Company No. 00233462

JOHN LEWIS PLC

Financial Statements for the year ended 27 January 2018

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Contents

Company information

Directors:	Sir Charlie Mayfield (Chairman) Tracey Killen Patrick Lewis Bérangère Michel Paula Nickolds
Company Secretary:	Peter Simpson
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 27 January 2018

John Lewis plc ('the Group' or 'the Company') present their audited consolidated financial statements for the year ended 27 January 2018.

The Company is the principal trading subsidiary of John Lewis Partnership plc ('the Partnership'), and owns Waitrose Limited. The Group includes Waitrose and John Lewis and has 85,500 employees – or Partners – for whom the Partnership is owned in trust.

Review of Performance

Key performance indicators

	2018	2017
Gross sales growth (%)	**2.0**	3.2
Like-for-like sales growth[1] (%)		
- John Lewis	**0.4**	2.7
- Waitrose (excludes petrol sales)	**0.9**	(0.2)
Increase in 'Best' customers[2] (%)		
- John Lewis	**(0.7)**	3.3
- Waitrose	**0.5**	3.6
Net Promoter Score		
- John Lewis	**+64**	+62
- Waitrose	**+29**	+34
Average non-management Partner hourly pay above National Living Wage[3] (%)	**18.8**	20.4
Partner pay as a % of sales	**13.8**	13.9
Partner job satisfaction[4] (%)	**70**	68
Return on Invested Capital (ROIC) (%)	**6.6**	8.1
Debt Ratio[5] – total net debts as a multiple of cash flow	**4.3x**	4.0x
Partnership profit per average Full Time Equivalent (FTE)[6] (£000)	**4.8**	5.8

[1] 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.

[2] 'Best' customers are those customers who exceed particular spend and purchase frequency thresholds over a given time frame. As time passes the level of data available on customer spend increases; primarily returns data and the ability to link spend to a specific customer. The historical KPIs are therefore restated each year to reflect the most recent data available.

[3] For 2017/18, this is calculated as the percentage above the 2017/18 National Living Wage of £7.50. For 2016/17, this is calculated as the percentage above the 2016/17 National Living Wage at the time of £7.20.

[4] During the year the Partnership changed the way that it measured job satisfaction to gain a deeper understanding of Partner opinion. Prior to 2017/18, the annual survey calculated job satisfaction based on the response to a single statement of "my job satisfies me". From 2017/18, the Partnership created a satisfaction index, based on an aggregate of nine questions, to provide a wider view of satisfying employment. Prior year Partner job satisfaction percentages have not been restated.

[5] The Debt Ratio is defined as total net debts as a multiple of cash flow. Total net debts represents the total borrowings of the Partnership including net debt (defined on page 23) 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. During 2017/18, we have refined our methodology for the estimate of non-liquid cash used in calculating the Debt Ratio to more accurately reflect non-liquid cash. If in 2017/18 the same methodology as 2016/17 was used, it would have had an impact of increasing the Debt Ratio by 0.1x.

[6] Partnership profit before Partnership Bonus, tax and exceptional items divided by the average number of Full Time Equivalent Partners.

Strategic report for the year ended 27 January 2018 (continued)

Performance summary

As we anticipated, 2017 was a challenging year. Consumer demand was subdued and we made significant changes to operations across the Partnership which affected many Partners. However, their hard work throughout the year was key to delivering gross sales of £11.60bn, up 2.0%, with like-for-like increases in both Waitrose and John Lewis. However, profit before Partnership Bonus, tax and exceptional items was down 21.9% mainly as a result of intensifying margin pressure in Waitrose.

We said in January 2017 that we were preparing for tougher trading conditions with weakness in Sterling feeding through into cost prices, putting pressure on margin, and much higher exceptional costs as a result of an acceleration of planned changes. This was why we chose to reduce the proportion of profits paid as Partnership Bonus last year so as to absorb these impacts while continuing to invest in the future and in strengthening our balance sheet. We did both and I am pleased to say that despite lower profits, strong cash flow has enabled us to reduce our total net debts.

Partnership Bonus has been awarded at 5%. We also remain committed to increasing pay rates for non-management Partners, and in October we increased pay outside the annual pay review cycle for 17,000 Partners. As at January 2018, the average hourly rate of pay for a non-management Partner was £8.91.

Waitrose

Waitrose achieved gross sales of £6.75bn, up 1.8%, with like-for-like sales, excluding fuel, up by 0.9%. Like-for-like sales growth accelerated in the second half, increasing from 0.7% in H1 to 1.1% in H2. This improvement was driven by better like-for-like volumes, as we improved our competitiveness by lowering the prices of hundreds of essential Waitrose products. Operating profit before exceptional items was £172.0m, down 32.1%, held back primarily by lower margins due to our decision not to pass on all cost price inflation to our customers, and by investments in customer experience.

This was a challenging year. We reset gross margin in response to the weaker Sterling exchange rate and our commitment to competitive pricing. The resulting lower rate of gross margin was equivalent to more than 80% of the shortfall in operating profit before exceptional items, and it has also led to an exceptional branch impairment charge of £38.9m. The remaining operating profit shortfall in the year was from a combination of different factors, including some short-term operational impacts from significant changes to our branch management structures and the introduction of more flexible working models in our shops. These new ways of working take time to bed in, but the changes will enable us to have the right Partners in the right place at the right time to give customers the best possible service.

To enhance customers' shopping experience we continued to invest in our existing estate and online. In this first year of our three-year programme we completed projects of varying scale at 127 branches. There are now, for example, 73 sushi counters in our shops, with 49 opening in the year. We also opened seven shops and closed six in the year. Following investment in our website, making it easier to navigate, our online grocery operation achieved strong profitable sales growth of 10.9%, with a marked acceleration in the second half.

Our customers look to us for food inspiration. We developed more than 2,500 products in the year. We announced plans for a new food innovation centre, due to open in summer 2018, at our head office in Bracknell.

Other initiatives to enhance our customers' experience of shopping at Waitrose included, over the Christmas period, more in-branch tastings than ever before and attractive one-day offers. We also launched self-service check-in iPads for John Lewis Click & collect orders in 140 of our shops in time for Black Friday.

Over the last couple of years we have been upgrading capabilities in a number of areas. Our 2018/19 programmes include upgrading our stock management, ordering and replenishment systems as well as a new transport management system to plan and schedule deliveries more efficiently. To support Partners in giving great service based on easy access to up to date information, we are rolling out multi-functional devices in our shops.

John Lewis

John Lewis had a strong year, with sales outperforming the BRC market by 1.4% and market share[(7)] increasing in Fashion, Home and Electricals & Home Technology (EHT). Gross sales were up 2.2% to £4.84bn, with like-for-like sales growth of 0.4%. Operating profit before exceptional items was £254.2m up 4.5%. We continued to improve productivity across the business and leveraged investments made in recent years in our distribution network. Operating profit also reflected a strong performance in our John Lewis Finance products as well as property profits, mainly from a freehold property disposal.

(7) BRC market for Fashion and EHT. GfK Homewares market for Home, as this covers a greater proportion of the total Home market.

Strategic report for the year ended 27 January 2018 (continued)

Our performance reflects the continued focus on putting customers at the heart of what we do. Customer numbers increased by 2.5% to 12.6m and our Net Promoter Score – which indicates customers' willingness to recommend us to others - increased. As part of our drive to improve customer experience we introduced a number of initiatives including two hour delivery slots, online order tracking and the ability to see more detailed product information and branch stock availability online. In addition and continuing our plans to reinvent the department store, we launched Experience Desks in four shops providing customers with 'concierge style' services to help them make the most of John Lewis.

Fashion sales were up 3.2%, boosted by a particularly strong performance in womenswear, up 5.0%, especially buoyed by own-brand womenswear, up 14.9%. We launched our first in-house denim lifestyle brand for women – AND/OR in March 2017 and built on the success of our luxury own label, modern rarity, including a collaboration with Eudon Choi. Our additional investment to extend our premium brand offer in beauty contributed to beauty sales increasing 8.8%.

Against a backdrop of a challenging market, Home sales were down 0.8%. This was predominantly driven by soft demand in more considered categories such as Fitted Furniture, Fitted Flooring and Upholstery. Conversely, Outdoor Furniture performed well.

EHT sales were up 2.6%, with connected home and wearable technology as key themes. Voice controlled technology also saw a significant increase. We hosted a number of industry-leading launches, including Microsoft Surface Laptop, the HP Spectre Laptop and the Apple iPhone X and secured product exclusives with brands including Dyson, Samsung and LG. We also relaunched our own-brand large electricals range with features specifically designed to make customers' lives easier.

Demand for our range of financial services has grown, as we evolve our offer in response to our customers' needs and lifestyles such as launching Personal Loans from John Lewis Finance. The business also saw strong sales in Foreign Currency and the Partnership Card is now available on ApplePay.

Looking ahead, as part of our ambition for 50% of our products to be own-brand or exclusive, we will strengthen our design credentials to offer customers truly unique products by investing in Partners across our Design, Technology and Buying teams. Partners are the driving force behind our particular brand of customer service and technology now gives us the opportunity to differentiate further - in 2018 we will launch a number of "test and learn" innovations to help us deliver on this opportunity. We will conclude our programme to move online content to a single platform, providing customers with a more seamless shopping journey optimised for whichever device they use. Shop openings in White City and Cheltenham will further demonstrate how we are evolving our strategy of reinventing the department store.

Group

Group includes the net operating costs for our Group offices and shared services, pan-Partnership initiatives, our JLP Ventures operations which develops new customer propositions, and certain pension operating costs. Overall Group net costs (before exceptional items) increased by £46.3m to £67.3m, with more than two thirds of the increase due to pension operating costs, and the remainder due to increased expenditure on pan-Partnership initiatives.

Stronger together

During 2017/18 we have also placed a much greater focus on being 'stronger together', unlocking the benefits of working in a more coordinated way in the Partnership across both brands. There have been three main elements to this.

First has been a major reorganisation to create single pan-Partnership functions to support both brands in IT, Personnel, Property, Legal and Finance. These changes have been significant and, along with major reorganisations in Waitrose and John Lewis retail operations, have led to around 1,440 Partners leaving the business through redundancy in the last year.

Secondly, and in large part enabled by the creation of a pan-Partnership Personnel function, we are stepping up our focus on Partner development in anticipation of greater changes in the workplace in years to come from automation and other trends. In support of this we launched a simplified system of performance management which has saved managers much time and allowed them to complete a record number of annual reviews of Partners' performance. We are also embracing apprenticeships as the primary focus for development. We now have nine apprenticeship schemes for Partners with more than 350 apprentices currently enrolled and a further 500 expected to enrol in 2018. We have also developed an in-house Interview Bank run by Partners to support preparation for job interviews, along with an accredited in-house coaching team of more than 80 Partners who offer one-to-one coaching to other Partners.

Thirdly, we have built on moves already taken to draw on both brands to improve customer service and experience. Click & collect is the most obvious example of this where we are installing self-service kiosks, and increasing capacity. We added to that with more shared marketing last year, and will extend this collaboration across our physical space, online and marketing as 2018 progresses.

Strategic report for the year ended 27 January 2018 (continued)

A major aim of our focus on being 'stronger together' is to improve our productivity. We made good progress on that in 2017/18 in terms of gross sales per average FTE[8] Partner, which grew 6.5% to £191,300. However, lower gross margin led to a reduction in Profit per average FTE Partner[9] of £1,000 to £4,800.

Investment in the future

Capital investment in 2017/18 was £398.3m, a decrease of £21.0m (5.0%) on the previous year. This includes £33.9m for the acquisition of the freehold for two of our trading branches, and excluding this, our operating capital investment was £364.4m, a decrease of £54.9m (13.1%).

Investment in Waitrose was £161.9m, up £0.4m (0.2%) on the previous year. In John Lewis, as we completed the significant investments in our distribution network last year, it was down £59.5m (25.8%) to £171.2m.

Pensions

The pension operating cost (before exceptional items) was £215.6m, an increase of £27.7m or 14.7% on the prior year costs, mainly reflecting the substantial decline in the real discount rate used to determine the cost to -0.50% at the beginning of the year from 0.70% at the beginning of the previous year. Pension finance costs were £25.3m, a decrease of £4.3m or 14.5% on the prior year, reflecting a reduction in the nominal discount rate used to determine the finance cost at the beginning of the year from the beginning of the previous year. As a result, total pension costs (before exceptional items) were £240.9m, an increase of £23.4m or 10.8% on the prior year.

Following the conclusion of the triennial actuarial valuation of our defined benefit pension scheme at 31 March 2016, we agreed the ongoing contribution rate for the defined benefit pension of 10.4% of members' gross taxable pay, down from 16.4%, and put in place a plan to eliminate the deficit of £479m over a 10 year period. As a result, in the year, we made deficit reduction contributions of £89.8m, and our total cash contributions to the pension scheme totalled £204.2m, a decrease of £45.0m or 18.1% on the previous year. At 27 January 2018, the estimated actuarial pension deficit has reduced to £211m.

The total accounting pension deficit at 27 January 2018 was £731.3m, a decrease of £282.4m (27.9%) since 28 January 2017. Net of deferred tax, the deficit was £623.1m, a decrease of £234.4m (27.3%). During the year, the methodology for deriving the nominal discount rate assumption used in valuing the pension obligation has been revised as the Directors believe this more appropriately reflects expected yields on high quality corporate bonds over the duration of the Partnership's pension scheme, as required by IAS 19. The previous estimation methodology incorporated adjustments that were informed by both corporate and government bond yields. The new methodology is a yield curve approach, based on corporate bonds within the iBoxx AA corporate bond index. At very long durations, where there are no high quality corporate bonds of appropriate durations to reference, the yield curve is extrapolated based on observable corporate bond yields of mid to long durations. This change in the estimation methodology of the nominal discount rate model has resulted in a £210m reduction (£174m net of deferred tax) in the pension fund liabilities. Despite this, the accounting valuation of pension fund liabilities increased by £165.0m (2.7%) to £6,224.0m, while pension fund assets increased by £447.4m (8.9%) to £5,492.7m.

Financing

At 27 January 2018, net debt for the Group was £142.6m, a decrease of £3.8m (2.6%) in the year, reflecting our focus on cash generation and the reduction in capital investment. During the year we have also further improved our liquidity position by increasing our committed credit facilities by £50m, and these now total £500m.

In addition to the reduction in net debt we have made positive progress in reducing our total net debts, which also includes our post-tax accounting pension deficit and a discounted measure of our operating lease commitments. During the year we have made £89.8m in pension deficit repair payments and bought two of our leasehold properties for £33.9m. Despite this, principally due to the reduction in our profits, our Debt Ratio has increased from 4.0 times in 2016/17 to 4.3 times this year. We continue to target a long-term Debt Ratio of around three times.

Net finance costs on borrowings and investments decreased by £9.7m (17.0%) to £47.4m, mainly reflecting the capitalisation of borrowing costs for qualifying assets which relate to a number of our significant multi-year capital projects. After including the financing elements of pensions and long service leave and non-cash fair value adjustments, net finance costs decreased by £35.6m (33.4%) to £71.1m, benefiting from lower long leave financing costs arising from volatility in market driven assumptions and favourable fair value adjustments on embedded derivatives.

(8) Full Time Equivalent (FTE).

(9) Partnership profit per average FTE Partner is Profit before Partnership Bonus, tax and exceptional items divided by the average number of Partners.

Strategic report for the year ended 27 January 2018 (continued)

Sustainability

This year we made good progress across our three strategic corporate responsibility aims. To source and sell with integrity we released our second Human Rights and Modern Slavery report and John Lewis released its factory list in support of retailer transparency. Waitrose extended its commitment to Fairtrade by switching all own-label tea to Fairtrade and 90 per cent of Waitrose own-brand fish and shellfish is sourced from third party verified responsible sources.

For community wellbeing Waitrose made a £500,000 donation to the Marine Conservation Society to support beach and river clean ups through its carrier bag fund. John Lewis supported the Marie Curie Blooming Great Tea Party, Barnardo's and Breast Cancer Awareness as well as continuing its free Bringing Skills to Life schools programme, with a focus on innovation skills. We also joined up with the Samaritans for the first time, providing 20 Partner secondments through the Partnership's Golden Jubilee Trust.

To deliver more for less, we are making progress to reduce emissions through 35 new biomethane Waitrose delivery trucks. Over the next year we aim to further improve our resource efficiency, with a particular focus on plastic packaging. Waitrose has also committed to removing all black plastics from own-label packaging, in every product by the end of 2019 which is the earliest any UK retailer has pledged to achieve this.

Principal risks and uncertainties

John Lewis plc's principal risks and uncertainties are in line with those of the Partnership.

1 Competitive customer proposition		
Description Failure to deliver our customer promise and not maintain our competitive advantage due to: • Competitor actions putting pressure on market value, our margin and threatening our volumes in grocery; and • The growth of online business models in the general merchandise sector, mean customers focus more on value for money and less on loyalty. **Potential consequence** Customer proposition and service is negatively impacted, which may result in losing customers, impairing our ability to grow long-term profitability.	**Controls in place** • Continuing to secure value for all of our customers through our price matching commitments • Regular strategic risk review and monitoring by the Executive Team • Regular horizon scanning to inform strategic reviews to continually enhance our customer offer	**Progress in the year** • Several branch redevelopments completed and new customer initiatives such as Waitrose Cook Well, JL Home Solutions and in branch experiences, launched alongside improvements in customer 'touch points', to improve our end-to-end customer experience • Continued commitment to improve customer service across all offerings **Further actions** • Continue to focus on differentiating and improving our customer service, product quality and product innovation • Continue to introduce new products and services in response to changing customer requirements • Regular monitoring and reporting to enable us to adapt to changing and emerging competition risk
2 Operating model strain		
Description Increasing external pressures, such as the ongoing move to online, cost inflation and increased spend on IT (depreciation), create strain on our operating model. **Potential consequence** Stresses on our operating model may result in strain on our Partners, systems and operational potential. Ultimately these could impair our ability to meet customer needs and grow profitably.	**Controls in place** • Annual business plan process robustly reviewed on a quarterly basis • Monthly Executive Team business performance review and action taken • Regular review of programmes to reprioritise to support the ongoing development of our operating model	**Progress in the year** • Robust quarterly business plan review • Significant reorganisation and simplification of head office functions to more effectively and efficiently support the Partnership • John Lewis product sourcing company successfully opened in Hong Kong **Further actions** • Successfully implement significant change programmes

Strategic report for the year ended 27 January 2018 (continued)

<table>
<tr><td colspan="3">3 Information security</td></tr>
<tr><td>Description
A breach of Partner or customer data due to the external threat to cause disruption or access sensitive data.
Potential consequence
A significant data breach and loss of either Partner or customer data could cause financial, regulatory, legal and/or reputational damage.</td><td>Controls in place
• Robust network security and regular testing to provide early identification of network or system vulnerabilities
• Continuous security monitoring
• Partner training</td><td>Progress in the year
• New policy, standards and training rolled out across the Partnership
• Significant enhancements made to the systems and controls that hold Partner and customer data to improve resilience
• Crisis management training enhanced and exercised
Further actions
• Continue to implement the Data Protection and IT Security programmes across the Partnership
• Continue the Information Security and Data Privacy Awareness campaign</td></tr>
<tr><td colspan="3">4 Pension obligations</td></tr>
<tr><td>Description
Increases in the pension liabilities, driven by a decrease in the real discount rate for example, and a significant devaluation in the assets being held could cause a significant increase in the size of the pension deficit.
Potential consequence
A larger pension deficit could result in additional funding required by the Partnership, diverting resources away from other investment opportunities.</td><td>Controls in place
• Regular review of valuation assumptions through internal and external monitoring
• Pension risk and funding strategy reviewed annually</td><td>Progress in the year
• Continued progress made on delivering the pension deficit de-risking plan through increased interest rate hedging
• Pension risk management framework implemented and reviewed quarterly
Further actions
• Continue to deliver pension deficit de-risking plan</td></tr>
<tr><td colspan="3">5 Change delivery</td></tr>
<tr><td>Description
The complex nature and scale of interdependencies of the change programmes may affect our ability to implement programmes/projects to time, budget and quality, ability to manage, and ability to embed the change into the business and realise the benefits.
Potential consequence
Failure to develop, implement and embed change effectively could result in increased costs, disruption to our trading activities impacting our customer experience, missing our growth ambitions and losing the engagement of our Partners.</td><td>Controls in place
• Programme and project governance in place enables early identification and remediation of issues considering the impact on Partners and interdependencies on other programmes and projects
• Quarterly review of programme status at the Executive Team level</td><td>Progress in the year
• Partnership wide reporting developed to provide better insight and decision support on our most important change programmes
• Change management teams realigned
Further actions
• Embed the redesigned organisational governance
• Continue to improve reporting and insight on the impact of change on Partners and interdependencies of programmes</td></tr>
</table>

Strategic report for the year ended 27 January 2018 (continued)

<table>
<tr><th colspan="3">6 External environment</th></tr>
<tr>
<td>Description
External economic pressures, due to the impact of government policy, Brexit, a static economy and a lack of pay increases, reduce our customers' spending power and harm our suppliers' financial resilience.
Potential consequence
Our customers may move away from our core product offers or buy less. Key suppliers may demand higher prices or fail us. These could impair our ability to grow profitably.</td>
<td>Controls in place
• Monthly monitoring of business performance by the Executive Team
• Horizon scanning
• The Brexit Team regularly review the potential impacts and opportunities to influence outcomes</td>
<td>Progress in the year
• External economic factors and insights have been incorporated into the business plan
• Potential pressures as a result of Brexit and options to mitigate these have continued to be developed and actioned and will continue to be reviewed regularly
Further actions
• Continued focus on differentiating our customer service, product quality and product innovation
• Introduce new products and services in response to changing customer requirements
• Ongoing monitoring, analysis and actions implementation to mitigate the potential impacts of Brexit and develop our positioning</td>
</tr>
<tr><th colspan="3">7 Ownership model strain</th></tr>
<tr>
<td>Description
Partners and their engagement are key to the success of our co-ownership model. Commercial decisions made to secure the economic success of the business as well as external pressures on Partners could unconsciously impact Partners belief in, and commitment to, our co-ownership model.
Potential consequence
Loss of belief in our co-ownership model could compromise Partner performance, productivity and brand advocacy (Principle 1), thus losing the competitive advantage of our co-ownership model.</td>
<td>Controls in place
• Leadership engagement through change
• Annual Your Voice Partner survey to assess Partner sentiment
• Registry Function support to Partners and provides assurance that the Partnership is being run in line with the Constitution
• Democratic structures in place</td>
<td>Progress in the year
• Ownership Model Strategy under review and development with clear accountability agreed
Further actions
• Continue to focus on developing the effectiveness of democratic channels and leading through change
• Complete the review of the "checks and balances" that ensure management, in particular senior management, lead the Partnership in line with the Constitution</td>
</tr>
</table>

Strategic report for the year ended 27 January 2018 (continued)

Equal opportunities, diversity and inclusion

The Partnership is committed to promoting equal opportunities in employment for existing Partners and prospective Partners throughout the recruitment process. All Partners and job applicants will receive equal treatment regardless of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation (these are known as “Protected Characteristics”).

The Partnership has a Diversity and Inclusion policy, and an Equal Opportunities policy. These policies are underpinned by the following rules contained in the Constitution:

Rule 54: The Partnership takes no account of age, sex, marital status, sexual orientation, ethnic origin, social position or religious or political views.

Rule 55: The Partnership employs disabled people in suitable vacancies and offers them appropriate training and careers.

The Partnership recruits people with disabilities to suitable vacancies on merit. We offer tailored support through the recruitment process for applicants who declare their disability. In particular, we know adjustments are of utmost importance for our Partners with disabilities, be they physical or cognitive, and arrange reasonable adjustments required at an individual level to ensure our disabled applicants and Partners are supported.

Ensuring the Partnership is diverse and inclusive is at the heart of our ultimate purpose, our commitment to the wider wellbeing of our communities, our commercial advantage and our future success.

It is vital that every Partner in our business has the opportunity to reach their potential. That is why the subject of diversity and inclusion is of such great importance to us. Inclusion is fundamental to invest in, as it is enabling a culture that will help people flourish. Therefore, we are developing our ability to understand and appreciate the different backgrounds and perspectives that each of our Partners bring. From a diversity perspective, our primary concern is to ensure we are achieving a great mix of Partners in our business. Our under-representation is more prominent for some groups. Where we see that our mix of Partners is not good enough we take action, which is why back in 2014 our Chairman set a Partnership goal to increase the representation of Black, Asian and minority ethnic (BAME) Partners in management positions to 10 per cent by 2020. As at January 2018, BAME Partners in management positions was 9 per cent.

There are various ways we have set about improving the representation of BAME managers in the Partnership including bias training, diverse recruitment panels and our UNITY Network which is sponsored by the John Lewis Finance Director, Bérangère Michel.

We run eight networks which exist to inspire and influence Partners around the business on the topic of inclusion. Our networks are: LinkAGE, Working Parents, UNITY, GEN, Pride in the Partnership, Faith, Belief and Religion, Ability and School of Thought. Most networks have senior sponsorship, for example our Group Finance Director, Patrick Lewis sponsors our Gender Equality Network (GEN).

Strategic report for the year ended 27 January 2018 (continued)

	2017/18	2016/17
Ethnicity split of the Partnership	%	%
Asian or Asian British	6.77	6.53
Black or Black British	4.85	4.95
Chinese or Other ethnic group	1.34	1.32
Mixed origin	2.29	2.19
Not given	1.58	1.63
White	83.17	83.38
Gender diversity of the Partnership 2017/18	Male %	Female %
Partnership Board	64	36
Directors and Management Board	71	29
Senior Managers	53	47
All other Partners'	43	57
All Partners'	43	57
Gender diversity of the Partnership 2016/17	Male %	Female %
Partnership Board	60	40
Directors and Management Board	71	29
Senior Managers	54	46
All other Partners'	42	58
All Partners'	42	58

Each year, we hold a Bring Yourself to Work week, organised by Partners for Partners with events and stories shared all around the Partnership. It has the active support of senior leaders, but is a grassroots movement to encourage Partners to recognise the importance of, and engage in, conversations about diversity and inclusion at work.

We work with the Business Disability Forum to ensure our environment is disability friendly and in 2017 we achieved our aim of being a Disability Confident Employer, as recognised by the Department of Work and Pensions. We are also proud to be the retail industry representative on the Disability Confident Leaders Group and are committed to achieving our goal of becoming a Disability Confident Leader in 2018.

The Partnership was named one of the UK's Best Employers for Race in the Business in the Community Race Equality Awards 2017.

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

Sir Charlie Mayfield

Director, John Lewis plc

12 April 2018

Directors' report for the year ended 27 January 2018

The Directors present their report and the audited consolidated financial statements for the year ended 27 January 2018.

The Company has chosen, as permitted under section 414 C(11) of the Companies Act 2006, to include certain matters in its Strategic report that would otherwise be required to be disclosed in the Directors' report as the Board considers them to be of strategic importance. Specifically, these are:

— Future business developments on pages 4 to 6

— Risk management on pages 7 to 9

— Equal opportunities, diversity and inclusion on pages 10 to 11

— Research and development on pages 4 to 6

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, online (johnlewis.com), a John Lewis liaison office in Gurgaon, India, and a sourcing office in Kwun Tong, Hong Kong; Waitrose operates Waitrose supermarkets and convenience stores including shops which operate under licence in the Middle East, online (waitrose.com) and the Leckford Estate (the Waitrose Farm). There are also 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.

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
Bérangère Michel
Paula Nickolds
Keith Hubber (Company Secretary, resigned 31 January 2018)
Peter Simpson (Company Secretary, appointed 31 January 2018)

Corporate governance statement

John Lewis plc, as the principal trading subsidiary of John Lewis Partnership plc, falls within the governance auspices of the Partnership. The Directors of John Lewis plc comprise certain executive directors and the Finance Director of the John Lewis Division. The Company Secretary of John Lewis Partnership plc is the Company Secretary of John Lewis plc.

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 46 to 82 of the Partnership's Annual Report and Accounts.

The management functions are responsible for preparing the consolidated financial statements for John Lewis plc and its Internal Audit and Risk management functions are provided by the Partnership. The John Lewis Partnership plc Audit and Risk Committee, (the Committee) which has at least one independent member and at least one competent in accounting, (i) monitors the financial reporting process of the Partnership and the preparation of the Annual Report and Accounts, ensuring that the reporting is fair, balanced and understandable; (ii) monitors the effectiveness of internal control, internal audit, and risk management systems in each case throughout the Partnership; (iii) monitors the statutory audit of the annual and consolidated accounts of John Lewis plc; (iv) monitors the scope and planning of the external audit and evaluates the effectiveness of the external auditor; and (v) reviews and monitors the independence of the statutory auditor, and in particular the appropriateness of the provision of non-audit services to the Partnership. The Committee's activities in these areas are detailed in the Partnership's Audit and Risk Committee Report on pages 60 to 67 of the Partnership's Annual Report and Accounts.

KPMG LLP were the Partnership's external auditor for 2017/18. They provided the Committee with relevant reports, reviews, information and advice throughout the year, as set out in their engagement letter.

Directors' report for the year ended 27 January 2018 (continued)

The Committee is responsible for making a recommendation to the Partnership Board relating to the appointment, re-appointment or removal of the external auditor.

The Partnership has a risk management framework, including a process for how we identify, evaluate, manage and monitor the principal risks faced by the Partnership, supported by tools, dedicated Partners and a risk governance structure with defined accountability. The principal risks and uncertainties and mitigations for those risks for John Lewis plc are explained on pages 7 to 9 of the Strategic report. 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 is detailed in the Committee's report on pages 60 to 67 of the Partnership's Annual Report and Accounts.

The Partnership Board receives updates through the Chair of the Committee and copies of its minutes on the operation of the systems of internal control for risk management. Reporting is through presentations from senior management, the chairs of Divisional Risk Committees and financial control as well as the work of Internal Audit, which provides objective assurance on the effectiveness of controls through the delivery of a risk-based work plan. The Head of Internal Audit and Risk Management reports functionally to the Chair of the Committee and operationally to the Group Finance Director.

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.

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 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.

Directors' responsibilities

The statement of Directors' responsibilities in relation to the Strategic report, Directors' report and financial statements is set out on page 92.

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 27 January 2018, 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 27 January 2018 (continued)

Listing on the London Stock Exchange (LSE)

John Lewis plc is a Standard Listed company in respect of three corporate bonds listed on the LSE. The Company has no securities carrying voting rights admitted to trading on a regulated market.

Dividends

No dividends were paid on the Ordinary Shares. For the year ended 28 January 2017, dividends (£95,600) were paid on Cumulative Preference Stocks prior and at their cancellation and repayment in November 2016.

The Directors do not recommend the payment of a dividend on the Ordinary Shares (2017: nil).

Use of financial instruments

The notes to the financial statements, including note 7 from pages 63 to 68 onwards, include further information on our use of financial instruments.

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 for a period of at least 12 months from the date of the approval of these accounts. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the financial statements.

A full description of the Group's business activities, financial position, cash flows, liquidity position, committed facilities and borrowing position, together with the factors likely to affect its future development and performance, are set out in the Strategic report on pages 3 to 11.

Political donations

The Group made no political donations during the year (2017: £nil).

Annual General Meeting

The Annual General Meeting will be held at 2pm on 19 July 2018 at Partnership House, Carlisle Place, London, SW1P 1BX.

Events after the balance sheet date

Since 27 January 2018, there have been events which require disclosure in the financial statements. See note 8.3.

Appointment of auditor

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 reasonable 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.

Peter Simpson
Company Secretary

12 April 2018

Consolidated income statement

for the year ended 27 January 2018

Notes		2018 £m	2017 £m
1.2, 2.1	**Gross sales**	**11,597.7**	11,374.2
2.1	**Revenue**	**10,204.0**	10,026.2
	Cost of sales	**(6,839.5)**	(6,633.1)
	Gross profit	**3,364.5**	3,393.1
	Other operating income	**111.3**	92.6
2.2	Operating expenses before exceptional items and Partnership Bonus	**(3,115.9)**	(3,010.3)
3.3	Share of (loss)/profit of joint venture (net of tax)	**(1.0)**	0.3
2.1	**Operating profit before exceptional items and Partnership Bonus**	**358.9**	475.7
2.3	Exceptional items	**(111.3)**	171.2
2.1	**Operating profit before Partnership Bonus**	**247.6**	646.9
5.1	Finance costs	**(85.2)**	(108.6)
5.1	Finance income	**14.1**	1.9
	Profit before Partnership Bonus and tax	**176.5**	540.2
	Partnership Bonus	**(74.0)**	(89.4)
2.4	**Profit before tax**	**102.5**	450.8
2.7	Taxation	**(30.6)**	(97.9)
	Profit for the year	**71.9**	352.9
2.1	**Profit before Partnership Bonus, tax and exceptional items**	**287.8**	369.0

Consolidated statement of comprehensive income/(expense)

for the year ended 27 January 2018

Notes		2018 £m	2017 £m
	Profit for the year	**71.9**	352.9
	Other comprehensive income/(expense):		
	Items that will not be reclassified to profit or loss:		
6.1	Remeasurement of defined benefit pension scheme	**247.5**	(432.6)
2.7	Movement in deferred tax on pension scheme	**(57.4)**	46.1
2.7	Movement in current tax on pension scheme	**17.2**	24.7
	Items that may be reclassified subsequently to profit or loss:		
	Net loss on cash flow hedges	**(30.9)**	(1.1)
2.7	Movement in deferred tax on cash flow hedges	**5.9**	0.3
	Gain/(loss) on currency translations	**0.4**	(0.6)
	Other comprehensive income/(expense) for the year	**182.7**	(363.2)
	Total comprehensive income/(expense) for the year	**254.6**	(10.3)

Consolidated balance sheet

as at 27 January 2018

Notes		2018 £m	2017 £m
	Non-current assets		
3.1	Intangible assets	**495.7**	432.7
3.2	Property, plant and equipment	**3,971.2**	4,112.4
4.2	Trade and other receivables	**65.3**	61.2
7.2	Derivative financial instruments	**–**	0.1
3.3	Investment in and loans to joint venture	**2.9**	3.9
2.7	Deferred tax asset	**25.5**	48.2
		4,560.6	4,658.5
	Current assets		
4.1	Inventories	**661.5**	627.8
4.2	Trade and other receivables	**291.9**	242.6
7.2	Derivative financial instruments	**5.2**	15.3
3.4	Assets held for sale	**–**	8.1
5.3	Short-term investments	**120.0**	60.0
5.4	Cash and cash equivalents	**642.2**	673.7
		1,720.8	1,627.5
	Total assets	**6,281.4**	6,286.0
	Current liabilities		
5.5	Borrowings and overdrafts	**(0.1)**	–
4.3	Trade and other payables	**(1,747.2)**	(1,745.6)
	Current tax payable	**(9.7)**	(18.6)
5.6	Finance lease liabilities	**(0.7)**	(1.2)
4.4	Provisions	**(187.8)**	(167.7)
7.2	Derivative financial instruments	**(19.8)**	(7.2)
		(1,965.3)	(1,940.3)
	Non-current liabilities		
5.5	Borrowings	**(862.8)**	(862.7)
4.3	Trade and other payables	**(223.4)**	(219.7)
5.6	Finance lease liabilities	**(22.6)**	(23.3)
4.4	Provisions	**(157.9)**	(171.8)
7.2	Derivative financial instruments	**(4.0)**	(1.1)
6.1	Retirement benefit obligations	**(731.3)**	(1,013.7)
2.7	Deferred tax liability	**(6.1)**	–
		(2,008.1)	(2,292.3)
	Total liabilities	**(3,973.4)**	(4,232.6)
	Net assets	**2,308.0**	2,053.4
	Equity		
8.1	Share capital	**6.7**	6.7
	Share premium	**0.3**	0.3
	Other reserves	**(15.6)**	9.0
	Retained earnings	**2,316.6**	2,037.4
	Total equity	**2,308.0**	2,053.4

The financial statements on pages 15 to 69 were approved by the Board of Directors on 12 April 2018 and signed on its behalf by

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

Consolidated statement of changes in equity

for the year ended 27 January 2018

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 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]	–	–	–	28.2	–	–	28.2
	– transfers to property, plant and equipment[1]	–	–	–	1.0	–	–	1.0
2.7	Tax on above items recognised in equity	–	–	–	0.3	–	70.8	71.1
	Loss on currency translations	–	–	–	–	(0.6)	–	(0.6)
	Balance at 28 January 2017	6.7	0.3	1.4	8.1	(0.5)	2,037.4	2,053.4
	Profit for the year	–	–	–	–	–	71.9	71.9
6.1	Remeasurement of defined benefit pension scheme	–	–	–	–	–	247.5	247.5
	Fair value losses on cash flow hedges	–	–	–	(22.8)	–	–	(22.8)
	– transfers to inventories	–	–	–	(8.1)	–	–	(8.1)
2.7	Tax on above items recognised in equity	–	–	–	5.9	–	(40.2)	(34.3)
	Gain on currency translations	–	–	–	–	0.4	–	0.4
	Balance at 27 January 2018	**6.7**	**0.3**	**1.4**	**(16.9)**	**(0.1)**	**2,316.6**	**2,308.0**

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

Consolidated statement of cash flows

for the year ended 27 January 2018

Notes		2018 £m	2017 £m
2.5	**Cash generated from operations before Partnership Bonus**	**637.3**	908.2
	Net taxation paid	**(44.1)**	(49.8)
	Pension deficit reduction payments	**(89.8)**	(124.8)
	Finance costs paid	**(2.5)**	(2.4)
	Net cash generated from operating activities before Partnership Bonus	**500.9**	731.2
	Partnership Bonus paid	**(89.2)**	(144.8)
	Net cash generated from operating activities after Partnership Bonus	**411.7**	586.4
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(228.5)**	(265.6)
	Purchase of intangible assets	**(169.8)**	(153.7)
	Proceeds from sale of property, plant and equipment and intangible assets	**68.0**	13.7
	Finance income received	**1.7**	1.7
3.3	Cash outflow from investment in and loans to joint venture	**–**	(3.6)
	Cash outflow from short-term investments	**(60.0)**	(50.0)
	Net cash used in investing activities	**(388.6)**	(457.5)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	**(54.2)**	(56.0)
	Finance income received in respect of interest rate swaps	**0.7**	–
5.2	Payment of capital element of finance leases	**(1.2)**	(2.8)
	Payments to preference shareholders	**–**	(0.4)
	Cash outflow from borrowings	**–**	(63.4)
	Net cash used in financing activities	**(54.7)**	(122.6)
	(Decrease)/increase in net cash and cash equivalents	**(31.6)**	6.3
	Net cash and cash equivalents at beginning of the year	**673.7**	667.3
	Effects of exchange rate changes on cash and cash equivalents	**–**	0.1
	Net cash and cash equivalents at end of the year	**642.1**	673.7
5.4	**Net cash and cash equivalents comprise:**		
	Cash at bank and in hand	**128.4**	115.2
	Short-term deposits	**513.8**	558.5
	Bank overdrafts	**(0.1)**	–
		642.1	673.7

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

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

1.1.1 Basis of preparation

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

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

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

Going concern

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

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 27 January 2018 and have not had a significant impact on the Group's profit for the year, equity or disclosures:

- **Annual Improvements to IFRSs 2014-2016 Cycle – various standards** (issued on 8 December 2016)

- **Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses** (issued on 19 January 2016)

Notes to the consolidated financial statements (continued)

1.1 Accounting principles and policies (continued)

1.1.4 Amendments to accounting standards (continued)

- **Amendments to IAS 7: Disclosure Initiative (issued on 29 January 2016)**

The following are new accounting standards and amendments to existing standards that have been published and are applicable for the 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 to the Group’s consolidated income statement or consolidated balance sheet however it will result in increased disclosures within the notes to the accounts.

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

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

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

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

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

  For the year ended 27 January 2018, had IFRS 15 been applied on a full retrospective basis, the current and non-current Provisions balance of £345.7m would have decreased to £293.4m, and the current and non-current Trade and other payables balance of £1,970.6m would have increased to £2,038.5m. The impact on net assets would be a decrease of £15.6m. Additionally, there would have been a decrease of £14.1m to brought forward retained earnings as a result of the full retrospective approach. There would have been a net impact on the income statement of £1.5m reducing profit before tax.

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

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

- **IFRS 16 ‘Leases’** (applicable for the period beginning 27 January 2019)

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

Notes to the consolidated financial statements (continued)

1.1 Accounting principles and policies (continued)

1.1.4 Amendments to accounting standards (continued)

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

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

Included within the KPIs disclosed on page 30 of the Partnership's Annual Report and Accounts is a measure of total net debts as a multiple of cash flow. Total net debts represents the total borrowings of the Group including net debt (defined on page 23), adjusted for an estimate of non-liquid cash, the IAS 19 pension deficit net of deferred tax, and the present value of future rentals payable under operating leases. The present value of future rentals payable under operating leases has been calculated using a discount rate of 5%. This is not an estimate of the impact of IFRS 16.

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

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

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

1.1.5 Significant accounting policies

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

Other operating income

Other operating income is income that does not satisfy the definition of revenue in that it is not related to the main trading operations of the 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, interest rate swaps and foreign exchange options. Hedge accounting has been adopted for derivative financial instruments where possible. Such derivative financial instruments are measured at fair value. The fair value of a derivative financial instrument represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the forward rates of exchange and interest rates prevailing at the balance sheet date.

In order to qualify for hedge accounting, the relationship between the item being hedged and the hedging instrument is documented in advance of entering into the hedge, and assessed to show that the hedge will be highly effective on an ongoing basis. This

Notes to the consolidated financial statements (continued)

1.1 Accounting principles and policies (continued)

1.1.5 Significant accounting policies (continued)

effectiveness testing is also performed at the end of each financial reporting period to ensure that the hedge remains highly effective.

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

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

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

The table below sets out the 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.

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

Notes to the consolidated financial statements (continued)

1.1 Accounting principles and policies (continued)

1.1.5 Significant accounting policies (continued)

in other comprehensive income as qualifying cash flow hedges. On translation of assets and liabilities in foreign currencies, movements go through the foreign currency translation reserve.

1.1.6 Key judgements and critical accounting estimates

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

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

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

1.1.7 Change in accounting estimate - Retirement benefits

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

1.2 Non-GAAP measures

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

1.2.1 Gross sales

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

1.2.2 Exceptional items

Items which are both material and non-recurring are presented as exceptional items within their relevant consolidated income statement category. The separate reporting of exceptional items helps provide an indication of the 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 focuses on our performance during the year ended 27 January 2018. Information is provided on segmental performance, exceptional items, operating expenses, Partner-related costs and taxation. This section also includes a reconciliation of our profit before tax to the cash generated from operations before Partnership Bonus, which shows how our performance translates into cash.

2.1 Segmental reporting

Accounting policies

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

Group includes operating costs for our Group offices and shared services, as well as certain pension operating costs. The operating profit of each segment is reported after charging relevant Group costs based on the business segments' usage of these facilities and services, and after the exceptional items.

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

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

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.

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

Partnership Bonus: The Partnership Bonus is announced and paid to Partners each March and is determined in relation to the performance for the previous financial year. No liability is recorded for Partnership Bonus at the half-year as the majority of the 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 the amount 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 Partnership Board and the reporting segments reflect the management structure of the Group.

The Group's reporting segments for the year ended 28 January 2017 were: Waitrose, John Lewis and Partnership Services and Group. In the year ended 27 January 2018, these reporting segments are: Waitrose, John Lewis and Group.

Notes to the consolidated financial statements (continued)

2.1 Segmental reporting (continued)

2018	Waitrose £m	John Lewis £m	Group[1] £m	Total £m
Gross sales	**6,753.7**	**4,844.0**	**–**	**11,597.7**
Adjustment for sale or return sales	**–**	**(254.6)**	**–**	**(254.6)**
Value added tax	**(399.0)**	**(740.1)**	**–**	**(1,139.1)**
Revenue	**6,354.7**	**3,849.3**	**–**	**10,204.0**
Operating profit before exceptional items, Partnership Bonus and net profit on sale of property[2]	**169.1**	**243.7**	**(67.3)**	**345.5**
Net profit on sale of property[3]	**2.9**	**10.5**	**–**	**13.4**
Operating profit before exceptional items and Partnership Bonus	**172.0**	**254.2**	**(67.3)**	**358.9**
Exceptional items	**(52.2)**	**(21.3)**	**(37.8)**	**(111.3)**
Operating profit before Partnership Bonus	**119.8**	**232.9**	**(105.1)**	**247.6**
Finance costs				**(85.2)**
Finance income				**14.1**
Partnership Bonus				**(74.0)**
Profit before tax				**102.5**
Taxation				**(30.6)**
Profit for the year				**71.9**
Reconciliation of Profit before Partnership Bonus, tax and exceptional items to Profit before tax:				
Profit before Partnership Bonus, tax and exceptional items				**287.8**
Partnership Bonus				**(74.0)**
Exceptional items				**(111.3)**
Profit before tax				**102.5**
Segment assets	**2,890.1**	**2,150.8**	**1,240.5**	**6,281.4**
Segment liabilities	**(784.9)**	**(889.0)**	**(2,299.5)**	**(3,973.4)**
Net assets	**2,105.2**	**1,261.8**	**(1,059.0)**	**2,308.0**
Other segment items:				
– Depreciation[4]	**(196.2)**	**(110.2)**	**(16.9)**	**(323.3)**
– Amortisation[4]	**(38.2)**	**(54.3)**	**(21.6)**	**(114.1)**
– Capital expenditure – property, plant and equipment	**109.0**	**72.8**	**45.0**	**226.8**
– Capital expenditure – intangible assets	**52.7**	**107.0**	**22.8**	**182.5**
– (Decrease)/increase in provisions	**(2.0)**	**0.8**	**7.4**	**6.2**

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

[2] Included within operating profit before exceptional items, Partnership Bonus and net profit on sale of property is a £1.0m loss (2017: £0.3m profit) share of loss/profits of a joint venture in the John Lewis Division (see note 3.3) and an impairment charge of £52.3m (2017: £38.0m) of which £42.7m (2017: £37.7m) is in the Waitrose Division, £7.2m (2017: £0.3m) is in the John Lewis Division, and £2.4m (2017: £nil) is in the Group Division (see notes 3.1 and 3.2).

[3] Net profit on sale of property includes losses of £2.1m in the Waitrose Division (2017: £nil).

[4] Includes charges for impairment. See notes 3.1 and 3.2.

Notes to the consolidated financial statements (continued)

2.1 Segmental reporting (continued)

2017	Waitrose £m	John Lewis £m	Group[1] £m	Total £m
Gross sales	**6,633.2**	**4,741.0**	**–**	**11,374.2**
Adjustment for sale or return sales	**–**	**(229.2)**	**–**	**(229.2)**
Value added tax	**(387.7)**	**(731.1)**	**–**	**(1,118.8)**
Revenue	**6,245.5**	**3,780.7**	**–**	**10,026.2**
Operating profit before exceptional items, Partnership Bonus and net profit on sale of property[2]	**252.7**	**241.5**	**(21.0)**	**473.2**
Net 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[3]	**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[4]	**(191.0)**	**(112.1)**	**(16.6)**	**(319.7)**
– Amortisation[4]	**(45.1)**	**(44.8)**	**(18.9)**	**(108.8)**
– Capital expenditure – property, plant and equipment	**113.5**	**143.0**	**8.9**	**265.4**
– Capital expenditure – intangible assets	**52.4**	**83.8**	**21.0**	**157.2**
– Increase in provisions	**2.0**	**0.4**	**47.3**	**49.7**

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

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

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

[4] Includes charges for impairment. See notes 3.1 and 3.2.

Notes to the consolidated financial statements (continued)

2.2 Operating expenses before exceptional items and Partnership Bonus

Operating expenses before exceptional items and Partnership Bonus	**2018 £m**	2017 £m
Branch operating expenses	**(2,158.4)**	(2,310.8)
Administrative expenses	**(957.5)**	(699.5)
	(3,115.9)	(3,010.3)

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

2.3 Exceptional items

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

Exceptional items	**2018 Operating (expense)/ income £m**	**2018 Taxation credit £m**	2017 Operating (expense)/ income £m	2017 Taxation credit/ (charge) £m
Restructuring and redundancy (a)	**(72.8)**	**13.7**	(20.7)	3.9
Branch impairments (b)	**(38.9)**	**4.5**	–	–
Profit on disposal of items previously recognised as exceptional (c)	**2.7**	**–**	0.8	(0.1)
Strategic review (d)	**(2.3)**	**0.4**	(42.9)	5.1
Reduction in pension obligation (e)	**–**	**–**	270.0	(48. 6)
Pay provision (f)	**–**	**–**	(36.0)	7.1
	(111.3)	**18.6**	171.2	(32.6)

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

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

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

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

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

Notes to the consolidated financial statements (continued)

2.3 Exceptional items (continued)

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

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

2.4 Profit before tax

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

[1] Included within depreciation – owned assets is an impairment charge of £40.7m (2017: £34.7m) of which £40.7m (2017: £34.4m) is in the Waitrose Division and £nil (2017: £0.3m) is in the John Lewis Division.

[2] Included within amortisation of intangible assets is an impairment charge of £11.6m (2017: £3.3m) of which £2.0m (2017:£3.3m) is in the Waitrose Division, £7.2m (2017: £nil) is in the John Lewis Division and £2.4m (2017: £nil) is in the Group Division.

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

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, as analysed below:

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

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

	2018 £m	2017 £m
Profit before tax	**102.5**	450.8
Amortisation of intangible assets	**114.1**	108.8
Depreciation	**323.3**	319.7
Share of loss/(profit) of joint venture (net of tax)	**1.0**	(0.3)
Net finance costs	**71.1**	106.7
Partnership Bonus	**74.0**	89.4
Fair value losses/(gains) on derivative financial instruments	**0.2**	(1.9)
Profit on disposal of property, plant and equipment and intangible assets	**(15.8)**	(0.3)
Increase in inventories	**(33.7)**	(5.9)
Increase in receivables	**(52.1)**	(15.4)
Increase in payables	**20.9**	89.6
Increase/(decrease) in retirement benefit obligations	**29.5**	(265.3)
Increase in provisions	**2.3**	32.3
Cash generated from operations before Partnership Bonus	**637.3**	908.2

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:

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

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

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

2.6.2 Partner pay and benefits

Employment and related costs were as follows:

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

[1] Includes cash supplements in lieu of future pension accrual.

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

Key management participate in the 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 therefore 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 27 January 2018 and 28 January 2017 of the Chairman, who was also the highest paid Director, were £1,411,000 (2017: £1,413,000), comprising pay of £1,109,000 (2017: £1,103,000), Partnership Bonus of £nil (2017: £nil), pension supplement in lieu of further defined pension accrual of £288,000 (2017: 296,000) and benefits with a cash value of £14,000 (2017: £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 Group has made provision for the associated liability. During the year, the total pension supplement paid to the Directors was £0.8m (2017: £0.8 m). The aggregate defined benefit pension entitlement accrued at the end of the year was £0.7m (2017: £1.1m) relating to five (2017: seven) Directors. At the end of the reporting period, one (2017: one) Director continues to accrue further benefits in the Group's pension scheme. The aggregate value of the Company's contribution to this scheme in respect of that Director was £0.1m (2017: £0.1m).

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 (2017: £300,000 per annum). There was no increase in the accrued income entitlement above the consumer price inflation during the year.

No 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.

Directors' emoluments have been summarised below.

	2018	2017
	£m	£m
Aggregate emoluments	**(4.4)**	(4.4)

Notes to the consolidated financial statements (continued)

2.7 Taxation

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

Accounting policy

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

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

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

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

2.7.1 Analysis of tax charge for the year

Recognised in the income statement	**2018 £m**	2017 £m
Current tax – current year	**(51.7)**	(72.2)
Current tax – adjustment in respect of prior years	**(1.6)**	6.1
Total current tax charge	**(53.3)**	(66.1)
Deferred tax – current year	**22.4**	(38.3)
Deferred tax – rate change	**(7.3)**	9.3
Deferred tax – adjustment in respect of prior years	**7.6**	(2.8)
	(30.6)	(97.9)

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

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

Notes to the consolidated financial statements (continued)

2.7 Taxation (continued)

2.7.2 Factors affecting tax charge for the year

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

	2018 **£m**	2017 £m
Profit before tax	**102.5**	450.8
Profit before tax multiplied by standard rate of corporation tax in the UK of 19.2% (2017: 20.0%)	**(19.6)**	(90.2)
Effects of:		
Changes in tax rate	**(7.3)**	9.3
Adjustment in respect of prior years	**6.0**	3.3
Depreciation on assets not qualifying for tax relief	**(14.0)**	(12.3)
Difference between accounting and tax base for land and buildings	**5.0**	(5.1)
Differences in overseas tax rates	**(0.1)**	2.0
Sundry disallowables	**0.2**	(4.8)
Other permanent differences on sale of property	**(0.8)**	(0.1)
Total tax charge	**(30.6)**	(97.9)
Effective tax rate (%)	**29.9**	21.7

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

2.7.3 Deferred tax

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

The movement on the deferred tax account is shown below:

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

Notes to the consolidated financial statements (continued)

2.7 Taxation (continued)

2.7.3 Deferred tax (continued)

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

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

2.7 Taxation (continued)

2.7.3 Deferred tax (continued)

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

2.7.4 Factors affecting tax charges in current and future years

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

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

Notes to the consolidated financial statements (continued)

3 Operating assets and liabilities

In this section

This section shows the assets used in generating the 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 policies

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

Amortisation: Once available for use, the purchased or internally developed software is amortised on a straight-line basis over its useful economic life, which is deemed to be between three and ten years. The assets' useful economic lives (UELs) 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 amortised cost exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to dispose and value in use. The reversal of an impairment loss is recognised immediately as a credit to the income statement.

Key judgements

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

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

Critical accounting estimates

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

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

Notes to the consolidated financial statements (continued)

3.1 Intangible assets (continued)

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

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

Intangible assets principally relate to customer and distribution projects with useful economic lives of up to 10 years. There are four individually significant assets within the total carrying amount of intangible assets as at 27 January 2018: two are customer projects (£126.8m, 2017: £100.9m) and two relate to distribution projects (£126.2m, 2017: £53.4m).

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

Amortisation of intangible assets is charged within operating expenses.

Notes to the consolidated financial statements (continued)

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 in to working condition ready for its intended use. This may include capitalised borrowing costs.

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

Other assets are held at cost.

Depreciation*:* No depreciation is charged on freehold land or assets in the course of construction. Depreciation is calculated for all other assets to write off the cost or valuation, less residual value, on a straight-line basis over the following expected useful economic lives (UELs), 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 performed on cash generating units (CGUs) which are branches including an allocation of online, being the lowest level of separately identifiable cash flows. An impairment loss is recognised for the amount by which the asset's net book value exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to dispose and value in use. Value in use calculations are performed using cash flow projections, discounted at a pre-tax rate, which reflects the asset specific risks and the time value of money.

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

Key judgements

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

Critical accounting estimates

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

Notes to the consolidated financial statements (continued)

3.2 Property, plant and equipment (continued)

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

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

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

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

Notes to the consolidated financial statements (continued)

3.2 Property, plant and equipment (continued)

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

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

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

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

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

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/(expense) of the equity accounted investees, from the date that joint control commences until the date that joint control ceases.

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

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

Notes to the consolidated financial statements (continued)

3.4 Assets held for sale

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

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 maximum amounts that we are obliged to pay, with the exception of commitments under operating leases, where the future minimum payments under non-cancellable operating leases are disclosed. See note 5.6 for the leases accounting policy.

3.5.1 Capital commitments

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

3.5.2 Lease guarantees

John Lewis plc continues to provide lease guarantees in favour of the 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 (2017: £6.8m) which will become payable if Ocado Limited defaults on rental payments. The likely timing of this cash flow is therefore uncertain.

3.5.3 Commitments under operating leases

The 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 our lease payments are subject to market review, usually every five years, to reflect market rentals, but because of the uncertainty over the amount of any future changes, such changes have not been reflected in the table below. Some of our lease agreements include rental payments contingent on turnover or economic indices, these contingent rents are also excluded from the table below.

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

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

Notes to the consolidated financial statements (continued)

3.5 Commitments and contingencies (continued)

3.5.3 Commitments under operating leases (continued)

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

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

Notes to the consolidated financial statements (continued)

4 Working capital and provisions

In this section

Working capital represents the assets and liabilities that the 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 an appropriate provision is made.

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

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

4.2 Trade and other receivables

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	2018 £m	2017 £m
Current:		
Trade receivables	**84.5**	67.8
Other receivables	**70.0**	59.6
Prepayments	**101.5**	81.4
Accrued income	**35.9**	33.8
	291.9	242.6
Non-current:		
Other receivables	**18.3**	17.1
Prepayments	**47.0**	44.1
	65.3	61.2

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

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

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

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

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

Notes to the consolidated financial statements (continued)

4.3 Trade and other payables (continued)

Trade and other payables	**2018 £m**	2017 £m
Current:		
Trade payables	**(943.3)**	(961.6)
Amounts owed to parent undertaking	**(109.7)**	(108.1)
Other payables	**(184.3)**	(168.2)
Other taxation and social security	**(178.8)**	(176.9)
Accruals	**(192.1)**	(170.6)
Deferred income	**(72.5)**	(78.4)
Partnership Bonus	**(66.5)**	(81.8)
	(1,747.2)	(1,745.6)
Non-current:		
Other payables	**(0.3)**	(0.3)
Deferred income	**(223.1)**	(219.4)
	(223.4)	(219.7)

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

4.4 Provisions

Accounting policies

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

Critical accounting estimates

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

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

Notes to the consolidated financial statements (continued)

4.4 Provisions (continued)

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

The Group has a long leave scheme, open to all Partners, which provides up to six months paid leave after 25 years' service. There is no proportional entitlement for shorter periods of service. The provision for the liabilities under the scheme is assessed on an actuarial basis, reflecting Partners' expected service profiles, and using economic assumptions consistent with those used for the Group's retirement benefits (note 6.1), with the exception of the real discount rate, where a rate appropriate to the shorter duration of the long leave liability is used, so as to accrue the cost over Partners' service periods.

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

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

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

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

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

Other provisions include property related costs and pay provisions.

Notes to the consolidated financial statements (continued)

5 Financing

In this section

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

5.1 Net finance costs

	2018 £m	2017 £m
Finance costs		
Net interest payable on:		
Commitment fees and bank overdrafts	**(1.3)**	(1.1)
Other loans repayable within five years	**(18.3)**	(23.6)
Other loans repayable in more than five years[1]	**(32.2)**	(31.0)
Finance lease interest payable	**(0.9)**	(1.0)
Amortisation of issue costs of bonds and loan facilities	**(1.5)**	(2.0)
Preference Share dividends	**–**	(0.1)
Finance costs in respect of borrowings	**(54.2)**	(58.8)
Fair value measurements and other	**(1.8)**	(2.8)
Net finance costs arising on defined benefit and other employee benefit schemes	**(29.2)**	(47.0)
Total finance costs	**(85.2)**	(108.6)
Finance income		
Finance income in respect of cash and short-term investments[2]	**6.8**	1.7
Fair value measurements and other	**7.3**	0.2
Total finance income	**14.1**	1.9
Net finance costs	**(71.1)**	(106.7)

[1] Other loans repayable in more than five years includes interest payable on interest rate swaps of £4.7m (2017: £nil).

[2] Finance income in respect of cash and short-term investments includes interest receivable on interest rate swaps of £5.4m (2017: £nil).

	2018 £m	2017 £m
Total finance costs in respect of borrowings, excluding interest rate swaps	**(49.5)**	(58.8)
Net interest receivable in respect of interest rate swaps	**0.7**	–
Finance income in respect of cash and short-term investments, excluding interest rate swaps	**1.4**	1.7
Net finance costs in respect of borrowings and short-term investments	**(47.4)**	(57.1)
Fair value measurements and other	**5.5**	(2.6)
Net finance costs arising on defined benefit retirement scheme	**(25.3)**	(29.6)
Net finance costs arising on other employee benefit schemes	**(3.9)**	(17.4)
Net finance costs	**(71.1)**	(106.7)

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

Notes to the consolidated financial statements (continued)

5.2 Analysis of net debt

	2017 £m	Cash movements £m	Other non-cash movements £m	2018 £m
Non-current assets				
Derivative financial instruments	0.1	–	(0.1)	**–**
	0.1	–	(0.1)	**–**
Current assets				
Cash and cash equivalents	673.7	(31.5)	–	**642.2**
Short-term investments	60.0	60.0	–	**120.0**
Derivative financial instruments	15.3	14.9	(25.0)	**5.2**
	749.0	43.4	(25.0)	**767.4**
Current liabilities				
Borrowings and overdrafts	–	(0.1)	–	**(0.1)**
Finance leases	(1.2)	1.2	(0.7)	**(0.7)**
Derivative financial instruments	(7.2)	(6.8)	(5.8)	**(19.8)**
	(8.4)	(5.7)	(6.5)	**(20.6)**
Non-current liabilities				
Borrowings	(875.0)	–	–	**(875.0)**
Unamortised bond transaction costs	12.3	–	(1.2)	**11.1**
Fair value adjustment for hedged element on bonds	–	–	1.1	**1.1**
Finance leases	(23.3)	–	0.7	**(22.6)**
Derivative financial instruments	(1.1)	–	(2.9)	**(4.0)**
	(887.1)	–	**(2.3)**	**(889.4)**
Total net debt	(146.4)	37.7	**(33.9)**	**(142.6)**

Reconciliation of net cash flow to net debt	**2018 £m**	2017 £m
(Decrease)/increase in net cash and cash equivalents in the year	**(31.6)**	6.3
Cash outflow from short-term investments	**60.0**	50.0
Cash outflow from movement in other net debt items	**9.3**	95.4
Cash movement in net debt for the year	**37.7**	151.7
Opening net debt	**(146.4)**	(266.0)
Non-cash movement in net debt for the year	**(33.9)**	(32.1)
Closing net debt	**(142.6)**	(146.4)

Notes to the consolidated financial statements (continued)

5.2 Analysis of net debt (continued)

Our total borrowings and finance lease liabilities are summarised below.

	Borrowings £m	Finance lease liabilities £m	Total £m
At 30 January 2016	(935.1)	(27.3)	(962.4)
Movements arising from financing cash flows	60.2	2.8	63.0
Other non-cash movements	(0.1)	–	(0.1)
At 28 January 2017	(875.0)	(24.5)	(899.5)
Movements arising from financing cash flows	(0.1)	1.2	1.1
At 27 January 2018	**(875.1)**	**(23.3)**	**(898.4)**

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

5.3 Short-term investments

Accounting policy

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

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

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

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

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

Notes to the consolidated financial statements (continued)

5.4 Cash and cash equivalents (continued)

At 27 January 2018, £20.5m (2017: £33.4m) of the Group's cash balance and £nil (2017: £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:

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

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.

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

Borrowings and overdrafts	**2018 £m**	2017 £m
Current:		
Bank overdraft	**(0.1)**	–
	(0.1)	–
Non-current:		
8⅜% Bonds, 2019	**(275.0)**	(275.0)
6⅛% Bonds, 2025	**(300.0)**	(300.0)
4¼% Bonds, 2034	**(300.0)**	(300.0)
Unamortised bond transaction costs	**11.1**	12.3
Fair value adjustment for hedged element on bonds	**1.1**	–
	(862.8)	(862.7)

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

Notes to the consolidated financial statements (continued)

5.6 Finance lease liabilities

Accounting policy

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

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

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

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

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

The 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 liability on the Group balance sheet relating to the defined contribution section of the pension scheme.

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

Accounting policy

Employee benefits: The defined benefit section of the scheme's assets is held separately from the 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 is the increase in the present value of the retirement benefit obligation resulting from employees' service in the current year. The current service cost is included within operating profit in the consolidated income statement.

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

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

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

Contributions to the 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

Retirement benefits: This section details the assumptions used to calculate the total defined benefit pension obligation. This is the estimate of the current cost of meeting future benefits to be paid out by the pension scheme. The calculation requires the application of a discount rate to estimate the present day fair value of the pension payments, as well as assumptions on mortality rates, salary increases and inflation. Given the size of the Group's defined benefit obligation, relatively small movements in these assumptions could cause a material adjustment to the carrying amount of the obligation. Sensitivity analysis on the discount rate and other key assumptions is provided in note 6.1.5. During the year, management revised the methodology for deriving the nominal discount rate assumption used in valuing the pension obligation (please see page 54 for further information on this change in estimate).

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 annual defined benefit accrual rate from 1/60th to 1/120th of final salary, and to provide an enhanced level of defined contribution pension for those Partners who have completed the waiting period. Other changes, applying only to any pension built up after 1 April 2016, included linking the 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 £731.3m. Differences arise between the funding valuation and accounting valuation, mainly due to the use of different assumptions to value the liabilities and changes in market conditions between the two valuation dates, of 31 March 2016 and 27 January 2018.

For funding valuation purposes the liabilities are determined based on assumptions set by the Trustee following consultation with the 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.

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.

Notes to the consolidated financial statements (continued)

6.1 Retirement benefits (continued)

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

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

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

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

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

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.

Change in accounting estimate – discount rate

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

Notes to the consolidated financial statements (continued)

6.1 Retirement benefits (continued)

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

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

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.

Financial assumptions

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

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

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

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

Notes to the consolidated financial statements (continued)

6.1 Retirement benefits (continued)

6.1.1 Assumptions (continued)

Demographic assumptions

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

The average life expectancies assumed were as follows:

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

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.

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

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

- Service cost is the cost to the Group of future benefits earned by members which are attributable to members' service in the current or past periods. The past service cost represents the change in the present value of the retirement benefit obligation in relation to employees' service in prior years.
- Contribution expense is in respect of the Group's contributions to the defined contribution section of the pension scheme and cash supplements in respect of certain Partners in lieu of future pension accrual.
- Administration expenses are in relation to the pension scheme.
- Net interest on the net defined benefit liability is made up of the interest cost on pension liabilities and interest income on pension assets.

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

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

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

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

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).

Notes to the consolidated financial statements (continued)

6.1 Retirement benefits (continued)

6.1.3 Reconciliation of retirement benefits (continued)

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

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. Current service costs relate to benefits accrued by Partners during the current year, and past service credits/costs are changes in the present value of the defined benefit obligation relating to members' service in prior years, which may arise as a result of changes made to the scheme during the year. Both current and past service costs are charged to the income statement, along with any gains or losses on settlement.
- Future pension obligations are stated at present value. A discount rate is used to calculate the current value of the future liability. The interest on pensions liabilities is the unwinding of this discount rate and is charged to the income statement within net finance costs.
- Remeasurements arise from the uncertainty in making assumptions about future events in calculating the liability. These may arise from changes in assumptions, for example movements in the discount rate, or experience adjustments which result from differences between the assumptions made and what actually occurred over the period. Remeasurements are recognised in equity and shown in the statement of comprehensive income/(expense).
- Any cash benefits paid out by the scheme will reduce the defined benefit obligation.

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

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

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

Notes to the consolidated financial statements (continued)

6.1 Retirement benefits (continued)

6.1.3 Reconciliation of retirement benefits (continued)

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

- Interest income on assets represents the expected return on investments if it is in line with the discount rate. It is calculated as the discount rate at the beginning of the year multiplied by the value of the assets at the beginning of the year. This is recognised in net finance costs in the income statement.
- Return on plan assets greater/(less) than the discount rate 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.

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

Notes to the consolidated financial statements (continued)

6.1 Retirement benefits (continued)

6.1.4 Analysis of assets

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

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

Notes to the consolidated financial statements (continued)

6.1 Retirement benefits (continued)

6.1.4 Analysis of assets (continued)

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

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

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

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

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

6.1.5 Sensitivity analysis

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

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

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

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

Notes to the consolidated financial statements (continued)

6.1 Retirement benefits (continued)

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

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

John Lewis Properties plc guarantee

As part of agreeing the funding valuation in 2017, John Lewis Properties plc provided a corporate guarantee to the pension scheme. This guarantee means that if John Lewis plc fails to make any payments due to the scheme for any reason, then the pension scheme can claim against John Lewis Properties plc for those payments. As part of the guarantee, John Lewis Properties plc is required to maintain at least £800.0m of net assets. The guarantee has improved the recovery to the pension scheme in the event of insolvency of the 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 are to safeguard its ability to continue as a going concern, provide returns for its Partners and to maintain a prudent level of funding. The 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, primarily through the Debt Ratio (see page 30 of the Partnership's Annual Report and Accounts), whilst maintaining an appropriate level of cash and committed debt headroom and a managed debt maturity profile to reduce refinancing risk and ensure continuity of funding. Forms of borrowing include bond issues, assets acquired via finance leases, assets obtained for use via operating leases, the pension deficit and Share Incentive Plan shares as part of the BonusSave scheme.

7.1.2 Liquidity risk

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

The Group's listed bonds and committed credit 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.

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	**(0.1)**	**(275.0)**	**(600.0)**
Interest payments on borrowings	**(54.2)**	**(54.2)**	**(283.1)**
Finance lease liabilities	**(1.5)**	**(1.4)**	**(39.4)**
Trade and other payables	**(1,386.2)**	**(0.3)**	**–**
Derivative financial liabilities			
Derivative contracts – receipts	**342.2**	**106.5**	**30.7**
Derivative contracts – payments	**(356.4)**	**(108.3)**	**(31.8)**
At 27 January 2018	**(1,456.2)**	**(332.7)**	**(923.6)**

	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)

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 Standard. 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. During the year, the Group converted £100.0m of fixed rate debt to floating rate debt using interest rate swap contracts. The interest rate swap contracts were designated as fair value hedges and fair value movements have been recognised within the income statement. Derivative financial instruments recognised as fair value hedges during the year were effective.

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

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

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:

	2018 £m	2017 £m
Trade and other receivables	**172.8**	144.5
Short-term investments	**120.0**	60.0
Cash and cash equivalents	**642.2**	673.7
Derivative financial instruments	**5.2**	15.4
	940.2	893.6

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, which is addressed in note 6.1.5.

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

Notes to the consolidated financial statements (continued)

7.1 Management of financial risks (continued)

7.1.7 Sensitivity analysis (continued)

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

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

	2018		2017	
	Income statement +/- £m	**Equity +/- £m**	Income statement +/- £m	Equity +/- £m
UK interest rates +/- 1% (2017: +/- 1%)	**5.7**	**–**	6.4	–
US Dollar exchange rate (GBP/USD) +/- 10% (2017: +/- 10%)	**12.2**	**21.9**	0.9	19.2
Euro exchange rate (GBP/EUR) +/- 10% (2017: +/- 10%)	**0.7**	**15.7**	0.8	10.7

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

7.2.2 Fair value of derivative financial instruments

The fair value of derivative financial instruments is as follows:

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

Notes to the consolidated financial statements (continued)

7.2 Derivative financial instruments and financial liabilities (continued)

7.2.2 Fair value of derivative financial instruments (continued)

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

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

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

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

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

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

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

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

7.3 Analysis of financial assets and liabilities

7.3.1 Analysis of financial assets

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

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

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

Notes to the consolidated financial statements (continued)

7.3 Analysis of financial assets and liabilities (continued)

7.3.2 Analysis of financial liabilities

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

Currency analysis	Fixed rate £m	Floating rate £m	Total £m
All Sterling			
At 27 January 2018	**(787.2)**	**(100.1)**	**(887.3)**
At 28 January 2017	(887.2)	–	(887.2)

Maturity of financial liabilities	2018 £m	2017 £m
Repayable within one year		
Bank overdrafts	**(0.1)**	–
Property finance leases	**(0.7)**	(1.2)
	(0.8)	(1.2)
Repayable between one and two years		
Property finance leases	**(0.6)**	(0.7)
Bonds	**(275.0)**	–
Unamortised bond transaction costs	**0.4**	–
	(275.2)	(0.7)
Repayable between two and five years		
Property finance leases	**(2.0)**	(2.1)
Bonds	**–**	(275.0)
Unamortised bond transaction costs	**–**	0.8
	(2.0)	(276.3)
Repayable in more than five years		
Property finance leases	**(20.0)**	(20.5)
Bonds	**(600.0)**	(600.0)
Unamortised bond transaction costs	**10.7**	11.5
	(609.3)	(609.0)
	(887.3)	(887.2)

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

	2018		2017	
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, the pension scheme disposed of the property, therefore no payments were made in respect of the operating lease (2017: £0.8m).

8.2.3 Arrangements with John Lewis Partnership Trust Limited

John Lewis Partnership Trust Limited is a related party and holds the Deferred Ordinary Shares in the 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 £81,000 (2017: £116,000). The Group also made donations totalling £0.6m (2017: £1.1m) to the John Lewis Foundation.

8.3 Subsequent events

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

8.3.1 Pension Contributions

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

Company balance sheet
as at 27 January 2018

Notes		2018 £m	2017 £m
	Non-current assets		
12	Intangible assets	**372.2**	321.6
13	Property, plant and equipment	**1,005.0**	1,052.1
18	Trade and other receivables	**45.7**	46.6
28	Derivative financial instruments	**–**	0.1
14	Investments in subsidiaries	**1,400.6**	1,433.1
15	Investments in and loans to joint venture	**2.9**	3.9
26	Deferred tax asset	**132.7**	153.0
		2,959.1	3,010.4
	Current assets		
17	Inventories	**401.9**	394.9
18	Trade and other receivables	**172.3**	125.6
	Current tax receivable	**21.3**	32.7
28	Derivative financial instruments	**5.2**	15.3
16	Assets held for sale	**–**	8.1
19	Short-term investments	**120.0**	60.0
20	Cash and cash equivalents	**551.7**	577.1
		1,272.4	1,213.7
	Total assets	**4,231.5**	4,224.1
	Current liabilities		
22	Borrowings and overdrafts	**(0.1)**	–
23	Trade and other payables	**(1,605.4)**	(1,598.6)
24	Finance lease liabilities	**(0.2)**	(0.2)
25	Provisions	**(167.9)**	(145.3)
28	Derivative financial instruments	**(19.8)**	(7.2)
		(1,793.4)	(1,751.3)
	Non-current liabilities		
22	Borrowings	**(862.8)**	(862.7)
23	Trade and other payables	**(165.0)**	(159.6)
24	Finance lease liabilities	**(13.3)**	(13.5)
25	Provisions	**(151.0)**	(160.6)
28	Derivative financial instruments	**(4.0)**	(1.1)
32	Retirement benefit obligations	**(650.5)**	(930.9)
		(1,846.6)	(2,128.4)
	Total liabilities	**(3,640.0)**	(3,879.7)
	Net assets	**591.5**	344.4
	Equity		
33	Share capital	**6.7**	6.7
	Share premium	**0.3**	0.3
	Other reserves	**(16.5)**	8.1
	Retained earnings	**601.0**	329.3
	Total equity	**591.5**	344.4

The financial statements on pages 70 to 91 were approved by the Board of Directors on 12 April 2018 and signed on its behalf by

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

Registered number 00233462

Company statement of changes in equity

for the year ended 27 January 2018

Notes		Share capital £m	Share premium £m	Hedging reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Total equity £m
	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]	–	–	28.2	–	–	28.2
	– transfers to property, plant and equipment[1]	–	–	1.0	–	–	1.0
	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
10	Profit for the year	–	–	–	–	64.7	64.7
	Remeasurement of defined benefit pension scheme	–	–	–	–	249.4	249.4
	Fair value losses on cash flow hedges	–	–	(22.8)	–	–	(22.8)
	– transfers to inventories	–	–	(8.1)	–	–	(8.1)
	Tax on above items recognised in equity	–	–	5.9	–	(42.4)	(36.5)
	Gain on currency translations	–	–	–	0.4	–	0.4
	Balance at 27 January 2018	**6.7**	**0.3**	**(16.9)**	**0.4**	**601.0**	**591.5**

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

Company statement of cash flows

for the year ended 27 January 2018

Notes		2018 £m	2017 £m
30	**Cash generated from operations before Partnership Bonus**	**340.2**	455.4
	Net taxation paid	**(7.9)**	(10.9)
	Pension deficit reduction payments	**(89.8)**	(124.8)
	Finance costs paid	**(2.3)**	(1.9)
	Net cash generated from operating activities before Partnership Bonus	**240.2**	317.8
	Partnership Bonus paid	**(40.4)**	(63.9)
	Net cash generated from operating activities after Partnership Bonus	**199.8**	253.9
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(91.7)**	(182.0)
	Purchase of intangible assets	**(119.3)**	(101.2)
	Proceeds from sale of property, plant and equipment and intangible assets	**30.6**	3.2
	Loans from/(advanced to) group companies	**37.7**	(91.8)
	Dividend income received	**29.5**	300.0
	Finance income received	**1.6**	1.8
	Cash outflow from investment in and loans to joint venture	–	(3.6)
	Cash outflow from short-term investments	**(60.0)**	(50.0)
	Net cash used in investing activities	**(171.6)**	(123.6)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	**(54.2)**	(56.0)
	Finance income received respect of interest rate swaps	**0.7**	–
	Payment of capital element of finance leases	**(0.2)**	(0.2)
	Payments to preference shareholders	**–**	(0.4)
	Cash outflow from borrowings	**–**	(63.3)
	Net cash used in financing activities	**(53.7)**	(119.9)
	(Decrease)/increase in net cash and cash equivalents	**(25.5)**	10.4
	Net cash and cash equivalents at beginning of the year	**577.1**	566.7
	Net cash and cash equivalents at end of the year	**551.6**	577.1
20	**Net cash and cash equivalents comprise:**		
	Cash at bank and in hand	**58.4**	51.6
	Short-term deposits	**493.3**	525.5
	Bank overdrafts	**(0.1)**	–
		551.6	577.1

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 financing available over a period of at least 12 months from 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 £64.7m profit (2017: £545.9m profit). During the year an intra-group dividend of £29.5m (2017: £300.0m) was received: £11.5m from JLP Insurance Limited, £10.0m from Waitrose (Jersey) Limited and £8.0m from Waitrose (Guernsey) Limited.

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:

	2018	2017
John Lewis	**28,500**	29,300
Other[1]	**3,000**	1,700
	31,500	31,000

[1] As a result of the move from divisional to Group functions in Finance, Personnel and IT, in the year to 27 January 2018, the number of Partners within the Group Division have increased.

Notes to the Company financial statements (continued)

11.2 Partner benefits

Employment and related costs were as follows:

	2018 £m	2017 £m
Staff costs (excluding exceptional items):		
Wages and salaries	**(652.4)**	(615.1)
Social security costs	**(56.4)**	(53.1)
Partnership Bonus	**(30.4)**	(34.2)
Employers' national insurance on Partnership Bonus	**(3.9)**	(4.4)
Other pension expenses	**(123.9)**	(89.3)
Long leave cost	**(0.8)**	(3.9)
Total before Partner discounts	**(867.8)**	(800.0)
Partner discounts (excluded from revenue)	**(41.0)**	(43.0)
	(908.8)	(843.0)

Included above are the following amounts in respect of key management compensation:

	2018 £m	2017 £m
Salaries and short-term benefits	**(8.0)**	(11.6)
Post-employment benefits[1]	**(1.3)**	(1.8)
	(9.3)	(13.4)

[1] Includes cash supplements in lieu of future pension accrual.

Key management include Directors of the Group and the Company, members of the John Lewis Management Board 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 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
Additions	–	–	126.5	126.5
Transfers	12.1	54.1	(66.2)	–
Disposals and write-offs	(21.9)	(45.2)	–	(67.1)
At 27 January 2018	**120.5**	**323.8**	**188.8**	**633.1**
Accumulated amortisation				
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)
Charge for the year*	(19.5)	(56.4)	–	(75.9)
Disposals and write-offs	21.9	45.2	–	67.1
At 27 January 2018	**(77.6)**	**(183.3)**	**–**	**(260.9)**
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
Net book value at January 2018	**42.9**	**140.5**	**188.8**	**372.2**

* For the year ended 27 January 2018, this includes an impairment charge of £9.6m (2017: £nil) to intangible assets of which £7.2m (2017: £nil) is in the John Lewis Division and £2.4m (2017: £nil) is in the Group Division.

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

There are three individually significant assets within the total carrying amount of intangible assets as at 27 January 2018: two are customer projects (£126.8m, 2017: £100.9m) and one relates to a distribution project (£104.3m, 2017: £51.5m).

For the year to 27 January 2018 computer systems valued at £66.2m (2017: £85.5m) 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 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 and write-offs	(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
Additions	–	0.4	89.3	89.7
Transfers	21.5	61.4	(82.9)	–
Disposals and write-offs	(10.6)	(71.6)	–	(82.2)
At 27 January 2018	**957.6**	**944.9**	**64.9**	**1,967.4**
Accumulated depreciation				
At 30 January 2016	(230.0)	(602.3)	–	(832.3)
Charge for the year*	(47.1)	(79.6)	–	(126.7)
Disposals and write-offs	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)
Charge for the year*	(42.3)	(80.9)	–	(123.2)
Disposals and write-offs	(3.5)	72.1	–	68.6
At 27 January 2018	**(315.1)**	**(647.3)**	**–**	**(962.4)**
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
Net book value at January 2018	**642.5**	**297.6**	**64.9**	**1,005.0**

* For the year ended 27 January 2018, this includes an impairment charge of £nil to land and buildings (28 January 2017: £0.3m).

Included above are land and buildings assets held under finance leases with a net book value of £11.6m (2017: £11.8m).

In accordance with IAS 36, the Company reviews its property, plant and equipment for impairment at least annually or whenever events or circumstances indicate that the value on the balance sheet may not be recoverable. Impairment testing is performed on cash generating units (CGUs) which are branches including an allocation of online, being the lowest level of separately identifiable cash flows.

Notes to the Company financial statements (continued)

14 Investments in subsidiaries

The Company has the following investments in subsidiaries at 27 January 2018.

	Shares in Group companies £m	Loan to Group companies £m	Total £m
At 28 January 2017	41.7	1,391.4	1,433.1
Movements	2.1	(34.6)	(32.5)
At 27 January 2018	**43.8**	**1,356.8**	**1,400.6**

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

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/(expense) of the equity accounted investees, from the date that joint control commences until the date that joint control ceases.

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

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

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

Notes to the Company financial statements (continued)

17 Inventories

	2018 £m	2017 £m
Raw materials	**0.6**	0.7
Finished goods and goods for resale	**401.3**	394.2
	401.9	394.9

The cost of inventory recognised as an expense by the Company in the year was £2,282.6m (2017: £2,256.3m). Provisions against inventories of £10.7m were charged (2017: £11.8m charged) in branch operating expenses.

18 Trade and other receivables

	2018 £m	2017 £m
Current:		
Trade receivables	**42.1**	26.7
Other receivables	**55.8**	41.6
Prepayments	**60.2**	43.6
Accrued income	**14.2**	13.7
	172.3	125.6
Non-current:		
Other receivables	**4.5**	4.3
Prepayments and accrued income	**41.2**	42.3
	45.7	46.6

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 £4.5m (2017: £4.9m). Supplier income that has been invoiced but not paid is included in trade receivables and supplier income that has been invoiced but not yet settled against future trade payable balances is included in trade payables.

As at 27 January 2018, trade and other receivables of £1.3m (2017: £0.8m) 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 27 January 2018, trade and other receivables of £18.1m (2017: £12.4m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

	2018 £m	2017 £m
Up to 3 months past due	**16.9**	10.8
3 to 12 months past due	**0.7**	0.6
Over 12 months past due	**0.5**	1.0
	18.1	12.4

Notes to the Company financial statements (continued)

19 Short-term investments

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

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

20 Cash and cash equivalents

	2018 £m	2017 £m
Cash at bank and in hand	**58.4**	51.6
Short-term deposits	**493.3**	525.5
	551.7	577.1

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

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

	2018 £m	2017 £m
Cash and cash equivalents, as above	**551.7**	577.1
Less bank overdrafts	**(0.1)**	–
Net cash and cash equivalents	**551.6**	577.1

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	**612.6**	**58.4**	**671.0**
Other financial assets	**0.7**	**–**	**0.7**
At 27 January 2018	**613.3**	**58.4**	**671.7**
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

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

	2018 £m	2017 £m
Current:		
Bank overdraft	**(0.1)**	–
	(0.1)	–
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	**11.1**	12.3
Fair value adjustment for hedged element on bonds	**1.1**	–
	(862.8)	(862.7)

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

Notes to the Company financial statements (continued)

23 Trade and other payables

	2018 £m	2017 £m
Current:		
Trade payables	**(408.5)**	(422.7)
Amounts owed to parent company	**(109.7)**	(109.7)
Amounts owed to Group companies	**(539.9)**	(523.6)
Other payables	**(140.5)**	(135.5)
Other taxation and social security	**(140.8)**	(143.4)
Accruals	**(137.3)**	(113.2)
Deferred income	**(63.0)**	(69.7)
Partnership Bonus	**(65.7)**	(80.8)
	(1,605.4)	(1,598.6)
Non-current:		
Deferred income	**(165.0)**	(159.6)
	(165.0)	(159.6)

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

24 Finance lease liabilities

	2018 £m	2017 £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	**(1.6)**	(1.7)
More than five years	**(22.3)**	(22.7)
	(24.4)	(24.9)
Future finance charge on finance leases	**10.9**	11.2
Present value of finance lease liabilities	**(13.5)**	(13.7)
Of which:		
Not later than one year	**(0.2)**	(0.2)
Later than one year but not more than five	**(0.6)**	(0.7)
More than five years	**(12.7)**	(12.8)

The Company'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 Company financial statements (continued)

25 Provisions

	Long leave £m	Service guarantee £m	Customer refunds £m	Insurance £m	Reorganisation £m	Other £m	Total £m
At 28 January 2017	(140.1)	(64.8)	(35.1)	(6.6)	(12.1)	(47.2)	(305.9)
Charged to income statement	(12.5)	(17.4)	(38.1)	(8.0)	(44.0)	(14.7)	(134.7)
Released to income statement	4.1	7.6	–	–	1.7	3.4	16.8
Utilised	8.9	19.5	33.8	4.6	27.0	11.1	104.9
At 27 January 2018	**(139.6)**	**(55.1)**	**(39.4)**	**(10.0)**	**(27.4)**	**(47.4)**	**(318.9)**
Of which:							
Current	(31.0)	(19.7)	(39.4)	(8.1)	(26.9)	(42.8)	(167.9)
Non-current	(108.6)	(35.4)	–	(1.9)	(0.5)	(4.6)	(151.0)

The Company has a long leave scheme, open to all Partners, which provides up to six months' paid leave after 25 years' service. There is no proportional entitlement for shorter periods of service. The provision for the liabilities under the scheme is assessed on an actuarial basis, reflecting Partners' expected service profiles, and using economic assumptions consistent with those used for the Group's retirement benefits (note 6.1 to the consolidated financial statements), 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 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 reflect the Company's expected liability for returns of goods sold based on experience of rates of return.

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

Other provisions include property related costs and pay provisions.

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 19% for deferred tax assets and liabilities expected to reverse before 1 April 2020, and 17% for those assets or liabilities expected to reverse after 1 April 2020. In the year to 28 January 2017, a tax rate of 20% was used for deferred tax assets or liabilities expected to reverse before 1 April 2017, 19% for those assets or liabilities expected to reverse before 1 April 2020, and 17% for those assets or liabilities expected to reverse after 1 April 2020.The movement on the deferred tax account is shown below:

	2018 £m	2017 £m
Opening asset	**153.0**	149.0
Credited/(charged) to income statement	**18.1**	(42.7)
(Charged)/credited to other comprehensive income/(expense)	**(38.4)**	46.7
Closing asset	**132.7**	153.0

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)

26.1 Deferred tax (continued)

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

Deferred tax liabilities	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Rollover gains £m	Other £m	Total £m
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/(expense)	–	–	–	0.3	0.3
At 28 January 2017	(39.9)	(3.0)	(5.6)	(0.5)	(49.0)
Credited/(charged) to income statement	3.8	0.1	–	(1.3)	2.6
Credited to other comprehensive income/(expense)	–	–	–	5.9	5.9
At 27 January 2018	**(36.1)**	**(2.9)**	**(5.6)**	**4.1**	**(40.5)**

Deferred tax assets	Capital gains tax on land and buildings £m	Pensions and provisions £m	Total £m
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/(expense)	–	46.4	46.4
At 28 January 2017	11.7	190.3	202.0
Credited to income statement	1.1	14.4	15.5
Charged to other comprehensive income/(expense)	–	(44.3)	(44.3)
At 27 January 2018	**12.8**	**160.4**	**173.2**

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

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

The deferred tax balance associated with the pension deficit has been adjusted to reflect the current tax benefit obtained in the financial year ended 30 January 2010 following the contribution of the limited partnership interest in JLP Scottish Limited Partnership to the pension scheme (see note 6.1 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 27 January 2018 was £132.7m (2017: £153.0m asset). The net deferred tax asset is recoverable after more than one year.

Notes to the Company financial statements (continued)

26.2 Factors affecting tax charges in current and future years

Legislation has been enacted to reduce the UK corporation tax rate from 20% to 19% with effect from 1 April 2017 with a further reduction to 17% from 1 April 2020. The 17% rate was substantively enacted in September 2016.

The effect of these rate changes was to increase the deferred tax asset by £6.0m, with a £1.1m tax charge to the income statement and a £7.1m charge being taken to other comprehensive income.

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	**(0.1)**	**(275.0)**	**(600.0)**
Interest payments on borrowings	**(54.2)**	**(54.2)**	**(283.1)**
Finance lease liabilities	**(0.5)**	**(0.4)**	**(23.5)**
Trade and other payables	**(1,401.5)**	**–**	**–**
Derivative financial liabilities			
Derivative contracts – receipts	**342.2**	**106.5**	**30.7**
Derivative contracts – payments	**(356.4)**	**(108.3)**	**(31.8)**
At 27 January 2018	**(1,470.5)**	**(331.4)**	**(907.7)**

	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)

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:

	2018	2017
	£m	£m
Trade and other receivables	**102.4**	72.6
Short-term investments	**120.0**	60.0
Cash and cash equivalents	**551.7**	577.1
Derivative financial instruments	**5.2**	15.4
	779.3	725.1

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

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:

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

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

The fair value of the derivative financial instruments held by the 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):

	2018 £m		2017 £m	
	CV	**FV**	CV	FV
Financial liabilities				
Listed bonds	**(862.8)**	**(982.6)**	(862.7)	(997.3)

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

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

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**	**Floating rate £m**	**Total £m**
All Sterling			
At 27 January 2018	**(777.4)**	**(100.1)**	**(877.5)**
At 28 January 2017	(876.4)	–	(876.4)

Notes to the Company financial statements (continued)

29 Analysis of financial liabilities (continued)

Maturity of financial liabilities	2018 £m	2017 £m
Repayable within one year		
Bank overdrafts	**(0.1)**	–
Property finance leases	**(0.2)**	(0.2)
	(0.3)	(0.2)
Repayable between one and two years		
Property finance leases	**(0.1)**	(0.2)
Bonds	**(275.0)**	–
Unamortised bond transaction costs	**0.4**	–
	(274.7)	(0.2)
Repayable between two and five years		
Property finance leases	**(0.5)**	(0.5)
Bonds	**–**	(275.0)
Unamortised bond transaction costs	**–**	0.8
	(0.5)	(274.7)
Repayable in more than five years		
Property finance leases	**(12.7)**	(12.8)
Bonds	**(600.0)**	(600.0)
Unamortised bond transaction costs	**10.7**	11.5
	(602.0)	(601.3)
	(877.5)	(876.4)

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

	2018 £m	2017 £m
Profit before tax	**69.8**	606.6
Dividend income received	**(29.5)**	(300.0)
Amortisation of intangible assets	**75.9**	63.6
Depreciation	**123.2**	126.7
Share of loss/(profit) of joint venture (net of tax)	**1.0**	(0.3)
Net finance costs	**70.5**	106.0
Partnership Bonus	**34.2**	38.6
Fair value losses/(gains) on derivative financial instruments	**0.2**	(1.9)
Profit on disposal of property, plant and equipment and intangible assets	**(9.0)**	(0.4)
Increase in inventories	**(7.0)**	(3.4)
Increase in receivables	**(44.4)**	(9.8)
Increase in payables	**12.6**	54.9
(Decrease)/increase in retirement benefit obligations	**33.6**	(261.0)
Increase in provisions	**9.1**	35.8
Cash generated from operations before Partnership Bonus	**340.2**	455.4

Notes to the Company financial statements (continued)

31 Commitments and contingencies

31.1 Capital commitments

At 27 January 2018 contracts had been entered into for future capital expenditure of £14.9m (2017: £7.7m) of which £14.4m (2017: £6.9m) relates to property, plant and equipment and £0.5m (2017: £0.8m) 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 (2017: £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:	**2018 Land and buildings £m**	2017 Land and buildings £m
Within one year	**65.1**	57.8
Later than one year and less than five years	**244.1**	207.2
After five years	**1,711.6**	1,148.7

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years:	**2018 Land and buildings £m**	2017 Land and buildings £m
Later than five years and less than 10 years	**289.7**	243.6
Later than 10 years and less than 20 years	**485.8**	326.2
Later than 20 years and less than 40 years	**441.9**	224.8
Later than 40 years and less than 80 years	**243.7**	120.4
After 80 years	**250.5**	233.7
	1,711.6	1,148.7

Total future sub-lease payments receivable relating to the above operating leases amounted to £1.3m (2017: £1.3m).

Amounts recognised in the income statement	**2018 £m**	2017 £m
Operating lease rentals:		
– land and buildings	**(66.6)**	(61.3)
– plant and machinery	**(0.5)**	(0.5)
Sub-lease income:		
– land and buildings	**0.8**	1.1

Notes to the Company financial statements (continued)

32 Retirement benefit obligations

As disclosed in note 6.1 to the consolidated financial statements, the Company's investment in the pension scheme in JLP Scottish Limited Partnership of £80.8m (2017: £82.8m), represents a plan asset for the Company accounts which is offset against the Group's obligation of £731.3m (2017: £1,013.7m). The retirement benefit obligation of the Company as at 27 January 2018 was £650.5m (2017: £930.9m). Note 6.1 of the consolidated financial statements details the financial assumptions used.

33 Share capital

		2018		2017
	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 £11.6m (2017: £11.3m), purchase of goods for resale totalling £54.6m (2017: £55.3m), the supply of administrative and other shared services totalling £40.3m (2017: £98.0m) and the hire of vehicles totalling £27.0m (2017: £27.5m).

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 15.

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 £81,000 (2017: £116,000). The Company also made donations totalling £0.6m (2017: £1.1m) to the John Lewis Foundation.

Notes to the Company financial statements (continued)

35 Subsidiaries and related undertakings

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

Subsidiaries and related undertakings as at 27 January 2018 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%
JLP Insurance Limited*	Insurance	Guernsey[7]	Ordinary	100%
JLP Scotland Limited	Dormant	Scotland[5]	Ordinary	100%
JLP Scottish Limited Partnership* [(i)]	Investment holding undertaking	Scotland[6]	Partnership interest	100%
JLP Scottish Partnership* [(ii)]	Investment holding undertaking	Scotland[6]	Partnership interest	100%
John Lewis Car Finance Limited*	Car finance	England & Wales[1]	Ordinary	100%
John Lewis Delivery Limited	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 retail	England & Wales[1]	Ordinary	100%
Jonelle Jewellery Limited	Dormant	England & Wales[1]	Ordinary	100%
Jonelle Limited	Dormant	England & Wales[1]	Ordinary	100%
Leckford Estate Limited	Dormant	England & Wales[1]	Ordinary	100%
Park One Management Limited	Provision of management services	England & Wales[1]	Ordinary	37%
Peter Jones Limited	Dormant	England & Wales[1]	Ordinary	100%
The Odney Estate Limited	Dormant	England & Wales[1]	Ordinary	100%
Waitrose (Jersey) Limited*	Food retailing	Jersey[3]	Ordinary	100%
Waitrose (Guernsey) Limited*	Food retailing	Guernsey[2]	Ordinary	100%
Waitrose Limited*	Food retailing	England & Wales[1]	Ordinary	100%
Clicklink Logistics Limited	Joint venture	England & Wales[8]	Ordinary	50%

* Principal subsidiary undertaking as at 27 January 2018.
1 The address of the registered office is 171 Victoria Street, London SW1E 5NN.
2 The address of the registered office is Martello Court, Admiral Park, St Peter Port, Guernsey GY1 3HB.
3 The address of the registered office is 44 Esplanade, St Helier Jersey JE4 9WG.
4 The address of the registered office is Suite 3201, Jardine House, 1 Connaught Place, Central, Hong Kong.
5 The address of the registered office is John Lewis Aberdeen, George Street, Aberdeen AB25 1BW.
6 The address of the registered office is John Lewis, 69 St James Centre, Edinburgh EH1 3SP.
7 The address of the registered office is St. Martins House Le Bordage, St Peter Port, Guernsey GY1 4AU.
8 The address of the registered office is Clipper Logistics Group, Gelderd Road, Leeds, West Yorkshire LS12 6LT.
(i) John Lewis Partnership Pensions Trust and JLP Scotland Limited are the Limited Partners. John Lewis plc is the General Partner.
(ii) JLP Scottish Limited Partnership and John Lewis Properties plc are the General Partners.

Notes to the Company financial statements (continued)

35 Subsidiaries 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 John Lewis, 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 Group and parent Company 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 the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law and have elected to prepare the parent Company financial statements on the same basis.

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, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

Responsibility statement of the Directors in respect of the Annual Report and Accounts

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

Sir Charlie Mayfield and **Patrick Lewis**

Directors, John Lewis plc

12 April 2018

KPMG

Independent auditor's report

to the members of John Lewis plc

1. Our opinion is unmodified

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

In our opinion:

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

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

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

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

Basis for opinion

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

We were appointed as auditor by the directors on 9 June 2016. The period of total uninterrupted engagement is for the 2 financial years ended 27 January 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality group financial statements as a whole		£14.4m (2017:£15.3m) 5.0% (2017: 4.3%) of group profit before tax, partnership bonus and exceptional items
Coverage		97.0% (2017:99.0%) of group profit before tax
Risks of material misstatement		**vs 2017**
Recurring risks	Carrying amount of Property, Plant and Equipment	◄►
	Pensions defined benefit obligation	◄►
	Rebates/supplier income	▼
	Provisions – long leave, service guarantee and customer returns	◄►
	Carrying amount of Intangibles	◄►
Event driven	Provisions – pay provision in respect of National Minimum Wage	◄►

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in decreasing order of audit significance, in arriving at our audit opinion, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Carrying amount of Property, Plant and Equipment £3,971.2m (2017: £4,112.4m) *Refer to page 38 (accounting policy) and pages 38 to 40 (financial disclosures)* This risk is applicable to the consolidated financial statements and the risk over residual values and useful economic lives is also applicable to the parent company.	**Forecast-based valuation** Impairment considerations: The Partnership has significant Property, Plant and Equipment (PPE) assets held on its consolidated balance sheet. The impairment risk relates to the Waitrose division. The directors perform trigger testing annually to identify any assets which may require impairment. The recoverable amount is calculated for those assets which fail the trigger tests to determine any impairment. The trigger tests take into account recent performance of the individual branches and any changes made to the business plan. If the trigger tests do not include suitable assumptions, or are incorrectly performed, branches possibly requiring impairment may not be identified. In the current year 73 branches at Waitrose failed these initial trigger tests. For all such branches, an impairment is recorded against the carrying value of the assets within that related cash generating unit to the extent that the carrying value would otherwise exceed its recoverable amount. In relation to Waitrose branches, an impairment charge of £38.9m has been recognised. The key assumptions used in the value in use (ViU) calculations for estimating the recoverable amounts are short term cash-flow forecasts, the long term (LT) growth rate and the discount rate. These assumptions are based on forecasts which gives risk to estimation uncertainty within the impairment test. **Subjective judgement** Residual values and useful economic lives: The judgement around allocating residual values and useful economic lives (UELs) drives the depreciation charged to the income statement. In particular the valuation of the allocated residual value requires specific expertise and knowledge of the market. Given the magnitude of the PPE balance, movements in these judgements could result in a material misstatement. The directors engage third party specialists to review a sample of the property portfolio to assist them determine the value of the residual values.	**Our procedures included:** — **Assessing principles:** We challenged whether the assumptions used in the trigger tests were suitable, through discussions with divisional management, our own knowledge of the business and market, inspection of Board minutes and other management information. — **Re-performance:** We re-performed the calculations that management performed for the initial trigger testing and ViU, checking the source of the information was reasonable. — **Our business knowledge:** For the cash flows that drive the ViU calculations forecasts, we considered the risks built into the Board approved short term (three year) forecasts and challenged the directors as to the achievability of the plan, taking into account the historical accuracy of previous forecasts and wider market factors (such as performance of competitors). — **Benchmarking assumptions:** Evaluating assumptions used, in particular those relating to i) LT growth rate, ii) the discount rate and iii) the margin rate applied, comparing these with externally derived data. — **Sensitivity analysis:** For all of the above key assumptions we performed sensitivity analysis to stress-test the assumptions. — **Our property valuation expertise:** With the assistance of our property valuation specialist we examined the third party valuation reports produced for a sample of the assets to establish residual values. Our specialist critically assessed the methodology and assumptions behind the valuations, using their own expertise and market understanding. — **Assessing application:** We compared the UELs on each of the categories of assets to industry averages. We also examined the Fixed Asset Register to identify any assets fully depreciated but still in use or disposals of assets which still had a Net Book Value. For those assets identified we considered whether this indicated the UEL was incorrect. — **Assessing disclosures:** We considered the appropriateness of the disclosure of Waitrose impairment as an exceptional item. — We also assessed whether the Partnership's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the carrying amount of PPE. **Our results:** — We found the resulting estimate of the recoverable amount of PPE and the Partnership's treatment of residual values and UELs as adopted policy to be acceptable (2017 result: acceptable).

	The risk	Our response
Pensions defined benefit obligation £6,224.0m (2017: £6,059.0m) *Refer to page 52 (accounting policy) and pages 52 to 62 (financial disclosures)* This risk is applicable to the consolidated financial statements and the parent company.	**Subjective valuation** A significant level of estimation is required in order to determine the valuation of the gross liability. Small changes in the key assumptions (in particular, discount rates, inflation, mortality rates and salary increases) can have a material impact on the gross liability. During the year management changed the methodology used to calculate the discount rate, please see page 54 for further detail. Due to the volume of members both joining and moving categories (i.e. between active, deferred and pensioner) errors in the membership records could result in a material misstatement if not complete and accurately included in the calculation of the gross liability.	**Our procedures included:** — **Benchmarking assumptions:** We used our actuarial specialists to challenge the key assumptions and the new discount rate methodology. This involved comparing the assumptions to available market data, our expectations and other similar UK pension schemes' assumptions. — **Assessing base data:** We performed trend analysis comparing current year movement in members to historical movements. We also confirmed that there have been no changes to membership terms in the current year. We used our actuarial specialists to challenge the methodology used to roll-forward the results of the triennial valuation as at 31 March 2016. — **Assessing disclosures:** We also considered the adequacy of the Partnership's disclosures in respect of the sensitivity of the deficit to these assumptions. **Our results:** — We found the valuation of the pensions defined benefit obligation to be acceptable (2017 result: acceptable).
Provisions – Long leave £139.6m (2017: £140.1m), Service guarantee £55.1m (2017: £64.8m), Customer returns £39.4m (2017: £35.1m), Pay provision in respect of National Minimum Wage £34.6m (2017: £36.0m) *Refer to page 45 (accounting policy) and pages 45 to 46 (financial disclosures)* This risk is applicable to the consolidated financial statements and the parent company.	**Subjective estimate** The financial statements contain a number of provisions which when considered in aggregate are significant and involve estimation. The key assumptions are: — Long leave: assumptions relating to salary increases, staff turnover rates and discount rate. — Service guarantee costs: assumptions around frequency and value of the expected future service costs and use of appropriate historical data to form the assumptions. — Customer returns: assumptions around the expected customer returns from the sales made in the period. — Pay provision in respect of National Minimum Wage: the use of appropriate data to form the calculation and the assumptions around the scope and associated costs of the probable settlement amount.	**Our procedures included:** — Long leave: - **Benchmarking assumptions:** We used our own actuarial specialists to consider the key assumptions used. This involved comparing the assumptions to available market data and our expected range. - **Sensitivity analysis:** We also performed sensitivity analysis over these assumptions. — Service guarantee costs: - **Assessing base data:** We considered the underlying data inputs into the managers' calculations, checking the source of the historical data is accurate based on our understanding of the industry and business and performing trend analysis in respect of historical costs per unit. - **Sensitivity analysis:** We performed sensitivity analysis over the assumptions made, including the product repair and replacement frequency rates. - **Independent re-performance:** We have re-performed the calculation using the underlying data inputs. — Customer returns: – **Historical comparisons and assessed base data:** We have considered the appropriateness of the base data used in the calculation by checking the data inputs to historical data and performing a trend analysis. – **Sensitivity analysis:** We have performed sensitivity analysis around the year end period over which the customer return liability is calculated.

	The risk	Our response
		Our procedures included (cont.): — Pay provision in respect of National Minimum Wage: - **Assessing application:** We examined the legal advice from the Partnership's external legal advisers and the correspondence with HMRC. - **Our expertise:** We used our own specialists to challenge the assumptions based on their experience of similar scenarios. - **Test of detail:** We also re-calculated the liability, including sampling the relevant information used in the calculation back to source data. - **Assessing disclosures:** We considered the disclosure of the fact that the ultimate settlement amount may change. — **Assessing disclosures:** We also considered the adequacy of the Partnership's disclosures in respect of these provisions. **Our results:** — From the evidence obtained, we considered the level of provisioning to be acceptable (2017 result: acceptable).
Carrying amount of intangibles £495.7m (2017: £432.7m) *Refer to page 36 (accounting policy) and pages 36 to 37 (financial disclosures)* This risk is applicable to the consolidated financial statements and the parent company.	**Forecast-based valuation** In order to continually improve its operating systems the Partnership develops a significant amount of software, which is capitalised on the balance sheet. For the year-ended 27 January 2018, there were £182.5m (2017: £157.2m) of additions to computer software. When developing software the directors have regularly to judge whether the projects are still expected to bring sufficient economic value to the Partnership. Work in progress of £239.1m (2017: £157.4m) is made up of a number of projects being undertaken in the Partnership, the most significant of which are: — New supply chain systems; — Enhancements to the customer-facing websites; and — New ordering systems. We continue to focus on the material work in progress amounts as judgement is required to assess the economic benefits that would flow from each project and whether any elements of the projects need to be impaired.	**Our procedures included:** — **Our business knowledge:** We challenged the directors' assessment of the economic benefits that would flow from a sample of projects, comparing this to our understanding of the business and the future strategy to confirm it was aligned. — **Personnel interviews:** At a more granular level, we also met with the project managers to understand the work being undertaken and the expected benefits of the projects. Through our understanding of the business, discussions with divisional management and inspection of management information and Board minutes, we challenged any changes in scope or any work performed which did not yield successful output. — **Assessing recognition:** We considered the ageing profile of work in progress to challenge whether any elements of the project previously capitalised needed to be impaired. **Our results:** — The results of our testing were satisfactory and we considered the carrying amount of intangibles recognised to be acceptable (2017 result: acceptable).

Rebates/supplier income

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

3. Our application of Group materiality and an overview of the scope of our audit

Materiality for the consolidated financial statements as a whole was set at £14.4m, determined with reference to a benchmark of £287.8m which is group profit before tax, normalised to exclude this year's Partnership Bonus as disclosed in note 2.6.2 'Partner pay and benefits', of £74.0m, and exceptional items as disclosed in note 2.3 'Exceptional items', of £111.3m. Materiality on this basis represents 5.0%. Audit work was performed over the exceptional items and Partnership Bonus separately.

Materiality for the parent company financial statements was set at £14.0m, determined with reference to a benchmark of £4,231.5m which is total assets. Materiality on this basis represents 0.3%.

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

The group has 15 reporting components each representing a statutory entity based in the UK or Channel Islands.

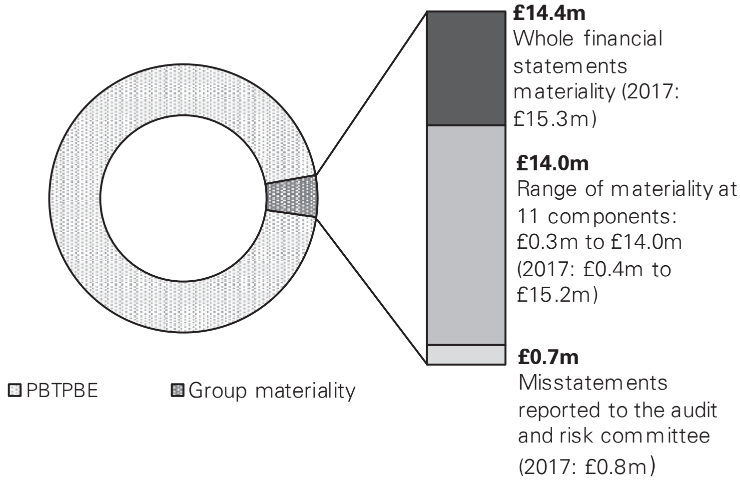
Of the Group's 15 reporting components, we subjected 10 to audits for group reporting purposes, including the audit of the parent company, and 1 to specified risk-focused audit procedures over an account balance. The latter was not individually financially significant enough to require an audit for group reporting purposes, but did present specific individual risks that needed to be addressed. We conducted reviews of financial information (including enquiry) at the remaining 4 non-significant components.

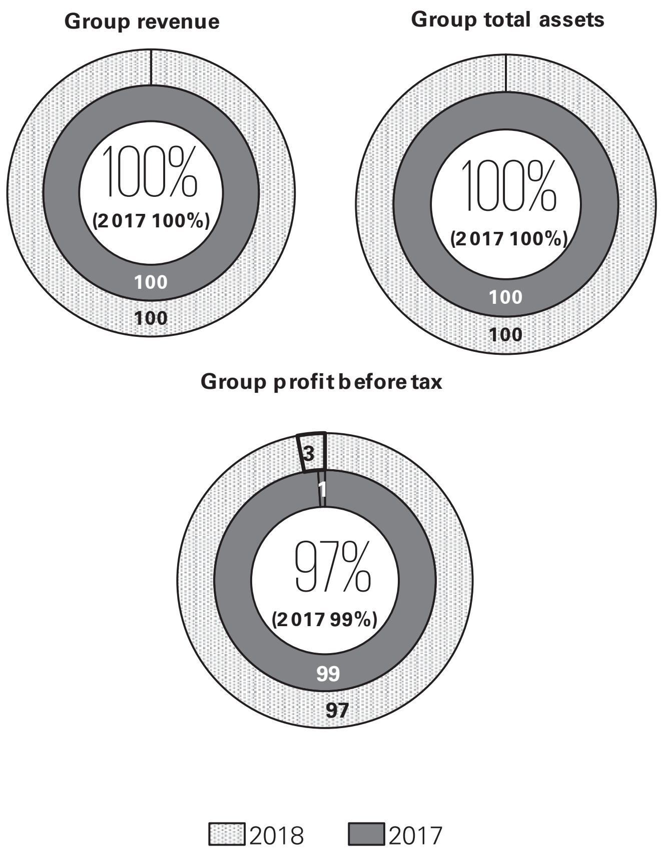
The group operates a shared service centre, the outputs of which are included in the financial information of the reporting components it services and therefore it is not a separate reporting component. The service centre is subject to specified risk-focused audit procedures, predominantly the testing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

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

Group profit before tax, partnership bonus and exceptional items (PBTPBE)
£287.8m

Materiality





4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5. We have nothing to report on the strategic report and the directors' report

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

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

— we have not identified material misstatements in those reports;

— in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

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

— adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

— the parent Company financial statements are not in agreement with the accounting records and returns; or

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 92, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors and other management (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

In addition we considered the impact of laws and regulations in the specific areas of health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the nature of the group's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statement items.

Further detail of the pay provision in respect of National Minimum Wage is set out in the key audit matter disclosures in section 2 of this report.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. **The purpose of our audit work and to whom we owe our responsibilities**

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

Michael Maloney (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square, London E14 5GL

12 April 2018