

IT'S YOUR BUSINESS



John Lewis Partnership plc
Annual Report and Accounts 2016

It's Your Business	1	It's Your Performance	28	It's Your Results	100
It's your purpose	1	Partnership performance	30	Consolidated primary statements	102
Chairman's statement	2	Our progress against the Partnership Aims	32	Notes to the consolidated financial statements	106
Our 2015/16 performance...	4	Our financial KPIs	34	Company primary statements and notes	148
Performance headlines	6	Waitrose performance	36	Statement of Directors' responsibilities	153
Our Partnership today	8	John Lewis performance	39	Independent auditors' report	154
Our Partnership model	10	Sustainability performance	42	Five year financial record	161
How we create value	12	Partner review	48	Notice of AGM	162
		Partnership Services performance	51	General information	IBC
It's Your Future	14	Managing our Partnership risks	52	Find out more	BC
Society	16	Our principal risks and mitigations	55		
Workplace	18				
Retail	20	It's Your Voice	58		
Future focus areas	22	Governance in the Partnership	60		
The 4Ps: A manifesto for change	24	How power is shared	63		
		The Partnership Council	64		
		The Chairman	65		
		The Partnership Board	66		
		Partners' rights and responsibilities	72		
		Responsibilities to others	73		
		Our Governance model is different	75		
		Partnership Council report	78		
		Audit and Risk Committee report	82		
		Corporate Responsibility Committee report	88		
		Chairman's Nominations Committee report	90		
		Remuneration Committee report	94		
		Directors' report	98		



What does this report contain?

This is our second combined Annual Report and Sustainability Review, reflecting the way in which we do business. More detailed non-financial performance can be found online.

www.johnlewispartnership.co.uk



Tell us what you think

Our Annual Report and Accounts is all about our Partners. And we'd like your feedback on it.

www.johnlewispartnership.co.uk/meta/contact-us.html

Strategic Report

Pages 1 to 57 comprise the Group Strategic Report. The Group Strategic Report was approved by the Board of Directors on 14 April 2016.

Sir Charlie Mayfield, Chairman,
John Lewis Partnership, 14 April 2016

IT'S YOUR BUSINESS IT'S YOUR PURPOSE

The Partnership's ultimate purpose is the happiness of all its members, through their worthwhile and satisfying employment in a successful business.

Because the Partnership is owned in trust for its members, they share the responsibilities of ownership as well as its rewards – profit, knowledge and power.

Our Partners receive a share in the profits of the business in the form of a Bonus and have access to a wide range of benefits.

We have the opportunity to increase our knowledge and have a voice in the way in which our business is run.

**This helps to make our jobs more satisfying,
supporting the long-term success
of our Partnership.**



Chairman's statement

The Partnership is a unique business because it's owned in trust for our Partners and has a purpose greater than profit. Profit can enable us to achieve happiness, but it is not an end in itself.

Unlike shareholders in other businesses, we own ours in perpetuity and we are therefore responsible for the Partnership's long-term sustainability. This is why we take a different approach to our Annual Report and Accounts. We look at our performance in relation to our plans (pages 30 to 35), our Constitutional Principles (pages 10 and 11), and within the long-term context of our business (pages 14 to 27).

2028 will be the 100th anniversary of John Spedan Lewis taking over the running of the business from his father. In 1928, the first edition of the Constitution was published which underpinned the formation of the John Lewis Partnership. This year, with so much fundamental change happening in society, the workplace and retail, we have looked out to what the world could be like in 2028, and what that means for our business today. As a result, you will see on pages 22 and 23 that we have already made some important decisions and we have set out the next phase of our new business plan – It's Your Business 2028.

Performance during 2015/16

If we first look at our performance in 2015/16, the Partnership has delivered a healthy trading performance and increased market shares in challenging conditions. Although Profit before Partnership Bonus, tax and exceptional items was down by 9.3% on last year (10.9% on a 53-week basis), this was entirely due to higher pension charges arising from volatility in the market-driven assumptions, and lower property profits. Excluding these, our profits were around 9% up on last year (7% on a 53-week basis) which, together with a strengthening balance sheet, represents good progress over the year.

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

As a result, Waitrose gained market share and grew profits². We attracted more customers while rewarding the loyalty of existing customers through hugely popular initiatives like myWaitrose, which now has around six million members.

In John Lewis we achieved sales growth and market share gains in Fashion, Home and Electricals and Home Technology and an increase in profits². Online sales growth³ was especially strong at 17%, and although sales in shops were down 1%, our results were very much a result of the effective combination of shops and online, demonstrated by the fact that more than three-quarters of our customers shopped in one of our stores.

¹ ONS Food and non-alcoholic beverages CPI for 12 months to January 2016.

² Before property profits.

³ Online returns to shops in John Lewis are deducted from online sales. Previously these were deducted from shop sales. The 2014/15 comparatives have been re-stated so that the year-on-year movement in online sales and shop sales are on a consistent basis.

Partnership Bonus
for 91,500 Partners

10%

Page 3 >

Read more about
the Partnership's
new business plan

Page 23 >



IT'S YOUR
BUSINESS
— 2028 —



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

Finally, we have further enhanced the management of our material sustainability issues with the formation of our Corporate Responsibility Committee (pages 88 and 89) and developed a Partnership Human Rights Strategy and Modern Slavery statement which we are publishing alongside this report.

Partnership Bonus

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

Outlook 2016/17

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

It's Your Business 2028

Longer term, it's clear that the growing requirement to invest in technology and increasing price competitiveness means retailers need to keep finding new ways to be productive and efficient, new ways to innovate and new ways to grow profitably. This report explores how the Partnership plans to approach this next phase of our development.

Looking ahead, we know that the changes we're seeing in society, the workplace and retail between now and 2028 present us with both challenges and opportunities. This report will explore these and the Partnership's response through our new business plan – It's Your Business 2028.

No one can predict the future but looking out to 2028 provides a perspective that helps us understand the strains that we feel in our business today and how our existing plans respond to them. It also helps us identify the changes that we need to make and the stretch we need to secure the sustainable growth of our business.

From this we have decided on three Partnership-wide objectives. The first is to strengthen the Partnership's financial position to protect our business from unexpected economic shocks and to build up our capacity to invest in new growth. Secondly, we must create better jobs for better performing Partners on better pay. This will ensure we deliver on our promise of worthwhile and fulfilling employment for Partners and that we compete on our strengths. Thirdly, we need to strengthen the appeal of our brands and to establish new sources for growth. In Waitrose and John Lewis, we have powerful brands and we recognise the critical importance to customers of constant innovation in such a dynamic market. See page 23 for details.

We are already making progress on all of these objectives. For example, the changes to our pension scheme agreed in 2015 have now come into effect and will reduce the risk profile of our pension scheme over time. We have also introduced the '4Ps' – a focus on Performance, Productivity, Pay and Progression – earlier this year (see pages 24 to 27) which goes right to the heart of how we will be successful in the future.

We have also made a number of important appointments over the last year, all with a view to establishing the leadership team that's needed to deliver our strategy. Patrick Lewis became Group Finance Director in September 2015. Tom Athron was appointed as Group Development Director in October 2015 with responsibility for developing new growth. On 4 April 2016, Rob Collins was appointed as Managing Director, Waitrose. In addition to these Board appointments and as a key part of our strategy to improve productivity, Andrew Murphy was appointed as Group Productivity Director.

It's an exciting time for our business. I hope you enjoy discovering more in this year's report.

Sir Charlie Mayfield
Chairman, John Lewis Partnership

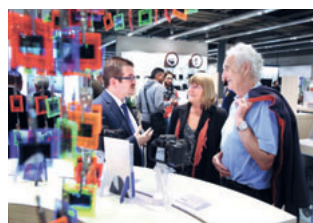
Waitrose performance

Page 36 >



John Lewis performance

Page 39 >



52 v 53 weeks?

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

Our 2015/16 performance...

So, how did we do in 2015/16?

We made a profit before Partnership Bonus, tax and exceptional items of £306m. Compared to last year, this was down by 9.3% (10.9% on a 53-week basis). Our gross sales were up, but so were our costs.

[Page 30 >](#)



£306m

Profit before Partnership Bonus, tax and exceptional items down 9.3% 2015: £343m

We made an exceptional profit of £129.3m on the sale of Clearings – a property in central London. As with all equivalent exceptional gains and losses, this was not factored into the level of Bonus.

Did pensions affect our profit this year?

Yes. A lower net discount rate on 31 January 2015 compared to a year earlier resulted in a £48m higher pension cost compared to 2014/15. While this is not 'cash out the door', it serves as a reminder of the cost of meeting our pension promises to current Partners.

The pension deficit for past promises reduced as the net discount rate rose during 2015/16.

[Page 31 >](#)

£942m

Pensions deficit at 30 January 2016 down 24.6% 2015: £1,249m

Are there any financial reporting issues affecting our results?

We recorded a significant one-off profit on disposal of our Clearings property. We have ensured that our accounting and disclosure for supplier rebates are appropriate. We also have to review the value of our shops. In 2015/16, we recorded a charge of £5.7m against the value of our Waitrose shops.

£5.7m

Impairment charge 2015: £10.3m

How did our businesses perform?

Both Waitrose and John Lewis gained market share in challenging markets.

Waitrose opened 12 branches with gross sales up 1.1% and like-for-like sales (excluding petrol) down 1.3%. Operating profit was down 0.8%.

John Lewis sales were 17.3% up online and 1.0% down in store, with overall like-for-like sales up 3.1% and operating profit up 0.2%.

Our two businesses became increasingly interdependent, with 70% of John Lewis Click & collect orders delivered to Waitrose stores to be picked up by customers.

Excluding the higher pension costs arising from volatility in the market-driven assumptions and property profits, Partnership profit rose by 7%.

[Pages 30 to 41 >](#)

Waitrose

£233m

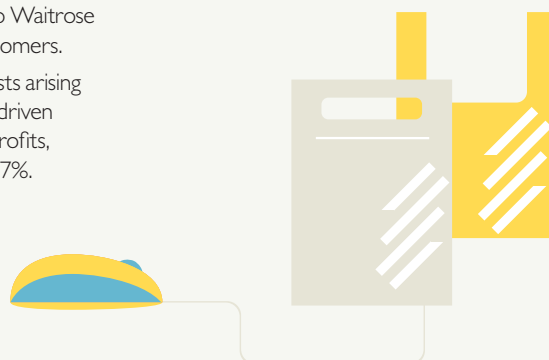
Operating profit* up 3.9% 2015: £227m

John Lewis

£249m

Operating profit* up 0.7% 2015: £248m

* excluding property profits



What did all that mean for my Bonus?

Lower reported profits meant a lower Bonus, but there is no exact relationship as the Board also has to decide how much should be retained for future investment and paying down debts (like the pension deficit) before judging how much to distribute to Partners.

We incurred operating costs for pensions of £245m compared to £191m* last year.

Pensions and Partnership Bonus are our two biggest benefits, after pay.

When taken together, their cost grew 12.4%* compared to last year.

*Excluding exceptional items

[Page 3 >](#)

£145m

Partnership Bonus, 10% of salary 2015: £156.2m, 11% of salary



...and beyond

Are we financed to live within our means?

We borrow money to take advantage of commercial opportunities.

As a Partnership, we need to manage our borrowing conservatively as we cannot raise 'equity' from our shareholders in the same way as other public companies can. Our net debt decreased during the year from £722m to £373m.

[Page 31 >](#)

£373m

Net debt
down 48.4% 2015: £722m

What could knock us off course?

Our top three risks at year-end:

1. Competition
2. Pension obligations
3. Information security

The Partnership Board reviews the principal risks facing the Partnership every six months to understand how they might affect our future performance. We then judge the right level of risk to take, allowing more for commercial risk to improve the Partnership and less for financial/regulatory risk. Every key risk is managed carefully.

[Page 52 >](#)



How far ahead are we planning?

Public company boards now have to state whether they think their company will continue to be 'viable' in the future. Our Partnership Board has analysed our position, prospects, finances and viability over the next three years.

[Page 99 >](#)

In this report we also share our longer term financial, social and environmental challenges and opportunities out to 2028.

[Page 16 >](#)

What's round the corner?

Our Chairman has opened the report by looking back at our results and performance in 2015/16, but also looking forward by setting a clear direction for long-term success through the It's Your Business 2028 strategy.

[Page 2 >](#)

How did we do the sums?

Do we follow the same rules and standards as our competitors?

We use the same international accounting standards as our big 'quoted' competitors but are not obliged to follow the UK Corporate Governance Code. Instead, we align our Annual Report and Accounts with our Constitution to provide information of most use to our Partners. However, in order to be transparent we explain, on a voluntary basis, where we do not comply with the Code.

[Page 75 >](#)

Who's responsible for preparing our accounts?

Our Group Finance Director and his team prepare our Annual Report and Accounts, which are reviewed by the Board's Audit and Risk Committee and approved by the whole Board. They are also reviewed by independent external auditors, who challenge us and publish their key areas of audit focus and any concerns they might have.

[Page 82 >](#)

Who are our Auditors and what did they have to say?

PwC is one of the 'Big Four' audit firms and has audited our accounts for many years. Next year another big firm, KPMG, is taking over as it is best practice to re-tender this important job regularly. PwC has again given us a clean audit opinion, after some robust discussions and challenge on a number of areas including the value of our assets, and our key liabilities such as pensions.

[Page 154 to 160 >](#)

Performance headlines

The Partnership has delivered a healthy trading performance and increased market shares in challenging conditions.

Sales up
but profit down

[Page 30 >](#)



Market conditions
challenging

[Page 30 >](#)



Financial performance

Gross sales

£11.0bn
+2.5%

[Page 31 >](#)

Revenue

£9,749m
+2.2%

[Page 31 >](#)

Gross sales per average FTE

£187,100
+3.0%

[Page 34 >](#)

Cash flow from operations

£917m
+4.7%

[Page 105 >](#)

Profit before tax

£290m
+53.7%

[Page 102 >](#)

Profit before Partnership
Bonus, tax and exceptional
items per average FTE

£5,200 **-8.8%**

[Page 34 >](#)



Partnership Bonus

10%
11% last year

[Page 3 >](#)

Pension operating cost

£245m
+28.4%

[Page 31 >](#)

Return on invested capital

7.1%
7.7% last year

[Page 35 >](#)



New business plan launched

Page 23 >



Customer numbers increased

Page 9 >



Partner plan implemented

Page 24 >



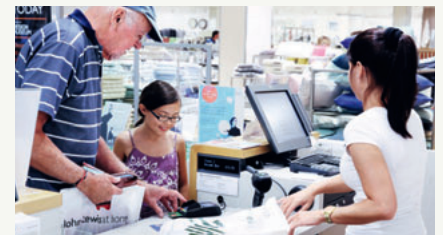
Non-financial performance



Job satisfaction

71%
-1%

Page 49 >



Partners with more than five years service

42.6% **-2.1%**

Page 49 >

Customers shopping across both our brands

+4.7%

Page 9 >

Partners belonging to an ethnic minority

14.7% **+0.1%**

Page 49 >

Female Partners

57.4%
+0.4%

Page 50 >

Partner turnover

28.6%
-2.1%

Page 48 >

Energy consumption: kwh per sq ft of trading floor

81.9¹
-5.1%

Page 47 >

Investment in our communities (cash, time, in-kind, management costs)

£12.2m¹ **-6.4%**

Page 45 >

Waitrose refrigeration and cooling direct emissions (tonnes CO₂e)

56,712¹ **-17.5%**

Page 47 >

Our Partnership today

The success of Waitrose and John Lewis reflects on the way we operate across our entire value chain, and our continuous innovation in response to changing consumer preferences and new technology.

Shopping with us – wherever and however

We continue to offer our customers a range of choices so that they can shop any way they want.

70%

Click & collect orders picked up from a Waitrose branch

>3/4

of John Lewis customers made a purchase from a shop

+21%

Increase in sales through Waitrose online specialist shops



Waitrose

Sushi counters

As part of growing our hospitality offer, Waitrose became the first national supermarket in the UK to offer freshly prepared sushi, initially in Battersea, London.

[Page 38 >](#)



Pick Your Own offers

myWaitrose members now have the power to choose their own savings. Since launch, more than a million customers are now signed up to use the ground-breaking scheme to save money.

[Page 38 >](#)

Waitrose Kitchen launched

waitrosekitchen.com is a brand new website offering customers over 3,000 products, from cookware and utensils to this year's must have kitchen accessory the Nutribullet.

[Page 38 >](#)



All aboard at King's Cross

A new branch and cookery school opened in the restored Grade II-listed Midland Goods Shed at London King's Cross. It's the third Waitrose Cookery School and the fourth branch nationwide to include a wine bar.

[Page 38 >](#)

Gross sales

+1.1%

2015: +4.6%

Shops

346

New branches (net)

+10

Worldwide distribution to

58

countries

Market share

5.5%

An increase of 10bps
Source: Kantar 12-week
grocery data 31 January 2016

Keeping our customers happy

We continue to invest in activities which drive customer satisfaction and loyalty.

+4.7%

Growth in customers shopping across both our brands

+6.2%

Partnership card spend increase

>6m

myWaitrose members with 70% of Waitrose sales to cardholders



1.8m

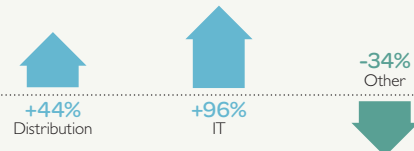
my John Lewis members, an increase of 32%



Efficient distribution

We continue to invest in our distribution and logistics network to meet customer demand across both Divisions.

Total capital expenditure % change 2011/12 to 2015/16



Waitrose

First National Distribution Centre
Opened in summer 2015 in Milton Keynes. It will handle the distribution of around 25,000 grocery and home products.

[Page 36 >](#)

New Dotcom Fulfilment Centre serving London

Opened in Coulsdon, South London. It has increased Waitrose capacity for online deliveries in London by one-third and employs more than 450 Partners.

[Page 38 >](#)

John Lewis

Third Distribution Centre in Milton Keynes

Work started on Magna Park 3. The 638,000 sq ft warehouse will consolidate our DCs for larger products in Milton Keynes. Construction of Magna Park 2 was completed and will be fully operational in 2016. It will consolidate customer online orders, saving on packaging and delivery costs.

[Page 39 >](#)

John Lewis

Gross sales

+4.4%

2015: +7.5%

Growth in online sales

17%

Shops

46

New shops

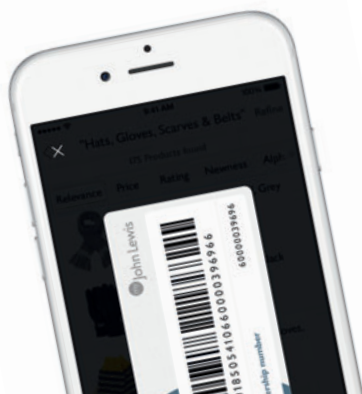
+3

Click & collect orders

+11%

Kitchen drawer

my John Lewis card members can now electronically store all online orders, in-store receipts and guarantees for up to six years under My Account.



Fashion inspiration

John Lewis is the first UK retailer to trial a 'Find Similar' button on our customer app, giving customers inspiration for other products that are similar in shape, colour, pattern and motif.

Around the world

We currently have 21 shop-in-shops – seven in South Korea, 11 in the Philippines and three in Singapore. In November 2015, we announced plans to have a presence in Europe for the first time by partnering with The Netherlands' leading department store, de Bijenkorf.



Birmingham welcomes John Lewis

In September, we opened our biggest shop in four years. At 250,000 sq ft, the Birmingham store includes a range of innovations, such as our new fashion and lifestyle concept loved&found and our first ever John Lewis-branded spa, &Beauty.

[Page 41 >](#)

Our Partnership model

Our business is different from other companies because it is owned in trust for our Partners. This gives us a distinctive culture which – we believe – gives us a competitive edge. We safeguard and develop our culture through our governance structures.

Our Constitution

Our written Constitution is the bedrock of our Partnership model. It doesn't just establish our Partnership's Principles, it also sets out the way in which we, as Partners, should operate.

Although the Constitution has been revised and refreshed over the years, it retains a direct connection with the fundamental principles established in 1928 when our Founder, John Spedan Lewis, committed to paper his extraordinary vision and ideals of an 'industrial democracy', where employees shared profit, knowledge and power to form a better kind of business.

How we create value through our Principles
[Page 12 >](#)

Our business is powered by seven Principles

At the heart of the Constitution, Principle 1 sets out the Partnership's ultimate purpose, and the responsibilities and rewards of owning a successful business.

[Page 61 >](#)



Key elements of our Constitution

Principles

Rules

How power is shared

[Page 63 >](#)

Partners' rights and responsibilities

[Page 72 >](#)

Responsibilities to others

[Page 73 >](#)



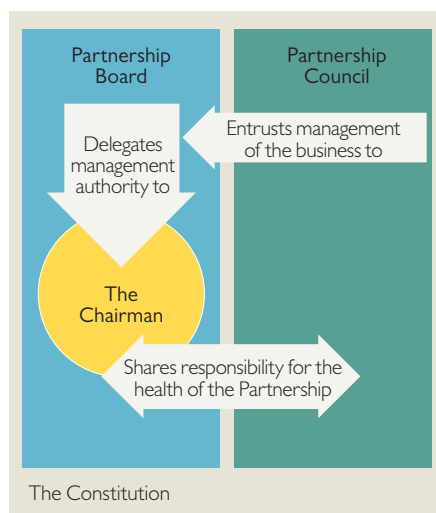
Our governance structure

How power is shared

The Partnership operates on democratic principles and as much sharing of power among its members and representative bodies as is consistent with efficiency.

The three governing authorities of the Partnership are the Partnership Council, the Partnership Board and the Chairman.

The shared aim of the three governing authorities is to safeguard the Partnership's future, to enhance its prosperity and to ensure its integrity. They should encourage creativity and an entrepreneurial spirit but must not risk any loss of financial independence.



The Partnership Council is made up of Partners representing every area of the business. The Partnership Council has the power to dismiss the Chairman. Five members of the Partnership Board are elected by the Partnership Council from within the business every three years. All three governing authorities share responsibility for the overall health of the Partnership.

[Page 63 >](#)

Our roles

By sharing profit, knowledge and power, we can create a more successful business and a more worthwhile and satisfying place to work.

Profit

Our success depends on the collaboration and contribution of our Partners, who, in return, receive a share of profits in the form of a Partnership Bonus.

Knowledge

We provide our Partners with the knowledge they need to fulfil their responsibilities as co-owners of the Partnership.

Power

Our Partners are able to influence their business at all levels of the Partnership through the democratic structure and representative bodies that are defined in our Constitution.

[Page 64 >](#)

Our responsibilities

In return for the sharing of profit, knowledge and power, our Partners have three responsibilities:

- Taking responsibility for our business success
- Building relationships powered by our Principles
- Creating real influence over the business

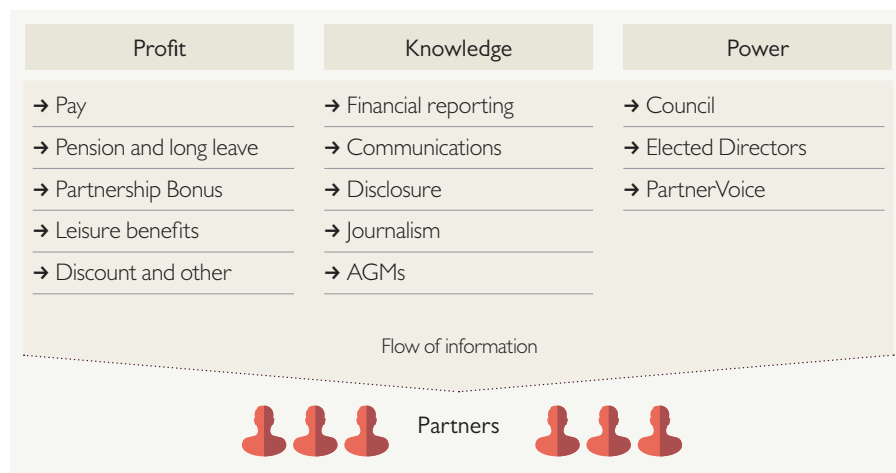
These commitments place on our Partners the obligation to improve our business in the knowledge that they share the rewards of success.

[Page 72 >](#)

Responsibilities to others

Our Constitution also sets out the role of the Partnership in society, defining our responsibilities to customers, suppliers and to the environment. This includes being scrupulously honest in our business dealings, showing respect and courtesy to all stakeholders and contributing to the wellbeing of the communities where we operate.

[Page 73 >](#)



Sharing benefits

This year, 91,500 Partners received a 10% Partnership Bonus.

[Page 3 >](#)



PartnerVoice

Our Partners have a constitutional right to be heard and have their opinions considered.

[Page 64 >](#)



Governance reporting

This year we have presented our governance report in line with the key elements of our Constitution, as this governs the way Partners should operate.

[Page 60 >](#)

How we create value

We have a unique purpose, ownership structure, and governance model. We apply these to both Waitrose and John Lewis. Although we have different strategies at a Divisional level to maximise the value we create, the fundamental inputs and structures of our value chains are the same.

Inputs

We rely on resources and depend on strong relationships to operate our business...

Partners

The Partnership needs motivated and engaged Partners – they provide skills and passion every day, equipped with the knowledge they need to fulfil their responsibilities as co-owners. They deliver value to each other, the business and our stakeholders – being those who have an interest in our business.

Knowledge and insight

With more than 150 years in retailing, we strive to understand and fulfil our customers' needs by focussing on consumer trends.

Suppliers and manufacturers

Our supply chain network is vast. We source over 400,000 products from over 50 countries. Managing our supply chain effectively is vital to our success.

Buildings and infrastructure

A network of IT systems and physical assets, such as shops, warehouses and offices, to help improve the customer experience and the efficiency of the behind-the-scenes processes.

Natural resources

The natural environment provides us with the energy, land and resources we need to run our estate and to make and deliver our products. We recognise its limits and manage our impacts accordingly.

Finance

Financing from our creditors allows us to make investments in our future, including new stores, increased distribution capability, new opportunities for customers to interact with us, and new business ventures.

How we create business value to fulfil our Purpose

...to fulfil our ultimate purpose – the happiness of our Partners through their worthwhile and satisfying employment in a successful business...



1 Selecting and developing the right products

We seek to develop and select our quality products to meet our customers' needs. We have many exclusive and often long-standing sourcing relationships with suppliers, helping to provide us with greater influence and insight which informs the way in which we source products.

2 Efficient distribution

Our aim is to move our products to shops and customers cost-effectively and efficiently. Over the past few years, we have invested significantly in distribution and logistics infrastructure.

3 Shopping with us – wherever and however

We aim to offer our customers quality, service and value, wherever and however they shop with us.

4 Keeping our customers happy

We seek to provide value for money and outstanding service before, during and after purchase and across all of our channels. Our customer service and after-sales support functions are award-winning.

5 The cutting edge of retail

Our customer relationships can help improve our understanding of consumer demands. This in turn informs what we source and which products and services we offer across our channels.

Outputs

...which enables us to adhere to our Principles and return value to our business and stakeholders



Power

Our democracy means Partners' voices are heard

[Page 64 >](#)



Partners

Happy Partners are fulfilled and more productive

[Page 48 >](#)



Business relationships

Long-term partnerships with suppliers

[Page 46 >](#)



Profit

Profit that we share between us through an annual Bonus

[Page 3 >](#)



Customers

Satisfied customers who will remain loyal

[Page 44 >](#)



The community

Communities in which we are actively involved

[Page 45 >](#)



It's Your Future

In 2028, it will be 100 years since Spedan Lewis wrote the first Constitution. As co-owners of our business, we are all responsible for the long-term sustainability of the Partnership. Understanding the challenges we face today and how these will develop by 2028 helps us identify how we need to adapt our business to ensure its sustainable growth.

The following pages explore these challenges, how we are already responding to them in the short-term and how we will need to address them in the long-term.

Society	16
Workplace	18
Retail	20
Future focus areas	22
The 4Ps: A manifesto for change	24





Society

The trends we are beginning to see in society and the external environment mean we need to be prepared for changes in our customer profile, our supply chains and operations, as well as our role in society.

“The Partnership takes a long-term view, and in doing so we see that profound changes are taking place in society and to our planet. Our strength lies in our ability to respond to these opportunities and challenges.”

Benet Northcote
Director, Corporate Responsibility



Emerging markets

Population and economic activity in the developing world will continue to grow and the balance of global power will shift towards emerging markets. This could place even greater strain on supply chains and the rights of workers.

We are addressing our most salient workers' rights issues in our supply chain. We are investing in our suppliers so that they can make their businesses more successful.

[Page 46 >](#)

What does this mean for the Partnership?...

...Polarisation could create greater tensions within society, affecting our Partners, suppliers and customers. Identifying our role in society will become increasingly important.

...People living longer and the rise in health challenges will mean our customers' needs will change. We need to stay fully engaged with health and wellness trends, reformulating products and responding to government public health priorities.

...The role of business to address human rights issues will intensify and we will need to gain greater visibility over our complex supply chains.

... Increasing resource constraints and the impact of climate change will require a transition to a lower carbon operating model, and a shift towards 'circular economy' thinking – finding new uses in our business for our waste materials.

Polarised wealth

Income and wealth may become more polarised, shifting the balance of society. By 2028, three-quarters of Britain's wealth is predicted to be in the hands of just 1% of the population.

We are constantly evaluating our assortments and new business opportunities to match changing customer needs.

[Page 20 >](#)

We are investing in the communities at home and abroad with whom we trade.

[Page 45 >](#)

We are investing in Progression within the Partnership.

[Page 25 >](#)

Health paradox

People are expected to live longer. Yet diseases associated with unhealthy lifestyles such as heart disease and cancer may be more prevalent, placing more onus on business to support Government in responding to public health issues.

We are reformulating and innovating our own-brand products to meet higher nutritional standards. We are also investing in our Partners' health and wellbeing.

[Page 50 >](#)

Resource scarcity

Competition for resources such as energy, water or minerals is likely to become more intense. In 2028, the challenge of tackling climate change and its effects will be inescapable.

We are increasing the energy efficiency of our buildings, procuring low carbon energy and reducing waste while sourcing more products sustainably.

[Page 47 >](#)



Workplace

Our Partners' experience in the workplace is already changing and is expected to continue to shift dramatically in the future, as technology and workplace demands increase.

Grey matters

As people live longer, it is likely they will work for longer and may be expected to adapt to change more frequently. At the same time, workplaces may have to accommodate the needs of older employees.

We are nurturing a more inclusive culture so that we recruit people of all backgrounds and ages. We are investing in development, acknowledging that all of us will need to develop new skills throughout our career.

New technology

More roles may either be automated or replaced entirely by technology. Those that remain could become commoditised as technology reduces the elements of skill previously required to do them. These changes are likely to impact all types of employees.

We are developing our 4Ps manifesto, which outlines what we believe needs to shift in our organisation to create better jobs, better performing and better paid Partners.

[Page 24 >](#)

Next generation

Younger employees will aspire to be in a workplace that is less hierarchical and where they can express their views without constraints. They may also seek out companies whose values align with their own.

We will find new ways to give Partners a say in how we run the Partnership through our unique, democratic model.

[Page 64 >](#)



What does this mean for the Partnership?...

...A Partner joining the business will have to invest more in their own development as roles become more specialised and skilled.

...The Partnership's notion of progress and fair reward may be challenged. Greater inequality and lack of mobility would make this harder to achieve, so our plan needs to concentrate on development.

...The pay gap between roles requiring different skill sets may become stretched, creating tension in the workplace.

...Partners are, and must remain, central to our future success. We believe that four key areas will help us protect Partners in the future – Performance, Productivity, Pay and Progression – also known as the 4Ps.

Flexible careers

The concept of having a job for life is expected to become increasingly rare as more people switch careers throughout their working life. There could be a keener interest in life-long learning as people constantly develop new skills.

We are introducing a raft of new training initiatives including 'Learning Agility', and guidance to help Partners build their career journeys.

[Page 49 >](#)

"Partners are our competitive advantage and our longer term financial health relies on Productivity. The two are intrinsically linked. Productivity works in harmony with Performance, Pay and Progression to form our '4Ps', positioning us ready for the future trends we see in the workplace."

Andrew Murphy
Group Productivity Director



Retail

The profile of our customers and their experience of our business is expected to change in response to new trends. There are likely to be significant implications too for the types of products we sell and our operating model.

“Our industry is undergoing fundamental structural change. Our challenge is to identify the opportunities this provides to drive growth into our business, while maintaining the democratic core of the Partnership.”

Tom Athron
Group Development Director

Seamless experience

Seamless customer service across all shopping channels is expected to become the differentiating factor in successful businesses. The way in which people research, buy and take delivery of goods is likely to continue to change in the future as their needs become more diverse.

We are integrating our award-winning customer service proposition across all Waitrose and John Lewis sales channels.

[Pages 36 to 41 >](#)



So what does this mean for the Partnership?...

...Customers are increasingly likely to demand more, including higher expectations of customer service and more information about the products they purchase.

...The polarisation of customer needs will deliver a more diverse customer base. In response, the Partnership will need to adapt and personalise its service proposition.

... Some of our more profitable sales categories may be delivered in a very different way in the future. This will mean the Partnership needs to differentiate the products it offers to customers.

...The retail sector continues to face squeezed margins and is becoming much more capital intensive. We have identified our operating model as a key future focus area for the Partnership.

Data analytics

It is anticipated that enhanced data analytics will support a level of personalisation that is much more refined than it is today, turning on its head the notion of customer segmentation. This could allow services and products to be tailored to individual customers – particularly at the higher end of the market.

We are developing our understanding of the customer of the future through improved insight.

Product to service

Innovations could change the nature and appeal of what we buy, as technology increasingly becomes part of our lives. With greater connectivity and the 'internet of things', we expect more products to become services, including large product categories such as white goods.

We are exploring new technologies to ensure our offerings respond to what customers want.

Squeezed margins

The cost of new technology may place greater pressure on prices, and squeeze already pressured retail margins.

We are introducing money saving initiatives and taking into account the higher costs of operating through our financial planning. We are developing our assortments and service to make sure our offer remains differentiated from our competitors.

[Page 30 >](#)



Future focus areas

The foundations for our success in 2028 are being laid now in response to the changes in society, workplace and retail.



It's Your Business 2028

The Partnership Aims outlined on page 32 have served us well for the past four years. But as we have seen, the future is uncertain and we can expect things to change – in society, the workplace and retail.

Thankfully we have a clear plan to navigate the challenges and opportunities on the road ahead. It's Your Business 2028 will guide us over the coming years on our delivery of Principle 1,

which remains our 'north star'. The vibrant glow of our democracy will give us energy and focus on our journey.

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

[Page 32 to 33 >](#)

From our three core objectives, we have picked out 'Better jobs, for better performing Partners on better pay' and put a spotlight on how we will drive performance, progression, productivity and pay. We will communicate more on how we will continue to strengthen our brands and build our financial strength so that we can take advantage of new opportunities.

[Page 24 to 27 >](#)

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

1. Stronger brands and new growth

- Improving our offer and experience for customers
- Building new business in high growth areas
- Continuing to grow market share

2. Better jobs, better performing Partners, better pay

- Improving productivity, increasing the sales and profit we can make per Partner
- Achieving higher job satisfaction, as Partners enjoy and contribute more in their roles
- Partners receiving above market pay, because they achieve above market performance

3. Financial sustainability

- Improving profitability so that we can invest more in Partners and customers
- Building our financial strength so we are resilient and can take advantage of commercial opportunities

"There aren't many organisations that can think as far ahead as 2028. It's Your Business 2028 really sets a clear strategy to ensure the Partnership's future success, with Partners at the centre."

Sam Shaerf
Head of Customer Management,
Group Customer Insight



The 4Ps: A manifesto for change

The manifesto sets out four areas of focus for the next three years to achieve better jobs, better performing Partners and better pay.



Our manifesto for change can be downloaded from our website www.johnlewispartnership.co.uk



Q:

What are the 4Ps and why are they so important?

A: Our Partner Plan has evolved (see pages 48 to 50) into the 4Ps. This is the Partnership's People Plan created to support the strategic ambition outlined in It's Your Business 2028.

The 4Ps Manifesto covers our commitment to change for the next three years and beyond, as we focus on meeting the challenges of 2028. The manifesto is not a 'to-do' list. It describes powerfully what we believe needs to shift in our culture to make better jobs, better performing Partners and better pay a reality, and to achieve the ambition outlined in Principle 1.

Moving forward, we will be reporting on progress under each of the 4Ps.

Q:

What does it mean for Partners?

A: The work on It's Your Business 2028, has reinforced the importance of Partners as a source of unique advantage. To maximise this advantage we know we must create a harmonious and virtuous cycle between Performance, Productivity, Pay and Progression.

Partners are – and must remain – central to our future success. With the implementation of the activity set out in the 4Ps Manifesto, we will work towards a sustainable future for the Partnership.

We want to encourage Partners to make the journey with us and will help them to be more agile, learn new skills and increase their value to the business. We will reward them with better pay and greater control and autonomy in their working lives.



Q:

How will we know it's working? (or how will we measure success?)

A: We have been clear with Partners that we will be conducting 'experiments' across the Partnership in order to push boundaries, learn quickly and share the outcomes as soon as possible, whether successful or not. Equally, we want Partners to feel inspired to start making changes where they work to help us prepare for the future.

If we want to create a virtuous cycle in Performance, Productivity, Pay and Progression, all 4Ps need to work as one to deliver the outcome of better jobs, better performing Partners and better pay. To ensure that we are going in the right direction, we have developed some goals to measure our success against the 4Ps.



"The 4Ps was introduced to me at Partnership Council and I got the opportunity to learn more at the 4Ps expo. I believe 4Ps was created to assist the Partnership in dealing with the challenges our business face. I feel it is immensely relevant to all Partners and I urge all Partners to engage with your democratic representatives to give feedback about the plans."

Khalid Afrah
Technical Support Partner,
Peter Jones and Partnership Councillor

“Performance, Productivity, Pay and Progression have to work in harmony to create a compelling and sustainable way forward for the Partnership. The manifesto describes commitments to help us individually and as an organisation be more dynamic, effective and agile.”

Sir Charlie Mayfield
Chairman



Objectives

Our overall objective is to create better jobs, better performing Partners and better pay. In order to track how we are progressing on this ambition we will use three overarching indicators.

Better jobs

We create meaningful and valued roles that offer the scope for Partners to contribute more and to earn more.

Better performing Partners

We continue to develop Partners' performance in ways that are valued by customers and reflect their responsibility as co-owners.

Better pay

We increase the pay of individual Partners in line with their contribution to creating value.

Goals

At a more practical level, over the next three years we have developed a set of goals we will use to track our momentum against the 4Ps manifesto.

Performance



- Increased proportion of Partners rated as 'Outstanding'
- No Partner 'Developing' or 'Underperforming' for more than a year



Productivity



- Improvement in Partner productivity



Pay



- Better pay



Progression



- Increase diversity
- Increase proportion of Partners moving into a new role either across or up in the Partnership



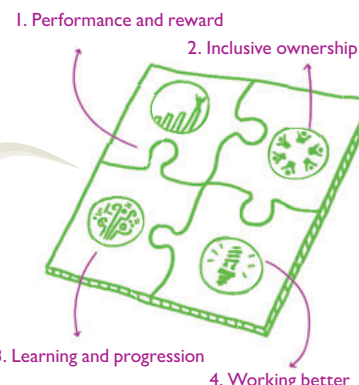
[Find out more about Inclusive Ownership](#)

Our Partner Plan on diversity and inclusion in the Partnership on pages 49 and 50 >

The 4Ps: A manifesto for change (continued)

Moving from our Partner Plan to the 4Ps manifesto will create a virtuous cycle in Performance, Productivity, Pay and Progression

[Partner Plan on page 48 >](#)



Performance

We're co-owned: shouldn't our performance be the best?

We will...

- Be bolder in creating the conditions for outstanding performance
- Become more confident to deal with underperformance decisively
- Embed robust performance management process
- Raise the value of membership by earning it

Productivity

Our business's longer term financial health is reliant on increased productivity.

We will...

- Inspire Partners to get involved in continuous improvement (CI) initiatives
- Embrace technology that enhances productivity
- Encourage truly flexible and curious Partners
- Review our approach to sick absence
- Review our working patterns and mix of part-time and longer-hours Partners
- We will review how we're organised and look for ways to work more efficiently

Progression

Most Partners who increase their pay do so by developing their skills within their current job – 'learning agility' is the key.

We will...

- Be innovative with learning opportunities and experiences
- Take every opportunity to reinforce and develop our 'learning agility'
- Make better use of training and development investment and time
- Provide the right tools and equipment to help Partners make the most of the career opportunities of the Partnership
- Invest wisely in future competitive capabilities

Pay

Where it comes together – individual performance plays a key role in a Partner's rate of pay within their job.

We will...

- Retain Pay for Performance for all Partners
- Keep under review premium payments and other pay-related complexities across our business
- Ensure that the pay review budget is never used as an excuse to avoid an honest performance conversation
- Experiment with financial incentives linked to the performance of teams



Performance

We will...

- **Be bolder in creating the conditions for outstanding performance**
Only 2% of Partners are currently rated 'Outstanding' – aim is to see more Partners truly rewarded for outstanding performance.
- **Become more confident to deal with underperformance decisively**
Make it easier for managers to have meaningful performance conversations with their teams. Processes, policies, advice and learning tools to be reviewed, enabling line managers and Partners to have honest conversations with confidence, with 'on the spot' feedback in the longer term.
- **Embed robust performance management process**
Make it easier for managers to record appraisal ratings as well as introducing a 'zero tolerance' approach to appraisals that are overdue. Every Partner to know how to improve their performance and encouraged to stretch to better levels of performance, resulting in more differentiation across pay ranges.
- **Raise the value of membership by earning it**
New joiners to have a 'meaningful' probationary period – measured not just through time served but linked to a defined performance bar, set at achieving 'Good' in both the How and the What.

We will introduce peer input to our performance reviews at all levels.

Aim is to experiment with peer review contributing to performance reviews at all stages and levels.

Productivity

We will...

- **Inspire Partners to get involved in continuous improvement (CI) initiatives**
Build our CI expertise through projects targeted at improving all types of productivity. Encourage sharing and 'storytelling' to foster passion for improvements beneficial to the Partnership.
- **Embrace technology that enhances productivity**
New technology will lead to greater efficiencies and changes in hours, skills and roles required. We will need fewer Partners, will be more productive and so can pay Partners more. Partners to be helped to embrace new skills/opportunities.
- **Encourage truly flexible and curious Partners**
Partners will be expected to work in different areas at different times and learn new skills that add value. Policies, processes and ways of working to be reviewed to enable greater flexibility.
- **Review our approach to sick absence**
We understand Partners will sometimes need time off of work to help recover from illnesses but need to review how we handle absence from work holistically.
- **Review our working patterns and mix of part-time and longer-hours Partners**
Ensure Partners' hours are more closely aligned with shopping patterns and stock handling peaks. Aim to avoid over-reliance on short-hours Partners and give opportunity to others to work more flexibly, while giving Partners the number of contracted hours they want.
- **We will review how we're organised and look for ways to work more efficiently**

Progression

We will...

- **Be innovative with learning opportunities and experiences**
Aim to run experiments so Partners can experience new and different things plus a number of 'life stage experiments' to support Partners with key transition points e.g. becoming a working parent.
- **Take every opportunity to reinforce and develop our 'learning agility'**
Find meaningful ways to assess learning agility at selection stage and, for current Partners, design learning programmes to grow it. With 70% of learning through new and stretching experiences (not courses), support line managers in creation of everyday experiences that stretch Partners.
- **Make better use of training and development investment and time**
Partners want to develop their skills but the biggest barrier to this is time. Aim to significantly reduce the time taken to do mandatory training and be more efficient with available funds so more can be diverted to support new skills and career development for existing Partners.
- **Provide the right tools and equipment to help Partners make the most of the career opportunities of the Partnership**
It is difficult to navigate around today's bigger Partnership, so clear information will grow Partners' knowledge; defined entry-level positions will make career jumps into different areas easier; self-help tools and career coaches will help Partners make own choices. Active support for moves across Divisions.
- **Invest wisely in future competitive capabilities**
New capabilities can provide more opportunities for Partners to progress. Being clear what we need as a business (together with proactive planning and investment) will ensure, where appropriate, that we build the capabilities that differentiate us instead of recruiting externally.

Pay

We will...

- **Retain Pay for Performance for all Partners**
The key way to reward individual performance. Accounting for likely movements in the National Living Wage, starting rates will be reviewed and pay will be compared to a wide range of competitors; reasons for differences will be clear. Partners to know what they're paid against the market and the pay available for additional performance.
- **Keep under review premium payments and other pay-related complexities across our business**
Layers of 'legacy' arrangements create complexity and make true pay for performance harder to achieve. We have removed premium pay arrangements for new starters.
- **Ensure that the pay review budget is never used as an excuse to avoid an honest performance conversation**
The business is serious about performance being what drives pay. We need to become more comfortable with greater variance on pay review outcomes between Partners and business units, based on performance and productivity growth.
- **Experiment with financial incentives linked to the performance of teams**
Individual performance is already recognised through a Partner's pay but Partners also want recognition for efforts as a team when they achieve exceptional results.

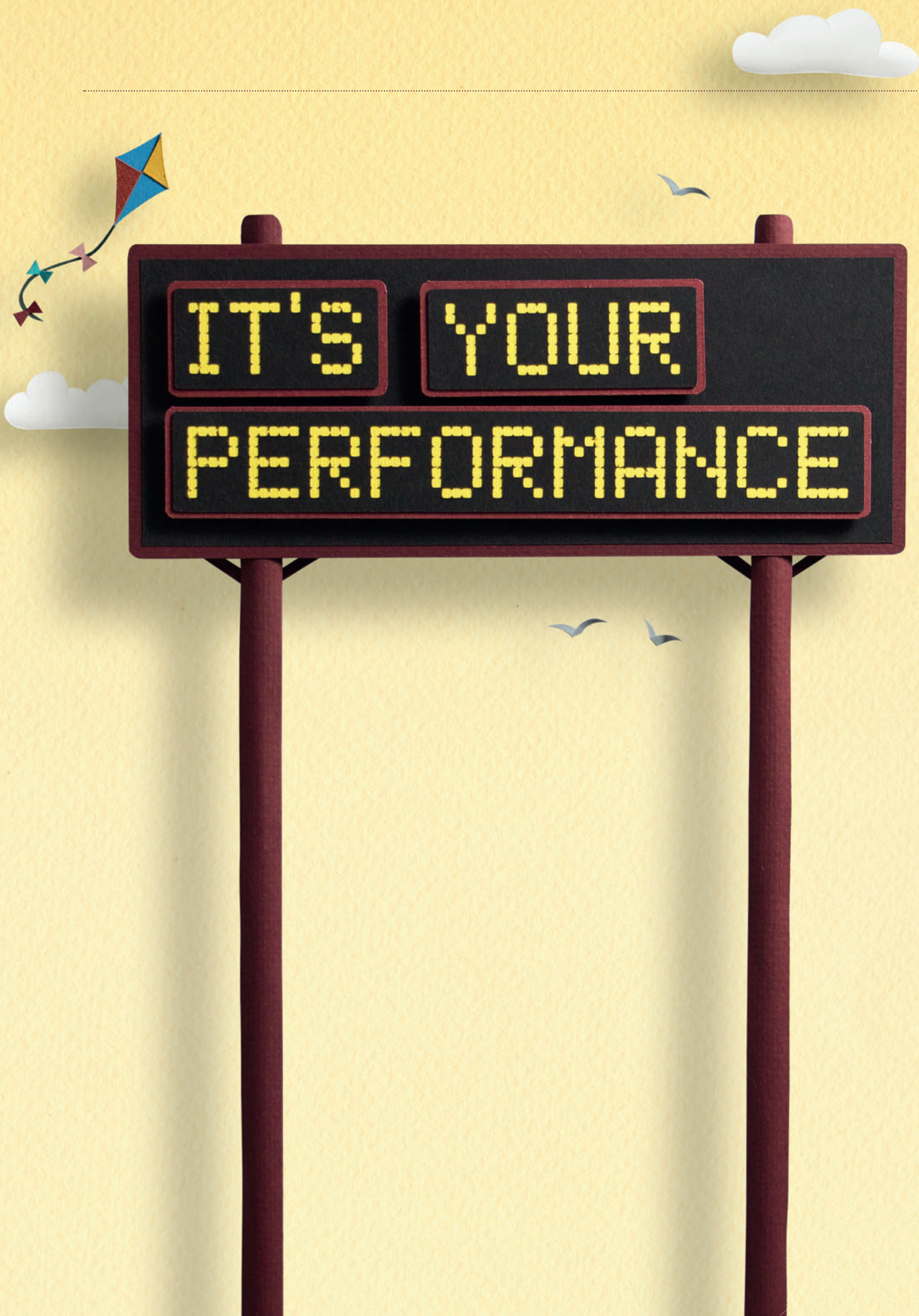
It's Your Performance

During 2015/16, we delivered increases in sales but lower profits and lower Bonus. We continue our focus on Partners, sustainability and strengthening our financial resilience and flexibility.

The following pages detail how the Partnership has performed over the last year, outlining both financial and non-financial performance.

Partnership performance	30
Our progress against the Partnership Aims	32
Our financial KPIs	34
Waitrose performance	36
John Lewis performance	39
Sustainability performance	42
Partner review	48
Partnership Services performance	51
Managing our Partnership risks	52
Our principal risks and mitigations	55



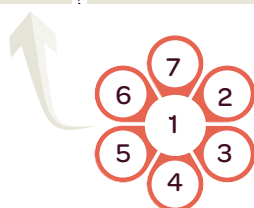


Partnership performance

The Partnership delivered solid sales and increased market share in a challenging retail environment.

Principles in this section

1 Purpose	
2 Power	3 Profit
4 Partners	5 Customers
6 Business relationships	7 The community



Highlights

- Gross sales up 2.5% and revenue up 2.2% on a 52-week basis (0.7% and 0.5% on a 53-week basis)
- Profit before tax, Bonus and exceptional items was £305.5m down 9.3% on a 52-week basis (10.9% on a 53-week basis), in line with expectations; entirely due to higher pension charges arising from volatility in the market-driven assumptions, and lower property profits – excluding these factors, profits up around 9% on a 52-week basis (around 7% on a 53-week basis)
- Operating profit before property profits up £8.7m (3.9%) in Waitrose and £1.8m (0.7%) in John Lewis on a 52-week basis, both impacted by a higher share of central costs as well as restructuring costs in John Lewis
- Including property profits, operating profit down 0.8% in Waitrose and up 0.2% in John Lewis on a 52-week basis (down 2.0% and down 0.1% on a 53-week basis)
- Strong cash generation driven by good cost control, lower capital investment and the sale of the Clearings building
- Net debt of £372.5m, £349.2m (48.4%) lower than January 2015 and consistent with our strategy of a stronger balance sheet
- Pension deficit of £941.6m, £307.7m (24.6%) lower than January 2015
- Partnership Bonus of £145.0m; 10% of salary (equivalent to more than 5 weeks' pay for Partners with us for the whole year) down from 11% in 2014/15

Challenges

- The operating cost of our pension scheme increased by £54.2m (28.4%) to £245.3m
- Deflation in grocery of -2.6% has subdued profitability in the non-food market
- The continued growth in omnichannel trading is driving significant investment to adjust our operating model

Outlook

We started 2016/17 with stronger like-for-like sales, but expect conditions in the market will remain difficult, especially in grocery. Our focus is on strengthening our balance sheet so that we can take full advantage of the opportunities these changes will create to develop our customer offer and our Partners.



“While our profit has declined, market share growth, continued infrastructure investment and a stronger balance sheet have set us up well for future success.”

Patrick Lewis
Group Finance Director

Overview

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

Profit before Partnership Bonus and tax was £434.8m, up 26.1% on last year (up 24.0% on a 53-week basis). This includes exceptional income of £129.3m following the sale of the Clearings building (2014/15: income of £7.9m from release of remaining liabilities following the 2013/14 review of holiday pay policy). Excluding exceptional items, it was £305.5m, down by 9.3% (10.9% on a 53-week basis).

Trading performance

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

Partners

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

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

Investment in the future

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

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

Pensions

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

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

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

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

Financing

At 30 January 2016, net debt was £372.5m, a decrease of £349.2m (48.4%) in the year. The reduction reflects our focus on cash generation driven by good cost control, the reduction in capital investment and the completion of the sale of our Clearings building.

Net finance costs on borrowings and investments increased by £8.5m (16.1%) to £61.3m, reflecting additional finance costs on the £300m bond issued in December 2014. After including the financing elements of pensions and long service leave and non-cash fair value adjustments, net finance costs decreased by £3.0m (3.0%) to £96.6m.

Partners celebrate co-ownership at Partnership Day 2015

Partners were encouraged to try something new which saw them discovering new talents.

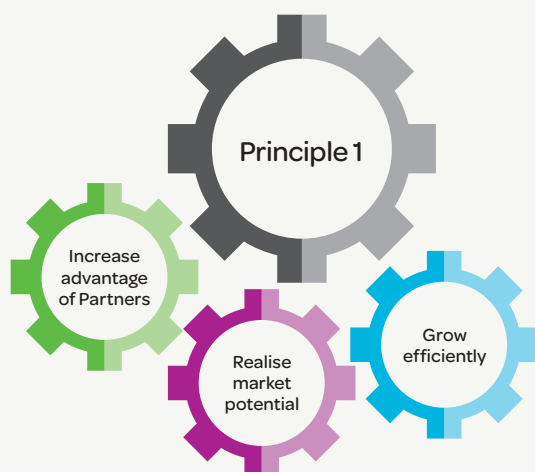


10%
Partnership Bonus
for 91,500 Partners;
equivalent to more
than five weeks' pay



Our progress against the Partnership Aims

This is the final year we have reviewed performance against our three Partnership Aims. In the short-term, Partners will see continuity in our key initiatives, as we transition to our new strategy, It's Your Business 2028.



Increase advantage of Partners

Define and enable the worthwhile and satisfying employment of Partners.



Realise market potential

Deliver a market-leading offer to customers.



Grow efficiently

Generate sustainable returns for the Partnership and appropriate return for Partners' ownership.

Our progress in 2015/16



2,400

John Lewis managers attended development workshops across Retail, Distribution and Head Office.

1,700

Waitrose Partners have completed nearly 7,000 days of specialised training to develop flexible leadership skills in response to changing shopping habits. Invested in our biggest ever training programme for shop managers.



Waitrose launched Pick Your Own Offers. More than 1m customers are now signed up to the service, choosing 10 products on which to save 20% every time they shop.

Invested in our John Lewis IT infrastructure to provide an end-to-end view of customer deliveries as they move through the different stages of order fulfilment.



Opened our first Waitrose National Distribution Centre in Summer 2015 at Magna Park, Milton Keynes which will handle around 25,000 nationally available grocery and home products.

Continued work on our new John Lewis distribution centres in Milton Keynes. Once Magna Park 2 is fully operational, it will provide customers with combined online orders for hanging fashion and small items, so they receive fewer parcels. Magna Park 3 brings the distribution for our larger products to the Milton Keynes area.



John Lewis collections, such as Croft home range, continue to inspire, alongside new launches such as Bruce by Bruce Oldfield, and sim-free mobile phones.

+11%

Click & collect Orders (now 53% of online orders)



There are three strands to our It's Your Business 2028 strategy:

- Stronger brands and new growth
- Better jobs, better performing Partners, better pay
- Financial sustainability

Our future priorities

Divisional strategy and business plans

Waitrose

Modern Waitrose

Our strategy to create Modern Waitrose has Partners at its heart, helping customers enjoy the quality, inspiration and service they trust – whenever, wherever and however they want to shop.

- Efficiency – transforming the way we work
- Being brilliant online
- Building our convenience offer
- Giving customers compelling reasons to visit our branches
- Deepening relationships with our customers
- Inspiring products and reassurance on value

John Lewis

Be the Revolution

Our strategy, Be the Revolution, is focussed on John Lewis cementing itself as Britain's leading omnichannel retailer. We will do this by empowering Partners, driving productivity, inspiring customers and delivering a seamless customer experience.

- Empower Partners to lead a winning organisation
- Create an inspiring targeted proposition
- Deliver a seamless customer experience
- Drive productivity in everything we do

Partnership Services

Underpinning the Divisional strategies, Partnership Services will continue to help the Partnership become more productive.

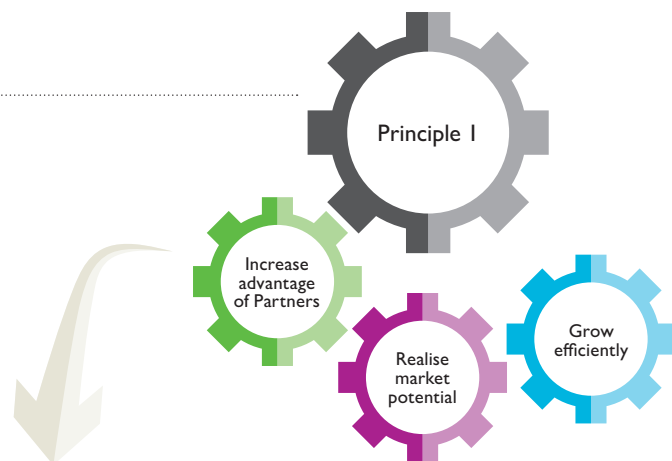
Our financial KPIs

Across the Partnership, we focus on a number of financial KPIs to identify trends in the trading performance of both Waitrose and John Lewis. These KPIs are designed to help us measure and understand our performance and reflect the Partnership Aims. Over the coming year, we will review our KPIs to align them with It's Your Business 2028.

Definition	Why we use this measure	Commentary	How we have performed												
Increase advantage of Partners															
Gross sales per average FTE															
Gross sales divided by the average number of full time equivalent Partners.	Gross sales per average FTE is an indicator of productivity within the Partnership. A higher result denotes higher productivity.	Gross sales per average FTE increased, reflecting improvements in both Waitrose and John Lewis as the year-on-year sales growths were achieved alongside tight management of headcount.	<div>Gross sales per average FTE £000</div> <table><tr><th>Year</th><th>Gross sales per average FTE £000</th></tr><tr><td>2012</td><td>170.7</td></tr><tr><td>2013</td><td>179.2</td></tr><tr><td>2014</td><td>182.0</td></tr><tr><td>2015</td><td>181.6*</td></tr><tr><td>2016</td><td>187.1</td></tr></table> <div>* 52-week basis.</div>	Year	Gross sales per average FTE £000	2012	170.7	2013	179.2	2014	182.0	2015	181.6*	2016	187.1
Year	Gross sales per average FTE £000														
2012	170.7														
2013	179.2														
2014	182.0														
2015	181.6*														
2016	187.1														
Partnership profit per average FTE															
Profit before Partnership Bonus, tax and exceptional items divided by the average number of full time equivalent Partners.	Measures the profit generated per average FTE. This is useful to assess whether we are growing efficiently.	Partnership profit per average FTE decreased compared to last year, entirely due to higher pension costs arising from volatility in the market-driven assumptions, and lower property profits.	<div>Partnership profit per average FTE £000</div> <table><tr><th>Year</th><th>Partnership profit per average FTE £000</th></tr><tr><td>2012</td><td>6.9†</td></tr><tr><td>2013</td><td>6.4</td></tr><tr><td>2014</td><td>6.7</td></tr><tr><td>2015</td><td>5.7*</td></tr><tr><td>2016</td><td>5.2</td></tr></table> <div>* 52-week basis. † Not re-stated for IAS 19 (revised).</div>	Year	Partnership profit per average FTE £000	2012	6.9†	2013	6.4	2014	6.7	2015	5.7*	2016	5.2
Year	Partnership profit per average FTE £000														
2012	6.9†														
2013	6.4														
2014	6.7														
2015	5.7*														
2016	5.2														
Realise market potential															
Gross sales growth %															
<div>Gross sales growth</div> <p>Percentage increase in gross sales during the reporting period. Gross sales is defined on page 109.</p> <div>Like-for-like sales</div> <p>Like-for-like sales is 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.</p>	Sales growth is a key retail measure, and we use it to establish how the John Lewis Partnership is performing against the overall market. It also measures our aim to achieve long-term sustainable growth.	In the year, Waitrose and John Lewis grew sales ahead of their respective markets, increasing their market shares. Waitrose outperformed the Kantar Grocery Market by 2.7% and John Lewis outperformed the BRC Retail Index by 1.5%.	<div>Gross sales growth %</div> <table><tr><th>Year</th><th>Gross sales growth %</th></tr><tr><td>2012</td><td>6.4</td></tr><tr><td>2013</td><td>9.3</td></tr><tr><td>2014</td><td>6.6</td></tr><tr><td>2015</td><td>5.7</td></tr><tr><td>2016</td><td>2.5</td></tr></table> <div>Like-for-like (%)</div> <div>Waitrose* -1.3%</div> <div>John Lewis +3.1%</div> <div>* Excludes petrol sales.</div>	Year	Gross sales growth %	2012	6.4	2013	9.3	2014	6.6	2015	5.7	2016	2.5
Year	Gross sales growth %														
2012	6.4														
2013	9.3														
2014	6.6														
2015	5.7														
2016	2.5														

52 v 53 weeks?

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



Definition	Why we use this measure	Commentary	How we have performed												
Realise market potential															
Partnership profit margin %															
Profit before Partnership Bonus, tax and exceptional items expressed as a percentage of revenue.	Measures whether profitability is changing at a higher or lower rate relative to revenue.	Partnership profit margin decreased year-on-year, entirely due to higher pension costs arising from volatility in the market-driven assumptions, and lower property profits.	<div>Partnership profit margin %</div> <table><thead><tr><th>Year</th><th>Partnership profit margin %</th></tr></thead><tbody><tr><td>2012</td><td>4.6*</td></tr><tr><td>2013</td><td>4.1</td></tr><tr><td>2014</td><td>4.2</td></tr><tr><td>2015</td><td>3.5</td></tr><tr><td>2016</td><td>3.1</td></tr></tbody></table> <p>* Not re-stated for the adoption of IAS 19 (revised).</p>	Year	Partnership profit margin %	2012	4.6*	2013	4.1	2014	4.2	2015	3.5	2016	3.1
Year	Partnership profit margin %														
2012	4.6*														
2013	4.1														
2014	4.2														
2015	3.5														
2016	3.1														
Cash flow from operations £m															
Measure of how much cash has been generated by the Partnership's business operations.	Identifies whether the Partnership is generating sufficient positive cash flow to maintain and invest in our operations, or whether external financing may be required.	Cash flow from operations has improved by £41m (5%), principally due to reduced level of deficit pension contributions following the pre-payment of almost seven years of these through the £294m additional contribution last year.	<div>Cash flow from operations £m</div> <table><thead><tr><th>Year</th><th>Cash flow from operations £m</th></tr></thead><tbody><tr><td>2012</td><td>759*</td></tr><tr><td>2013</td><td>979*</td></tr><tr><td>2014</td><td>773*</td></tr><tr><td>2015</td><td>876</td></tr><tr><td>2016</td><td>917</td></tr></tbody></table> <p>* Not re-stated for change in accounting of certain cash in transit balances (see note 1).</p>	Year	Cash flow from operations £m	2012	759*	2013	979*	2014	773*	2015	876	2016	917
Year	Cash flow from operations £m														
2012	759*														
2013	979*														
2014	773*														
2015	876														
2016	917														
Grow efficiently															
Return on invested capital (ROIC) %															
Post tax profit, adjusted for non-operating and exceptional items, as a proportion of average operating net assets, adjusted to reflect a deemed capital value for property lease rentals.	Measures how efficiently the Partnership uses the capital invested in our operations. ROIC is a useful metric to assess the long-term value creation by our business.	ROIC has decreased due to the decline in profits from the higher pension costs arising from volatility in the market-driven assumptions.	<div>Return on invested capital (ROIC) %</div> <table><thead><tr><th>Year</th><th>Return on invested capital (ROIC) %</th></tr></thead><tbody><tr><td>2012</td><td>7.0*</td></tr><tr><td>2013</td><td>8.0*</td></tr><tr><td>2014</td><td>8.3*</td></tr><tr><td>2015</td><td>7.7</td></tr><tr><td>2016</td><td>7.1</td></tr></tbody></table> <p>* Not re-stated for change in accounting of certain cash in transit balances (see note 1).</p>	Year	Return on invested capital (ROIC) %	2012	7.0*	2013	8.0*	2014	8.3*	2015	7.7	2016	7.1
Year	Return on invested capital (ROIC) %														
2012	7.0*														
2013	8.0*														
2014	8.3*														
2015	7.7														
2016	7.1														

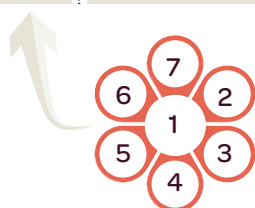
Waitrose performance

Waitrose

In the challenging grocery market, our Modern Waitrose strategy focusses on customers, convenience, value and efficiency.

Principles in this section

1 Purpose	
2 Power	3 Profit
4 Partners	5 Customers
6 Business relationships	7 The community



Highlights

- Operating profit before property profits up 3.9% (2.5% on a 53-week basis), resulting from effective management of costs and a focus on efficiency
- Gross sales up by 1.1% to £6.5bn (down 0.7% on a 53-week basis), with like-for-like sales down 1.3%
- Increased market share¹ and outperformed market on sales for 80 consecutive months
- 12 new Waitrose branches and a new .com fulfilment centre in Coulsdon, with two branches closed
- National Distribution Centre opened
- Launched Pick Your Own Offers scheme

¹ Kantar 12-week Grocery data.

Challenges

- Challenging market with grocery price deflation of -2.6%
- Significant changes in the way in which customers are shopping

Outlook

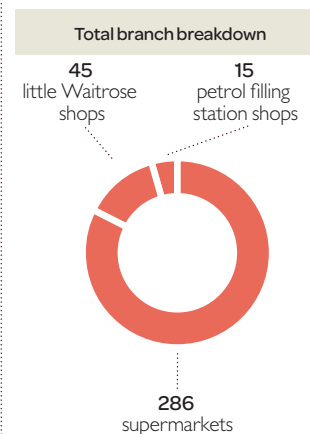
The market is expected to remain challenging. However, we continue to make good progress with our Modern Waitrose strategy and have another 10 branch openings planned for next year, including five little Waitrose shops. The next generation of hospitality trials is also planned in the year ahead.



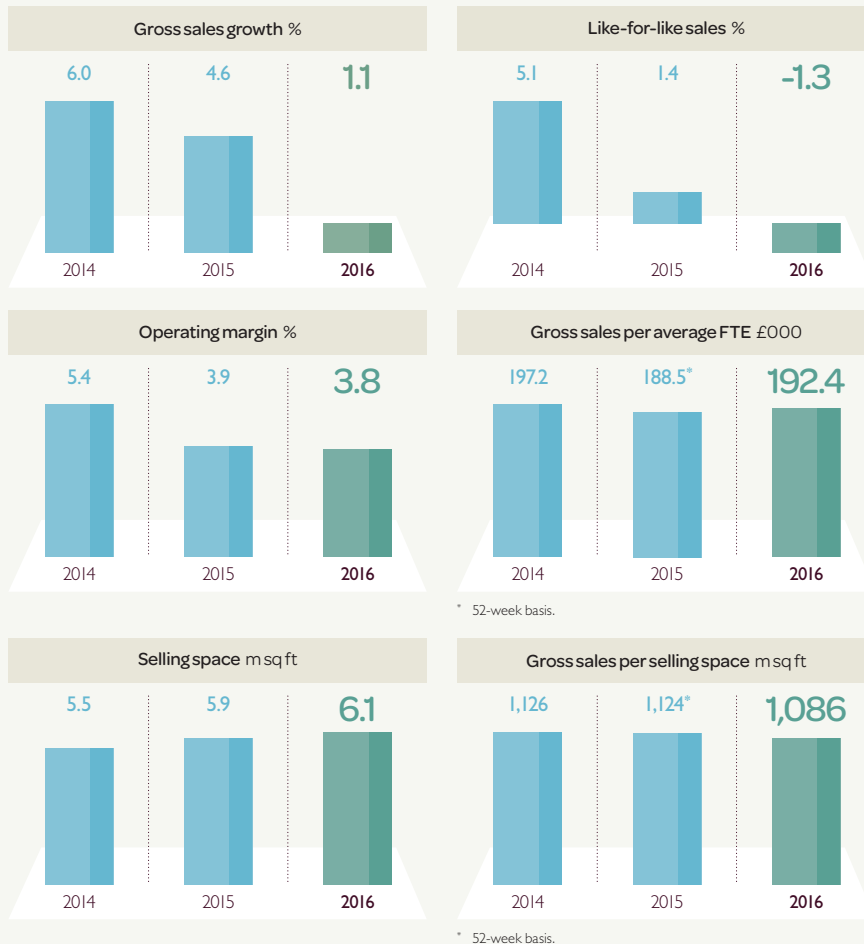
“Winning customers, gaining market share and growing profit in this tough market is a tribute to the hard work of everyone in Waitrose.”

Lord Price
Former Managing Director, Waitrose

346 branches



Performance against Divisional KPIs



Cash from operations
down 20.9% 2015: £559.8m

£443.0m

Capital expenditure
down 42.2% 2015: £388.5m

£224.5m

Overview

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

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

Market

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

Pick Your Own Offers

Our ground-breaking Pick Your Own Offers scheme launched in June 2015.

Top picks since launch:

1. essential Waitrose bathroom tissue, white
2. Waitrose Blacktail free range eggs, large (x6)
3. Waitrose cherry vine tomatoes
4. essential Waitrose British chicken breast fillets
5. Waitrose Scottish Salmon fillets

Waitrose at King's Cross

In September, we opened our King's Cross branch and third cookery school in a restored Grade II-listed Midland Goods Shed. Among other features, the branch includes a working beer pump supplied by Camden Brewery, a wine bar and a selection of cooking classes run from the Cookery School.



Fair price for milk

For many farmers, falling prices paid for their products are leading to an uncertain future for their businesses. In a tough trading environment, we have continued to source our milk from a closed producer group of 73 farmers and pay one of the highest prices per pint in the market. This price has been set taking into account the cost of production and investing in the future of their farms.



Waitrose performance (continued)

Customers

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

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

Online

Building our online business included opening our first purpose-built .com fulfilment centre in Coulsdon in March 2015; this increased capacity in London by one-third. Online grocery gross sales were down 2.9% (on a 52-week basis), held back by the first half of the year when sales were down 13.0%, impacted by a strong promotion-driven performance last year. Sales accelerated in the second half of the year, up 8.3%. The Waitrose Kitchen website was launched in October with over 3,000 lines of cookware, bakeware and gadgets. In total our Direct Services sites saw sales growth of 21%.

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

Products

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

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

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

Branches

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

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

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

“The market continues to change and to challenge but our Partners and our Modern Waitrose strategy give us a strong, differentiated position.”

Rob Collins

Managing Director, Waitrose

Rob Collins has succeeded Lord Price as Managing Director, Waitrose. Rob has been with the Partnership for 22 years, initially with John Lewis in a number of senior roles before moving to Waitrose in 2007 to establish its e-commerce business. In 2010 Rob was appointed Personnel Director and in early 2012 was appointed Retail Director.



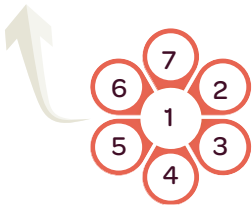
John Lewis performance

John Lewis

Despite uncertain trading conditions, John Lewis has continued to outperform the market as we respond to changing customer expectations.

Principles in this section

1 Purpose	
2 Power	3 Profit
4 Partners	5 Customers
6 Business relationships	7 The community



Highlights

- Operating profit before property profits up 0.7% (0.4% on a 53-week basis), impacted by a higher share of centrally incurred functional costs as well as restructuring costs
- Gross sales up by 4.4% to £4.6bn (up 2.8% on a 53-week basis), with like-for-like sales up 3.1%
- Sales growth and market share increase in all three product areas: Fashion, Home and Electrical Home Technology
- Continued investment in shops – increasingly becoming places of inspiration and leisure destinations
- Work progressing on third distribution centre at Magna Park, Milton Keynes

Challenges

- Challenging market with subdued demand in non-food
- Shopping patterns have shifted quicker than anticipated and are driving changes in the way our business operates
- Significant operations needed to support omnichannel investment

Outlook

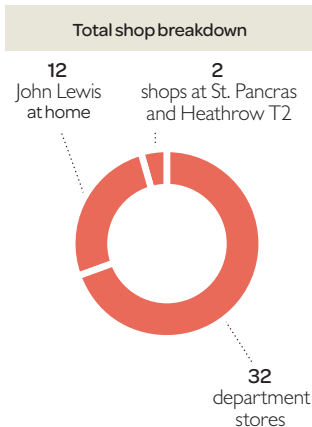
Our response is to continue with our omnichannel strategy with the opening of Leeds and Chelmsford shops and the refurbishment of Edinburgh, and the opening of two major distribution centres in Milton Keynes, supported by significant investment in our technology infrastructure.



“Our financial performance was a result of the effective combination of shops and online, demonstrated by the fact that more than three-quarters of our customers shopped in one of our shops.”

Andy Street CBE
Managing Director, John Lewis

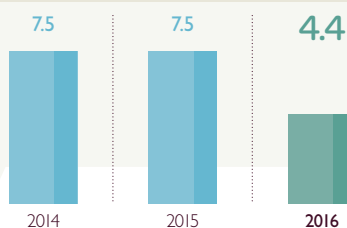
46 shops



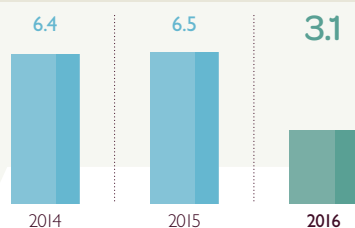
John Lewis performance (continued)

Performance against Divisional KPIs

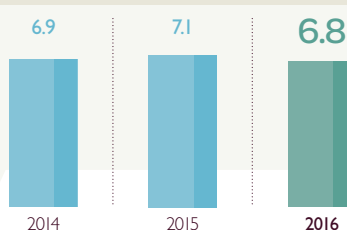
Gross sales growth %



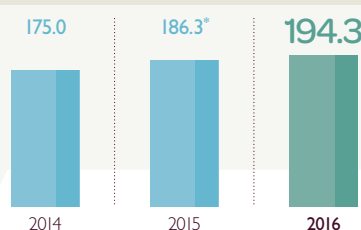
Like-for-like sales %



Operating margin %

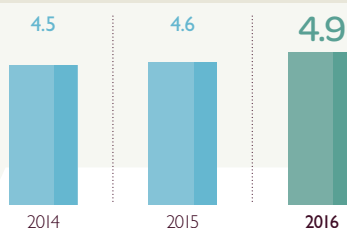


Gross sales per average FTE £000

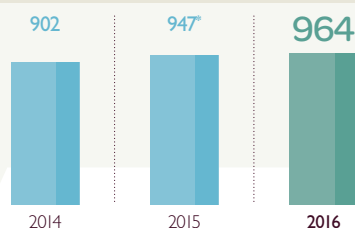


* 52-week basis.

Selling space m sq ft



Gross sales per selling space m sq ft



* 52-week basis.

Cash from operations
up 16.0% 2015: £372.0m

£431.6m

Capital expenditure
down 1.8% 2015: £231.9m

£227.7m

Overview

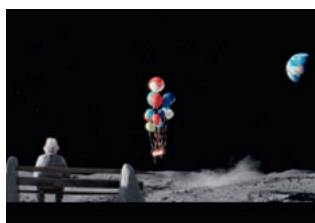
John Lewis has continued to outperform the market in uncertain trading conditions, with gross sales up 4.4% to £4.6bn (2.8% on a 53-week basis). To ensure that customers can shop with us whenever and however they want, we have continued to invest in our shops, website and infrastructure. Operating profit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

Customers and shops

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

35m

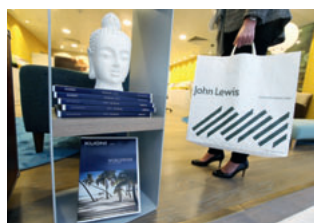
views of Christmas
advert across all
social media channels



+46%

Kuoni holidays booked
in John Lewis

Today, the department store is about more than just completing a transaction. We now have 12 Kuoni concessions with new openings in Birmingham and Newcastle in 2015/16



+32.1%

my John Lewis programme
increased numbers to
1.8 million customers



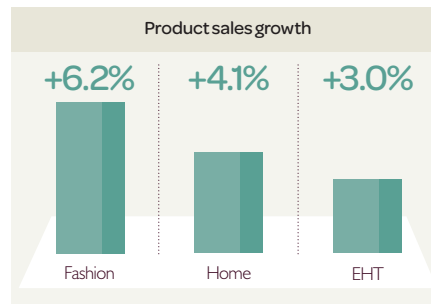
Our shops are increasingly becoming places of inspiration and leisure destinations. In Birmingham, we opened our first full-line department store for four years, with brand new concepts including our fashion-led lifestyle concept loved&found, and the first ever &Beauty spa. We invested £14m in a brand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

Products

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

- Fashion was up 6.2%, confirming our strategy of combining signature own-labels, an edited selection of brands and exclusive collaborations. Menswear was up 8.8% and Womenswear was up 6.5%
- Sales in Home were up by 4.1%. Our in-house collections including the House and Croft ranges complement the best of design from the industry, and we are building our personalisation offer to allow customers to create bespoke interiors. This year we also launched US brand West Elm at our Oxford Street shop

→ Electricals and Home Technology (EHT) had a much stronger second half, ending the year up 3.0%. Technology sales this year were characterised by increasing customer demand for 'smart' products, along with premium and design-focussed technology. Our mobile phone business also continues to win market share in the sim-free market



Growth

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

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

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

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

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

Charter in Leeds

John Lewis, Leeds City Council and Hammerson signed an Employment and Skills Charter in October 2015, marking a commitment to helping Leeds residents access more than 1,000 new employment opportunities as part of the £165 million Victoria Gate development



John Lewis opens in Birmingham

John Lewis Birmingham opened in September and at 250,000 sq ft is our largest shop to have opened in four years. Several brand new services and concepts launched in Birmingham, including our new fashion and lifestyle concept

loved&found and our first ever John Lewis branded spa, &Beauty. The shop has key energy saving features such as LED lighting and low-carbon heating and cooling systems



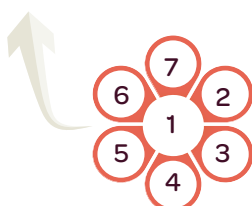
Sustainability performance

Taking a long-term perspective – on issues such as the proliferation of technology, resource scarcity, climate change, health and wealth inequality – helps us to have a clear view of the things we need to do today to be successful in the coming years.

Principles and Rules in this section

1 Purpose	
2 Power	3 Profit
4 Partners	5 Customers
6 Business relationships	7 The community

→ Sourcing responsibly – Rule 96
→ Our Environment – Rule 109



Highlights

- Developed Waitrose's health product strategy and continued to reformulate food and drink lines, with a particular emphasis on sugar in soft drinks
- Invested £12.2m¹ in our communities through Partner time, cash and in-kind donations
- Developed stronger supplier relationships and a deeper understanding of our supply chains
- Completed a detailed review of our approach to human rights in our supply chains and produced our inaugural Human Rights Report
- Waitrose awarded Compassion in World Farming Retailer of the Year Award for the fifth time
- Energy consumption (kwh per sq ft) reduced by over 5%¹ and achieved our target to divert 98.0% of our waste from landfill

¹ Data extracted from www.johnlewispartnership.co.uk/csr which was included within KPMG LLP's independent limited assurance scope see www.johnlewispartnership.co.uk/csr for their full opinion.

Challenges

- Operating as efficiently as possible in a world where natural resources are becoming scarcer; the legislative landscape is complex, and energy and commodity costs are volatile.
- Influencing in areas beyond our direct control, such as supply chains and the market for healthier food and drink, where the whole industry has to do more to find and implement solutions
- Securing transparent, long-term sustainable supply chains as competition intensifies in the marketplace
- Identifying where our investment in communities has the most significant impact for society and for our business

Outlook

Our targets and commitments will challenge us to further embed sustainability throughout our operations. This will be supported by strengthened governance arrangements.



“Maintaining commercial success requires a real commitment to doing business responsibly. For Waitrose, this commitment is not only driven by good economics, but also by the Partnership spirit and a sense of doing the right thing.”

Mark Williamson
Commercial Director, Waitrose

How do we manage sustainability in the Partnership?

We have refreshed our governance arrangements to ensure they provide strategic direction and a sound system of internal control.

In 2015/16, oversight of Corporate Responsibility became the remit of a newly created Corporate Responsibility Committee. The Committee, chaired by an independent Non-Executive Director, comprises an additional Non-Executive Director; two Elected Directors, an external independent member, and the Partners' Counsellor.

How did we identify our material sustainability issues?

Our materiality process, which began in 2014, has enabled us to prioritise the issues that are most important to our business. This has helped us to plan and invest accordingly. We worked with consultants EY to design a process that would allow us from the outset to engage Partners across the business in capturing issues of interest and concern.

We applied a structured methodology to quantify the relative importance of these issues. This involved an analysis of our operating environment and our business model, combined with interviews with senior managers across the business. We then consolidated issues into key categories producing a long list of issues which were scored in Divisional workshops using four lenses.

Customers: Relevance of issue to purchasing patterns of our customers

Commercial: Impact of management of issue on our operational or commercial performance

Future Impact: 'Horizon scanning' to identify whether issues are likely to increase or decrease in importance and assessment of their likely impact

Stakeholders: Interest among other stakeholders and Partners in the issue and impact of the issue on our reputation

The output was then validated through stakeholder interviews (with suppliers, NGOs, community organisations, Government, Industry and Trade Associations and Partners) in order to obtain feedback on their current understanding of material issues.

What are material issues?

We supply goods and deliver services to millions of customers. We source products from all over the world, operate in hundreds of different communities across the UK, and provide direct employment to 91,500 people. This reach means our business has a wide range of social and environmental impacts. Material issues are those factors that could impact the business in the short, medium or long-term, and which are of importance to our stakeholders.

Our material sustainability issues

Our Partners

Page 48 >



- Pay
- Performance
- Productivity
- Progression
- Inclusive ownership
- Health and wellbeing

Our customers

Page 44 >



- Healthy lifestyles
- Safe products

Our Communities

Page 45 >



- Community involvement and charity support

Sourcing responsibly

Page 46 >



- Human Rights
- Raw materials
- Animal welfare
- Sustainable farming
- Fair trade terms
- Buying British
- Security of supply
- Responsible aquaculture and fisheries

Our Environment

Page 47 >



- Operational emissions
- Waste

For more information

The relative importance of these issues to each business Division is reflected in our reporting. We have published newly set targets under each area and highlight key actions we are taking to tackle our most material issues in our more detailed online report.

www.johnlewispartnership.co.uk

"Our customers expect the best quality products. For us, quality includes how a product is sourced, the human rights of those who make it and consideration for its environmental impact."

Craig Inglis
Customer Director, John Lewis



Sustainability performance (continued)

Our customers

The 21st century has seen an unprecedented shift in consumer behaviour – driven by technology and rising disposable incomes. While outstanding value, choice and service continue to be at the heart of our customer offer, we know that in a competitive marketplace, loyalty will depend on a number of increasingly complex factors.

In practice, this means our technical teams maintain rigorous product safety processes and food standards. Waitrose's dedicated nutrition team also works with suppliers to improve the nutritional value of the food we sell, and to encourage and enable customers to adopt a healthier lifestyle.

Healthy lifestyles

In 2015, we focussed on developing a robust health product strategy to help us meet our customers' diet and health requirements within the context of an overall balanced intake. At the same time, we aim to ensure that we are communicating the benefits more clearly to customers through our publications, online and on products.

Online and in store, we provide practical help and advice and run campaigns throughout the year to promote healthy choices. Dietary advice for customers with particular needs remains central to our nutrition advice service.

Being diagnosed with a condition such as coeliac disease or diabetes can lead to confusion about which products are suitable to eat. We invite groups of customers with specific health needs along with healthcare professionals to use our stores for interactive advice sessions. Guided shopping to support special diets is particularly popular. We have created an accompanying resource pack for coeliac disease, diabetes and heart health. These include easy-to-use shopping lists for these conditions.

In 2015, our qualified nutritionists ran a slimming club trial at our local branch in Bracknell, open to Partners and customers and resulted in an average weight loss of 7lb. We plan to trial an online version in 2016 to reach more customers at a time that suits their needs.

Product safety

We are committed to ensuring that every product we sell is safe. Technologists in our buying teams provide expert guidance on consumer legislation and are responsible for ensuring we maintain rigorous supplier approval and product safety processes.

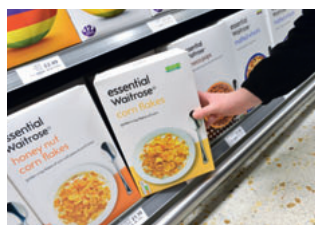
In 2015/16, John Lewis formed the Product Safety Working Group to review our product safety procedures to ensure they remain fit for purpose, and to identify areas for improvement. We also worked with the British Retail Consortium to introduce additional labelling and testing requirements for children's fancy dress outfits. At Waitrose, we made significant progress in partnership with our dedicated chicken supplier to reduce the presence of the bacteria *Campylobacter* – the UK's leading cause of food poisoning – on whole fresh chickens.

Our priorities

- Developing our health product strategy
- Promoting continuous improvement to safety standards through our quality and technical working groups

Focus on sugar

In 2015, at Waitrose we continued to drive reformulation, with a particular emphasis on sugar in soft drinks. In 2016, our efforts will be directed towards breakfast cereals, yoghurts and bakery. We aim to reduce sugar in our range of breakfast cereals during 2016 by removing nearly two tonnes or more than 7.5 million calories.



The Ultimate Cholesterol Lowering Plan (UCLP®)

During HEART UK National Cholesterol Month in October, we created a short video in collaboration with Alpro and HEART UK. This offered practical help and advice about lowering cholesterol and maintaining a healthy heart.



Jules Payne, Chief Executive HEART UK

"By hosting the Ultimate Cholesterol Lowering Plan® shopping tour on both the Waitrose and HEART UK websites we were able to reach far more people than either of us could do alone, with some great simple heart healthy advice. We relished working with Waitrose and Alpro to develop this great resource for shoppers."



Our communities

We believe that the most meaningful way we can contribute to the wellbeing of the communities in which we operate is by understanding their needs and drawing on our strengths to make a lasting difference.

How we invest

This year we invested £12.2m¹ in communities, equivalent to 4%¹ of our pre tax profits. We encourage decision making at a local level – supporting Partners to invest their time, skills, resources and expertise into communities where they live and work. At the same time, we run centralised programmes that support our brand activity and motivate Partners to get involved.

Seedlings to seniors

During 2015/16, both of our Divisions delivered programmes, in Partnership with national charities and organisations, that complement the school curriculum, empower young people, and provide access to support networks for older people.

At John Lewis, our flagship education programme, Bringing Skills to Life, provides schools with access to curriculum resources and Partner volunteering time. It now has 3,000 schools, nurseries and children's groups registered.

Waitrose's successful 'Grow and Sell' programme is now in its third year. In 2015/16, stores continued to team up with local primary schools, providing kits containing seeds, equipment and growing instructions to get school allotments and vegetable patches up and running. The scheme has now reached almost 250,000 school children.

Barnardo's and John Lewis united this year to support young carers and young people leaving care through fundraising activities in branch and special merchandise sales. This will help fund the charity's ongoing work – including staffing costs, extra support for young carers outside care duties and employment advice.

To celebrate the popularity of the John Lewis 'Man on the Moon' Christmas advert, Partners were involved in a number of fundraising and volunteering events for Age UK. In collaboration with Waitrose as part of its isolation campaign, John Lewis branches also supported Christmas events, such as Christmas lunches at their local Age UK.

Investing in supplier communities overseas

The Waitrose and John Lewis Foundations exist to allocate investment in communities overseas in our key sourcing regions. The Waitrose Foundation, supporting fresh produce growers in Ghana, Kenya and South Africa, celebrated its tenth year in 2015. Since it was launched, it has

reached over 100,000 people in our fresh produce supply chains. The strength of this model is in empowering communities to decide how the money is spent on local educational, social and healthcare projects. Waitrose and the Fairtrade Foundation also announced a new partnership that will see them share best practice and a joint ambition to build upon sustainable supply chain models.

The John Lewis Foundation invested further in projects aimed at improving livelihoods and access to education in India.

Following a pilot in 2013 with Geosansar, the Foundation has committed to investing in further financial literacy training and access to bank savings accounts for factory workers in Delhi.

Our tax contribution

The Partnership recognises that collecting and paying tax is an important contribution to the economies and communities in which we operate. In 2015/16, over £338m in taxes were borne by the Partnership and a further £718m collected.

Our priority

→ Identifying social return on investment so that we can build on where we make a real difference

The Golden Jubilee Trust

The Golden Jubilee Trust is our flagship volunteering programme. We give Partners the opportunity to volunteer full or part-time with a UK registered charity for up to six months, on full pay. Since it launched in 2000, Partners have dedicated 297,000¹ hours to over 700 charities. These span causes such as youth education, care for people in need, environmental protection and the arts.

In 2015 we began to measure the impacts of the scheme on developing secondees' skills back in the workplace as well as the impact on the charities involved.

Emma Blaikie, Selling Assistant at John Lewis Edinburgh won the Scottish Business in the Community Employee Volunteer of the Year 2015 for her successful secondment to Bloodwise. As well as raising money through her planning and execution of its Winter Walk, raising £9,000 for the charity, she devoted her time to highlighting its work. "I got so much more out of it than I ever thought I would" says Emma. "I grew in confidence and my efforts were recognised." She has since become an ambassador for the charity.



Principle 7

The community

£12.2m

invested in our communities¹
(cash, time, in-kind, management costs)

¹ Data extracted from www.johnlewispartnership.co.uk/csr which was included within KPMG LLP's independent limited assurance scope. See www.johnlewispartnership.co.uk/csr for their full opinion.



Sustainability performance (continued)

Sourcing responsibly

Population and economic activity is continuing to grow. Global power is shifting to new emerging markets and the competition for resources is becoming more intense. Our approach is to secure long-term sustainable supply chains based on fair and transparent trade conditions. This means we can continue to provide our customers with quality products they can trust.

Working with experts, we are gaining a more sophisticated understanding of our supply chains, the people who work in them and the raw materials and ingredients used in our products. At the same time, we continue to lead the industry in our approach to animal welfare and supplier relationships.

Sourcing the best products

As a minimum, all suppliers of our own-brand products containing timber and paper must provide assurance that these are from legally harvested and traded materials. At John Lewis, 23% (by volume) is from verified responsible and sustainable sources*. We are working towards increasing this to 100% by year-end 2020/21. Over the past year, we strengthened our due diligence systems and focussed our efforts on completing a full supply chain mapping exercise in order to understand how we might achieve this aim.

*As defined by the John Lewis timber policy at www.johnlewispartnership.co.uk

We are also developing programmes to move cotton, leather, feather and down to verified sustainable alternatives. We have a target that by year-end 2020/21, 50% of cotton, by volume, will come from certified sustainable sources. To achieve this, we are implementing a number of key changes to our sourcing strategy. This includes improving our data collection systems, working with key suppliers to update product specifications, and aiming for a full phase-out of conventional cotton in key categories.

At Waitrose, our focus has been to work collaboratively with experts to develop innovative alternative protein sources for animal feed that have lower associated environmental impacts.

We are also aiming for independent certification of all own-brand seafood by year-end 2016/17. We are close to achieving this at 82% (by volume). We were awarded the Best Fish Counter for the second year running by the Marine Stewardship Council. We are involved in a number of initiatives, in partnership with the fishing and aquaculture industries, focusing on protection of the marine environment and overcoming common industry challenges such as discard practices, fish welfare and working practices on fishing vessels.

Investing in British farming

We want to create a stronger brand for British food and drink, so Waitrose has a policy to source British food when products are in season and at the peak of freshness and flavour. Approximately 70% (by weight) of fresh vegetables and all fresh chicken, beef, pork (including sausages) bacon, duck, goose, eggs and milk is sourced from within the UK.


Our investment in farmers ensures that our high standards are met, that we have a stable and continuing supply base, and that we have the opportunity to promote innovation, research and development to increase productivity. Our Waitrose Farm Assessment is a collaboration of a diverse range of suppliers, growers of fresh produce and a range of research providers. We are pleased in particular to have made considerable progress in the areas of soil preservation, biodiversity plans and water optimisation. In the future, we will place greater emphasis on waste and energy management to reduce reliance on fossil fuels. Our Livestock Steering Group has developed a similar model for meat, dairy and eggs.

Our priorities

- Improve insight into labour standards issues and develop collaborative projects with strategic suppliers to tackle root causes
- Moving more raw materials to responsible and sustainable alternatives

Focus on human rights

In 2015, we carried out a detailed review of our approach to respecting human rights, drawing on stakeholder insight, the United Nations Guiding Principles on Business and Human Rights (UNGP) and a detailed analysis of our potential business impacts. We have published a more detailed report to share our human rights strategy drawing on the UNGP reporting framework.

 This can be downloaded at www.johnlewispartnershipco.uk/csr



Animal welfare

With increasing public concern over welfare and provenance, we are setting a benchmark for the industry in our approach to being open and transparent about our livestock supply chain, and encouraging suppliers to meet our standards. We are proud that in recognition of this we have won the Compassion in World Farming Retailer of the Year Award for the fifth time and maintained our Tier 1 global status in the Business Benchmark for Farm Animal Welfare.



70%
of fresh vegetables

(by weight) sourced from within the UK



Our environment

In a resource-constrained world with challenging and changing legislative landscapes, our aim is to develop the Partnership in the most efficient and considerate way. Over the course of 2015/16, our physical estate has grown. We have opened 15 new shops, a new dotcom fulfilment centre and a National Distribution Centre. We have also continued to adapt our distribution network as we respond to ever-changing customer needs.

Our carbon strategy

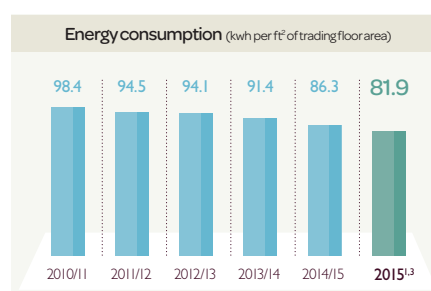
We are committed to increasing the energy efficiency of our buildings, continuing to purchase low carbon energy and finding more efficient ways to distribute our goods. We have developed a number of targets which focus on improving energy performance, refrigeration management and transport operations. Our overarching aim is to achieve a 65% reduction in carbon intensity (tonnes per £m sales) by 2020/21 against a 2010 baseline. This new carbon target has been revised taking into account a recent change to the Global Greenhouse Gas Protocol. So far we have achieved a 57.3%¹ reduction against 2010 levels and over the past year, we have reduced our energy consumption (kwh per ft² trading floor area) by over 5%¹.

In 2015 we updated our Responsible Development Framework for our buildings, to reflect emerging trends and further embed it within our design and construction processes. John Lewis Birmingham, for example, which opened in September, is designed to be our

most energy-efficient full-line department store, utilising LED lighting and low-carbon heating and cooling systems.

In 2015 we ran an extensive programme to reduce the CO₂e associated with our refrigerant units. This included 38 containment projects of which 18 received lower Global Warming Potential (GWP) refrigerants. We also trialled a new low GWP refrigerant and this has shown positive results in operational performance and improved energy efficiency. We replaced HFC refrigeration systems with natural refrigerant solutions in four branches. Our leakage rates from Waitrose's refrigeration and cooling units are down from 7.9% (unaudited) to 6.9%¹.

We have invested significantly in our distribution network over the past year whilst striving to ensure that our commercial vehicle fleet is as efficient as possible.

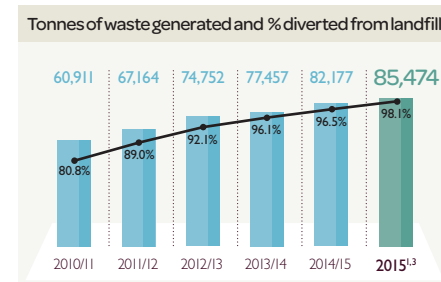


Waste and packaging

We are pleased to have achieved our goal of diverting 98% of our operational waste from landfill by year-end 2015/16. Our aim is that this will increase to 100% by 2020. We have achieved this through improvements to our operations, such as retaining secondary packaging within distribution centres for recycling.

We are also aiming to build on our solutions for processing and reusing our own cardboard and plastic waste.

At Waitrose, we are developing first-to-market solutions for new, more sustainable packaging materials that can be shared with the industry – such as our recently introduced Duchy organic egg boxes, made up of a mixture of rye grass and paper.



Our policy is that none of Waitrose's food waste goes to landfill and our aim is for all food to be consumed, either by our customers, our Partners or the local community in which we trade. Our ambition is that only food not fit for consumption is sent to generate energy through anaerobic digestion.

Our priorities

- Appraising and investing in the most appropriate technology to make our buildings as efficient as possible
- Encouraging Partners to play their part in driving down energy consumption and waste production
- Supporting innovative research that contributes to lowering resource use

Our carbon target explained

The change to the Global Greenhouse Gas Protocol means that companies must report their electricity in two ways, using two different emissions factors: firstly one that reflects the emissions from the type of electricity that the company has chosen to purchase (market-based methodology), and secondly the UK-grid average (location-based methodology). We decided to base our carbon target on the new market-based methodology. This is so our performance was not sensitive to yearly National Grid emissions intensity changes, which is outside of the Partnership's direct control, and to ensure that renewable electricity procurement remains a critical component of our strategy.

Although the Partnership has purchased renewable electricity since 2011, in 2015 we moved to a new supplier that was able to provide certificates that proved compliance to the new carbon methodology. This enabled us to apply a zero carbon emissions factor to all sites within our contractual control.

¹ Data extracted from www.johnlewispartnership.co.uk/csr which was included within KPMG LLP's independent limited assurance scope see www.johnlewispartnership.co.uk/csr for their full opinion.
² All prior year figures have been re-stated. See page 98 for explanation of restatement.
³ 2015 data is reported for the period 21 December 2014 to 26 December 2015. 2014/15 data is prepared for the period of 26 January 2014 to 31 January 2015.

Global GHG emissions data

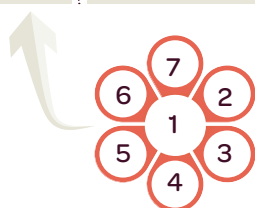
For explanation of the methodology please see page 98	2014/15 ³	2015 ^{1,3}
Scope 1 (tonnes CO₂e)		
Combustion of fuel and operation of facilities, refrigeration (re-stated) ²	218,030	204,492
Scope 2 (tonnes CO₂e)		
Electricity purchased for own use		
Location-based	316,343	294,927
Market-based	343,577	43,594
Scope 3 (tonnes CO₂e)		
Water, business travel, waste to landfill and transmission and distribution losses from purchased electricity	62,294	61,438
Intensity measurement (tonnes CO₂e per £m sales)		
Location-based	54.5	50.9
Market-based	57.0	28.1

Partner review

Our Partner proposition is focussed around our 4Ps manifesto – Performance, Productivity, Pay and Progression. This is an evolution of our existing Partner Plan.

Principles in this section

1 Purpose	
2 Power	3 Profit
4 Partners	5 Customers
6 Business relationships	7 The community



Highlights

- Overall objective is to create better jobs, better performing Partners and better pay
- 4Ps has evolved from our 'Partner Plan' and supports delivery of the Partnership's new business plan – It's Your Business 2028
- Refreshed strategic roadmap will better support Partners and our business as we respond to a rapidly changing retail sector

Challenges

- We need to improve profitability, which will enable us to invest in higher pay and total reward, maintaining our unique proposition to Partners
- We need to be more productive, growing sales and profit with the same number or with fewer Partners
- We need to ensure greater efficiency by adapting our organisation's structure and ways of working
- We need to ensure Principle 1 and Partner satisfaction remain at the core of what we do

Outlook

We will continue to improve the transparency of Partner pay arrangements so they understand the true value of their total reward package.

We will focus on creating the conditions for outstanding performance.

We will support Partners to increase breadth and depth of their experience throughout the Partnership.

We will continue to focus on making the Partnership an inclusive and diverse organisation.



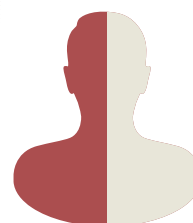
"In creating the 4Ps, we have made a clear commitment to change. Our ambition is that every Partner takes the opportunity to grow their contribution to our business."

Tracey Killen
Director of Personnel

Number of Partners

91,500

down 2.5% compared to last year;
Partner turnover down 2.1%



Performance and pay

In the Partnership, pay is managed in line with our policy as set out in Rule 61 and Rule 62 of our Constitution. We believe that our approach to pay and benefits is a real area of differentiation. Our co-ownership model includes a Partnership Bonus which is unique to the market. In addition, we offer a range of other benefits. 92% of Partners say they value the range of benefits available to them.

Pay for Performance, now in its second year, has been instrumental in developing our successful ownership culture and reflecting our Constitutional Principles to reward Partners fairly based on their contribution.

As a result of the National Living Wage announcement made in the summer of 2015, we have made significant changes to pay ranges, with those closest to the National Living Wage changing most significantly. These changes came into effect on 1 April 2016.

In the long-term, and as outlined in the '4Ps: A manifesto for change', the National Living Wage will raise the base pay of most of our Partners. If we want to maintain our position as a market-leading retailer with a differentiated total reward approach we must be proactive. It would undermine our performance and pay principle if we found ourselves in a position where most of our Partners were paid the same regardless of their individual performance, skills and/or achievements.

To enable us to continue to invest in our best performing Partners, we have simplified and refreshed our performance guidance in line with feedback from Partners and line managers. We have removed steps from the process to make it more streamlined and easy to use.

At Waitrose, we have implemented 'Let's Talk, Not Type'. This encourages on-the-spot feedback between line managers and Partners, reducing the amount of time line managers spend on administering appraisals. As a result, 61% of Partners surveyed felt they could complete more appraisals than expected. 84% felt they spent less time on the administrative process.

Progression

Most Partners increase their pay by developing skills and progressing within their current job. As a business, we are focussing more than ever on progression through learning. Supporting Partners to develop can provide opportunities such as escaping low pay, making meaningful choices about their lives and careers, maintaining their employability (within the Partnership or beyond), and enhancing their potential.

To improve the Partner experience, we are in the process of refining our mandatory training offer, and aim to reduce the time taken to do this by 50%.

Two years after its launch, our Partner Development website continues to offer a range of training for Partners and managers. New offers in 2015 include Divisional-specific learning such as the 'Stock Management Toolkit' for Waitrose, and 'Love to Sell' for John Lewis Partners. We have also added induction training, and a collection of learning resources for Partners looking to apply for new roles.

Our key strategic focus for 2015 has been introducing the concept of Learning Agility to the Partnership. An agile learner is well equipped to learn from their experiences and apply this knowledge quickly and flexibly. With a large proportion of our Partners having over five years' service, the knowledge and experience our Partners possess is invaluable. Learning helps people find personal meaning and satisfaction in their work and this in turn can enhance personal happiness. In this way, learning agility aligns to Principle 1 and could potentially improve job satisfaction within the Partnership.

Vertical career ladders are becoming less relevant as we increasingly operate in different ways, and as Partners want more choice and flexibility. In the Partnership, Partners can progress within their role, with additions to their role, within function, across functions and to more complex or higher level roles. Progression can also be achieved through different experiences. We are developing guidance to help line managers and Partners understand how to build breadth and depth into their career journeys and progress within the Partnership.

Inclusive ownership

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

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

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

We want the Partnership to be representative of the communities in which we operate. Where we see disparities in this, we take action. For example, BAME people are well represented in our Partner population (comprising 15%, which is on a par with their representation in the general UK population). Currently 8.5% of the Partnership's management positions are held by BAME Partners, and at more senior levels the proportion is just 3.7%. To address this, we will focus on recruiting and developing BAME Partners to ensure promotion and equal opportunity. The goal is for 10% of our management positions (Level 1-9) to be held by BAME Partners by 2020.

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

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

Rule 61

The Partnership sets pay ranges which are informed by the market and which are sufficient to attract and retain high calibre people. Each Partner is paid a competitive rate for good performance and as much above that as can be justified by better performance. Partnership Bonus is not taken into account when fixing pay rates.

Rule 62

Pay rates must be decided with such care that if they were made public each would pass the closest scrutiny. Managers are responsible for ensuring that Partners are paid fairly in comparison with others who make a similar contribution.

Partner review (continued)

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

Diversity and Inclusion are intrinsic to the 4Ps and will be at the core of our actions to implement the new framework. For example, we will be reviewing our approach to equal pay, balancing productivity with individual flexibility, and creating a diverse pipeline of Partners for the future.

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

Health and wellbeing

Our Founder John Spedan Lewis fostered a culture which put the health and wellbeing of Partners at the heart of our organisation. He understood that as well as our physical and financial wellbeing, our working relationships, empowerment, being heard, access to

knowledge and learning, and our contribution in the local community are all factors that influence our wellbeing.

We support Partners through a number of programmes, benefits and services, to ensure their financial, physical, mental and social wellbeing. Through Partnership Health Services we provide Partners with accessible, occupation-focussed services. In 2016, we will review and strengthen our proposition. Our aim is to empower Partners to look after their health and wellbeing, providing the right working environment and support as needed.

Productivity

Productivity has become one of the main themes of It's Your Business 2028. Within the context of the 4Ps, we see Productivity as pivotal to the Partnership's longer term financial health, as well as to increasing Partner pay.

We highlight several examples of Productivity on page 51 under Partnership Services. In 2015, we have also been reviewing a number of key policies including 'Sick Absence', as well as those that have a direct impact on our ability to operate flexibly, such as Secondment Terms and Conditions and Expenses, Contracts of Employment, Domestic Relocation and Expenses and Recruitment Guidance.

Our Partner handbook is now reviewed yearly and only published on the intranet – the 2016 version is now available. In addition, we have created a new policy update page has been created to ensure transparency for the business on changes that happen throughout the year.

Gender diversity of the Partnership

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

* Other than Partnership Board members

Other than Partnership Board members, Directors and Management Board members

Ethnicity of senior manager population (levels 1-5)

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

Partner survey

Our annual Partner Survey results suggest that Partner Advocacy remains high at 92%. This statistic is pivotal to the success of our business and will prove even more important as we embark on our journey towards 2028.

Further, 81% of Partners understand how their work contributes to the success of the Partnership.

The LGBT+ network

"Our LGBT+ network gives Partners access to a community defined by identity and values. It helps Partners access support, extend their professional and social networks, and form a collective voice to join the debate. This year, we celebrated our biggest Pride in London yet, and recruited regional reps, extending the reach of the network."

Phil Harrison
Buying Assistant,
Tablets and Computing



Think, Evolve, Network

"This network aims to help Partners think about gender: It enables us to learn from others, both inside and outside of the Partnership. We now have more than 750 members, and have had one-third of these attending events in branches. And in our Bracknell and Victoria branches, speakers have included Baroness Hogg, Edwina Currie, and Sir Roger Carr among others. These events have helped to start conversations about gender in the workplace, such as on flexible and part-time working, and maternity and paternity leave."

Jane Barnett-Roberts
Head of Retail Operations Group L



Partnership Services performance

Efficient and effective shared services are an increasingly important part of our trading success.

At Partnership Services, we deliver services in Procurement, Personnel, IT and Finance operations in a way which drives value for the Partnership as a whole, while freeing up Partners' time to focus on delivering excellent customer service and driving sales.

Over the last six years we've accomplished a huge amount. While we have faced challenges, our passion and commitment has allowed us to successfully support our business. We help the John Lewis Partnership to operate effectively and efficiently by delivering better, faster and more cost-effective shared services. Our ambition is to be a leading business services provider, through the creativity and thought leadership of our Partners, while also drawing ideas for continuous improvement and innovation from external best practices.

Highlights

- This year we improved the quality of services provided, while also lowering the costs. Our Resourcing team celebrated its one year anniversary in 2015 and is estimated to have saved the Partnership more than £600,000 last year by recruiting through LinkedIn
- The Resourcing team also played a vital role in supporting resourcing for the peak trading period, recruiting a total of 11,500 Partners for Waitrose and 3,800 Partners for John Lewis during this period, handling nearly 95,000 applications
- Infrastructure Services also successfully supported both Divisions through the peak trading period, with just one Major Incident
- Finance and Personnel Operations continue to focus on streamlining processes to improve efficiencies, for example reducing the cost per invoice processed by 5%, and the cost per new hire by 23%
- The Procurement team exceeded its target by nearly 10% delivering £38.4m of benefit savings to the business
- Our Partners are at the heart of everything we do and we are pleased with the progress of our Partner pulse score, with a 4% increase in the number of Partners who rate Partnership Services as a great place to work

Challenges

- We are challenging ourselves to deliver £45million value contribution to the Partnership in the year ahead
- We are aiming to continue to achieve year-on-year improvements in productivity while consistently meeting service levels

Outlook

The Partnership needs to become more productive in order to continue to thrive in the future competitive landscape. Shared services and the efficiencies these bring to the business – from sharing capabilities to standardising how we operate across the business – will play a key role in helping to make this happen.



“Shared services as provided by Partnership Services will help the Partnership become more productive.”

Tom Athron
Group Development Director,
with responsibility for Partnership Services

Managing our Partnership risks

We define risk as ‘anything that can adversely affect our ability to meet the Partnership’s objectives and comply with regulatory standards.’

Our approach to risk

Risk is inherent in our operations and the decisions we make in pursuit of our Partnership Aims. The Partnership Board is responsible for the nature and extent of the principal risks that we are willing to take. It has undertaken a robust assessment of the principal risks to the Partnership in relation to achieving our strategy and our future performance, including solvency and liquidity (see page 99). The Partnership Board is also responsible for ensuring that risk is effectively managed through our governance structure (see page 53) in line with its risk appetite. All Partners should strive to be aware of risks in their area of responsibility and manage those risks intelligently in their day-to-day activities.

Governance

The Partnership Board has ultimate responsibility for the Partnership’s system of internal control and risk management and reviewing its effectiveness; and seeks to comply with the UK Corporate Governance Code (2014).

The Board has monitored the Partnership’s risk management and internal control systems with the support of the Chairman’s Committee and the Audit and Risk Committee on a quarterly basis. It has developed a clear risk appetite within which the business should operate, and has monitored the Partnership’s performance in mitigating our principal risks on a quarterly basis. Further details of the principal risks, controls, progress in the year and further actions are included on pages 55 to 57.

The Audit and Risk Committee reviews the effectiveness of the risk management process and systems of internal control, as well as challenging risks and mitigation plans. See page 86 for further details. This year we established Corporate Responsibility Committee as a committee of the Board to reflect our increasing focus on CSR policy and objectives.

Each Division is responsible for identifying, evaluating, managing, measuring and monitoring the risks and their controls as part of regular operations. Divisional Risk Committees met at least quarterly and assessed risks and the key controls against these risks, with support from the Head of Internal Audit and Risk and Divisional Risk Managers. The outcomes from the Divisional Risk Committees are considered at the Audit and Risk Committee. Management self-certify on an annual basis that they have followed the risk management process at year-end.

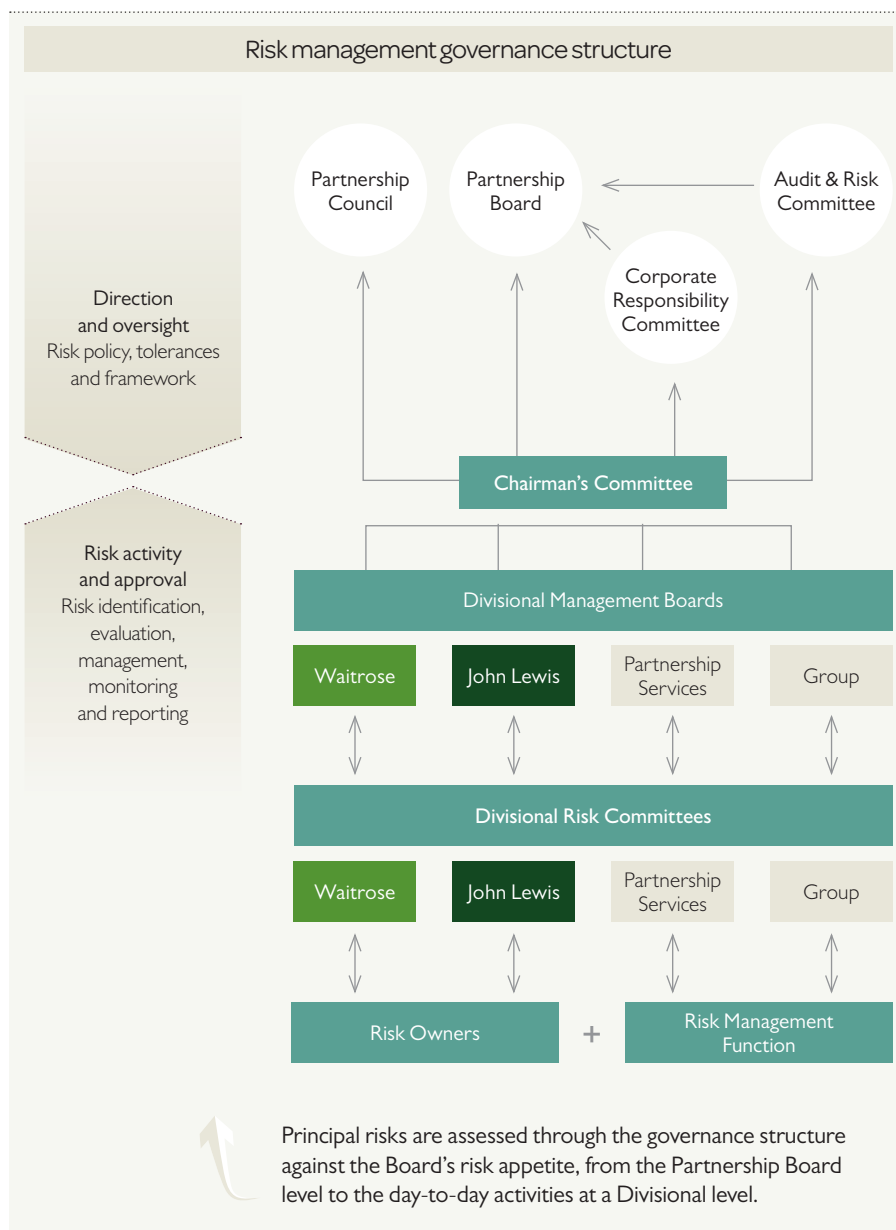
The Head of Internal Audit and Risk reports functionally to the Chair of the Partnership Audit and Risk Committee, and operationally to the Group Finance Director. Internal Audit reviews the design and effectiveness of internal controls using a risk-based audit plan aligned to Divisional strategies.

Our governance structure encourages the effective flow of risk and control insights throughout the Partnership. For more detail, go to the Audit and Risk Committee report on page 82.



“Effective risk management will enable us to achieve our Partnership strategy efficiently and will help build Partners’ trust.”

Patrick Lewis
Group Finance Director



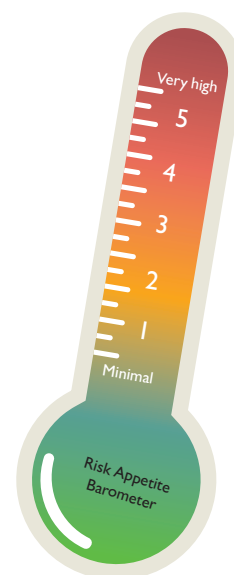
Risk appetite

This year we have strengthened our definition of risk appetite and integrated it within our wider risk management framework to better inform decision-making across the Partnership.

The Partnership Board has clearly articulated the amount of acceptable risk within which Divisions can operate. This has been derived from our Constitution and takes into consideration the acceptable level of risk across strategic, operational, financial and compliance risks faced by the Partnership.

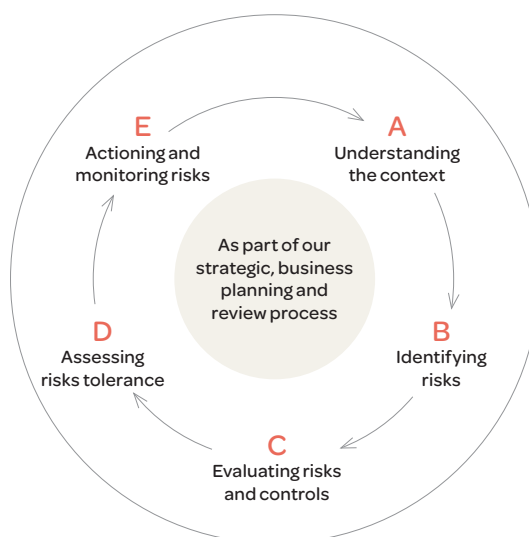
Our appetite provides direction and boundaries for consistent, measured, risk-aware decision-making throughout the Partnership and ensures that we are taking the right level and type of risk.

A scale of one to five illustrates the range of our risk appetite. Our risk tolerance for each type of risk is defined within this range. For example we will take more risk in pursuit of our strategic objectives to drive our business forward, versus a minimal risk tolerance to compliance at the other end of the scale.



Risks or opportunities?

Risks come in different forms, from the external environment in which we compete, or internally from uncertainties, or issues with our strategic responses, or from how we operate our business model. Risks also involve opportunities we might miss for further growth and a sustainable future.



Managing our Partnership risks (continued)

Our formal risk assessment process for stress-testing key business plan decisions reinforces our intuitive use of risk management in every day decision-making.

Risk management process

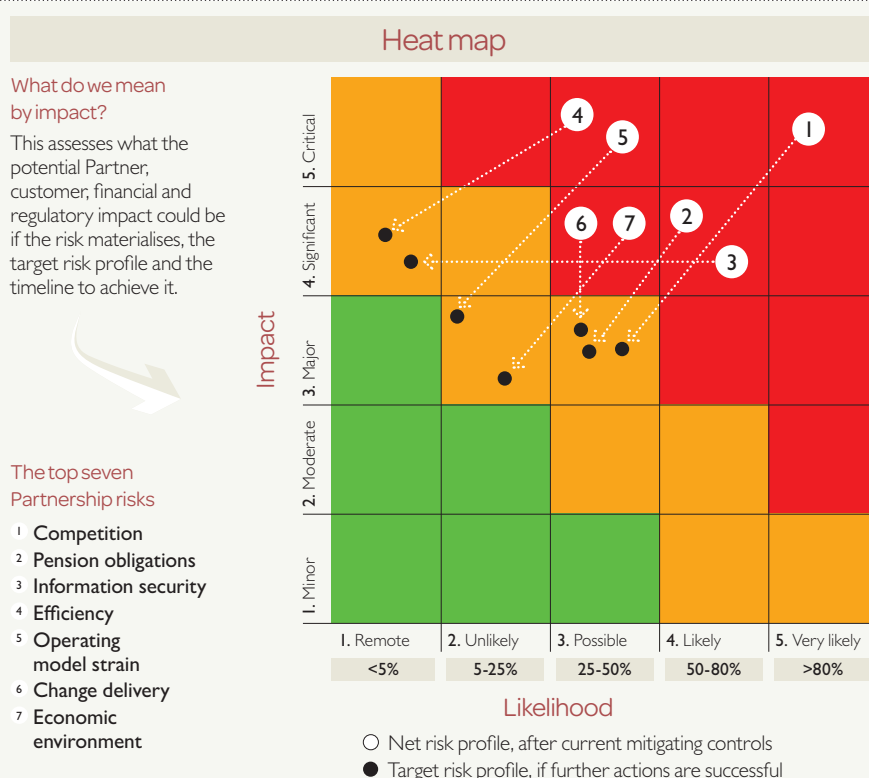
The Board's risk assessment is underpinned through our governance structure by the Partnership's robust risk management framework. We have a structured approach to identify, manage, monitor and communicate risks consistently, and take advantage of opportunities across Divisions.

Our risk management process has been used to stress-test key decision points and influence our deployment of resources. We do this before we commit, so we can make any changes to our plans and deliver them with confidence. Risks are assessed by Divisions and Directorates quarterly, considering the potential impact of the risk and the likelihood of its occurrence – see Heat Map.

We make our evaluation of impact and likelihood before taking into consideration any controls in place, to give a 'gross' profile, we also consider the effectiveness of current mitigating controls in place, to give a 'net' profile. If this net profile is deemed to be placing us at too much risk for the return expected and is outside of our risk appetite, a response will be needed to bring the risk back within an acceptable level of risk taking in an appropriate time period.

Details of our risk profiles, current mitigating controls, risk tolerances and further actions are captured in Risk Registers in each Division and at a Partnership level.

The Partnership Risk Profile is reviewed and challenged by the Partnership Board with the support of the Chairman's Committee and Audit and Risk Committee. The outcome of this review is fed back to the Divisions to ensure that the top down and bottom up processes are complementary.



To help visualise our 'net' profiles for analysis and decision making, risks are plotted on a heat map. In general, net risks evaluated in:

Red zone

The 'red zone' is where the current level of risk is too high. Desired 'target profiles' are set and further actions identified to reduce the risk where possible.



Amber zone

The 'amber zone' is where risk is either less severe, or we feel we are managing it more effectively. Mitigating actions are formally monitored against targets to ensure they do not deteriorate against appetite.

Green zone

The 'green zone' includes risks that are unlikely to affect our Partnership Aims. Risk owners are responsible for monitoring them and raising the alarm if they show significant deterioration.

Our principal risks and mitigations

Our principal risks and mitigations				
In its final review of the year, the Board prioritised seven principal 'red' risks:				
	Strategic risks i.e. risk of us 'doing the wrong thing'	Operational risks i.e. risk of us 'doing the right thing, in the wrong way'	Financial risks i.e. risk of us 'doing it in a way that loses money or incurs unnecessary liabilities'	Compliance risks i.e. risk of us 'not complying with applicable laws and regulations'
 Principal risks (7)	1 Competition 6 Change delivery 5 Operating model strain 7 Economic environment	4 Efficiency	2 Pension obligations	3 Information security
	 Top amber risks (16)	Corporate reputation IT infrastructure capability Political environment	Talent Omnichannel proposition Responsible sourcing Loss of key suppliers, third parties Loss of key B2B customers IT failure Business interruption	Funding and liquidity Financial control, reporting and governance Property valuation
				Product quality and food safety Health and safety breach Other regulatory compliance

It's Your Performance

As a result of the assessment:

Seven principal risks are in the 'red zone'. They have been assessed as beyond our tolerance for acceptable risk taking and so require further action. We have developed plans with risk owners and agreed timelines. Progress is reviewed through our governance structure on a quarterly basis.

For details of how we evaluated the top seven risks, see page 54 and for how we manage them, see pages 56 to 57.

16 further risks were identified in the 'amber zone'. They have been assessed as being lower or managed more satisfactorily. They may need to reduce further depending on the risk appetite for each specific risk, and are formally monitored by Divisional Risk Committees to ensure mitigating plans progress.

Ownership model strain, i.e. Partners losing confidence in the benefits of being co-owned, is an example of an amber risk. We pay close attention to the long-term trend of this risk given its importance to our success.

Our risk universe helps us to identify emerging and changing risks.

These risks do not comprise all those associated with the Partnership, as there are some risks currently deemed to be less material, i.e. in the 'green zone', and others we are not yet aware of.

What's changed since last year?

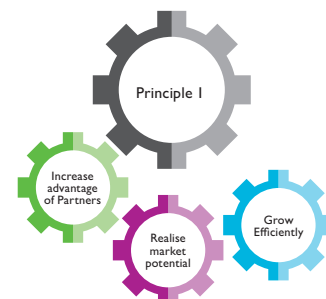
Our principal risks evolve over time. As we progress our strategy and business plan, new risks emerge and we adjust our mitigation activities. The following changes in our risk profile have been approved by the Board in the final review of the year:

Increased risk profile	Decreased risk profile	Change in description
		
+3 Three principal risks have increased over the year	-3 Three principal risks from last year's evaluation are no longer in the red zone, as they are now deemed to be being managed more satisfactorily and are less of an overall threat	1 One risk has been reworded
<div> <div>1 Competition</div> <div>5 Operating model strain</div> <div>3 Information security</div> </div>	<div> <div>Property valuation</div> <div>IT infrastructure capability</div> <div>Talent</div> </div>	<div> <div>2 Pension obligations</div> </div>
What are we doing about these risks? We have launched new Divisional strategies to address competition risk in each market. These include a focus on our ability to operate more effectively in response to changing customer requirements and market conditions. Plans are underway to continue to improve our system resilience. We monitor progress regularly through the governance structure.	Why have these reduced? Following a detailed review of our property strategy and portfolio, we now consider this to be a medium risk. We have completed projects to mitigate material IT infrastructure risks. We now consider talent to be a medium risk due to capability improvements. All of these risks will continue to be formally monitored through our governance structure to ensure continuous improvement.	Why this has been reworded? We have redefined the pension obligations risk to reflect the potential changes in the real discount rate which could cause a breach of our banking covenants.

Our principal risks and mitigations (continued)

These are our top seven risks, which cause us most concern. We are actively managing and monitoring these risks as a priority to protect and develop the Partnership.

Type of risks in our risk universe



Risk	Consequences and Partnership Aims affected	How have we managed and will mitigate the risk?
1 Competition Increased risk profile ↑		
Description Competitor actions put pressure on market value, our margin and threaten our volumes in the retail grocery sector. 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 We may lose customers impairing our ability to grow long-term profitability. Partnership Aims affected Realise market potential Grow efficiently	Controls in place → Continuing to secure value for all of our customers through our price matching commitments → Regular strategic risk review and strategy implementation monitoring by Executive Management → Weekly review of sales margin and operating KPIs Progress in the year → Our Divisional strategies have been refreshed, communicated and embedded to respond to the competitive threats Further actions → Continue to focus on differentiating our customer service, product quality and product innovation → Introduce new products and services in anticipation of changing customer requirements → Regular monitoring and reporting to enable us to adapt to changing and emerging competition risk
2 Pension obligations Change in description ⓘ		
Description Changes in the real discount rate causes: 1) Significant volatility in our pension fund liabilities and could cause a breach in our banking covenants. 2) Increased pension operating costs.	Potential consequence Defined benefit pension obligations place a significant financial burden on the Partnership and can divert resources away from other investment opportunities. Partnership Aims affected Increase advantage of Partners Realise market potential	Controls in place → Regular review of valuation assumptions through internal and external monitoring Progress in the year → The Pension Benefit Review has reduced the future volatility Further actions → The Trustee is implementing the new Defined Contribution scheme and an ongoing programme to increase hedging of inflation and interest rates
3 Information security Increased risk profile ↑		
Description A breach of Partner or customer data due to the external threat to cause disruption or access sensitive data; and a need to respond to the pace of technological development.	Potential consequence A significant data breach and loss of either Partner or customer data could cause financial, regulatory, legal and/or reputational damage. Partnership Aims affected Increase advantage of Partners Realise market potential Grow efficiently	Controls in place → Robust network security and regular testing to provide early identification of network or system vulnerabilities → Continuous security monitoring → Partner training Progress in the year → Enhancements to the systems and controls that hold Partner and customer data have considerably improved resilience → More regular and sophisticated security testing → Improved Partner security awareness Further actions → Continue to implement Data and IT Security Improvement Programmes across the Partnership → Ongoing rollout of improved information security training to Partners

Risk	Consequences and Partnership Aims affected	How have we managed and will mitigate the risk?
4 Efficiency		
Description In response to the need to offer exceptional value, we have developed programmes to optimise our efficiency and productivity. These may suffer from issues with planning, governance, funding and competing resources.	Potential consequence Failure to deliver the savings required from our planned efficiency programmes may limit our ability to improve our profitability and result in strain on our Partners. Partnership Aims affected Increase advantage of Partners Grow efficiently	Controls in place → Formalised regular tracking and reporting of issues for efficiency programmes across the Partnership Progress in the year → Several key functions have been reviewed and efficiencies have been identified → Individual Board level ownership for efficiency Further actions → End to end process reviews are underway to identify where efficiency savings can be achieved → Continuous improvement objectives implemented, monitored and regularly reported against
5 Operating model strain		
Increased risk profile ↑		
Description Increasing external pressures such as the ongoing move to online 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. Partnership Aims affected Realise market potential Grow efficiently	Controls in place → Annual business plan process robustly reviewed on a quarterly basis → Monthly Executive Management business performance review and action taken Progress in the year → Projects have been re-prioritised to support our operating model → Strengthened quarterly business plan review Further actions → Our future approach to customer fulfilment and the operations required to support this are being reviewed → Successfully implement significant change programmes
6 Change delivery		
Description The complex nature and scale of interdependencies of the change programmes may affect 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, missing our growth ambitions and losing the engagement of our Partners. Partnership Aims affected Increase advantage of Partners Realise market potential Grow efficiently	Controls in place → Programme and project governance in place enables early identification and remediation of issues considering the impact on Partners → Monthly review of programme status at Executive Management level Progress in the year → Change capability improved and resourcing plans reviewed → Improved organisational governance, accountability and reporting on progress, critical paths and inter-dependencies Further actions → Further clarification of the inter-dependencies and communication of change needed to embed specific changes
7 Economic environment		
Description External economic pressures, due to the impact of government policy, 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. Partnership Aims affected Realise market potential Grow efficiently	Controls in place → Monthly monitoring of business performance by Executive Management → Horizon scanning Progress in the year → External economic factors and insights have been incorporated into the business plan Further actions → Continued focus on differentiating our customer service, product quality and product innovation → Introduce new products and services in anticipation of changing customer requirements

It's Your Voice

Our governance structure is set out in our Constitution. On the following pages we explain the roles and responsibilities of our governing bodies and how they support and maintain our Founder's vision of an industrial democracy where employees share profit, knowledge and power.

Governance in the Partnership	60
How power is shared	63
The Partnership Council	64
The Chairman	65
The Partnership Board	66
Partners' rights and responsibilities	72
Responsibilities to others	73
Our Governance model is different	75
Partnership Council report	78
Audit and Risk Committee report	82
Corporate Responsibility Committee report	88
Chairman's Nominations Committee report	90
Remuneration Committee report	94
Directors' report	98





Governance in the Partnership



“The Partnership’s Constitution defines how we run our business.”

Sir Charlie Mayfield
Chairman, John Lewis Partnership

The Partnership is governed by our written Constitution, which establishes the Partnership’s Principles and the way in which we should operate.

How have we structured this year’s governance report?

We have structured our governance report to include the following headings, reflecting how our Constitution is set out:

How power is shared

Page 63 >

Partners’ rights and responsibilities

Page 72 >

Responsibilities to others

Page 73 >

We hope that this will help to show how our Principles are at the heart of how we do business, and where responsibility sits for making sure this continues for future generations of Partners.

How is the Partnership governed?

The Partnership is governed by our written Constitution and the two Trust settlements. The Constitution has been refreshed over the years to reflect the changing societal, business and economic environment in which we operate, yet retains a direct connection with the fundamental principles established in 1928.

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

This compelling statement on the responsibility of co-ownership is what differentiates the Partnership and its governance from other corporate bodies. Our governance structure is designed to protect the fundamental principle of co-ownership and engagement of Partners, safeguard the Partnership’s future, enhance its prosperity and ensure its integrity. More about this can be found in ‘How power is shared’ on page 63.

Please see pages 22 to 23 for information on the Partnership’s strategy which is guided and supported by our unique governance framework.

Which other governance regulations are applicable to the Partnership?

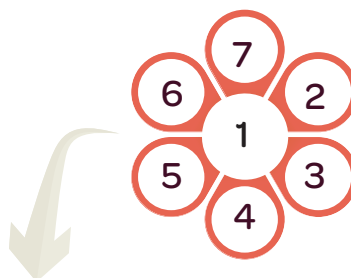
The Partnership is also governed by the Companies Act, and complies with the Listing Rules and Disclosure and Transparency Rules applicable to a Standard Listed company on the London Stock Exchange (LSE). Our listing is explained more fully on page 99 of our Directors’ Report. In addition, each company within the Partnership is governed by its Articles of Association.

Please see ‘Our Governance model is different’ on page 75 for information on how the Partnership Board has voluntarily adopted the UK Corporate Governance Code (‘the Code’) on a comply or explain basis.

Who owns the Partnership?

John Spedan Lewis, the Founder of the Partnership, transferred his shareholding and the ownership of the Partnership into a trust to be held for the benefit of all Partners. John Lewis Partnership Trust Limited (the Trust Company) is the appointed Trustee of the Trust.

The Constitution is available to all Partners on the Partner intranet and to other interested parties at www.johnlewispartnership.co.uk



Our Principles

The John Lewis Partnership is different to most other companies because our shares are held in trust for the benefit of our Partners through Trust Settlements made in 1929 and 1950. Together, our commitment, pride and talents as co-owners shape two of the UK's strongest brands. Our seven Principles are at the core of our Partnership model and fundamentally determine the way we are governed.

1 Purpose

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

2 Power

Power in the Partnership is shared between three governing authorities: the Partnership Council, the Partnership Board and the Chairman.

3 Profit

The Partnership aims to make sufficient profit from its trading operations to sustain its commercial vitality, to finance its continued development, to distribute a share of those profits each year to its members, and to enable it to undertake other activities consistent with its ultimate purpose.

4 Partners

The Partnership aims to employ and retain people of ability and integrity, who are committed to working together and to supporting our principles. Relationships are based on mutual respect and courtesy, with as much equality between members as differences of responsibility permit. The Partnership aims to recognise individual contributions and reward fairly.

5 Customers

The Partnership aims to deal honestly with its customers and secure their loyalty and trust by providing outstanding choice, value and service.

6 Business relationships

The Partnership aims to conduct all its business relationships with integrity and courtesy, and scrupulously honour every business agreement.

7 The community

The Partnership aims to obey the spirit as well as the letter of the law, and to contribute to the wellbeing of the communities where it operates.

About the Trust Company

The Trust Company holds the Deferred Ordinary Shares in the capital of the Company in trust for the benefit of Partners.

The main purpose of the Trust Company, under the Constitution, is to protect the Constitution and democracy of the Partnership.

How is the Trust Company's Board made up?

The Trust Company has five Directors: the Chairman and Deputy Chairman of the Partnership, and three Directors elected by the Partnership Council, who are known as the Trustees of the Constitution.

How are the Directors selected?

The Articles of Association of the Trust Company state that the Chairman appoints both his own successor and the Deputy Chairman. This follows the wishes of the Partnership Founder, who believed that each appointment should represent the interests of the Partnership and work to preserve its future. The Chairman's Nominations Committee oversees the appointment process of the Chairman and the Deputy Chairman.

The current Trustees of the Constitution were elected by the Partnership Council in March 2015 and are Johnny Aisher, Karen Crisford and Cathy Houchin (re-elected).

How often do the Board and the Trustees meet?

In 2015/16, the Trust Board met twice. In addition, the Trustees of the Constitution met twice separately without the Chairman and the Deputy Chairman to discuss business reserved for the Trustees of the Constitution as set out in the Constitution.

During the year under review, the newly appointed Trustees participated in training on their role and responsibilities as Trustees and Directors of the Trust Company.

Governance in the Partnership (continued)

Overview of Group functions

Function	Role
Chairman's Office	The Chairman's Office team supports the Chairman in carrying out his responsibilities.
Communications	Ensuring Partners have engaging, two-way communication and knowledge sharing throughout the Partnership whilst strengthening our reputation for open communication with external audiences and stakeholders.
Group Development Director and Group Customer Insight	The Group Development Directorate was established during the course of 2015 to develop new business streams and create value by putting the customer at the centre of decision-making. Group Customer Insight provides support and expertise through predicting the value of business opportunities, in the formation and execution of customer strategy and measuring the business impact of activities.
Group Productivity Director	The Directorate was established during the course of the year to develop a more productive Partnership, establishing more effective and efficient internal processes and structures.
Group Finance	Responsible for managing the financial risks of the Partnership, financial planning and strategy, plus financial reporting internally and externally. Also responsible for ensuring compliance with applicable tax laws, undertaking effective risk management of treasury operations and lead the Partnership's policy on the evaluation and treatment of insurable risks.
Legal and Company Secretary	Responsible for providing professional legal, governance and company secretarial advice to the business.
Personnel	Responsible for defining and shaping a distinctive and competitive employment proposition within a co-owned business, and setting a policy framework that meets the changing needs of the Partnership in the areas of employment, reward, talent, organisational development, safety and Corporate Social Responsibility. This includes Partnership Hotels, Leisure and Benefits providing a range of accessible, relevant and diverse benefits to Partners.
Property Services	Property Services advise, plan and manage all physical estate projects, including new stores, existing estate, offices and warehouses. The Directorate also maintains the estate and supports the delivery of businesses environmental objectives.
Registry	Encouraging Partners to play their role as co-owners and seeking to ensure the Partnership is true to its Principles and compassionate to Partners. This includes responsibility for all the Partnership's formal democratic meetings, the Partnership Support helpline (supporting Partners to resolve both work and personal concerns) and providing the Partnership with both insight and assurance about Partner experience.

How does Group support the business?

The role of Group within the Partnership is to set policy and ensure that appropriate controls are in place to enable management and the Board to monitor their operation and provide assurance.

Group functions provide a range of professional services and specialist expertise to support operational activities and the Partnership as a whole.

Group functions provide:

- Assurance to Partners – governance, policy, financial reporting, journalism and communications, democratic assurance and internal audit
- Specialist expertise – customer insight, finance, personnel, legal, risk, property services and Registry

The Group Head of Branch is Paul de Laat whose duties include being the focal point for Group-wide matters.

How power is shared

Rule 4 of the Constitution sets out that the shared aim of the three governing authorities is to safeguard the Partnership's future, enhance its prosperity and ensure its integrity. They should encourage creativity and an entrepreneurial spirit but must not risk any loss of financial independence.

The Constitution establishes a structure which is designed to ensure that the Partnership is run fairly and effectively, with checks and balances to ensure accountability and transparency. These mechanisms also ensure that the views of Partners are heard. Partners have a constitutional right to be heard and have their opinions considered.

The Constitution ensures representation of the co-owners on the Partnership Board through the election of Partners as Directors (Elected Directors). It also sets out the role of the Partners' Counsellor. See pages 69 and 70 for more detail on their roles.

The three governing authorities of the Partnership are:

The Partnership Council

Roles and responsibilities are set out on page 64 and in the Partnership Council report on pages 78 to 81.

The Chairman

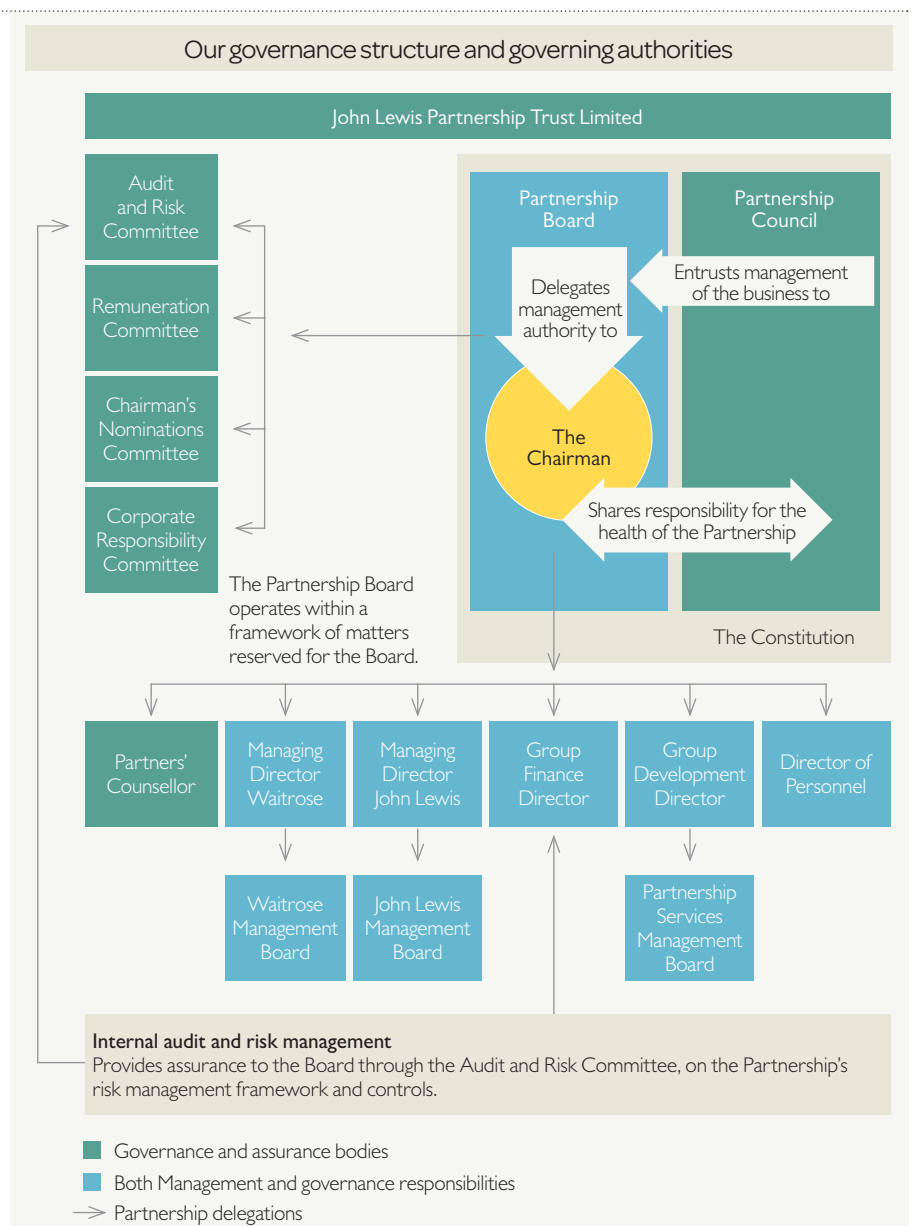
Roles and responsibilities are set out on page 65 of this report.

The Partnership Board

Roles and responsibilities are set out on page 68 of this report.

How can the Constitution be amended?

The Introduction, Principles and Rules of the Constitution may be amended or cancelled by agreement between two-thirds of the voting membership of the Partnership Council and the Chairman.



How power is shared (continued)

The Partnership Council

The Partnership Council is the most senior level of democracy in the Partnership and is run by Partners on behalf of Partners.

Rule 3 of the Constitution sets out that the Partnership Council, as the representative body of the members of the Partnership, entrusts management of the business to the Partnership Board, which delegates its management authority to the Chairman.

The Partnership Council represents Partners as a whole and reflects their opinion. In sharing responsibility for the Partnership's health with the Partnership Board and the Chairman, it holds the Chairman to account. It discusses, influences and makes recommendations on the development of policy. It shares in making decisions about governance of the Partnership.

The Partnership Council may ask the Partnership Board or the Chairman anything it wishes, and they must answer unless doing so would, in their opinion, damage the Partnership's interests (Rule 7).

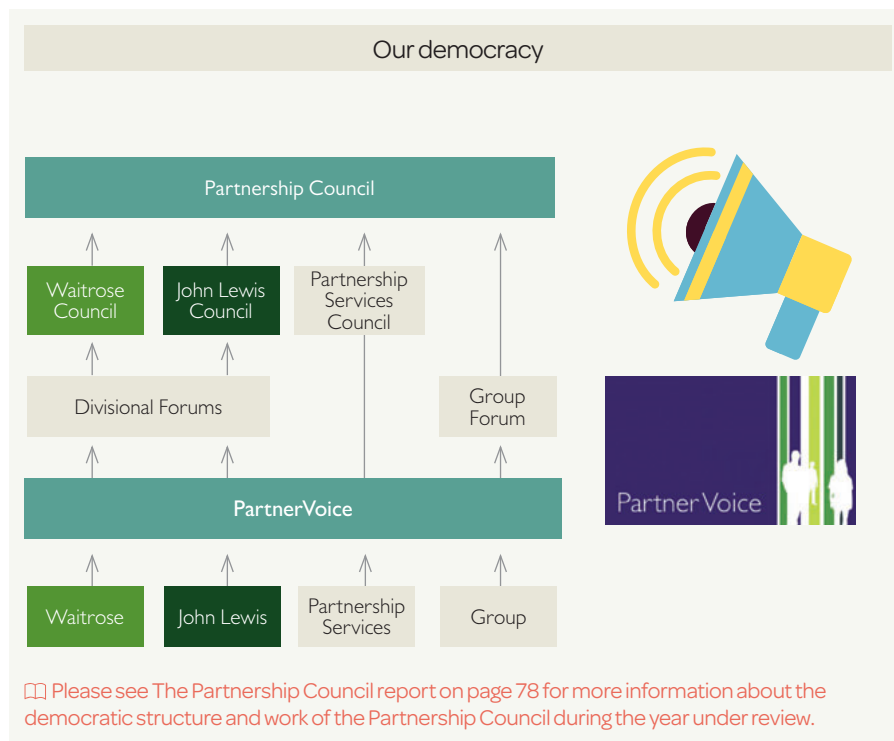
Through its Specialist Groups, the Partnership Council is able to focus on key areas of the Partnership's strategy and influence policy. The work of the Council and that of its Specialist Groups is coordinated by the Steering Committee.

The Council has three vital decision-making powers:

- To elect the Trustees of the Constitution and five Directors to the Board
- To change the Constitution, with the Chairman's agreement
- To dismiss the Chairman

Partners are able to influence what happens in their part of the Partnership, or the Partnership as a whole, through their local PartnerVoice and the other democratic bodies within the Partnership. PartnerVoice representatives collect Partner views and represent them through regular meetings with their senior leaders. These representatives ensure that, where possible, Partner views are reflected in local decisions and business plans.

Issues raised at a local level can be pursued as appropriate at a regional or Divisional level, and ultimately at the Partnership Council.



The Chairman

As the senior executive in the Partnership, the Chairman is ultimately responsible for the Partnership's commercial performance.

The Chairman, currently Sir Charlie Mayfield (the Partnership's fifth Chairman), is based at the Group offices at Partnership House in Victoria, London.

The Chairman must ensure that the Partnership develops its distinctive character and democratic vitality. The Partnership Board delegates management of the Partnership's business to the Chairman and he is ultimately responsible for the Partnership's commercial performance. He is the Chairman of the Partnership Board, by virtue of his appointment as Chairman of the Trust Company.

The Chairman is responsible for the leadership of the Partnership Board and ensuring its effectiveness in all aspects of its role. Upon taking office, the Chairman makes a written undertaking to the Partnership Council, that he will uphold the Constitution and work to the utmost of his energy and ability for the fulfilment of the Partnership's Principles. The Chairman's role and responsibilities are defined in the Constitution under Rules 41 to 45.

How is the Chairman accountable within the Partnership?

The Chairman is accountable to the Partnership Council, in accordance with the Partnership's Constitution. If the Partnership Council judges that the Chairman has failed to fulfil (or is no longer a suitable person to fulfil) the responsibilities of his office, it may propose a Resolution upon the Constitution to dismiss the Chairman.

How does the Chairman delegate his management authority?

The Chairman has a duty to actively seek to share power with other Partners, delegating as much responsibility and encouraging as much initiative as possible. The Chairman delegates his management authority for the day-to-day management and development of the core businesses to the other Executive Directors and senior management as appropriate.

What other bodies support the Chairman?

The Chairman is supported in his executive role by the Chairman's Committee. The Chairman's Committee meets approximately once a month. It comprises the executive members of the Partnership Board (Chairman, Group Finance Director, Group Development Director, Director of Personnel, and the Managing Directors of Waitrose and John Lewis), as well as the General Counsel and Company Secretary. The Partners' Counsellor attends, but is not a formal member of the Committee.

The Chairman's Committee coordinates executive responsibilities in the Partnership. It acts as a forum for executive debate within the Partnership's senior management. Its decision-making authority stems from the extensive delegations made to individual members, rather than any formal delegated powers to the committee itself. It focuses on matters that affect the Divisions or the Partnership as a whole and the Board expects the Chairman to use it to debate such matters before it considers them. This is particularly important where it is clear that the Non-Executive and Elected Board members are looking to their Executive colleagues, either for a clear recommendation, or for assurance that the Chairman's Committee has thoroughly considered an issue and has identified and reviewed the key areas to be surfaced in the Board's own discussions.

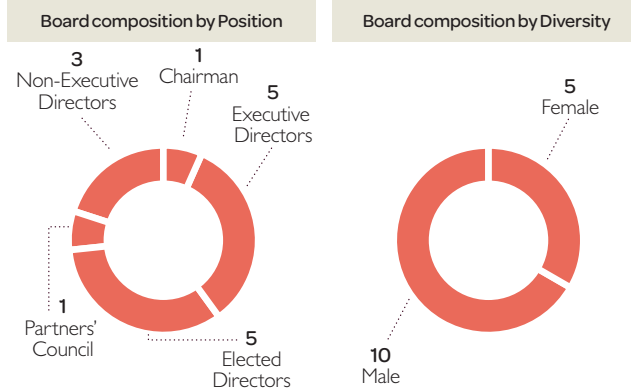
In addition to formal Partnership Board meetings and meetings of the Chairman's Committee, the Chairman maintains regular contact through informal meetings with the Elected, Non-Executive and Executive Directors and the senior leadership teams.

How power is shared (continued)

The Partnership Board

The Partnership Board is different to most other UK company boards, as it has relevant skills and experience at the table through a mix of appointed and democratically elected Partners, and Non-Executive Directors bringing external, independent and objective challenge.

The Partnership Board comprises the following 15 members:



Chairman and Executive Directors



Sir Charlie Mayfield

Chairman and Chair of the
Chairman's Nominations Committee

Started current role: March 2007

Joined the Partnership Board: 2001

Length of time with Partnership: 16 years

Experience: Joined the Partnership in 2000 as Head of Business Development and the Partnership Board as Development Director in 2001. Became Managing Director of John Lewis in 2005 and Chairman in 2007. Knighted in 2013 for services to business. Previously: Army officer, SmithKline Beecham, McKinsey & Co.

Other appointments: Chairman of John Lewis Partnership Trust Limited, the British Retail Consortium and the UK Commission for Employment and Skills, President of the Employee Ownership Association, Director of Central Surrey Health Trust Limited and Fabindia Overseas Private Limited, Trustee of Place2Be.



Tom Athron

Group Development Director

Started current role: October 2015

Joined the Partnership Board: 2015

Length of time with Partnership: 10 years

Experience: Joined the Partnership in 2005 as Head of Group Financial Strategy and then became Buying Director at John Lewis, responsible for Electricals and Home Technology. Joined the Waitrose Board as Finance Director in 2009, and joined the Partnership Board as Group Development Director in 2015. Previously: Hambros Bank plc, Javelin Group.



Rob Collins

Managing Director, Waitrose

Started current role: April 2016

Joined the Partnership Board: 2016

Length of time with Partnership: 22 years

Experience: Joined the Partnership in John Lewis in 1994, moving to Waitrose in 2007 to establish its e-commerce business. Appointed to the Waitrose Management Board as Personnel Director in 2010 and Retail Director in 2012. Joined the Partnership Board as Managing Director of Waitrose in 2016.

Other appointments: Trustee of The Prince's Countryside Fund.



Tracey Killen

Director of Personnel

Started current role: April 2007

Joined the Partnership Board: 2007

Length of time with Partnership: 33 years

Experience: Joined the Partnership in 1982 as an A-Level Trainee and held a variety of roles at John Lewis becoming Personnel Director for John Lewis in 2002. Joined the Partnership Board as Director of Personnel in 2007.

Other appointments: Director and Trustee of Roffey Park Institute Limited.



Patrick Lewis

Group Finance Director

Started current role: September 2015

Joined the Partnership Board: 2009

Length of time with Partnership: 21 years

Experience: Joined the Partnership in 1994 and held a variety of roles before joining the Partnership Board as Partners' Counsellor in 2009. Became Managing Director, Partnership Services in 2012, and became Group Finance Director in 2015. Previously: Bain & Company, Procter and Gamble.

Other appointments: Non-Executive Chair of Trustees for 3BM, Director of Girls Education Company Limited (Wycombe Abbey School).



Andy Street CBE

Managing Director, John Lewis

Started current role: February 2007

Joined the Partnership Board: 2002

Length of time with Partnership: 30 years

Experience: Joined the Partnership in 1985 and held a variety of roles at John Lewis before becoming Supply Chain Director in 2000. Joined the Partnership Board as Director of Personnel in 2002, and appointed Managing Director of John Lewis in 2007. Awarded CBE in 2015 for services to the economy.

Other appointments: Lead Non-Executive Director at the Department for Communities and Local Government, Vice-Chairman of Performances Birmingham Limited, Chair of the Greater Birmingham and Solihull Local Enterprise Partnership (LEP).

Former Managing Director, Waitrose and Deputy Chairman of John Lewis Partnership



Lord Price CVO

Started role: April 2007

Joined the Partnership Board: 2005

Left the Partnership Board: March 2016

Length of time with Partnership: 33 years

As announced in October 2015, after a 33 year career, Lord Price stepped down as Managing Director of Waitrose and Deputy Chairman and left the Partnership on 3 April 2016.

Mark had a long and distinguished career with the Partnership and his leadership of Waitrose saw outstanding success. As a member of the Partnership Board for 11 years and Deputy Chairman since 2013, Mark played a key role in the Partnership. He is now the Trade Minister at the Foreign and Commonwealth Office and the Department for Business, Innovation and Skills. Formerly a Non-Executive Director on the Cabinet Office board and a Non-Executive Member and Deputy Chairman of Channel Four Television Corporation.

Elected Directors



Chris Coburn ^C
 Partner Communications Manager – Personnel, Waitrose
 Joined the Partnership Board: 2015
 Length of time with Partnership: 14 years
 Experience: Joined the Partnership in 2011 as a Selling Partner in Peter Jones and went on to join the management training programme. Elected to represent Peter Jones Partners on the Partnership Council in 2012. Joined the Partner Group in 2013 and became its Chair later that year. Previously: Lillywhites.



Steve Gardiner ^{N R}
 Branch Manager, Waitrose Cirencester
 Joined the Partnership Board: 2012 (re-elected 2015)
 Length of time with Partnership: 20 years
 Experience: Joined the Partnership in 1996 as a Management Trainee for Waitrose. Managed branches in Coulsdon and Weybridge before being appointed as Branch Manager at Waitrose Cirencester. Elected as one of the Partnership Councilors for Waitrose Group G in 2009. Previously: Safeway, Marks & Spencer.



Kim Lowe ^{N A}
 Head of Branch, John Lewis Bluewater
 Joined the Partnership Board: 2007 (re-elected 2009, 2012 & 2015)
 Length of time with Partnership: 33 years
 Experience: Joined the Partnership in 1982 as a Selling Assistant. Moved to John Lewis Aberdeen in 1989 and promoted to General Manager in 2007. Subsequently Managing Director, John Lewis Glasgow and has been Head of Branch, John Lewis Bluewater since 2014. First became a Partnership Councilor in 2005.



Baiju Naik ^C
 Branch Manager, Waitrose Kings Road
 Joined the Partnership Board: 2015
 Length of time with Partnership: 18 years
 Experience: Joined the Partnership in 1997 on the Waitrose Graduate Trainee programme. Appointed Department Manager, Holloway Road in 1999 and promoted to Branch Manager in 2005. Manager at various branches, moving to Kings Road in 2013. Elected to Partnership Council in 2009 and re-elected in 2012.



Lucy Parks ^R
 Editor, John Lewis Chronicles, Group
 Joined the Partnership Board: 2015
 Length of time with Partnership: 14 years
 Experience: Joined the Partnership in 2002 as Editor of the John Lewis Oxford Street Chronicle. Became Editor, Chronicles in 2006 and subsequently Editor, John Lewis Chronicles. Elected to Partnership Council for Group Offices in 2009 and re-elected in 2012. Previously: 20-year career in local and national newspapers.

Partners' Counsellor



Jane Burgess ^{A C}
 Joined the Partnership Board: 2012
 Length of time with Partnership: 36 years
 Experience: Joined the Partnership in 1975 as an A level Trainee. After holding a variety of roles became Divisional Registrar and a member of the Waitrose Management Board in 2002. In 2009 became Deputy Partners' Counsellor and in 2012 took up her role as Partners' Counsellor.

Non-Executive Directors



Denis Hennequin ^{N R C}
 Non-Executive
 Director and Chair of the Remuneration Committee
 Joined the Partnership Board: 2014
 Experience: President of McDonald's Europe from 2005 to 2010. Chairman and CEO of Accor SA until 2013.
 Other appointments: Non-Executive Director of Eurostar, SSP Group plc and "l'Oréal Fontaines". Chairman of e-house (Eurostar Hotels), Director of Cojean Restaurant Investments, Chief Executive Officer of Cojean International Limited.



Baroness Hogg ^{A R}
 Non-Executive Director and Chair of the Audit and Risk Committee
 Joined the Partnership Board: 2011
 Experience: Chairman of the Financial Reporting Council until 2014, Chairman of 3i Group until 2010 and Head of Prime Minister's Policy Unit 1990-1995. Created a Life Peer in 1995.
 Other appointments: Lead independent Director of HM Treasury, Member of the Takeover Panel, Independent National Director of The Times, Non-Executive Director of the Financial Conduct Authority.



Keith Williams ^{ACA N A C}
 Deputy Chairman of the John Lewis Partnership, Non-Executive Director, Chair of the Corporate Responsibility Committee and Deputy Chair of the Chairman's Nominations Committee
 Joined the Partnership Board: 2014
 Experience: Chairman and Chief Executive of British Airways until he retired at the end of March 2016. Previously: Reckitt and Coleman, Apple Computer Inc, Boots.
 Other appointments: Deputy Chairman of John Lewis Partnership Trust Limited, Independent Non-Executive Director of Transport for London.

General Counsel and Company Secretary



Keith Hubber
 Started current role: February 2015
 Length of time with Partnership: One year
 Experience: Qualified solicitor. Prior to joining the Partnership he held a number of roles within BG Group plc, including Company Secretary and Deputy General Counsel. Previously a lawyer in private practice and an officer in the Royal Navy.

Key

- ^N Member of Chairman's Nominations Committee
- ^A Member of Audit and Risk Committee
- ^R Member of Remuneration Committee
- ^C Member of Corporate Responsibility Committee

How power is shared (continued)

The Partnership Board (continued)

What are the responsibilities of the Partnership Board?

The role and responsibilities of the Partnership Board, as one of the governing authorities of the Partnership, are set out in the Constitution under Rules 38 to 40.

The Partnership Board has ultimate responsibility for approving major policy and strategy decisions, and allocating the financial and other resources of the business. It is also responsible for reviewing the effectiveness of the Partnership's internal controls, including financial, operational, compliance and risk management systems, and for determining appropriate risk levels to achieve strategic objectives.

It is responsible for the overall management and performance of the Partnership, and operates within a framework of internal controls, designed to ensure risk is assessed and managed. It is collectively responsible for the success of the Partnership and operates within a framework of reserved matters, delegations and assurance.

Quorum: Three members.

How often does the Partnership Board meet and what does it discuss?

The Partnership Board met 11 times during the reporting year and the members' attendance is detailed in the table on this page. The Partnership Board agrees the Partnership's strategy, business plan and annual budgets, including those of Waitrose, John Lewis and Partnership Services and Group. It approves and monitors the Partnership's revenue and capital spending and determines each year the amount of the Partnership's profits that should be reserved for the maintenance and development of the Partnership's business, and hence the rate at which the Partnership Bonus may be paid. It also monitors performance, including that of the Divisions, against business plans, budgets and forecasts.

The members of the Partnership Board and their attendance at Partnership Board meetings during 2015/16 were as follows:

Member	Meetings attended/eligible to attend
Executive Directors	
Sir Charlie Mayfield (Chairman)	11/11
Lord Price*	10/11
Tom Athron – appointed 5 October 2015	4/4
Tracey Killen	11/11
Patrick Lewis	11/11
Andy Street	10/11
Former Executive Directors	
Loraine Woodhouse – resigned 13 September 2015	7/7
Partners' Counsellor	
Jane Burgess	11/11
Elected Directors	
Chris Coburn – appointed 17 April 2015	9/9
Steve Gardiner	11/11
Kim Lowe	11/11
Baiju Naik – appointed 17 April 2015	9/9
Lucy Parks – appointed 17 April 2015	9/9
Former Elected Directors	
Kate Brewer – term expired 16 April 2015	2/2
Kevin Payne – term expired 16 April 2015	2/2
Dan Smith – term expired 16 April 2015	2/2
Non-Executive Directors	
Denis Hennequin	10/11
Baroness Hogg	9/11
Keith Williams	9/11

* Since the year-end, Lord Price ceased to be a Director of the Partnership Board on 18 March 2016. Since the year-end, Rob Collins was appointed a Director of the Partnership Board on 4 April 2016.

In addition to the 11 full Partnership Board meetings above, the Partnership Board also met on a quorate basis on two occasions. These quorate meetings were constituted by the Partnership Board from those members available at that time, to approve the final form of the announcements for the full and half year results.

Senior executives attend Partnership Board and Committee meetings as appropriate to support business proposals, investments and report on material matters in relation to the business. Partnership Board members are given relevant and timely documentation in advance of each Partnership Board and Committee meeting.

The Partnership Board agendas are structured to create sufficient time for strategic discussion and debate. This includes both the business plan and focus on the longer term direction of the Partnership, It's Your Business 2028. See pages 14 to 27 for more on how the Partnership is looking to 2028.

What other Committees assist the Partnership Board?

The Partnership Board is assisted in carrying out its oversight and assurance responsibilities by its committees: the Audit and Risk Committee, the Corporate Responsibility Committee, the Chairman's Nominations Committee and the Remuneration Committee. The responsibilities of these committees are set out in each committee's report, and their respective terms of reference are available at

www.johnlewispartnership.co.uk

The Audit and Risk Committee report can be found on page 82, the Corporate Responsibility Committee report on page 88, the Chairman's Nominations Committee report on page 90, and the Remuneration Committee report on page 94. As a consequence of the appointment of three new Elected Directors in April 2015, the membership of the Committees was reviewed, resulting in various changes of membership. Charts detailing Committee membership and meeting attendance are included in each Committee's report.

From time to time, the Partnership Board also delegates authority to ad hoc committees to help finalise matters within agreed parameters set by the Partnership Board.

The Partnership Board members in more detail

Chairman

Sir Charlie Mayfield holds the position of Chairman. This is an executive role. He is Chairman of the Partnership Board by virtue of his appointment as the Chairman of the Trust Company. More information about the Chairman's role as a governing authority can be found on page 65, and in 'Our governance model is different' on page 76.

Deputy Chairman

Keith Williams holds the position of Deputy Chairman of the Partnership Board by virtue of his position as Deputy Chairman of the Trust Company. He succeeded Lord Price who held the role until 3 April 2016. He is also a Non-Executive Director, Chair of the Corporate Responsibility Committee and Deputy Chair of the Chairman's Nominations Committee.

The Deputy Chairman acts as a sounding board for the Chairman and the other Directors and is available to Partners if they have concerns.

Executive Directors

The Executive Directors at the date of this report are Tom Athron, Rob Collins, Tracey Killen, Patrick Lewis, Sir Charlie Mayfield and Andy Street.

During the year under review, Patrick Lewis, already a member of the Partnership Board as Managing Director of Partnership Services, was appointed Group Finance Director with effect from 14 September 2015. He succeeded Loraine Woodhouse who was appointed Acting Group Finance Director on 1 December 2014 and is now Finance Director of Waitrose.

Tom Athron, formerly Finance Director of Waitrose, joined the Partnership Board as Group Development Director on 5 October 2015.

After a 33 year career, Lord Price ceased to be a Director of the Partnership Board on 18 March 2016 and stepped down as Managing Director of Waitrose and Deputy Chairman of the Partnership on 3 April. Rob Collins, formerly Waitrose's Retail Director, was appointed to succeed Mark as Managing Director of Waitrose and joined the Partnership Board on 4 April 2016.

The appointment of Executive Directors is subject to a recommendation by the Chairman and overseen by the Chairman's Nominations Committee, which takes into account, among other things, the make-up of the Partnership Board and its balance of skills, experience and diversity.

Partners' Counsellor

The Partners' Counsellor, Jane Burgess, is appointed by the Chairman and is a member of the Partnership Council and a Director of the Partnership Board in accordance with Rule 82 of the Constitution.

The Partners' Counsellor seeks to ensure that the Partnership is true to its principles and compassionate to individual Partners. The Partners' Counsellor has responsibility for the independence, health and effectiveness of the Partnership's elected representative bodies, and for developing detailed guidelines for them.

She is responsible for Registry, which is an independent function that reports to the Chairman and assures the application of the Partnership's Principles within the business, whose purpose is to ensure Partners' views and opinions are heard.

The relationship between the Partners' Counsellor, Elected Directors and Partners enables Partners' views to be communicated to the Partnership Board as a whole, allowing the Partnership Board to maintain a balanced understanding of the issues and concerns of Partners.

How power is shared (continued)

The Partnership Board (continued)

Elected Directors

As set out in the Constitution, five Partners are elected to the Partnership Board. The Elected Directors at the date of this report are Chris Coburn, Steve Gardiner, Kim Lowe, Baiju Naik and Lucy Parks.

At the end of each three-year term of the Partnership Council, Elected Directors are appointed through a democratic voting process. The last elections took place on 25 March 2015 when three new Elected Directors, Chris Coburn, Baiju Naik and Lucy Parks, were elected, and Steve Gardiner and Kim Lowe were re-elected. While Elected Directors must act in accordance with their statutory duties, through their constitutional role they must remain mindful of Partners' best interests. The Elected Directors are Partners, but they are independent of the management of the Partnership and they have no executive responsibilities on the Board.

Non-Executive Directors

The Non-Executive Directors at the date of this report are Denis Hennequin, Baroness Hogg and Keith Williams.

Baroness Hogg's current term of office is due to expire in April 2017. Denis Hennequin and Keith Williams were appointed as Non-Executive Directors on 1 March 2014 for an initial term of three years. Keith Williams' term as a Non-Executive Director was extended for a further two years to March 2019 on his appointment as Deputy Chairman of the Partnership.

Together, they bring external, independent and objective judgement to the Partnership Board.

The Partnership Board reviews the independence of all Non-Executive Directors annually and has determined that they continue to be independent from management of the Partnership. The Board is also confident that none of the Non-Executive Directors have any cross-directorships or significant links to other organisations that would adversely interfere with their independent judgement.

Non-Executive Directors are not eligible to receive Partnership Bonus or other benefits, and are not members of the Partnership's pension schemes.

The letters of appointment of the Non-Executive Directors are available on request from the General Counsel and Company Secretary.

Senior Independent Director

The Partnership Board does not appoint a Senior Independent Director (see page 76 for more information).

Meetings without the Executive Directors

In addition to attending Partnership Board meetings, the Non-Executive Directors and the Elected Directors met together without the Executive Directors three times during the year. These meetings were facilitated by the Partners' Counsellor.

Retirement by rotation

The Partnership does not operate a system of retirement by rotation or annual election by shareholders (see page 76 for more information). The Partnership Board considers that accountabilities exists to ensure compliance with the Partnership's Constitution, especially Principle 1.

Conflicts of interest and Board independence

The Partnership Board has determined that the composition of the Board provides a balanced leadership, appropriate for a business that is co-owned by Partners. Together, Elected Directors and Non-Executive Directors form a majority of the Partnership Board.

Directors are required to disclose their interests to the Board, highlighting any actual or potential conflicts of interest with their duties and responsibilities as a Director of the Partnership. The Board will consider any actual or potential conflicts which are disclosed and, if appropriate, approve them. A register of interests is maintained by the General Counsel and Company Secretary and reconfirmed every six months for the whole Board.

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 in accordance with the Company's Articles of Association and service contracts between each Executive Director and the Company.

The Partnership Board has looked closely at the other appointments held by Directors, details of which are contained in their biographies on pages 66 to 67. The Partnership Board considers that the Chairman and each Director are able to devote sufficient time to fulfil the duties required of them under the terms of their contracts or letters of appointment.

Directors' and Officers' liability insurance

The Partnership has purchased and maintained throughout the year Directors' and Officers' liability insurance in respect of itself and its Directors.

The Directors' and Officers' liability insurance provides cover for claims made, subject to certain limitations and exclusions, against Directors and key managers (Officers).

The Company also provides an indemnity for the benefit of each trustee of the Partnership's Pension Fund, in respect of liabilities that may attach to them in their capacity as a trustee. As a former Trustee of the Partnership's Pension Fund, Patrick Lewis has the benefit of this indemnity in relation to his term as trustee from August 2009 to September 2015.

Effectiveness of the Partnership Board

2014/15 Board and Committee Evaluation

As stated in last year's report, following the 2014/15 evaluation the General Counsel and Company Secretary reviewed the results and made recommendations to the Board. The key themes from this review were:

Strategy: The Chairman continued to encourage greater strategic focus at Board meetings during the year; particularly through work on financial strategy, pay and progression, and the early stages of It's Your Business 2028 to develop the long-term strategy for the Partnership.

Board and Committees: The evaluation confirmed that the Board Committees were performing their duties effectively but there would be benefit in establishing a Corporate Responsibility Committee to provide a specific focus for corporate responsibility matters within the Partnership and reduce the workload of the Audit and Risk Committee. The new Committee was established by the Board in September 2015 and met for the first time in December 2015.

In order to strengthen the financial expertise on the Audit and Risk Committee, two new independent external members have been appointed, both having recent and relevant financial experience (see page 82 for more details).

The Board and Committee meeting schedule was reviewed and adjusted to provide optimal opportunity for Committee reports to be made to the Board.

Board and Committee papers: It was acknowledged that improvement could be made to the format of Board papers. A recommendation was made to adopt standardised papers and guidelines were issued to the Divisions and Group Functions on the format, length and content for Board and Committee papers with the aim of them being shorter and structured in such a way to facilitate better discussions.

2015/16 Board and Committee Evaluation

During November and December 2015, the Board undertook an internal evaluation of its effectiveness and the effectiveness of its Committees. This was conducted through a series of one-to-one discussions between the General Counsel and Company Secretary and each member of the Partnership Board (other than the Chairman). The discussions focussed on the topics of: management of the Board (the Board's agenda); risk management; board dynamics (how the Board operates as a group); Board and Committee effectiveness (Governance); and Board support.

The key themes arising from the evaluation were:

Strategy: There was broad agreement that the Board and its Committee, had continued to develop agendas to increase strategic focus. The Board recognised the importance of focussing during the forthcoming year on progressing the It's Your Business 2028 work streams of: strengthening the Partnership's financial position; that there must be better jobs for better performing Partners on better pay; that brand appeal must be stronger with new growth established; and that the democratic vitality of the Partnership be enhanced. Over the course of the year consideration will be given to whether there is scope to further increase the strategic focus by delegating more routine matters to the Executive and the Board Committees.

Board and Committee papers: There was agreement that the review and guidance issued on Board and Committee papers following the previous Board evaluation had resulted in a marked improvement in the timeliness and quality of board papers that were now shorter and standardised, allowing for more strategic focussed discussions.

Independent professional advice

All Directors of the Partnership Board have unrestricted access to the General Counsel and Company Secretary and to other executives within the Partnership, on any matter of concern to them in relation to their duties. The Partnership has undertaken to reimburse legal fees to the Directors if circumstances should arise in which it is necessary for them to seek separate, independent legal advice in order for them to carry out their duties effectively.

General Counsel and Company Secretary

Keith Hubber is the General Counsel and Company Secretary. As Company Secretary, he is responsible for advising the Partnership Board on all corporate governance matters, ensuring that Board procedures are followed, that there is a good flow of information, facilitating induction programmes for new Directors, and assisting with Directors' continuing professional development.

Annual General Meeting (AGM)

The Partnership's AGM is held and conducted in accordance with the Companies Act and the Company's Articles of Association. Representatives of the Trust Company and the Directors of the Partnership are entitled to attend the AGM. Voting is conducted by way of a show of hands, unless a poll is demanded. See page 162 for the Notice of AGM.

Partners' rights and responsibilities

Under the Constitution every Partner is responsible for knowing, complying with and upholding the Partnership's Principles and those Rules which concern them.

□ Please see the Partnership Council report for more information on how Partners' opinion is voiced through the Partnership Council. Pages 78 to 81 >

What is the Partner's role in how the Partnership is governed?

Our Partners are able to influence business decisions at all levels of the Partnership through the democratic structure and representative bodies that are set out in our Constitution. The governing authorities' power to direct the Partnership's affairs depends on the consent of Partners. Partners express their opinions through:

- Formal arrangements for sharing knowledge, such as the open system of journalism for the Gazette and the annual Partners' Survey
- Representative bodies, as shown on page 64
- Through personal contact between Partners and their line managers

How do Partners share in profit?

Our success depends on the collaboration and contribution of our Partners who, in return, receive a share of profits in the form of Partnership Bonus. See page 3 for more information on this year's Partnership Bonus.

The Partnership operates BonusSave, a Share Incentive Plan ('the Plan'), which is available to all Partners in the UK and has been approved by HMRC. In conjunction with the announcement of the annual results, Partners are invited to enter into a savings contract under the Plan to save up to a maximum of £5,400 in any one year from Partnership Bonus. The Plan allows for the investment made by Partners to be held in shares in the Partnership, in a class created specifically for this purpose known as SIP Shares. Details of SIP Shares can be found in note 5.5. The SIP Shares do not carry voting rights, cannot be sold or transferred out of the Partnership and are, at all times, held in trust for the benefit of the respective Partners in the name of the Trust Company.

Sharing knowledge and relations with Partners

Partners are provided with the knowledge they need to fulfil their responsibilities as co-owners of the Partnership. The Code requires that boards should 'maintain a dialogue with

shareholders based on mutual understanding and objectives'.

The Partnership Board is committed to regular dialogue with Partners, as co-owners of the Partnership and in accordance with Principle 1. Partners are updated weekly on the performance of the Partnership through the Gazette magazine, other journalism and the Partner Intranet. There is a regular flow of information at all levels of the business through meetings held by elected councils and local forums and an open system of journalism operated through the Gazette, which also enables Partners to submit questions to management on any subject. Questions are answered within 21 working days. The Gazette is published weekly and made available to all Partners.

During Council and forum meetings and through the Gazette, Executive Directors and senior management are able to share the Partnership's objectives and discuss performance against those objectives. Partnership Board Directors also attend Partnership Council meetings. Each of these information-sharing opportunities, as described above, enables all Directors to develop an understanding of Partners' views and to act upon them. In turn, Partners are enabled to influence decision-making.

Through our website, we share information with Partners and financial stakeholders (primarily the Partnership's relationship banks and bond holders, as well as preference share holders) on the financial performance of the Partnership and where practical to do so, invite representatives of the investor community to attend our trading updates in person. This gives an opportunity for the investor community to hear from, and engage with, the Partnership's senior management.

Equal opportunities

The Constitution provides for the democratic involvement of employees (our Partners) as co-owners of the business. Partners are provided with extensive information on all aspects of business operations, including

economic and financial factors affecting performance, and are encouraged to take an active interest in promoting the Partnership's commercial success. All Partners can benefit from the Partnership's training and development policies, and further information can be found on page 49.

The key purpose of our Equal Opportunities Policy is to provide equality and fairness for all those who work for the Partnership by creating an environment free from discrimination, where all Partners are given equal opportunities to develop and progress. The Partnership aims to develop and maintain a workforce that is fully representative of the society in which it trades, where every Partner feels respected for their contribution, works to the best of their ability and feels supported to develop to their full potential. The Partnership seeks to offer all Partners equal opportunity to grow their careers and develop their pay based on individual contribution.

This applies as equally to our Partners with a disability as it does to any other group covered under protected characteristics. The Partnership recruits people with disabilities to suitable vacancies on merit. Where disability occurs during the period of employment, every effort is made to continue to provide suitable employment with the provision of appropriate training.

Discrimination on the grounds of disability is prohibited by the law and this is reflected in the Equal Opportunities Policy. This includes direct and indirect discrimination, any unjustified less favourable treatment because of the effects of a disability, and failure to make reasonable adjustments to alleviate disadvantages caused by a disability.

Diversity and inclusion

The Partnership seeks to embrace diversity. The Partnership Board is therefore committed to providing equal opportunities for all in employment at all levels of the organisation, regardless of individual differences such as gender and ethnic origin. Further information can be found on pages 48 to 50.

Responsibilities to others

The terms of our Constitution clearly define how the business and individual Partners are expected to behave – towards customers, suppliers, the environment, wider community and each other.

For further detail on our approach to responsible business, please see www.johnlewispartnership.co.uk/csr

The Partnership's approach to responsible business today is centred on five of its key Principles and Rules:

Our Partners

Pages 48 to 50 >

The Partnership is the general body of Partners, working together for the success of the business to fulfil the purpose and principles of this Constitution. Principle 4

Our Customers

Page 44 >

The Partnership aims to deal honestly with its customers and secure their loyalty and trust by providing outstanding choice, value and service. Principle 5

Our Communities

Page 45 >

The Partnership aims to obey the spirit as well as the letter of the law and to contribute to the wellbeing of the communities where it operates. Principle 7

Sourcing responsibly

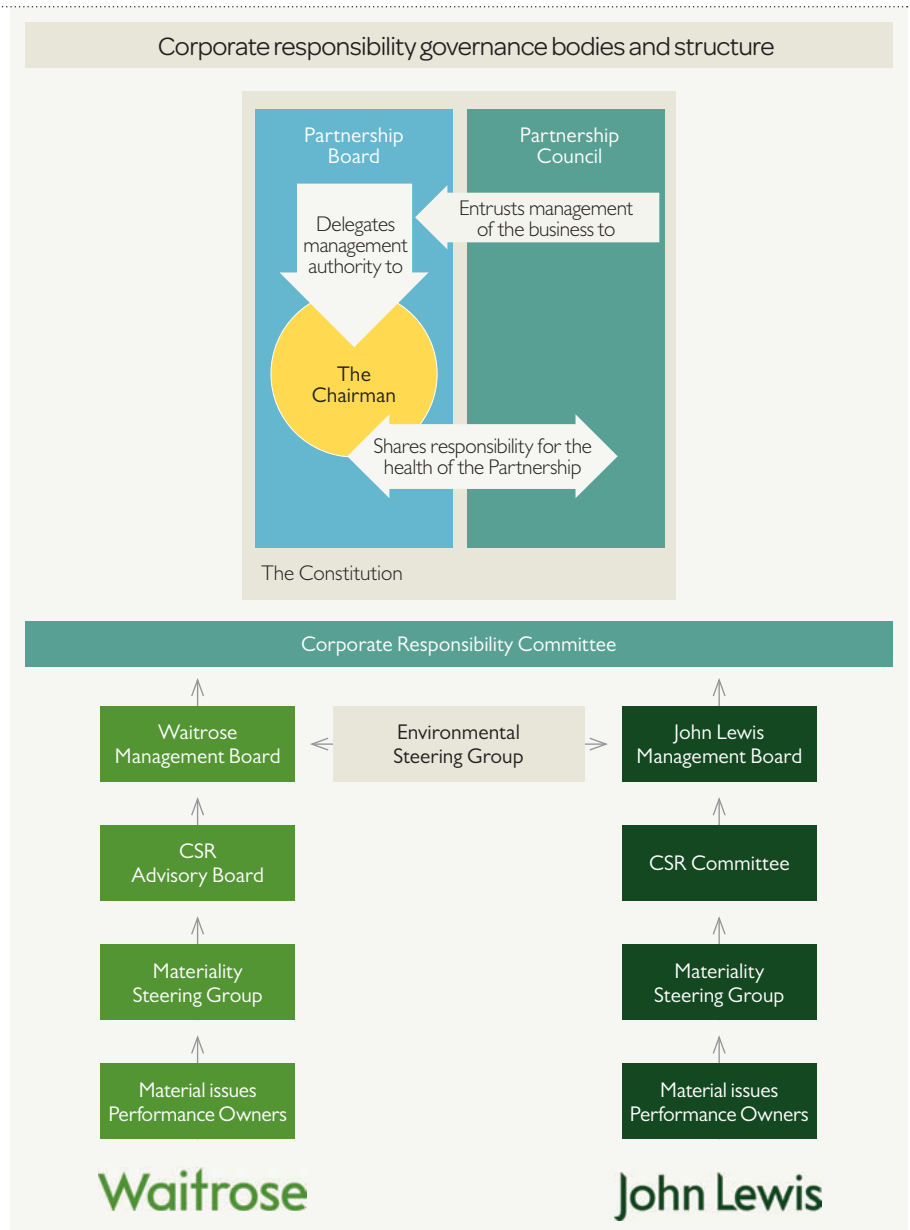
Page 46 >

The Partnership's relationships with its suppliers must be based, as with its customers, on honesty, fairness, courtesy and promptness. It looks for a similar attitude throughout its supply chains. In particular, the Partnership expects its suppliers to obey the law and to respect the wellbeing of their employees, their local communities and the environment. Rule 96

Our Environment

Page 47 >

The Partnership must take all reasonable steps to minimise any detrimental effect its operations may have on the environment, and to promote good environmental practice. Rule 109



Responsibilities to others (continued)

How is sustainability in the Partnership governed?

We have refreshed our governance arrangements to ensure they provide strategic direction and a sound system of internal control.

In 2015/16, oversight of Corporate Responsibility became the responsibility of a newly created Corporate Responsibility Committee, see page 88.

In turn, the Divisional Management Boards, supported by Divisional CSR Committees and steering groups, are responsible for implementing our Corporate Responsibility Policy within their Division. The Partnership's Corporate Responsibility team is responsible for developing the sustainability strategy, policies and objectives for the business. The team, with its technical knowledge and expertise, supports the Divisional teams and the wider business by providing guidance and support to deliver a wide range of projects and initiatives.

Human rights

Respecting the rights of the people that we interact with has always been integral to the John Lewis Partnership. Our business is underpinned by an intricate and often complex value chain. We depend on farmers and growers, producers and manufacturers, packers and drivers, suppliers and – of course – the Partners who serve our customers every day.

As we grow and develop as a business and predict and respond to external trends, we must stay true to the commitments set out in our Constitution and strive to uphold the rights of those people with whom we interact.

The people we interact with

In 2015, we carried out a detailed review of our approach to human rights drawing on stakeholder insight, the United Nations Guiding Principles on Business and Human Rights (UNGPs) and a detailed analysis of our potential business impacts.

We identified Partners, customers and workers in the supply chain as the groups where our sphere of influence is greatest. We have followed the UNGPs and the recently published Reporting Framework to analyse these groups and have engaged stakeholders along the way to understand the challenges that they face and identify the most salient issues.

Given the complexity of retail supply chains and the challenges that this brings, we have focussed much of our work on workers in the supply chain. An important part of this has been the development of our strategic plan for the Ethical Trading Initiative (ETI).

Framing our activity

To better understand the systemic issues and risks for workers, we mapped our supply base and analysed a range of external resources including the Maplecroft Global Risk Assessment Tools and industry reports. We then tested our thinking with a range of stakeholders. For example, in 2015 we held a stakeholder breakfast with leading thinkers in this area and used their feedback to refine our strategy.

This analysis of underlying trends across our supply chains has led to the development of programmes to drive improvements in priority areas where the human rights risks are significant and where we can have the greatest impact.

These programmes build on our established due diligence, monitoring and remediation programmes. They include activities to improve worker engagement, protect vulnerable workers, manage informal supply chains, health and safety and worker wages.

As a Partnership, we believe that by sharing knowledge and power with our Partners we create a more successful business and a more satisfying place to work. Building on this ethos, we want to ensure that a core part of our strategy is to promote the principles of worker engagement through our supply chain.

Identification and support for vulnerable workers is a key priority for the Partnership. Within temporary, migrant and seasonal worker populations there are risks of forced labour and human trafficking – sometimes referred to as modern slavery.

We welcomed the UK's Modern Slavery Act and the duty it places on businesses to publicly disclose the steps they are taking to tackle forced labour and human trafficking.

Victims of modern slavery experience some of the most severe breaches of human rights in the world today. This is irreconcilable with the values of the Partnership and we are committed to tackling this crime.

Addressing modern slavery is a core part of our human rights and responsible sourcing strategy. We have published a human rights report to share this strategy.

For further detail, see our Human Rights & Modern Slavery Report 2015/16 www.johnlewispartnership.co.uk

Groceries (Supply Chain Practices) Market Investigation Order 2009 ('the Order') and the Groceries Supply Code of Practice ('GSCoP')

As required by the Order and the GSCoP, the Code Compliance Officer is obliged to present a report detailing Waitrose's compliance to the Partnership's Audit and Risk Committee. The Audit and Risk Committee noted that during the period two suppliers had claimed specific breaches of the GSCoP and that both instances had been satisfactorily resolved by the Commercial Buying team.

Given the above, Waitrose has remained compliant with the Order and the GSCoP during the period and continues to ensure that its comprehensive Partner training programme (including annual refresher and new starter training), together with the ongoing monitoring of supplier contracts, promotes the necessary awareness and behaviours in order to ensure compliance.

The Audit and Risk Committee also noted that Waitrose's approach to GSCoP compliance reflects the Partnership's commitment to its overarching principle of fairness that has always governed its relationships with suppliers.

The Audit and Risk Committee, which met on 12 April 2016, approved the Code Compliance Officer's report on Waitrose's compliance for the 52 weeks ending 30 January 2016 and agreed onward submission to the Groceries Code Adjudicator and Competition and Markets Authority.

Our Governance model is different

The Partnership operates under a written Constitution. The Constitution provides the Principles and Rules within which we aim to demonstrate, through Partners, customers and profit, that we are a better form of business.

Our Governance model is different

The Partnership was one of the first UK businesses to have a written constitution establishing its governance structure. This was well before the advent of modern standards of corporate governance and the development of the framework of legislation, regulation and best practice standards in place today, including the UK Corporate Governance Code (the Code). In this section we explain how our governance structure is different to companies subject to the Code.

The Founder of the Partnership, John Spedan Lewis, recognised that it was essential to safeguard the values which had motivated him to sign away his personal ownership rights in a growing retail company to allow future generations of employees to take forward his vision of 'industrial democracy'. Therefore he wanted to leave some clear guidelines for his successors, which were enshrined in the Trust settlements and Constitution.

The Partnership's governance structure has seen the business flourish since 1928, through periods of economic recession and uncertainty, numerous world events, changes of government and seismic changes in customer behaviour and selling channels.

Throughout this time, the Principles of the Constitution have endured and generations of Partners have shared in the rewards of success. The challenge for Partners of today is to prove that a business which is not driven by the demands of outside shareholders and which sets high standards of behaviour can flourish in competitive conditions. The Partnership aims to demonstrate that adhering to the Constitution's Principles and Rules enables us over the long-term to outperform companies with conventional ownership structures.

The Code was not written with co-owned businesses in mind. It was developed to protect shareholders of quoted companies as a guide to effective board practice and is based on the underlying principles of good governance: accountability, transparency, probity and focus on the sustainable success of an entity over the longer term.

Although the Partnership is exempt from compliance with the Code as it has no tradable equity capital listed on the London Stock Exchange, the Partnership Board has voluntarily adopted the Code on a comply or explain basis. The Code recognises that alternative governance arrangements may be justified, if good governance can be achieved by other means. As the Partnership's Constitution and co-ownership model established its own unique governance structure, there are certain areas where the Partnership's governance arrangements are distinctly different and do not comply with the Code.

While being different, the Partnership's governance model is broadly consistent with each of the Code's Principles and offers the appropriate level of protection to Partners and other stakeholders. The Partnership acknowledges these differences as being part of the governance model that works for this business and has done so since 1928.

The main areas of difference are:

We do not have a separate Chairman and Chief Executive

[Page 76 >](#)

We do not have a Senior Independent Director

[Page 76 >](#)

A majority of the Partnership Board are not Non-Executive Directors

[Page 76 >](#)

Our Directors do not retire by rotation

[Page 76 >](#)

Our Board Committees are different

[Page 77 >](#)

The Code

The Code, published by the Financial Reporting Council, is available to view at www.frc.org.uk. The Code was last updated in September 2014. Reporting on the revised Code provisions is included in this Annual Report and Accounts on page 99 in relation to Going Concern, page 54 in relation to an assessment of the principal risks facing the Company, page 99 for an assessment of the long-term viability of the Company, and pages 52 to 54 for details of how the Partnership Board monitors the Company's risk management and internal control systems.

Our Governance model is different (continued)

We do not have a separate Chairman and Chief Executive

[□□ The Chairman and his role and responsibilities Page 65 >](#)

The Chairman is one of the three Governing Authorities as set out in the Constitution. The Constitution applies Code Principle A.2 by means of a number of checks and balances on the powers of the Chairman. He is accountable separately to the Partnership Council and to the Partnership Board, and delegates part of his management authority to the Divisional Managing Directors.

Additionally, the Partner's Counsellor and Elected Directors, whose roles are detailed on pages 69 and 70, are able to monitor first-hand how the business is being run, with the particular perspective of Partners and the Constitution.

Code Principle A.2 states there should be a clear division of responsibilities at the head of the Company between the running of the board (the role of the chairman) and the executive responsibility for the running of the Company's business (the role of the chief executive) and Code Provision A.2.1 states that these roles should not be exercised by the same individual. This supports the Code Principle that no one individual should have unfettered powers of decision.

We do not have a Senior Independent Director (SID)

The Partnership Board does not appoint a SID. The functions contemplated by this Code Provision are split across the responsibilities of Keith Williams as Deputy Chairman and Jane Burgess as Partners' Counsellor.

[□□ The role of the Deputy Chairman and Partners' Counsellor Page 69 >](#)

The Deputy Chair of the Chairman's Nominations Committee, who is a Non-Executive Director, oversaw the performance appraisal process for the Chairman. The appraisal process takes a number of factors into account, such as his performance as Chairman of the Partnership Board, as 'guardian' of the Constitution, and as leader of the Partnership's Executive.

The process therefore draws on the views of other members of the Board both through the Board Evaluation and separate meetings between the Deputy Chairman and other members of the Partnership Board, the Partnership Council through the 'holding to account sessions', and the Partnership's senior executives. In addition, the Chairman also provides the Committee with his own assessment of his performance.

This differs from Code Provisions A.1.2, A.4.1, A.4.2 and B.6.3 that one of the Non-Executive Directors is appointed as the SID to provide a sounding board for the Chairman, and to serve as an intermediary for the other Directors, lead the performance evaluation process for the Chairman and that this person is identified in the Annual Report and Accounts.

A majority of the Partnership Board are not Non-Executive Directors

[□□ More details on Board independence Page 70 >](#)

The Partnership Board reflects the stakeholders of the Partnership and has the appropriate balance of skills, experience, independence and knowledge. As at 30 January 2016, the Partnership Board included three Non-Executive Directors. The Partners' Counsellor and the five Elected Directors are neither Executive Directors nor Non-Executive Directors. However, they are not part of the executive, as they do not hold executive responsibilities, nor do they hold a Director's service contract. As Partners, they are co-owners of the Partnership.

While they are not independent (as defined by Code Provision B.1.1), they approach Partnership Board decisions and proposals by the executive from their perspective as Partners and co-owners. While they must act in accordance with their statutory duties as Directors, through their Constitutional position they are also mindful of Partners' best interests as a whole.

This Constitution differs from the Code, that does not contemplate co-owned businesses. Code Provision B.1.2 requires that at least half the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent. This supports the Code Principle that the Board should have the appropriate balance of skills, experience, independence and knowledge.

Our Directors do not retire by rotation

[□□ More about rotation of Directors Page 70 >](#)

In accordance with the Articles of Association, all Directors appointed by the Partnership Board are subject to re-election by shareholders at the first Annual General Meeting following appointment. However, the Partnership does not operate a system whereby all Directors are subject to annual election or re-election at three-year intervals.

As detailed on page 64, if the Council judges that the Chairman has failed to fulfil (or is no longer a suitable person to fulfil) the responsibilities of his office, it may propose a Resolution upon the Constitution to dismiss the Chairman.

The Elected Directors are appointed or re-appointed in accordance with the democratic process, by a vote of the Partnership Council during each three-year term of the Council (as detailed on page 70).

The Chairman, as the senior executive in the Partnership, is ultimately responsible for its commercial performance, including being responsible for the performance of the Directors, and is accountable to the Partnership Council twice a year, rather than annually at an AGM. These meetings are also attended by Partnership Board Directors. In addition, the Divisions operate Councils which enable Partners to review Divisional performance, future strategy and the direction of the Division and to hold the Directors responsible.

Code Provision B.7.1 states that all Directors of FTSE 350 companies should be subject to annual election by shareholders and all other Directors should be subject to election by shareholders at their first annual general meeting, followed by re-election at intervals of no more than three years.

The composition of our Audit and Risk Committee is different

[Full Audit and Risk Committee report](#)
Page 82 >

During the year, the Partnership Board's Audit and Risk Committee comprised at least two Non-Executive Directors, at least two Elected Directors and the Partners' Counsellor. This composition enables assurance and critical analysis of the business systems, operations and financial probity to be conducted with appropriate objective and independent scrutiny, while also mindful of Partners' interests.

Since the year-end, membership of the Committee has been further enhanced by the appointment on 2 March 2016 of two new external independent members with recent and relevant financial experience (see page 87).

This composition differs from Code Provision C.3.1, which states that the Board should establish an Audit Committee of at least three Independent Non-Executive Directors. This provision supports the Code principle that the Committee should be independent of executive management.

Our Nominations Committee is different

[Full Chairman's Nominations Committee report](#) Page 90 >

Under the Constitution, the Chairman is responsible for the appointment of the Executive Directors and co-ordinates their responsibilities. He therefore chairs the Chairman's Nominations Committee. The Committee also comprises two Non-Executive Directors and two Elected Directors. This provides a broad mix of members, including those mindful of Partners' interests as co-owners of the business.

In accordance with the Constitution, the Chairman is the Chairman of the Partnership Board, by virtue of his appointment as Chairman of the Trust Company. He nominates his successor in accordance with the Articles of Association of the Trust Company.

The Chairman's Nominations Committee oversees the process of nominating and appointing the Chairman. The Committee will, following consultation with the Chairman, inform the Board concerning the plans and the process for the Chairman's succession.

The Chairman's Nominations Committee oversees the process for Partnership Board appointments and makes recommendations to the Partnership Board. The Chairman's Nominations Committee takes no part in the appointment of the Elected Directors, which is overseen by the Partnership Council.

These arrangements differ from Code Provision B.2.1, which states that a Company's Nominations Committee be chaired by an independent Non-Executive Director, comprise a majority of independent Non-Executive Directors and lead the process for board appointments. This provision supports the Code principle that the process for nominating people to the Board is subject to independent review and not dominated by the executive.

Our Remuneration Committee is different

[Full Remuneration Committee report](#)
Page 94 >

The Remuneration Committee comprises two, rather than three, independent Non-Executive Directors and two Elected Directors. This provides a broad mix of members who are independent of executive management and mindful of Partners' interests.

This differs from Code Provision D.2.1, which states that the board should establish a remuneration committee of at least three independent Non-Executive Directors. This provision supports the Code principle that the committee should be independent of executive management.

The Remuneration Committee does not have delegated responsibility for setting the Chairman's remuneration, but instead recommends to the Partnership Board the remuneration package for the Chairman.

Under the terms of Rule 63 of the Constitution, the highest paid Partner's pay is subject to a cap by reference to a formula related to the pay of other Partners (see page 96).

Code Provision D.2.2 states that the remuneration committee should have delegated responsibility for setting remuneration for all Executive Directors and the chairman, including pension rights and any compensation payments. This provision supports the Code principle that remuneration should be set in a formal and transparent manner.

The Partnership Board does not determine the remuneration for Non-Executive Directors. Instead, this is the responsibility of the Elected Directors who are members of the Remuneration Committee and who receive a recommendation from the Director of Personnel, while also considering the Chairman's views and relevant market data provided by the independent external remuneration consultant.

Code Provision D.2.3 states that the board should determine the remuneration of the Non-Executive Directors. Where permitted by the Articles of Association, the board may, however, delegate this responsibility to a committee that might include the chief executive. The provision supports the Code principle that care should be taken to recognise and avoid conflicts of interest.

Partnership Council report



"Our focus this year has been on understanding the Partnership's long-term vision, with some lively accountability debates on pay, performance management, productivity and communications."

Jane Burgess
Partners' Counsellor

About the Partnership Council

Role of the Council

Partnership Council is central to the business' co-ownership structure, and its role is set out in the Constitution and described on page 64. As the most senior representative body of the members of the Partnership, it entrusts management of the business to the Partnership Board, which delegates its management authority to the Chairman (Rule 3). It is one of the Partnership's three governing authorities, along with the Chairman and the Partnership Board. All three are ultimately responsible for the success and wellbeing of the Partnership.

Council members

The Partnership Council currently consists of 65 elected members (38 Waitrose, 23 John Lewis, two Partnership Services and two Group), a President, three members appointed by the Chairman and the 15 members of the Board, who are automatically members. Over the past year, there have been two by-elections, and Council attendance averaged 97% of elected councillors.

Meetings and attendance

The Constitution requires that the Partnership Council meets at least twice a year.

Democratic engagement

Elected representatives

3,133
PartnerVoice

475
Forum

148
Divisional Councillors

65
Partnership Councillors

Meetings

2,036
PartnerVoice

108
Forum

12
Divisional Council

4
Partnership Council

PartnerVoice

3,133
Elected
representatives

71%
Turnout in
September 2015 elections

509
Leaders directly held
responsible by locally
selected representatives



"Why has it taken us so long to do something about the way we are?"

Tony Hagan
Waitrose Aylesford on Productivity

In this section

Elections

Committees

Priorities

Following the March 2016 meeting, an online poll recorded that the key topic from the meeting was Partners affected by the productivity review.

Elections

New Council – New President

The final meeting of the 2012-15 Council in March 2015 saw the handover from David Jones (President 2010-15) to Trevor Phillips. Not since 1928 has a non-Partner been elected to this position and the Council had unanimously agreed a change to the Constitution to make this possible.

Over the following two months, elections were held across the Partnership for the 2015-18 term. Constituency changes agreed by the Trustees of the Constitution included an increase in the number of Councillors representing Partnership Services as well as Waitrose and John Lewis head offices. Separate representation was also agreed for distinct operations such as Waitrose Welcome Break and Convenience/Shell, and continues for small, 'one off' units such as Herbert Parkinson, Leckford and the Partnership Hotels. In order to maintain the size of the Council agreed by the Democracy Commission in 2009, a number of John Lewis constituencies were enlarged (from two to three branches), whilst in Waitrose four Operations Groups are now represented by one rather than two Councillors.

A total of 171 candidates stood for the 65 seats, with only four Councillors elected unopposed and some seats contested by up to nine candidates. These were the first Partnership Council elections to be held online, building on the success of the new system used for PartnerVoice, Forum and Divisional Council elections and following shortly after the second online Partner Survey. Mindful of the impracticality of campaigning in person across large constituency areas, all candidates were invited to submit short 'hustings videos' which were published on the intranet and linked to the election site.

Turnout in the elections varied considerably, including some branches with a 100% record, but the overall Partnership total of 52% was lower than in recent years and has inevitably prompted calls for further discussion and investigation into the sharing of best practice. It has also proved a timely reminder of the responsibilities borne by managers, in particular, but also all Partners, to ensure that everyone plays their part in ensuring the Partnership's unique ownership structure is properly supported by its democratic vitality.

Around two-thirds of the Councillors are new to the role, with the proportion of managers continuing to rise.

Committees

New Councillors – New Committees

At the Council's first meeting in July 2015, chairs were elected for three of the Council's Specialist Groups:

- Steering Committee – Christopher Wright
- Partner Group – Claire Barry
- Use of Profit Group – Tricia Kirk

Members of the groups were elected, again using an online system, over the following weeks and in September it was agreed that the Co-ownership Group's name should revert to the Steering Committee, in line with the Divisional councils. The Partnership Council's fourth committee is the Partnership Financial Assistance Committee, members of which are elected in a two-stage process from the Partnership Council and then the wider Partnership. From amongst their membership John Betts was elected chairman in October.

Steering Committee

Terms of Reference: To organise the work of the Council so that it can best fulfil its responsibilities as a governing authority of the Partnership. Ten members plus the Partners' Counsellor. The President may also attend. In particular it:

- Works with the Partners' Counsellor to ensure that agendas are fully aligned with strategic priorities
- Coordinates the work of the other Specialist Groups
- Seeks to promote the Council as appropriate

The focus of the new committee has been on planning the most effective and efficient meetings, ensuring all Councillors are fully engaged in their new roles, making the best use of the technology available and able to prioritise time to enable proper preparation for meetings. The group have championed regular 'linkage' sessions at Council meetings, enabling updates both from other Specialist Groups and from Divisional councils and Group Forum. They are also examining the calendar of Council meetings, and in particular exploring whether this Annual Report and Accounts could form part of the meeting at which the Chairman is held to account for the Partnership's full-year results.

On the Council's behalf, and following the delegation agreed in October, the committee agreed a minor change to the Pension Scheme to remove an unintended disadvantage for Partners transferring from the Channel Isles to the mainland.

Partnership Council report (continued)

Partner Group

Terms of reference: To work principally with the Director of Personnel to gain an understanding of the Partner strategy and, in conjunction with the Steering Committee, to determine how discussion of that strategy and related issues can best enable the Council to fulfil its responsibilities as a governing authority of the Partnership. Ten members, with the Director of Personnel as the lead director.

Much of the group's work has inevitably been focussed on supporting debate around the 4Ps (see page 24) and pay review, but they have also been involved in more detailed discussions of sick absence management, the role of the Personnel Business Partner, learning agility, diversity, premium rates and earned membership. Additionally, the Partner Handbook makes it clear that the group has a specific role in the monitoring of our pay policy and being consulted on changes to policies.

Use of Profit Group

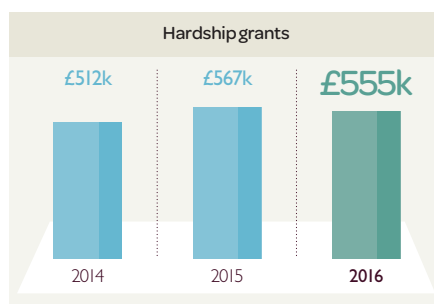
This is a new Council group reflecting a growing desire amongst Councillors and Partners alike, now that the important matter of our pension scheme expenditure has been 'settled', to examine how our remaining profit is shared. Its terms of reference (which include any expenditure related to Rules 19, 20, 64, 73 and 74 of the Constitution) are to work with the Partners' Counsellor and Director of Personnel (and their representatives) in the context of the legacy of the Founder, John Spedan Lewis, to:

- Gain an understanding of the range of benefits in the widest sense available to Partners today and how they add value to the Partner experience
- Consider and support the development of a suite of benefits for past, present and future Partners that adds value to the Partner experience, is relevant and affordable
- Determine how best to engage and enable the full Council to influence the future offer

The group's members recognise the long-term nature and potential consequence of their discussions and are keen to reflect the workplace, retail and society themes of It's Your Business 2028. Their meetings have so far focussed on building understanding around discount, leisure benefits, Partner support, catering subsidy, well-being and community.

Partnership Financial Assistance Committee (PFAC)

The committee is responsible for providing financial assistance to Partners in exceptional need (in accordance with Rule 64, Partners in exceptional need may receive financial assistance, normally through the Partnership Council or Divisional Councils, but also directly from management). On behalf of the Partnership Council, it administers discretionary awards of the Benefits in Retirement; exclusions from Partnership Bonus; leaving and wedding gifts.



Alongside hardship grants of £555,000 the Committee has made long service awards of £262,000 to those Partners celebrating 25 years service. Other gifts of £341,000 include wedding gifts to nearly 500 Partners and over 850 Partners receiving a leaving gift. Small gifts (usually flowers) were sent to 3,342 Partners who were away from work for more than four weeks due to sickness.

Priorities

New term – new priorities

Whilst the Council's role remains unchanged – holding the Chairman to account, influencing policy, making key governance decisions – they began their term in July with a distinct shift in priorities. Having spent two years reaching a landmark decision on pensions, the focus was now moving to the daily challenge of delivering on the Constitution, especially the happiness described in Principle 1, a responsibility the Council shares with the Board and the Chairman. Key to achieving that was a greater emphasis on Partners being effective and valued members of high performing teams and the Chairman set out some of the work that he had commissioned to set a vision for the future. It was at this Council meeting that It's Your Business 2028 and the 4Ps were first introduced to Partners (at exactly the same time as the Chancellor's budget speech was introducing the National Living Wage!), with more detail following at the Council's next meeting and its conference in November.

The new Council was already very much in tune with and energised by this emphasis on better performing Partners and in its examination of the 2015 Partner Survey results drew out several related themes. There was praise for progress on line management and IT as well as the level of advocacy amongst Partners in tough times, but some concern about lower scores for democratic engagement and leadership. This last point reflected a frustration reported by many Councillors that information about the Partnership's performance had not been sufficiently communicated to Partners ahead of what was then for many a surprisingly low Bonus.

There was also debate about the quality and quantity of Partners, since our score for 'we have enough Partners to get the job done' was further below the external benchmark than any other. Better training for Partners, more support with managing underperformance, concern for our reputation for excellent service as well as realism about what was affordable and the importance of continued improvement to productivity were all themes raised by Councillors.



"What is your message to Partners who don't want to change or can't change?"

Matthew Street
Waitrose Crowborough
on Pay/Performance
Management and It's Your Business 2028



The Council's second meeting provided an eagerly anticipated opportunity to begin to understand better the 4Ps. Councillors welcomed the detailed briefings and clear exposition of the potential cost of implementing the National Living Wage. A recurring theme was communication, since Councillors often find themselves privileged with the additional knowledge and understanding appropriate to their role as a governing authority and consequently under pressure to share and help explain the emerging detail that hasn't yet or doesn't quite filter down through the management cascade. Management were certainly keen to engage Partners in an issue that would clearly be pivotal to our future profitability, but Councillors were often involved at an early stage, before wider communication was planned and that creates an inevitable tension.

New vision – new style

In November, It's Your Business 2028 was formally launched with the Partnership's Leadership Team and, the following week, at the Partnership Council Conference. In tune with the development of a new long-term vision, preparation for Councillors was over a longer period than usual, making full use of the Council's Google community to share and comment on thought-provoking papers, films, presentations and TED talks, with Councillors completing surveys and polls to capture their views and ensure the best use of time with the Chairman. Council conferences usually review the last year and plan the agenda themes for the following 12 months, so looking 12 years ahead demanded a different approach, but it was one that inspired Councillors. Another first, and equally inspirational, was the 4Ps Expo which allowed Councillors face to face contact and in depth discussion with over 50 of the Personnel Partners leading the key developments that would support the delivery of better jobs, better performing Partners and better pay. As at the start of the 2012-15, Councillors were joined by their senior line managers to help ensure a shared understanding of the Council's role and the support and time required for Councillors to carry it out effectively.

New year – new Plan

At their January meeting Partnership Councillors as usual considered the long-term plans agreed by the Board in the autumn. This year the new Partnership Plan had a different 'shape', reflecting the direction emerging from It's Your Business 2028, and Council's discussion was able to touch on all six of the themes with the intention of returning in more detail to particular elements throughout the year. The future of our democratic vitality was the focus of the first day, asking Councillors to think radically not only about their own activities but also about the other representative bodies and our whole democratic structure.

Decisions

Much of the Council's activity centres on building knowledge and understanding in order to influence the development of policy and the success of the Partnership. But there are also some key decisions it makes, most important of which is holding the Chairman to account for his leadership and the progress of the Partnership towards achieving Principle 1. After debating the Partnership's half year results in October 2015 the vote in favour of the Chairman's leadership was passed unanimously. In March 2016, at the full year results stage, the vote was carried with one against and one abstention.

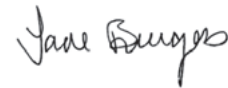
The Council also begins each term by formally agreeing its own procedures and delegations, which include empowering the PFAC to recommend to the Trustees on the Council's behalf when Bonus should be withheld from Partners who have been dismissed for serious misconduct. This year delegation was extended to the Steering Committee to agree minor changes to the Pension Scheme, with the proviso that any such proposals could be referred to the full Council should the Steering Committee feel it appropriate. The proposal was passed with one voting against.

A further formal, but nonetheless important agreement (unanimous) was to the statement of our arrangements required by the Information and Consultation of Employees Regulations (available on the Partner intranet).

New technology – new levels of engagement

This is the most technologically enabled Partnership Council ever! All Councillors began their term of office with iPads, giving easy access to the Council site containing all agendas, papers, presentations, highlights, videos and summaries. The site is also available to those who support Councillors in different ways, both the teams in registry – such as Partnership assurance leads and democracy coaches – and their senior line managers. Councillors also have their own private Google community, as do all the Specialist Groups, and every Councillor has posted or communicated, with the overall tally exceeding 1,000 in the first six months.

Contributions at the meetings themselves have also come from a higher proportion of Councillors than in recent times. July's figure was over 75%, beating the previous record set in June 2010, when the meeting included the seminal debate on 'What it feels like to be Partner'. Interestingly both were the first meetings for a new President.



Jane Burgess
Partners' Counsellor

"How can we create a more dynamic and exciting environment, rather than Partners feeling things are being taken away?"

Rebecca Santerre Queiroz de Oliveira
John Lewis Victoria on Productivity



"Please can we be more clear and consistent on the communications of It's Your Business 2028?"

Christopher Wright
John Lewis Edinburgh on Communications

Audit and Risk Committee report



“We have continued to focus on the financial reporting and control environment including the accounting for significant items, risk and control. We have also completed an audit tender and appointed two new external independent members.”

Baroness Hogg

Non-Executive Director and Chair of the Audit and Risk Committee

About the Audit and Risk Committee

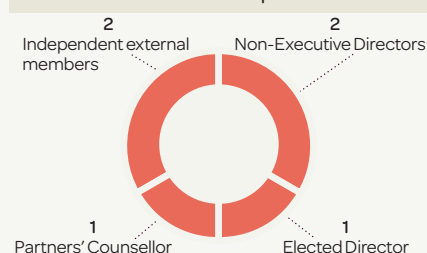
Role of the Committee

The Committee is responsible to the Board for the oversight of:

- The integrity of the Partnership's Annual Report and Accounts, and other formal announcements relating to the Partnership's financial performance
- External audit activities
- Internal audit activities
- The Partnership's systems of risk management and internal control, including an annual review of the effectiveness of their processes

The Committee operates in accordance with its Terms of Reference that are available at www.johnlewispartnership.co.uk

Committee composition*



Quorum: three members of the Committee to include at least one member who is independent.

At each meeting the Committee meets with the external auditors and the Head of Internal Audit and Risk, without any Executive Director or other executives being present.

At the year-end, the Audit and Risk Committee comprised the following members:

- Two Non-Executive Directors
- Two Elected Directors
- The Partners' Counsellor

*at the date of this report

Membership

The members of the Committee at the date of this report are Baroness Hogg (Chair), Jane Burgess, Kim Lowe, Zarin Patel, Sharon Robson and Keith Williams. There were five Committee meetings held during the year under review. Committee membership during the year under review and Directors' attendance at those meetings is shown in the table below:

Member	Meetings attended/ eligible to attend
Jane Burgess	5/5
Baroness Hogg	5/5
Keith Williams	4/5
Left 16 April 2015	
Kate Brewer	2/2
Kevin Payne	2/2
Dan Smith	2/2
Joined 2 June 2015	
Steve Gardiner	3/3
Kim Lowe	3/3
Left 3 December 2015	
Denis Hennequin	4/5

Membership changes since year-end

Zarin Patel and Sharon Rolston were appointed as external independent members of the Committee for an initial three-year term commencing on 2 March 2016. Please see page 87 for their other appointments and relevant experience.

Steve Gardiner stepped down as a member of the Committee, with effect from 12 April 2016.

Fair, balanced and understandable – what did the Committee consider?

The Committee's assessment of whether the Annual Report and Accounts was fair, balanced and understandable included an analysis of the following:

Fair and balanced

Balanced reporting of performance and prospects
 Reflection of internal reporting and discussions
 Appropriate weighting given to setbacks and challenges
 The description of the business model and risk strategy
 Key audit and accounting issues
 How the KPIs are presented
 Financial measures not defined under IFRS, ensuring that these are not given undue prominence and are used consistently throughout the Annual Report and Accounts
 Consistency of the narrative reporting at the front of the report with the financial information at the back

Understandable

A simple explanation of business model, strategy and accounting policies
 Important messages, policies, transactions and significant changes from prior periods ensuring these are highlighted and supported, and not obscured by immaterial detail
 Clear and concise explanations of KPIs, including how they are measured and what targets are in place for each one
 The governance section ensuring it clearly details how decisions are made
 Financial measures, ensuring that those which are not defined under IFRS are explained and reconciled to IFRS measures
 Avoidance of generic, non-specific 'boiler plate' wording, e.g. for risks
 Language used aiming for clarity and precision

In this section

Overview of external financial reporting

External audit activities

Risk management and internal audit activities

The Partnership's approach to internal audit

External Quality Assessment (EQA)

Whistleblowing

Relevant qualifications of Audit and Risk Committee members

Independent external members of the Committee

Induction and training

Committee evaluation

In a nutshell
The Audit and Risk Committee focusses on financial reporting and the control environment.

Overview of external financial reporting

The Partnership prepares consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, which form part of the Annual Report and Accounts. An interim review is prepared at the end of the first six months of the year.

The Partnership has an internal control and risk management framework in place under which the Partnership operates, and which supports the preparation of consolidated financial statements. This includes policies and procedures designed to ensure that adequate accounting records are maintained and transactions accurately recorded.

The Committee is responsible for the appointment, scope and fees of the external auditor. During the year, the Committee conducted an audit tender process, which will lead to KPMG being appointed for the 2016/17 financial year, see pages 84 and 85.

Annual Report and Accounts

The Committee reviewed the draft Annual Report and Accounts and recommended their approval to the Partnership Board.

As part of its review, the Committee assessed whether the Annual Report and Accounts provided a fair, balanced and understandable assessment of the Partnership's position and performance, business model and strategy, as stipulated by the UK Corporate Governance Code ('the Code').

The Committee has considered whether the Annual Report and Accounts is fair, balanced and understandable.
More information opposite.

Our seven significant financial reporting issues, and our response

As part of the Annual Report and Accounts, the Committee considered the following seven significant financial reporting issues. Below is a summary of those issues and our responses.

1. Impairment Notes 3.1 and 3.2

Issue

The Partnership has significant non-current assets, both tangible and intangible. Judgement is exercised in reviewing their carrying value to ensure that they are not impaired. Initial trigger tests, such as whether performance was in line with expectations, provided indicators of some areas of potential impairment, giving rise to questions as to the appropriate carrying value of our property, plant and equipment. Management prepared a value in use model to assess the carrying value of these assets.

Response

The Committee reviewed and challenged the methodology applied to test impairment and the results of the trigger tests. The Committee considered the sensitivity of the proposed impairment charge to movements in key assumptions such as performance, and reviewed the way the methodology had been applied in the two trading Divisions. The Committee considered how key assumptions compared externally with peer companies and satisfied itself that the assumptions used were reasonable and that the resulting impairment charge was reasonable.

2. Employee benefits Note 6.1

Issue

The Partnership operates a defined benefit pension scheme, open to all Partners, subject to length of service. The pension scheme liability is calculated using an actuarial model with a number of key assumptions, notably the discount rate and inflation rate. Significant judgement is exercised in determining these actuarial assumptions, and the overall pension scheme liability is very sensitive to small movements in the discount rate and inflation rate.

Response

The Committee reviewed the papers prepared by management, including the advice obtained by management from independent actuarial specialists on the appropriateness of the assumptions used. As part of this, the Committee considered these assumptions as compared with previous years and those used by our peers. The Committee satisfied itself as to the acceptability of the key assumptions, particularly the discount rate and inflation, and reviewed the sensitivities.

3. Exceptional items for property disposal Note 2.3

Issue

The Partnership recorded a gain of £129.3m on the disposal of a property. Management judged that it was appropriate to record this gain as an exceptional item in the Consolidated Income Statement.

Response

The presentation of the balance as exceptional was discussed in the context of the Partnership's policy to present separately items that are material and/or non-recurring. The Committee concluded that the gain did meet the criteria of exceptional items and that it was appropriately calculated and disclosed.

Audit and Risk Committee report (continued)

4. Depreciation and useful economic lives Note 3.2

Issue

The Partnership has significant non-current tangible assets in the form of freehold land and buildings. There were two important judgements to be made: determining the useful economic life of an asset, and its residual value, which is its estimated value at the end of its useful economic life. Management has reviewed these annually and concluded that they remain appropriate for the business.

Response

The Committee considered the appropriateness of the approach, and reviewed some alternative approaches that could be adopted. The Committee satisfied itself that the approaches taken were reasonable.

5. Supplier income Note 4.2

Issue

The Partnership receives supplier income mainly in the form of volume and marketing rebates. Judgement is exercised in estimating the value of rebates, ensuring they are appropriately calculated and the level of disclosure. Care has been taken to ensure that rebates are recognised in the accounting period to which they relate.

Response

The Committee considered the process used to calculate the accrual, the level of disclosure and judgements made with respect to items estimated on the balance sheet. The Committee decided to maintain the same level of disclosure in relation to supplier income as last year, including quantifying the estimated supplier income accrued at year-end, even though these balances were modest. No issues were identified during the year.

6. Liability for unredeemed gift vouchers and gift cards Note 4.3

Issue

The Partnership issues gift vouchers and gift cards and records a liability on the balance sheet for unredeemed vouchers. Judgement is exercised in estimating the value of this liability, based on redemption patterns.

Response

The Committee reviewed the papers prepared by management detailing the methodology, actual experience and key assumptions used in calculating the liability for unredeemed gift vouchers and gift cards. These showed that there was no significant change in the overall trend of redemption patterns for gift vouchers, although lower volumes were issued and redeemed due to the increasing use of gift cards. The Committee considered that the estimates were reasonable.

7. Provisions in relation to long leave, service guarantee costs, customer refunds, insurance claims Note 4.4

Issue

The Partnership has significant provisions in relation to its long leave scheme, which provides six months' paid leave after 25 years of service. It also has to make provisions for expected future customer refunds, service guarantees and insurance claims. Judgement is exercised in making the assumptions that form the basis of the provision calculations.

Response

The Committee reviewed the methodology and key assumptions used in determining significant provisions. The Committee considered past use of each provision, as well as the sensitivity of the assumptions, when reviewing the appropriateness of the provision.

Summary

In respect of the seven significant financial reporting issues described above, the Committee concluded that the judgements were reasonable and the presentation and disclosures in the financial statements were appropriate.

The Committee considers that the Annual Report and Accounts presents the items listed above on a fair, balanced and understandable basis. The Committee also discussed these matters with the external auditor.

Viability and going concern

The Committee also considered what statements the Partnership should make giving assurance as to its going concern and its viability. These disclosures are on page 99.

External audit activities

PricewaterhouseCoopers LLP were the Partnership's auditors for 2015/16. They provided the Committee with relevant reports, reviews, information and advice throughout the year, as set out in their engagement letter.

Evaluation and appointment of auditors

The Committee is responsible for making recommendations to the Partnership Board as to the appointment, reappointment or changes in the external auditors. During the year, the Committee conducted a high-level evaluation of the auditors' performance. The outcome of the evaluation was reviewed by the Committee, which concluded that the effectiveness of the external auditors and the audit process were satisfactory.

Members of the Committee and senior finance executives within the Partnership were provided with an opportunity, through an evaluation questionnaire, to comment on the effectiveness of the external auditors and the audit process.

Audit firm tendering

It is the Committee's policy to ensure that there is audit partner rotation every five years to safeguard the external auditor's objectivity and independence. In 2012/13, the Committee adopted a policy in line with the Code, relating to tendering the external audit contract at least every ten years.

The year ended 30 January 2016 was the fifth year of the current audit engagement partner's appointment and the Partnership had not undertaken an audit tender in the preceding 20 years. The Partnership determined that it was appropriate to conduct an audit tender during 2015/16 for the 2016/17 financial year.

The Chair of the Committee led a sub-committee including one other member of the Committee, and supported by five members of management. A request for proposals was issued to five audit firms, including two 'mid-tier' audit firms. The key assessment criteria were included within the request for proposal.

Each of the five firms participated in a series of management meetings to gain an understanding of the Partnership, key accounting issues and key processes. Relevant documentation was also made available to the audit firms who were asked to submit a written response to the request for proposal.

The sub-committee and members of management reviewed the written proposals and met with each of the firms to discuss their proposal. These meetings included presentations and extensive questions and answer sessions with the audit firms. Each firm's written and verbal responses were assessed against the key assessment criteria and a shortlist of two audit firms was selected.

The two shortlisted audit firms had a further meeting with the sub-committee and members of management on an agenda that was set by the sub-committee. The two shortlisted firms also met with the Chairman of the Partnership. After these meetings, the sub-committee recommended to the Committee that KPMG were best placed to deliver a high quality and insightful audit with appropriate retail experience.

As part of preparing to deliver the 2016/17 audit, KPMG will go through an induction process to enhance their understanding of the Partnership, our operations and processes.

The Committee thanked PricewaterhouseCoopers for their strong contribution as the Partnership's auditors over many years.

Auditors' independence and objectivity and non-audit services

The Committee continually reviews the nature and extent of non-audit services provided to the Partnership by the external auditors and receives confirmation from them, at least annually, that in their professional judgement, they are independent with respect to the audit.

The Committee recognises that the independence of the external auditors is a fundamental safeguard for the interests of the Partnership's co-owners. The Partnership has a non-audit services policy that allows the external auditor to be appointed to provide non-audit services in exceptional circumstances. The policy is summarised below.

Any proposal to engage the external auditor to perform non-audit services must be referred to the Group Finance Director for approval. Where fees exceed £100,000, the proposal must be approved by the Chair of the Committee, and where fees exceed £250,000, the proposal must be approved by the whole Committee. Details of the amounts paid to the external auditors are given in note 2.4 to the consolidated financial statements. The Committee will review this policy in the light of the legislative changes proposed by the European Union.

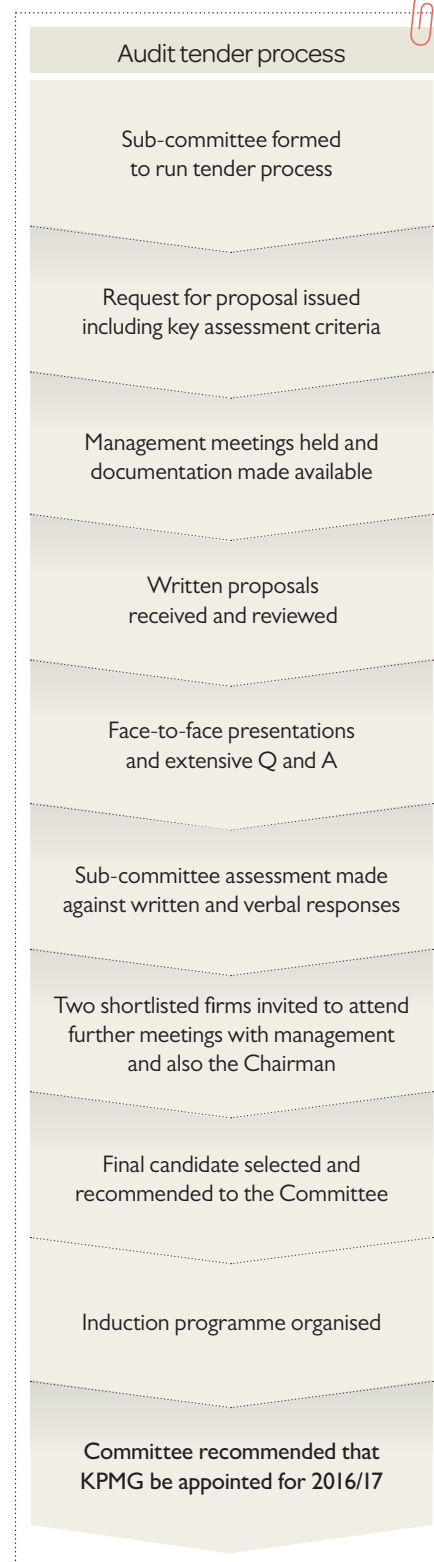
Having undertaken a review of the non-audit services provided during the year, at both the half year and year-end, the Committee is satisfied that these services did not prejudice the external auditors' independence.

Summary of non-audit services policy

In line with the Code, the auditors are prohibited from supplying most categories of non-audit services.

Prohibited services include bookkeeping or other services related to the accounting records or financial statements; internal audit services; taxation services; and any other work that could compromise the independence of the external auditor or is prohibited by UK regulator's ethical guidance.

There is a specific approval process for any non-audit work to be undertaken by the external auditor.



Audit and Risk Committee report (continued)

Risk management and internal audit activities

The Partnership's approach to risk management, our framework, risk appetite and governance structure are detailed on pages 52 to 57.

Key roles and responsibilities are included below.

Responsibilities

Partnership Board

Overall responsibility for the risk management framework and key risk decisions. Reviews principal risks and mitigating actions regularly with the support of the Chairman's Committee.

Audit and Risk Committee

Provides assurance to the Board on internal controls and the risk management process. Monitors internal control and risk management processes.

Executive Management

Identifies and evaluates the principal business risks. Implements and maintains systems for managing those risks in an efficient and effective manner, through support from Divisional Risk Committees.

The Audit and Risk Committee seeks assurance from the work of the Internal Audit and Risk teams, which provide objective assurance on the effectiveness of those arrangements through the delivery of a risk-based work plan and risk management activities. The Head of Internal Audit and Risk reports functionally to the Chair of the Committee and operationally to the Group Finance Director.

Monitoring during the year

The Board has evaluated the Partnership's risk management and internal control systems with the support of the Chairman's Committee and the Audit and Risk Committee, on a quarterly basis. It has stress-tested the business plan in relation to the relevant principal risks and monitored the Partnership's performance on a quarterly basis.

Ongoing monitoring has been implemented by the Board through the regular allocation of specific time to understand and assess risk management and internal control weaknesses across strategic, operational, financial and compliance areas at Board meetings; and discussion with Executive Management. The Board and Chairman's Committee have also invited Executive Management to present on risks and mitigating activities this year in order to support their ongoing assessment in areas such as cyber security and IT infrastructure, change, pensions and talent management.

The Board has an overall risk appetite for the business to operate within. With the support of the Chairman's Committee, it has reviewed Divisional Board mapping of risk profiles against the Partnership's appetite for risk, and taken decisions to further reduce or tolerate risk if appropriate, working closely with Divisional Management. The Partnership is currently upgrading its risk management software to improve the efficiency, clarity and consistency of future risk reporting.

The Board has reviewed control weaknesses identified. Improvements in internal controls in these processes are underway to improve Partner and customer experiences and protect revenue to support the overall sustainability of our business.

The Partnership's systems of risk management and internal control

Risk management

Assessing and managing risk is fundamental to safeguarding our Partners' interests, protecting our reputation, complying with regulatory standards and achieving our business objectives.

To enable this, 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. Further details on this can be found on pages 52 to 57, along with details of our principal risks and how we mitigate them. During the year, our Risk Policy has been revised and approved to reflect developments of the risk management framework and a Risk Manual has been approved to provide detailed guidance for Partners on the framework.

Internal control

The systems of internal control we have established are designed to manage, rather than eliminate, the risk that is inherent in pursuit of our business objectives. As a consequence, our internal controls can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Audit and Risk Committee monitors the development of our policies and systems for identifying, evaluating and managing the principal risks throughout the Partnership. The Committee has reviewed the principal risks identified by the Board and progress in mitigating activities on a quarterly basis.

Strategic risks

i.e. risk of us 'taking the wrong investment decision'

Operational risks

i.e. risk of us 'doing the right thing, in the wrong way'

Financial risks

i.e. risk of us 'doing things in a way that loses money or incurs unnecessary liabilities'

Compliance risks

i.e. risk of us 'not complying with applicable laws and regulations'

The Committee has reported quarterly to the Partnership Board, which seeks assurance that the systems of internal control for risk management are operating effectively. Reporting is through the work of internal audit, presentations from Executive Management and the minutes of the Divisional Risk Committees.

At the end of the year, the Committee conducted an annual review of the effectiveness of the risk management framework, supported by a self-certification exercise by management. No material issues were highlighted through this year's review.

In response to the increasing external threat of an information security breach or cyber attack, the Committee has focussed on plans to improve our resilience and our IT controls development throughout 2016; and we have appointed a Data Privacy and Information Security Officer. The Divisions and Internal Audit have tested key controls over material financial risks and an assurance mapping exercise is underway to assess key controls over our wider principal risks. The Committee has also been focussed on reviewing controls to support an improved customer and Partner experience.

The focus for the year ahead is to continue to develop reporting against our risk indicators for our principal risks to support management's proactive decision-making, complete the Partnership-wide assurance mapping exercise and improve the efficiency, clarity and consistency of risk-reporting through the implementation of risk software.

The Partnership's approach to internal audit

Partnership Internal Audit is an independent and objective assurance and advisory function, operating to add value to the business through improving and assuring systems of risk management and control.

The purpose of Internal Audit is to support the Committee in fulfilling the parts of its remit laid down by the Partnership Board that require it to oversee:

- The integrity of the Partnership's Annual Report and Accounts, and other formal announcements relating to the Partnership's financial performance
- The Partnership's systems of risk management and internal control

Internal Audit brings a systematic and disciplined approach to evaluating and improving the effectiveness of the Partnership's risk management, control, and governance processes.

The Audit and Risk Committee reviews and approves the scope of the Internal Audit work programme on an annual basis, which covers key operational and financial processes, IT and projects and programmes across the Partnership. At each meeting with the Audit and Risk Committee, the Head of Internal Audit and Risk reports on current status against the agreed plan, control weaknesses identified and managements' progress in developing the control environment. Key elements of the annual plan included:

Change audits

The size and scale of the change agenda presents an ongoing risk to the Partnership. Programme Assurance reviews have therefore included key transformation programmes such as Pioneer, SANDCII (Semi Automated National Distribution Centre) and OCCO (Omni Channel Customer Ordering).

Financial audits

Financial audits provided independent assurance of key financial controls within the Internal Control Framework operated across the Partnership.

Operational audits

Operational audits have included maturity assessments of Divisional IT controls frameworks, the accuracy of Partner pay & personnel processes, strategic procurement, and an end-to-end controls review of online ordering and cash processes.

Regulatory audits

Areas include health and safety reporting, responsible sourcing, the Waitrose compliance report with the Groceries Supply Code of Practice (GSCoP) and CSR.

External Quality Assessment (EQA)

Partnership Internal Audit was subject to independent external quality assessment during the year, in compliance with Section 1312 of the Institute of Internal Auditors (IIA) standards, which requires independent EQA once every five years.

The review outlined the level of conformance with the IIA's Code of Ethics and International Standards and offered specific recommendations to support the continuous improvement of the internal audit function over a two-year period. Progress with recommendations raised by the EQA is presented by the Head of Internal Audit and Risk at each Audit and Risk Committee. Notable improvements in the year include alignment of the internal audit team to the Divisional structure of the Partnership, significant developments in capability, and enhancing ways of working – including refreshing the Terms of Reference, improving the quality of deliverables, aligning the audit planning process to the principal risks and a greater focus on end-to-end process reviews.

Relevant qualifications of Audit and Risk Committee members

Keith Williams, Zarin Patel and Sharon Rolston have recent and relevant financial experience. Each is a qualified accountant and has worked in senior finance roles.

Baroness Hogg has significant experience, notably from when she was Chair of the Financial Reporting Council, that supports her leadership of the Committee.

Whistleblowing

There were 136 cases of potential wrong doing reported through our internal whistle blowing procedures, which allow Partners to raise, in confidence, anything that 'does not feel right'. This includes matters such as fraud, health and safety, theft, bullying and harassment. The most common concerns were about behaviour which accounted for over half of the reported cases and 32% related to illegality, theft and discount abuse. Following investigation, action was taken in 60% and 23% of these reported concerns respectively.

Independent external members of the Committee

Zarin Patel



Zarin Patel joined the Committee in March 2016.

She is Chief Operating Officer of The Grass Roots Group PLC, a marketing services company.

Previously, she was Chief Financial Officer, BBC and held other senior positions. She was also Non-Executive Director, BBC Worldwide where she chaired both Audit and Remuneration Committees.

Zarin is a Fellow of the Institute of Chartered Accountants in England and Wales.

Sharon Rolston



Sharon Rolston joined the Committee in March 2016.

She has been Group Treasurer of Diageo PLC since 2014 having held senior positions in Diageo and Nortel Networks Corporation.

Sharon is a Fellow of the Institute of Chartered Accountants Ireland.

Induction and training

An induction programme has been arranged for the two new external independent Committee members who joined the Committee since the end of the year.

Briefings and workshops are provided to the Committee in relation to specialist and developing areas as deemed necessary.

Committee evaluation

Please see page 71 for a summary of the evaluation of the effectiveness of the Board and its Committees during the year.

On behalf of the Audit and Risk Committee.

Baroness Hogg
Non-Executive Director and
Chair of the Audit and Risk Committee

Corporate Responsibility Committee report



“The creation of this new Board Committee strengthens the governance of our material sustainability issues and our ability to fulfil our stakeholder obligations under the Constitution.”

Keith Williams

Deputy Chairman of the John Lewis Partnership,
Non-Executive Director and Chair of the
Corporate Responsibility Committee

About the Corporate Responsibility Committee

Role of the Committee

The Corporate Responsibility Committee was established by the Partnership Board in September 2015 and held its inaugural meeting in December 2015. The role of the Corporate Responsibility Committee is to:

- Oversee and make recommendations to the Board in respect of the Partnership's Corporate Responsibility Policy and objectives
- Monitor performance against the Partnership's Corporate Responsibility Policy
- Monitor the effectiveness of the management of the Partnership's corporate responsibility obligations and risks
- Review the effectiveness of the Partnership's procedures for maintaining and safeguarding the Partnership's corporate reputation, including its crisis response procedures
- Approve the content of the corporate responsibility reporting in the Partnership's Annual Report and Accounts

Membership

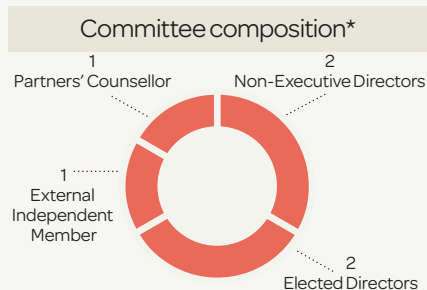
The members of the Committee at the date of this report are Keith Williams (Chair), Jane Burgess, Chris Coburn, Denis Hennequin, Baiju Naik and Dame Fiona Reynolds. Directors' attendance at the two meetings held during the year under review is shown below:

Member	Meetings attended/ eligible to attend
Keith Williams	2/2
Jane Burgess	2/2
Chris Coburn	2/2
Denis Hennequin	2/2
Baiju Naik	2/2

Membership changes since year-end

Dame Fiona Reynolds was appointed as an independent external member of the Committee for an initial three-year term, commencing on 2 March 2016.

 The Corporate Responsibility Committee operates in accordance with its Terms of Reference that are available at www.johnlewispartnership.co.uk



Quorum: three members to include at least one Non-Executive Director and one Elected Director.

External independent member



Dame Fiona Reynolds

External independent member of the
Corporate Responsibility Committee
Started current role: March 2016

Other appointments and relevant experience:

Dame Fiona is Master of Emmanuel College, Cambridge, the Senior Independent Director of the BBC's Executive Board and a Non-Executive Director of Wessex Water. She also Chairs the Cathedrals Fabric Commission for England, the Cambridge University Botanic Garden Syndicate, the environmental charity The Green Alliance and The International National Trusts Organisation. She was Director-General of the National Trust from 2001-2012 and previously Director of the Women's Unit in the Cabinet Office, Director of the Council for the Protection of Rural England, and Secretary to the Council for National Parks. Until her appointment as a member of the Committee, Fiona was a member of the Waitrose Corporate Social Responsibility Advisory Board.

*at the date of this report

In this section

Why we have created a new Board Committee

Key activities

Since year-end

Induction and training

Committee evaluation

In a nutshell

The Corporate Responsibility Committee is responsible to the Board for the oversight of the Partnership's Corporate Responsibility Policy and corporate responsibility objectives.

Why we have created a new Board Committee

In last years' Annual Report we indicated that we would continue to strengthen our governance structure to ensure appropriate management of the Partnership's material sustainability issues. In response to that commitment, the Corporate Responsibility Committee was established to take on oversight of Corporate Responsibility governance from the Chairman's Committee. This marks a significant step in our governance approach by providing a focal point for monitoring the management of material sustainability issues so that this is consistent with the Corporate Responsibility policies under the Constitution.

Maintaining commercial success requires a real commitment to doing business responsibly. For the Partnership, this commitment is not only driven by good economics, but also by the Partnership spirit and a sense of doing the 'right thing', as set out in its core purpose and principles. In the Partnership the approach to Corporate Responsibility is underpinned by the responsibilities set out in the Constitution to:

- Members under Principle 4
- Customers under Principle 5
- Those with whom it has a business relationship under Principle 6
- The Community under Principle 7
- Section 3 outlines clearly its 'Responsibilities to Others' in respect of its dealings with suppliers and competitors and its impact on the environment

On establishment, the Committee assumed responsibility for providing oversight in a number of areas previously under the remit of the Audit and Risk Committee including oversight of Health and Safety, Food Safety, Product Safety, and Responsible Sourcing.

Since the year-end, Dame Fiona Reynolds has joined the Committee as an external independent member of the Committee, bringing with her a wealth of corporate responsibility experience and further bolstering its independence.

Key activities

During the year under review, the Committee has held two meetings and was engaged in the following activities:

Governance

- Adopted the Terms of Reference of the Committee
- Reviewed the Corporate Responsibility Governance framework
- Reviewed the Annual Corporate Responsibility Report
- Reviewed the Corporate Responsibility policy
- Reviewed Corporate Responsibility reporting in 2016

Human rights

With input from Divisional Corporate Responsibility Committees, the Committee formally reviewed the Human Rights strategy and associated report.

A Human Rights workshop was held in February 2016 covering the legislative landscape, broader expectations on business, best practice in human rights management and business case studies. This was attended by an external expert in modern slavery and the challenges workers face in the UK and international supply chains.

Responsible sourcing

The Committee received and reviewed an update from Waitrose on responsible sourcing within the Division.

Health and safety

The Committee maintained oversight of the Partnership Health & Safety Management Committee.

Since year-end

Since the year-end, the Committee has:

- Approved the corporate responsibility elements of the Partnership's Annual Report & Accounts (see pages 42 to 47)
- Approved the corporate responsibility content of the Partnership's website (www.johnlewispartnership.co.uk), including the John Lewis Partnership Human Rights & Modern Slavery Report 2015/16
- Received and reviewed corporate responsibility updates from the Divisions including the development of key performance indicators for their priority material issues

Induction and training

The Elected Directors attended induction meetings with the Director, Corporate Responsibility prior to the first meeting of the Committee.

An induction programme has been arranged for the new external independent Committee member who joined the Committee since the end of the year.

Briefings and workshops are provided to the Committee in relation to specialist and developing areas as deemed necessary.

Committee evaluation

During the current year an evaluation of the Committee's effectiveness will be undertaken in the same format as that agreed for the other Board Committees.

On behalf of the Corporate Responsibility Committee.



Keith Williams
Non-Executive Director and Chair of the Corporate Responsibility Committee

Chairman's Nominations Committee report



"The Committee's main focus continued to be Board and Senior Management succession planning, as well as overseeing the process for selecting and recommending candidates for appointment as Executive Directors."

Sir Charlie Mayfield


Chairman and Chairman of the Chairman's Nominations Committee

About the Chairman's Nominations Committee

Role of the Committee

The Committee's responsibilities are to support the Chairman to provide:

- A formal, rigorous and transparent process for the appointment of new Directors to the Partnership Board, who must all be people of ability and integrity committed to working together and supporting the Partnership's Principles
- Oversight of the process of naming the Chairman and Deputy Chairman
- The succession plans for Directors to the Partnership Board
- That appropriate development and training is provided to enable each Partnership Board member to fulfil their accountabilities as a member of the Partnership Board

 The Chairman's Nominations Committee operates in accordance with its Terms of Reference that are available at www.johnlewispartnership.co.uk

The Committee is supported by the Director of Personnel and assisted by independent consultants, as required.

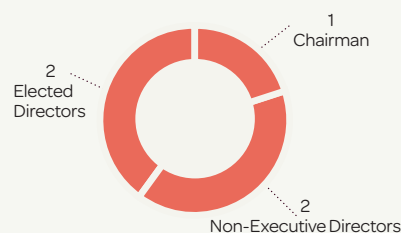
Membership

The members of the Committee at the date of this report are Sir Charlie Mayfield (Chair), Keith Williams (Deputy Chair), Steve Gardiner, Denis Hennequin and Kim Lowe. There were nine Committee meetings held during the year under review. Committee membership during the year under review and Directors' attendance at those meetings is shown in the table below:

Member	Meetings attended/ eligible to attend
Sir Charlie Mayfield	9/9
Steve Gardiner	8/9
Denis Hennequin	9/9
Kim Lowe	9/9
Keith Williams	7/9
Left 9 September 2015	
Baroness Hogg	3/4

Baroness Hogg was appointed as a member of the Committee on 11 December 2014 for the duration of the search process for a new Group Finance Director and stepped down from the Committee after completion of this process.

Committee composition*



Quorum: three members to include at least one Non-Executive Director and one Elected Director.

* at the date of this report

In this section

Appointment of new Directors

Chairman and Deputy Chairman

Succession planning and talent management

Diversity and inclusion policy

Induction, training and development

Deputy Chairman of the Committee

Committee evaluation

In a nutshell

A Nominations Committee is a standard Board committee, whose main role is to ensure the integrity of the nominating process for Partnership Board members.

Appointment of new Directors

The Chairman's Nominations Committee oversees the process for selecting and recommending candidates for appointment as Executive Directors. During the year under review, the Committee oversaw the following appointments:

Group Finance Director

The Committee completed the search process for a new Group Finance Director following the resignation of Helen Weir on 1 December 2014, and the appointment of Loraine Woodhouse as Acting Group Finance Director with effect from the same date. The search included internal and external candidates and resulted in the appointment of Patrick Lewis, formerly Managing Director of Partnership Services Division, and a member of the Partnership Board since 2009, as Group Finance Director with effect from 14 September 2015.

The Committee was advised by Saxton Bampfylde as external search consultants to assist with the search for suitable candidates. Saxton Bampfylde completed no other work in support of the Committee.

Group Development Director

The Committee considered and endorsed the appointment of Tom Athron, formerly Finance Director of Waitrose, to the Board as Group Development Director with effect from 5 October 2015.

Managing Director, Waitrose

The Committee considered and approved both the approach to the selection process and proposal from the Chairman that Rob Collins, most recently Waitrose's Retail Director, be appointed as successor to Mark Price as Managing Director of Waitrose with effect from 4 April 2016. The process involved external benchmarking and interviews with the Chairman, Group Finance Director and Deputy Chairman of the Committee. The Committee was satisfied with the selection process and that appropriate account had been taken by the Chairman of the Partnership's senior succession plans.

The Committee was advised by Spencer Stuart as external search consultants with regards to key talent in the marketplace and provided executive assessment and benchmarking. Spencer Stuart conducted one other piece of search work for the Partnership for an appointment outside the remit of the Committee.

Chairman and Deputy Chairman

A key role of the Committee delegated by the Board of John Lewis Partnership Trust Limited is to oversee the process of nominating and appointing the Chairman of John Lewis Partnership Trust Limited, who is the Chairman of the Partnership.

Under the Constitution and trust settlements, the Chairman does not have a fixed term of office and it is therefore up to him to decide when to step down. On his appointment in 2007, the Partnership Board set an expectation that Sir Charlie would serve for at least ten years. To avoid creating an arbitrary ten year term and to provide flexibility to plan for an orderly succession, the understanding was that this could be extended, provided the Chairman was willing to continue and the Partnership Board saw advantage in him doing so. There is also provision for a further extension, for a period of up to three years or longer if the Partnership Board agrees.

Chairman's Nominations Committee Report (continued)

After careful consideration by the Committee, including external support from Egon Zehnder, the Partnership Board agreed there was advantage in the Chairman continuing in office beyond 2017.

Egon Zehnder completed no other work in support of the Committee.

Since the end of the year, in light of Mark Price leaving the Partnership on 3 April 2016, the Chairman and the Committee considered the role and succession for the Deputy Chairman. Oversight of the process of appointing the Deputy Chairman of John Lewis Partnership Trust Limited, who is Deputy Chairman of the Partnership, is delegated to the Committee by the Board of John Lewis Partnership Trust Limited.

The Committee was satisfied with the process which had been undertaken to review the role and supported the decision to appoint Keith Williams as the new Deputy Chairman with effect from 4 April 2016 in addition to his role as Non-Executive Director.

Succession planning and talent management

During the year under review, the Committee reviewed two updates on the three talent priorities of:

- Developing the competitive capabilities the Partnership needs as an organisation
- Ensuring we have strong succession where we need it most
- Building a healthy pipeline of talent for the future

This first update focussed on the health of the talent pipeline and particularly senior talent and Board development. The Committee also reviewed the further development of succession plans and in particular the programmes introduced in the year to improve the succession for Board and Management Board level roles. The Committee was satisfied with the more integrated approach to succession for senior management roles (Levels 1-4) and that the Partnership now had a good overall view of the health of the talent pipeline. It was recognised that further progress was required to fill capability gaps in specialist areas, such as IT.

In the second update, the focus of the Committee's oversight was on an assessment of the overall strength of succession plans and the competitive capabilities identified through the talent and business planning process.

Diversity and inclusion policy

The Partnership Board has adopted a Diversity Statement, as set out to the right, regarding the composition of the Partnership Board, the aims of which are supported by the Diversity and Inclusion Policy.

The Partnership Board recognises and embraces the benefits of having a diverse Partnership Board and the principles of the Diversity and Inclusion Policy apply equally to the Board. As at the date of this report, five of the 15 members of the Partnership Board are female.

Through the Chairman's Nominations Committee, the structure, size, composition and balance of the Board (including skills, knowledge, experience and backgrounds) are monitored, to ensure that when considering Board candidates, due regard is given to the benefits of diversity, including gender, ethnicity and other characteristics protected by the provisions of the Equality Act 2010.

Ultimately, all Board appointments are made on merit against objective criteria in the context of the skills and experience required for them to be effective. It is not the Board's policy to set specific targets by legally protected characteristics such as gender.

Diversity Statement

We are an inclusive business which stems from our ownership model and our Constitution. Being an inclusive business goes to the heart of our ultimate purpose: the happiness of our members through their worthwhile and satisfying employment in a successful business.

The Partnership has a Diversity and Inclusion policy which applies to all Partners and we have a clear action plan which aims to encourage an inclusive and vibrant community of Partners. Our Partnership Board Diversity policy reflects that policy. The Board policy has the following objectives:

- The composition of the Partnership Board should reflect the diverse population of the Partnership
- All Board appointments are based on merit against objective criteria in order to enhance the Board's overall effectiveness
- Maintain a healthy balance of female Directors on the Partnership Board. Our current ratio is 33% women
- Candidates for appointment as Non-Executive Directors will be drawn from diverse sources and 'long lists' will always include female and minority candidates
- We will only use search firms who have signed up to the voluntary code of conduct on gender diversity and best practice
- Successful Non-Executive Director candidates will be committed to the Partnership's values, principles and ethos and have a strong practical and common sense approach
- Our pipeline of internal board talent will have opportunities to gain experience and an understanding of working inclusively, and not just within our own business
- Measurement against these objectives and assurance on broader Partnership diversity is reported annually to the Board
- The Chairman's Nominations Committee monitors the structure, size and composition of the Board to ensure due regard is given to diversity

Induction, training and development

During the year, the Committee considered the ongoing training and development requirements of Board Directors, both individually and as a whole, in order to fulfil their statutory duties. The Committee also reviewed and updated the induction programme for Executive and Elected Directors. In relation to the three new Elected Directors, Chris Coburn, Baiju Naik and Lucy Parks, who joined the Partnership Board in April, an induction programme was provided, which included briefing sessions on the Partnership's governance mechanisms, meetings with all Directors and senior Partners who support the Partnership Board agenda and an external training course on the role and responsibilities of directors. In relation to the Group Development Director, Tom Athron, who joined the Partnership Board in October, a tailored induction programme was arranged.

Deputy Chairman of the Committee

In order that members of the Committee should have another avenue aside from the Chairman through which to raise sensitive issues relating to the Chairman's succession, Keith Williams agreed to act as Deputy Chairman of the Committee.

Committee evaluation

Please see page 71 for a summary of the evaluation of the effectiveness of the Board and its Committees during the year.

On behalf of the Chairman's Nominations Committee.



Sir Charlie Mayfield
Chairman and Chairman of the Chairman's Nominations

Remuneration Committee report



“During the year, the Remuneration Committee focussed on the annual pay review for the Chairman and Executive Directors and new appointments to the Partnership Board.”

Denis Hennequin


Non-Executive Director and Chair of the Remuneration Committee

About the Remuneration Committee

Role of the Committee

The Remuneration Committee has oversight of the application of the pay policy, including Rule 61 and Rule 62, to executive remuneration for the Chairman, Executive Directors, Senior Managers who report to the Chairman, Non-Executive Directors and the Partners' Counsellor.

The policy aims to attract, retain and motivate executive management of the quality required to run the Partnership successfully without paying more than is necessary, and informed by market rate information.

 The Remuneration Committee operates in accordance with its Terms of Reference that are available at www.johnlewispartnership.co.uk

Who advises the Remuneration Committee?

The Committee has retained Willis Towers Watson as independent remuneration consultants who advise the Remuneration Committee on the Partnership's pay policy and its application to Senior Reward. Willis Towers Watson also provides consulting advice on the Partnership's job evaluation system and pension, and is actuary to the John Lewis Partnership Trust for Pensions. The Committee was also advised during the year by Tracey Killen, Director of Personnel and Andrew Bridges, Head of Reward and Policy.

Membership

The members of the Committee at the date of this report are Denis Hennequin (Chair), Steve Gardiner, Baroness Hogg and Lucy Parks. There were seven Committee meetings held during the year under review. Committee membership during the year under review and Directors' attendance at those meetings is shown in the table below.

The Remuneration Committee comprises two independent Non-Executive Directors and two Elected Directors. This provides a broad mix of members who are independent of executive management and mindful of the Partners' interest.

Member	Meetings attended/ eligible to attend
Denis Hennequin	7/7
Baroness Hogg	7/7
Joined 3 June 2015 and left 22 October 2015	
Chris Coburn	5/5
Left 4 June 2015 and reappointed 22 October 2015	
Steve Gardiner	3/3
Left 22 October 2015	
Kim Lowe	5/6
Joined 22 October 2015	
Lucy Parks	1/1

The agenda for each meeting is approved by the Committee Chairman and each Committee member has the right to request reports on matters of interest.

Committee composition*



Quorum: two members, including one Non-Executive Director and one Elected Director. When approving the remuneration of Non-Executive Directors, the quorum is two Elected Directors.

Key activities during the period under review

Submitted a recommendation on the Chairman's pay to the Partnership Board

Set the pay of the Partnership's Executive Directors and Senior Managers who report to the Chairman

Approved the remuneration for the new appointment to the Partnership Board: Group Finance Director and Group Development Director

*at the date of this report

In this section

Policy report

Remuneration report

Committee evaluation

In a nutshell

The Remuneration Committee oversees how the pay policy is applied to the Chairman, Executive Directors, Senior Managers who report to the Chairman, Non-Executive Directors and the Partners' Counsellor. It comprises two Non-Executive Directors and two Elected Directors.

Policy report

What is the Partnership's pay policy?

Each job in the Partnership has a pay range that is informed by the market for comparable roles in comparable organisations. The rate of pay for each Partner is reviewed on an annual basis with reference to the pay range set for the year and the Partner's performance. All Partners have the opportunity to increase pay through their pay range as their performance develops. The same pay policy applies to setting pay for the Executive Directors and Senior Partners, defined as Partners at Partnership Level 4 and above, as for all Partners.

This approach is underpinned by Rule 61 and Rule 62 of the Constitution:

Rule 61:

'The Partnership sets pay ranges which are informed by the market and which are sufficient to attract and retain high calibre people. Each Partner is paid a competitive rate for good performance and as much above that as can be justified by better performance. Partnership Bonus is not taken into account when fixing pay rates.'

Rule 62:

'Pay rates must be decided with such care that if they were made public each would pass the closest scrutiny. Managers are responsible for ensuring that Partners are paid fairly in comparison with others who make a similar contribution.'

Under Rule 44 of the Constitution, the Chairman is ultimately responsible for ensuring that the system for deciding the pay and benefits of individual Partners is fair.

The Partnership does not operate annual incentive plans in the same way as comparable organisations. However, Partners who display outstanding performance may, on an exceptional basis, be recognised with a special contribution Bonus award of up to 10% of salary.

How does the Remuneration Committee determine pay?

The Remuneration Committee oversees how the pay policy is applied to the Chairman, Executive Directors, Senior Managers who report to the Chairman, Non-Executive Directors and the Partners' Counsellor. When considering rates of pay, the Remuneration Committee takes into account:

- Individual performance, including the achievement of specific role related objectives and the Partnership Leadership Behaviours demonstrated in achieving those objectives
- The performance of the Partnership overall, reflecting the collective responsibility of the Executive Directors, as well as the performance of the function or Division for which the Partner is responsible, as appropriate
- The market context as advised by Willis Towers Watson, who are the Committee's independent remuneration consultants
- The employment conditions and salary increases awarded to Partners across the workforce
- Rule 63 of the Constitution in the case of the highest-paid Partner

The review of Senior Partner pay takes account of not only what has been achieved, but also how it has been achieved. This reflects the same principles taken in the 'My Performance' appraisal framework used to assess the performance of all Partners.

The Remuneration Committee considers and reviews basic pay each year for Senior Partners within their remit. The basic pay is compared with amounts paid to Executives in similar organisations. When looking at the reward packages of other organisations, the Remuneration Committee focuses on the market median value of cash compensation, including basic pay and target annual Bonus as a benchmark for setting competitive pay ranges. The comparison excludes the value of pension benefit, long-term incentives and share schemes, which are widely available in the market at Executive Board level.

This approach is consistent with the benchmarking methodology for all senior Partners at Partnership Levels 1-4, agreed as part of the Senior Reward Review by the Partnership Board in 2014 and implemented during the 2015 Pay Review.

How do we ensure Committee independence?

The Remuneration Committee comprises four members, including two Non-Executive Directors and two Elected Directors. No decisions can be made by the Remuneration Committee without at least one Non-Executive Director and one Elected Director present, apart from when considering Non-Executive Directors' remuneration, in which case two Elected Directors are required.

No member of the Committee takes part in any deliberations affecting their own remuneration.

Remuneration Committee report (continued)

Remuneration report

Relative spend on Pay

In 2015/16, the Partnership spent £1,889.3m on employment and related costs. This represented 19.4% of the Partnership's revenue. £1,380.3m was spent on basic pay and every eligible Partner received 10% of their 2015/16 gross pay as a Partnership Bonus, at a total cost of £145.0m.

What is the Chairman paid? (Audited)

In the year under review, the value of the Chairman's total reward decreased by 0.2% to £1,526,000. To rebalance the Chairman's pension benefit value and basic pay in line with market practice, the Chairman received a 11.7% increase to basic pay to offset a reduction in pension benefit. The Chairman's pension benefit will further reduce in line with the implementation of the Pension Benefit Review across the Partnership in April 2016. The Chairman did not receive a separate increase to basic pay as part of the 2015 annual Pay Review, taking into consideration business performance in the 2014/15 performance year, market movement and the transition of pension value into basic pay. The total reward figure also reflects Partnership Bonus that was awarded for 2015/16. The total reward package is made up of the following elements:

	2015/16 £	2014/15 £
Basic pay	1,051,000	941,000
Partnership Bonus	105,000	104,000
Pension supplement in lieu of further defined pension accrual	356,000	470,000
Cash value of benefits	14,000	14,000
Total reward	1,526,000	1,529,000

What about Rule 63?

'The pay of the highest-paid Partner will be no more than 75 times the average basic pay of non-management Partners, calculated on an hourly basis.'

At the end of the reporting period, the pay of the highest-paid Partner, the Chairman, was 73 times the average basic pay of non-management Partners calculated on an hourly basis. Although Rule 63 itself applies only to basic pay, the Remuneration Committee also considers each year the relationship between total reward, including pension benefit and other benefits, as well as pay, of the highest-paid Partner and the average total reward of non-management Partners with three or more years' service. The total reward excluding Partnership Bonus of the Chairman who was the highest-paid Partner in the year ended 30 January 2016 was 59 times the average total reward, excluding Partnership Bonus, of non-management Partners with three or more years' service.

What are the pension arrangements for Members of the Board? (Audited)

At the end of the reporting period, one Executive Director, who joined the Partnership Board in 2015/16, continues to accrue benefits in the Partnership's pension scheme. The Chairman, the remaining Executive Directors and the Partners' Counsellor have all ceased to accrue further pension benefits in the Partnership's pension scheme. In lieu of pension accrual for current service, each of these Directors receives a monthly supplement. These supplements are cash payments that are broadly equivalent in value to the defined benefit pension that the Partner would previously have accrued in the Partnership's pension scheme. These Partners will receive a reduction in the value of their cash supplement in proportion to the Pension Benefit Review proposals with effect from April 2016. This will ensure that all Partners are fairly affected by the changes made through the Pension Benefit Review.

How much is the total pension supplement? (Audited)

During the year ended 30 January 2016, the total pension supplement paid to the Chairman, Executive Directors and Partners' Counsellor was £1,348,000 (2015: £2,035,000).

What is the defined benefit pension accrual for the Executive Directors? (Audited)

The annual defined benefit pension entitlement from the age of 60, accrued at the end of the year, for the Chairman, Executive Directors and Partners' Counsellor who have accrued pension, and who served on the Partnership Board during any part of the year, were as follows:

Annual pension entitlement	2015/16	2014/15
£50,000 – £100,000	2	1
£100,001 – £150,000	1	1
£150,001 – £200,000	2	2
£200,001 – £250,000	1	1
£250,001 – £300,000	1	1
Total	7	6

For the Chairman, Executive Directors and Partners' Counsellor who served on the Partnership Board during any part of the year, the aggregate defined benefit pension entitlement accrued at the end of the year for seven individuals was £1,052,000 per annum (2015: £991,000 for six individuals).

The accrued pension for the Chairman, Executive Directors and Partners' Counsellor increases in line with either price inflation or future pay increases, depending on their individual arrangements. Where there are any accrued defined benefit pensions remaining on an unfunded basis, the Partnership has made provision for the associated liability. In addition, most of the Directors are entitled to temporary pensions, payable from age 60 until their state pension starts. The aggregate entitlement to temporary pensions was £35,000 per annum for four individuals (2015: £35,000 for four individuals). For those Directors where there was an increase, the transfer value of the aggregate increase in total accrued pension entitlement above consumer price inflation during the year was £272,000 including temporary pensions (2015: £81,000).

What is the defined benefit accrual for the Chairman? (Audited)

The Chairman's aggregate defined benefit pension entitlement from the age of 60 accrued at the end of the year was £256,000 per annum (2015: £255,000 per annum).

What are the Executive directors, the Non-Executive Directors and Partners' Counsellor paid? (Audited)

The table below shows the number of Directors and their total remuneration for the year, including both Partnership Bonus and pension benefit, for all Directors on the Partnership Board excluding the Elected Directors:

	2015/16 number of Directors	2014/15 number of Directors
£1 – £50,000	–	2
£50,001 – £100,000	3	4
£100,001 – £150,000	1	–
£150,001 – £200,000	1	1
£200,001 – £250,000	1	–
£250,001 – £300,000	–	1
£300,001 – £350,000	1	1
£350,001 – £400,000	1	–
£400,001 – £450,000	–	1
£450,001 – £500,000	1	–
£500,001 – £550,000	–	1
£550,001 – £600,000	1	1
£600,001 – £650,000	1	1
£650,001 – £700,000	1	1
£700,001 – £750,000	1	1
£750,001 – £800,000	1	1
£800,001 – £850,000	1	–
£850,001 – £900,000	–	1
£900,001 – £950,000	–	1
£950,001 – £1,000,000	1	1
£1,000,001 – £1,100,000	1	1
£1,100,001 – £1,200,000	1	1
£1,200,001 – £1,300,000	1	1
£1,300,001 – £1,400,000	1	1
£1,400,001 – £1,500,000	1	1
£1,500,001 – £1,600,000	1	1
£1,600,001 – £1,700,000	1	1
£1,700,001 – £1,800,000	1	1
£1,800,001 – £1,900,000	1	1
£1,900,001 – £2,000,000	1	1
£2,000,001 – £2,100,000	1	1
£2,100,001 – £2,200,000	1	1
£2,200,001 – £2,300,000	1	1
£2,300,001 – £2,400,000	1	1
£2,400,001 – £2,500,000	1	1
£2,500,001 – £2,600,000	1	1
£2,600,001 – £2,700,000	1	1
£2,700,001 – £2,800,000	1	1
£2,800,001 – £2,900,000	1	1
£2,900,001 – £3,000,000	1	1
£3,000,001 – £3,100,000	1	1
£3,100,001 – £3,200,000	1	1
£3,200,001 – £3,300,000	1	1
£3,300,001 – £3,400,000	1	1
£3,400,001 – £3,500,000	1	1
£3,500,001 – £3,600,000	1	1
£3,600,001 – £3,700,000	1	1
£3,700,001 – £3,800,000	1	1
£3,800,001 – £3,900,000	1	1
£3,900,001 – £4,000,000	1	1
£4,000,001 – £4,100,000	1	1
£4,100,001 – £4,200,000	1	1
£4,200,001 – £4,300,000	1	1
£4,300,001 – £4,400,000	1	1
£4,400,001 – £4,500,000	1	1
£4,500,001 – £4,600,000	1	1
£4,600,001 – £4,700,000	1	1
£4,700,001 – £4,800,000	1	1
£4,800,001 – £4,900,000	1	1
£4,900,001 – £5,000,000	1	1
£5,000,001 – £5,100,000	1	1
£5,100,001 – £5,200,000	1	1
£5,200,001 – £5,300,000	1	1
£5,300,001 – £5,400,000	1	1
£5,400,001 – £5,500,000	1	1
£5,500,001 – £5,600,000	1	1
£5,600,001 – £5,700,000	1	1
£5,700,001 – £5,800,000	1	1
£5,800,001 – £5,900,000	1	1
£5,900,001 – £6,000,000	1	1
£6,000,001 – £6,100,000	1	1
£6,100,001 – £6,200,000	1	1
£6,200,001 – £6,300,000	1	1
£6,300,001 – £6,400,000	1	1
£6,400,001 – £6,500,000	1	1
£6,500,001 – £6,600,000	1	1
£6,600,001 – £6,700,000	1	1
£6,700,001 – £6,800,000	1	1
£6,800,001 – £6,900,000	1	1
£6,900,001 – £7,000,000	1	1
£7,000,001 – £7,100,000	1	1
£7,100,001 – £7,200,000	1	1
£7,200,001 – £7,300,000	1	1
£7,300,001 – £7,400,000	1	1
£7,400,001 – £7,500,000	1	1
£7,500,001 – £7,600,000	1	1
£7,600,001 – £7,700,000	1	1
£7,700,001 – £7,800,000	1	1
£7,800,001 – £7,900,000	1	1
£7,900,001 – £8,000,000	1	1
£8,000,001 – £8,100,000	1	1
£8,100,001 – £8,200,000	1	1
£8,200,001 – £8,300,000	1	1
£8,300,001 – £8,400,000	1	1
£8,400,001 – £8,500,000	1	1
£8,500,001 – £8,600,000	1	1
£8,600,001 – £8,700,000	1	1
£8,700,001 – £8,800,000	1	1
£8,800,001 – £8,900,000	1	1
£8,900,001 – £9,000,000	1	1
£9,000,001 – £9,100,000	1	1
£9,100,001 – £9,200,000	1	1
£9,200,001 – £9,300,000	1	1
£9,300,001 – £9,400,000	1	1
£9,400,001 – £9,500,000	1	1
£9,500,001 – £9,600,000	1	1
£9,600,001 – £9,700,000	1	1
£9,700,001 – £9,800,000	1	1
£9,800,001 – £9,900,000	1	1
£9,900,001 – £10,000,000	1	1
Total	11	13

The Chairman, Executive Directors, Elected Directors and Partners' Counsellor are also entitled to the same benefits as all other Partners, including Partnership discount, long leave and other subsidies.

How do we compensate the Elected and Non-Executive Directors for their contributions to the Board?

Elected Directors are not paid for their service on the Partnership Board, as their pay is determined by their respective roles and responsibilities in the Partnership. Their pay is therefore not considered by the Committee or the Partnership Board.

Non-Executive Directors receive fixed annual fees, which are reviewed periodically and set at levels that reflect the Director's responsibilities. Non-Executive Directors' fees are determined by the Elected Directors on behalf of the Committee who receive a recommendation from the Director of Personnel, while also considering the Chairman's views and relevant market data provided by the independent external remuneration consultant. Non-Executive Directors are not entitled to Partnership Bonus, or to any other pay or benefits from the Partnership.

What are the contractual notice periods for Executive Directors?

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

Were there any payments in respect of loss of office?

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

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

Payments to past Directors

Other than the payments noted above, no reportable payments to past Directors of the Partnership Board were paid during the period under review or to the date of this report.

What about external appointments?

An Executive Director with an external appointment may not retain any earnings from such appointment unless it dates from before they joined the Partnership. Details of external appointments for Executive Directors are included on page 66 of the Annual Report and Accounts.

Committee evaluation

Please see page 71 for a summary of the evaluation of the effectiveness of the Board and its Committees during the year.

Reporting requirements

This report forms part of the Directors' Report and has been prepared in accordance with the disclosure requirements applying to the Partnership, which are set out in Schedule 5 of the Large and Medium-sized Companies and Groups (Accounts and Report) Regulations 2008 ('the Regulations').

Since the Partnership is not quoted, and has no share-based incentive schemes or other long-term incentive plans, the Partnership Board has decided not to adopt the full disclosure provisions applicable to quoted companies. However, in the interests of transparency, certain disclosures within this Report go beyond the requirements of Schedule 5 of the Regulations.

The Directors' earnings section on pages 96 and 97 is cross-referenced from note 2.6.3 of the financial statements and forms part of the audited financial statements.

On behalf of the Remuneration Committee.



Denis Hennequin
Chairman of the
Remuneration Committee

14 April 2016

Directors' report



"Our governance model is different and has stood the test of time, but we should always be prepared to challenge it in the context of the changing world in which we do business to ensure that it continues to serve the purpose laid down by our Founder."

Keith Hubber
General Counsel and Company Secretary

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

The Directors are required to make a statement on key events during the Partnership's year, confirming the state of the business and certifying that it is being run responsibly.

Principal activity and future developments

The Partnership's principal activity is retailing, with the main trading operations being the Waitrose and John Lewis businesses. Waitrose and John Lewis operate in a number of different formats including John Lewis department stores, John Lewis at home stores, a John Lewis liaison office in Gurgaon, India, Waitrose supermarkets and convenience stores, on-line (waitrose.com and johnlewis.com), business to business contracts in the UK and abroad and ancillary manufacturing activities (together the Partnership). The Company controls the entities listed in note 16. An indication of likely future developments in the Partnership can be found on page 3.

Corporate governance

The Partnership's statements on corporate governance can be found in the Governance section of these financial statements on pages 58 to 99. These also include the Audit and Risk Committee report, the Corporate Responsibility Committee report, the Chairman's Nominations Committee report and the Remuneration report. The Governance section forms part of this Directors' report.

Other information that is relevant to the Directors' report, and which is incorporated by reference into this report, can be located as follows:

- Employee involvement, equal opportunities and employees with disabilities on page 72
- Groceries Supply Code of Practice (GSCoP) on page 74
- Greenhouse gas emissions data on page 47

The Company has chosen, in accordance with Section 414 C(11) of the Companies Act 2006, and as noted in this Directors' report, to include certain matters in its Strategic report that would otherwise be required to be disclosed in this Directors' report. The Strategic report can be found on pages 1 to 57 of the Annual Report and Accounts 2016.

Political donations

The Partnership made no political donations.

Directors' interests

Under the Constitution of the Partnership, the Executive Directors, Elected Directors and Partners' Counsellor, 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 certain other subsidiaries.

Any conflicts of interest are disclosed on page 70 and details of the Directors' service agreements and notice periods are given on page 97.

Capital structure and purchase of shares

At 30 January 2016, the Partnership had in issue 3,696,995 5% Cumulative Preference stock, 500,000 7.5% Cumulative Preference stock (together 'the Preference Shares'), 612,000 Deferred Ordinary Shares and 104,169,594 SIP Shares. Under the Constitution, the 612,000 Deferred Ordinary Shares in John Lewis Partnership plc are held in trust for the benefit of employees of John Lewis plc and certain other subsidiaries within the Partnership.

Greenhouse gas emissions – methodology

The Partnership has reported on all of the emission sources as required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. Prior years' data is reported in line with our financial reporting period. 2015 data is reported on an approximate calendar year basis which comprises the period from 21 December 2014 to 26 December 2015. Going forward, the annual results will be prepared on an approximate calendar year basis.

The reporting followed the 2013 UK Government environmental reporting guidance (Chapter 2) and used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), data gathered to fulfil our requirements under the CRC Energy Efficiency scheme, and, where available, emission factors from UK Government's GHG Conversion Factors for Company Reporting.

Data has been calculated using Defra-DECC 2015 emissions factors, with the exception of certain refrigerants, and some emissions sources associated with our Leckford farm which are taken from industrial and academic sources. A change in refrigeration emission factors, included in scope 1, has required restating emissions data for prior years.

See www.johnlewispartnership.co.uk/csr for the basis upon which data is reported.

In a nutshell

The Directors' Report is a document produced by the Board of Directors under the requirements of UK company law, which details the state of the company and its compliance with a set of financial, accounting and corporate social responsibility regulations.

There are no voting rights attached to the Preference Shares unless the preference dividend is six months in arrears or unless a resolution is proposed which directly affects the interest of these shares as a class.

At the Annual General Meeting held on 4 June 2015, the Partnership was authorised to make market purchases of up to £3,696,995 in nominal amounts of the 5% Cumulative Preference stock and up to £500,000 in nominal amounts of the 7.5% Cumulative Preference stock, representing the remaining stock in issue. No purchases were made during the year, and shareholders will be invited to renew the authority at the Annual General Meeting, as detailed on page 162. The Partnership Board continues to consider that these stocks are an inefficient form of fixed interest finance and that it would be advantageous to the Partnership to acquire them over time as suitable opportunities arise.

Listing on the London Stock Exchange (LSE)

Both the Partnership and its immediate subsidiary, John Lewis plc, have Standard Listings on the LSE. Many years ago, both companies issued Cumulative Preference Stocks. This is a form of share with a right to receive fixed rate of dividend payment per annum, which cumulates if not paid annually. It has to be paid before any dividend to ordinary shareholders. The Cumulative Preference Stocks issued by John Lewis Partnership plc carry no rights of ownership of the Partnership nor do they carry any voting rights, unless the preference dividend is six months in arrears or unless a resolution is proposed which directly affects the interest of these shares as a class. The Cumulative Preference Stocks are treated in the balance sheet as a long-term liability of the business and not as equity share capital. Further details are provided in note 5.5.

Dividends

No dividends were paid on the Deferred Ordinary Shares (2015: nil). John Lewis Partnership Trust Limited (the Trust Company) holds 612,000 Deferred Ordinary Shares in trust for the benefit of employees of John Lewis plc and certain other subsidiaries. Each year, the Partnership resolves not to recommend or to declare a dividend upon the Deferred Ordinary Shares but to recommend to the Employing Companies to pay to their eligible employees Partnership Bonus, being an amount at least as great as the amount available for distribution should a dividend have been declared.

Dividends on Preference shares were £222,000 (2015: £222,000). Dividends on SIP Shares (issued in connection with BonusSave) were £1,165,000 (2015: £1,268,000).

Going concern

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

A full description of the Partnership'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 1 to 57.

Viability Statement

Assessing the Partnership's viability

The UK Corporate Governance Code requires Directors to make a statement in the Annual Report and Accounts with regards to the longer term viability of the Partnership.

In making their assessment, the Directors considered the Partnership's risk profile and the principal risks and uncertainties, as described on pages 55 to 57, and also made reference to the Partnership's current strategy, as described on pages 22 to 23.

The Directors' assessment considered the Partnership's revenue, profit, net assets and cash position, which were subject to robust downside stress testing based on a number of challenging but plausible scenarios occurring based on the Partnership's seven principal risks crystallising. In addition, the outcome of the scenarios was assessed against the Partnership's financial covenants.

The Partnership's viability assessment period

The Directors have assessed the Partnership's viability over the three-year period to January 2019. This is considered an appropriate assessment period as a much higher degree of judgement is required beyond three years, given the pace of development of the retail industry, and its inherent risks.

The prospects of the Partnership

Based on the assessment performed and the Partnership's current position, the Directors have a reasonable expectation that the Partnership will be able to continue in operation and meet its liabilities as they fall due over the three-year period of assessment.

Events after the balance sheet date

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

Auditors and disclosure of information to auditors

The auditors, PricewaterhouseCoopers LLP, will cease office at the conclusion of the Annual General Meeting, and a resolution will be proposed at the Annual General Meeting for the appointment of KPMG LLP as auditors of the Company, together with a resolution to authorise the Directors to determine the auditors' remuneration.

The Directors of the Partnership Board have taken all the necessary steps to make themselves aware of any information needed by the Partnership's auditors in connection with preparing their report and to establish that the auditors are aware of that information. As far as the Directors are aware, there is no such information of which the Partnership's auditors have not been apprised.

Annual General Meeting

The Annual General Meeting will be held at 2pm on Thursday 9 June 2016 at Longstock House, Leckford, Stockbridge, Hampshire SO20 6EH.

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



Keith Hubber
General Counsel and Company Secretary
14 April 2016

It's Your Results

Our results matter to all of us. In this section, we look at everything we need to know about our 2015/16 financials, from key figures to consolidated statements.

Consolidated primary statements	102		
Notes to the consolidated financial statements	106	1 Accounting information	107
Company primary statements and notes	148	2 Partnership performance	110
Statement of Directors' responsibilities	153	3 Operating assets and liabilities	119
Independent auditors' report	154	4 Working capital and provisions	124
Five year financial record	161	5 Financing	128
Notice of AGM	162	6 Pensions	133
General information	IBC	7 Financial risk management	140
Find out more	BC	8 Other notes	146





Consolidated income statement

for the year ended 30 January 2016

In a nutshell

Our earned revenue minus our incurred expenses to show the Partnership's overall profit.

Notes	2016 £m	2015* £m
1.2, 2.1 Gross sales	11,018.8	10,942.6
2.1 Revenue	9,748.8	9,701.0
Cost of sales	(6,442.1)	(6,426.9)
Gross profit	3,306.7	3,274.1
Other operating income	85.2	86.1
2.2 Operating expenses before exceptional item	(2,989.8)	(2,917.9)
2.1 Operating profit before exceptional item	402.1	442.3
2.3 Exceptional item	129.3	7.9
2.1 Operating profit	531.4	450.2
5.1 Finance costs	(100.8)	(102.5)
5.1 Finance income	4.2	2.9
Profit before Partnership Bonus and tax	434.8	350.6
Partnership Bonus	(145.0)	(156.2)
2.4 Profit before tax	289.8	194.4
2.7 Taxation	(66.6)	(50.9)
Profit for the year	223.2	143.5
2.1 Profit before Partnership Bonus, tax and exceptional item	305.5	342.7

* 53 week year.

Consolidated statement of comprehensive income/(expense)

for the year ended 30 January 2016

In a nutshell

The net sum of other income or expenses not included in the income statement above. These items have not yet been realised and are therefore shown separately from the income statement.

Notes	2016 £m	2015* £m
Profit for the year	223.2	143.5
Other comprehensive income/(expense):		
Items that will not be reclassified to profit or loss:		
6.1 Remeasurement of defined benefit pension schemes	411.1	(523.5)
2.7 Movement in deferred tax on pension schemes	(94.6)	38.3
2.7 Movement in current tax on pension schemes	—	70.8
Items that may be reclassified subsequently to profit or loss:		
Net gain on cash flow hedges	7.9	8.8
2.7 Movement in deferred tax on cash flow hedges	(1.4)	(0.6)
Gain/(loss) on currency translations	0.1	(0.2)
Other comprehensive income/(expense) for the year	323.1	(406.4)
Total comprehensive income/(expense) for the year	546.3	(262.9)

* 53 week year.

Consolidated balance sheet

as at 30 January 2016

In a nutshell

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

Notes	2016 £m	2015 (re-stated) [#] £m
Non-current assets		
3.1 Intangible assets	388.4	335.5
3.2 Property, plant and equipment	4,189.3	4,160.1
4.2 Trade and other receivables	65.7	62.7
2.7 Deferred tax asset	33.6	123.8
	4,677.0	4,682.1
Current assets		
4.1 Inventories	621.9	580.7
4.2 Trade and other receivables	223.9	208.6
Current tax receivable	–	18.9
7.2 Derivative financial instruments	11.5	9.6
3.3 Assets held for sale	–	15.7
5.3 Short-term investments	10.0	–
5.4 Cash and cash equivalents	667.4	336.9
	1,534.7	1,170.4
Total assets	6,211.7	5,852.5
Current liabilities		
5.5 Borrowings and overdrafts	(57.7)	–
4.3 Trade and other payables	(1,617.4)	(1,572.2)
Current tax payable	(27.1)	–
5.6 Finance lease liabilities	(2.6)	(3.1)
4.4 Provisions	(141.6)	(110.1)
7.2 Derivative financial instruments	(2.3)	(6.6)
	(1,848.7)	(1,692.0)
Non-current liabilities		
5.5 Borrowings	(974.1)	(1,030.2)
4.3 Trade and other payables	(209.3)	(175.9)
5.6 Finance lease liabilities	(24.7)	(28.3)
4.4 Provisions	(148.2)	(158.0)
6.1 Retirement benefit obligations	(941.6)	(1,249.3)
	(2,297.9)	(2,641.7)
Total liabilities	(4,146.6)	(4,333.7)
Net assets	2,065.1	1,518.8
Equity		
8.1 Share capital	0.6	0.6
Other reserves	15.4	8.8
Retained earnings	2,049.1	1,509.4
Total equity	2,065.1	1,518.8

[#] Refer to note 1.1.5.

The financial statements on pages 102 to 147 were approved by the Board of Directors on 14 April 2016 and signed on its behalf by

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

Consolidated statement of changes in equity

for the year ended 30 January 2016

In a nutshell

A reconciliation between the beginning and the end of the period which discloses profit or loss, items of comprehensive income and any changes in ownership interests.

Notes	Share capital £m	Capital redemption reserve £m	Capital reserve £m	Hedging reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Total equity £m
Balance at 25 January 2014	0.6	5.0	1.4	(5.8)	0.2	1,780.3	1,781.7
Profit for the year*	—	—	—	—	—	143.5	143.5
6.1 Remeasurement of defined benefit pension scheme	—	—	—	—	—	(523.5)	(523.5)
Fair value gains on cash flow hedges	—	—	—	0.4	—	—	0.4
— transfers to inventories	—	—	—	9.1	—	—	9.1
— transfers to property, plant and equipment	—	—	—	(0.7)	—	—	(0.7)
2.7 Tax on above items recognised in equity	—	—	—	(0.6)	—	109.1	108.5
Loss on currency translations	—	—	—	—	(0.2)	—	(0.2)
Balance at 31 January 2015	0.6	5.0	1.4	2.4	—	1,509.4	1,518.8
Profit for the year	—	—	—	—	—	223.2	223.2
6.1 Remeasurement of defined benefit pension scheme	—	—	—	—	—	411.1	411.1
Fair value gains on cash flow hedges	—	—	—	9.7	—	—	9.7
— transfers to inventories	—	—	—	(0.2)	—	—	(0.2)
— transfers to property, plant and equipment	—	—	—	(1.6)	—	—	(1.6)
2.7 Tax on above items recognised in equity	—	—	—	(1.4)	—	(94.6)	(96.0)
Gain on currency translations	—	—	—	—	0.1	—	0.1
Balance at 30 January 2016	0.6	5.0	1.4	8.9	0.1	2,049.1	2,065.1

* 53 week year.

Retained earnings comprise £1,663.2m (2015: £1,117.2m) of distributable and £385.9m (2015: £392.2m) of non-distributable reserves, arising on the revaluation of freehold and long leasehold properties prior to 31 January 2004.

Consolidated statement of cash flows

for the year ended 30 January 2016

In a nutshell
The Partnership's cash income and expenditure analysed by various key activities.

Notes		2016 £m	2015* (re-stated) [#] £m
2.5	Cash generated from operations	917.1	875.8
	Net taxation paid	(26.4)	(16.1)
	Partnership Bonus paid	(156.1)	(202.8)
6.1	Additional contribution to the pension scheme	–	(294.1)
	Finance costs paid	(2.9)	(3.1)
	Net cash generated from operating activities	731.7	359.7
	Cash flows from investing activities		
	Purchase of property, plant and equipment	(347.4)	(526.2)
	Purchase of intangible assets	(146.4)	(144.7)
	Proceeds from sale of property, plant and equipment and intangible assets	163.8	44.7
	Finance income received	1.4	0.6
	Cash outflow from investments	(10.0)	–
	Net cash used in investing activities	(338.6)	(625.6)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	(57.2)	(44.0)
	Payment of capital element of finance leases	(4.0)	(4.4)
	Payments to preference shareholders	(0.2)	(0.2)
	Payments to Share Incentive Plan shareholders	(1.3)	(1.3)
	Cash inflow from borrowings	–	300.8
	Net cash (used in)/generated from financing activities	(62.7)	250.9
	Increase/(decrease) in net cash and cash equivalents	330.4	(15.0)
	Net cash and cash equivalents at beginning of the year	336.9	351.9
	Net cash and cash equivalents at end of the year	667.3	336.9
5.4	Net cash and cash equivalents comprise:		
	Cash at bank and in hand	89.1	96.8
	Short-term deposits	578.3	240.1
	Bank overdrafts	(0.1)	–
		667.3	336.9

* 53 week year.

[#] Refer to note 1.1.5.

Notes to the consolidated financial statements

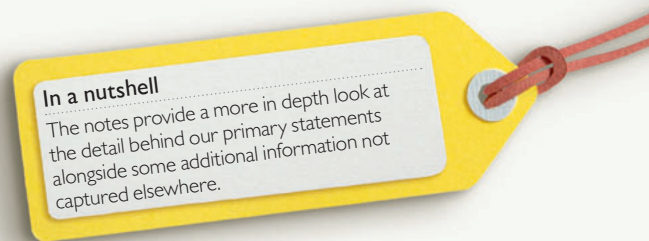
Reading the notes to the accounts

In order to make our notes more user-friendly and understandable, we have grouped them under eight new headings and provided additional explanations

1	Accounting information	107
2	Partnership performance	110
3	Operating assets and liabilities	119
4	Working capital and provisions	124
5	Financing	128
6	Pensions	133
7	Financial risk management	140
8	Other notes	146

The green boxes explain the purpose of each note

The blue boxes contain information about our accounting policies



1 Accounting information

In this section

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

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

1.1 Accounting principles and policies

We prepare our financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. This is required by the Listing Rules of the London Stock Exchange. We have set out our significant accounting policies in these notes. These have been applied in the current reporting period and apply to the financial statements as a whole. All of the Partnership's accounting policies are set in line with the requirements of IFRS. This year we have re-stated some of our prior year balances and the reasons for this are also set out below. Other than this, 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 instruments) which are valued at fair value through profit or loss, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The critical accounting estimates and judgements made by management are disclosed in section 1.1.7.

The financial period is the 52 weeks ended 30 January 2016 (prior period: 53 weeks ended 31 January 2015).

Going concern

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

1.1.2 Basis of consolidation

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

1.1.3 Subsidiaries

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

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 Partnership for the year ended 30 January 2016 and have not had a significant impact on the Partnership's profit for the year, equity or disclosures:

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

1 Accounting information (continued)

1.1 Accounting principles and policies (continued)

1.1.5 Restatement

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

1.1.6 Significant accounting policies

Other operating income

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

Financial instruments

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

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

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

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

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

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

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

Offsetting

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

Foreign currencies

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

1 Accounting information (continued)

1.1 Accounting principles and policies (continued)

1.1.7 Critical accounting estimates and judgements

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

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

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

1.2 Non-GAAP measures

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

1.2.2 Exceptional items

Items which are both material and non-recurring are presented as exceptional items within their relevant consolidated income statement category. The separate reporting of exceptional items helps provide an indication of the Partnership'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 Partnership's underlying profitability, and is a core measure of performance for Partners.

1.2.4 Net debt

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

Notes to the consolidated financial statements (continued)

2 Partnership performance

In this section

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

2.1 Segmental reporting

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

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

Accounting policies

Revenue: Sales of goods and services are recognised as revenue when the goods have been delivered or the services rendered. Revenue in respect of 'sale or return sales' which represents concession income is stated at the value of the margin that the Partnership 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 Partnership sell products with a right of return, and experience is used to estimate and provide for the value of such returns at the time of sale.

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

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

A liability for the Partnership Bonus is included in the year-end accounts, with the amount confirmed by the Partnership Board shortly after the year-end.

It is recorded in the year it relates to rather than the year it was declared because there is a constructive obligation to pay a Partnership Bonus and it can be reliably estimated once the results for the year are known and prior to the approval of the Partnership's financial statements.

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

2 Partnership performance (continued)

2.1 Segmental reporting (continued)

	Waitrose £m	John Lewis £m	Partnership Services and Group £m	Total £m
2016				
Gross sales	6,461.4	4,557.4	–	11,018.8
Adjustment for sale or return sales	–	(181.9)	–	(181.9)
Value added tax	(375.4)	(712.7)	–	(1,088.1)
Revenue	6,086.0	3,662.8	–	9,748.8
Operating profit before exceptional item and profit on sale of property	232.6	248.7	(80.7)	400.6
Profit on sale of property	–	1.5	–	1.5
Operating profit before exceptional item	232.6	250.2	(80.7)	402.1
Exceptional item				129.3
Operating profit				531.4
Finance costs				(100.8)
Finance income				4.2
Partnership Bonus				(145.0)
Profit before tax				289.8
Taxation				(66.6)
Profit for the year				223.2
Reconciliation of Profit before Partnership Bonus, tax and exceptional item to Profit before tax:				
Profit before Partnership Bonus, tax and exceptional item				305.5
Partnership Bonus				(145.0)
Exceptional item				129.3
Profit before tax				289.8
Segment assets	2,998.8	2,049.1	1,163.8	6,211.7
Segment liabilities	(742.6)	(876.8)	(2,527.2)	(4,146.6)
Net assets	2,256.2	1,172.3	(1,363.4)	2,065.1
Other segment items:				
– Depreciation	(166.1)	(103.8)	(16.1)	(286.0)
– Amortisation	(37.2)	(35.5)	(18.5)	(91.2)
– Capital expenditure – property, plant and equipment	174.4	136.9	24.9	336.2
– Capital expenditure – intangible assets	41.9	88.9	15.6	146.4
– Movement in provisions – increase	2.4	11.9	7.4	21.7

Notes to the consolidated financial statements (continued)

2 Partnership performance (continued)

2.1 Segmental reporting (continued)

	Waitrose £m	John Lewis £m	Partnership Services and Group £m	Total £m
2015				
Gross sales	6,508.9	4,433.7	–	10,942.6
Adjustment for sale or return sales	–	(173.1)	–	(173.1)
Value added tax	(373.6)	(694.9)	–	(1,068.5)
Revenue	6,135.3	3,565.7	–	9,701.0
Operating profit before exceptional item and profit on sale of property	226.9	247.7	(46.5)	428.1
Profit on sale of property	10.5	2.8	0.9	14.2
Operating profit before exceptional item	237.4	250.5	(45.6)	442.3
Exceptional item				7.9
Operating profit				450.2
Finance costs				(102.5)
Finance income				2.9
Partnership Bonus				(156.2)
Profit before tax				194.4
Taxation				(50.9)
Profit for the year				143.5
Reconciliation of Profit before Partnership Bonus, tax and exceptional item to Profit before tax:				
Profit before Partnership Bonus, tax and exceptional item				342.7
Partnership Bonus				(156.2)
Exceptional item				7.9
Profit before tax				194.4
Segment assets (re-stated)[#]	2,946.1	2,001.9	904.5	5,852.5
Segment liabilities (re-stated)[#]	(710.9)	(789.7)	(2,833.1)	(4,333.7)
Net assets	2,235.2	1,212.2	(1,928.6)	1,518.8
Other segment items:				
– Depreciation	(172.3)	(93.5)	(15.9)	(281.7)
– Amortisation	(33.2)	(26.0)	(16.9)	(76.1)
– Capital expenditure – property, plant and equipment	334.6	151.9	27.6	514.1
– Capital expenditure – intangible assets	39.5	80.9	24.3	144.7
– Movement in provisions – increase	6.4	3.0	0.6	10.0

[#] Refer to note 1.1.5.

2.2 Operating expenses before exceptional item

We analyse operating expenses into branch operating expenses and administrative expenses. Branch operating expenses are directly associated with the sale of goods and services. Administrative expenses are those which are not directly related to the sale of goods and services.

	2016 £m	2015 £m
Operating expenses before exceptional item		
Branch operating expenses	(2,235.6)	(2,228.0)
Administrative expenses	(754.2)	(689.9)
	(2,989.8)	(2,917.9)

2 Partnership performance (continued)

2.3 Exceptional item

Exceptional items are material, non-recurring items of income and/or expense arising from events or transactions that fall within the activities of the Partnership. 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.

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

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

2.4 Profit before tax

Detailed below are items charged/credited to arrive at our profit before tax as defined by IFRS and required to be reported under IFRS.

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

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

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

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

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

Notes to the consolidated financial statements (continued)

2 Partnership performance (continued)

2.5 Reconciliation of profit before tax to cash generated from operations

We have analysed how our profit before tax reconciles to the cash generated from our operating activities. Items added back to/deducted from profit before tax are non-cash items that are adjusted to arrive at cash generated from operations which is shown in the cash flow statement.

	2016 £m	2015 (re-stated) [#] £m
Profit before tax	289.8	194.4
Amortisation of intangible assets	91.2	76.1
Depreciation	286.0	281.7
Net finance costs	96.6	99.6
Partnership Bonus	145.0	156.2
Fair value losses on derivative financial instruments	0.7	—
Profit on disposal of property, plant and equipment and intangible assets	(124.8)	(12.3)
Increase in inventories	(41.2)	(26.7)
(Increase)/decrease in receivables	(18.9)	19.2
Increase in payables	102.2	108.7
Increase/(decrease) in retirement benefit obligations	66.6	(21.2)
Increase in provisions	23.9	0.1
Cash generated from operations	917.1	875.8

[#] Refer to note 1.1.5.

2.6 Partners

The average number of Partners employed by us in the year, together with details of the area of the Partnership in which they work, and total employment related costs is shown in the table below. At the end of the year, our total number of Partners was 91,500. This note also covers Partner benefits, including pay and pay for senior Partners and the Partnership Board.

2.6.1 Partner numbers

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

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

2 Partnership performance (continued)

2.6 Partners (continued)

2.6.2 Partner pay and benefits

Employment and related costs were as follows:

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

* Includes cash supplements in lieu of future pension accrual.

Includes contractual payments and compensation for loss of office.

Key management includes the Directors of the Company, members of the Partnership's Divisional Management Boards and other officers of the Partnership. Key management compensation includes salaries, 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 Partnership's long leave scheme, which is open to all Partners and provides up to six months' paid leave after 25 years' service. There is no proportional entitlement for shorter periods of service. It is not practical to allocate the cost of accruing entitlement to this benefit to individuals, and so no allowance has been made for this benefit in the amounts disclosed.

2.6.3 Directors' emoluments

Directors' emoluments have been summarised below. Further details of the remuneration of Directors is given in the parts of the Remuneration Committee report noted as audited on pages 94 to 97.

	2016 £m	2015 £m
Aggregate emoluments	(6.6)	(7.0)

Notes to the consolidated financial statements (continued)

2 Partnership performance (continued)

2.7 Taxation

Our tax charge for the year is shown below. This includes an explanation of how each item is calculated, a reconciliation of our effective tax rate to the UK standard tax rate, and an update on any tax rate changes. We have placed explanatory boxes within the note to explain each table.

Accounting policy

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

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

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

2.7.1 Analysis of tax charge for the year

The components of our tax charge are below. The tax charge is made up of current and deferred tax. Current tax is the amount payable on the taxable income for the year, and any adjustments to tax payable in previous years. Current tax is charged through the consolidated income statement and consolidated statement of comprehensive expense. Deferred tax is explained in 2.7.3.

	2016 £m	2015 £m
Analysis of tax charge		
Corporation tax – current year	(74.5)	(70.3)
Corporation tax – adjustment in respect of prior years	2.1	2.4
Total current tax charge	(72.4)	(67.9)
Deferred tax – current year	5.9	17.1
Deferred tax – adjustment in respect of prior years	(0.1)	(0.1)
	(66.6)	(50.9)
Tax (charged)/credited to other comprehensive income		
Movement in current tax on pension schemes	–	70.8
Movement in deferred tax on pension schemes	(94.6)	38.3
Movement in deferred tax on cash flow hedges	(1.4)	(0.6)
	(96.0)	108.5

2 Partnership performance (continued)

2.7 Taxation (continued)

2.7.2 Factors affecting tax charge in the year

Taxable profit differs from profits as reported in the income statement because some items of income or expense are taxable or deductible in different years or may never be taxable or deductible. The table below shows the reconciliation between the tax charge on profits at the standard UK tax rate and the actual tax charge recorded in the income statement ignoring the effects of deferred tax timing differences. The effective tax rate is the tax charge as a percentage of Partnership profit before tax.

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

	2016 £m	2015 £m
Profit before tax	289.8	194.4
Profit before tax multiplied by standard rate of corporation tax in the UK of 20.17% (2015: 21.33%)	(58.5)	(41.5)
Effects of:		
Changes in tax rate	6.2	(1.1)
Adjustment to current tax in respect of prior years	2.1	2.4
Adjustment to deferred tax in respect of prior years	(0.1)	(0.1)
Depreciation on assets not qualifying for tax relief	(13.4)	(13.9)
Difference between accounting and tax base for land and buildings	(1.8)	1.5
Differences in overseas tax rates	2.0	2.0
Sundry disallowables	(1.0)	(2.2)
Other permanent differences on sale of property	(2.1)	2.0
Total tax charge	(66.6)	(50.9)
Effective tax rate (%)	23.0	26.2

2.7.3 Deferred tax

Deferred tax is the tax expected to be payable or recoverable in the future arising from temporary differences that arise when the carrying value of assets and liabilities differ between accounting and tax treatments. Deferred tax assets represent the amounts of income taxes recoverable in the future in respect of these differences, while deferred tax liabilities represent the amounts of income taxes payable in the future in respect of these differences. Here we show the movements in deferred tax assets and liabilities during the year.

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

The movement on the deferred tax account is shown below:

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

Notes to the consolidated financial statements (continued)

2 Partnership performance (continued)

2.7 Taxation (continued)

2.7.3 Deferred tax (continued)

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

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

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

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

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

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

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

2.7.4 Factors affecting tax charges in current and future years

Here we explain any changes to the current or future tax rates that have been announced or substantively enacted. It also explains the impact on the Partnership of any rate changes that are already effective.

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

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

3 Operating assets and liabilities

In this section

This section shows the assets used in generating the Partnership's performance and related future commitments. This includes intangible assets and property, plant and equipment, as well as commitments for future expenditure which will be used to help generate our performance in future years. Assets held for sale are included within this section as they relate to current assets which have previously been used in delivering our results.

3.1 Intangible assets

Our balance sheet contains non-physical assets in relation to computer software which are used to support our business and the generation of our profits.

This note shows the cost of the assets, which is the amount we initially paid for them, and details any additions and disposals during the year. Additionally, the note shows amortisation, which is an expense in the income statement to reflect the usage of these assets. Amortisation is calculated by estimating how many years we expect to use the assets, which is also known as the useful life. The amortisation charge reduces the initial value of the assets over time spread evenly over their useful lives.

Each year we review the value of our assets to ensure that their expected future value in use in the business has not fallen below their amortised value. This might occur where there has been a system replacement in the year. If an asset's expected value in use falls below its amortised value, this is reflected through an additional impairment expense, which reduces profit.

Accounting policy

Intangible assets: Intangible assets, comprising both purchased and internally developed computer software, are carried at cost less accumulated amortisation and impairments. The cost of internally developed software, including all directly attributable costs necessary to create, produce and prepare the software for use, is capitalised where the development meets the criteria for capitalisation required by IAS 38. Internally developed software assets that are not yet in use are reviewed at each reporting date to ensure that the development still meets the criteria for capitalisation, and is not expected to become impaired or abortive. Once available for use, the purchased or internally developed software is amortised on a straight-line basis over its useful economic life, which is deemed to be between three and ten years. The assets' useful lives are reviewed and adjusted if appropriate at each balance sheet date.

Critical accounting estimates and judgements

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

Notes to the consolidated financial statements (continued)

3 Operating assets and liabilities (continued)

3.1 Intangible assets (continued)

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

For the year to 30 January 2016, computer systems valued at £109.1m (2015: £132.9m) were brought into use. This covered a range of selling, support, supply chain, administration and information technology infrastructure applications, with asset lives ranging from three to 10 years.

Amortisation of intangible assets is charged within operating expenses.

3 Operating assets and liabilities (continued)

3.2 Property, plant and equipment

Our balance sheet contains significant property, plant and equipment, primarily made up of branches, distribution centres, offices and vehicles.

This note shows the cost of the assets, which is the amount we initially paid for them, or deemed cost if the assets were purchased before January 2004. It also details any additions and disposals during the year. Additionally, the note shows depreciation, which is an expense in the income statement representing the usage of these assets. Depreciation is calculated by estimating how many years we expect to use the assets, which is also known as the useful life. The depreciation charge reduces the initial value of the assets over time spread evenly over their useful lives. The value after deducting depreciation is known as the net book value.

Each year we review the value of our assets to ensure that the value in use or resale value has not fallen below their net book value. This might occur where there is a decline in the forecasted performance of the brand or business unit. If an asset value falls below its net book value, this is reflected through an additional one off impairment expense, which reduces profit.

Accounting policies

Property, plant and equipment: The cost of property, plant and equipment includes the purchase price and directly attributable costs of bringing the asset to its working condition for its intended use.

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

Other assets are held at cost.

Depreciation

No depreciation is charged on freehold land and assets in the course of construction. Depreciation is calculated for all other assets to write off the cost or valuation, less residual value, on a straight-line basis over their expected useful life, at the following rates:

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

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

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

Critical accounting estimates and judgements

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

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

Notes to the consolidated financial statements (continued)

3 Operating assets and liabilities (continued)

3.2 Property, plant and equipment (continued)

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

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

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

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

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

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

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

A reduction of 0.5% in the long-term growth rate would result in an additional impairment charge of £3.3m (2015: £9.9m). An increase in the discount rate of 0.5% would result in an additional impairment charge of £3.3m (2015: £2.1m).

3 Operating assets and liabilities (continued)

3.3 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 Partnership. 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 31 January 2015, one property asset was recorded as held for sale totalling £15.7m. It was disposed of during the year ended 30 January 2016 and the profit on disposal was recorded as an exceptional item during the year.

3.4 Commitments and contingencies

A commitment represents a contractual obligation to make a payment in the future. We have commitments for capital expenditure and operating leases. Contingent liabilities are potential future cash outflows where the likelihood of payment is more than remote but is not considered probable or cannot be measured reliably. We have contingencies in the form of lease guarantees arising from our former associate company, Ocado Limited.

In line with accounting standards, commitments and contingencies are not included within the balance sheet, but are detailed in the note below. The amounts below represent the minimum amounts we are obliged to pay. See note 5.6 for leases accounting policy.

3.4.1 Capital commitments

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

3.4.2 Lease guarantees

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

3.4.3 Commitments under operating leases

	2016 Land and buildings £m	2015 Land and buildings £m
Future aggregate minimum lease payments under non-cancellable operating leases, payable:		
Within one year	(176.9)	(170.3)
Later than one year and less than five years	(676.6)	(587.8)
After five years	(2,709.5)	(2,661.8)
Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years comprise the following:		
Later than five years and less than 10 years	(763.5)	(745.3)
Later than 10 years and less than 20 years	(990.8)	(932.3)
Later than 20 years and less than 40 years	(466.0)	(465.1)
Later than 40 years and less than 80 years	(207.9)	(238.2)
After 80 years	(281.3)	(280.9)
	(2,709.5)	(2,661.8)

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

Notes to the consolidated financial statements (continued)

4 Working capital and provisions

In this section

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

4.1 Inventories

Our inventory is the stock available for sale or for manufacturing our products. This note sets out the make-up of our inventories between raw materials, work in progress and finished goods and goods for resale. Our raw materials and work in progress are primarily related to Herbert Parkinson and Leckford Farm. Slow moving and obsolete inventory is assessed each reporting period and appropriate provision made against the inventory balance, and so the value of inventory is shown net of provisions. Once the inventory is sold, it is charged to cost of sales in the consolidated income statement.

Accounting 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 Partnership on a sale or return basis, where the Partnership does not have the risks and rewards of ownership. Slow moving and obsolete inventory is assessed for impairment at each reporting period based on past experience and appropriate provision made.

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

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

4.2 Trade and other receivables

Our receivables are amounts owed to the Partnership. This note provides a split of receivables into trade receivables, other receivables and prepayments and accrued income.

Trade receivables are amounts owed to us from customers and from suppliers if we are owed rebates. Other receivables include interest receivable from third parties and amounts due from our Partners in respect of the Partnership's car finance scheme. Prepayments are payments made in advance of the delivery of goods or rendering of services. Accrued income is income earned by the Partnership for providing a product or service which has not yet been invoiced.

Other receivables, prepayments and accrued income are split into current and non-current to show those amounts due within a year and those which will be recovered over a longer period. Trade receivables are shown net of an allowance for debts which we do not consider to be recoverable.

4 Working capital and provisions (continued)

4.2 Trade and other receivables (continued)

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

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

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

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

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

	2016 £m	2015 £m
Trade and other receivables		
Current:		
Trade receivables	61.0	57.4
Other receivables	61.3	58.1
Prepayments and accrued income	101.6	93.1
	223.9	208.6
Non-current:		
Other receivables	20.6	16.1
Prepayments and accrued income	45.1	46.6
	65.7	62.7

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

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

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

Notes to the consolidated financial statements (continued)

4 Working capital and provisions (continued)

4.3 Trade and other payables

Trade and other payables include amounts owed by the Partnership. We owe payments to suppliers for goods or services that have been invoiced or accrued, and to HMRC in the form of taxes and social security. Amounts are payable to our Partners, through salaries and our annual profit share, the Partnership Bonus and to customers, through goods to be delivered. Non-current trade and other payables include incentives on property leases spread over the duration of the lease.

Accounting policy

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

Critical accounting estimates and judgements

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

	2016 £m	2015 (re-stated) [#] £m
Trade and other payables		
Current:		
Trade payables	(924.6)	(891.2)
Other payables	(158.4)	(138.3)
Other taxation and social security	(157.6)	(161.1)
Accruals	(179.0)	(187.7)
Deferred income	(66.6)	(52.5)
Partnership Bonus	(131.2)	(141.4)
	(1,617.4)	(1,572.2)
Non-current:		
Other payables	(2.4)	(0.5)
Deferred income	(206.9)	(175.4)
	(209.3)	(175.9)

[#] Refer to note 1.1.5.

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

4.4 Provisions

We incur liabilities which have some uncertainty regarding the timing or the future cost required to settle them. These are termed provisions and have been estimated and provided for at year-end. Our provisions primarily relate to the expected cost of long leave, service guarantees provided to customers, expected customer refunds and insurance claims.

Accounting policy

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

Critical accounting estimates and judgements

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

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

4 Working capital and provisions (continued)

4.4 Provisions (continued)

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

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

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

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

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

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

Other provisions include reorganisation costs and property related costs.

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

Notes to the consolidated financial statements (continued)

5 Financing

In this section

This section sets out what makes up our net finance costs, which are costs to service our net debt and pensions. Information on the significant components of net debt is given in this section, including cash and cash equivalents, borrowings and overdrafts and finance leases.

5.1 Net finance costs

Net finance costs include our costs in respect of interest payable on bank borrowings, our defined benefit pension and other employee benefit schemes. Finance income includes interest received from short-term investments and fair value movements.

	2016 £m	2015 £m
Finance costs		
Interest payable on:		
Bank loans and overdrafts	(1.4)	(1.9)
Other loans repayable within five years	(26.1)	(26.6)
Other loans repayable in more than five years	(31.0)	(20.7)
Finance lease interest payable	(1.3)	(1.4)
Amortisation of issue costs of bonds and loan facilities	(1.6)	(1.3)
Preference dividends	(0.2)	(0.3)
Share Incentive Plan dividends	(1.2)	(1.3)
Finance costs in respect of borrowings	(62.8)	(53.5)
Fair value measurements and other	(1.1)	(1.5)
Net finance costs arising on defined benefit and other employee benefit schemes	(36.9)	(47.5)
Total finance costs	(100.8)	(102.5)
Finance income		
Finance income in respect of cash and short-term investments	1.5	0.7
Fair value measurements and other	0.4	2.2
Net finance income arising on other employee benefit schemes	2.3	–
Total finance income	4.2	2.9
Net finance costs	(96.6)	(99.6)

	2016 £m	2015 £m
Total finance costs in respect of borrowings	(62.8)	(53.5)
Total finance income in respect of cash and short-term investments	1.5	0.7
Net finance costs in respect of borrowings and short-term investments	(61.3)	(52.8)
Fair value measurements and other	(0.7)	0.7
Net finance costs arising on defined benefit retirement schemes	(36.9)	(37.6)
Net finance income/(costs) arising on other employee benefit schemes	2.3	(9.9)
Net finance costs	(96.6)	(99.6)

5 Financing (continued)

5.2 Analysis of net debt

Net debt summarises our debt position as at the year-end. Net debt incorporates the Partnership's borrowings, bank overdrafts, fair value of derivative financial instruments and obligations under finance leases. These liabilities are offset by cash and cash equivalents, short-term investments and a portion of bond transaction costs that relate to the remaining duration of the bond. This note shows how our net debt position has moved from the prior year-end, split out between cash movements and non-cash movements.

	2015 (re-stated) [#] £m	Cash flow £m	Other non-cash movements £m	2016 £m
Current assets				
Cash and cash equivalents	336.9	330.5	—	667.4
Short-term investments	—	10.0	—	10.0
Derivative financial instruments	9.6	—	1.9	11.5
	346.5	340.5	1.9	688.9
Current liabilities				
Borrowings and overdrafts	—	(0.1)	(57.7)	(57.8)
Unamortised bond transaction costs	—	—	0.1	0.1
Finance leases	(3.1)	4.0	(3.5)	(2.6)
Derivative financial instruments	(6.6)	—	4.3	(2.3)
	(9.7)	3.9	(56.8)	(62.6)
Non-current liabilities				
Borrowings	(1,040.9)	—	57.1	(983.8)
Unamortised bond transaction costs	10.7	—	(1.0)	9.7
Finance leases	(28.3)	—	3.6	(24.7)
	(1,058.5)	—	59.7	(998.8)
Total net debt	(721.7)	344.4	4.8	(372.5)

Reconciliation of net cash flow to net debt

	2016 £m	2015 (re-stated) [#] £m
Increase/(decrease) in net cash and cash equivalents in the year	330.4	(15.0)
Cash outflow/(inflow) from movement in debt and lease financing	4.0	(296.4)
Cash outflow from short-term investments	10.0	—
Movement in debt for the year	344.4	(311.4)
Opening net debt	(721.7)	(417.2)
Non-cash movements	4.8	6.9
Closing net debt	(372.5)	(721.7)

[#] Refer to note 1.1.5.

Notes to the consolidated financial statements (continued)

5 Financing (continued)

5.3 Short-term investments

Our short-term investments represent amounts on short-term deposits. They are deposited for a period of greater than 90 days but less than one year with financial institutions.

Accounting policy

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

	2016 £m	2015 £m
Short-term investments	10.0	—

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

5.4 Cash and cash equivalents

Our cash and cash equivalents include cash in hand and cash placed on short-term deposits of less than 90 days with financial institutions and money market funds.

Accounting policy

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

	2016 £m	2015 (re-stated) [#] £m
Cash and cash equivalents		
Cash at bank and in hand	89.1	96.8
Short-term deposits	578.3	240.1
	667.4	336.9

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

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

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

	2016 £m	2015 (re-stated) [#] £m
Cash and cash equivalents, as above	667.4	336.9
Less bank overdrafts	(0.1)	—
Net cash and cash equivalents	667.3	336.9

[#] Refer to note 1.1.5.

5 Financing (continued)

5.5 Borrowings and overdrafts

Our borrowings comprise bonds, loans from banks, bank overdrafts and Share Incentive Plan shares, which are held in trust for the benefit of Partners.

Accounting policies

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

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

Share Incentive Plan: The Share Incentive Plan (SIP or BonusSave) is initially measured at fair value and the liability is subsequently measured at amortised cost. It is de-recognised once the liability has been settled.

	2016 £m	2015 (re-stated) [#] £m
Borrowings and overdrafts		
Current:		
Bank overdraft	(0.1)	—
Partnership Bond, 2016*	(57.7)	—
Unamortised bond transaction costs	0.1	—
	(57.7)	—
Non-current:		
Partnership Bond, 2016*	—	(57.1)
8¾% Bonds, 2019	(275.0)	(275.0)
6¼% Bonds, 2025	(300.0)	(300.0)
4¼% Bonds, 2034	(300.0)	(300.0)
Unamortised bond transaction costs	9.7	10.7
5% Cumulative Preference Stock	(3.7)	(3.7)
7½% Cumulative Preference Stock	(0.5)	(0.5)
Cumulative Preference Stock of subsidiary undertakings	(0.4)	(0.4)
Share Incentive Plan shares (SIP)	(104.2)	(104.2)
	(974.1)	(1,030.2)

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

[#] Refer to note 1.1.5.

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

Unless the preference dividends are in arrears, the 5% and 7½% Cumulative Preference Stock only have voting rights in relation to a variation of their class rights. The amounts receivable in a winding up would be limited to the amounts paid up, for the 5% Cumulative Preference Stock, and to one and a half times the amounts paid up for the 7½% Cumulative Preference Stock.

SIP shares are issued as part of the BonusSave scheme. The SIP shares that are allocated to Partners are entitled to a dividend, the amount of which is determined from year to year by the Partnership Board. The amounts receivable in a winding up would be limited to the amounts that have been paid on the SIP shares.

Notes to the consolidated financial statements (continued)

5 Financing (continued)

5.6 Finance lease liabilities

We enter into leases for property, plant and equipment. Finance leases arise when the terms of the lease agreement substantially transfer all the risks and rewards of ownership of an asset to the Partnership. This note details the schedule of payments due over the life of the finance leases, together with the present value of the finance leases recorded in the consolidated balance sheet.

Accounting policy

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

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

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

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

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

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

6 Pensions

In this section

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

6.1 Retirement benefit obligations

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

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

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 assumptions whilst the assets are held at fair value. Changes arising from the Pension Benefit Review, which principally reduce the rate of defined benefit pension build up, will take effect from 1 April 2016.

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

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

Accounting policy

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

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

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

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

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

The Partnership also has a scheme to provide up to six months paid leave after 25 years' service (long leave). The cost of providing the benefits under the scheme is determined using the projected unit credit actuarial valuation method. The current service cost is included within operating profit in the consolidated income statement. The financing elements of long leave are included in finance costs in the consolidated income statement. Long leave is included within Provisions in note 4.4.

Critical accounting estimates and judgements

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

Notes to the consolidated financial statements (continued)

6 Pensions (continued)

6.1 Retirement benefit obligations (continued)

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

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

During 2014/15, the Chairman, Partnership Board and Partnership Council of John Lewis Partnership plc approved changes to the level and form of future provision of pension benefits to Partners. This was the output of the Pension Benefit Review which commenced in 2013. The changes take place in two stages. From 1 April 2015 the waiting period to join the defined benefit section of the scheme was increased from three to five years. Then from 1 April 2016, the principal changes are to reduce the defined benefit accrual rate from 1/60th to 1/120th of final salary, and to provide an enhanced level of defined contribution pension for those Partners who have completed the waiting period. Other changes, applying only to any pension built up after 1 April 2016, include linking the Partnership normal retirement age to the State Pension Age, and a change in the rate of pension increases in payment.

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

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

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

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

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

Specific risks include:

-
- Changes in future expectations of price inflation: The majority of the scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities. Hence, an increase in inflation will increase the deficit

 - Changes in the discount rate used to value pension liabilities: A lower discount rate will lead to a higher present value being placed on future pension payments. Hence, a reduction in discount rate will increase the deficit

 - The return on assets being lower than assumed: If the rate of growth in assets falls below the discount rate used to value the liabilities then the pension deficit will increase

 - Falls in asset values not being matched by similar falls in the value of liabilities: As the majority of assets held by the scheme are not matched to the liabilities of the scheme, a fall in plan assets will lead to an increase in the deficit

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

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

6 Pensions (continued)

6.1 Retirement benefit obligations (continued)

6.1.1 Financial 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 expected life expectancy of the members of the pension scheme.

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

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

Increases in earnings are projected to be at 3.90% until 2020 and then at a long-term rate of 1.0% above consumer price inflation (2015: 0.5% above retail price inflation). Increases in pensions in payment are projected to be 0.15% (2015: 0.1%) below retail price inflation for pensionable service built up before April 2016 and 0.40% below consumer price inflation for pensionable service built up after April 2016, reflecting the impact of a cap on the level of pension increases. Increases in deferred pensions are projected to be in line with consumer price inflation.

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

6.1.2 Demographic assumptions

The average life expectancies assumed were as follows:

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

6.1.3 Amounts recognised in the financial statements

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.

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

Notes to the consolidated financial statements (continued)

6 Pensions (continued)

6.1 Retirement benefit obligations (continued)

6.1.3 Amounts recognised in the financial statements (continued)

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

- Service cost is the cost to the Partnership of future benefits earned by members which are attributable to members' service in the current or past periods
- Contribution expense in respect of Partnership contributions to the defined contribution section of the pension scheme and cash supplements in respect of certain Partners in lieu of future pension accrual
- Administration expenses in relation to the pension scheme
- Net interest on the net defined benefit liability, which is made up of the interest cost on pension liabilities and interest income on pension assets

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

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

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

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

6 Pensions (continued)

6.1 Retirement benefit obligations (continued)

6.1.4 Retirement benefit obligations

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 2014/15 year-end. Movements in scheme assets are explained further in 6.1.5.

Movements in the net defined benefit liability are as follows:

- Pension expense, which is the cost of providing defined benefit pension benefits over the year. This is equal to the pension operating expenses set out above in 6.1.3, 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 relate to returns on plan assets being different to the discount rate (explained further in 6.1.5) and remeasurements (explained further below)

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

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

- Service cost is the cost to the Partnership of future benefits earned by members which are attributable to members' service in the current or past periods. This is charged to the income statement
- Future pension obligations are stated at present value. A discount rate is used to calculate this current value of the future liability. The interest on pensions liabilities is the unwinding of this discount rate and is charged to the income statement within 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 financial 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	2016 £m	2015 £m
Defined benefit obligation at beginning of year	(5,301.0)	(4,218.2)
Service cost	(228.3)	(173.2)
Interest on pension liabilities	(165.2)	(183.1)
Remeasurements		
– gain/(loss) from changes in financial assumptions	432.0	(844.2)
– experience gains	3.4	7.9
Benefits paid	119.1	109.8
Defined benefit obligation at end of year	(5,140.0)	(5,301.0)

The scheme liabilities are 50.5% in respect of active scheme participants, 16.2% in respect of deferred scheme participants and 33.3% in respect of retirees.

The weighted average duration of the scheme liabilities at the end of the period is 21 years.

Notes to the consolidated financial statements (continued)

6 Pensions (continued)

6.1 Retirement benefit obligations (continued)

6.1.5 Scheme assets

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 from the 2014/15 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

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

6.1.6 Analysis of assets

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

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

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

The Trustee's investment strategy as set out in their Statement of Investment Principles dated 10 November 2015 is to hold 80% of assets in a return-seeking portfolio that aims to reduce concentrations of risk by diversifying across a range of asset classes and geographies. The remaining assets are used to provide a liability matching portfolio, consisting mainly of government bonds, and other financial instruments with the intention of matching movements in the assessed value of the pension liabilities due to changing market conditions. The target allocation to the liability matching portfolio is due to increase from 20% to 60% over a period of three to five years from the balance sheet date by use of derivative instruments.

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

6 Pensions (continued)

6.1 Retirement benefit obligations (continued)

6.1.7 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 30 January 2016	(941.6)	
Sensitivity of 0.1% increase to:		
– Discount rate	103.0	10.9%
– Retail price inflation	(92.0)	(9.8%)
– Consumer price inflation	(15.0)	(1.6%)
– Salary increases	(25.0)	(2.7%)
Sensitivity of one-year increase in life expectancy	(160.0)	(17.0%)

6.1.8 Other arrangements

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

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

Together with another Partnership company, JLP Scottish Limited Partnership provided sufficient capital to JLP Scottish Partnership to enable it to procure property assets with a market value of £150.9m from other Partnership companies. The Partnership retains control over these properties, including the flexibility to substitute alternative properties. The Properties held in JLP Scottish Partnership have been leased back to John Lewis plc and Waitrose Limited. In January 2015 the Partnership withdrew a property with a market value of £9.0m.

As a partner in JLP Scottish Limited Partnership, the pension scheme is entitled to an annual share of the profits of the JLP Scottish Limited Partnership each year over 21 years. At the end of this period, the partnership capital allocated to the pension scheme will be reassessed, depending on the funding position of the pension scheme at that time, with a potential value in the range of £0.5m to £99.5m. At that point, the Partnership may be required to transfer this amount in cash to the scheme.

Under IAS 19, the investment held by the pension scheme in JLP Scottish Limited Partnership, a consolidated entity, does not represent a plan asset for the purpose of the Partnership's consolidated financial statements. Accordingly, the pension deficit position presented in these consolidated accounts does not reflect the £80.5m (2015: £83.9m) investment in JLP Scottish Limited Partnership held by the pension scheme. The distribution of JLP Scottish Limited Partnership profits to the pension scheme is reflected as pension contributions in these consolidated financial statements on a cash basis.

Notes to the consolidated financial statements (continued)

7 Financial risk management

In this section

This section sets out the policies and procedures applied to manage the financial risks to which the Partnership is exposed. A breakdown of our derivative financial instruments is given here as they are used by the Partnership to manage financial volatility. An analysis of our financial assets and liabilities is also given.

7.1 Management of financial risks

The principal financial risks that we are exposed to relate to the capital structure and long-term funding of the Partnership and also to the markets and counterparties we are exposed to in our operations. These risks can be summarised as: capital and long-term funding risk, liquidity risk, interest rate risk, foreign currency risk, credit risk and energy risk. This note details how each of these risks is managed.

7.1.1 Capital and long-term funding risk

The Partnership's objectives when managing capital (defined as net debt plus equity) are to safeguard its ability to continue as a going concern, provide returns for its Partners and to maintain a prudent level of debt funding. The Partnership 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 Partnership manages capital to ensure an appropriate balance between investing in Partner, customer and profit. The policy is to maintain a prudent capital structure, consistent with the financial risk profile of an investment grade credit rating. Although the Partnership does not have an external credit rating, it routinely monitors its capital and liquidity requirements using leverage and performance ratios similar to those used by rating agencies to assess risk, whilst maintaining an appropriate level of cash and committed debt headroom and a managed debt maturity profile to reduce refinancing risk and ensure continuity of funding. The Partnership borrows centrally to meet the requirements of its Divisions using a mix of funding including capital market issues and bank facilities. The Partnership further diversified its funding sources through the issue of a Partnership bond to its Partners and customers in April 2011. Other forms of borrowing include assets acquired via finance leases, assets obtained for use via operating leases, Share Incentive Plan shares as part of the BonusSave scheme and a small amount of cumulative preference stock.

7.1.2 Liquidity risk

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

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

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

7 Financial risk management (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 £m	Due between 1 and 2 years £m	Due 2 years and beyond £m
Non-derivative financial liabilities			
Borrowings and overdrafts	(57.7)	–	(983.8)
Interest payments on borrowings*	(54.6)	(54.2)	(378.7)
Finance lease liabilities	(3.6)	(2.7)	(41.9)
Trade and other payables	(1,393.2)	(2.4)	–
Derivative financial liabilities			
Derivative contracts – receipts	197.7	4.3	–
Derivative contracts – payments	(188.3)	(3.9)	–
At 30 January 2016	(1,499.7)	(58.9)	(1,404.4)

	Due within 1 year (re-stated) [#] £m	Due between 1 and 2 years £m	Due 2 years and beyond £m
Non-derivative financial liabilities			
Borrowings and overdrafts	–	(57.8)	(983.8)
Interest payments on borrowings*	(56.8)	(56.8)	(432.8)
Finance lease liabilities	(4.3)	(4.9)	(44.4)
Trade and other payables	(1,358.6)	(0.5)	–
Derivative financial liabilities			
Derivative contracts – receipts	208.9	22.8	–
Derivative contracts – payments	(206.1)	(22.9)	–
At 31 January 2015 (re-stated)	(1,416.9)	(120.1)	(1,461.0)

* Excludes annual interest of £0.3m on cumulative preference stock which have no fixed redemption date.

[#] Refer to note 1.1.5.

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

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

7.1.3 Interest rate risk

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

7.1.4 Foreign currency risk

The Partnership uses derivative financial instruments to manage exposures to movements in exchange rates arising from transactions with overseas based suppliers and retailers. Foreign exchange management committees exist for each of the Waitrose and John Lewis Divisions and they meet regularly to oversee the foreign exchange purchasing activities for each Division. Foreign currency exposures are hedged primarily using forward foreign exchange contracts covering up to 100% of forecast exposures on a rolling basis. Forward foreign exchange contracts used to hedge forecast currency requirements are designated as cash flow hedges with fair value movements recognised in equity. Derivative financial instruments that were designated as cash flow hedges during the year were effective. At the balance sheet date, the notional value of open forward foreign currency contracts of £201.8m (2015: £231.7m) had been entered into, to hedge purchases in foreign currencies which will mature over the next 18 months.

Notes to the consolidated financial statements (continued)

7 Financial risk management (continued)

7.1 Management of financial risks (continued)

7.1.5 Credit risk

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

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

	2016 £m	2015 (re-stated) [#] £m
Trade and other receivables	142.9	131.6
Cash and cash equivalents	667.4	336.9
Derivative financial instruments	11.5	9.6
	821.8	478.1

[#] Refer to note 1.1.5.

7.1.6 Energy risk

The Partnership operates risk management processes for the Partnership's energy costs associated with its activities. The Partnership's energy policy is reviewed by an energy committee, which meets regularly to review pricing exposure to diesel, electricity and gas consumption and determines 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 Partnership's financial instruments to changes in market variables, namely UK interest rates and the US dollar and euro to sterling exchange rates. The level of sensitivities chosen, being 1% movement in sterling interest rates and a 10% movement in sterling when compared to the US dollar and euro, provide a reasonable basis to measure sensitivity whilst not being the Partnership's view of what is likely to happen in the future.

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

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

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

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

	2016		2015	
	Income statement +/- £m	Equity +/- £m	Income statement +/- £m	Equity +/- £m
UK interest rates +/- 1% (2015: +/- 1%)	6.2	—	1.4	—
US dollar exchange rate (GBP/USD) +/- 10% (2015: +/- 10%)	0.6	11.1	0.4	10.7
Euro exchange rate (GBP/EUR) +/- 10% (2015: +/- 10%)	0.6	5.9	1.3	8.8

7 Financial risk management (continued)

7.2 Derivative financial instruments and financial liabilities

We use cash flow hedges to manage the risk of adverse currency movements. We also hold bonds and preference stock. These cash flow hedges, bonds and preference stock are classified as derivative financial instruments and financial liabilities under IFRS.

This note details the fair value of these financial instruments and financial liabilities, together with the valuation techniques and key assumptions made in determining the fair value, as required by IFRS. The fair value represents the amount that would be received from the sale of an asset or the amount that would be paid to pass on a liability.

7.2.1 Basis of fair value

Fair value estimation

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

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

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

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

During the year ended 30 January 2016, there have been no transfers between any levels of the IFRS 13 fair value hierarchy and there were no reclassifications of financial assets as a result of a change in the purpose or use of those assets.

7.2.2 Fair value of derivative financial instruments

The fair value of derivative financial instruments is as follows:

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

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

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

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

Notes to the consolidated financial statements (continued)

7 Financial risk management (continued)

7.2 Derivative financial instruments and financial liabilities (continued)

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

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

	2016 £m		2015 £m	
	CV	FV	CV	FV
Financial liabilities				
Listed bonds	(865.3)	(980.2)	(864.5)	(1,031.2)
Preference stock	(4.6)	(4.1)	(4.6)	(3.9)

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

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

7.3 Analysis of financial assets and liabilities

This note sets out the currency exposure of our financial assets and liabilities. The currency analysis details the amount of financial assets, primarily cash and cash equivalents, and financial liabilities, held in sterling or other currencies, together with the amounts at floating or fixed interest rates. The maturity analysis provides an indication of repayment phasing for the financial liabilities.

7.3.1 Analysis of financial assets

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

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

* Refer to note 1.1.5.

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

7 Financial risk management (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 30 January 2016	(954.8)	(104.3)	(1,059.1)
At 31 January 2015 (re-stated) [#]	(957.4)	(104.2)	(1,061.6)

	2016 £m	2015 (re-stated) [#] £m
Maturity of financial liabilities		
Repayable within one year		
Bank overdrafts	(0.1)	—
Property finance leases	(2.6)	(3.1)
Bonds	(57.7)	—
Unamortised bond transaction costs	0.1	—
	(60.3)	(3.1)
Repayable between one and two years		
Property finance leases	(1.7)	(3.8)
Bonds	—	(57.1)
Unamortised bond transaction costs	—	0.2
	(1.7)	(60.7)
Repayable between two and five years		
Property finance leases	(2.1)	(3.1)
Bonds	(275.0)	(275.0)
Unamortised bond transaction costs	1.1	1.2
	(276.0)	(276.9)
Repayable in more than five years		
Property finance leases	(20.9)	(21.4)
Bonds	(600.0)	(600.0)
Unamortised bond transaction costs	8.6	9.3
Cumulative Preference Stock	(4.2)	(4.2)
Cumulative Preference Stock of subsidiary undertakings	(0.4)	(0.4)
Share Incentive Plan shares	(104.2)	(104.2)
	(721.1)	(720.9)
	(1,059.1)	(1,061.6)

[#] Refer to note 1.1.5.

Notes to the consolidated financial statements (continued)

8 Other notes

In this section

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

8.1 Share capital

Share capital consists of ordinary shares. It is measured as the number of shares issued and fully paid, multiplied by their nominal value.

	2016		2015	
	Authorised £m	Issued and fully paid £m	Authorised £m	Issued and fully paid £m
Share capital				
Equity				
Deferred Ordinary Shares				
612,000 of £1 each	0.6	0.6	0.6	0.6

The Deferred Ordinary Shares rank in all respects as equity shares except that each share has 1,000 votes in a vote taken on a poll.

The Deferred Ordinary Shares are held by John Lewis Partnership Trust Limited, with which ultimate control rests.

8.2 Related party transactions

Two or more parties are considered to be related if one party has direct or indirect control or significant influence over financial or operating policies of the other party. We have a number of related parties with whom we transact, including the Pension Scheme Trustee, John Lewis Partnership Trust Limited and key management personnel. We are required by IFRS to detail the transactions made in the year with related parties to draw attention to the possibility that our financial position and results may have been affected by them. This disclosure allows us to demonstrate that we are transacting fairly with all our related parties.

8.2.1 Subsidiaries

All transactions between the Partnership and its subsidiaries are eliminated upon consolidation, and therefore do not need to be disclosed separately. A list of subsidiaries within the Partnership is included within note 16.

8.2.2 Arrangements with Pension Scheme Trustee

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

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

8.2.3 Arrangements with the John Lewis Partnership Trust Limited

The John Lewis Partnership Trust Limited is a related party and holds the Deferred Ordinary Shares in the Partnership on behalf of the Partners. The John Lewis Partnership Trust Limited facilitates the approval and payment of the Partnership Bonus and BonusSave. At the year-end, the Share Incentive Plan shares issued to the John Lewis Partnership Trust Limited as part of the BonusSave scheme are recorded in the Company's balance sheet within borrowings of £104.2m (2015: £104.2m).

8 Other notes (continued)

8.2 Related party transactions (continued)

8.2.4 Other transactions

Key management compensation has been disclosed in note 2.6.

8.3 Subsequent events

Events that take place after the balance sheet date of 30 January 2016 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 Prepayment of regular pension contributions

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

8.3.2 Repayment of bond

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

Company balance sheet

as at 30 January 2016

In a nutshell

We separately disclose the financial statements of the parent company, John Lewis Partnership plc, as required by accounting standards.

Notes		2016 £m	2015 £m
	Non-current assets		
11	Investments	124.3	122.9
	Total assets	124.3	122.9
	Current liabilities		
13	Trade and other payables	(2.2)	(1.6)
	Non-current liabilities		
12	Borrowings	(108.4)	(108.4)
	Total liabilities	(110.6)	(110.0)
	Net assets	13.7	12.9
	Equity		
14	Share capital	0.6	0.6
	Capital redemption reserve	5.0	5.0
	Retained earnings	8.1	7.3
	Total equity	13.7	12.9

The financial statements on pages 148 to 152 were approved by the Board of Directors on 14 April 2016 and signed on its behalf by

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

Company statement of changes in equity

for the year ended 30 January 2016

Notes	Share capital £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
	0.6	5.0	6.4	12.0
10	—	—	0.9	0.9
	0.6	5.0	7.3	12.9
10	—	—	0.8	0.8
	0.6	5.0	8.1	13.7

* 53 week year.

Notes to the Company financial statements

9 Accounting policies

John Lewis Partnership plc (the Company) prepares its accounts under International Financial Reporting Standards (IFRS) as adopted by the European Union. Below we set out significant accounting policies applied by the Company in the current reporting period where they are different, or additional, to those used by the Partnership. The accounting policies are set in line with the requirements of IFRS and there have been no changes in accounting policies in the year other than those set out under '1.1.4 Amendments to accounting standards' in note 1 of the Partnership's consolidated financial statements.

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

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

Basis of preparation

John Lewis plc settles transactions on behalf of John Lewis Partnership plc for administrative convenience, including amounts in respect of subscription for BonusSave, dividend payments and amounts owed to tax authorities. As a result, no cash flows through John Lewis Partnership plc and no cash is generated from its operations, so a Company cash flow statement is not required.

Investment in subsidiary undertakings

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

10 Profit and loss of the Company for the year

The Company is exempt from disclosing a full Income Statement as allowed by the Companies Act 2006, therefore the profit for the Company for the year is disclosed within this note.

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

The result dealt with in the accounts of the Company amounted to £0.8m profit (2015: £0.9m profit).

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

11 Investments

This note sets out the value of the shares owned or amounts loaned to subsidiary companies directly invested in by the Company, which, together with their own subsidiaries, consolidate to form the Partnership.

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

	Subsidiary			Other
	Shares in John Lewis plc	Loan to John Lewis plc	Shares in John Lewis Partnership Trust Limited	Total
	£m	£m	£m	£m
Investments				
At 31 January 2015	13.0	109.8	0.1	122.9
Movements	—	1.4	—	1.4
At 30 January 2016	13.0	111.2	0.1	124.3

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

Notes to the consolidated financial statements (continued)

12 Borrowings

Borrowings primarily consist of Cumulative Preference Stock and Share Incentive Plan shares, which are allocated to Partners who are entitled to a dividend.

	2016 £m	2015 £m
Borrowings		
Non-current:		
5% Cumulative Preference Stock	(3.7)	(3.7)
7½% Cumulative Preference Stock	(0.5)	(0.5)
Share Incentive Plan shares	(104.2)	(104.2)
	(108.4)	(108.4)

13 Trade and other payables

Trade and other payables include amounts we owe in respect of preference and BonusSave dividends, and to HMRC in the form of taxes.

	2016 £m	2015 £m
Trade and other payables		
Other payables	(2.2)	(1.6)

All of the Company's trade and other payables are current. The carrying amount of trade and other payables approximates to fair value.

14 Share capital

Share capital consists of ordinary shares and is measured as the number of shares issued and fully paid multiplied by their nominal value.

	2016		2015	
	Authorised £m	Issued and fully paid £m	Authorised £m	Issued and fully paid £m
Share capital				
Equity				
Deferred Ordinary Shares				
612,000 of £1 each	0.6	0.6	0.6	0.6

The Deferred Ordinary Shares rank in all respects as equity shares except that each share has 1,000 votes in a vote taken on a poll.

The Deferred Ordinary Shares are held by John Lewis Partnership Trust Limited, with whom ultimate control rests.

15 Related party transactions

Two or more parties are considered to be related if one party has direct or indirect control or significant influence over financial or operating policies of the other party. We have a number of related parties with whom we transact, including the Pension Scheme Trustee, John Lewis Partnership Trust Limited and key management personnel. We are required by IFRS to detail the transactions made in the year with related parties to draw attention to the possibility that our financial position and results may have been affected by them. This disclosure allows us to demonstrate that we are transacting fairly with all our related parties.

15.1 Loan to John Lewis plc

The loan to John Lewis plc has been disclosed in note 11.

15.2 Other transactions

Arrangements with Pension Scheme Trustees and John Lewis Partnership Trust Limited are disclosed within note 8.2 of the consolidated Partnership accounts.

16 Subsidiary and related undertakings

This note sets out the principal and related subsidiaries of the Company, along with the principal activities, country of incorporation and percentage of shares owned of each subsidiary.

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

Subsidiary undertakings as at 30 January 2016 were as follows:

Name	Principal activity	Country of incorporation	Percentage shareholdings
John Lewis plc*	Department store retailing, corporate and shared services	England & Wales	100%

Shareholdings in John Lewis plc are analysed as follows:

Class of share	Percentage shareholding
Ordinary shares	100%
5% First Cumulative Preference Stock	83.3%
7% Cumulative Preference Stock	75.6%

* Principal subsidiary undertaking as at 30 January 2016.

Notes to the consolidated financial statements (continued)

16 Subsidiary and related undertakings (continued)

Subsidiary and related undertakings of John Lewis plc:

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

* Principal subsidiary undertaking as at 30 January 2016.

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

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

Statement of Directors' responsibilities for the Annual Report and Accounts

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

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

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

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

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

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

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

Each of the Directors, whose names and functions are listed on pages 66 to 67, confirm that, to the best of their knowledge:

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

On behalf of the Board




Sir Charlie Mayfield and Patrick Lewis

Directors, John Lewis Partnership plc

14 April 2016

Independent auditors' report to the members of John Lewis Partnership plc

Report on the financial statements

Our opinion

In our opinion:

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

What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

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

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

Our audit approach

Overview

Materiality:

Overall Partnership materiality: £15 million which represents 5% of Profit before Partnership Bonus, tax and exceptional item.

Audit scope:

Of the Partnership's 15 reporting units, we audited the financial information of 12 reporting units, which accounted for 97% (2015: 97%) of Profit before Partnership Bonus, tax and exceptional item.

These are our areas of focus:

- Supplier income
- Impairment of property, plant and equipment
- Post-retirement benefit obligation
- Capitalisation of intangible assets
- Provisions
- Depreciation

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud. Procedures designed to address these risks included testing of journal entries and post close adjustments and testing and evaluating management's key accounting estimates for reasonableness and consistency.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus

Supplier income

As described in the accounting policies section on page 125 and the Audit and Risk Committee report on page 84, the Partnership receives income from suppliers based on two principal streams: volume rebates and marketing rebates.

This remains an area of focus for several reasons. Firstly the complexities of the calculation and judgements involved, for example forecasting expected future sales volumes in order to determine whether volume based rebates revenue recognition criteria will be met. Secondly, the quantum of income recorded under these arrangements and its significance in relation to the result for the period. Finally, the process for maintaining records and calculating rebate income requires significant manual input because of the way in which such agreements are made. It is also an area of heightened focus in the context of retail industry practices.

Supplier income is recorded against cost of sales in the income statement and the conditions to determine the recognition of such income can vary, such as suppliers offering rebates for specific promotions or rebates recognised based on selling product volumes over certain thresholds throughout the year. The majority of rebates are settled during the year by being netted against payments made to suppliers.

The complexities and judgement involved in these calculations and the scope for human error mean there is an increased risk of incorrect income recognition or income recognition that is not in compliance with supplier agreements and of incorrect amounts of revenue being recognised in the year.

Impairment of property, plant and equipment

For each cash generating unit ('CGU'), which is defined as a store, management assesses on an annual basis whether there are any impairment triggers that would indicate that the CGU amount is not recoverable. For stores where triggers are identified, the value in use is compared to the carrying value and an impairment charge is recorded where the carrying value exceeds the value in use.

In the current year, trading conditions have continued to be challenging for both John Lewis and Waitrose, reflecting the competitive nature of the industry and sluggish consumer spending. As a result, more CGUs triggered for impairment than in the prior year with 12 stores triggering for impairment review in John Lewis and 60 branches triggering for impairment review in Waitrose.

For each of these CGUs the value in use was compared to the carrying value, which resulted in an impairment charge of £5.7m in relation to several Waitrose branches, principally in the core, non-convenience estate. See note 3.2 and page 83 of the Audit and Risk Committee report for more details.

We continue to focus on impairment because of the materiality of the store portfolio and because of the judgements required in determining whether there have been any impairments. In addition, where triggers were identified for certain CGUs, calculating the value in use of those CGUs involves subjective judgements and estimates by management, particularly regarding short- and long-term growth rates and operating margins.

How our audit addressed the area of focus

We agreed the rebate income recognised by the Partnership, covering all types of rebates, to the underlying agreements from a range of different suppliers at both John Lewis and Waitrose. In particular, we verified whether the rebate income had been calculated correctly and recognised in the correct period, based on the supplier contracts and invoices. No material exceptions were noted in this testing.

We also performed a detailed analysis of the rebate income in the year, analysing income by supplier year on year and comparing movements to trends in revenue and gross margin. We did not identify any unusual trends in the rebate income recognised in the year.

For a sample of rebates, we also confirmed the amount and timing directly with the supplier. This testing did not identify any issues.

We tested management's process for ensuring the existence and accuracy of the year-end accrued income balance for supplier rebates of £7.8m (see note 4.2). This process involved testing rebates raised and cancelled after the year-end. We did not note any material amounts that were not recorded in the correct period.

We tested the managements' assessment of impairment triggers and were satisfied that it appropriately took into account both internal and external impairment indicators, including the trading performance of each store and branch, and competitor activity. Impairment triggers were identified for some John Lewis and Waitrose stores.

Where impairment triggers were identified we tested the value in use models, including considering the revenue and profit assumptions included within forecasts. No issues were noted.

- We challenged managements' key assumptions, in particular the long-term strategic growth rate, by comparing the assumptions to recent results both for the Partnership and the retail sector as a whole. We were satisfied with management's rationale for adopting a slightly higher long-term growth rate than the industry average, based on the Partnership's recent outperformance of the industry.
- We performed sensitivity analysis around the key assumptions in the value in use calculations being the discount rate and long-term growth rates of the cash flow forecasts to ascertain the extent of change in those assumptions that either individually or collectively would be required for the relevant asset to be materially impaired.
- We then considered the likelihood of such movement arising in those key assumptions arising based on our knowledge of the Partnership and of the retail industry amongst other factors. As a result of our work we determined the impairment charge to be appropriate.

Independent auditors' report to the members of John Lewis Partnership plc (continued)

Area of focus

Post-retirement benefit obligation

The Partnership has a post-retirement benefit obligation of £5,140.0m, which is significant in the context of both the overall balance sheet and the results of the Partnership.

The valuation of the pension liability requires a significant level of judgement and technical expertise in making appropriate assumptions. Changes in the key assumptions (including salaries increase, inflation, discount rates and mortality) can have a material impact on the calculation of the liability. As such, this is an area of focus for us.

The obligation has decreased by £161m, driven by an increase in the real discount rate (the net of the discount rate and future RPI) from 0.35% to 0.70%.

Refer to note 6.1 to the financial statements and page 83 of the Audit and Risk Committee report.

Capitalisation of intangible assets

The Partnership develops a substantial amount of software used to operate the systems and technology in the business and it is further developing technology to increase the efficiency and capacity of existing operations. Total additions to computer software in the period were £146m, of which £116m related to capitalised payroll and contractor costs and £30m was external expenditure. Refer to note 3.1.

For the current year, the principal projects relate to:

- A new resource management system;
- Enhancements to the Partnership's customer-facing websites;
- New ordering systems.

Under IAS 38 'Intangible assets', internally generated software costs cannot be capitalised when they relate to the research phase of projects. Project development costs can be capitalised when certain criteria are met, including demonstrating that the project is expected to be completed and will bring economic benefits to the Partnership.

We continued to focus on this area because material amounts have been capitalised in the year and judgement is required in determining the appropriate accounting treatment for these intangible assets. In particular:

- Determining the amount of time that specifically relates to each project;
- Whether the capitalisation criteria have been met for each project and an asset has been created that will bring benefits to the Partnership; and
- Determining the internal costs, principally salaries, that are attributed to the time spent on each project.

How our audit addressed the area of focus

Management makes use of external actuaries to determine the judgemental inputs used in valuing the pension liability. Using our own internal actuaries and experience of other companies and of the relevant assumptions, we challenged the reasonableness of these actuarial assumptions, in particular the discount rate and inflation measures.

We noted that the assumptions used by management are within our benchmark ranges and checked that the pension liability calculation methods are appropriate. The methodology is consistent with the prior year. We noted that the calculation of salary increases has been updated to reflect the planned introduction of the National Living Wage.

We tested the membership census data used in the actuarial models, noting that it is consistent with the payroll data held by the Partnership, and we confirmed that there have been no changes to membership terms in the current year.

Focussing in particular on the principal projects listed to the left, we performed the following procedures:

- We assessed managements' policies and processes for determining the amount of time that specifically relates to each project and did not note any issues;
- We tested the approval process for projects including the consistent use of asset or project creation forms. In doing so we assessed whether the amounts capitalised relate to time spent on the development phase, as opposed to the research phase of the intangible projects, and we did not identify any material issues;
- We assessed and challenged the status of significant projects by understanding what the project is for and how it supports the Partnership. We have also confirmed that the amounts capitalised during the year have met the capitalisation criteria. Specifically, we confirmed that the amounts capitalised relate to projects which management expects to finalise and that will bring economic benefits to the Partnership; and
- We tested the rates used when capitalising internal costs (e.g. payroll) and checked that they appropriately capture relevant costs that are directly related to the staff time spent on developing internally generated intangible assets and exclude other costs. We did not identify any material issues.

Area of focus

Provisions

The financial statements contain several provisions, principally long leave, unredeemed gift vouchers, service guarantee costs and inventory obsolescence. See page 84 of the Audit and Risk Committee Report.

We continued to focus on these areas due to the number and magnitude of potential exposures across the Partnership, and the complexity and judgement inherent in determining the appropriate valuation of the provision for each exposure.

The key assumptions employed in calculating these liabilities relate to:

- Long leave: Actuarial assumptions principally relating to salaries increase, inflation, discount rates, and mortality;
- Unredeemed gift vouchers: Assumption for the amount of vouchers issued which are not expected to be redeemed;
- Service guarantee costs: Assumptions regarding the frequency and cost of future repairs; and
- Inventory obsolescence: Assumptions regarding the future selling price and quantities of aged and slow moving inventory.

Depreciation

The Partnership holds £3,441m of land and buildings on the balance sheet as at 30 January 2016. The level of depreciation recorded against the buildings is dependent upon the useful economic lives and residual values ascribed to each of these assets. See note 3.2 for more details. Management reviews these two judgements annually with support from external property advisers, and during the current year has performed a detailed exercise in order to confirm the processes and policies in place remain appropriate.

In particular, the residual values ascribed reflect the amounts which the Partnership could obtain upon disposal of the assets at the end of their useful economic life. This is an important judgement given (i) the size of these assets on the balance sheet, and (ii) the valuations involve a degree of judgement and estimation in particular for stores where the carrying value is close to residual value.

How our audit addressed the area of focus

We tested the managements' policies for calculating these provisions, assessed the appropriateness of the management's judgements and assumptions applied, and considered the nature and suitability of any historic data used in support of the judgements and assumptions made, in estimating the provisions. In doing so we noted no material issues.

In particular, we focussed on the following key assumptions:

- Long leave: Assessed the actuarial assumptions and noted that those used by management are within our benchmark ranges;
- Unredeemed gift vouchers: Confirmed that the non-redemption rate used by management is based on historical data for gift voucher sales and redemptions;
- Service guarantee costs: Confirmed that the assumptions regarding the frequency and cost of future repairs are based on appropriate historical data, and also take into account appropriate assumptions for future changes in failure rates and cost inflation; and
- Inventory obsolescence: Confirmed that the assumptions in the provision calculation for future selling price are based on historical data for similar items.

We also considered the completeness of provisions, by making inquiries of the General Counsel and Company Secretary and considering events and conditions such as litigation or changes to the Partnership that could give rise to provisions in the year to assess whether management has taken known exposures into account, and the related disclosures. Based on this, we did not identify any material omissions.

We have understood and assessed management's approach to determining and reviewing residual values. We have assessed the inputs to the valuation methodology used, and considered whether there are any alternative valuation approaches as well as the Partnership's ability to realise this value. We have used our property valuation team in support of these considerations and held discussions with CBRE, the Partnership's property advisers.

As a result of our work we have concluded that management's approach to determining and reviewing residual values remains appropriate, and that the current residual values continue to be supported by appropriate valuations.

Independent auditors’ report to the members of John Lewis Partnership plc (continued)

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Partnership, the accounting processes and controls, and the industry in which the Partnership operates.

The Partnership is structured along three segments being Waitrose, John Lewis and Partnership Services and Group. The Partnership financial statements are a consolidation of 15 reporting units within these business lines, each of which is a statutory entity based in the UK or Channel Islands, comprising the Partnership’s operating businesses and centralised functions.

The audits of these reporting units were performed using materiality levels lower than that of the Partnership as a whole, established by reference to size of, and risks associated with, the business concerned.

Of the Partnership’s 15 reporting units, we have audited the financial information of 12 reporting units, which accounted for 97% (2015: 97%) of Profit before Partnership Bonus, tax and exceptional item.

In establishing the overall approach to the Partnership audit, we determined the type of work that needed to be performed at the reporting units by us, as the Partnership engagement team, or component auditors within PwC UK and PwC Channel Islands operating under our

instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units, to be able to conclude whether sufficient and appropriate audit evidence had been obtained as basis for our opinion on the Partnership financial statements as a whole. We held regular meetings with component audit teams during the year. The majority of our audit work was focussed on the main operating entities – John Lewis plc and Waitrose Limited – supported by work performed at the Partnership Services shared service centre. This work was all performed by PwC London in close collaboration with the Group audit team. The Group audit team focussed on Partnership-wide areas including the post-retirement benefit obligation, long leave provision and unredeemed gift vouchers.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Partnership materiality	£15 million (2015: £18.5 million).
How we determined it	5% of Profit before Partnership Bonus, tax and exceptional item.
Rationale for benchmark applied	We applied this benchmark because in our view this is the most relevant measure of underlying performance and the measure on which management and users of the financial statements focus.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £1.0 million (2015: £1.0 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

The Directors have voluntarily complied with Listing Rule 9.8.6(R)(3)(a) of the Financial Conduct Authority and provided a statement in relation to going concern, set out on page 107, required for companies with a premium listing on the London Stock Exchange.

The Directors have requested that we review the statement on going concern as if the company were a premium listed company. We have nothing to report having performed our review.

The Directors have chosen to voluntarily report how they have applied the UK Corporate Governance Code (the “Code”) as if the company were a premium listed company. Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors’ statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors’ statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the group and company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors’ use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group’s and company’s ability to continue as a going concern.

Other required and voluntary reporting

Consistency of other information

Companies Act 2006 opinion

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

ISAs (UK & Ireland) reporting

→ As a result of the Directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

Information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Partnership and Company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report.

The statement given by the Directors on page 153, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Partnership's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Partnership and Company acquired in the course of performing our audit.

We have no exceptions to report arising from this responsibility.

The section of the Annual Report on page 84, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report.

The Directors' assessment of the prospects of the Partnership and of the principal risks that would threaten the solvency or liquidity of the partnership

As a result of the Directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

- The Directors' confirmation on page 86 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Partnership, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 99 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Partnership, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Partnership will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have no exceptions to report.

We have no exceptions to report arising from this responsibility.

We have no exceptions to report.

The Directors have requested that we review and report on the statement that they have carried out a robust assessment of the principal risks facing the Partnership and the statement in relation to the longer term viability of the Partnership, as required under the listing rules for Companies with a premium listing on the London Stock Exchange. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Independent auditors' report to the members of John Lewis Partnership plc (continued)

Corporate Governance Statement

The Directors have requested that we review the parts of the Corporate Governance Statement relating to the Partnership's compliance with the ten further provisions of the UK Corporate Governance Code specified for auditor review by the listing rules for Companies with a premium listing on the London Stock Exchange. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 153, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

-
- Whether the accounting policies are appropriate to the Partnership's and the Company's circumstances and have been consistently applied and adequately disclosed;
-
- The reasonableness of significant accounting estimates made by the Directors; and
-
- The overall presentation of the financial statements.
-

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

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

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

Ranjan Sriskandan

(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

14 April 2016

Five year financial record

for the year ended January

	2016 £m	2015* £m	2014 £m	2013 ¹ £m	2012 £m
Income statement					
Gross sales					
Waitrose	6,461.4	6,508.9	6,111.9	5,763.9	5,400.4
John Lewis	4,557.4	4,433.7	4,059.6	3,777.4	3,329.1
	11,018.8	10,942.6	10,171.5	9,541.3	8,729.5
Revenue					
Waitrose	6,086.0	6,135.3	5,753.7	5,416.1	5,072.3
John Lewis	3,662.8	3,565.7	3,274.1	3,049.4	2,686.3
	9,748.8	9,701.0	9,027.8	8,465.5	7,758.6
Operating profit before exceptional item					
Waitrose	232.6	237.4	310.1	292.3	260.6
John Lewis	250.2	250.5	226.1	216.7	157.9
Group and other	(80.7)	(45.6)	(65.3)	(55.6)	(25.2)
	402.1	442.3	470.9	453.4	393.3
Net finance costs	(96.6)	(99.6)	(94.5)	(110.1)	(39.5)
Exceptional item	129.3	7.9	(47.3)	—	—
Profit before Partnership Bonus, tax and exceptional item	305.5	342.7	376.4	343.3	353.8
Partnership Bonus	(145.0)	(156.2)	(202.5)	(210.8)	(165.2)
As a percentage of eligible pay	10%	11%	15%	17%	14%
Taxation	(66.6)	(50.9)	(25.0)	(31.5)	(52.4)
Profit for the year	223.2	143.5	101.6	101.0	136.2
Number of employees at year-end	91,500	93,800	91,000	84,700	80,900
Average number of full time equivalent employees	58,900	59,200	55,900	53,200	51,100

* 53 week year.

¹ Re-stated for the adoption of IAS 19 'Employee benefits' (Revised 2011), which amends the accounting for employee benefit. 2012 has not been re-stated.

	2016 £m	2015 ² £m	2014 £m	2013 £m	2012 £m
Balance sheet					
Non-current assets	4,677.0	4,682.1	4,384.5	4,116.0	4,014.0
Current assets	1,534.7	1,170.4	1,139.5	1,247.6	1,232.0
Total assets	6,211.7	5,852.5	5,524.0	5,363.6	5,246.0
Current liabilities	(1,848.7)	(1,692.0)	(1,705.6)	(1,633.9)	(1,539.9)
Non-current liabilities	(2,297.9)	(2,641.7)	(2,036.7)	(1,828.2)	(1,697.2)
Total liabilities	(4,146.6)	(4,333.7)	(3,742.3)	(3,462.1)	(3,237.1)
Net assets	2,065.1	1,518.8	1,781.7	1,901.5	2,008.9
Borrowings	(1,031.8)	(1,030.2)	(728.2)	(814.7)	(1,041.2)
Net debt	(372.5)	(721.7)	(485.8)	(371.9)	(577.3)

² Re-stated, see note 1. 2012, 2013 and 2014 have not been re-stated.

Notice of AGM

Notice is hereby given that the eighty-seventh Annual General Meeting of the Company will be held at 2pm on 9 June 2016 at Longstock House, Leckford, Stockbridge, Hampshire SO20 6EH to consider and, if thought fit, to pass Resolutions 1 to 5 inclusive as ordinary resolutions and Resolution 6 as a special resolution:

Resolution 1

To receive the Company's accounts and the reports of the Directors and the Auditor on those accounts for the year ended 30 January 2016.

Resolution 2

To re-elect Tom Athron as a Director.

Resolution 3

To re-elect Rob Collins as a Director.

Resolution 4

To appoint KPMG LLP as Auditor of the Company to hold office from the conclusion of the meeting until the conclusion of the next meeting of the Company at which accounts are laid.

Resolution 5

To authorise the Directors to determine the remuneration of the Auditor.

Resolution 6

That the Company be and is hereby authorised to make market purchases (within the meaning of section 693(4) of the Companies Act 2006) of its 5 per cent Cumulative Preference stock ('the 5 per cent stock') and its 7½ per cent Cumulative Preference stock ('the 7½ per cent stock') on such terms and in such manner as the Directors may from time to time determine, provided that:

- The maximum number of shares in its 5 per cent stock hereby authorised to be acquired is 3,696,995 shares;
- The maximum number of shares in its 7½ per cent stock hereby authorised to be acquired is 500,000 shares;
- The minimum price (exclusive of expenses) which may be paid for any 5 per cent stock is the nominal amount of that share;
- The minimum price (exclusive of expenses) which may be paid for any 7½ per cent stock is the nominal amount of that share;

→ The maximum price (exclusive of expenses) which may be paid for any 5 per cent stock or 7½ per cent stock is the higher of (i) an amount equal to 105% of the average of the middle market quotations for the 5 per cent stock or 7½ per cent stock (as appropriate) as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such share is contracted to be purchased and (ii) the higher of the price of the last independent trade and the highest current independent bid for the 5 per cent stock or the 7½ per cent stock (as appropriate) on the trading venues where the market purchases by the Company pursuant to the authority conferred by this Resolution 6 will be carried out at the relevant time;

→ The authority hereby conferred shall expire at the end of the next Annual General Meeting of the Company or, if earlier, on 30 August 2017 unless previously renewed, varied or revoked by the Company in general meeting; and

→ The Company may make a contract to purchase its 5 per cent stock or 7½ per cent stock under the authority hereby conferred prior to the expiry of such authority, which contract will or may be completed or executed wholly or partly after the expiry of such authority, and may purchase its 5 per cent stock or 7½ per cent stock in pursuance of any such contract as if the authority had not ended.

By Order of the Board



Keith Hubber

Company Secretary

171 Victoria Street, London SW1E 5NN

14 April 2016

The Report and Accounts are sent or made available to all members in accordance with instructions received, but only the members holding Deferred Ordinary Shares are entitled to attend and vote at this meeting.

A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member.

Notes

Notes

