (continued)

Listing on the London Stock Exchange (LSE)

Previously both the Company and its parent, John Lewis Partnership plc, held Standard Listings on the LSE and had issued Cumulative Preference Stocks. In November 2016, these Cumulative Preference Stocks were cancelled and repaid. John Lewis plc remains a Standard Listed company, in respect of three corporate bonds listed on the LSE. The Cumulative Preference Stocks were treated in the balance sheet as a long-term liability of the business and not as equity share capital. The Company has no securities carrying voting rights admitted to trading on a regulated market.

Dividends

Dividends on Cumulative Preference Stocks for the year ended 28 January 2017 were £95,600 (2016: £125,000).

The Directors do not recommend the payment of a dividend on the Ordinary Shares (2016: nil).

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 financial statements.

Political donations

The Group made no political donations during the year (2016: £nil).

Annual General Meeting

The Annual General Meeting will be held at 2pm on Thursday 22 June 2017 at Partnership House, Carlisle Place, London, SW1P 1BX.

Events after the balance sheet date

Since 28 January 2017, there have been events which require disclosure in the financial statements. See note 8.3.

Appointment of auditor

During the year ended 28 January 2017 PricewaterhouseCoopers LLP resigned as auditor. KPMG LLP were subsequently appointed. KPMG LLP have indicated their willingness to continue in office, and a resolution that they will be reappointed will be proposed to the Annual General Meeting, together with a resolution to authorise the Directors to determine the auditor's remuneration.

Disclosure of information to auditor

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 auditor is aware of that information.
2. So far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware.

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

Keith Hubber
Company Secretary

26 April 2017

Consolidated income statement

for the year ended 28 January 2017

Notes		**2017 £m**	2016 £m
1.2, 2.1	**Gross sales**	**11,374.2**	11,018.8
2.1	**Revenue**	**10,026.2**	9,748.8
	Cost of sales	**(6,633.1)**	(6,442.1)
	Gross profit	**3,393.1**	3,306.7
	Other operating income	**92.6**	85.2
2.2	Operating expenses before exceptional items and Partnership Bonus	**(3,010.3)**	(2,992.5)
3.3	Share of profit of joint venture (net of tax)	**0.3**	–
2.1	**Operating profit before exceptional items and Partnership Bonus**	**475.7**	399.4
2.3	Exceptional items	**171.2**	129.3
2.1	**Operating profit before Partnership Bonus**	**646.9**	528.7
5.1	Finance costs	**(108.6)**	(99.5)
5.1	Finance income	**1.9**	4.2
	Profit before Partnership Bonus and tax	**540.2**	433.4
	Partnership Bonus	**(89.4)**	(145.0)
2.4	**Profit before tax**	**450.8**	288.4
2.7	Taxation	**(97.9)**	(66.0)
	Profit for the year	**352.9**	222.4
2.1	**Profit before Partnership Bonus, tax and exceptional items**	**369.0**	304.1

Consolidated statement of comprehensive income/(expense)

for the year ended 28 January 2017

Notes		**2017 £m**	2016 £m
	Profit for the year	**352.9**	222.4
	Other comprehensive (expense)/income:		
	Items that will not be reclassified to profit or loss:		
6.1	Remeasurement of defined benefit pension scheme	**(432.6)**	411.1
2.7	Movement in deferred tax on pension scheme	**46.1**	(94.6)
2.7	Movement in current tax on pension scheme	**24.7**	–
	Items that may be reclassified subsequently to profit or loss:		
	Net (loss)/gain on cash flow hedges	**(1.1)**	7.9
2.7	Movement in deferred tax on cash flow hedges	**0.3**	(1.4)
	(Loss)/gain on currency translations	**(0.6)**	0.1
	Other comprehensive (expense)/income for the year	**(363.2)**	323.1
	Total comprehensive (expense)/income for the year	**(10.3)**	545.5

Consolidated balance sheet

as at 28 January 2017

Notes		2017 £m	2016 £m
	Non-current assets		
3.1	Intangible assets	**432.7**	388.4
3.2	Property, plant and equipment	**4,112.4**	4,189.3
4.2	Trade and other receivables	**61.2**	65.7
7.2	Derivative financial instruments	**0.1**	–
3.3	Investment in and loans to joint venture	**3.9**	–
2.7	Deferred tax asset	**48.2**	33.6
		4,658.5	4,677.0
	Current assets		
4.1	Inventories	**627.8**	621.9
4.2	Trade and other receivables	**242.6**	223.7
7.2	Derivative financial instruments	**15.3**	11.5
3.4	Assets held for sale	**8.1**	–
5.3	Short-term investments	**60.0**	10.0
5.4	Cash and cash equivalents	**673.7**	667.4
		1,627.5	1,534.5
	Total assets	**6,286.0**	6,211.5
	Current liabilities		
5.5	Borrowings and overdrafts	**–**	(57.7)
4.3	Trade and other payables	**(1,745.6)**	(1,725.4)
	Current tax payable	**(18.6)**	(26.8)
5.6	Finance lease liabilities	**(1.2)**	(2.6)
4.4	Provisions	**(167.7)**	(141.6)
7.2	Derivative financial instruments	**(7.2)**	(2.3)
		(1,940.3)	(1,956.4)
	Non-current liabilities		
5.5	Borrowings	**(862.7)**	(867.6)
4.3	Trade and other payables	**(219.7)**	(209.3)
5.6	Finance lease liabilities	**(23.3)**	(24.7)
4.4	Provisions	**(171.8)**	(148.2)
7.2	Derivative financial instruments	**(1.1)**	–
6.1	Retirement benefit obligations	**(1,013.7)**	(941.6)
		(2,292.3)	(2,191.4)
	Total liabilities	**(4,232.6)**	(4,147.8)
	Net assets	**2,053.4**	2,063.7
	Equity		
8.1	Share capital	**6.7**	6.7
	Share premium	**0.3**	0.3
	Other reserves	**9.0**	10.4
	Retained earnings	**2,037.4**	2,046.3
	Total equity	**2,053.4**	2,063.7

The financial statements on pages 13 to 62 were approved by the Board of Directors on 26 April 2017 and signed on its behalf by

Sir Charlie Mayfield and **Patrick Lewis**
Directors, John Lewis plc
Registered number 00233462

Consolidated statement of changes in equity

for the year ended 28 January 2017

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 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
	Profit for the year	–	–	–	–	–	352.9	352.9
6.1	Remeasurement of defined benefit pension scheme	–	–	–	–	–	(432.6)	(432.6)
	Fair value losses on cash flow hedges	–	–	–	(30.3)	–	–	(30.3)
	– transfers to inventories	–	–	–	1.0	–	–	1.0
	– transfers to property, plant and equipment	–	–	–	28.2	–	–	28.2
2.7	Tax on above items recognised in equity	–	–	–	0.3	–	70.8	71.1
	Loss on currency translations	–	–	–	–	(0.6)	–	(0.6)
	Balance at 28 January 2017	**6.7**	**0.3**	**1.4**	**8.1**	**(0.5)**	**2,037.4**	**2,053.4**

Consolidated statement of cash flows

for the year ended 28 January 2017

Notes		**2017 £m**	2016 £m
2.5	**Cash generated from operations before Partnership Bonus**	**908.2**	915.7
	Net taxation paid	**(49.8)**	(26.4)
	Pension deficit reduction payments	**(124.8)**	–
	Finance costs paid	**(2.4)**	(2.9)
	Net cash generated from operating activities before Partnership Bonus	**731.2**	886.4
	Partnership Bonus paid	**(144.8)**	(156.1)
	Net cash generated from operating activities after Partnership Bonus	**586.4**	730.3
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(265.6)**	(347.4)
	Purchase of intangible assets	**(153.7)**	(146.4)
	Proceeds from sale of property, plant and equipment and intangible assets	**13.7**	163.8
	Finance income received	**1.7**	1.4
3.3	Cash outflow from investment in and loans to joint venture	**(3.6)**	–
	Cash outflow from short-term investments	**(50.0)**	(10.0)
	Net cash used in investing activities	**(457.5)**	(338.6)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	**(56.0)**	(57.2)
	Payment of capital element of finance leases	**(2.8)**	(4.0)
	Payments to preference shareholders	**(0.4)**	(0.1)
	Cash outflow from borrowings	**(63.4)**	–
	Net cash used in financing activities	**(122.6)**	(61.3)
	Increase in net cash and cash equivalents	**6.3**	330.4
	Net cash and cash equivalents at beginning of the year	**667.3**	336.9
	Effects of exchange rate changes on cash and cash equivalents	**0.1**	–
	Net cash and cash equivalents at end of the year	**673.7**	667.3
5.4	**Net cash and cash equivalents comprise:**		
	Cash at bank and in hand	**115.2**	89.1
	Short-term deposits	**558.5**	578.3
	Bank overdrafts	**–**	(0.1)
		673.7	667.3

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 financial instruments) which are valued at fair value through profit or loss, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of consolidated financial statements in conformity with IFRS requires the use of 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 1.1.6.

The financial year is the 52 weeks ended 28 January 2017 (prior year: 52 weeks ended 30 January 2016).

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 consolidated financial statements.

1.1.2 Basis of consolidation

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

1.1.3 Subsidiaries and related undertakings

Subsidiary undertakings are all entities over which the 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. Joint ventures are investments for which the Group shares joint control with a third party. All intercompany balances, transactions and unrealised gains are eliminated upon consolidation.

1.1.4 Amendments to accounting standards

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

The following standards, amendments and interpretations were adopted by the Group for the year ended 28 January 2017 and have not had a significant impact on the Group's profit for the year, equity or disclosures:

- Annual Improvements to IFRSs 2010-2012 Cycle – various standards
- Annual Improvements to IFRSs 2011-2013 Cycle – various standards
- Annual Improvements to IFRSs 2012–2014 Cycle – various standards
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exception
- Amendments to IAS 27: Equity Method in Separate Financial Statements

Notes to the consolidated financial statements (continued)

1.1 Accounting principles and policies (continued)

1.1.4 Amendments to accounting standards (continued)

- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 1: Disclosure Initiative

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 28 January 2018 onwards, which the Group has not adopted early:

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

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

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

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

  IFRS 15 'Revenue from Contracts with Customers' sets out the principles for the measurement and recognition of revenue and will replace IAS 18.The standard provides a five step model to determine when an entity should recognise revenue and at what amount, by allocation of the transaction price to separate performance obligations. The main impact for the Group will be in respect of the timing of revenue recognition of warranties and extended warranties, of which a quantitative impact is currently under review.

  The adoption of IFRS 15 is not expected to have a material impact on the Group's consolidated income statement or consolidated balance sheet but will result in increased disclosures within the notes to the accounts.

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

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

  IFRS 16 'Leases' specifies how to recognise, measure, present and disclose leases. The standard provides a single lease accounting model and requires lessees to recognise right of use assets and lease liabilities on the balance sheet for all applicable leases.

  The adoption of IFRS 16 is expected to have a very significant impact on the Group's consolidated income statement and consolidated balance sheet, of which a quantitative impact is currently under review.

  Included within the KPIs disclosed on page 3 is a measure of Total indebtedness to adjusted funds from operations (Adjusted FFO). Total indebtedness represents the total borrowings of the Group including net debt (defined on page 20), adjusted for an estimate of non-liquid cash, the IAS 19 pension deficit net of deferred tax, and the present value of future rentals payable under operating leases. The present value of future rentals payable under operating leases has been calculated using a discount rate of 5% in 2016/17. This is not an estimate of the impact of IFRS 16.

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

Notes to the consolidated financial statements (continued)

1.1 Accounting principles and policies (continued)

1.1.5 Significant accounting policies

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

Other operating income

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

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 reporting period to ensure that the hedge remains highly effective.

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

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

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
Derivative financial instruments	7.2	Financial assets at fair value through profit or loss*	Fair value*
Financial liabilities:			
Borrowings and overdrafts	5.5	Financial liabilities	Amortised cost
Trade payables	4.3	Financial liabilities	Amortised cost
Other payables	4.3	Financial liabilities	Amortised cost
Accruals	4.3	Financial liabilities	Amortised cost
Partnership Bonus	4.3	Financial liabilities	Amortised cost
Finance lease liabilities	5.6	Financial liabilities	Amortised cost
Derivative financial instruments	7.2	Financial liabilities at fair value through profit or loss*	Fair value*

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

Notes to the consolidated financial statements (continued)

1.1 Accounting principles and policies (continued)

1.1.5 Significant accounting policies (continued)

Offsetting

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

Foreign currencies

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

1.1.6 Critical accounting estimates and judgements

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

The preparation of the financial statements requires management to make estimates and 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:

- **Retirement benefits:** Details of estimates, judgements and assumptions are given in note 6.1
- **Provisions and liabilities:** Details of estimates, judgements and assumptions are given in notes 4.3 and 4.4
- **Impairment:** Details of estimates, judgements and assumptions are given in notes 3.1 and 3.2
- **Depreciation and amortisation:** Details of estimates, judgements and assumptions are given in notes 3.1 and 3.2

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 debt position, excluding the pension deficit and operating leases.

Notes to the consolidated financial statements (continued)

2 Group performance

In this section

This section focusses on our performance during the year ended 28 January 2017. Information is provided on segmental performance, exceptional items, operating expenses, Partner-related costs and taxation. This section also includes a reconciliation of our profit before tax to the cash generated from operations before Partnership Bonus, which shows how our performance translates into cash.

2.1 Segmental reporting

Accounting policies

Revenue: Sales of goods and services, including warranties and extended warranties, are recognised as revenue when the goods have been delivered or the services rendered. Revenue in respect of 'sale or return sales' which represents concession income is stated at the value of the margin that the 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 Partnership Board shortly after the year-end.

It is recorded in the year it relates to rather than the year it was declared because there is a constructive obligation to pay a Partnership Bonus and 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. For the year ended 28 January 2017, 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, shared 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 after the exceptional items.

From 29 January 2017, the activities of Partnership Services became part of the responsibility of the Group Division. In the year ended 27 January 2018, the operating segments will be John Lewis, Waitrose and Group.

Notes to the consolidated financial statements (continued)

2.1 Segmental reporting (continued)

2017	Waitrose £m	John Lewis £m	Partnership Services and Group £m	Total £m
Gross sales	**6,633.2**	**4,741.0**	**–**	**11,374.2**
Adjustment for sale or return sales	**–**	**(229.2)**	**–**	**(229.2)**
Value added tax	**(387.7)**	**(731.1)**	**–**	**(1,118.8)**
Revenue	**6,245.5**	**3,780.7**	**–**	**10,026.2**
Operating profit before exceptional items, Partnership Bonus and profit on sale of property[1]	**252.7**	**241.5**	**(21.0)**	**473.2**
Profit on sale of property	**0.8**	**1.7**	**–**	**2.5**
Operating profit before exceptional items and Partnership Bonus	**253.5**	**243.2**	**(21.0)**	**475.7**
Exceptional items	**(47.3)**	**(11.8)**	**230.3**	**171.2**
Operating profit before Partnership Bonus	**206.2**	**231.4**	**209.3**	**646.9**
Finance costs				**(108.6)**
Finance income				**1.9**
Partnership Bonus				**(89.4)**
Profit before tax				**450.8**
Taxation				**(97.9)**
Profit for the year				**352.9**
Reconciliation of Profit before Partnership Bonus, tax and exceptional items to Profit before tax:				
Profit before Partnership Bonus, tax and exceptional items				**369.0**
Partnership Bonus				**(89.4)**
Exceptional items				**171.2**
Profit before tax				**450.8**
Segment assets[2]	**2,946.1**	**2,136.9**	**1,203.0**	**6,286.0**
Segment liabilities	**(789.5)**	**(908.7)**	**(2,534.4)**	**(4,232.6)**
Net assets	**2,156.6**	**1,228.2**	**(1,331.4)**	**2,053.4**
Other segment items:				
– Depreciation	**(191.0)**	**(112.1)**	**(16.6)**	**(319.7)**
– Amortisation	**(45.1)**	**(44.8)**	**(18.9)**	**(108.8)**
– Capital expenditure – property, plant and equipment	**113.5**	**143.0**	**8.9**	**265.4**
– Capital expenditure – intangible assets	**52.4**	**83.8**	**21.0**	**157.2**
– Movement in provisions – increase	**2.0**	**0.4**	**47.3**	**49.7**

[1] Included within operating profit before exceptional items, Partnership Bonus and profit on sale of property is a £0.3m (2016: £nil) share of profits of a joint venture in the John Lewis Division (see note 3.3) and an impairment charge of £38.0m (2016: £5.7m) of which £37.7m (2016: £5.7m) is in the Waitrose Division and £0.3m (2016: £nil) is in the John Lewis Division (see notes 3.1 and 3.2).

[2] Included within segment assets at 28 January 2017 is one property asset in the John Lewis Division which was recorded as held for sale totalling £8.1m (2016: £nil).

Notes to the consolidated financial statements (continued)

2.1 Segmental reporting (continued)

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 items, Partnership Bonus and profit on sale of property[1]	232.6	248.7	(83.4)	397.9
Profit on sale of property	–	1.5	–	1.5
Operating profit before exceptional items and Partnership Bonus	232.6	250.2	(83.4)	399.4
Exceptional items	–	–	129.3	129.3
Operating profit before Partnership Bonus	232.6	250.2	45.9	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 items to Profit before tax:				
Profit before Partnership Bonus, tax and exceptional items				304.1
Partnership Bonus				(145.0)
Exceptional items				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

[1] Included within operating profit before exceptional items, Partnership Bonus and profit on sale of property is an impairment charge of £5.7m in the Waitrose Division (see notes 3.1 and 3.2).

Notes to the consolidated financial statements (continued)

2.2 Operating expenses before exceptional items and Partnership Bonus

Operating expenses before exceptional items and Partnership Bonus	**2017 £m**	2016 £m
Branch operating expenses	**(2,310.8)**	(2,235.6)
Administrative expenses	**(699.5)**	(756.9)
	(3,010.3)	(2,992.5)

2.3 Exceptional items

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

Exceptional items	**2017 Operating income/ (expenses) £m**	**2017 Taxation £m**	2016 Operating income £m	2016 Taxation £m
Reduction in pension obligation (a)	**270.0**	**(48.6)**	–	–
Strategic review (b)	**(42.9)**	**5.1**	–	–
Pay provision (c)	**(36.0)**	**7.1**	–	–
Restructuring and redundancy (d)	**(20.7)**	**3.9**	–	–
Profit on disposal of items previously recognised as exceptional (e)	**0.8**	**(0.1)**	129.3	(25.1)
	171.2	**(32.6)**	129.3	(25.1)

Exceptional items in the year to 28 January 2017 are as follows:

a) On 20 January 2017, the Group announced that the annual discretionary increase for pension in retirement built up before 6 April 1997 will be expected to increase in line with CPI inflation (up to a maximum of 2.5%), instead of RPI inflation (up to a maximum of 5%). As a result, an exceptional past service credit has been recorded in operating income in the year to 28 January 2017 of £270.0m. This reflects a reduction in the pension obligation as a result of a change in the constructive obligation in relation to discretionary pension increases built up before 6 April 1997.

b) Following a strategic review, the Group has recognised an exceptional charge of £42.9m in Waitrose. This is in relation to the write down of property, other assets and related costs that are no longer intended to be developed or are now being exited. £27.5m relates to strategic land holdings, £13.9m relates to stores, and abortive property project costs and £1.5m relates to other assets.

c) An exceptional charge of £36.0m was recorded in relation to payments and associated costs in connection with some of our pay practices which have technically not complied with the National Minimum Wage (NMW) Regulations. This charge principally relates to payments that are required to be made to recipient Partners and former Partners for the previous six years. This has come about in the main because our pay averaging arrangements do not meet the strict timing requirements of the NMW Regulations; although Partners will, over the course of a year, usually have received the correct pay, in some months where greater than average hours are worked they will have been paid less than the hourly rate stipulated in the NMW Regulations. We are now required to make good those amounts.

   The complexity involved in applying the NMW Regulations to our pay arrangements means that the ultimate resolution of the liability may result in an amount that is different from our best estimate and any difference will be reflected in the period in which new information becomes available.

Notes to the consolidated financial statements (continued)

2.3 Exceptional items (continued)

d) Given the significant changes that are taking place across the retail sector and aligned to the It's Your Business 2028 strategy, the Group is reviewing all of its operations, focussing on improving productivity and restructuring to ensure we are well positioned for the future. This will involve a period of significant change, investment and innovation across the Group. As a result, for the year ended 28 January 2017, exceptional restructuring and redundancy costs of £20.7m have been recognised principally in relation to distribution and contact centres and head office operations.

e) Exceptional operating income of £0.8m was recognised on finalisation of a prior year property disposal, which was previously recorded as exceptional. On 16 April 2015, the Group disposed of a property which was previously held for sale. The profit on disposal of £129.3m was recorded as exceptional operating income in the year to 30 January 2016. A tax charge of £25.1m was recognised on the exceptional items in the year to 30 January 2016.

In assessing whether income and expense items meet the Group's criteria as exceptional, items totalling £0.7m in Waitrose, £3.8m in John Lewis and £0.6m in Partnership Services and Group which were reflected as non-exceptional operating expenses in the first half of the year, have subsequently been reclassified to exceptional.

2.4 Profit before tax

	2017 £m	2016 £m
Staff costs (note 2.6.2)	**(1,817.2)**	(1,889.3)
Depreciation – owned assets[1]	**(317.8)**	(283.2)
Depreciation – assets held under finance leases	**(1.9)**	(2.8)
Amortisation of intangible assets[2]	**(108.8)**	(91.2)
Net profit on sale of property (including exceptional items)	**3.3**	127.7
Loss on disposal of other plant and equipment and intangible assets	**–**	(2.9)
Inventory – cost of inventory recognised as an expense	**(6,633.1)**	(6,442.1)
Operating lease rentals:		
– land and buildings	**(177.7)**	(168.4)
– plant and machinery	**(0.5)**	(0.5)
Sub-lease income:		
– land and buildings	**5.9**	6.1

[1] Included within depreciation – owned assets is an impairment charge of £34.7m (2016: £5.7m) of which £34.4m (2016: £5.7m) is in the Waitrose Division and £0.3m (2016: £nil) is in the John Lewis Division (see note 3.2).

[2] Included within amortisation of intangible assets is an impairment charge of £3.3m (2016: £nil) in the Waitrose Division (see note 3.1).

Contingency rents expensed during the year were £1.0m (2016: £2.5m). Contingency rents are determined based on store revenues.

Notes to the consolidated financial statements (continued)

2.4 Profit before tax (continued)

Total auditor's remuneration is included within administrative expenses, and is payable to our auditor, KPMG LLP (2016: PricewaterhouseCoopers LLP), as analysed below:

Auditor's remuneration	2017 £m	2016*# £m
Audit and audit-related services:		
– Audit of the parent company and consolidated financial statements	**(0.3)**	(0.3)
– Audit of the Company's subsidiaries	**(0.6)**	(0.5)
	(0.9)	(0.8)
Non-audit services:		
– Other assurance services	**(0.2)**	(0.1)
	(0.2)	(0.1)
Total fees	**(1.1)**	(0.9)

* The Group's auditor in 2016 was PricewaterhouseCoopers LLP.

\# The auditor of the Group's pension scheme is PricewaterhouseCoopers LLP. The aggregate fee for audit services to the pension scheme during the year ended 30 January 2016 was £57,900.

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

	2017 £m	2016 £m
Profit before tax	**450.8**	288.4
Amortisation of intangible assets	**108.8**	91.2
Depreciation	**319.7**	286.0
Share of profit of joint venture (net of tax)	**(0.3)**	–
Net finance costs	**106.7**	95.3
Partnership Bonus	**89.4**	145.0
Fair value (gains)/losses on derivative financial instruments	**(1.9)**	0.7
Profit on disposal of property, plant and equipment and intangible assets	**(0.3)**	(124.8)
Increase in inventories	**(5.9)**	(41.2)
Increase in receivables	**(15.4)**	(18.9)
Increase in payables	**89.6**	103.5
(Decrease)/increase in retirement benefit obligations	**(265.3)**	66.6
Increase in provisions	**32.3**	23.9
Cash generated from operations before Partnership Bonus	**908.2**	915.7

Notes to the consolidated financial statements (continued)

2.6 Partners

2.6.1 Partner numbers

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

	2017	2016
John Lewis	**29,300**	29,700
Waitrose	**57,000**	59,000
Partnership Services and Group	**1,700**	2,000
	88,000	90,700

2.6.2 Partner pay and benefits

Employment and related costs were as follows:

	2017 **£m**	2016 £m
Staff costs (excluding exceptional items):		
Wages and salaries	**(1,423.7)**	(1,380.3)
Social security costs	**(107.6)**	(101.9)
Partnership Bonus	**(79.0)**	(128.6)
Employers' national insurance on Partnership Bonus	**(10.4)**	(16.4)
Other pension expenses (note 6.1.2)	**(187.9)**	(245.3)
Long leave cost	**(8.6)**	(16.8)
Total before Partner discounts	**(1,817.2)**	(1,889.3)
Partner discounts (excluded from revenue)	**(73.4)**	(74.7)
	(1,890.6)	(1,964.0)
Included above are the following amounts in respect of key management compensation:		
Salaries and short-term benefits	**(17.0)**	(16.4)
Post-employment benefits[1]	**(2.5)**	(3.6)
Termination benefits[2]	**–**	(2.3)
	(19.5)	(22.3)

[1] Includes cash supplements in lieu of future pension accrual.
[2] Includes contractual payments and compensation for loss of office.

Key management includes 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.

Notes to the consolidated financial statements (continued)

2.6 Partners (continued)

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 28 January 2017 and 30 January 2016 of the Chairman, who was also the highest paid Director, were £1,413,000 (2016: £1,526,000), comprising pay of £1,103,000 (2016: £1,051,000), Partnership Bonus of £nil (2016: £105,000), pension supplement in lieu of further defined pension accrual of £296,000 (2016: £356,000) and benefits with a cash value of £14,000 (2016: £14,000).

Pension arrangements

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. During the year, the total pension supplement paid to the Directors was £0.8m (2016: £1.1m). The aggregate defined benefit pension entitlement accrued at the end of the year was £1.1m (2016: £1.1m) relating to seven (2016: seven) Directors. At the end of the reporting period, one (2016: one) Director continues to accrue further benefits in the Partnership's pension scheme. The aggregate value of the Company's contribution to this scheme in respect of that Director was £0.1m (2016: rounds to £nil).

The Chairman's aggregate defined benefit pension entitlement from the age of 60 accrued at the end of the year was £300,000 per annum (2016 restated[1]: £286,000 per annum). There was no increase in the accrued income entitlement above the consumer price inflation during the year.

Payments for loss of office

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. As disclosed in last year's report, in connection with his leaving the Partnership he was paid £988,523 in lieu of salary, car, pension and other benefits for the remainder of his contractual notice period and £237,132 as compensation for loss of office.

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.

[1] On review of the Chairman's aggregate defined benefit pension entitlement, it was identified that a restatement was required of the 2016 figure from £256,000 as previously disclosed to £286,000.

Directors' emoluments have been summarised below.

	2017	2016
	£m	£m
Aggregate emoluments	**(4.4)**	(5.2)

The table above includes payments to Lord Price for qualifying services as a Director for the year up until his cessation as a Director of the Partnership Board on 18 March 2016. Included in this is payment of £642,541 in lieu of his accrued long leave entitlement. Also included are payments made in March 2017 in respect of his Partnership Bonus prorated to 18 March 2016 and Partnership Bonus on his long leave entitlement. These payments were disclosed in last year's Remuneration Committee report.

Notes to the consolidated financial statements (continued)

2.7 Taxation

Accounting policy

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

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

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

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

2.7.1 Analysis of tax charge for the year

Recognised in the income statement	2017 £m	2016 £m
Current tax – current year	**(72.2)**	(74.2)
Current tax – adjustment in respect of prior years	**6.1**	2.4
Total current tax charge	**(66.1)**	(71.8)
Deferred tax – current year	**(38.3)**	(0.3)
Deferred tax – rate change	**9.3**	6.2
Deferred tax – adjustment in respect of prior years	**(2.8)**	(0.1)
	(97.9)	(66.0)

Tax credited/(charged) to other comprehensive income	2017 £m	2016 £m
Current tax on pension scheme	**24.7**	–
Deferred tax on pension scheme	**46.1**	(94.6)
Deferred tax on cash flow hedges	**0.3**	(1.4)
	71.1	(96.0)

Notes to the consolidated financial statements (continued)

2.7 Taxation (continued)

2.7.2 Factors affecting tax charge for the year

The tax charge for the year is higher (2016: higher) than the standard corporation tax rate of 20.0% (2016: 20.17%). The differences are explained below:

	2017 **£m**	2016 £m
Profit before tax	**450.8**	288.4
Profit before tax multiplied by standard rate of corporation tax in the UK of 20.0% (2016: 20.17%)	**(90.2)**	(58.2)
Effects of:		
Changes in tax rate	**9.3**	6.2
Adjustment to current tax in respect of prior years	**6.1**	2.4
Adjustment to deferred tax in respect of prior years	**(2.8)**	(0.1)
Depreciation on assets not qualifying for tax relief	**(12.3)**	(13.4)
Difference between accounting and tax base for land and buildings	**(5.1)**	(1.8)
Differences in overseas tax rates	**2.0**	2.0
Sundry disallowables	**(4.8)**	(1.0)
Other permanent differences on sale of property	**(0.1)**	(2.1)
Total tax charge	**(97.9)**	(66.0)
Effective tax rate (%)	**21.7**	22.9

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 17% for those assets or liabilities expected to reverse after 1 April 2020. In the year to 30 January 2016, a tax rate of 20% was used 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.

The movement on the deferred tax account is shown below:

Deferred tax	**2017** **£m**	2016 £m
Opening net asset	**33.6**	123.8
(Charged)/credited to income statement	**(31.8)**	5.8
Credited/(charged) to other comprehensive income/(expense)	**46.4**	(96.0)
Closing net asset	**48.2**	33.6

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 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)
Credited/(charged) to income statement	8.1	(6.5)	1.6	3.2
At 28 January 2017	**(101.5)**	**(8.8)**	**(38.7)**	**(149.0)**

Deferred tax assets	Capital gains tax on land and buildings £m	Pensions and provisions £m	Other £m	Total £m
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 to other comprehensive income/(expense)	–	(94.6)	(1.4)	(96.0)
At 30 January 2016	6.5	178.1	1.2	185.8
Credited/(charged) to income statement	6.3	(43.0)	1.7	(35.0)
Credited to other comprehensive income/(expense)	–	46.1	0.3	46.4
At 28 January 2017	**12.8**	**181.2**	**3.2**	**197.2**

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 28 January 2017 (2016: £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 Group 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 28 January 2017 was £48.2m (2016: £33.6m asset). The net deferred tax asset is recoverable after more than one year.

No deferred tax liability is recognised on temporary differences of £24.3m (2016: £16.3m) relating to the unremitted earnings of overseas subsidiaries of the Group. UK tax legislation relating to company distributions provides for exemption from tax for most UK and overseas repatriated profits, subject to certain exceptions and no dividend withholding tax is levied in the Group’s overseas entity jurisdictions.

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. In the March 2016 Budget a further reduction to 17% applicable from 1 April 2020 was also announced. The 17% rate was substantively enacted in September 2016.

The effect of these rate changes was to decrease the deferred tax asset by £6.0m, with a £15.3m charge being taken to other comprehensive income and a £9.3m 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, investment in and loans to our joint venture as well as commitments for future expenditure which will be used to help generate our performance in future years. Assets held for sale are included within this section as they relate to current assets which have previously been used in delivering our results.

3.1 Intangible assets

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.

Impairment: Assets are reviewed for impairment at least annually or whenever events or circumstances indicate that the net book value may not be recoverable. 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.

Where an impairment loss subsequently reverses, a reversal of an impairment loss is recognised immediately as a credit to the income statement.

Critical accounting estimates and judgements

Impairment: The Group is required to test whether assets in use in operations have suffered any impairment. Given the degree of subjectivity involved, actual outcomes could vary significantly from these estimates.

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.

Notes to the consolidated financial statements (continued)

3.1 Intangible assets (continued)

	Computer software			
	Purchased	Internally developed	Work in progress	Total
Intangible assets	**£m**	**£m**	**£m**	**£m**
Cost				
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 and write-offs	(7.4)	(11.2)	–	(18.6)
At 30 January 2016	195.5	394.7	137.2	727.4
Additions	–	–	157.2	157.2
Transfers	24.8	108.6	(133.4)	–
Disposals and write-offs	(3.7)	(12.0)	(3.6)	(19.3)
At 28 January 2017	**216.6**	**491.3**	**157.4**	**865.3**
Accumulated amortisation				
At 31 January 2015	(78.8)	(185.3)	–	(264.1)
Charge for the year	(34.2)	(57.0)	–	(91.2)
Disposals and write-offs	6.5	9.8	–	16.3
At 30 January 2016	(106.5)	(232.5)	–	(339.0)
Charge for the year*	(36.3)	(72.5)	–	(108.8)
Disposals and write-offs	3.7	11.5	–	15.2
At 28 January 2017	**(139.1)**	**(293.5)**	**–**	**(432.6)**
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
Net book value at January 2017	**77.5**	**197.8**	**157.4**	**432.7**

* For the year ended 28 January 2017, this includes an impairment charge of £3.3m to intangible assets (2016: £nil) in the Waitrose Division.

For the year to 28 January 2017, computer systems valued at £133.4m (2016: £109.1m) 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.

Notes to the consolidated financial statements (continued)

3.2 Property, plant and equipment (continued)

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 lives, at the following rates:

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

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

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

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

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 CGUs 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 CGU, 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 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 and write-offs	(42.7)	(75.1)	–	(117.8)
At 30 January 2016	4,465.5	1,877.6	135.3	6,478.4
Additions	–	–	265.4	265.4
Transfers	145.2	168.1	(313.3)	–
Disposals and write-offs	(26.7)	(88.5)	(1.5)	(116.7)
Transfers to assets held for sale	(14.5)	–	–	(14.5)
At 28 January 2017	**4,569.5**	**1,957.2**	**85.9**	**6,612.6**
Accumulated depreciation				
At 31 January 2015	(924.7)	(1,175.2)	–	(2,099.9)
Charge for the year*	(123.5)	(162.5)	–	(286.0)
Disposals and write-offs	23.4	73.4	–	96.8
At 30 January 2016	(1,024.8)	(1,264.3)	–	(2,289.1)
Charge for the year*	(159.5)	(160.2)	–	(319.7)
Disposals and write-offs	16.7	85.5	–	102.2
Transfers to assets held for sale	6.4	–	–	6.4
At 28 January 2017	**(1,161.2)**	**(1,339.0)**	**–**	**(2,500.2)**
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
Net book value at January 2017	**3,408.3**	**618.2**	**85.9**	**4,112.4**

* For the year ended 28 January 2017, this includes an impairment charge of £34.7m to land and buildings (2016: £5.7m).

Included above are land and building assets held under finance leases with a net book value of £16.5m (2016: £20.7m).

In accordance with IAS 36, the Group tests its property, plant and equipment for impairment at least annually or whenever events or circumstances indicate that the value on the balance sheet may not be recoverable. The impairment 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 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 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 derived from the Group's pre-tax weighted average cost of capital of 7% to 9% (2016: 9% to 10%).

Notes to the consolidated financial statements (continued)

3.2 Property, plant and equipment (continued)

The impairment review performed considers the value in use calculation based on the above methodology and assumptions, as well as other potential impairment triggers such as strategy changes. Following the impairment review, the Group recognised an impairment charge to land and buildings in the year of £34.4m in the Waitrose Division and £0.3m in the John Lewis Division (2016: £5.7m in the Waitrose Division). The impairment charge reflects the revision of the long-term forecast cash flows as a result of trading in a highly competitive and deflationary market coupled with the write down of property, other assets and related costs as part of the strategic review.

A reduction of 0.5% in the long-term growth rate would result in an additional impairment charge of £2.4m (2016: £3.3m). An increase in the discount rate of 0.5% would result in an additional impairment charge of £1.5m (2016: £3.3m).

3.3 Investment in and loans to joint venture

Accounting policy

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

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

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

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

Joint venture	Investment £m	Loan £m	Total £m
Cost			
At 30 January 2016	–	–	–
Additions	2.1	1.5	3.6
At 28 January 2017	**2.1**	**1.5**	**3.6**
Share of profit			
At 30 January 2016	–	–	–
Share of profit	0.3	–	0.3
At 28 January 2017	**0.3**	**–**	**0.3**
At 30 January 2016	–	–	–
At 28 January 2017	**2.4**	**1.5**	**3.9**

Notes to the consolidated financial statements (continued)

3.4 Assets held for sale

At 28 January 2017, one property asset was recorded as held for sale totalling £8.1m (2016: £nil), in the John Lewis Division.

3.5 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. See note 5.6 for leases accounting policy.

3.5.1 Capital commitments

At 28 January 2017, contracts had been entered into for future capital expenditure of £19.5m (2016: £30.3m) of which £18.7m (2016: £26.5m) relates to property, plant and equipment and £0.8m (2016: £3.8m) relates to intangible assets.

3.5.2 Lease guarantees

John Lewis plc continues to provide lease guarantees in favour of the Group's former associate company, Ocado Limited, in respect of leased land and buildings. The maximum liability due from the Group as the guarantor is £6.8m (2016: £6.8m) which will become payable if Ocado Limited defaults on rental payments. The likely timing of this cash outflow is therefore uncertain.

3.5.3 Commitments under operating leases

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

Future aggregate minimum lease payments under non-cancellable operating leases, payable:	**2017 Land and buildings £m**	2016 Land and buildings £m
Within one year	**(183.3)**	(176.9)
Later than one year and less than five years	**(711.4)**	(676.6)
After five years	**(2,954.6)**	(2,709.5)

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years comprise the following:	**2017 Land and buildings £m**	2016 Land and buildings £m
Later than five years and less than 10 years	**(833.7)**	(763.5)
Later than 10 years and less than 20 years	**(1,116.9)**	(990.8)
Later than 20 years and less than 40 years	**(488.3)**	(466.0)
Later than 40 years and less than 80 years	**(205.1)**	(207.9)
After 80 years	**(310.6)**	(281.3)
	(2,954.6)	(2,709.5)

Total future sub-lease payments receivable relating to the above operating leases amounted to £10.4m (2016: £11.0m).

Amounts recognised in the income statement:	**2017 £m**	2016 £m
Operating lease rentals:		
– land and buildings	**(177.7)**	(168.4)
– plant and machinery	**(0.5)**	(0.5)
Sub-lease income:		
– land and buildings	**5.9**	6.1

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	**2017** **£m**	2016 £m
Raw materials	**5.2**	4.7
Work in progress	**0.2**	1.4
Finished goods and goods for resale	**622.4**	615.8
	627.8	621.9

Provisions against inventories of £11.8m were charged (2016: £7.1m 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	2017 £m	2016 £m
Current:		
Trade receivables	**67.8**	61.0
Other receivables	**59.6**	61.1
Prepayments and accrued income	**115.2**	101.6
	242.6	223.7
Non-current:		
Other receivables	**17.1**	20.6
Prepayments and accrued income	**44.1**	45.1
	61.2	65.7

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 £9.8m (2016: £7.8m). Supplier income that has been invoiced but not paid is included in trade receivables and supplier income that has been invoiced but not yet settled against future trade payable balances is included in trade payables. As at 28 January 2017, trade and other receivables of £1.2m (2016: £1.4m) were fully impaired.

The creation and release of the allowance for impaired receivables has been included in branch operating expenses in the income statement. As at 28 January 2017, trade and other receivables of £17.1m (2016: £17.6m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

Ageing analysis	2017 £m	2016 £m
Up to 3 months past due	**15.0**	15.3
3 to 12 months past due	**0.9**	1.0
Over 12 months past due	**1.2**	1.3
	17.1	17.6

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.

Notes to the consolidated financial statements (continued)

4.3 Trade and other payables (continued)

Trade and other payables	**2017 £m**	2016 £m
Current:		
Trade payables	**(961.6)**	(924.6)
Amounts owed to parent undertaking	**(108.1)**	(109.4)
Other payables	**(168.2)**	(157.0)
Other taxation and social security	**(176.9)**	(157.6)
Accruals	**(170.6)**	(179.0)
Deferred income	**(78.4)**	(66.6)
Partnership Bonus	**(81.8)**	(131.2)
	(1,745.6)	(1,725.4)
Non-current:		
Other payables	**(0.3)**	(2.4)
Deferred income	**(219.4)**	(206.9)
	(219.7)	(209.3)

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.

Employee benefits: 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. Actuarial gains or losses are taken directly to the consolidated income statement.

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, property related costs and pay provisions.

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.

Notes to the consolidated financial statements (continued)

4.4 Provisions (continued)

Provisions	Long leave £m	Service guarantee £m	Customer refunds £m	Insurance claims £m	Other £m	Total £m
At 30 January 2016	(124.2)	(67.4)	(31.5)	(28.9)	(37.8)	(289.8)
Charged to income statement	(26.0)	(19.4)	(60.6)	(8.0)	(70.2)	(184.2)
Released to income statement	–	4.1	–	4.9	2.9	11.9
Utilised	10.1	17.9	57.0	5.7	31.9	122.6
At 28 January 2017	**(140.1)**	**(64.8)**	**(35.1)**	**(26.3)**	**(73.2)**	**(339.5)**
Of which:						
Current	(31.9)	(22.0)	(35.1)	(14.3)	(64.4)	(167.7)
Non-current	(108.2)	(42.8)	–	(12.0)	(8.8)	(171.8)

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 real discount rate, where a rate appropriate to the shorter duration of the long leave liability is used, so as to accrue the cost over Partners' service periods.

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

Provisions for customer refunds 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, property related costs and pay provisions.

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

Notes to the consolidated financial statements (continued)

5 Financing

In this section

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

5.1 Net finance costs

	2017 £m	2016 £m
Finance costs		
Interest payable on:		
Bank overdrafts	**(1.1)**	(1.4)
Other loans repayable within five years	**(23.6)**	(26.1)
Other loans repayable in more than five years	**(31.0)**	(31.0)
Finance lease interest payable	**(1.0)**	(1.3)
Amortisation of issue costs of bonds and loan facilities	**(2.0)**	(1.6)
Preference Share dividends	**(0.1)**	(0.1)
Finance costs in respect of borrowings	**(58.8)**	(61.5)
Fair value measurements and other	**(2.8)**	(1.1)
Net finance costs arising on defined benefit and other employee benefit schemes	**(47.0)**	(36.9)
Total finance costs	**(108.6)**	(99.5)
Finance income		
Finance income in respect of cash and short-term investments	**1.7**	1.5
Fair value measurements and other	**0.2**	0.4
Net finance income arising on other employee benefit schemes	**–**	2.3
Total finance income	**1.9**	4.2
Net finance costs	**(106.7)**	(95.3)

	2017 £m	2016 £m
Total finance costs in respect of borrowings	**(58.8)**	(61.5)
Total finance income in respect of cash and short-term investments	**1.7**	1.5
Net finance costs in respect of borrowings and short-term investments	**(57.1)**	(60.0)
Fair value measurements and other	**(2.6)**	(0.7)
Net finance costs arising on defined benefit retirement scheme	**(29.6)**	(36.9)
Net finance (costs)/income arising on other employee benefit schemes	**(17.4)**	2.3
Net finance costs	**(106.7)**	(95.3)

Notes to the consolidated financial statements (continued)

5.2 Analysis of net debt

	2016 £m	Cash flow £m	Other non-cash movements £m	2017 £m
Non-current assets				
Derivative financial instruments	–	–	0.1	**0.1**
	–	–	0.1	**0.1**
Current assets				
Cash and cash equivalents	667.4	6.2	0.1	**673.7**
Short-term investments	10.0	50.0	–	**60.0**
Derivative financial instruments	11.5	31.7	(27.9)	**15.3**
	688.9	87.9	(27.8)	**749.0**
Current liabilities				
Borrowings and overdrafts	(57.8)	57.9	(0.1)	–
Unamortised bond transaction costs	0.1	–	(0.1)	–
Finance leases	(2.6)	2.8	(1.4)	**(1.2)**
Derivative financial instruments	(2.3)	(2.5)	(2.4)	**(7.2)**
	(62.6)	58.2	(4.0)	**(8.4)**
Non-current liabilities				
Borrowings	(877.3)	2.3	–	**(875.0)**
Unamortised bond transaction costs	9.7	3.3	(0.7)	**12.3**
Finance leases	(24.7)	–	1.4	**(23.3)**
Derivative financial instruments	–	–	(1.1)	**(1.1)**
	(892.3)	5.6	(0.4)	**(887.1)**
Total net debt	(266.0)	151.7	(32.1)	**(146.4)**

Reconciliation of net cash flow to net debt

	2017 £m	2016 £m
Increase in net cash and cash equivalents in the year	**6.3**	330.4
Cash outflow from movement in debt, lease financing and derivative financial instruments	**95.4**	4.0
Cash outflow from short-term investments	**50.0**	10.0
Movement in net debt for the year	**151.7**	344.4
Opening net debt	**(266.0)**	(615.2)
Non-cash movements	**(32.1)**	4.8
Closing net debt	**(146.4)**	(266.0)

Notes to the consolidated financial statements (continued)

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.

Short-term investments	**2017 £m**	2016 £m
Short-term investments	**60.0**	10.0

For the year ended 28 January 2017, the effective interest rate on short-term investments was 0.5% (2016: 0.6%) and these investments had an average maturity of 93 days (2016: 91 days).

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 statement of cash flows, net cash and cash equivalents comprise cash and cash equivalents, as defined above, net of bank overdrafts.

Cash and cash equivalents	**2017 £m**	2016 £m
Cash at bank and in hand	**115.2**	89.1
Short-term deposits	**558.5**	578.3
	673.7	667.4

For the year ended 28 January 2017, the effective interest rate on short-term deposits was 0.4% (2016: 0.5%) and these deposits had an average maturity of 1 day (2016: 1 day).

At 28 January 2017, £33.4m (2016: £35.5m) of the Group's cash balance and £0.1m (2016: £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:

	2017 £m	2016 £m
Cash and cash equivalents, as above	**673.7**	667.4
Less bank overdrafts	–	(0.1)
Net cash and cash equivalents	**673.7**	667.3

Notes to the consolidated financial statements (continued)

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.

Borrowings and overdrafts	**2017 £m**	2016 £m
Current:		
Bank overdraft	**–**	(0.1)
Partnership Bond, 2016	**–**	(57.7)
Unamortised bond transaction costs	**–**	0.1
	–	(57.7)
Non-current:		
8⅜% Bonds, 2019	**(275.0)**	(275.0)
6⅛% Bonds, 2025	**(300.0)**	(300.0)
4¼% Bonds, 2034	**(300.0)**	(300.0)
Unamortised bond transaction costs	**12.3**	9.7
5% First Cumulative Preference Stock	**–**	(1.5)
7% Cumulative Preference Stock	**–**	(0.8)
	(862.7)	(867.6)

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

In April 2016 the Group repaid the Partnership Bond amounting to £57.8m. In November 2016 the Group cancelled and repaid its 5% first Cumulative Preference Stock and 7% Cumulative Preference Stock.

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.

Notes to the consolidated financial statements (continued)

5.6 Finance lease liabilities (continued)

Finance lease liabilities	**2017 £m**	2016 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	**(2.0)**	(3.6)
Later than one year but not more than five	**(5.9)**	(7.1)
More than five years	**(36.4)**	(37.5)
	(44.3)	(48.2)
Future finance charge on finance leases	**19.8**	20.9
Present value of finance lease liabilities	**(24.5)**	(27.3)
Of which:		
Not later than one year	**(1.2)**	(2.6)
Later than one year but not more than five	**(2.8)**	(3.8)
More than five years	**(20.5)**	(20.9)

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

Notes to the consolidated financial statements (continued)

6 Pensions

In this section

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

6.1 Retirement benefits

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

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

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

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

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

Accounting policy

Employee benefits: The defined benefit section of the scheme's assets are 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 credits/costs are those credits/costs in relation to prior years' service costs as a result of changes to future benefits earned by members. Past service credits/costs are recognised immediately in the consolidated income statement.

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

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

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

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

Notes to the consolidated financial statements (continued)

6.1 Retirement benefits (continued)

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.

Retirement benefits

The pension scheme operated by the Group is the John Lewis Partnership Trust for Pensions. The scheme includes a funded final salary defined benefit section, providing pensions and death benefits to members, and is open to new members. All contributions to the defined benefit section of the pension scheme are funded by the 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 took place in two stages. From 1 April 2015 the waiting period to join the defined benefit section of the scheme was increased from three to five years. Then from 1 April 2016, the principal changes were to reduce the defined benefit accrual rate from 1/60th to 1/120th of final salary, and to provide an enhanced level of defined contribution pension for those Partners who have completed the waiting period. Other changes, applying only to any pension built up after 1 April 2016, included linking the Group normal retirement age to the State Pension Age, and a change in the rate of pension increases in payment.

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

Funding valuation

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

The valuation calculated under the funding valuation basis of £479.0m is different from the accounting valuation which is presented on the balance sheet in the Group's financial statements of £1,013.7m. Differences arise between the funding valuation and accounting valuation, mainly due to the use of different assumptions to value the liabilities and changes in market conditions between the two valuation dates, of 31 March 2016 and 28 January 2017.

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

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

Notes to the consolidated financial statements (continued)

6.1 Retirement benefits (continued)

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

- A reduction in the contribution rate from 16.4% to 10.4% of eligible monthly payroll
- Deficit reducing contributions from 1 April 2016 to 31 March 2019 of £33m per annum to be paid in equal monthly instalments, increasing by 3% at 31 March 2017 and 31 March 2018
- Deficit reducing contributions from 1 April 2019 to 31 March 2026 of £6.6m per annum to be paid in equal monthly instalments, increasing on 31 March each year by 3%
- One off contributions of £100m and £50m due by 31 January 2017 and 31 March 2017 respectively, of which the £100m was paid on 18 January 2017 and £50m was paid on 24 February 2017. The £100m was over and above the £25m paid during the year

The balance of the deficit is expected to be met by investment returns on the scheme assets. Total contributions to the scheme in 2017/18 under this agreement are expected to be £191.9m.

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

Pension commitments recognised in these accounts have been calculated based on the most recent actuarial valuation, as at 31 March 2016, which has been updated by actuaries to reflect the assets and liabilities of the scheme as at 28 January 2017, calculated on assumptions that are appropriate for accounting under IAS 19.

Risk management

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

6.1.1 Assumptions

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

Notes to the consolidated financial statements (continued)

6.1 Retirement benefits (continued)

6.1.1 Assumptions (continued)

Financial Assumptions

Scheme assets are stated at market values at 28 January 2017. The following financial assumptions have been used to value the obligation:

	2017	2016
Discount rate	**2.90%**	3.70%
Future Retail Price Inflation (RPI)	**3.40%**	3.00%
Future Consumer Price Inflation (CPI)	**2.40%**	2.00%
Increase in earnings	**3.50%**	3.54%
Increase in pensions – in payment		
Pre-April 1997	**1.75%**	2.85%
April 1997 – April 2016	**3.10%**	2.85%
Post-April 2016	**1.75%**	1.60%
Increase in pensions – deferred	**2.40%**	2.00%

Increases in earnings are projected to be at 3.40% until 2020 and then at a long-term rate of 1.00% above consumer price inflation (2016: 1.00% above consumer price inflation). Increases in pensions in payment are projected to be 0.65% below consumer price inflation (2016: 0.15% below retail price inflation) for pensionable service built up before April 1997, 0.30% (2016: 0.15%) below retail price inflation for pensionable service built up between April 1997 and April 2016 and 0.65% (2016: 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.

Demographic assumptions

The post-retirement mortality assumptions used in valuing the pension liabilities were based on the 'S2 Light' (2016: S1 Light) series standard tables. Based on scheme experience, the probability of death at each age was multiplied by 127% for males and 106% for females. Future improvements in life expectancy have been allowed for in line with the standard CMI model projections subject to a long-term trend of 1.25%.

The average life expectancies assumed were as follows:

	2017		2016	
	Men	**Women**	Men	Women
Average life expectancy for a 65 year old (in years)	**21.6**	**24.1**	22.3	24.4
Average life expectancy at age 65, for a 50 year old (in years)	**22.8**	**25.5**	23.6	25.8

6.1.2 Amounts recognised in the financial statements

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

Notes to the consolidated financial statements (continued)

6.1 Retirement benefits (continued)

6.1.2 Amounts recognised in the financial statements (continued)

Amounts recognised in the balance sheet	2017 £m	2016 £m
Defined benefit obligation for funded arrangements	**(6,035.0)**	(5,120.0)
Defined benefit obligation for unfunded arrangements	**(24.0)**	(20.0)
Total defined benefit obligation	**(6,059.0)**	(5,140.0)
Total value of scheme assets	**5,045.3**	4,198.4
Defined benefit liability at year-end	**(1,013.7)**	(941.6)

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

- Service cost is the cost to the Group of future benefits earned by members which are attributable to members' service in the current or past periods. Past service credits/costs are those credits/costs in relation to prior years' service costs as a result of changes to future benefits earned by members
- Contribution expense in respect of Group contributions to the defined contribution section of the pension scheme and cash supplements in respect of certain Partners in lieu of future pension accrual
- Administration expenses in relation to the pension scheme
- Net interest on the net defined benefit liability, which is made up of the interest cost on pension liabilities and interest income on pension assets

Amounts recognised in the income statement	2017 £m	2016 £m
Current service cost	**(124.2)**	(228.3)
Past service credit	**270.0**	–
Contribution expense*	**(53.7)**	(10.0)
Administrative expenses – funded by the pension scheme	**(4.9)**	(4.2)
Administrative expenses – funded by the employer	**(5.1)**	(2.8)
Total operating income/(expenses)	**82.1**	(245.3)
Net interest on net defined benefit liability	**(29.6)**	(36.9)
Total pension income/(charge)	**52.5**	(282.2)

* Includes Group contributions to the defined contribution section of the pension scheme of £49.0m (2016: £5.9m), together with cash supplements in respect of certain Partners in lieu of future pension accrual of £4.7m (2016: £4.1m).

The past service credit of £270.0m relates to a reduction in pension liabilities arising from the changes to the annual discretionary increase for pension in retirement built up before 6 April 1997. See note 2.3.

Notes to the consolidated financial statements (continued)

6.1 Retirement benefits (continued)

6.1.2 Amounts recognised in the financial statements (continued)

Amounts recognised in equity	**2017 £m**	2016 £m
Return on plan assets greater/(less) than the discount rate	**581.7**	(24.3)
Remeasurements:		
– (loss)/gain from changes in financial assumptions	**(1,164.1)**	432.0
– gains from changes in demographic assumptions	**150.4**	–
– experience (losses)/gains	**(0.6)**	3.4
Total (losses)/gains recognised in equity	**(432.6)**	411.1

6.1.3 Reconciliation of retirement benefits

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

Movements in the net defined benefit liability are as follows:

- Pension income/expense, which is the income/cost associated with providing defined benefit pension benefits over the year. This is equal to the pension operating income/expense set out above in 6.1.2, but excluding contribution expense and administrative expenses met directly by the employer
- Contributions paid into the scheme will reduce the value of the net pension liability
- Gains or losses recognised in equity relating to returns on plan assets being different to the discount rate and remeasurements (explained further below)

Reconciliation of net defined benefit liability	**2017 £m**	2016 £m
Net defined benefit liability at beginning of year	**(941.6)**	(1,249.3)
Pension income/(expense)	**111.3**	(269.4)
Contributions	**249.2**	166.0
Total (losses)/gains recognised in equity	**(432.6)**	411.1
Net defined benefit liability at end of year	**(1,013.7)**	(941.6)

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

- Service cost is the cost to the Group of future benefits earned by members which are attributable to members' service in the current or past periods. Past service credits/costs are those credits/costs in relation to prior years' service costs as a result of changes to future benefits earned by members. These are charged to the income statement
- Future pension obligations are stated at present value. A discount rate is used to calculate this current value of the future liability. The interest on pensions liabilities is the unwinding of this discount rate and is charged to the income statement within net finance costs

Notes to the consolidated financial statements (continued)

6.1 Retirement benefits (continued)

6.1.3 Reconciliation of retirement benefits (continued)

- Remeasurements arise from the uncertainty in making assumptions about future events in calculating the liability. These may arise from changes in assumptions, for example movements in the discount rate, or experience adjustments which result from differences between the assumptions made and what actually occurred over the period. Remeasurements are recognised in equity and shown in the statement of comprehensive income/(expense)
- Any cash benefits paid out by the scheme will reduce the defined benefit obligation

Reconciliation of defined benefit obligation	**2017** **£m**	2016 £m
Defined benefit obligation at beginning of year	**(5,140.0)**	(5,301.0)
Current service cost	**(124.2)**	(228.3)
Past service credit	**270.0**	–
Interest on pension liabilities	**(187.9)**	(165.2)
Remeasurements		
– (loss)/gain from changes in financial assumptions	**(1,164.1)**	432.0
– gains from changes in demographic assumptions	**150.4**	–
– experience (losses)/gains	**(0.6)**	3.4
Benefits paid	**137.4**	119.1
Defined benefit obligation at end of year	**(6,059.0)**	(5,140.0)

The scheme liabilities are 54.1% in respect of active scheme participants, 18.3% in respect of deferred scheme participants and 27.6% in respect of retirees.

The weighted average duration of the scheme liabilities at the end of the year is 22 years (2016: 21 years).

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

- Interest income on assets represents the expected return on investments if it is in line with the discount rate. It is calculated as the discount rate at the beginning of the year multiplied by the value of the assets at the beginning of the year. This is recognised in net finance costs in the income statement
- Return on plan assets greater/(less) than the discount rate represent how much greater or less the actual return is than the interest income. This is recognised in equity and shown in the statement of comprehensive income/(expense)
- Any cash benefits paid out or expenses paid by the scheme will reduce the value of the scheme's assets
- Contributions paid into the scheme will increase the value of the scheme's assets

Notes to the consolidated financial statements (continued)

6.1 Retirement benefits (continued)

6.1.3 Reconciliation of retirement benefits (continued)

Reconciliation of value of assets	**2017** **£m**	2016 £m
Value of assets at the beginning of year	**4,198.4**	4,051.7
Interest income on assets	**158.3**	128.3
Return on plan assets greater/(less) than discount rate	**581.7**	(24.3)
Benefits paid	**(137.4)**	(119.1)
Administrative expenses paid	**(4.9)**	(4.2)
Contributions	**249.2**	166.0
Value of assets at the end of year	**5,045.3**	4,198.4

6.1.4 Analysis of assets

	2017		2016	
Analysis of assets	**£m**	**%**	£m	%
Listed equities	**1,462.0**	**29%**	1,224.2	29%
Private equities	**332.0**	**7%**	303.7	7%
Properties	**470.1**	**9%**	472.5	11%
Liability driven investments*	**837.9**	**17%**	–	–
Government bonds	**49.2**	**1%**	703.6	17%
Credit**	**507.9**	**10%**	393.6	9%
Infrastructure	**205.7**	**4%**	149.0	4%
Investment funds	**1,057.9**	**21%**	927.1	22%
Cash and other	**122.6**	**2%**	24.7	1%
	5,045.3		4,198.4	

* Liability driven investments are part of the Trustee's investment strategy to hedge interest rate and inflation risk.

** Credit holdings consist of short dated listed corporate bond holdings (£86.0m at 28 January 2017) and unlisted credit (£421.9m at 28 January 2017).

The Trustee's investment strategy as set out in their Statement of Investment Principles dated 10 May 2016 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 movements in interest rates and inflation. In 2016 the Trustee initiated a three to five year interest rate and inflation hedging programme which will increase the level of liability matching to 60% over this time period. As this is being done using derivatives, the allocation to return seeking assets is not intended to reduce.

Actual return on assets	**2017** **£m**	2016 £m
Interest income on assets	**158.3**	128.3
Return on plan assets greater/(less) than discount rate	**581.7**	(24.3)
Actual return on assets	**740.0**	104.0

Notes to the consolidated financial statements (continued)

6.1 Retirement benefits (continued)

6.1.5 Sensitivity analysis

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

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

	£m	% change
Liability as at 28 January 2017	**1,013.7**	
Sensitivity of 0.1% increase to:		
– Discount rate*	**(140.0)**	**(13.8%)**
– Retail price inflation	**100.0**	**9.9%**
– Consumer price inflation	**70.0**	**6.9%**
– Salary increases	**35.0**	**3.5%**
Sensitivity of one-year increase in life expectancy	**210.0**	**20.7%**

* The discount rate sensitivity does not allow for the impact of the Trustee's investment strategy. As set out in note 6.1.4 this is designed to offset movements in the discount rate and their impact on the liabilities. At 28 January 2017, an increase of 0.1% to the discount rate would have also resulted in an increase in assets of 0.6%. The increase in the assets would have reduced the impact on the net liability increase by £27.9m.

6.1.6 Other arrangements

JLP Scottish Limited Partnership

On 30 January 2010, the Group entered into an arrangement with the Pension Scheme Trustee 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.

Together with another Group 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 Group 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.

As a partner in JLP Scottish Limited Partnership, the pension scheme is entitled to an annual share of the profits of the JLP Scottish Limited Partnership each year over 21 years. At the end of this period, the partnership capital allocated to the pension scheme will be reassessed, depending on the funding position of the pension scheme at that time, with a potential value in the range of £0.5m to £99.5m. At that point, the 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 £82.8m (2016: £80.5m) investment in JLP Scottish Limited Partnership held by the pension scheme. The distribution of JLP Scottish Limited Partnership profits to the pension scheme is reflected as pension contributions in these consolidated financial statements on a cash basis.

John Lewis Properties plc Guarantee

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

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's capital management strategy is to maintain a prudent capital structure, seeking to ensure the long term financial sustainability of the Group by maintaining a financial risk profile consistent with 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 debt capital market bond issues and bank facilities. Forms of borrowing include assets acquired via finance leases and assets obtained for use via operating leases.

7.1.2 Liquidity risk

In line with Board approved treasury policy, the Group is required to hold a minimum amount of liquidity, made up of a mixture of cash and committed credit facilities. 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 November 2016 the Group re-financed its committed credit facility, increasing it from £325m to £450m, and extending the maturity to November 2021. At the year-end, the Group had undrawn committed credit facilities of £450m (2016: £325m). In addition to these facilities, the Group has listed bonds totalling £875m (2016: £875m) of which £275m mature in 2019, £300m in 2025 and £300m in 2034. The bonds are not subject to repricing, and their maturity profiles are set out in note 7.3. In April 2016 the Group repaid the Partnership Bond amounting to £57.8m. In November 2016 the Group cancelled and repaid its 5% First Cumulative Preference Stock and 7% Cumulative Preference Stock.

In October 2016, the Group undertook a consent solicitation exercise with respect to its listed bonds. Bondholders subsequently approved two amendments to the terms and conditions of the listed bonds maturing in 2025 and 2034.

The Group's listed bonds and 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.

Since the year-end, the Group has entered into a further committed credit facility of £50.0m with a maturity of March 2021.

Notes to the consolidated financial statements (continued)

7.1 Management of financial risks (continued)

7.1.2 Liquidity risk (continued)

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

	Due within 1 year	**Due between 1 and 2 years**	**Due 2 years and beyond**
	£m	**£m**	**£m**
Non-derivative financial liabilities			
Borrowings and overdrafts	**–**	**–**	**(875.0)**
Interest payments on borrowings	**(54.2)**	**(54.2)**	**(337.3)**
Finance lease liabilities	**(2.1)**	**(1.5)**	**(40.7)**
Trade and other payables	**(1,382.3)**	**(0.3)**	**–**
Derivative financial liabilities			
Derivative contracts – receipts	**288.6**	**62.1**	**–**
Derivative contracts – payments	**(275.5)**	**(62.6)**	**–**
At 28 January 2017	**(1,425.5)**	**(56.5)**	**(1,253.0)**

	Due within 1 year	Due between 1 and 2 years	Due 2 years and beyond
	£m	£m	£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)

* Excludes annual interest of £0.3m on Cumulative Preference Stock which have no fixed redemption date.

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 direct exposures on a rolling basis. Forward foreign exchange contracts used to hedge forecast currency requirements are designated as cash flow hedges with fair value movements recognised in equity. Derivative financial instruments that were designated as cash flow hedges during the year were effective. At the balance sheet date, the notional value of open forward foreign currency contracts of £349.5m (2016: £201.8m) 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:

	2017	2016
	£m	£m
Trade and other receivables	**144.5**	142.7
Cash and cash equivalents	**673.7**	667.4
Derivative financial instruments	**15.4**	11.5
	833.6	821.6

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
- 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)

7.1.7 Sensitivity analysis (continued)

	2017		2016	
	Income statement +/- £m	**Equity +/- £m**	Income statement +/- £m	Equity +/- £m
UK interest rates +/- 1% (2016: +/- 1%)	**6.4**	**–**	5.2	–
US dollar exchange rate (GBP/USD) +/- 10% (2016: +/- 10%)	**0.9**	**19.2**	0.6	11.1
Euro exchange rate (GBP/EUR) +/- 10% (2016: +/- 10%)	**0.8**	**10.7**	0.6	5.9

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 28 January 2017, there have been no transfers between any levels of the IFRS 13 fair value hierarchy and there were no reclassifications of financial assets as a result of a change in the purpose or use of those assets.

7.2.2 Fair value of derivative financial instruments

The fair value of derivative financial instruments is as follows:

	2017		2016	
Fair value of derivative financial instruments	**Assets £m**	**Liabilities £m**	Assets £m	Liabilities £m
Non-current				
Currency derivatives – cash flow hedge	**0.1**	**(1.1)**	–	–
	0.1	**(1.1)**	–	–
Current				
Currency derivatives – cash flow hedge	**14.1**	**(3.3)**	11.3	(0.4)
Other derivatives	**1.2**	**(3.9)**	0.2	(1.9)
	15.3	**(7.2)**	11.5	(2.3)

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.

Notes to the consolidated financial statements (continued)

7.2 Derivative financial instruments and financial liabilities (continued)

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

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

	2017 £m		2016 £m	
	CV	**FV**	CV	FV
Financial liabilities				
Listed bonds	**(862.7)**	**(997.3)**	(865.3)	(980.2)
Preference stock	–	–	(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. In November 2016 the Group cancelled and repaid its 5% first Cumulative Preference Stock and 7% Cumulative Preference Stock.

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

7.3 Analysis of financial assets and liabilities

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	617.6	115.2	732.8
Other financial assets	0.9	–	0.9
At 28 January 2017	**618.5**	**115.2**	**733.7**
Sterling financial assets	588.3	89.1	677.4
At 30 January 2016	588.3	89.1	677.4

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

7.3.2 Analysis of financial liabilities

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

Currency analysis	**Fixed rate £m**	**Total £m**
All sterling		
At 28 January 2017	**(887.2)**	**(887.2)**
At 30 January 2016	(952.6)	(952.6)

Notes to the consolidated financial statements (continued)

7.3 Analysis of financial assets and liabilities (continued)

7.3.2 Analysis of financial liabilities (continued)

Maturity of financial liabilities	2017 £m	2016 £m
Repayable within one year		
Bank overdrafts	–	(0.1)
Property finance leases	(1.2)	(2.6)
Bonds	–	(57.7)
Unamortised bond transaction costs	–	0.1
	(1.2)	(60.3)
Repayable between one and two years		
Property finance leases	(0.7)	(1.7)
	(0.7)	(1.7)
Repayable between two and five years		
Property finance leases	(2.1)	(2.1)
Bonds	(275.0)	(275.0)
Unamortised bond transaction costs	0.8	1.1
	(276.3)	(276.0)
Repayable in more than five years		
Property finance leases	(20.5)	(20.9)
Bonds	(600.0)	(600.0)
Unamortised bond transaction costs	11.5	8.6
Cumulative Preference Stock	–	(2.3)
	(609.0)	(614.6)
	(887.2)	(952.6)

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

	2017		2016	
Share capital	**Authorised £m**	**Issued and fully paid £m**	Authorised £m	Issued and fully paid £m
Equity				
Deferred 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 and related undertakings

All transactions between the Group and its subsidiaries and related undertakings are eliminated upon consolidation, and therefore do not need to be disclosed separately. A list of subsidiaries and related undertakings within the Group is included within note 35. Loans to joint ventures are disclosed in note 3.3.

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 28 January 2017, £0.8m was paid in respect of the operating lease (2016: £1.1m).

8.2.3 Arrangements with John Lewis Partnership Trust Limited

John Lewis Partnership Trust Limited[1] is a related party and holds the Deferred Ordinary Shares in the Group on behalf of the Partners. 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.

During the year the Group provided administrative support services to charities related to the Group. The estimated value of these support services is £116,000 (2016: £106,000). The Partnership also made donations totalling £1.1m to the John Lewis Foundation.

8.3 Subsequent events

8.3.1 Pension contributions

On 24 February 2017, the Group made contributions into the pension fund of £81.0m. This was an early payment of one-off contributions due by 31 March 2017 of £50.0m and a prepayment of 11 months of normal pension payments for 2017/18 of £31.0m. No accounting was recorded for the year ended 28 January 2017 in respect of these payments.

8.3.2 Restructuring

On 8 February 2017, Waitrose announced proposals to close several branches and change branch management structures and the rollout of the Working Flexibly model, which aims to work more productively as one team. On 24 February 2017, John Lewis announced changes to Core Home Services and the rollout of the Catering Operating Model. On 22 March 2017, the Group announced proposals to change the structure of the Personnel function as part the Group's Functional Review Programme, creating a 'One Partnership' approach to Personnel. No accounting was recorded for the year ended 28 January 2017 in respect of these changes.

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

Company balance sheet

as at 28 January 2017

Notes		2017 £m	2016 £m
	Non-current assets		
12	Intangible assets	**321.6**	284.0
13	Property, plant and equipment	**1,052.1**	1,013.8
18	Trade and other receivables	**46.6**	48.0
28	Derivative financial instruments	**0.1**	–
14	Investments in subsidiaries	**1,433.1**	1,301.4
15	Investments in and loans to joint venture	**3.9**	–
26	Deferred tax asset	**153.0**	149.0
		3,010.4	2,796.2
	Current assets		
17	Inventories	**394.9**	391.5
18	Trade and other receivables	**125.6**	115.4
	Current tax receivable	**32.7**	15.1
28	Derivative financial instruments	**15.3**	11.5
16	Assets held for sale	**8.1**	–
19	Short-term investments	**60.0**	10.0
20	Cash and cash equivalents	**577.1**	566.7
		1,213.7	1,110.2
	Total assets	**4,224.1**	3,906.4
	Current liabilities		
22	Borrowings and overdrafts	**–**	(57.6)
23	Trade and other payables	**(1,598.6)**	(1,543.4)
24	Finance lease liabilities	**(0.2)**	(0.2)
25	Provisions	**(145.3)**	(120.8)
28	Derivative financial instruments	**(7.2)**	(2.3)
		(1,751.3)	(1,724.3)
	Non-current liabilities		
22	Borrowings	**(862.7)**	(867.6)
23	Trade and other payables	**(159.6)**	(153.6)
24	Finance lease liabilities	**(13.5)**	(13.7)
25	Provisions	**(160.6)**	(132.0)
28	Derivative financial instruments	**(1.1)**	–
32	Retirement benefit obligations	**(930.9)**	(861.1)
		(2,128.4)	(2,028.0)
	Total liabilities	**(3,879.7)**	(3,752.3)
	Net assets	**344.4**	154.1
	Equity		
33	Share capital	**6.7**	6.7
	Share premium	**0.3**	0.3
	Other reserves	**8.1**	8.9
	Retained earnings	**329.3**	138.2
	Total equity	**344.4**	154.1

The financial statements on pages 63 to 84 were approved by the Board of Directors on 26 April 2017 and signed on its behalf by

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

Registered number 00233462

Company statement of changes in equity

for the year ended 28 January 2017

Notes		Share capital £m	Share premium £m	Hedging reserve £m	Retained earnings £m	Total equity £m
	Balance at 31 January 2015	6.7	0.3	2.4	(191.0)	(181.6)
10	Profit for the year	–	–	–	11.2	11.2
	Remeasurement of defined benefit pension scheme	–	–	–	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
10	Profit for the year	–	–	–	545.9	545.9
	Remeasurement of defined benefit pension scheme	–	–	–	(425.9)	(425.9)
	Fair value losses on cash flow hedges	–	–	(30.3)	–	(30.3)
	– transfers to inventories	–	–	1.0	–	1.0
	– transfers to property, plant and equipment	–	–	28.2	–	28.2
	Tax on above items recognised in equity	–	–	0.3	71.1	71.4
	Balance at 28 January 2017	**6.7**	**0.3**	**8.1**	**329.3**	**344.4**

Company statement of cash flows

for the year ended 28 January 2017

Notes		2017 £m	2016 £m
30	**Cash generated from operations before Partnership Bonus**	**455.4**	537.2
	Net taxation paid	**(10.9)**	(14.0)
	Pension deficit reduction payments	**(124.8)**	–
	Finance costs paid	**(1.9)**	(2.0)
	Net cash generated from operating activities before Partnership Bonus	**317.8**	521.2
	Partnership Bonus paid	**(63.9)**	(74.4)
	Net cash generated from operating activities after Partnership Bonus	**253.9**	446.8
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(182.0)**	(136.8)
	Purchase of intangible assets	**(101.2)**	(104.4)
	Proceeds from sale of property, plant and equipment and intangible assets	**3.2**	11.9
	Loans (advanced to)/from group companies	**(91.8)**	185.6
	Dividend income received	**300.0**	–
	Finance income received	**1.8**	1.4
	Cash outflow from investment in and loans to joint venture	**(3.6)**	–
	Cash outflow from short-term investments	**(50.0)**	(10.0)
	Net cash used in investing activities	**(123.6)**	(52.3)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	**(56.0)**	(57.2)
	Payment of capital element of finance leases	**(0.2)**	(1.5)
	Payments to preference shareholders	**(0.4)**	(0.1)
	Cash outflow from borrowings	**(63.3)**	–
	Net cash used in financing activities	**(119.9)**	(58.8)
	Increase in net cash and cash equivalents	**10.4**	335.7
	Net cash and cash equivalents at beginning of the year	**566.7**	231.0
	Net cash and cash equivalents at end of the year	**577.1**	566.7
20	**Net cash and cash equivalents comprise:**		
	Cash at bank and in hand	**51.6**	24.0
	Short-term deposits	**525.5**	542.7
		577.1	566.7

Notes to the Company financial statements

9 Accounting policies

Basis of preparation

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 to the consolidated financial statements. Additional accounting policies are noted below.

The Directors, after reviewing the Company's operating budgets, investment plans and financing arrangements, consider that the Company has sufficient funding 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 Company financial statements.

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.

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 income/(expense). The result dealt with in the accounts of the Company amounted to £545.9m profit (2016: £11.2m profit). During the year an intra-group dividend of £300.0m (2016: £nil) was received.

Details of the auditor's 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:

	2017	2016
John Lewis	**29,300**	29,700
Other	**1,700**	2,000
	31,000	31,700

Notes to the Company financial statements (continued)

11.2 Partner benefits

Employment and related costs were as follows:

	2017 £m	2016 £m
Staff costs (excluding exceptional items):		
Wages and salaries	**(615.1)**	(596.6)
Social security costs	**(53.1)**	(50.2)
Partnership Bonus	**(34.2)**	(56.8)
Employers' national insurance on Partnership Bonus	**(4.4)**	(7.2)
Other pension expenses	**(89.3)**	(145.7)
Long leave cost	**(3.9)**	(4.0)
Total before Partner discounts	**(800.0)**	(860.5)
Partner discounts (excluded from revenue)	**(43.0)**	(42.9)
	(843.0)	(903.4)
Included above are the following amounts in respect of key management compensation:		
Salaries and short-term benefits	**(11.6)**	(11.5)
Post-employment benefits[1]	**(1.8)**	(2.4)
Termination benefits[2]	**–**	(2.3)
	(13.4)	(16.2)

[1] Includes cash supplements in lieu of future pension accrual.
[2] 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 to the consolidated financial statements.

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 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 and write-offs	(4.6)	(2.5)	–	(7.1)
At 30 January 2016	118.1	250.3	112.8	481.2
Additions	–	–	101.2	101.2
Transfers	14.4	71.1	(85.5)	–
Disposals and write-offs	(2.2)	(6.5)	–	(8.7)
At 28 January 2017	**130.3**	**314.9**	**128.5**	**573.7**
Accumulated amortisation				
At 31 January 2015	(44.8)	(104.7)	–	(149.5)
Charge for the year	(19.9)	(34.1)	–	(54.0)
Disposals and write-offs	3.8	2.5	–	6.3
At 30 January 2016	(60.9)	(136.3)	–	(197.2)
Charge for the year	(21.3)	(42.3)	–	(63.6)
Disposals and write-offs	2.2	6.5	–	8.7
At 28 January 2017	**(80.0)**	**(172.1)**	**–**	**(252.1)**
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
Net book value at January 2017	**50.3**	**142.8**	**128.5**	**321.6**

For the year to 28 January 2017 computer systems valued at £85.5m (2016: £76.0m) 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 buildings	Fixtures, fittings and equipment	Assets in course of construction	Total
	£m	£m	£m	£m
Cost				
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
Additions	104.4	2.8	68.7	175.9
Transfers	(1.1)	110.3	(109.2)	–
Disposals	(1.6)	(46.0)	–	(47.6)
Transfers to assets held for sale	(14.5)	–	–	(14.5)
At 28 January 2017	**946.7**	**954.7**	**58.5**	**1,959.9**
Accumulated depreciation				
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)
Charge for the year*	(47.1)	(79.6)	–	(126.7)
Disposals	1.4	43.4	–	44.8
Transfers to assets held for sale	6.4	–	–	6.4
At 28 January 2017	**(269.3)**	**(638.5)**	**–**	**(907.8)**
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
Net book value at January 2017	**677.4**	**316.2**	**58.5**	**1,052.1**

* For the year ended 28 January 2017, this includes an impairment charge of £0.3m to land and buildings (30 January 2016: £nil).

Included above are land and buildings assets held under finance leases with a net book value of £11.8m (2016: £12.1m).

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

Notes to the Company financial statements (continued)

14 Investments in subsidiaries

The Company has the following investments in subsidiaries at 28 January 2017.

	Shares in Group companies £m	Loan to Group companies £m	Total £m
At 30 January 2016	41.7	1,259.7	1,301.4
Movements	–	131.7	131.7
At 28 January 2017	**41.7**	**1,391.4**	**1,433.1**

A list of subsidiary undertakings is provided in note 35.

15 Investment in and loans to joint venture

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

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

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

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

	Investment £m	Loan £m	Total £m
Cost			
At 30 January 2016	–	–	–
Additions	2.1	1.5	3.6
At 28 January 2017	**2.1**	**1.5**	**3.6**
Share of profit			
At 30 January 2016	–	–	–
Share of profit	0.3	–	0.3
At 28 January 2017	**0.3**	**–**	**0.3**
At 30 January 2016	–	–	–
At 28 January 2017	**2.4**	**1.5**	**3.9**

16 Assets held for sale

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

At 28 January 2017, one property asset was recorded as held for sale totalling £8.1m (2016: £nil).

Notes to the Company financial statements (continued)

17 Inventories

	2017 **£m**	2016 £m
Raw materials	**0.7**	–
Finished goods and goods for resale	**394.2**	391.5
	394.9	391.5

The cost of inventory recognised as an expense by the Company in the year was £2,256.3m (2016: £2,177.3m). Provisions against inventories of £11.8m were charged (2016: £7.0m charged) in branch operating expenses.

18 Trade and other receivables

	2017 **£m**	2016 £m
Current:		
Trade receivables	**26.7**	23.0
Other receivables	**41.6**	38.9
Prepayments and accrued income	**57.3**	53.5
	125.6	115.4
Non-current:		
Other receivables	**4.3**	5.0
Prepayments and accrued income	**42.3**	43.0
	46.6	48.0

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 £4.9m (2016: £4.1m). 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 at 28 January 2017, trade and other receivables of £0.8m (2016: £0.9m) 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 at 28 January 2017, trade and other receivables of £12.4m (2016: £14.0m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

	2017 **£m**	2016 £m
Up to 3 months past due	**10.8**	12.1
3 to 12 months past due	**0.6**	0.9
Over 12 months past due	**1.0**	1.0
	12.4	14.0

Notes to the Company financial statements (continued)

19 Short-term investments

	2017 £m	2016 £m
Short-term investments	**60.0**	10.0

For the year ended 28 January 2017, the effective interest rate on short-term investments was 0.5% (2016: 0.6%) and these investments had an average maturity of 93 days (2016: 91 days).

20 Cash and cash equivalents

	2017 £m	2016 £m
Cash at bank and in hand	**51.6**	24.0
Short-term deposits	**525.5**	542.7
	577.1	566.7

For the year ended 28 January 2017, the effective interest rate on short-term deposits was 0.4% (2016: 0.5%) and these deposits had an average maturity of 1 day (2016: 1 day).

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

	2017 £m	2016 £m
Cash and cash equivalents, as above	**577.1**	566.7
Net cash and cash equivalents	**577.1**	566.7

Notes to the Company financial statements (continued)

21 Analysis of financial assets

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

Currency analysis	Floating rate £m	Non-interest bearing £m	Total £m
Sterling financial assets	584.6	51.6	636.2
Other financial assets	0.9	–	0.9
At 28 January 2017	**585.5**	**51.6**	**637.1**
Sterling financial assets	552.7	24.0	576.7
At 30 January 2016	552.7	24.0	576.7

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

22 Borrowings and overdrafts

	2017 **£m**	2016 £m
Current:		
Partnership Bond, 2016	**–**	(57.7)
Unamortised bond transaction costs	**–**	0.1
	–	(57.6)
Non-current:		
$8^{3}/_{8}$% 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	**12.3**	9.7
5% First Cumulative Preference Stock	**–**	(1.5)
7% Cumulative Preference Stock	**–**	(0.8)
	(862.7)	(867.6)

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

In April 2016 the Company repaid the Partnership Bond amounting to £57.8m.

In November 2016 the Company cancelled and repaid its 5% first Cumulative Preference Stock and 7% Cumulative Preference Stock.

Notes to the Company financial statements (continued)

23 Trade and other payables

	2017	2016
	£m	£m
Current:		
Trade payables	**(422.7)**	(405.1)
Amounts owed to parent company	**(109.7)**	(111.1)
Amounts owed to Group companies	**(523.6)**	(453.2)
Other payables	**(135.5)**	(130.7)
Other taxation and social security	**(143.4)**	(134.2)
Accruals	**(113.2)**	(119.6)
Deferred income	**(69.7)**	(59.8)
Partnership Bonus	**(80.8)**	(129.7)
	(1,598.6)	(1,543.4)
Non-current:		
Deferred income	**(159.6)**	(153.6)
	(159.6)	(153.6)

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

24 Finance lease liabilities

	2017	2016
	£m	£m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	**(0.5)**	(0.5)
Later than one year but not more than five	**(1.7)**	(1.8)
More than five years	**(22.7)**	(23.1)
	(24.9)	(25.4)
Future finance charge on finance leases	**11.2**	11.5
Present value of finance lease liabilities	**(13.7)**	(13.9)
Of which:		
Not later than one year	**(0.2)**	(0.2)
Later than one year but not more than five	**(0.7)**	(0.7)
More than five years	**(12.8)**	(13.0)

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.

Notes to the Company financial statements (continued)

25 Provisions

	Long leave £m	Service guarantee £m	Customer refunds £m	Insurance £m	Other £m	Total £m
At 30 January 2016	(124.2)	(67.4)	(31.5)	(3.7)	(26.0)	(252.8)
Charged to income statement	(26.0)	(19.4)	(60.6)	(6.0)	(57.3)	(169.3)
Released to income statement	–	4.1	–	–	1.8	5.9
Utilised	10.1	17.9	57.0	3.1	22.2	110.3
At 28 January 2017	**(140.1)**	**(64.8)**	**(35.1)**	**(6.6)**	**(59.3)**	**(305.9)**
Of which:						
Current	(31.9)	(22.0)	(35.1)	(4.5)	(51.8)	(145.3)
Non-current	(108.2)	(42.8)	–	(2.1)	(7.5)	(160.6)

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 to the consolidated financial statements), 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, property related costs and pay provisions.

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.

26 Deferred tax

26.1 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 1 April 2017, 19% for deferred tax assets and liabilities expected to reverse before 1 April 2020 and 17% for those assets or liabilities expected to reverse after 1 April 2020. In the year to 30 January 2016, a tax rate of 20% was used 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.The movement on the deferred tax account is shown below:

	2017 £m	2016 £m
Opening asset	**149.0**	233.1
(Charged)/credited to income statement	**(42.7)**	11.4
Credited/(charged) to other comprehensive income	**46.7**	(95.5)
Closing asset	**153.0**	149.0

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 Company financial statements (continued)

26 Deferred tax (continued)

Deferred tax liabilities	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Rollover gains £m	Other £m	Total £m
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)
Credited/(charged) to income statement	3.4	(2.9)	0.3	0.7	1.5
Credited to other comprehensive income	–	–	–	0.3	0.3
At 28 January 2017	**(39.9)**	**(3.0)**	**(5.6)**	**(0.5)**	**(49.0)**

Deferred tax assets	Capital gains tax on land and buildings £m	Pensions and provisions £m	Total £m
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
Credited/(charged) to income statement	2.8	(47.0)	(44.2)
Credited to other comprehensive income	–	46.4	46.4
At 28 January 2017	**11.7**	**190.3**	**202.0**

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 28 January 2017 (2016: £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 Group interest in JLP Scottish Limited Partnership to the pension scheme (see note 6.1 to the consolidated financial statements).

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax asset at 28 January 2017 was £153.0m (2016: £149.0m asset). The net deferred tax asset is recoverable after more than one year.

26.2 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 17% from 1 April 2020 have also been enacted. In the March 2016 Budget a further reduction to 17% applicable from 1 April 2020 was also announced. The 17% rate was substantively enacted in September 2016.

The effect of these rate changes was to decrease the deferred tax asset by £11.1m with a £15.1m charge being taken to other comprehensive income and a £4.0m tax credit to the income statement.

Notes to the Company financial statements (continued)

27 Management of financial risks

27.1 Capital and long-term funding risk

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

27.2 Liquidity risk

The approach to liquidity risks has been discussed in note 7.1.2 to the consolidated financial statements.

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	**–**	**–**	**(875.0)**
Interest payments on borrowings	**(54.2)**	**(54.2)**	**(337.3)**
Finance lease liabilities	**(0.5)**	**(0.5)**	**(23.9)**
Trade and other payables	**(1,385.5)**	**–**	**–**
Derivative financial liabilities			
Derivative contracts – receipts	**288.6**	**62.1**	**–**
Derivative contracts – payments	**(275.5)**	**(62.6)**	**–**
At 28 January 2017	**(1,427.1)**	**(55.2)**	**(1,236.2)**

	Due within 1 year £m	Due between 1 and 2 years £m	Due 2 years and beyond £m
Non-derivative financial liabilities			
Borrowings and overdrafts	(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)

* Excludes annual interest of £0.1m on Cumulative Preference Stock which have no fixed redemption date.

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.

Notes to the Company financial statements (continued)

27.3 Interest rate risk

The approach to interest rate risks has been discussed in note 7.1.3 to the consolidated financial statements.

27.4 Foreign currency risk

The approach to foreign currency risks has been discussed in note 7.1.4 to the consolidated financial statements.

27.5 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:

	2017 **£m**	2016 £m
Trade and other receivables	**72.6**	66.9
Cash and cash equivalents	**577.1**	566.7
Derivative financial instruments	**15.4**	11.5
	665.1	645.1

27.6 Energy risk

The approach to energy risks has been discussed in note 7.1.6 to the consolidated financial statements.

27.7 Sensitivity analysis

A sensitivity analysis has been performed in note 7.1.7 to the consolidated financial statements.

28 Derivative financial instruments and financial liabilities

28.1 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 28 January 2017, there have been no transfers between any levels of the IFRS 13 fair value hierarchy and there were no reclassifications of financial assets as a result of a change in the purpose or use of those assets.

Notes to the Company financial statements (continued)

28.2 Fair value of derivative financial instruments

The fair value of derivative financial instruments is as follows:

	2017		2016	
Fair value of derivative financial instruments	**Assets £m**	**Liabilities £m**	Assets £m	Liabilities £m
Non-current				
Currency derivatives – cash flow hedge	**0.1**	**(1.1)**	–	–
	0.1	**(1.1)**	–	–
Current				
Currency derivatives – cash flow hedge	**14.1**	**(3.3)**	11.3	(0.4)
Other derivatives	**1.2**	**(3.9)**	0.2	(1.9)
	15.3	**(7.2)**	11.5	(2.3)

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.

28.3 Fair value of financial 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):

		2017 £m		2016 £m
	CV	**FV**	CV	FV
Financial liabilities				
Listed bonds	**(862.7)**	**(997.3)**	(865.3)	(980.2)
Preference Stock	**–**	**–**	(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. In November 2016 the Company cancelled and repaid its 5% First Cumulative Preference Stock and 7% Cumulative Preference Stock.

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

29 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 28 January 2017	**(876.4)**	**(876.4)**
At 30 January 2016	(939.1)	(939.1)

Notes to the Company financial statements (continued)

29 Analysis of financial liabilities (continued)

Maturity of financial liabilities	2017 £m	2016 £m
Repayable within one year		
Bonds	–	(57.7)
Unamortised bond transaction costs	–	0.1
Property finance leases	(0.2)	(0.2)
	(0.2)	(57.8)
Repayable between one and two years		
Property finance leases	(0.2)	(0.2)
	(0.2)	(0.2)
Repayable between two and five years		
Property finance leases	(0.5)	(0.5)
Bonds	(275.0)	(275.0)
Unamortised bond transaction costs	0.8	1.1
	(274.7)	(274.4)
Repayable in more than five years		
Property finance leases	(12.8)	(13.0)
Bonds	(600.0)	(600.0)
Unamortised bond transaction costs	11.5	8.6
Cumulative Preference Stock	–	(2.3)
	(601.3)	(606.7)
	(876.4)	(939.1)

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

	2017 £m	2016 £m
Profit before tax	606.6	61.9
Dividend income received	(300.0)	–
Amortisation of intangible assets	63.6	54.0
Depreciation	126.7	114.1
Share of profit of joint venture (net of tax)	(0.3)	–
Net finance costs	106.0	94.5
Partnership Bonus	38.6	63.3
Fair value (gains)/losses on derivative financial instruments	(1.9)	0.7
(Loss)/profit on disposal of property, plant and equipment and intangible assets	(0.4)	0.6
Increase in inventories	(3.4)	(39.3)
Increase in receivables	(9.8)	(8.9)
Increase in payables	54.9	102.1
(Increase)/decrease in retirement benefit obligations	(261.0)	71.0
Increase in provisions	35.8	23.2
Cash generated from operations before Partnership Bonus	**455.4**	537.2

Notes to the Company financial statements (continued)

31 Commitments and contingencies

31.1 Capital commitments

At 28 January 2017 contracts had been entered into for future capital expenditure of £7.7m (2016: £26.0m) of which £6.9m (2016: £22.2m) relates to property, plant and equipment and £0.8m (2016: £3.8m) relates to intangible assets.

31.2 Lease guarantees

John Lewis plc continues to provide lease guarantees in favour of the Company's former associate company, Ocado Limited, in respect of leased land and buildings. The maximum liability due from the Company as the guarantor is £6.8m (2016: £6.8m) which will become payable if Ocado Limited defaults on rental payments. The likely timing of this cash outflow is therefore uncertain.

31.3 Commitments under operating leases

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

Future aggregate minimum lease payments under non-cancellable operating leases, payable:	**2017 Land and buildings £m**	2016 Land and buildings £m
Within one year	**(57.8)**	(58.6)
Later than one year and less than five years	**(207.2)**	(215.1)
After five years	**(1,148.7)**	(1,147.3)

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years comprise the following:	**2017 Land and buildings £m**	2016 Land and buildings £m
Later than five years and less than 10 years	**(243.6)**	(244.0)
Later than 10 years and less than 20 years	**(326.2)**	(328.0)
Later than 20 years and less than 40 years	**(224.8)**	(224.1)
Later than 40 years and less than 80 years	**(120.4)**	(118.0)
After 80 years	**(233.7)**	(233.2)
	(1,148.7)	(1,147.3)

Total future sub-lease payments receivable relating to the above operating leases amounted to £1.3m (2016: £1.5m).

Amounts recognised in the income statement	**2017 £m**	2016 £m
Operating lease rentals:		
– land and buildings	**(61.3)**	(56.0)
– plant and machinery	**(0.5)**	(0.5)
Sub-lease income:		
– land and buildings	**1.1**	2.0

Notes to the Company financial statements (continued)

32 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 £82.8m (2016: £80.5m), represents a plan asset for the Company accounts which is offset against the Group's obligation of £1,013.7m (2016: £941.6m). The retirement benefit obligation of the Company as at 28 January 2017 was £930.9m (2016: £861.1m). Note 6 of the Group financial statements details the financial assumptions used.

33. Share capital

		2017		2016
	Authorised	**Issued and fully paid**	Authorised	Issued and fully paid
	£m	**£m**	£m	£m
Equity				
Deferred Ordinary Shares				
6,750,000 of £1 each	**6.7**	**6.7**	6.7	6.7

34 Related party transactions

34.1 Loan from John Lewis Partnership plc

The loan from John Lewis Partnership plc has been disclosed in note 23. The loan is non-interest bearing with no specific repayment terms.

34.2 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 £11.3m (2016: £12.6m), purchase of goods for resale totalling £55.3m (2016: £55.9m), the supply of administrative and other shared services totalling £98.0m (2016: £74.0m) and the hire of vehicles totalling £27.5m (2016: £27.0m).

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.

A list of subsidiaries and related undertakings within the Group is included within note 35. Loans to joint ventures are disclosed in note 3.3.

34.3 Other transactions

Key management compensation has been disclosed in note 11.2.

During the year the Company provided administrative support services to charities related to the Company. The estimated value of these support services is £116,000 (2016: £106,000). The Company also made donations totalling £1.1m to the John Lewis Foundation.

35 Subsidiary and related undertakings

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

Subsidiary and related undertakings as at 28 January 2017 were as follows:

Name	Principal activity	Country of incorporation	Class of share	Percentage shareholdings
Admiral Park Retail Management Limited	Property holding company	Guernsey[2]	Ordinary	54%
Buy.Com Limited	Dormant	England & Wales[1]	Ordinary	100%
Herbert Parkinson Limited*	Manufacturing and making up	England & Wales[1]	Ordinary	100%

Notes to the Company financial statements (continued)

35 Subsidiary and related undertakings (continued)

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

* Principal subsidiary undertaking as at 28 January 2017.

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

2 The address of the registered office is Redwood House, St Julian's Avenue, St Peter Port, Guernsey GY1 1WA.

3 The address of the registered office is 44 Esplanade, St Helier Jersey JE4 9WG.

4 The address of the registered office is Suite 3201, Jardine House, 1 Connaught Place, Central, Hong Kong.

5 The address of the registered office is John Lewis Aberdeen, George Street, Aberdeen AB25 1BW.

6 The address of the registered office is 69 St James Centre, Edinburgh EH1 3SP.

7 The address of the registered office is St. Martins House Le Bordage, St Peter Port, Guernsey GY1 4AU.

8 The address of the registered office is Clipper Logistics Group, Gelderd Road, Leeds, West Yorkshire LS12 6LT.

(i) John Lewis Partnership Pensions Trust and JLP Scotland Limited are the Limited Partners. John Lewis plc is the General Partner.

(ii) JLP Scottish Limited Partnership and John Lewis Properties plc are the General Partners.

Notes to the Company financial statements (continued)

35 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 John Lewis Partnership Trust Limited, which holds the Deferred Ordinary Shares issued by John Lewis Partnership plc in trust for the benefit of 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 Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare both the Group and the parent Company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

On behalf of the Board

Sir Charlie Mayfield and **Patrick Lewis**

Directors, John Lewis plc

26 April 2017

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

We have audited the financial statements of John Lewis plc for the year ended 28 January 2017 set out on pages 13 to 84. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 85, 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 28 January 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Michael Maloney (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square, London E14 5GL

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