John Lewis plc
Unaudited condensed Interim Financial Statements for the half year ended 28 July 2018
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Thursday 13 September 2018

These results are for John Lewis plc only and do not represent the results for John Lewis Partnership plc which can be found on the John Lewis Partnership website or at www.johnlewispartnership.co.uk/financials.html

Financial summary[1]

Gross sales[2]	Profit before tax and exceptional items[3][4]	Total net debts[5]
£5,486.6m (up 1.6%)	**£1.4m** (down 98.5%)	**£700m lower** vs July 2017
Revenue	**Profit before tax[3][4]**	**Net debt[6]**
£4,856.7m (up 1.5%)	**£6.2m** (down 80.1%)	**£342m** (£25m higher vs July 2017)

Sir Charlie Mayfield, Chairman of the John Lewis Partnership, commented: "These are challenging times in retail. Our profits before exceptionals are in line with what we said they would be at our Strategy Update in June. We're continuing to improve our offer for customers while ensuring we have the financial strength to continue developing our business going forward. This is reflected in both brands continuing to grow sales and customer numbers, and our total net debts[5] reducing.

Profits before exceptionals are always lower and more volatile in the first half than the second half. It is especially so this half year, driven mainly by John Lewis & Partners where gross margin has been squeezed in what has been the most promotional market we've seen in almost a decade. The pressure on gross margin has predominantly been from our commitment to maintain price competitiveness. This reflects our decision not to pass on to our customers all cost price inflation from a weaker exchange rate and from our Never Knowingly Undersold promise, where we have seen an unprecedented level of price matching as other retailers have discounted heavily. Gross margin was also affected by a sales mix shift towards electronics rather than big ticket items in Home. In addition, John Lewis & Partners profits were impacted by the costs of new shops and higher IT costs as we continued to invest for future growth, and from lower property profits compared to last year.

In Waitrose & Partners, profits were down on last year, but from Q1 to Q2 there has been marked improvement in like-for-like sales[6] as well as good progress in rebuilding gross margin, and we are on track for profit growth for the full year.

At Group level we have also borne additional costs, particularly as a result of greater investment in cyber security and data protection, which have impacted our overall profits. Despite the reduction in profits, our total net debts have reduced. Our accounting pension deficit has more than halved since January 2018 to £171.3m (net of deferred tax) and our estimated actuarial pension deficit of £89m represented a funding level of over 98%. Total net debts are £700m less than last year and we continue to maintain a strong liquidity position. This is all consistent with our plans to ensure a strong financial position in order to invest in our strategy of differentiation at a rate of £400m-£500m per year.

Our Group structure and our Partners are key differentiators for us in a highly competitive and changing retail market. The launch last week of John Lewis & Partners and Waitrose & Partners reflects our ambition for the future and the critical difference of our Partners."

(1) 2017/18 comparatives have been restated (see pages 11 to 12 for further details)
(2) Gross sales includes sale or return sales and VAT (see page 15 for further details)
(3) Includes property profits of £nil (2017/18: £11.4m with £0.9m in Waitrose & Partners and £10.5m in John Lewis & Partners)
(4) Exceptional income of £4.8m mainly includes £26.0m income from the release of the pay provision for National Minimum Wage compliance as the methodology for calculating the liability has been clarified following discussions with HMRC, offset by a £9.1m charge for restructuring and redundancy costs and a £12.6m branch impairment charge. 2017/18 exceptional charge of £65.4m mainly for restructuring and redundancy costs and branch impairments
(5) Total net debts represents the total borrowings of the Partnership including net debt adjusted for an estimate of non-liquid cash, the accounting pension deficit net of deferred tax, and the present value of future rentals payable under operating leases discounted at 5%
(6) For definitions see the glossary on pages 147-148 of the John Lewis Partnership 2018 Annual Report and Accounts

Outlook 2018/19

With the level of uncertainty facing consumers and the economy, in part due to ongoing Brexit negotiations, forecasting is particularly difficult but we continue to expect full year profits to be substantially lower than last year for the Group as a whole. We expect profit growth in Waitrose & Partners will be offset by the continuing margin pressure in John Lewis & Partners and by incremental costs of investment. We are continuing with our plans for the future in this half and have great confidence in the attractiveness and potential of our offer across Waitrose & Partners and John Lewis & Partners as we approach the final quarter.

Strategy update

At our Strategy Update in June we set out our plans to grow through differentiation rather than scale, recognising and enhancing the role that Partners play in driving our difference and competitiveness, and to secure the financial strength to ensure we are able to maintain a rate of investment of £400m-£500m per year, which we see as crucial to our long-term success, despite near-term pressures on profitability.

Growth through differentiation

Waitrose & Partners

At our Strategy Update we set out our key differentiation priorities: product innovation, range tailoring, health and wellbeing, doing the right thing and service.

- Product innovation and range tailoring
    - Increased own brand and exclusive products, developing 1,781 products, including 91 vegan and vegetarian lines. New ranges include revamped Cooks' Ingredients which launched yesterday, featuring innovative items such as black limes, zhoug and kimchi paste.
    - Boosted product development with our new Food Innovation Studio which opened at our Bracknell head office last month, doubling the number of chefs with more than twice the space of previous facilities. The Studio will in future offer Partner learning opportunities, helping to fulfil our vision of every Partner becoming a Food Ambassador.
    - Completed two successful range reviews in the areas of sliced bread and cheese, and plan to carry out an average of four range reviews each month between now and year end.

- Service
    - Continued to add to the Partner service we offer our customers and we now have trained 95 Healthy Eating Specialists and 800 Baristas.
    - Increased online grocery sales, up 23%, with profit growing and a significant year-on-year increase in customer experience ratings from our Net Promoter Score of our most loyal customers.

- Health and wellbeing
    - Developed our health and wellbeing offer in products and services with our Good Health marque added to more than 1,600 lines. Our 17 shop health checks trial with BUPA has also just concluded and we are currently evaluating the results.

- Doing the right thing
    - Removed disposable cups from the free tea and coffee offer to myWaitrose members, so avoiding the use of more than 52 million takeaway cups a year. By the end of 2018 we will not be using black packaging for our meat, fish, fruit and vegetables, a big step towards removing it from all own-label packaging by 2019. This progresses our commitment for all our packaging to be widely recyclable, reusable or home compostable by 2025.

John Lewis & Partners

In the first half John Lewis & Partners has grown sales, customer numbers and market share(7), and substantially increased our overall customer experience ratings as measured by our Net Promoter Score.

Fashion sales were up 1.2% and we outperformed the market, growing market share strongly in Womenswear, with sales up 4.1% and a particularly strong performance in Own-Brand, with sales up 12.3%. We outperformed the market in Electricals and Home Technology (EHT), driven by particularly strong performance in Electricals where sales were up 7.8%. The Home market continues to be challenging with sales down 4.2% impacted by a fall in demand for big ticket and bespoke items.

We have continued to invest in our customer proposition, both by strengthening our points of difference and by maintaining the level of service our customers expect from us, despite the adverse impact of low consumer confidence and price promotion in the market on our margin.

- Unique and desirable products:
    - Recently launched John Lewis & Partners Womenswear, our largest own brand collection to date, a significant step forward in our plan to build a £500m own-brand fashion business.
    - Offered customers more brands as the exclusive High Street partner, including Madewell, J Crew, Stuart Weitzman in Fashion and Footwear and Proenza Schouler in Beauty.
    - House, our trend-led, affordable home range, performed well with particularly strong sales since its relaunch in July.

- Exceptional service:
    - Successfully trialled a number of concepts at our Westfield White City shop, including an Experience Desk and a new range of Personal Styling appointments tailored to the occasions customers are shopping for. These will be rolled out to a further 15 shops by the end of the second half.
    - Completed the replatforming of our website and continued the investment in our digital capabilities that sets us apart from our competitors. With 39% of our sales made online, these improvements will help customers shop with us more easily and includes upgraded search functionality, a smoother checkout process and the ability for customers to see product availability in our shops across our digital platforms.
    - Completed the roll out of two-hour delivery windows which improved communications with customers and contributed to record levels of customer satisfaction. Live online delivery tracking has also proved popular, resulting in 1.5 million additional visits to our website.

Partners at the heart

The inherent strength of the Group is our Partners, who are at the heart of our customer proposition, and how we can unlock Partner potential. We have been:

- Strengthening pay for performance and structuring Partner pay ranges in line with newly-designed jobs. Our average hourly rate of base pay for non-management Partners is now £9.17.
- Developing our apprenticeships programme with around 500 apprentices enrolled in our retail, LGV driving, vehicle maintenance and hospitality schemes. A further 300 apprentices are expected to join in the next six months across existing and new programmes being rolled out across our head offices and shops, in areas such as human resources, taxation, project management, procurement, leadership, farming, digital and sewing machinists.

(7) BRC market

At this time of disruption in the sector, it has never been more important to invest in the wellbeing and resilience of Partners, who are at the heart of our business success. To this end, the John Lewis Partnership has set itself a bold ambition to become Britain's Healthiest Workplace by 2025, which goes back to our founding principles, as well as being a fundamental condition of unlocking the potential of our Partners. We have already taken a number of important steps.

We have launched a Wellbeing Champions Network with more than 150 Partners recruited in more than 60 locations across the country. This will encourage and empower Partners to look after their health and wellbeing, provide information on available support and resources, and create a positive movement for change. In support of this we are launching innovative preventative tools for Partners. One example is Unmind, a health platform and app which already has more than 3,500 users. We are also re-igniting our community spirit by reviewing what we do in our dining rooms and how we use this space for social interaction as well as healthy food.

Profit and sustained investment

As we anticipated and highlighted in our Strategy Update in June, our Profit before tax and exceptional items was £1.4m, down £95.1m or 98.5% on last half year. After including exceptional income of £4.8m (2017/18: exceptional charge of £65.4m), our Profit before tax was £6.2m, down £24.9m or 80.1% on last half year.

We plan to maintain investment at the rate of £400m-£500m per year and capital investment forms a major part of that. Operating capital investment, which excludes the acquisition of freeholds of our trading branches, was £142.4m, a slight decrease of £6.7m or 4.5% on last half year.

We remain focused on and committed to the long-term financial sustainability of the Group, building our return on capital in order to share the rewards of this with Partners on the platform of a strong and flexible balance sheet. We measure this through our three annual Key Performance Indicators (KPIs)[8]: Return on Invested Capital (ROIC), Debt Ratio and Profit per average FTE[9] Partner.

- Our financial priority remains to reduce our Debt Ratio to around three times cash flow within around five years. This is one of the reasons that has led us to hold back Partnership Bonus in recent years, but as a result we are in a much stronger position to weather the pressures currently affecting UK retail. In addition, a pension review is currently progressing with any changes to our future pension benefit expected to be agreed in 2019.
- We expect profit this year to be substantially lower than in 2017/18, and this will be reflected in ROIC and Profit per average FTE Partner performance. Lower profits will also impact our Debt Ratio, but we remain focused on further reducing our total net debts. Our Debt Ratio will also be impacted by the accounting pension deficit at January 2019, which will be determined using market interest rates at that time. The reduction in the accounting pension deficit at July 2018 has been mainly due to an improvement in the real discount rate used to value the liabilities and an increase in pension fund assets.
- The actions we are taking are aimed at restoring ROIC and Profit per average FTE Partner to levels that will support increased investment and improved Bonus levels over the medium term, while maintaining a robust balance sheet position. This will take a lot of hard work from all of our Partners, but we are confident in our commitment, drive and ability to deliver the Partnership's strategy.

(8) For definitions of KPIs see page 3 of our Financial Statements for the year ended 27 January 2018
(9) Full-time equivalent

Additional financial information

	Waitrose & Partners			John Lewis & Partners		
	2018/19 £m	2017/18 £m	YoY change	2018/19 £m	2017/18 £m	YoY change
Gross sales	3,393.2	3,324.2	2.1%	2,093.4	2,077.2	0.8%
LFL sales(10)	2.6%			(1.2)%		
Revenue	3,193.4	3,131.1	2.0%	1,663.3	1,651.6	0.7%
Operating profit/(loss) before exceptional items	96.4	109.8	(12.2)%	(19.3)	54.4	n/m(11)
Operating profit/(loss)	94.4	88.1	7.2%	(33.5)	33.3	n/m(11)

Net finance costs

Net finance costs decreased by £10.4m reflecting (i) the capitalisation of borrowing costs for qualifying assets which relate to a number of our significant multi-year capital projects, (ii) lower pension finance costs due to a lower accounting pension deficit and nominal discount rate used to determine the finance cost at the beginning of the year compared to the beginning of the previous year, as well as early payment of cash contributions, and (iii) lower long leave finance costs arising from volatility in market driven assumptions.

Exceptional items

Exceptional income totalled £4.8m (2017/18: charge of £65.4m) with £2.0m charge in Waitrose & Partners (2017/18: £21.7m), £14.2m charge in John Lewis & Partners (2017/18: £21.1m) and £21.0m income in Group (2017/18: charge of £22.6m). Further detail is included in the following table:

	2018/19 £m	2017/18 £m
Restructuring and redundancy (a)	(9.1)	(55.5)
Branch impairments (b)	(12.6)	(9.0)
Pay provision (c)	26.0	-
Strategic review (d)	0.5	(0.9)
	4.8	(65.4)

a) Charge of £9.1m for restructuring and redundancy costs, principally in relation to our branch, retail and head office operations. In 2017/18, the restructuring and redundancy charge of £55.5m was principally in relation to branch, distribution and retail operations as well as functional restructurings in Finance, Personnel and IT, as we moved from divisional to Partnership functions.

b) Charge of £12.6m for branch impairment in John Lewis & Partners following the signing of a lease contract. In 2017/18 there was a charge of £9.0m for branch impairments in Waitrose & Partners, which was previously reflected as non-exceptional operating expenses and has subsequently been reclassified to exceptional items (see page 12 for further details).

c) In 2016/17, a £36.0m provision was recorded as an exceptional charge to cover the potential costs of complying with the National Minimum Wage Regulations. Discussions with HMRC are now advanced and the methodology for calculating the liability has been clarified, resulting in a £26.0m release of the provision in this half year. The ultimate resolution of the liability may result in an amount that is different from that provided.

d) During this half year provisions no longer required of £0.5m, previously recorded within exceptional items as part of the strategic review in 2016/17, were reversed. In 2017/18, there was a net charge of £0.9m.

(10) Waitrose & Partners like-for-like sales excludes fuel
(11) Not meaningful

Enquiries

For further information please contact:

John Lewis Partnership
Simon Fowler, Partner & Director of Communications, 07710 398460
Clayton Hirst, Partner & Group Head of Corporate Affairs, 07947 708167
Sarah Henderson, Partner & Group Senior External Communications Manager, 07764 676036

Citigate Dewe Rogerson
Simon Rigby, Joint Managing Director, 07771 784446
Jos Bieneman, Director, 07834 336650
Ellen Wilton, Associate Director, 07921 352851

John Lewis & Partners
Gillian Taylor, Partner & Head of External Communications, 07919 057931
Emily Dimmock, Partner & Senior Communications Manager, Corporate, 07712 545677

Waitrose & Partners
Graeme Buck, Partner & Head of Communications, 07703 379561
Gill Smith, Partner & Senior Corporate PR Manager, 07887 898133

Debt investors
Alan Drew, Partner & Head of Treasury and Corporate Finance, 07525 582955

Notes to editors

The John Lewis Partnership operates 50 John Lewis & Partners shops across the UK, johnlewis.com, 352 Waitrose & Partners shops, waitrose.com and business to business contracts in the UK and abroad. The business has annual gross sales of over £11.5bn. It is the UK's largest example of an employee-owned business where all 83,000 staff are Partners in the business.

Waitrose & Partners has 352 shops in England, Scotland, Wales and the Channel Islands, including 65 convenience branches, and another 27 shops at Welcome Break locations. It combines the convenience of a supermarket with the expertise and service of a specialist shop - dedicated to offering quality food that has been responsibly sourced, combined with high standards of customer service. Waitrose & Partners exports products to more than 50 countries worldwide and has nine shops which operate under licence in the Middle East. Waitrose & Partners omnichannel business includes the online grocery service, waitrose.com, as well as specialist online shops including waitrosecellar.com for wine and waitroseflorist.com for plants and flowers. In recent months, Waitrose & Partners has been awarded the 'Sustainable Fish Counter of the Year' award from the Marine Stewardship Council, 'Deli Cheese Retailer of the Year 2018' (cheese counter) award at the International Cheese & Dairy Awards and 'Drinks Retailer of the Year' award from the Drinks Business Awards 2018.

John Lewis & Partners operates 50 John Lewis & Partners shops across the UK (36 department stores, 12 John Lewis & Partners at home and shops at St Pancras International and Heathrow Terminal 2) as well as johnlewis.com. John Lewis & Partners stocks around 350,000 separate lines in its department stores and johnlewis.com across fashion, home and technology. This year John Lewis & Partners won 'Best Multichannel Retailer 2018', 'Best Clothing Retailer 2018', and 'Best Furniture Retailer 2018' at the GlobalData Customer Satisfaction Awards 2018. John Lewis Finance offers a range of comprehensive financial services products – including Insurance, Foreign Currency, International Payments and the Partnership Card - delivering the values of expertise, trust and customer service expected from the John Lewis & Partners brand. www.johnlewisfinance.com

Consolidated income statement
for the half year ended 28 July 2018

Notes		Half year to 28 July 2018 £m	Half year to 29 July 2017 (restated, see note 2) £m	Year to 27 January 2018 (restated, see note 2) £m
5	**Gross sales**	**5,486.6**	5,401.4	11,609.5
5	**Revenue**	**4,856.7**	4,782.7	10,215.8
	Cost of sales	**(3,298.4)**	(3,224.3)	(6,847.7)
	Gross profit	**1,558.3**	1,558.4	3,368.1
	Other operating income	**56.2**	53.4	111.3
	Operating expenses before exceptional items and Partnership Bonus	**(1,580.4)**	(1,472.3)	(3,115.9)
	Share of loss of joint venture (net of tax)	**(1.0)**	(0.9)	(1.0)
5	**Operating profit before exceptional items and Partnership Bonus**	**33.1**	138.6	362.5
4	Exceptional items	**4.8**	(65.4)	(111.3)
5	**Operating profit before Partnership Bonus**	**37.9**	73.2	251.2
6	Finance costs	**(37.6)**	(48.5)	(85.2)
6	Finance income	**5.9**	6.4	14.1
	Profit before Partnership Bonus and tax	**6.2**	31.1	180.1
	Partnership Bonus	**–**	–	(74.0)
	Profit before tax	**6.2**	31.1	106.1
7	Taxation	**(1.9)**	(8.7)	(31.3)
	Profit for the period	**4.3**	22.4	74.8
5	**Profit before Partnership Bonus, tax and exceptional items**	**1.4**	96.5	291.4

Consolidated statement of comprehensive income/(expense)
for the half year ended 28 July 2018

Notes		Half year to 28 July 2018 £m	Half year to 29 July 2017 (restated, see note 2) £m	Year to 27 January 2018 (restated, see note 2) £m
	Profit for the period	**4.3**	22.4	74.8
	Other comprehensive income/(expense):			
	Items that will not be reclassified to profit or loss:			
11	Remeasurement of defined benefit pension scheme	**487.0**	(82.8)	247.5
7	Movement in deferred tax on pension scheme	**(90.0)**	(2.0)	(57.4)
7	Movement in current tax on pension scheme	**7.2**	16.1	17.2
	Items that may be reclassified subsequently to profit or loss:			
	Net gain/(loss) on cash flow hedges[1]	**33.3**	(8.7)	(30.9)
7	Movement in deferred tax on cash flow hedges	**(4.9)**	1.5	5.9
	Gain on currency translations	**–**	–	0.4
	Other comprehensive income/(expense) for the period	**432.6**	(75.9)	182.7
	Total comprehensive income/(expense) for the period	**436.9**	(53.5)	257.5

[1] Presentation has changed as a result of IFRS 9. See note 2.

Consolidated balance sheet
as at 28 July 2018

Notes		28 July 2018 £m	29 July 2017 (restated, see note 2) £m	27 January 2018 (restated, see note 2) £m
	Non–current assets			
8	Intangible assets and goodwill	505.7	448.6	495.7
8	Property, plant and equipment	3,850.9	4,013.6	3,971.2
	Trade and other receivables	60.6	60.9	65.3
14	Derivative financial instruments	2.5	2.0	–
	Investment in and loans to joint venture	2.3	3.0	2.9
	Deferred tax asset	–	58.4	28.0
		4,422.0	4,586.5	4,563.1
	Current assets			
	Inventories	609.2	608.1	661.5
	Trade and other receivables	314.1	284.1	291.9
	Current tax receivable	19.0	1.9	–
14	Derivative financial instruments	11.5	7.2	5.2
9	Assets held for sale	15.4	8.3	–
	Short-term investments	166.2	60.0	166.0
	Cash and cash equivalents	370.3	510.8	596.2
		1,505.7	1,480.4	1,720.8
	Total assets	5,927.7	6,066.9	6,283.9
	Current liabilities			
13	Borrowings and overdrafts	(275.0)	–	(0.1)
	Trade and other payables	(1,539.7)	(1,556.6)	(1,786.6)
	Current tax payable	–	–	(9.7)
13	Finance lease liabilities	(0.7)	(0.9)	(0.7)
10	Provisions	(108.6)	(182.6)	(167.9)
14	Derivative financial instruments	(6.3)	(7.9)	(19.8)
		(1,930.3)	(1,748.0)	(1,984.8)
	Non–current liabilities			
13	Borrowings	(588.5)	(864.3)	(862.8)
	Trade and other payables	(259.4)	(266.4)	(252.1)
13	Finance lease liabilities	(21.7)	(23.0)	(22.6)
10	Provisions	(130.9)	(135.5)	(122.7)
14	Derivative financial instruments	(0.2)	(0.9)	(4.0)
11	Retirement benefit obligations	(186.9)	(1,042.3)	(731.3)
	Deferred tax liability	(81.1)	–	(6.1)
		(1,268.7)	(2,332.4)	(2,001.6)
	Total liabilities	(3,199.0)	(4,080.4)	(3,986.4)
	Net assets	2,728.7	1,986.5	2,297.5
	Equity			
	Share capital	6.7	6.7	6.7
	Share premium	0.3	0.3	0.3
	Other reserves	7.1	1.8	(15.6)
	Retained earnings	2,714.6	1,977.7	2,306.1
	Total equity	2,728.7	1,986.5	2,297.5

Consolidated statement of changes in equity for the half year ended 28 July 2018

Notes		Share capital	Share premium	Capital reserve	Hedging reserve	Foreign currency translation reserve	Retained earnings	Total equity
		£m	£m	£m	£m	£m	£m	£m
	Balance at 28 January 2017	6.7	0.3	1.4	8.1	(0.5)	2,037.4	2,053.4
2	Restatement for IFRS 15	–	–	–	–	–	(13.4)	(13.4)
	Balance at 28 January 2017 [1]	6.7	0.3	1.4	8.1	(0.5)	2,024.0	2,040.0
	Profit for the period [1]	–	–	–	–	–	22.4	22.4
11	Remeasurement of defined benefit pension scheme	–	–	–	–	–	(82.8)	(82.8)
	Fair value losses on cash flow hedges	–	–	–	(1.4)	–	–	(1.4)
	– transfers to inventories	–	–	–	(7.3)	–	–	(7.3)
	Tax on above items recognised in equity	–	–	–	1.5	–	14.1	15.6
	Balance at 29 July 2017 [1]	**6.7**	**0.3**	**1.4**	**0.9**	**(0.5)**	**1,977.7**	**1,986.5**
	Balance at 28 January 2017	6.7	0.3	1.4	8.1	(0.5)	2,037.4	2,053.4
2	Restatement for IFRS 15	–	–	–	–	–	(13.4)	(13.4)
	Balance at 28 January 2017 [1]	6.7	0.3	1.4	8.1	(0.5)	2,024.0	2,040.0
	Profit for the year [1]	–	–	–	–	–	74.8	74.8
11	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)
	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 [1]	6.7	0.3	1.4	(16.9)	(0.1)	2,306.1	2,297.5
	Profit for the period	–	–	–	–	–	4.3	4.3
	Other comprehensive income/ (expense) for the period:							
11	Remeasurement of defined benefit pension scheme	–	–	–	–	–	487.0	487.0
	Fair value gains on cash flow hedges[2]	–	–	–	33.3	–	–	33.3
	Tax on above items recognised in equity	–	–	–	(4.9)	–	(82.8)	(87.7)
	Total comprehensive income for the period	–	–	–	28.4	–	408.5	436.9
	Hedging gains transferred to cost of inventory[2]	–	–	–	(5.7)	–	–	(5.7)
	Balance at 28 July 2018	**6.7**	**0.3**	**1.4**	**5.8**	**(0.1)**	**2,714.6**	**2,728.7**

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

Consolidated statement of cash flows
for the half year ended 28 July 2018

Notes		**Half year to 28 July 2018**	Half year to 29 July 2017 *(restated, see note 2)*	Year to 27 January 2018 *(restated, see note 2)*
		£m	£m	£m
12	**Cash generated from operations before Partnership Bonus**	**66.5**	182.9	637.3
	Net taxation paid	**(15.4)**	(21.4)	(44.1)
	Pension deficit reduction payments	**(37.1)**	(83.7)	(89.8)
	Finance costs paid	**(0.6)**	(0.5)	(2.5)
	Net cash generated from operating activities before Partnership Bonus	**13.4**	77.3	500.9
	Partnership Bonus paid	**(74.7)**	(89.1)	(89.2)
	Net cash (used in)/generated from operating activities after Partnership Bonus	**(61.3)**	(11.8)	411.7
	Cash flows from investing activities			
	Purchase of property, plant and equipment	**(67.1)**	(102.0)	(228.5)
	Purchase of intangible assets	**(74.3)**	(69.2)	(169.8)
	Proceeds from sale of property, plant and equipment and intangible assets	**2.7**	45.0	68.0
	Finance income received	**0.9**	0.6	1.7
	Cash outflow from investment in and loans to joint venture	**(0.4)**	–	–
	Cash outflow to short-term investments	–	–	(106.0)
	Cash outflow from acquisition of trade and assets	**(1.0)**	–	–
	Net cash used in investing activities	**(139.2)**	(125.6)	(434.6)
	Cash flows from financing activities			
	Finance costs paid in respect of bonds	**(23.0)**	(23.0)	(54.2)
	Finance (costs paid)/income in respect of financial instruments	**(1.9)**	(1.9)	0.7
	Payment of capital element of finance leases	**(0.4)**	(0.6)	(1.2)
	Net cash used in financing activities	**(25.3)**	(25.5)	(54.7)
	Decrease in net cash and cash equivalents	**(225.8)**	(162.9)	(77.6)
	Net cash and cash equivalents at beginning of the period [1]	**596.1**	673.7	673.7
	Effect of exchange rate changes on cash and cash equivalents	**(0.2)**	–	–
	Net cash and cash equivalents at end of the period	**370.1**	510.8	596.1
	Net cash and cash equivalents comprise:			
	Cash at bank and in hand	**118.3**	119.5	128.4
	Short-term deposits	**252.0**	391.3	467.8
	Bank overdrafts	**(0.2)**	–	(0.1)
		370.1	510.8	596.1

[1] Reclassified, see note 2.

Notes to the financial statements

1 Basis of preparation

This condensed set of interim financial statements was approved by the Board on 12 September 2018. The condensed set of interim financial statements is unaudited, but has been reviewed by the auditor and their review report is set out on page 27. They do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. The comparative information for the half year to or as at 29 July 2017 has not been audited, but has been reviewed in accordance with the International Standard on Review Engagements (UK and Ireland) 2410.

The results for the half year to 28 July 2018 have been prepared using the discrete period approach, considering the half year as an accounting period in isolation. The tax charge is based on the effective rate estimated for the full year, which has been applied to the profits in the first half year.

The Group's published financial statements for the year ended 27 January 2018 have been reported on by the Group's auditor and filed with the Registrar of Companies. The report of the auditor was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

This condensed set of interim financial statements for the half year ended 28 July 2018 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and IAS 34 'Interim Financial Reporting' as adopted by the European Union. The condensed set of interim financial statements should be read in conjunction with the Annual Report and Accounts for the year ended 27 January 2018, which has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Going concern

Having reviewed the Group's principal risks, operating budgets, investment plans and financing arrangements, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the condensed set of interim financial statements.

2 Accounting policies

The Group's results for the half year to 28 July 2018 have been prepared on a basis consistent with the Group's accounting policies published in the financial statements for the year ended 27 January 2018, with the exception of the items noted below. The changes in accounting policies will also be reflected in the Group's consolidated financial statements as at and for the year ending 26 January 2019.

IFRS 15 'Revenue from Contracts with Customers', applicable from 28 January 2018

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

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

The impact of these changes is a decrease in revenue recognised at the point of sale and a decrease in the Provisions held in relation to the warranties. In addition, there is an increase in the Deferred income liability held in Trade and other payables on the Balance sheet.

The opening Balance sheet position and comparative periods have been restated through Retained earnings to reflect the decrease in Provisions and the increase in Deferred income liability, as well as the impact of taxation.

As at 28 January 2017:

- There is a decrease of £13.4m to brought forward retained earnings as a result of the full retrospective approach.

As at 27 January 2018:

- The Deferred tax asset balance of £25.5m has increased to £28.0m;
- The Provisions balance of £345.7m has decreased to £290.6m;
- The Trade and other payables balance of £1,970.6m has increased to £2,038.7m;
- The impact on net assets is a decrease of £10.5m; and
- There is a net impact on the income statement of £2.9m increase in profitability for the full year.

2 Accounting policies (continued)

As at 29 July 2017:

- The Deferred tax asset balance of £56.0m has increased to £58.4m;
- The Provisions balance of £380.8m has decreased to £318.1m;
- The Trade and other payables balance of £1,747.9m has increased to £1,823.0m;
- The impact on net assets is a decrease of £10.0m; and
- There is a net impact on the income statement of £3.4m increase in profitability for the half year.

IFRS 9 'Financial Instruments', applicable from 28 January 2018

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

A number of other new standards are effective from 28 January 2018, but they do not have a material effect on the Group's financial statements.

Change in accounting policy: Exceptional items

During the half year, the Directors have reviewed the accounting policy for Exceptional items. As part of this review, the Directors have changed the accounting policy for Exceptional items to improve the transparency and clarity of the application of the policy, as follows:

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

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

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

No restatement of items disclosed in prior periods is required as a result of this change in accounting policy.

Non-exceptional operating expenses and exceptional items

In the half year to 29 July 2017, branch impairment costs totalling £9.0m in Waitrose & Partners were reflected as non-exceptional operating expenses as, at that time, they did not meet the Group's policy for presentation as exceptional. These were subsequently reclassified to exceptional for the year to 27 January 2018 as they then met the Group's policy for presentation as exceptional. Therefore, the comparative for the half year to 29 July 2017 has been restated. This has resulted in an increase in Exceptional items from £56.4m as previously reported to £65.4m at 29 July 2017, and an increase in Operating profit before exceptional items and Partnership Bonus from £129.6m as restated for IFRS 15 to £138.6m at 29 July 2017.

Reclassification of short-term investments and cash and cash equivalents

Following a review of the Group's short-term deposits, certain deposits previously presented as cash and cash equivalents at January 2018 are now considered short-term investments due to the risk of variability in value of these funds. As a result, £46.0m of deposits previously classified as cash and cash equivalents have been reclassified to short-term investments in the current and comparative periods, impacting the Balance sheet, Cash flow statement and related notes to the accounts. There is no impact on Current assets, Cash generated from operations or Net debt. There is no impact on the Balance sheet as at 29 July 2017, as no such investments were held at that date.

Standards issued but not yet effective

IFRS 16 'Leases', applicable for the period beginning 27 January 2019

IFRS 16 'Leases' specifies how to recognise, measure, present and disclose leases. The standard will be effective for the Group for the year ending 25 January 2020 and its adoption is expected to have a very significant impact to the Group's Consolidated income statement and Consolidated balance sheet. The Group intends to adopt the modified retrospective approach on transition. This will require an adjustment to equity as at 27 January 2019, however prior year comparatives will not be restated.

2 Accounting policies (continued)

On adoption of IFRS 16, the main impact will be the recognition of right-of-use assets and lease liabilities on the Consolidated balance sheet for all applicable leases. Going forward, a straight-line depreciation expense will be recognised in the income statement in relation to the right-of-use assets and an amortising interest charge will be recognised in the income statement in relation to the lease liabilities. The interest charge will be front-loaded in the earlier periods of a lease as the interest element unwinds. This will replace the operating lease expense currently recognised in the income statement under IAS 17. Overall, this is expected to result in a material reduction in profit before tax and may result in a material reduction in net assets on the Consolidated balance sheet. There will be no quantitative impact to cash flows, however the classification of cash flows between operating activities and financing activities will change. The effect of these changes will also be reflected in the Group's KPIs including the Debt Ratio, Return on invested capital and Group profit per average FTE (Full Time Equivalent).

The Group's IFRS 16 project is governed by a Steering Group which oversees the relevant project work streams, approves key decisions and provides regular updates to the Audit and Risk Committee. During the half year to 28 July 2018, work has progressed regarding establishing an appropriate discount rate methodology, collecting and validating the Group's complete portfolio of lease data and implementing an IT system solution to record and calculate the IFRS 16 impact. Ahead of January 2019, the Group will finalise data collection and validation for the Group's complete portfolio of lease data, embed a strong internal control environment over the IFRS 16 process, finalise the relevant accounting policies and refresh the applicable discount rates and lease data records for any changes in the period before transition. Until that time, and given the complexity of the judgements involved, it remains impractical to provide a reliable, quantitative estimate of the impact on the consolidated interim financial statements.

3 Risks and uncertainties

The principal and other significant risks and uncertainties affecting the Group were identified as part of the Group Strategic Report, set out on pages 7 to 9 of the John Lewis plc Financial Statements for the year ended 27 January 2018, a copy of which is available on the Partnership's website www.johnlewispartnership.co.uk.

The Partnership has a formal risk identification process, which includes a rigorous analysis of internal and external risks both at a Divisional Board and Partnership Board level. All risks remain relevant for the second half of the financial year.

- Competition: 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;
- Operating model strain: increasing external pressures such as the ongoing move to online and increased spend on IT (depreciation) create strain on our operating model;
- Information security: a breach of Partner or customer data due to the external threat to cause disruption or access sensitive data;
- Pension obligations: increases in the pension liabilities, driven by an increase 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;
- Change delivery: 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;
- External environment: 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; and
- Ownership model strain: 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.

4 Exceptional items

	Half year to 28 July 2018		Half year to 29 July 2017 *(restated, see note 2)*		Year to 27 January 2018	
	Operating (expenses)/ income	**Taxation credit/ (charge)**	Operating expenses	Taxation credit	Operating (expenses)/ income	Taxation credit
	£m	**£m**	£m	£m	£m	£m
Restructuring and redundancy (a)	**(9.1)**	**2.5**	(55.5)	10.2	(72.8)	13.7
Branch impairment – John Lewis & Partners (b)	**(12.6)**	**–**	–	–	–	–
Pay provision (c)	**26.0**	**(5.0)**	–	–	–	–
Strategic review (d)	**0.5**	**(0.1)**	(0.9)	–	(2.3)	0.4
Branch impairments – Waitrose & Partners (e)	**–**	**–**	(9.0)	–	(38.9)	4.5
Profit on disposal of items previously recognised as exceptional (f)	**–**	**–**	–	–	2.7	–
	4.8	**(2.6)**	(65.4)	10.2	(111.3)	18.6

At 28 July 2018, the Group recognised a net exceptional credit of £4.8m, as follows:

a) Charges of £9.1m have been recorded for restructuring and redundancy costs, principally in relation to our branch, retail and head office operations. Charges of £72.8m for the full year to January 2018 and £55.5m for the half year to July 2017 principally related to branch, distribution and retail operations as well as functional restructuring in Finance, Personnel and IT.

b) Following the signing of a lease contract, a charge of £12.6m has been recorded in relation to branch impairment in John Lewis & Partners.

c) In 2016/17, a £36.0m provision was recorded as an exceptional charge to cover the potential costs of complying with the National Minimum Wage Regulations. Discussions with HMRC are now advanced and the methodology for calculating the liability has been clarified, resulting in a £26.0m release of the provision in the period. The ultimate resolution of the liability may result in an amount that is different from that provided.

d) During the half year, provisions no longer required of £0.5m previously recorded within exceptional items as part of the strategic review in 2016/17, were reversed. Net charges for the full year to January 2018 and half year to July 2017 were £2.3m and £0.9m respectively.

In addition to the items noted above, during the year to 27 January 2018 and half year to 29 July 2017, the Group recognised the following items as exceptional income and expenses:

e) Continued uncertainty with respect to Brexit outcomes and changes to the grocery market led us to review our approach and assumptions with respect to the possible impairment of Waitrose & Partners stores, where margins have trended significantly lower. This resulted in an impairment charge of £9.0m for first half and £38.9m for the full year 2017/18, which given the nature of the exercise in 2017/18 and the size of the charge, was included within exceptional items.

f) Income of £2.7m was recognised for the full year upon finalisation of a property disposal which was previously recorded as exceptional.

In assessing whether income and expense items met the Group's criteria as exceptional for the year to 27 January 2018, branch impairment costs totalling £9.0m in Waitrose & Partners which were reflected as non-exceptional operating expenses in the half year to 29 July 2017, were subsequently reclassified as exceptional. Refer to note 2 for further details.

5 Segmental reporting

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

The Waitrose & Partners business is not subject to highly seasonal fluctuations although there is an increase in trading in the fourth quarter of the year. There is a more marked increase in the fourth quarter for the John Lewis & Partners business.

	Waitrose & Partners £m	John Lewis & Partners £m	Group £m	Total £m
Half year to 28 July 2018				
Gross sales	**3,393.2**	**2,093.4**	**–**	**5,486.6**
Adjustment for sale or return sales	–	(114.4)	–	(114.4)
Value added tax	(199.8)	(315.7)	–	(515.5)
Revenue	**3,193.4**	**1,663.3**	**–**	**4,856.7**
Operating profit before exceptional items, Partnership Bonus and net profit on sale of property [1]	**96.4**	**(19.3)**	**(44.0)**	**33.1**
Net profit on sale of property	–	–	–	–
Operating profit before exceptional items and Partnership Bonus	**96.4**	**(19.3)**	**(44.0)**	**33.1**
Exceptional items	(2.0)	(14.2)	21.0	4.8
Operating profit before Partnership Bonus	**94.4**	**(33.5)**	**(23.0)**	**37.9**
Finance costs				(37.6)
Finance income				5.9
Profit before tax				**6.2**
Taxation				(1.9)
Profit for the period				**4.3**
Profit before Partnership Bonus, tax and exceptional items				**1.4**
28 July 2018				
Segment assets	2,844.9	2,059.6	1,023.2	5,927.7
Segment liabilities	(803.9)	(772.1)	(1,623.0)	(3,199.0)
Net assets/(liabilities)	**2,041.0**	**1,287.5**	**(599.8)**	**2,728.7**

[1] Included within Operating profit before exceptional items, Partnership Bonus and net profit on sale of property is a £1.0m share of loss of a joint venture in John Lewis & Partners (27 January 2018: £1.0m loss; 29 July 2017: £0.9m loss), and an impairment credit in Waitrose & Partners of £0.4m (27 January 2018: £nil; 29 July 2017: £nil).

5 Segmental reporting (continued)

	Waitrose & Partners £m	John Lewis & Partners [1] £m	Group £m	Total £m
Half year to 29 July 2017				
Gross sales [1]	3,324.2	2,077.2	–	5,401.4
Adjustment for sale or return sales	–	(110.4)	–	(110.4)
Value added tax	(193.1)	(315.2)	–	(508.3)
Revenue [1]	3,131.1	1,651.6	–	4,782.7
Operating profit before exceptional items, Partnership Bonus and net profit on sale of property [1, 2]	108.9	43.9	(25.6)	127.2
Net profit on sale of property	0.9	10.5	–	11.4
Operating profit before exceptional items and Partnership Bonus [1]	109.8	54.4	(25.6)	138.6
Exceptional items	(21.7)	(21.1)	(22.6)	(65.4)
Operating profit before Partnership Bonus [1]	88.1	33.3	(48.2)	73.2
Finance costs				(48.5)
Finance income				6.4
Profit before tax [1]				31.1
Taxation				(8.7)
Profit for the period [1]				22.4
Profit before Partnership Bonus, tax and exceptional items [1]				96.5

29 July 2017				
Segment assets [1]	2,865.4	2,066.3	1,135.2	6,066.9
Segment liabilities [1]	(772.9)	(815.9)	(2,491.6)	(4,080.4)
Net assets/(liabilities) [1]	2,092.5	1,250.4	(1,356.4)	1,986.5

[1] Restated, see note 2.

[2] Included within Operating profit before exceptional items, Partnership Bonus and net profit on sale of property is a £0.9m share of loss of a joint venture in John Lewis & Partners.

5 Segmental reporting (continued)

	Waitrose & Partners £m	John Lewis & Partners [1] £m	Group £m	Total £m
Year to 27 January 2018				
Gross sales [1]	6,753.7	4,855.8	–	11,609.5
Adjustment for sale or return sales	–	(254.6)	–	(254.6)
Value added tax	(399.0)	(740.1)	–	(1,139.1)
Revenue [1]	6,354.7	3,861.1	–	10,215.8
Operating profit before exceptional items, Partnership Bonus and net profit on sale of property [1, 2]	169.1	247.3	(67.3)	349.1
Net profit on sale of property	2.9	10.5	–	13.4
Operating profit before exceptional items and Partnership Bonus [1]	172.0	257.8	(67.3)	362.5
Exceptional items	(52.2)	(21.3)	(37.8)	(111.3)
Operating profit before Partnership Bonus [1]	119.8	236.5	(105.1)	251.2
Finance costs				(85.2)
Finance income				14.1
Partnership Bonus				(74.0)
Profit before tax [1]				106.1
Taxation				(31.3)
Profit for the year [1]				74.8
Profit before Partnership Bonus, tax and exceptional items [1]				291.4

27 January 2018				
Segment assets [1]	2,890.1	2,150.8	1,243.0	6,283.9
Segment liabilities [1]	(784.9)	(902.0)	(2,299.5)	(3,986.4)
Net assets/(liabilities) [1]	2,105.2	1,248.8	(1,056.5)	2,297.5

[1] Restated, see note 2.

[2] Included within Operating profit before exceptional items, Partnership Bonus and net profit on sale of property is a £1.0m share of loss of a joint venture in John Lewis & Partners.

6 Net finance costs

	Half year to 28 July 2018	Half year to 29 July 2017	Year to 27 January 2018
	£m	£m	£m
Finance costs			
Finance costs in respect of borrowings	**(26.8)**	(30.9)	(54.2)
Fair value measurements and other	**(2.1)**	(1.2)	(1.8)
Net finance costs arising on defined benefit and other employee benefit schemes	**(8.7)**	(16.4)	(29.2)
Total finance costs	**(37.6)**	(48.5)	(85.2)
Finance income			
Finance income in respect of cash and short-term investments	**4.2**	2.9	6.8
Fair value measurements and other	**1.7**	3.5	7.3
Total finance income	**5.9**	6.4	14.1
Net finance costs	**(31.7)**	(42.1)	(71.1)

	Half year to 28 July 2018	Half year to 29 July 2017	Year to 27 January 2018
	£m	£m	£m
Finance costs in respect of borrowings, excluding interest rate swaps	**(24.0)**	(28.9)	(49.5)
Net interest receivable in respect of interest rate swaps	**0.2**	0.3	0.7
Finance income in respect of cash and short-term investments, excluding interest rate swaps	**1.2**	0.6	1.4
Net finance costs in respect of borrowings and short-term investments	**(22.6)**	(28.0)	(47.4)
Fair value measurements and other	**(0.4)**	2.3	5.5
Net finance costs arising on defined benefit retirement scheme	**(8.5)**	(12.9)	(25.3)
Net finance income arising on other employee benefit schemes	**(0.2)**	(3.5)	(3.9)
Net finance costs	**(31.7)**	(42.1)	(71.1)

Borrowing costs totalling £4.8m have been capitalised within Intangible assets (£4.2m) and Property, plant and equipment (£0.6m) in the half year to 28 July 2018. In the year to 27 January 2018, borrowing costs totalling £8.4m were capitalised within Intangible assets (£7.2m) and within Property, plant and equipment (£1.2m).

7 Income taxes

Income tax expense is recognised based on management's best estimate of the full year effective tax rate based on estimated full year profits excluding any discrete items. The tax charge on discrete items at half year is calculated and disclosed separately.

8 Property, plant and equipment, Intangible assets and goodwill

	Property, plant and equipment	Intangible assets and goodwill	Total
	£m	£m	£m
Net book value at 27 January 2018	3,971.2	495.7	4,466.9
Additions	45.7	78.4	124.1
Acquisition-related goodwill	–	1.8	1.8
Depreciation and amortisation [1]	(149.1)	(57.5)	(206.6)
Disposals and write-offs	(1.5)	(12.7)	(14.2)
Transfers to assets held for sale (see note 9)	(15.4)	–	(15.4)
Net book value at 28 July 2018	**3,850.9**	**505.7**	**4,356.6**

[1] Depreciation and amortisation for the period ending 28 July 2018 includes a net impairment charge of £23.9m (£12.3m net impairment charge to land and buildings, and £11.6m net impairment charge to intangible assets).

Intangible assets primarily relate to internally developed computer software.

Goodwill relates to the provisional calculation of the surplus of consideration over the assets and liabilities acquired as part of the acquisition of the trade of Opun Group Limited on 1 June 2018.

The impairment review methodology is unchanged from that described in the Annual Report and Accounts for the year ended 27 January 2018.

Key assumptions in the calculations are the discount rate, long-term growth rate and expected sales performance and branch costs. The discount rate is based on the Group's pre-tax weighted average cost of capital of 8.0% (27 January 2018: 8.0%; 29 July 2017: 7.0% to 8.0%).

9 Assets held for sale

At 28 July 2018, three property assets were recorded as held for sale totalling £6.0m in Waitrose & Partners and £9.4m, in John Lewis & Partners. Two of these property assets were disposed of subsequent to the half year end and it is expected that the remaining property asset will be disposed of in 2019/20.

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

At 29 July 2017, one property asset was recorded as held for sale totalling £8.3m in Waitrose & Partners.

10 Provisions

	Long leave £m	Customer refunds £m	Insurance claims £m	Reorganisation £m	Other £m	Total [1] £m
At 27 January 2018	(139.6)	(39.4)	(25.0)	(30.2)	(56.4)	(290.6)
Charged to income statement	(6.1)	(30.2)	(8.5)	(6.1)	(4.0)	(54.9)
Released to income statement	4.1	–	–	1.8	30.5	36.4
Utilised	3.4	39.4	3.2	20.5	3.1	69.6
At 28 July 2018	**(138.2)**	**(30.2)**	**(30.3)**	**(14.0)**	**(26.8)**	**(239.5)**

Of which:						
Current	(29.5)	(30.2)	(14.2)	(13.4)	(21.3)	(108.6)
Non-current	(108.7)	–	(16.1)	(0.6)	(5.5)	(130.9)

[1] Restated, see note 2.

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

Provisions for 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 reorganisations reflect restructuring and redundancy costs, principally in relation to our branch, retail and head office operations.

Other provisions include property related costs and pay provisions.

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

11 Retirement benefit obligations

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

Pension commitments have been calculated based on the most recent actuarial valuations, as at 31 March 2016, which have been updated by the actuaries to reflect the assets and liabilities of the scheme as at 28 July 2018. The next triennial actuarial valuation of the scheme will take place as at 31 March 2019.

Scheme assets are stated at market value at 28 July 2018.

The following financial assumptions have been used:

	28 July 2018	29 July 2017	27 January 2018
Discount rate	**2.90%**	2.60%	2.75%
Future retail price inflation (RPI)	**3.10%**	3.15%	3.25%
Future consumer price inflation (CPI)	**2.10%**	2.15%	2.25%
Increase in earnings	**3.20%**	3.30%	3.45%
Increase in pensions - in payment			
Pre-April 1997	**1.65%**	1.65%	1.70%
April 1997 - April 2016	**2.90%**	2.95%	3.00%
Post-April 2016	**1.65%**	1.65%	1.70%
Increase in pensions - deferred	**2.10%**	2.15%	2.25%

The movement in the net defined benefit liability in the period is as follows:

	Half year to 28 July 2018	Half year to 29 July 2017	Year to 27 January 2018
	£m	£m	£m
Net defined benefit liability at beginning of period	**(731.3)**	(1,013.7)	(1,013.7)
Operating cost	**(72.5)**	(71.8)	(144.0)
Interest cost on pension liabilities	**(84.6)**	(86.9)	(173.7)
Interest income on assets	**76.1**	74.0	148.4
Contributions	**138.4**	138.9	204.2
Total gains/(losses) recognised in equity	**487.0**	(82.8)	247.5
Net defined benefit liability at end of period	**(186.9)**	(1,042.3)	(731.3)

The post-retirement mortality assumptions used in valuing the pension liabilities were based on the 'S2 Light' (27 January 2018: 'S2 Light'; 29 July 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 (27 January 2018: 127% for males and 106% for females; 29 July 2017: 127% for males and 106% for females). Future improvements in life expectancy have been allowed for in line with the latest CMI model projections subject to a long-term trend of 1.25% (27 January 2018: 1.25%; 29 July 2017: 1.25%).

11 Retirement benefit obligations (continued)

The average life expectancies were as follows:

	28 July 2018		27 January 2018	
	Men	**Women**	Men	Women
Average life expectancy for a 65 year old (in years)	**21.4**	**23.7**	21.5	23.8
Average life expectancy at age 65, for a 50 year old (in years)	**22.3**	**24.8**	22.5	25.0

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

	Half year to 28 July 2018	Half year to 29 July 2017	Year to 27 January 2018
	£m	£m	£m
Profit before tax [1]	**6.2**	31.1	106.1
Amortisation and write offs of intangible assets [2]	**70.2**	53.3	114.1
Depreciation [2]	**149.1**	153.4	323.3
Share of loss of joint venture (net of tax)	**1.0**	0.9	1.0
Net finance costs	**31.7**	42.1	71.1
Partnership Bonus	**–**	–	74.0
Fair value (gains)/losses on derivative financial instruments	**(0.7)**	1.3	0.2
Loss/(profit) on disposal of property, plant and equipment and intangible assets	**0.1**	(11.6)	(15.8)
Decrease/(increase) in inventories	**52.3**	19.7	(33.7)
Increase in receivables	**(16.7)**	(39.8)	(52.1)
(Decrease)/increase in payables [1]	**(146.6)**	(124.0)	7.6
(Decrease)/increase in retirement benefit obligations	**(28.8)**	16.6	29.5
(Decrease)/increase in provisions [1]	**(51.3)**	39.9	12.0
Cash generated from operations before Partnership Bonus	**66.5**	182.9	637.3

[1] Restated, see note 2.
[2] Includes net impairment charges. Refer to note 8.

13 Analysis of net debt

	27 January 2018 £m	Cash flow £m	Other non–cash movements £m	28 July 2018 £m
Non–current assets				
Derivative financial instruments	–	–	2.5	**2.5**
	–	–	2.5	**2.5**
Current assets				
Cash and cash equivalents [1]	596.2	(225.7)	(0.2)	**370.3**
Short-term investments [1]	166.0	–	0.2	**166.2**
Derivative financial instruments	5.2	(1.8)	8.1	**11.5**
	767.4	(227.5)	8.1	**548.0**
Current liabilities				
Borrowings and overdraft	(0.1)	(0.1)	(275.0)	**(275.2)**
Unamortised bond transaction costs	–	–	0.2	**0.2**
Finance leases	(0.7)	0.4	(0.4)	**(0.7)**
Derivative financial instruments	(19.8)	8.5	5.0	**(6.3)**
	(20.6)	8.8	(270.2)	**(282.0)**
Non–current liabilities				
Borrowings	(875.0)	–	275.0	**(600.0)**
Unamortised bond transaction costs	11.1	–	(0.8)	**10.3**
Fair value adjustment for hedged element on bonds	1.1	–	0.1	**1.2**
Finance leases	(22.6)	–	0.9	**(21.7)**
Derivative financial instruments	(4.0)	–	3.8	**(0.2)**
	(889.4)	–	279.0	**(610.4)**
Total net debt	(142.6)	(218.7)	19.4	**(341.9)**

[1] Reclassified, see note 2.

Reconciliation of net cash flow to net debt

	Half year to 28 July 2018 £m	Half year to 29 July 2017 £m	Year to 27 January 2018 £m
Decrease in net cash and cash equivalents in the period [1]	**(225.8)**	(162.9)	(77.6)
Cash outflow to short-term investments [1]	**–**	–	106.0
Cash outflow from movement in other net debt items	**7.1**	8.0	9.3
Cash movement in net debt for the period	**(218.7)**	(154.9)	37.7
Opening net debt	**(142.6)**	(146.4)	(146.4)
Non-cash movements	**19.4**	(15.7)	(33.9)
Closing net debt	**(341.9)**	(317.0)	(142.6)

[1] Reclassified, see note 2.

14 Management of financial risks

The principal financial risks to which the Group is exposed are capital and long term funding risk, liquidity risk, interest rate risk, foreign currency risk, credit risk, and energy risk.

This condensed set of interim financial statements does not include all risk management information and disclosures required in the annual financial statements and should be read in conjunction with the John Lewis plc Financial Statements for the year ended 27 January 2018. During the half year to 28 July 2018, the Group has continued to apply the financial risk management process and policies as detailed in the John Lewis plc Financial Statements for the year ended 27 January 2018.

Valuation techniques and assumptions applied in determining the fair value of each class of asset or liability are consistent with those used as at 27 January 2018 and reflect the current economic environment.

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 half year to 28 July 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.

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. At 28 July 2018, the net fair value of derivative financial instruments was £7.5m, asset (27 January 2018: £18.6m, liability; 29 July 2017: £0.4m, asset).

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):

	28 July 2018		29 July 2017		27 January 2018	
	£m	**£m**	£m	£m	£m	£m
	CV	**FV**	CV	FV	CV	FV
Financial liabilities						
Listed bonds	**(864.5)**	**(931.2)**	(863.4)	(989.5)	(863.9)	(982.6)

The fair values of the Group's listed bonds have been determined by reference to market price quotations and 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.

15 Capital commitments

At 28 July 2018 contracts had been entered into for future capital expenditure of £74.2m (27 January 2018: £36.0m; 29 July 2017: £28.6m) of which £63.6m (27 January 2018: £29.3m; 29 July 2017: £26.8m) relates to property, plant and equipment and £10.6m (27 January 2018: £6.7m; 29 July 2017: £1.8m) relates to intangible assets.

16 Related party transactions

There have been no material changes to the principal subsidiaries listed in the John Lewis plc Financial Statements for the year ended 27 January 2018. All related party transactions arise during the ordinary course of business. There were no material changes in the transactions or balances during the half year ended 28 July 2018.

17 Events after the balance sheet date

On 30 August 2018, John Lewis & Partners announced changes to the Financial Administration operating model in John Lewis & Partners branches and the Systems Support and Business Protection management models. No accounting was recorded for the half year ended 28 July 2018 in respect of these changes.

In September 2018, the Partnership reached a settlement in relation to an ongoing legal dispute and is due to receive £15.0m in the second half of the 2018/19 financial year. As conclusion of the litigation was after 28 July 2018 and the outcome was uncertain at that time, no accounting was recorded for the half year ended 28 July 2018 in respect of this income.

Statement of Directors' responsibilities

The Directors confirm that to the best of their knowledge:

- the condensed set of interim financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU; and

- the interim management report includes a fair review of the information required by:

  a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first 26 weeks of the financial year and their impact on the condensed set of interim financial statements; and a description of the principal risks and uncertainties for the remaining 26 weeks of the year; and

  b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first 26 weeks of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

For and by Order of the Board

Sir Charlie Mayfield, Chairman
Patrick Lewis, Group Finance Director

12 September 2018

Independent review report to John Lewis plc

Conclusion

We have been engaged by John Lewis plc (the Company) to review the condensed set of interim financial statements in the half-yearly report for the 26 weeks ended 28 July 2018 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of interim financial statements in the half-yearly report for the 26 weeks ended 28 July 2018 is not prepared, in all material respects, in accordance with the recognition and measurement requirements of IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of interim financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

The annual financial statements of the Company are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The Directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of interim financial statements in the half-yearly report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Michael Maloney
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
12 September 2018