



THE

PARTNERSHIP

DIFFERENCE

JOHN LEWIS
& PARTNERS

JOHN LEWIS
PARTNERSHIP

WAITROSE
& PARTNERS

Welcome

These are challenging times in retail. In the midst of this uncertainty, our Partners continue to be key. With the rebranding to & Partners, we made a bold statement about the Partnership and our future. More than just a logo change, it's celebrating a truth that's always been part of our unique business. That the people who work here are more than employees, we're Partners and that's why we're continuing to put people at the heart of our business.

We're proud of the difference we make for our customers, our suppliers and our communities, because for us, **it's personal.**

SIR CHARLIE MAYFIELD

Partner & Chairman

John Lewis Partnership

Group Strategic report

Pages 4 to 43 comprise the Group Strategic report. The Group Strategic report was approved by the Partnership Board on 11 April 2019.



SIR CHARLIE MAYFIELD

Partner & Chairman

John Lewis Partnership plc
11 April 2019

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/contact

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Find out more

For more detail on the progress we are making on our corporate responsibility aims and to read our latest Modern Slavery Statement, visit

www.johnlewispartnership.co.uk/csr

More detailed non-financial performance information can also be found online at

www.johnlewispartnership.co.uk



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CHAIRMAN'S STATEMENT

Read Sir Charlie Mayfield's view of the year.



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HOW WE MAKE A DIFFERENCE

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FINANCIAL STATEMENTS

Read a detailed breakdown of our accounts.

At a glance

THE PARTNERSHIP TODAY

The John Lewis Partnership is the UK's largest employee-owned business and parent company of two cherished retail brands: John Lewis & Partners and Waitrose & Partners, which are owned in Trust for our 83,900 Partners.

Over 100 years ago, our Founder John Spedan Lewis began an experiment into a better way of doing business by including staff (now called Partners) in decision making on how the business should be run. He set out principles for how the business should operate and produced a written Constitution to help Partners understand their rights and responsibilities as employee-owners.

Spedan Lewis wanted to create a better way of doing business that was both commercial, allowing it to move quickly and stay ahead in a highly competitive sector, and democratic, giving every Partner a voice in a business that is owned in Trust for their benefit. This combination, so ahead of its time, continues to make us what we are today.

The last 12 months have seen unprecedented change in retail and the Partnership has been actively differentiating and reinventing itself to remain fit for the future. We've been able to do this because we are a different kind of business.

OUR LOCATIONS

349

Waitrose & Partners shops.

51

John Lewis & Partners shops.

3

head offices in London and Bracknell.

50

territories stock Waitrose & Partners products.

38

countries exported to by johnlewis.com.

12

John Lewis & Partners shop-in-shops worldwide.

21

customer delivery hubs with 20 run by John Lewis & Partners and 1 run by Waitrose & Partners.

11

distribution centres with 6 run by John Lewis & Partners and 5 run by Waitrose & Partners.

2

customer contact centres.

5

Partnership hotels.

1

Soft furnishings factory.

1

Heritage centre.

3

International offices, two in India and one in Hong Kong.

1

Waitrose & Partners farm.

1

Specialist plant nursery.

3

Waitrose & Partners cookery schools.

1

Content production hub which photographed or retouched over 200,000 Home and Fashion images for John Lewis & Partners.

HOW WE'VE BEEN DIFFERENTIATING AND CHANGING

2018 FEBRUARY

Waitrose & Partners Foundation expands out of Africa for the first time to Costa Rica.



MARCH

The 50th John Lewis & Partners shop opens in Westfield White City and our internal Partner magazine, the Gazette, celebrates 100 years.



APRIL

Waitrose & Partners announces the removal of disposable tea and coffee cups and plastic straws.



MAY

Voting for new Partnership Councillors and Elected Board Directors for three-year terms begins.



JUNE

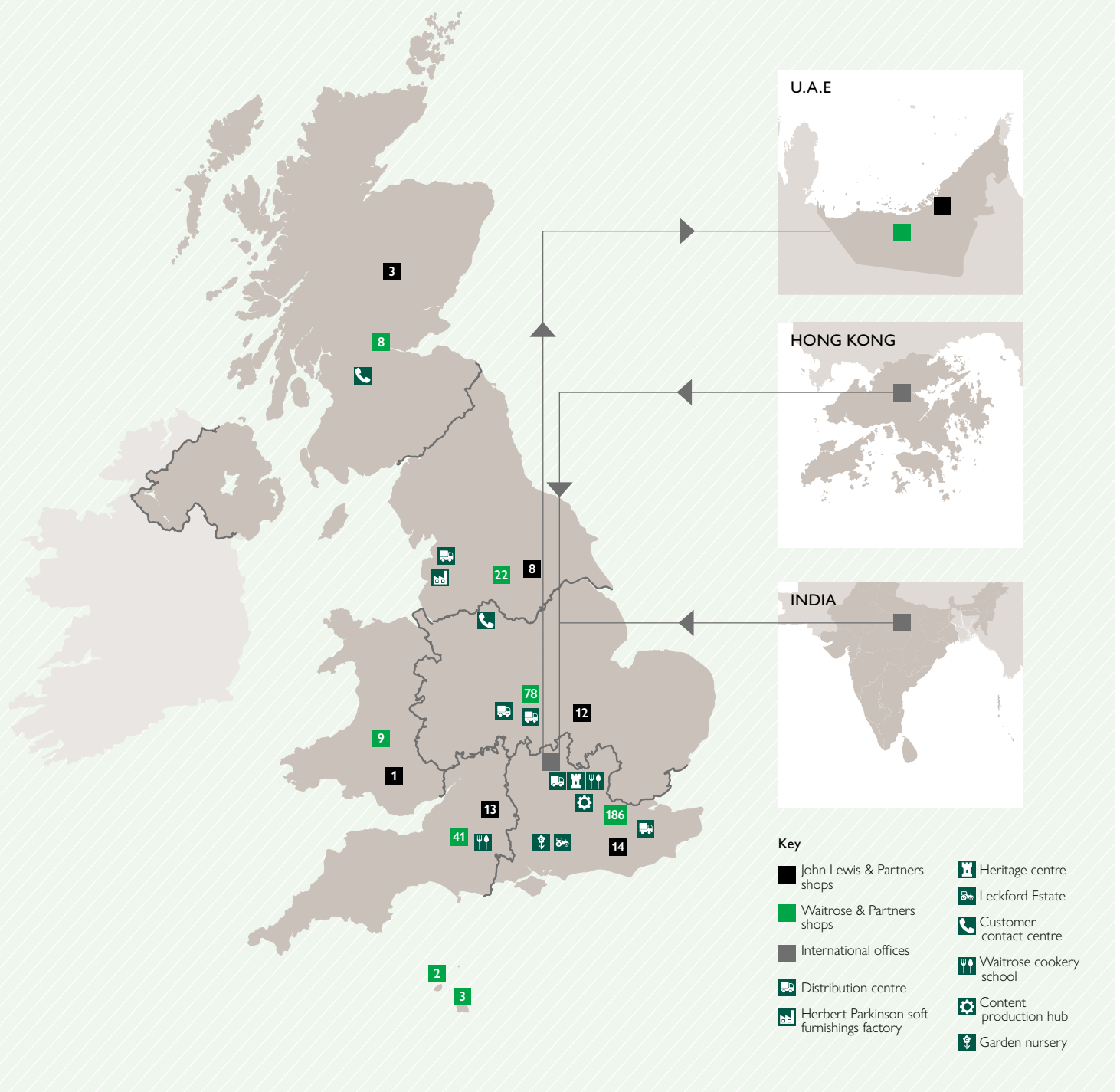
Next phase of our business strategy announced and the sale of five Waitrose & Partners shops.



JULY

John Lewis & Partners announces largest own-brand Womenswear collection.





AUGUST

Waitrose & Partners Food Innovation Studio opens.



SEPTEMBER

John Lewis and Waitrose rebrand by adding & Partners to their names, a combined customer loyalty card for myWaitrose and my John Lewis members trials and Waitrose & Partners launches new customer smartphone shopping app.

OCTOBER

Partnership Values for Partners updated and John Lewis & Partners opens 51st shop in Cheltenham.



NOVEMBER

Succession plans for Chairman, Sir Charlie Mayfield, announced and redesigned and modernised Gazette magazine launches.



DECEMBER

Trial begins to test crop field robots at the Waitrose & Partners Leckford Farm and proposal to strengthen and reinvigorate our governance structure announced.



2019 JANUARY

Closure of Knight & Lee & Partners, Southsea; announced, shutting in July 2019.



At a glance

OUR YEAR IN NUMBERS

As anticipated, our Profit before Partnership Bonus, tax and exceptional items was substantially lower than last year. Despite this we are holding our financial direction. Through careful cash management we have maintained total investment and reduced total net debts, allowing us to keep our Debt Ratio steady.



If financial information and figures make your head spin then visit our Q&A section on page 36.

Our Annual Report and Accounts includes Alternative Performance Measures (APMs) which we believe provide readers with important additional information on the Partnership. A glossary of terms is included on pages 152 to 157.

PROFIT

Return on Invested Capital (ROIC)

7.3%

2017/18: 9.1%

Profit per average FTE Partner

£5,000

2017/18: £6,900

Debt Ratio

4.3x

2017/18: 4.3x

We have reduced total net debts by over £400m in the year, which has allowed us to maintain our Debt Ratio at 4.3 times, despite lower profits. Our Debt Ratio compares total net debts to our adjusted cash flow, providing an indication of our ability to repay our debts.

Profit before tax

£117.4m

2017/18: £107.5m

Revenue

£10.3bn

2017/18: £10.2bn

Total net debts

£2,682m

2017/18: £3,084m

Profit before Partnership Bonus, tax and exceptional items

£160.0m

2017/18: £292.8m

In line with expectations, our Partnership profit before exceptional items finished substantially lower in what has been a challenging year, particularly in non-food. The lower operating profit in John Lewis & Partners was due to weaker Home sales, gross margin pressure, higher IT costs, the property impact of new shops and lower profit on asset sales.

Liquidity

£1.5bn

2017/18: £1.3bn

We delivered a significant positive adjusted cash flow this year, as we continued to prioritise a very strong liquidity position of £1.5bn at January 2019. As a result, we have been able to pay £275m from cash reserves to redeem a bond that matured in April 2019.

Exceptional items

£2.1m

net income

2017/18: £111.3m

net expense

This year we had a number of exceptional items which resulted in a net £2.1m income, compared to a net £111.3m expense last year. Read more about our exceptional items on pages 100 to 102.

Partnership Bonus

3%

2017/18: 5%

Given the current level of uncertainty, we expect 2019 trading conditions to remain challenging. The Board took this into account and continued their policy of strengthening the balance sheet and maintaining investment for the future by paying a 3% Partnership Bonus, costing the Partnership £44.7m (2017/18: £74.0m).

PARTNER



“

I love being part of a business co-owned by people who care about what they do and the community they serve. It's a way of life, not just a job.

PAULA MCKELVEY
Partner & Team Manager
Waitrose & Partners

17%

Average hourly rate of pay above the National Living Wage for non-management Partners.

900+

apprentices enrolled on to our apprenticeship schemes this year.

5,000+

Partners have subscribed to a mental wellbeing app with Unmind.

POWER

413

Partners stood for election as new democratic representatives, with 197 of these standing for a three-year Partnership Councillor role across 58 seats.

See pages 78 to 80 for more details.

Over 2/3rds

of Partners (56,742) took part in our annual Your Voice Principle 1 survey, giving valuable insight into what Partners are thinking and feeling about the Partnership.

See page 80 for more details.

CUSTOMER

300

The biggest and most significant own-brand fashion investment to date launched, with a 300-piece Womenswear range, under the new branding, John Lewis & Partners.

5,000+

new and updated Waitrose & Partners products launched throughout the year including an exclusive own-label range of vegan and vegetarian products.



52m+

fewer takeaway disposable tea and coffee cups used in Waitrose & Partners shops.

100+

Healthy Eating Specialists in Waitrose & Partners as part of a range of added value services which also include Personal Styling and Beauty Studios in John Lewis & Partners.

Chairman's statement

A DIFFERENT WAY OF DOING BUSINESS

Our difference comes from our Partners, and the energy, commitment and personality they bring to delivering excellent customer service and high quality products to our customers.

KEY HEADLINES

PROFIT

Gross sales and revenue across the business increased. Operating profit growth recovered strongly in Waitrose & Partners, mainly due to improved gross margin. Operating profits were substantially down in John Lewis & Partners due to weaker Home sales, gross margin pressure, higher IT costs, the property impact of new shops and lower profit on sale of assets.

OUTLOOK

Given the current level of uncertainty, we expect 2019 trading conditions to remain challenging with slower sales growth and margin pressure still affecting John Lewis & Partners. However we are confident in our strategic direction and customer offer across both brands and have built up a strong liquidity position at nearly £1.5bn at January 2019 so that we have the financial headroom to mitigate future risks and make sure we can continue investing for the future.

See pages 34 to 36 for more details.



“

2018/19 was a challenging year in many respects internally and externally. We anticipated it would be and said in March 2018, and again in June, September and in January 2019, that we expected profits to be substantially lower.

£160.0m

Profit before Partnership Bonus, tax and exceptional items.

2018/19 was a challenging year in many respects, internally and externally. We anticipated it would be and said in March 2018, and again in June, September and in January 2019, that we expected profits to be substantially lower. They were. Profits ended 45% lower than last year and the Board decided to pay a Partnership Bonus of 3% – the lowest since 1953.

Within the overall numbers we saw a strong recovery in operating profit in Waitrose & Partners, up 18% (to £203.2m), mainly due to improved gross margins, but a sharp decline in John Lewis & Partners, of 56% (to £114.7m), because of weaker Home sales, gross margin pressure, higher IT costs, the property impact of new shops and lower profit on asset sales. Despite this we managed cash tightly and reduced total net debts by £401.3m.

Despite the trading pressures we were determined to press on with our strategy and we saw promising progress in many areas where we invested. In John Lewis & Partners, the launch of new exclusive products and expansion of our personal styling offer drove strong sales growth in Fashion, growing market share significantly. In addition, the investment in front line service delivered the best ever customer experience ratings in John Lewis & Partners. In Waitrose & Partners, significant investment in waitrose.com, new customer smartphone apps and customer delivery services has led to a strong increase in online grocery sales of 14%, well ahead of the market, and increased online customer satisfaction.

Our relaunch in September of both brands to include & Partners was an important signal of our determination to place Partners at the heart of the competitive difference we offer to customers. We made significant investments in Partners during the year, particularly in leadership development, in apprenticeships and in pay, with our average hourly rate for non-management Partners rising to £9.16, 17% above the National Living Wage. The average hourly rate of pay will increase by 4.5% following our April 2019 pay review.

With the level of trading pressure and the uncertainty we face politically and in the economy, we took further steps to build up our cash reserves so we're able to maintain annual investment at £400m–£500m per year, while ensuring we have the reserves to cope with whatever conditions or scenarios we face in the year ahead.

We expect 2019 trading conditions to remain challenging but are confident in our strategic direction and customer offer across both brands.

STRATEGIC PROGRESS

The market context continues to be tough. That's evident in our results, especially in John Lewis & Partners, where we saw near constant discounting across many categories from October onwards in response to the combination of subdued demand, excess retail space and some other retailers' distress.

As a result, although sales in John Lewis & Partners were up 0.7% overall, like-for-like sales were down 1.4%. Weaker Home sales combined with gross margin pressures drove around half of the reduction in profits, with the remainder largely due to additional IT costs and property related items.

In Waitrose & Partners we saw a 18% rebound in profits. This was driven by like-for-like sales growth of 1.3% and improved gross margins, which benefited from 24 range reviews, as well as stronger operational performance and wastage and costs that were well controlled.

Near term uncertainty, politically and in the economy, is having a major impact on consumer confidence, but we do not believe the market conditions are cyclical. The disruption we have seen on the high street, including business failures and renewed interest in mergers and acquisitions, are instead signs of an inevitable market adjustment. I predict there could be a reduction of as much as a third of all retail space, and retailers will require greater clarity on whether they are competing on scale or difference.



Chairman's statement — continued

“

We have also brought forward our target to make all our Waitrose & Partners own-brand packaging widely recyclable, reusable or home compostable from 2025 to 2023.



The answer for the Partnership is clear and, despite tough conditions and lower profits, this has been a year when we have developed our brands and invested in Partners. Our difference comes from our Partners, and the energy, commitment and personality they bring to delivering excellent customer service and high quality products to our customers. This is signalled in our rebranding and is why we have stepped up investment so significantly in training and capability building.

In John Lewis & Partners our strongest sales growth came in areas where we have made the greatest investments in new product and services. Our full range relaunch of own-brand Womenswear, including new product, in-store concept and enhanced Partner training, delivered sales growth of 12.9%, and the expansion of our own-brand electricals range resulted in sales increasing by 11.2%. In the year ahead, our furniture assortment and Menswear collections will be completely relaunched.

In Waitrose & Partners we launched more than 5,000 new or updated products including extensive ranges of vegetarian and vegan products. The opening of our £1.5m new Food Innovation Studio also now gives us the edge when it comes to product innovation, with seven chefs working on new and unique products. We won 37 independent Christmas taste tests, almost twice the number as the previous year and considerably ahead of the next best retailer at 21. We completed 24 range reviews from breakfast cereals and sliced bread to meat and fish counters, removing duplication, making the offer clearer for customers and increasing our difference versus competitors.

Our customers are also rightly concerned about the impact retailers have on the environment and we have responded to these challenges. For example, we have committed to operations with net zero carbon emissions by 2050 and in Waitrose & Partners, we announced the removal of disposable coffee cups and plastic straws and are on track to phase out black plastic from our own-brand packaging by the end of 2019. We have also brought forward our target to make all our own-brand packaging widely recyclable, reusable or home compostable from 2025 to 2023. And in John Lewis & Partners, to help reduce the estimated 300,000 tonnes of clothing which gets sent to landfill each year in the UK, we've been piloting an innovative fashion 'buyback' service.

In the year we stepped up our service difference. We made several improvements to convenience, with shorter delivery windows, live order tracking and trials of in-home services across both brands. We have also introduced several added value services including Personal Styling and Beauty Studios in John Lewis & Partners and more Healthy Eating Specialists in Waitrose & Partners. We achieved our highest ever levels of customer experience ratings in John Lewis & Partners. Our focus on customer service in Waitrose & Partners was recognised by *Which?*, with the publication giving it the top position in its 2019 supermarket survey.

However, alongside these successes we also had challenges. The transition of John Lewis Core Home Services from branches to a centralised hub was the most significant. The changes are designed to create a more consistent experience for our customers, but we underestimated the transition requirements and this affected service standards.



We will press ahead even faster with changes that make our business different to others in ways that are valued by customers.

OUR PARTNERS

Greater investment in our Partners is key to our strategy. We invested significantly in leadership development, for over 250 of our most senior leaders, and will extend that to many more this year. We expanded our apprenticeship programme, with over 900 apprentices enrolling in the year in areas such as retail, Large Goods Vehicle (LGV) driving, vehicle maintenance, hospitality and human resources. We made some of these 'open entry' to enable Partners to apply from any part of our business. Among the apprentices who have completed their programmes, 65% passed with distinction.

We have taken significant steps in our aim to be Britain's Healthiest Workplace with a review of our Partner dining rooms, including the food and drink we serve, and launching a Wellbeing Champions Network with 430 Partners recruited in more than 130 locations across the country. Partners have accessed our market-leading mental and physical health support services to either prevent health issues or promote quicker recovery, saving thousands of working days across the year. As we have sought to create jobs with more opportunities for Partners to contribute more value through greater use of skills, expertise and judgement, we increased pay for non-management Partners, with the average hourly rate of base pay rising from £8.91 to £9.16. The average hourly rate of pay will increase by a further 4.5% following our April 2019 pay review.



To deliver the level of distinctive difference and innovation we need for the future requires annual investment of £400m–£500m. The fact we have been able to sustain progress with our strategy is because we anticipated five years ago that market conditions would worsen. We took a series of connected steps to strengthen our financial reserves to enable continued investment despite lower profits. These included changes to our pension benefit in 2014, and proposed changes in 2019/20, deprioritising investment in new physical space from 2015, and halving the rate of Partnership Bonus distribution from 2016. We have made a number of divestments of shops and assets in the year. We have also made significant organisational changes including moving to single Partnership support functions in many areas. As a result, Partner numbers have reduced from 93,800 in January 2015 to 83,900 in January 2019. We will take a series of further steps this year in the move to an even more productive 'One Partnership' approach.

In response to the current economic uncertainty, we have built up a strong liquidity position at nearly £1.5bn at January 2019. This is almost double the level five years ago, despite having made deficit reduction contributions of more than £250m to our pension fund over the last three years, which was nearly 97% funded on an actuarial funding basis at January 2019. We have reduced total net debts by over £400m in the year and since the year-end have paid, from cash, a further £275m to redeem a bond that matured in April 2019.

LOOKING AHEAD

The trading conditions we face in the year ahead are likely to remain challenging. We will press ahead even faster with changes that make our business different to others in ways that are valued by customers. While there are factors that are outside of our control, we are confident of our strategy and the actions we are taking to deliver it.

Alongside the urgency of our commercial plans, this year will also see some important improvements in our governance with the creation of new Independent Director roles and steps to increase the influence and effectiveness of our democracy. As I said in November 2018, this year will also see the announcement of the next Chairman, who will take up their post in early 2020.

Everything we are doing is to ensure the Partnership steers a considered path at speed through times that are likely to remain challenging in retail. My aim, as always, is to ensure the Partnership is as well placed as possible to deliver successfully on our Constitution.

SIR CHARLIE MAYFIELD
Partner & Chairman
John Lewis Partnership

How we make a difference

OUR PARTNERSHIP BUSINESS MODEL

We are the proud owners and operators of two of the UK's leading retail businesses: Waitrose & Partners and John Lewis & Partners.

HOW IT WORKS

OUR RESOURCES

83,900 Partners, 400 shops, and 32 customer delivery hubs and distribution sites implement our Partnership business model. These are detailed on pages 4 to 5.

OUR STAKEHOLDERS

The value and impact of our business and the decisions we make about all our stakeholders is important to us. Further information on how we empower our Partners, inspire our customers, and support our suppliers and the society we operate in are covered on pages 14 to 21.

EMPOWERING PARTNERS

We're more than employees, we're Partners, which makes the Partnership different and, we believe this is a better way of doing business. Partners are at the heart of our business and we empower them through learning, purpose, reward, judgement, leadership and wellbeing. Our ownership model is central to everything we do. We share responsibilities and rewards through Profit, Power and Knowledge:



Profit



Knowledge



Power

INSPIRING CUSTOMERS

We work to build brand trust and loyalty and provide customers with increasingly personalised, unique and exclusive products and services that are authentic and inspiring. And because we're Partners, we're invested to build that trust and loyalty.



Unique products



Inspiring experiences



Personalising



Growing & creating



Designing & sourcing

OPERATIONAL EXCELLENCE

We aim to make sufficient profit from our trading operations to sustain our commercial vitality. This allows us to reinvest in our Partners, our customer proposition and continue to support our suppliers and enrich society.



Suppliers



Distributing



Communities



Selling



Definitions, and where applicable, reconciliations, of our KPIs can be found in the glossary on pages 152 to 157.

IN OUR WORDS

EMPOWERING PARTNERS



"To me, employee ownership means exactly that – I am an owner of this business and with that ownership comes reward and responsibility. Because I own part of this business, I care more about it and I'm willing and prepared to 'go the extra mile' for customers, colleagues, the team and myself."

CHRIS WHARTON
Partner & Stock Control Manager
John Lewis & Partners

STRATEGIC LINK

PARTNERS AND POWER

Partners are our point of difference and not many companies have a written Constitution. Because we are owned in Trust for Partners, we all share the responsibilities of ownership as well as its rewards. The Partnership has seven Principles which define our aims, with everything beginning with Principle 1, our ultimate purpose. By putting the happiness of Partners first and empowering them, we believe we can better honour our commitment to offer our customers quality products and outstanding service. Because for us, it's personal. Pages 26 to 29 and 44 to 85.

IN NUMBERS

Britain's Healthiest Workplace
Ranking 18 out of 49
large businesses (see page 26)

Average hourly rate of pay for non-management Partners

£9.16
up from £8.91 in 2017/18

71%
job satisfaction from Partners
up from 70% in 2017/18

INSPIRING CUSTOMERS



"I work at the Waitrose & Partners Food Innovation Studio in Bracknell, devising new ranges and recipes for customers. Our unique state-of-the-art kitchen, deck oven, indoor barbecue, tasting rooms and demonstration theatre matches our passion for food and what we want to deliver for our customers and Partners."

ZOE SIMONS
Partner & Senior Brand and Innovation Chef
Waitrose & Partners

CUSTOMER

The Partnership strategy is designed to develop and strengthen our business, building on the qualities that make us different. For us, the relentless pursuit of greater scale is not the right course. Instead, our focus is firmly on differentiation, innovation and exceptional customer service. We are reinventing and transforming our shops and developing unique products and services, with a greater emphasis on own-brand, exclusives and innovation. Pages 30 to 33.

Gross sales growth
1.0%
down from 2.0% in 2017/18

200,000
customers joined our new combined loyalty card scheme

5,000+
new or updated Waitrose & Partners products launched

OPERATIONAL EXCELLENCE



"Our food touches the lives of millions of people, from our customers to those who make, grow and pack our products. As Partners we are passionate about every step of its production, from field to fork. We believe that by always being fair, never wasteful and transforming the lives of those who create, eat and enjoy it – our food can be a force for good."

TOR HARRIS
Partner & Head of CSR, Health & Agriculture
Waitrose & Partners

PROFIT

We make profit through the trading operations of Waitrose & Partners and John Lewis & Partners. We aim to ensure that profit remains sufficient to sustain the Partnership's commercial vitality. Our financial strategy is designed to ensure our business is able to maintain investment levels whatever the economic environment. One of the priorities of our plan is to free up £500m over three years; and maintain investment levels at £400m–£500m a year.

We also have a corporate responsibility strategy which is underpinned by our Constitution, which sets out the principles for how we should run the Partnership, and our collective responsibilities to others. Pages 34 to 37.

Debt Ratio
4.3x
equal to 2017/18

50%+
own-brand black plastic removed by Waitrose & Partners

Profit per average full-time equivalent Partner
£5,000
down from £6,900 in 2017/18

Who we make a difference for

Empowering our PARTNERS

Partners play an important part in delivering a distinctive difference to our customers and contributing to the democratic vitality of the Partnership. We are committed to empowering Partners to have a voice in their business and to create a healthy environment that enables an improved contribution from everyone.



50TH YEAR

Brian Hayward celebrated his 50th year as a Partner in October 2018. Brian has worked in 14 shops and started aged 16 as a junior level trainee.

“

I never anticipated I would still be here after 50 years! I've worked with some great people over the years who I'll never forget.

BRIAN HAYWARD

Partner & Supermarket Assistant
Waitrose & Partners

£9.16

Average hourly rate of pay for non-management Partners £9.16, up from £8.91 in 2017/18.



PARTNERSHIP COUNCILLORS

We had 197 Partners standing for Partnership Councillor roles across 58 seats. Suzanne Bailey was one of those elected.

“

It's been exciting starting my three-year term representing Partnership Hotels at Council. We're a small, diverse area of the business, here primarily for Partners and it's really important we remain in touch with the Partnership's direction, understand the challenges it faces and decisions made. My role is to facilitate that and ensure our views and opinions are heard.

SUZANNE BAILEY

Partner & Manager
John Lewis Partnership

262

senior leaders from across the business attended a leadership development course. This was designed to enable them to forge a deeper connection to our organisational purpose and to understand their own potential, so they can unlock the potential in other Partners.

12.7%

We published our second annual Gender Pay Gap report. Taken from April 2018 data, Partnership results are 12.7% for the mean gap – a reduction of 1.2% and 8.2% for the median gap – an increase of 0.4%, since April 2017. See page 28 for an explanation behind the numbers.

GOLDEN JUBILEE TRUST

Our flagship volunteering programme – the Golden Jubilee Trust – was set up in 2000 to mark the 50th anniversary of the Second Trust Settlement signing. The Trust gives practical help to UK charities by placing Partners on up to six months' volunteering secondments, while on full Partnership pay and benefits. This year, 57 Partner secondments were awarded to 52 charities, equating to over 24,500 hours donated. Partnership Council elected three Partners to join the Trust for the next three years and oversee secondment applications, manage the Trust's finances and promote its work. Lindsey Crompton was one of those elected:

“

The Golden Jubilee Trust is such an amazing opportunity for Partners. I'd love to see Waitrose & Partners' participation grow and for us to do more projects like the one we did with Samaritans, where several Partners volunteer at the same charity for a greater impact.

LINDSEY CROMPTON
Partner & Social Impact Manager
Waitrose & Partners



“

We were the first large employer to offer the Unmind tool and it will help Partners understand and look after the mental health of themselves and those around them.

YULIA O'MAHONY
Partner & Head
of Wellbeing
John Lewis Partnership



HEALTH AND WELLBEING

A new, free workplace mental health platform called Unmind was rolled out to all Partners. Clinically backed by the latest psychological research, Partners can learn about mindfulness and relaxation, sleep, exercise, reducing stress and increasing focus. This rollout has helped engage many Partners in conversations about mental health in a positive way and there is now a growing community of Partners who are taking proactive care of themselves and colleagues.

AWARD WINNERS

Damon Kelly, Section Manager Customer Delivery, was named John Lewis & Partners Ultimate Roofraiser for identifying and implementing a driver performance management tool. And Partners from our Waitrose & Partners shops, customer care team, cookery schools, Leckford Farm and Coulsdon delivery hub attended our first Customer Service Awards to honour shining stars of service.



ROBOT CODING

Five IT Partners gained accreditation to code robots, meaning they can develop systems in-house to automate tasks currently performed manually. The business currently uses 31 robots to automate 17 processes such as in our customer contact centres and fraud support.

5

IT Partners gained accreditation.

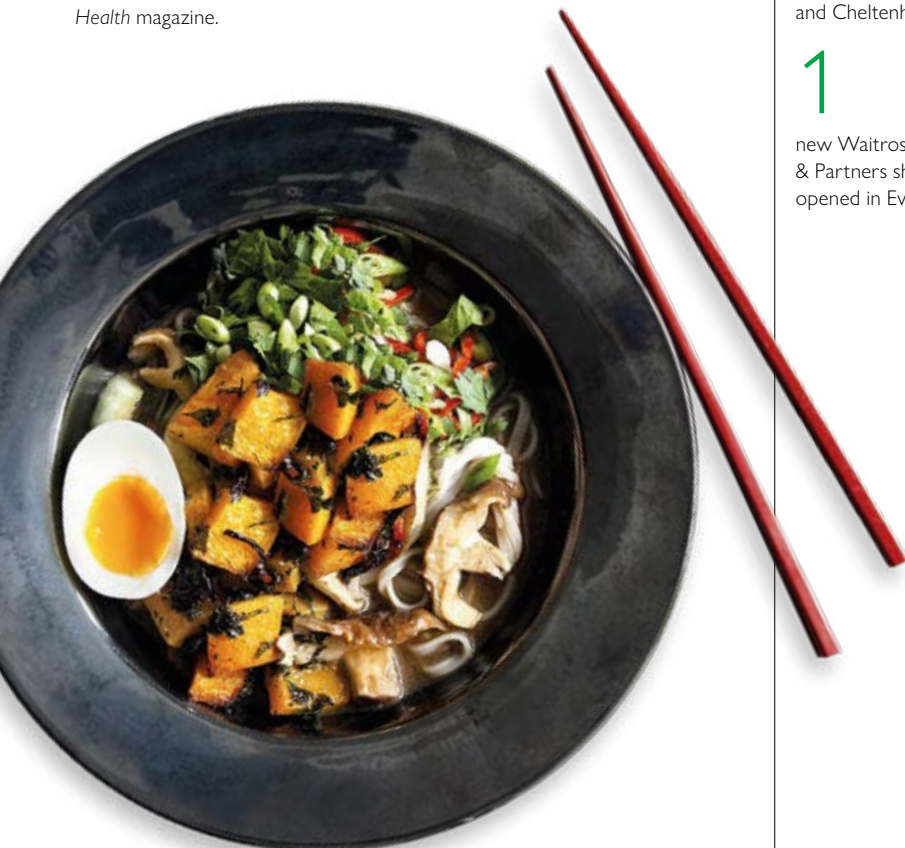
Who we make a difference for — continued

Inspiring our CUSTOMERS

Our Partnership strategy means we are focused on differentiation not scale and offering our customers increasingly personalised, unique and exclusive products that are authentic and inspiring. Customers also trust us to curate ethically sourced products and services.

HEALTHY EATING

We further developed our health and wellbeing offer at Waitrose & Partners, including training Partners as Healthy Eating Specialists in our shops to help customers who want advice to make healthier choices. We also launched *Waitrose & Partners Health* magazine.



2

new John Lewis & Partners shops opened in White City, Westfield London and Cheltenham.

1

new Waitrose & Partners shop opened in Evesham.

REWARDING CUSTOMERS

Waitrose & Partners closed the Pick Your Own special customer offers and launched Just For You, a rewards programme of tailored vouchers and personalised offers, with the focus on the customer's favourite products and rewarding the most loyal customers. Features of the John Lewis & Partners app were optimised so it not only provides a smooth online shopping experience but also complements in-store shopping too.

BARISTA OF THE YEAR

George Hosking from Waitrose & Partners Clifton was crowned the first Barista of the Year after wowing judges with his coffee-making skills at an intense competition in May 2018. Over 500 Partners entered the contest, with 14 finalists battling it out.

JLAB

The Partnership runs one of the largest retail innovation programmes in the UK. JLAB enables start-ups and established businesses to pitch and then trial their innovative products and services with the John Lewis Partnership. In 2018, JLAB was expanded to run all year round and recent successes include rolling out customer supper clubs with WeFiFo to 42 Waitrose & Partners shops, following a successful trial. Also CupClub™, which offers a returnable drinks cup service to help reduce the use of disposable drinking cups, will be piloted in the Partnership's head office in 2019.



RECORD FASHION INVESTMENT

Last autumn saw the most significant fashion investment to date – a 300-piece Womenswear range called John Lewis & Partners Womenswear, which was created by our in-house Design Studio team. At the same time, a new 40,000 sqft Womenswear experience was launched at our Oxford Street store, including a Style Studio where 12 Personal Stylist Partners offer customers complimentary appointments and daily fashion talks. The shoe department also increased in size and the first ever ‘Shoe Room by Kurt Geiger’ boutique was launched.



RAPID DELIVERY

A groceries delivery service within two hours of ordering from 14 London postcodes is currently under trial. Waitrose & Partners Rapid Delivery means customers can choose up to 25 items from more than 2,000 products, including fresh sushi.

Rapid Delivery joins another trial ‘While You’re Away’ where Waitrose & Partners became the UK’s first supermarket to deliver groceries to customers inside their home and then put them away while they’re out.



Rapid Delivery ensures we give our customers even greater flexibility and convenience.

RICHARD AMBLER
Partner & Head of Business Development
John Lewis Partnership



ONLINE INVESTMENT

Significant investment over the last five years in waitrose.com, including new customer smartphone apps, led to 14% growth in sales over the financial year and improvement of 5% in customer satisfaction levels over the year. We expect our waitrose.com business to double in size over the next five years and have plans for a second fulfilment centre to support growing volumes in London. Customer Click & Collect for John Lewis & Partners’ orders is now available in 339 Waitrose & Partners shops.

COMBINED LOYALTY CARD

A combined loyalty card for myWaitrose and my John Lewis members has been piloted to 200,000 customers, to make shopping across both brands easier and more rewarding.

ERADICATING OWN-BRAND BLACK PLASTIC

Waitrose & Partners removed black plastic from hundreds of products including hard-to-recycle black plastic in fresh meat, fish, poultry, fruit and vegetables – amounting to a reduction of over 1,300 tonnes of black plastic per annum. This progress means we are more than halfway to achieving our goal to remove black plastic from all own-brand products by the end of 2019. We brought forward our target to make all our own-brand packaging widely recyclable, reusable or home compostable from 2025 to 2023. We also pledged our own-label Christmas cards, wraps, crackers, tags, flowers and plants will either be glitter-free or will use an environmentally friendly alternative by Christmas 2020.

FOOD INNOVATION STUDIO

A £1.5m new Food Innovation Studio opened, giving Waitrose & Partners the edge when it comes to product innovation. Already renowned for bringing innovation to the mass market, whether that’s becoming the first UK supermarket to stock organic food or selling sushi freshly made in-store at a dedicated counter, Waitrose & Partners’ Food Innovation Studio is industry leading, with seven chefs working on new and unique products.



Who we make a difference for — continued

Supporting our SUPPLIERS

A strong and trusted supply chain is integral to our success as a retailer and we aim to conduct all of our business relationships with integrity. We work closely with a diverse range of suppliers from more than 80 countries and it is the strength of these relationships that allows us to source high quality, responsibly produced products for our customers.



FIRST-HAND EXPERIENCE

Waitrose & Partners has its own farm which is part of the Leckford Estate in Hampshire and embodies Waitrose & Partners' principles of good food, good environmental practice and fair behaviour. Leckford Farm produces arable crops including high quality bread-making wheat which is used to make a range of Leckford label flour. It also supplies apples, pears, apple juice, cider, chestnut mushrooms and milk as part of the Waitrose & Partners product range.

INTERNATIONAL OFFICES

HONG KONG

Our Hong Kong Office opened in East Kowloon in 2017. A team of 40 Partners help UK buyers source own-brand Waitrose & Partners and John Lewis & Partners products, visiting factories across Asia, negotiating with suppliers and ensuring products are of the highest quality and meet our high ethical and sustainability standards.

INDIA

Just outside New Delhi, you'll find our Indian Liaison Office. Staffed by 40 Partners, the Liaison Office aims to bring the best products from India to the Partnership, looking at innovation, cost, quality and speed. The office acts as a bridge between the UK and the Indian supplier base to develop, manufacture and ship products to John Lewis & Partners and Waitrose & Partners.

We also have four IT Partners located in Chennai and Bangalore, who form our Offshore Supplier Relationship Office. Implemented in late 2016, they work with our third party IT and business process outsourcing suppliers and their 650+ IT associates across India, to develop a one team approach and deliver IT services for all parts of the Partnership in an effective and efficient manner.



PAYMENT PRACTICES

In line with government requirements, we publicly reported on our payment practices to our suppliers. The full report and previous submissions can be found on our website, but in summary, at Waitrose & Partners we pay our smallest suppliers within seven days. Average payment length for Waitrose & Partners suppliers is 38 days and for John Lewis & Partners it is 39 days.

MAKING MORE SUSTAINABLE PRODUCTS

Around a quarter of cotton for John Lewis & Partners comes from more sustainable sources, an increase from 2017, and we have a 50% target by 2025. We are working with the Better Cotton Initiative to help cotton producers use fewer pesticides and use water more efficiently.

“

By sourcing cotton through the Better Cotton Initiative, we can help to improve the lives of cotton farmers on the ground.

KAREN PERRY
Partner & Sustainability
Manager – Raw Materials
John Lewis & Partners



700

suppliers who have been working with us for more than 30 years.

1,290

locally and regionally sourced products from 331 suppliers across Britain are sold by Waitrose & Partners.

ANTI-BRIBERY AND CORRUPTION

The Partnership does not condone bribery or tax evasion in any form and it manages risks in respect of bribery, corruption and offences under the Criminal Finances Act 2017 through, as appropriate; policies, standards and guidance. In keeping with this, the Partnership introduced a new Anti-Bribery and Corruption Policy and a new Gifts and Hospitality Standard during 2017/18.

The policy is clear that the Partnership is committed to preventing bribery in all its forms and prohibits Partners and other personnel from making, offering or accepting bribes. Facilitation payments are also prohibited. The policy states that gifts and hospitality are permitted only where the requirements of the Gifts and Hospitality Standard are followed. Charitable donations are permitted only where the requirements of the Charitable Giving Standard are met. The policy also states that the Partnership does not make political donations.

As part of our commitment to ensuring that our third party suppliers adhere to relevant legislation and our policy, this financial year our procurement team launched a new supplier assurance process, our Retail Supplier Qualification System, for suppliers of goods not for resale.



DEDICATED SOFT FURNISHINGS

Our dedicated soft furnishings factory, Herbert Parkinson in Lancashire, produced over 35,800 curtains, over 29,000 roman and roller blinds and over 475,000 cushions, cases and pads for John Lewis & Partners customers.

475,000+

cushions, cases and pads made at Herbert Parkinson in Lancashire.

SHOWCASE SMALL, INDEPENDENT BRANDS

In John Lewis & Partners we showcase small, independent brands such as Huffkins. Huffkins is a Cotswold bakery and tearoom company that runs the café in our Cheltenham shop.

“

As a Cotswold based family business, we're committed to using local ingredients to create the highest quality food and we enjoy bringing our taste of the Cotswolds to shoppers at John Lewis & Partners Cheltenham.

JOSHUA TAE
Managing Director
Huffkins

WE CHAMPION SUSTAINABILITY

We work with our suppliers to champion sustainability in the palm oil industry. Waitrose & Partners has been a member of the Roundtable on Sustainable Palm Oil (RSPO) since 2006 and we are also a member of the Retail Palm Oil Transparency Coalition, a group of retailers working together to develop approaches to manage issues beyond the current RSPO standard, including zero deforestation commitments. All our palm oil sourcing is certified sustainable by the RSPO and our commitment is for all our palm-based ingredients to be physically certified to RSPO standard. Our high ranking in the World Wide Fund for Nature's 'Palm Oil Buyers Scorecard' for responsible sourcing is a testament to that commitment.



Who we make a difference for — continued

Enriching our SOCIETY

We want the communities in which we operate to thrive. By investing locally, we help to tackle the issues that affect our communities, our Partners and our customers. Being a trusted part of the communities where our customers and Partners live adds value to our brands.

WAITROSE & PARTNERS FOUNDATION

The Waitrose & Partners Foundation is a partnership between Waitrose & Partners, its suppliers and growers who produce, pick and pack its fresh produce such as cut flowers and pineapples. There are around 200 Waitrose & Partners Foundation products available throughout the year. The Foundation launched in 2005 and has invested in farm workers' communities in Ghana, Kenya and South Africa. Over £11m has already been put into communities, supporting them with the introduction of health clinics, maternity units and finance classes and Costa Rica became the first country outside of Africa to join the Foundation in 2018. You can read more about the Foundation in our annual *Corporate Responsibility Report* and at waitrose.com.

200

Waitrose & Partners
Foundation products.



500,000 MEALS DONATED

Waitrose & Partners launched a new app to make it easier to donate surplus food. The FareShare Go programme enables over 280 shops to let local charities know about surplus goods by inputting details of available food into the app. Over 500,000 meals have been donated to more than 1,000 charities. Also working with FareShare, the John Lewis & Partners Foundation is supporting a project to offer forklift truck training and qualifications to those not currently in employment, enabling them to become economically independent and contribute to their communities.

CARRIER BAGS DONATION

The carrier bag levy allowed Waitrose & Partners to donate £500,000 to the Marine Conservation Society, in addition to £500,000 in 2017. Waitrose & Partners also committed £500,000 to support University fellowships focused on research in marine plastics. In 2018/19, John Lewis & Partners used the carrier bag levy to donate £537,000 to the John Lewis & Partners Foundation, which provides grants for charitable projects focused on supporting employability and life skills in the community. The John Lewis & Partners Foundation was established in 2007 to support communities in which John Lewis & Partners operate.





SUPPORTING LOCAL CHARITIES

Both John Lewis & Partners and Waitrose & Partners support local charities and organisations near their branches through Community Matters schemes, in which customers nominate and vote for one of three charities to decide how donations are allocated.



£3.7m

was donated to charities in Waitrose & Partners' tenth anniversary year of Community Matters.

£0.6m

donated by John Lewis & Partners.

ENVIRONMENT

The Partnership has a number of ambitious new targets to reduce its environmental impact. Our ultimate aim is to achieve net zero carbon emissions for our own operations by 2050. It's a massive challenge and will require significant investment and innovation. For example, we intend to phase out all diesel-powered heavy trucks from our fleet and replace them with low-carbon biomethane-powered versions by 2028. The aim is to replace all existing trucks with state-of-the-art delivery trucks across Waitrose & Partners and John Lewis & Partners, powered by 100% renewable biomethane fuel, which significantly reduces greenhouse gas emissions.

“

Five biomethane trucks produce the same emissions as one diesel lorry. They're also much quieter, helping reduce not only greenhouse gas emissions and air pollution but also noise pollution in our cities.

JUSTIN LANEY
Partner & General Manager
Central Transport
John Lewis Partnership

BRINGING SKILLS TO LIFE

John Lewis & Partners' primary schools programme 'Bringing Skills To Life' reaches over 26,000 children annually, with John Lewis Partners. Through defined themes and challenges pupils develop skills such as creative thought, teamwork and communication. Schools are most engaged in our Christmas prize draw and our Innovation Challenge. The challenge got pupils thinking about the circular economy and they were asked how they would reinvent the school blazer. 132 schools registered to take part with 226 amazing entries received.

26,000+

children reached annually.

CONTRIBUTING TO THE UK TAX SYSTEM

The Partnership believes that paying taxes arising from our activities is an important part of how the business contributes to the societies in which it operates. This year the Partnership paid taxes of £379m and collected £768m.

TAXES PAID BY THE JOHN LEWIS PARTNERSHIP

Customs duty
£11m
Fuel duty
£18m
Climate change levy
£4m
Business rates
£179m
Employer's NICs
£118m
Corporation tax
£33m
Other taxes
£8m
Apprenticeship levy¹
£8m

TAXES COLLECTED BY THE JOHN LEWIS PARTNERSHIP

Partners' NICs
£93m
Partners' PAYE
£158m
Net VAT
£294m
Excise duty
£223m

£379m TOTAL £768m
£1.15bn

¹ Before the draw down of funds of £1.4m.

Our Tax Strategy can be found at

www.johnlewispartnership.co.uk/financials/financial-results.html

Market review

UNDERSTANDING OUR MARKETS

It is important for the Partnership to have a good understanding of the market we operate in. This year has been challenging for retail, particularly in non-food, affected by the oversupply of physical space and subdued consumer demand, largely due to economic and political uncertainty.

Uncertainty around Brexit has contributed to dampened consumer confidence and seen sales shift away from big-ticket items like Home products.

John Lewis Partnership business rates

£178.5m

The Partnership's business rates increased from £173.6m in 2017/18 to £178.5m in 2018/19.



THE ECONOMY

The British economy has been sluggish, with falling growth in Gross Domestic Product (GDP), the measure of the country's economy and the total value of everything produced by all the people and companies in the UK. Inflation, which measures price increases in products and services, slowed, driven mostly by falling fuel and airfares. Despite long awaited real wage growth arriving in 2018, consumers found they had very little more disposable income at the end of the year. Consumers became increasingly cautious as the year progressed – market research from market research company GfK revealed that consumer confidence saw a steady downward trend from August, hitting a five-year low in December. The housing market has been subdued over the year and both these factors are impacting sales in our Home products, particularly furniture and furnishings. Consumer caution was also reflected in a poor Christmas for some retailers.

BREXIT

Uncertainty around Brexit has contributed to dampened consumer confidence and seen sales shift away from big-ticket items like Home products. The devaluation of Sterling has also increased some of our costs and not all of these have been passed on to our customers. Like all retailers, we have been planning for the possibility of a no-deal and are focused on currency impacts, tariffs, customs and supply chain and supporting our EU Partners with settled status. More details can be found on our preparations for Brexit on page 42.

RETAIL CHANGES

The *Financial Times* described 2018 as the “year of the Company Voluntary Agreement (CVA)”, as a number of retailers looked to cut rents and end lease agreements using CVAs. Retail property rental values have only moved down marginally despite City investors significantly writing down valuations on retail property portfolios. Business rates, up 3% in 2018, are linked to rental values and have disproportionately hit retailers with physical stores. The Partnership's business rates increased from £173.6m in 2017/18 to £178.5m in 2018/19.

Many retailers used discounting to drive sales volume, with mixed success, meaning that our Never Knowingly Undersold promise in John Lewis & Partners was price-matching competitors who were in considerable distress. In grocery, discounters with tightly controlled supply chains were able to deliver deeper discounts than most, and for grocery as a whole, margins were tight.

Footfall continued to decline over 2018, as online grew. For multi-channel retailers there is significant interplay between online and bricks and mortar – a third of shoppers research products online before going into store, and similar numbers compare prices in store using mobile technology. In John Lewis & Partners we actively encourage customers to shop seamlessly across both channels. For example, when buying a sofa, a customer will often do research online, visit a shop to get advice from an expert Partner, sit on the sofa and get a fabric swatch. They may then check measurements at home before they purchase.



Waitrose & Partners plans to remove black plastic from all own-brand products by the end of 2019.



SOCIAL CHANGE

The UK population continues to grow and age, with knock-on effects on health and the labour market. There are fewer unemployed people than ever, which means that employers are starting to have difficulties filling vacancies, and real wages are slowly starting to climb after several years of wage growth staying lower than inflation. While wage growth is good for the economy in the long run, it adds to retail wage bills at a time when business rates have increased by 3%.

ENVIRONMENTAL SHIFT

The 2017 BBC broadcast of *Blue Planet II* shifted consumer expectations around the use of plastics, and how we manage waste. In Waitrose & Partners, questions about plastic from customers almost tripled. We know that consumers want retailers to take an active role in reducing their environmental impact. In Waitrose & Partners a number of initiatives are under way to address consumer concerns, including plans to remove black plastic from all own-brand products by the end of 2019.

The impact of the clothing industry on the environment has received more attention in the past year. John Lewis & Partners already has initiatives in place to source materials more sustainably, helping customers return used items for reuse and recycling.



JOHN VARY
Partner & Futurologist
John Lewis Partnership

VIEW FROM OUR FUTUROLOGIST

We've already seen growth in people searching for products by voice and expect that this will continue in the coming year. The next phase of voice search will enable people to find items however they describe them and in any language.

Personalised shopping experiences will also become more popular. We've seen augmented reality introduced by various retailers, as well as services such as after-hours private shopping, but one day we'll get to a point where smart home tech will act as your own shopper, alerting retailers in advance when you're looking for a product.

Looking at 2019 and beyond, there are instances where tech will naturally cross over with science. In decades to come I think technology will become a part of us with transhumanism extending human capability. An example could be smart contact lenses that provide information about what is around us, from shop displays to weather forecasts. These lenses could also read heart rate and stress levels.

In the short term, science is already fuelling the creation of truly personalised services. In 2019, we could reach a point where customers are able to share their DNA with shops so that retailers can tailor products to a customer's genetics or ancestry. Waitrose & Partners has embraced this type of innovation by piloting DnaNudge with the support of Imperial College London. The app uses shoppers' DNA to help them make healthier choices while food shopping. Another example is OME Health, one of the businesses that entered our retail tech innovation programme, JLAB, in 2018. It offers science-based health plans built on a person's gut microbiome, genetic blood markers and other health data.

Our strategy

ONE PARTNERSHIP

In 2015, we introduced our strategy, It's Your Business 2028, to ensure the Partnership's future success with Partners at the centre. The key elements of our strategy remain unchanged. However, during 2018/19 we began the process of updating this approach, recognising that we are stronger when our brands are working cohesively together and when Partners feel empowered to create more value through differentiation, resulting in our updated One Partnership strategy.

PARTNER

PAGES 26 TO 29

WE MUST CHALLENGE AND EMPOWER PARTNERS TO SEIZE OPPORTUNITIES TO CREATE SIGNIFICANTLY MORE VALUE FOR OUR BUSINESS

THIS YEAR WE HAVE FOCUSED ON:

- Building the quality of our leadership.
- Increasing purpose, learning and judgement in all roles.
- Becoming a leader on health and wellbeing at work.
- Improving total reward.

CORPORATE RESPONSIBILITY – TRANSFORMING LIVES

- Transforming lives in our local communities.
- Becoming leaders in Diversity and Inclusion at work.
- Supporting the health of Partners and customers.

CUSTOMER

PAGES 30 TO 33

WE MUST CREATE MORE DIFFERENTIATED, VALUABLE AND LONG-TERM RELATIONSHIPS WITH CUSTOMERS

THIS YEAR WE HAVE FOCUSED ON:

- Unique and innovative products.
- Exceptional customer service.
- Health and wellbeing.
- New and enhanced services.
- Building long-term relationships with our most loyal customers.

CORPORATE RESPONSIBILITY – ALWAYS FAIR

- Supporting worker rights in supply chains.
- Ensuring the best relationships with our farmers and growers.
- Sourcing materials sustainably.

PROFIT

PAGES 34 TO 37

WE MUST GENERATE MORE VALUE WHICH DELIVERS IMMEDIATE, SUSTAINABLE AND MEANINGFUL RETURNS TO OUR EMPLOYEE-OWNERS

THIS YEAR WE HAVE FOCUSED ON:

- Strengthening our balance sheet.
- Improving gross margin and operating efficiency.
- Reducing costs in pensions, supply chain, property and head offices.

CORPORATE RESPONSIBILITY – NEVER WASTEFUL

- Committing to net zero carbon emissions.
- Reducing our waste and packaging.
- Innovating for reuse and repair.

POWER

PAGES 44 TO 85

WE MUST TRANSFORM OUR SHARING OF KNOWLEDGE AND POWER FOR THE PARTNERSHIP TO TRULY BE A BETTER WAY OF DOING BUSINESS

THIS YEAR WE HAVE FOCUSED ON:

- Reviewing our Governance structure to provide the right framework to support our strategic approach of One Partnership with two brands.
- Continuing to use our democratic network of elected councils, committees and forums to enable all Partners to have a voice in our business and reconnect to the purpose of the Partnership.
- Electing new Trustees of the Constitution and Elected Directors and the announcement of succession plans for the role of Chairman.

**ED CONNOLLY**

Partner & Director, Partnership Strategy
John Lewis Partnership



The One Partnership strategy is a set of integrated objectives that delivers one set of clear measures and targets based on Partner, Customer, Profit and Power. Our strategy is designed to develop and strengthen our business, whatever the economic or political environment, building on the qualities that make us different.

The pillars of 'Better jobs, better performing Partners, better pay'; 'Stronger brands and new growth'; and 'Financial sustainability' continue, but wrapped into the new One Partnership framework. It also recognises that while our democratic vitality underpins these pillars, Power is also a key strength all on its own.

Our strategy is also informed by the changes in the retail sector and designed to cope with whatever economic environment we find ourselves in following the EU referendum. It also links to our Partnership business model.

LINKS

Understanding our markets pages 22 to 23

We need to be aware of the challenges we face. There are external factors that impact on the Partnership such as economic uncertainty, societal and technology changes and disruption in the retail sector.

Our Partnership business model pages 12 to 13

Our One Partnership strategy clearly links with our Partnership business model.

Effective risk management pages 38 to 42

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

CORPORATE RESPONSIBILITY STRATEGY

OUR APPROACH

Our corporate responsibility strategy feeds into our One Partnership strategy and is underpinned by our Constitution, which sets out not only the principles for how we should run the Partnership, but also our collective responsibilities to others. As an employee-owned business we're not just interested in short-term profit but also in safeguarding our long-term future.

Our commitments of Always Fair, Transforming Lives and Never Wasteful unite John Lewis & Partners and Waitrose & Partners around shared goals, while giving the flexibility to respond in a way that's right for each brand. Within each area, we are looking to innovate and create genuine impact, building on our core programmes that enable us to manage responsibly our day-to-day operations and identifying those areas where we will be leaders in the market.

DEVELOPMENT AND CHANGES

In 2018 we realigned our corporate responsibility strategy and adopted consistent language across both brands. This will help us improve how we speak to customers and Partners about our plans and progress. The last 12 months have seen increased customer and Partner interest in climate and environmental issues from plastic packaging to concerns on global warming, and through our strategy we've responded with ambitious new aims and targets. You can read a more detailed update on progress in our annual *Corporate Responsibility Report* available on our website.

KEY PERFORMANCE INDICATORS

The sections which follow detail our achievements against our strategy over the year. This progress is reported against the key performance indicators (KPIs) for It's Your Business 2028 as these were applicable for 2018/19. From 2019/20 we will report under One Partnership KPIs and integrated objectives.

NON-FINANCIAL REPORTING STATEMENT

This section of the Strategic report constitutes the Partnership's Group Non-Financial Information Statement, produced in accordance with sections 414CA and 414CB of the Companies Act 2006. The information listed is incorporated by cross-reference. The table below and the information it refers to, is intended to help our Partners and other stakeholders understand the Partnership's position on key non-financial matters.

By 'non-financial information' we mean quantitative and qualitative information on the strategies, policies or activities we pursue towards our business, environmental and social goals. In reporting this, we focus on the aspects that are most material to our business, our Partners and other stakeholders. This builds on existing reporting that is appropriate to the Partnership.

You can read more in our annual *Corporate Responsibility Report* which is available at www.johnlewispartnership.co.uk

REPORTING REQUIREMENT	HOW WE MANAGE THESE ISSUES: POLICIES, STANDARDS, RISKS AND ADDITIONAL INFORMATION
Environmental matters	Who we make a difference for: Society and communities pages 20 to 21. Never Wasteful page 37.
Employees	Who we make a difference for: Partners pages 14 to 15. Our strategy progress: Partner page 26 to 29.
Human rights	Who we make a difference for: Society and communities pages 20 to 21. Always Fair page 33.
Social matters	Who we make a difference for: Society and communities pages 20 to 21. Always Fair page 33. Transforming Lives page 29.
Anti-corruption and anti-bribery	Who we make a difference for: Suppliers pages 18 to 19.
Policy embedding, due diligence and outcomes	Throughout this report, in the sections outlined above and in our annual <i>Corporate Responsibility Report</i> .
Description of principal risks and impact of business activity	Principal risks and uncertainties pages 38 to 42, and throughout this report, in the sections outlined above and in our annual <i>Corporate Responsibility Report</i> .
Description of our business model	How we make a difference: Our Partnership business model pages 12 to 13.
Non-financial key performance indicators	Throughout this report, in the sections outlined above and in our annual <i>Corporate Responsibility Report</i> .

Our strategy progress

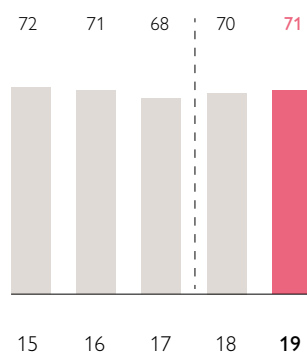
PARTNER

*The inherent strength and difference
of the Partnership is our Partners.
That's why you now see & Partners
above the door of our two trading brands.*

KPI COMMENTARY

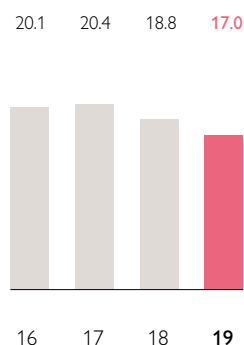
We are committed to empowering Partners to have a voice in their business and to create a healthy environment that enables an improved contribution from everyone. We have defined and tracked key performance indicators to help us monitor the progress we are making towards these outcomes. We have continued to invest in pay and our average non-management Partner hourly pay has increased along with Partner pay as a percentage of sales. We have included for the first time KPIs relating to our ambition to be Britain's Healthiest Workplace by 2025 where we were benchmarked against over 100 other organisations. Although we were quite pleased with the result, we'd like to see improvement next year.

Job satisfaction



During 2018, the Partnership changed the way that it measured job satisfaction to gain a deeper understanding of Partner opinion. Prior to 2018, the annual survey calculated job satisfaction based on the response to a single statement of 'my job satisfies me'. From 2018, the Partnership created a satisfaction index, based on an aggregate of nine questions, to provide a wider view of satisfying employment. Prior year Partner job satisfaction percentages have not been restated.

Average non-management Partner hourly pay above National Living Wage %



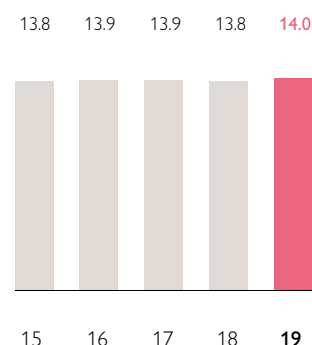
Average non-management Partner hourly pay for those on permanent contracts and aged 18 years old and over, as a percentage above the April 2018 National Living Wage of £7.83 for 25 years and over. Non-management Partners are Level 9 and Level 10 Partners, excluding Assistant Section Managers. Our average hourly rate of base pay for non-management Partners increased from £8.91 to £9.16.

Britain's Healthiest Workplace ranking

18th

Britain's Healthiest Workplace is an external survey, which has been running since 2013 and is completed annually. Developed by VitalityHealth, the survey gathers data from over 100 small, medium and large businesses who volunteer health and wellbeing information on the provision and use of workplace wellness interventions, facilities, services, leadership and culture. 2018 was the first year the Partnership took part and over 1,500 Partners contributed to the survey to help determine our ranking. The Partnership was ranked 18th out of 49 large businesses.

Partner pay as a percentage of sales %



Partner pay divided by sales. The pay measure is total wages and salaries. The sales measure is gross sales excluding VAT. Our Partner pay as a percentage of sales this financial year was 14%.



Definitions, and where applicable, reconciliations, of our KPIs can be found in the glossary on pages 152 to 157.



TRACEY KILLEN
Partner & Director of Personnel
John Lewis Partnership



We're working hard to create the time and space to connect to our purpose, ensuring that every single Partner has what they need to do their very best work, and more importantly feel valued and respected, no matter where they're from or what they do. Leadership across the Partnership feels different. We've updated our values to feel fresh and uninhibited. We're taking strides to ensure that Partners are healthy and well, and feel empowered to seize the opportunities to continue to get better. This is a pivotal time for the Partnership, and our Partners are at the heart of everything we do.

JOBS

Building the quality of our leaders and reconnecting back to the purpose of the Partnership has been a key priority area. It began with 262 senior leaders from across the business attending a bespoke week-long leadership training course. The unique course was designed to help them understand their potential as a leader and to forge a deeper connection to our organisational purpose, so as to better unlock the potential in other Partners.

For the first time in the Partnership's history, we launched a set of values that were created by Partners, for Partners, to explain what it means to be a Partner and what makes a great one. The values answer Why, What and How we do things. Our 'Why' is essentially Principle 1 "The Partnership's ultimate purpose is the happiness of all its members, through their worthwhile and satisfying employment in a successful business". Principle 1 will always be the most important principle in our Constitution. Our 'What' is 'A better way of doing business'. We believe that the business should give more than it takes and that the Partnership model can be better for everyone, Partners, suppliers, customers and communities. And our 'How' leads us to 'For us, it's personal' and our new values which explain what that means.

OUR VALUES ARE:

Do right: We act with integrity and use our judgement to do the right thing.

All or nothing: We put everything we have into everything we do.

Give more than you take: We put more in, so everyone gets more out.

Be yourself. Always: We're quirky, proud and at our best when we are free to be ourselves.

We not me: When we work together anything is possible.

Our focus on increasing opportunities for Partners to develop their skills and potential has meant that our apprenticeship programme has continued to develop, with over 900 apprentices enrolled this year across our head offices, distribution sites and shops in areas such as retail, LGV driving, vehicle maintenance, hospitality and human resources.

"Apprenticeships are a great way to unlock Partners' potential. Since starting the apprenticeship in 2017 I've gone up a job level and started a new role at the Ambleside Hotel. I'm learning new things but also realising how much I already know about the Partnership."

NATASHA WHITING
Partner & Bar and Restaurant Manager
John Lewis Partnership

Aside from our apprenticeship programme we have also continued to invest in progression, with 2,810 Partners promoted during the financial year.

For those who joined the Partnership from April 2018 onwards, a new 90-day induction and probation programme called Earning Membership was launched. The process includes three review meetings at 30 days, 60 days and 90 days and is designed to provide new starters with clarity around expectations, buddy support and tools so they can perform at their best in their new role.

But at a time when Partners are joining the Partnership, we also lost some Partners due to the various restructuring programmes, such as shop closures, changes in IT and Core Home Services. Redundancies are always a last resort and we will always try to find alternative roles within the Partnership for those impacted by changes. A total of 848 Partners left due to redundancies.

900+

Apprentices enrolled.



I joined the Partnership with a limited skill set. First-class training at the Technical Training Centre gave me a great foundation and confidence to take away and do my job. I have gained experience and knowledge out on the road learning from other Partners and I can draw on guidance and support from peers, management and trainers.

WARREN SAXTON
Partner & Lead Technician
John Lewis & Partners



Our strategy progress — continued

PARTNER INVESTMENT

We are proud to have a long history of recognising the importance of supporting the health and wellbeing of our people. Free in-house health support from medical professionals to all Partners began in 1929, 19 years before the NHS was established. Over the last three years, Partnership Health Services has helped save over 189,500 working days across the business through fast track access to physiotherapy.

We now have a bold ambition to become Britain's Healthiest Workplace by 2025 and we have already taken a number of important steps including launching a Wellbeing Champions Network, with 430 Partners recruited in more than 130 locations across the country. The aim is to encourage and empower Partners to look after their health and wellbeing, provide information on available support and resources, and create a positive movement for change. In support of this we are launching a range of innovative preventative health and wellbeing tools for Partners. One example is Unmind, a mental health platform and app which already has more than 5,000 users. We are also reviewing the food and drink we serve in our Partner dining rooms and how we use this space for social interaction as well as healthy food.



Our Partner Support Service received Helpline Standard Accreditation from Helplines Partnership, the body that oversees organisations which provide such services. The timing was apt as Partner Support celebrated its fifth birthday in September 2018. The service has helped thousands of Partners and retired Partners with confidential, emotional and practical advice via its helplines which are run six days a week by Partnership trained and ACAS accredited Partners.

“

I actually had the honour of taking the team's first call over five years ago – it was for financial assistance. It felt a little daunting but once I started talking and putting the theory into practice, it all worked.

SUE BRENNAN
Partner & Support Specialist
John Lewis Partnership

To improve our total reward package we have been strengthening pay for performance and structuring Partner pay ranges in line with newly designed jobs. Our average hourly rate of base pay for non-management Partners increased to £9.16 from £8.91, which is 17% above the National Living Wage.

In our 2016/17 Annual Report and Accounts, we made a £36.0m provision as an exceptional charge to cover the potential costs of complying with the National Minimum Wage (NMW) Regulations. The Partnership's hourly pay rates were not below the NMW and the most significant aspect of the HMRC investigation related to our practice of pay averaging.

Discussions with HMRC have completed and the methodology for calculating the liability has been clarified. During the year we made rectification payments to more than 33,000 Partners, 90% of which were less than £100, and released unutilised provisions of £30.3m. In February 2019, the Partnership settled a penalty with HMRC for non-compliance with the Regulations. During the year the Government also opened a consultation into potential changes to the Regulations, which it acknowledges are complex. The Partnership contributed evidence to that consultation.

We're committed to providing equal opportunities for all our Partners and our long-term goal is to significantly reduce the gap and achieve gender parity across all levels. We've already started to introduce new talent development programmes, strengthen access to coaches and mentors, explore new flexible working arrangements and build internal support networks.

“

It's important, especially for a business of our size, to take the responsibility to help people find employment especially when they can experience barriers.

TEJAL PISAVADIA
Partner & Resourcing
Development Specialist
John Lewis Partnership

For us, diversity is more than protected characteristics. We seek to provide support and adjustments to help all Partners reach their full potential. Diversity in our organisation is vital to both our commercial success and to the democratic vitality of our business. We have set a goal to increase the representation of Black, Asian and minority ethnic (BAME) Partners in management positions to 10% by 2020. As of January 2019, BAME Partners in management positions was 9.57%. Our diversity statistics as at the year-end are shown in the table below.

We published our second annual Gender Pay Gap report. Taken from April 2018 data, Partnership results are 12.7% for the mean gap – a reduction of 1.2%, and 8.2% for the median gap – a slight increase of 0.4%, since April 2017. The key reasons for our gap are structural as there are more women than men in lower paid roles but fewer in higher paid ones. We employ 83,900 Partners in a variety of roles, all with variable pay ranges informed by their market value. Calculations also cover other pay elements, for example, a premium will usually be paid for night work and this impacts the overall pay gap as the majority of our night workers are men.

Ethnicity split of the Partnership 2019

	2019 %	2018 %
Asian or Asian British	6.76	6.77
Black or Black British	4.70	4.85
Chinese or other ethnic group	1.32	1.34
Mixed origin	2.43	2.29
Not given	1.60	1.58
White	83.19	83.17

Gender diversity of the Partnership 2019

	2019 Male %	2019 Female %	2018 Male %	2018 Female %
Partnership Board	62	38	64	36
Directors & Management Board	72	28	71	29
Senior Managers	50	50	53	47
All other Partners	42	58	43	57

TRANSFORMING LIVES

To help our Partners
and communities thrive.

GIVE MORE

We believe that the business should give more than it takes – for customers, our Partners and the communities we operate in. This model is enshrined in our Constitution. We aim to have a positive impact on society through transforming lives in our communities, unlocking the potential of our Partners and championing wellbeing and health for our customers.

ACCESSIBILITY

The Recruitment Industry Disability Initiative (RIDI) awarded the Partnership's Personnel department a Getting Started award for making the recruitment process more accessible for disabled candidates. This now accompanies the Disability Confident Leader employer status we have also gained.

THE PRINCE'S COUNTRYSIDE FUND

The Prince's Countryside Fund is a charity that aims to secure a brighter future for British farmers. Waitrose & Partners contributes to The Prince's Countryside Fund each year to help support people living in the British countryside. The Fund's flagship project is The Prince's Farm Resilience Programme, which supports over 250 family farms per year.



“

Samaritans is a charity close to my heart as I know people who have benefited greatly by having someone to talk to.

LIAM O'CONNELL
Partner & Team Manager
Waitrose & Partners

VOLUNTEERING

The Golden Jubilee Trust was set up in 2000. The scheme offers Partners the opportunity to volunteer their time as a secondment to work with a charity of their choice for up to six months at full pay. In 2018, we focused a number of these secondments on supporting Samaritans, sharing our knowledge and experience with the charity's retail arm to improve its customer proposition.

Our strategy progress — continued

CUSTOMER

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

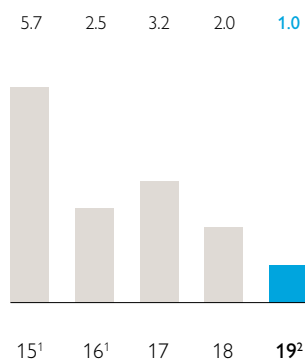
KPI COMMENTARY

Our customer focus means we are reinventing and transforming our offer, developing unique products and services, with a greater emphasis on own-brand, exclusives and innovation. Against a challenging backdrop we've seen Partnership gross sales increase. Waitrose & Partners grew like-for-like sales at 1.3%, and customer satisfaction increased, particularly online. However, an increasingly competitive grocery market combined with re-balancing our investment to increase our focus on long-term customer value has driven a short-term drop in our total Net Promoter Score and overall number of high spending customers. John Lewis & Partners saw a decline in like-for-like sales of 1.4%, being driven by a small decrease in high spending customers. Sales were strongest in Fashion where we drove most innovation. Our Net Promoter Score has increased for the fourth year running as we continue to improve the customer shopping experience across channels.



Definitions, and where applicable, reconciliations, of our KPIs can be found in the glossary on pages 152 to 157.

Gross sales growth %



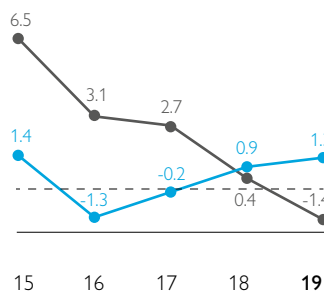
1 52-week basis.

2 Based on restated 2018 figure for IFRS 15. 2019 gross sales growth is reported on an IFRS 15 basis. Prior year gross sales growth balances have not been restated.

Total sales of goods and services including VAT, net of Partnership discount, reported for a particular time period. Our gross sales growth was 1.0%.

Like-for-like sales growth %

Waitrose & Partners
John Lewis & Partners

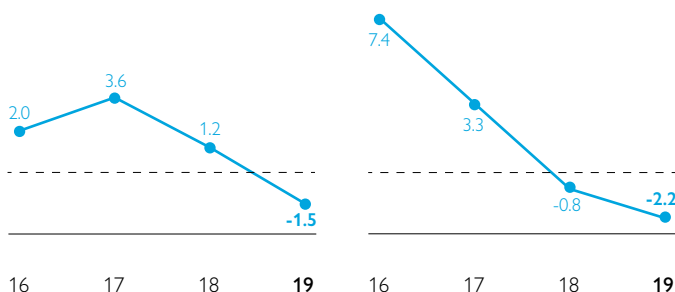


Comparison of sales between two periods in time such as this year to last year, removing the impact of branch openings and closures. Waitrose & Partners like-for-like sales were up 1.3% and John Lewis & Partners like-for-like sales were down -1.4%.

Increase in high spending customers %

Waitrose & Partners

John Lewis & Partners



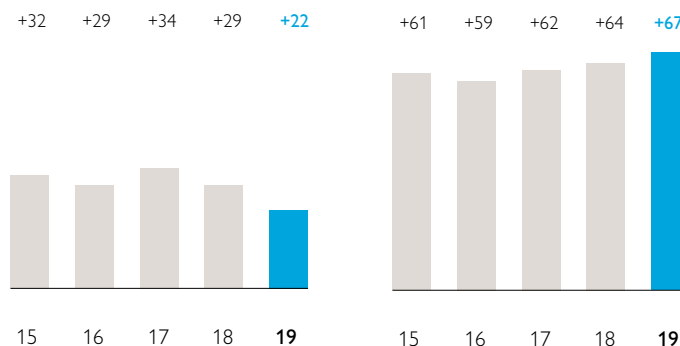
Percentage increase in high spending customers during the reporting period. High spending customers are those customers who exceed particular spend and frequency thresholds over a given time frame. This KPI previously referred to these customers as 'best'.

This KPI was introduced in 2015 and therefore has only been reported from 2015/16 onwards. As time passes, the level of data available relating to customer spend increases; primarily returns data and the ability to link spend to a specific customer. The prior year comparative is restated each year to reflect the most recent data available.

Net Promoter Score

Waitrose & Partners

John Lewis & Partners



Net Promoter Score is an external benchmark that measures between -100 and +100, and shows the willingness of customers to recommend our products and services to others. A larger positive figure represents a higher level of customer satisfaction and loyalty to our brand. Waitrose & Partners Net Promoter Score was +22 and John Lewis & Partners was +67.

WAITROSE & PARTNERS



ROB COLLINS
Partner & Managing Director
Waitrose & Partners



Our strategy is to offer something meaningfully different for our customers, based on our core strengths of delicious high quality products and truly outstanding customer service. We will make our difference count for more, both in our shops and online, with a clear focus on innovation, even better quality and a unique customer service experience delivered by our expert and committed Partners. We've made significant progress this year thanks to the skill, dedication and hard work of our Partners.

DELICIOUS HIGH QUALITY PRODUCTS

We gave our product innovation a significant boost in summer 2018 when we opened our Food Innovation Studio in Bracknell. It has more than double the space of the previous facility and the number of chefs increased from three to seven. Own-brand products now account for more than half of our total sales and we have plans to build on this further.

Our innovation and quality shone through with what we considered to be our best-ever Christmas range last year. Waitrose & Partners products came top in 37 independent Christmas taste tests, well ahead of competitors. Over the year we also launched 48 new own-label vegan and vegetarian products including pizzas, ready meals, snacks and ingredients. We also introduced 18 new gluten-free and four lactose-free products to our own-label range. We helped customers move towards effortlessly tasty evening meals with our Beautifully Simple range of recipes. And our revamped Cooks' Ingredients was launched featuring innovative items such as black limes, zhoug and kimchi paste.

We completed 24 range reviews in the financial year, from breakfast cereals and sliced bread to meat and fish service counters. The reviews have ensured our ranges are absolutely right for customers, removing duplication and differentiating from competitor ranges. As a result, we have seen increased sales, profit, availability and own-label share, as well as improved branch efficiency.



HEALTH AND WELLBEING

We have continued to add to the Partner service we offer our customers and now have over 100 trained Healthy Eating Specialists to help customers who want advice to make healthier choices on the shop floor. We also developed our health and wellbeing offer in products and services with our Good Health marque added to products across our own-brand ranges. We also launched a new Waitrose & Partners Health magazine.



TRULY OUTSTANDING SERVICE

We have been trialling Service Ambassadors, placing Partners at the front of stores to give a warm personal welcome and set the tone for fantastic service. We have set an ambition for all Partners to be food ambassadors: Partners who not only love food but love talking to customers about it and have an interest in issues surrounding food, such as packaging, sourcing and animal welfare. Being a food ambassador isn't about being a Michelin star chef, it's about having an interest in, and a knowledge of our food.

Significant investment in waitrose.com, new customer smartphone apps and customer delivery services has led to a strong increase in online grocery sales of 14%, well ahead of the market.

Customer satisfaction for waitrose.com saw improvement of 5% over the year, with our shops also seeing an increase in satisfaction in quality of Partner service, Partner availability, and ease and speed of the checkout process. Waitrose & Partners was also named Retailer of the Year at the Institute of Grocery Distribution (IGD) Awards in a category voted for by shoppers in 2018.

Our strategy progress — continued

JOHN LEWIS
& PARTNERS

PAULA NICKOLDS
Partner & Managing Director
John Lewis & Partners



Our strategy of differentiation, both in the products we sell and the service we provide, was a major focus and we will continue to invest in our points of difference. In what was a challenging year for retail, the creativity, expertise and passion of our Partners played a vital role in our ambition to reinvent the shopping experience, offering our customers new and exciting ways to shop in store and have a seamless online journey.

UNIQUE AND
DESIRABLE PRODUCTS

We continue to make good progress with our own-brand and exclusive products. Launching John Lewis & Partners Womenswear, our largest own-brand collection to date, was a significant step forward in our plan to build a £500m own-brand fashion business and realise our ambition to stock 50% own-brand products.

Own-brand products also proved popular in Home, with the relaunch of House, our affordable home range, and an increase in sales of our own-brand electrical range.

We offered customers more exclusive brands and teamed up with brands such as Madewell, J.Crew, Stuart Weitzman, Pottery Barn Kids, Proenza Schouler and Dyson Airwrap.

We invested in gifting and as a result, our new own-brand gift collection 'Find Keep Give' exceeded expectations. At Christmas we had a record year for Gift Food and our personalised Quality Street tins proved very popular with customers.

EXCEPTIONAL
CUSTOMER SERVICE

Alongside unique products, we have been expanding into new services and experiences. With services such as Personal Styling, we are bringing a new level of personalised, curated shopping to the high street. Personal Styling was transformed this year, with specialised training, new appointment types, upgraded styling suites and dedicated fashion event spaces. A new Keeping in Touch service enables stylists to keep customers updated with exclusive offers, personalised suggestions and stock availability.

Our Experience Desks are now available in 13 John Lewis & Partners shops, making it easier for customers to access the services and events offered by our expert Partners. A new Beauty Concierge service launched in Leeds and Cambridge offering impartial and personalised beauty advice. And this summer the Oxford Street rooftop proved more popular than ever with customers enjoying DJs and live bands. We also teamed up with Samsung to create an outdoor cinema experience.

We re-platformed johnlewis.com and continued investing in our digital capabilities. The rollout of two-hour delivery windows and live online delivery tracking improved communications with customers. Our Click & Collect orders service was also expanded and is now available at 339 Waitrose & Partners shops.

Last year we were open about the challenges we experienced when we launched a new Core Home Services operation and the knock-on effect this had for our customers. The changes we made were designed to create a more consistent experience for our customers with improvements such as longer opening hours and more robust project management. Further improvements have now been made.

NEW AND
ENHANCED SERVICES

In June, the Partnership acquired Opun, a business that manages home improvement projects for customers.

"This acquisition strengthened our position in the home services market while also complementing our Home product range."

SEAN ALLAM
Partner & Director, Services
John Lewis & Partners

To create more tailored experiences for customers, private shopping was launched at our new Cheltenham shop. Bringing the exclusivity of after-hours shopping to the high street, customers can now book out the whole shop and have exclusive use after hours with an expert team of Partners on hand to create the ultimate bespoke shopping experience.

To help reduce the 300,000 tonnes of clothing which gets sent to landfill each year in the UK, in an industry first, we piloted an innovative 'buyback' service with an app-based social enterprise business, Stuffstr. Customers can have clothing bought from our shops and website in the past five years collected from their home and be paid immediately for each item regardless of its condition. Items bought back are then either resold, mended so they can be resold, or recycled.

"We hope we can help change behaviour around throwing unwanted items away and ensure that the maximum life is extracted from items bought from us."

MARTYN WHITE
Partner & Senior Sustainability Manager
John Lewis & Partners

During our peak trading Christmas period we saw our biggest number of Partnership Card applications in the last decade. This year Partnership Card applications are up 30% and foreign exchange transactions are up 38%.

ALWAYS FAIR

To source and sell our products with integrity.



SUPPLY CHAIN

We aim to give our customers confidence in the products we sell and the way we sell them. Transparency in how our products have been grown, sourced and made is key to our approach.

John Lewis & Partners is working with UK suppliers to pilot a different approach to responsible sourcing. The Better Jobs Programme uses the Partnership's expertise in employee engagement to support suppliers to provide good jobs through a worker survey and an online platform with dedicated resources developed by Partners across the business. Suppliers will be able to benchmark their performance against other sites.

Our insight has shown the UK manufacturing industry faces challenges in securing skilled labour and so creating better, more rewarding employment for workers makes sense for both us and our suppliers.

In 2018, the Waitrose & Partners Foundation conducted a review of its operating model. The Foundation had grown organically, with devolved legal structures and inconsistent models making it difficult to measure success and report on the positive outcomes we were seeing on the ground. We also had limited visibility at customer level. Our new approach aims to create a scalable model. Read more in our 2018/19 Modern Slavery Statement.

Animal welfare continues to be a key customer concern for Waitrose & Partners. For the fifth successive year Waitrose & Partners ranked in the top tier out of 150 businesses across 23 countries for the management and reporting of animal welfare practices.

Our strategy progress — continued

PROFIT

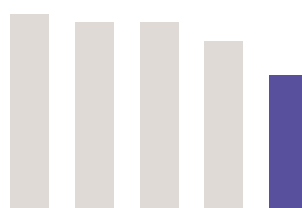
Our financial strategy is designed to ensure our business is able to maintain investment levels, whatever the economic environment.

KPI COMMENTARY

Long-term financial sustainability is one of the strands of our Partnership strategy. We measure it through the following three KPIs: Return on Invested Capital (ROIC), Debt Ratio and Partnership profit per average full-time equivalent (FTE) Partner. Our ROIC and Profit per average FTE Partner have reduced reflecting the substantially lower profits. Our Debt Ratio is level and we expect to see a reduction over the medium-term. This year we have adjusted our calculation for our ROIC and Profit per average FTE Partner KPIs to include 'above market rewards', which are Partner benefits higher than those typically paid by our competitors, as a result of the Partnership model.

Return on Invested Capital (ROIC) %

10.5 10.1 10.1 9.1 7.3

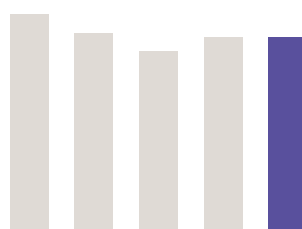
15¹ 16¹ 17¹ 18¹ 19

1 Restated to include above market rewards.

Operating profit before Partnership Bonus and exceptional items, adjusted for above market rewards, a notional interest on leases (at a 5% interest rate on lease liabilities) and a notional tax charge (at the statutory marginal tax rate for the year), as a proportion of average operating net assets, adjusted to reflect the value of leased assets. This is important because it demonstrates how effectively we are utilising our assets. Our ROIC this year was 7.3%.

Debt Ratio

4.8x 4.4x 4.0x 4.3x 4.3x

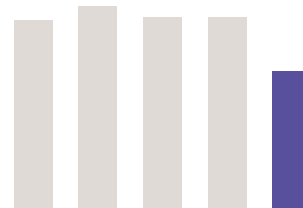


15 16 17 18 19

Comparison of our total net debts (including pension deficit and operating leases) to adjusted cash flow we generate each year. This year our Debt Ratio remained at 4.3 times. We aim to reduce our Debt Ratio to around three times within five years.

Profit per average FTE Partner

6,800 7,300 6,900 6,900 5,000

15¹ 16¹ 17¹ 18¹ 19

1 Restated to include above market rewards.

Profit before Partnership Bonus and exceptional items but after tax, adjusted for above market rewards, divided by the average number of full-time equivalent (FTE) Partners. This year our figure was £5,000. This measure is important as it provides the best indication of Partner productivity.

This year we have adjusted our calculation for our ROIC and Profit per average FTE Partner KPIs. This is principally to include 'above market rewards' which are Partner benefits higher than those typically paid by our competitors, as a result of the Partnership model. Above market rewards principally include pensions, long leave, Partner discount and the costs of our democracy. Adjusting our financial KPIs for above market rewards is important to be able to assess them against our competitors. In addition, Profit per average FTE Partner has been restated to be after tax, rather than before tax, to better reflect the available profit pool for reward to Partners as employee-owners. ROIC and Profit per average FTE Partner have been restated for 2015–2018 in the graphs above.



Definitions, and where applicable, reconciliations, of our KPIs can be found in the glossary on pages 152 to 157.



PATRICK LEWIS
Partner & Group Finance Director
John Lewis Partnership



Both the Partnership and the wider retail market have continued to go through vast changes and we've adapted well. Although Partnership profits this year were substantially lower, we have every confidence for the future. The actions we are taking are aimed at restoring Return on Invested Capital and Profit per average FTE Partner to levels that will support increased investment and improved Bonus levels over the medium term, while maintaining a robust balance sheet position. Our focus on differentiation of product and service will involve a lot of hard work from Partners, and we are confident it will be appreciated by our customers.

SECURE



As we expected, profits were substantially below last year. Waitrose & Partners operating profit recovered strongly, up 18%, mainly due to improved gross margins. John Lewis & Partners profits were down 56% with weaker Home sales, combined with gross margin pressures, driving around half of the reduction, with the remainder largely due to additional IT costs and property related items. Our secure plan anticipated the risk of this market volatility and we successfully managed to reduce our total net debts in line with the reduction in adjusted cash flow, maintaining our Debt Ratio.

One of the priorities of our plan is to free up £500m over the next three years, in order to deleverage and invest in our strategy of differentiation. We have maintained total investment at around £400m, with capital investment forming the major part of that. Operating capital investment, which excludes the acquisition of freeholds of our trading branches, was £310.1m, a decrease of £54.3m or 14.9% on last year. In addition, we have invested significantly in products and services, in leadership training, in change costs associated with restructuring and transformation of the business, and a greater proportion of our IT investment is revenue investment.

Although our Debt Ratio increased last financial year it has stayed the same this year at 4.3 times and our aim is to reduce it to around three times adjusted cash flow within five years. This is one of the reasons that led us to reduce Partnership Bonus in recent years.

During the year, we built up a strong liquidity position at nearly £1.5bn. This included the addition of £125m of medium-term bank debt. Since the year-end we have repaid a £275m bond that matured in April 2019 out of cash reserves.

As a result of our strategy and streamlining of critical functions, 848 Partners left the business in areas such as IT, Core Home Services and shops. For example, we merged the Partnership's six IT

service desks which is estimated to save £1.7m per year, but, more importantly, provides Partners with a single point of contact and consistent levels of service across the Partnership.

"This was our first step on an exciting journey to deliver a consistent service to Partners, which will drive greater efficiencies and save the Partnership money."

ALEX BOWLES
Partner & Head of IT Operations
John Lewis Partnership

The Partnership's pension benefit is currently under review following discussions with Partnership Council in May 2018. We began consulting both Partners and the Council on proposed changes on 12 February 2019, and we will shortly consider all feedback received. We anticipate that the final changes will be proposed to Partnership Council for vote in May 2019. Our pension operating costs were more than £200m in the year, compared to this year's £44.7m Bonus. With profits falling in recent years, we no longer consider the current pension to be affordable and the balance between Bonus and pension costs is too uneven. For this review, a special pensions committee was set up, including six Partnership Councillors and six Partners from across the business. Chaired by Kim Lowe, Partnership Assurance Lead at the John Lewis Partnership, the committee reviews and feeds back on the proposed changes which are being developed by a management working group and which are also subject to the consultation with the Partners and Council. The new proposal includes closing the defined benefit section to future pension build up, matching defined contributions up to 8% of pensionable pay, and offering an additional Partnership contribution after three years of 4% of pensionable pay.

Looking ahead, our plan aims to rebuild profits allowing us to increase Partnership Bonus, maintain investment and continue to reduce debt.

Our strategy progress — continued

YOUR QUESTIONS ANSWERED

If our full-year results make your head spin then this Q&A section might help make things clearer.

Q. What's the bare minimum I need to know about our results this year?

- A. There are five things you should know. Number one is our overall profit has almost halved compared to last year in a tough market for retailers. Two is that Waitrose & Partners has increased its sales slightly and that its profit rose by 18%. Three is that although John Lewis & Partners' total sales rose slightly, its profit fell by 56%, driven by weaker Home sales, gross margin pressure, lower gross margin, increased IT costs and property related items. Four is that we have reduced our total net debts by more than £400m. And the fifth thing to note is that we have built up a strong liquidity position at nearly £1.5bn. This is almost double the level five years ago, which has allowed us to repay our £275m bond post year-end and have financial headroom to mitigate the risks and make sure we can contribute to investing for the future.

Q. So, are the results good or bad?

- A. They were in line with the expectations that we had set out in the summer. That doesn't mean that they are 'good' results – it's been a challenging year for all retailers, particularly in non-food – but we have been able to push onwards with our strategy of developing our brands, investing in our products, service and services, investing in our Partners and reducing our total net debts.

Q. Our total net debts have reduced by £401.3m. Does that put us in a better position for the future?

- A. We want to reduce our Debt Ratio to around three times within five years. Most businesses borrow money to support their operations, and we are no different. However, we need to keep the risk of not being able to repay that debt very low. That is especially important as a Partnership to ensure that we, the Partners, stay in control of the business. This means debt reduction will continue to be important in the years to come. This year's reduction in total net debts is great as, despite making less profit, it has allowed us to maintain our Debt Ratio at 4.3 times.

Q. If the promotional market is hurting John Lewis & Partners, is Never Knowingly Undersold (NKU) a problem?

- A. Firstly, it's important to remember that products sold following an NKU price-match will still be a profitable sale. However, it's true that price-matching reduces the level of profit we will make on those products, particularly when competitors are slashing prices. But in a market where prices are lower, we would need to assess our price points even without NKU. One way to reduce the impact of NKU is to grow the proportion of own-brand and exclusive products which aren't affected by NKU. We should take real comfort that in Womenswear we grew our proportion of sales from own-brand and exclusives.

Q. What is the difference between the actuarial valuation and the accounting deficit for the pension?

- A. The estimated actuarial valuation deficit of £189m is used to judge the money we need to put into the pension scheme. It is different to the IAS 19 accounting deficit of £468m shown in our financial statements, which is based on accounting standards that require all companies to assume their pension fund grows at a standard rate reflecting a relatively low level of risk. We take slightly more risk in our pension scheme, increasing the potential

fund growth, and therefore because of how our fund is invested the accounting deficit will generally be higher than the actuarial deficit.

Q. What can we expect next year's results to look like?

- A. That depends on what happens over the coming year but there are some factors that could affect next year's results. The Partnership has been preparing for the operational implications of Brexit for well over a year and we are in a good position for a managed transition. This covers currency, tariffs, customs and labour. In the case of an unmanaged transition there is a risk of a strong fall in consumer confidence which could impact on trade. The results will also look different because the Partnership is adopting a new method of accounting and reporting the leases it holds (IFRS 16). The new method doesn't change anything about how our business is run or the cash flows we generate (other than the timing of tax cash flows over the lease term). However it does mean that our profits will appear lower and our assets and liabilities will appear larger in next year's report. Note 3.5 to the consolidated financial statements presents the Partnership's operating lease commitments on a cash basis (£3.7bn). The IFRS 16 lease liabilities recognised in the consolidated opening balance sheet for the year ending 25 January 2020, reflect these cash commitments discounted to present value (£2.1bn). See note 1.1.4.

Q. Why did the Partnership Board decide to pay a 3% Partnership Bonus if conditions are so difficult?

- A. The Christmas trading statement made it clear that we would likely have the financial strength to pay a "modest" Partnership Bonus if the Board decided to. The question the Board had to consider was how to balance the payment of a Partnership Bonus with other ways that the money could be used, like making investments, reducing debt or maintaining a strong liquidity position. A 3% Partnership Bonus enables the Partnership to continue debt reduction, maintain levels of investment and retain solid cash reserves to cope with the continuing uncertainty facing consumers and the economy.

NEVER WASTEFUL

To innovate to reduce our environmental impact.

GREENER DELIVERIES

For as long as we've been around, we've been committed to using natural resources as efficiently as possible and reducing our environmental impact and emissions. By delivering more with less, we'll help to protect both our business and the environment for generations to come.

This year, we have established a new set of ambitious environmental goals – including the aim to be net zero carbon emissions in our own operations by 2050. To do this, we will be taking at least a third of the absolute carbon out of our operations over the next ten years.

To achieve this, all our core store refrigeration will need to be cooled with water; all our heavy trucks will need to be run on biomethane, and all our electricity will have to be certified renewable by 2028.

We will also be reducing our energy consumption overall by 25% through energy efficiencies such as increasing LED lighting. Achieving these commitments will be challenging in the current retail climate. However, we remain committed to our transition towards being a zero carbon business.



Innovation is key when working towards net zero carbon emissions and six Waitrose & Partners delivery lorries have been trialling a new system that powers the refrigeration in our trailers by using additional electricity generated by the compressed natural gas (CNG) truck. The units are powered by a vehicle's engine instead of using a separate auxiliary engine.

A total of 60 Waitrose & Partners and John Lewis & Partners trucks use biomethane made from food waste, which cuts CO₂ emissions by up to 85%, and all existing heavy trucks will be switched to biomethane by 2028.

Net zero

carbon emissions in our operations by 2050.



Principal risks and uncertainties

EFFECTIVE RISK
MANAGEMENT

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



JULIE GOODERHAM
Partner & Director, Audit and Risk
John Lewis Partnership



Effective risk management is fundamental to support the achievement of our strategy and challenge our thinking. It allows us to be on the front foot in the pursuit of opportunities, while protecting our Partners, customers and reputation.

OUR APPROACH TO RISK

Risk is inherent in our operations and the decisions we make in pursuit of our Partnership strategy. 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 pages 40 to 41 for more information.

The Partnership Board is also responsible for ensuring that risk is effectively managed through our governance structure in line with its risk appetite. All Partners should be aware of risks in their area of responsibility and manage those risks intelligently in their day-to-day activities.

RISKS OR OPPORTUNITIES?

Risks arise in different forms, from the external environment in which we compete, to those that arise internally from changes to how we operate our business model. This year in particular, retailers face challenging times: Customer needs continue to evolve at pace with an ongoing move to online; and there is significant uncertainty in the external environment. It is therefore even more important that we deliver our new strategy by actively managing the risks and opportunities through a period of uncertainty and change to achieve it.

GOVERNANCE

The risk management governance structure, in place for the year under review, is illustrated opposite. For further details about key roles and responsibilities within our governance structure, please see the Audit and Risk Committee report on page 58.

In February 2019, the Executive Team announced its decision to simplify governance and decision making for the areas of risk by consolidating the current governance supporting the Waitrose & Partners and John Lewis & Partners brands and functions at the Executive level. Simplification work is ongoing at the time of reporting.

RISK MANAGEMENT PROCESS

We have a structured approach designed to identify, manage, monitor and communicate risks consistently, and take advantage of opportunities

across the Partnership. This is supported by our risk management governance structure.

Monitoring of our principal risks through our governance structure supports Directors' assessment of the long-term viability of the Partnership. The downside scenarios over our financial plan are based on the potential financial impact and likelihood of the risks landing. Further detail on the approach taken to assess the longer-term viability of the Partnership is on page 43.

RISK APPETITE

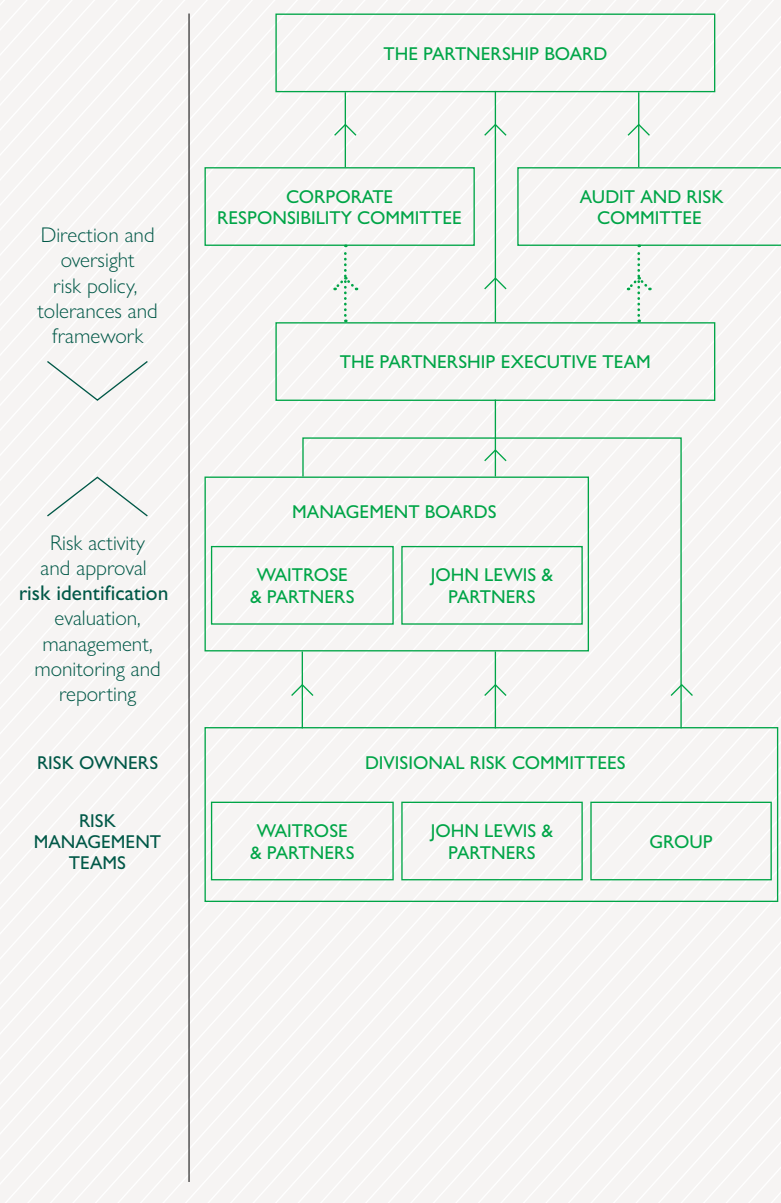
The Partnership's risk appetite is set by the Partnership Board. It governs the amount of acceptable risk within which we operate. This is derived from our Constitution and takes into consideration the acceptable level of risk across strategic, operational, financial and regulatory risks faced by the Partnership. Our appetite provides direction and boundaries for consistent, measured, risk-aware decision making throughout the Partnership, and guides us to take the right level and type of risk.

A scale of one to five illustrates the range of our risk appetite for each type of risk. For example, we will take more risk in pursuit of our strategic objectives to drive our business forward and less risk in the delivery of our day-to-day operations. If too much risk is being taken for the expected return, a response is required to bring the risk back within an acceptable level, in an appropriate and agreed time period.

During the year, the Partnership Board assessed and approved two changes to our risk appetite in response to the changing environment in which we operate for regulatory compliance and IT security.

The changing regulatory environment fundamentally alters the potential size of the impact of any regulatory breach largely due to reputational impact and we therefore elevated the risk appetite for the Partnership. Likewise the potential impact in relation to IT security reflects its growing importance to our business and the Board therefore increased the risk appetite.

Risk management governance structure

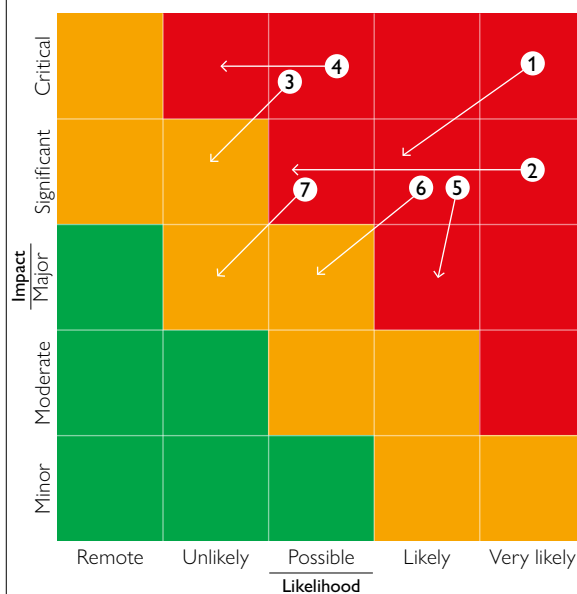


PRINCIPAL RISKS

Our principal risks are those that have been assessed in the red zone. They have been assessed as beyond our tolerance for acceptable risk-taking and risk owners have plans in place, which are monitored and assessed on a quarterly basis. We measure risk in terms of its potential impact and likelihood of occurrence. We assess what the potential Partner, customer, financial and regulatory impact could be if the risk materialises. Our principal risks continue to be:

- ① Competitive customer proposition
- ② Operating model strain
- ③ Information security
- ④ Pension obligations
- ⑤ Change delivery
- ⑥ External environment
- ⑦ Ownership model strain

We assess the likelihood of a risk occurring across a spectrum from remote to very likely to happen.



Principal risks and uncertainties — continued

MANAGING OUR PARTNERSHIP RISKS

Our top seven principal risks cause us most concern. We are actively managing and monitoring these risks as a priority to protect and develop the Partnership. Brexit continues to exacerbate our existing risk profile. Further detail on Brexit is on page 42.

WHAT'S CHANGED SINCE LAST YEAR?

Our principal risks evolve over time and the way in which we mitigate our risks changes as we evolve our strategy and business plan. Progress has been made during the year to develop propositions to mitigate our risks. However due to the challenging, external trading environment, our principal risk position remains unchanged. An updated Partnership strategy has been launched with revised mitigating activities against our principal risks.

DESCRIPTION	POTENTIAL CONSEQUENCES	CONTROLS IN PLACE	PROGRESS IN THE YEAR AND FURTHER ACTIONS
1. COMPETITIVE CUSTOMER PROPOSITION 			
Failure to deliver our customer promise and not maintain our competitive advantage due to: – Competitor actions putting pressure on market value, our margin and threatening our volumes in grocery; and – The growth of online business models in the general merchandise sector means customers focus more on value for money and are less loyal.	Customer proposition and service is negatively impacted, which may result in losing customers, impairing our ability to grow long-term profitability.	– Continuing to secure value for all of our customers through our price-matching commitments. – Regular strategic risk review and monitoring by the Executive Team. – Regular horizon scanning to inform strategic reviews to continually enhance our customer offer. – Regular strategy implementation, customer and performance metrics evaluation by senior leaders and Executive Team.	– Updated Partnership strategy launched. – New Partnership-wide branding launched. – Improved online and in-store proposition in John Lewis & Partners; and continued price investment in Waitrose & Partners alongside new in-store initiatives to improve customer experience. – Product launches such as new Womenswear collection in John Lewis & Partners and a new vegan range in Waitrose & Partners. – Differentiate further on product. – Continue to develop market-leading customer service and develop service offerings through Partners. – Unlock further value between our brands. – Develop online offering. – Build greater customer insight.
2. OPERATING MODEL STRAIN 			
Increasing external pressures, such as the ongoing move to online, and increased spend on IT create strain on our operating model.	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.	– Annual business plan process robustly reviewed. – Monthly Executive Team business performance review and action taken. – Regular review of programmes to re-prioritise and support the ongoing development of our operating model.	– Improved stock management in John Lewis & Partners and new flexible operating structure implemented in Waitrose & Partners branches. – Head office reorganisation. – Benefits being realised from the new product sourcing office in Hong Kong. – Robust business plan review. – Implementation of further change programmes across IT, supply chain and other areas of head office. – Development of proposition to increase value to our customers.
3. INFORMATION SECURITY 			
A breach of Partner or customer data due to an external threat causing disruption or access to sensitive data.	A significant data breach and loss of either Partner or customer data could cause financial, regulatory, legal and/or reputational damage.	– Robust network security and regular testing to provide early identification of network or system vulnerabilities. – Continuous security monitoring. – Partner training.	– Significant enhancements made to the systems and controls that hold Partner and customer data to improve resilience. – Improvements to preventing, detecting and responding to external cyber attacks. – Continue to implement the IT security programme. – Continue the awareness campaign. – Simplify IT estate.

HOW OUR RISKS
LINK TO STRATEGY

- Partner
- Customer
- Profit
- Power

DESCRIPTION	POTENTIAL CONSEQUENCES	CONTROLS IN PLACE	PROGRESS IN THE YEAR AND FURTHER ACTIONS
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4. PENSION OBLIGATIONS

Increases in the pension liabilities, driven by a decrease in the real discount rate for example, and a significant devaluation in the assets being held could cause a significant increase in the size of the pension deficit.	A larger pension deficit could result in additional funding required by the Partnership, diverting resources away from other investment opportunities.	– Regular review of valuation assumptions through internal and external monitoring. – Pension risk and funding strategy reviewed regularly.	– Continued cost reduction realised from the 2015 Pension Benefit Review. – A new Pension Benefit Review has commenced. – The pension deficit de-risking plan, through increased interest rate and equity hedging. – Pension Benefit Review to be approved by Partnership Council and the Board.
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5. CHANGE DELIVERY

The complex nature and scale of interdependencies of the change programmes may affect our ability to implement programmes/projects on time, to budget and quality, our ability to manage, and our ability to embed the change into the business and realise the benefits.	Failure to develop, implement and embed change effectively could result in increased costs, disruption to our trading activities impacting our customer experience, missing our growth ambitions and losing the engagement of our Partners.	– Programme and project governance in place enables early identification and remediation of issues considering the impact on Partners and interdependencies on other programmes and projects. – Quarterly review of programme status at the Executive Team level.	– Embedded new change governance and ways of working. – Partnership-wide reporting continued to be improved to provide better insight. – Continue to align the change operating model to support the delivery of the new Partnership strategy.
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6. EXTERNAL ENVIRONMENT

External economic pressures, due to the impact of government policy, Brexit, a weaker economy and lower pay increases, reduce our customers' spending power and harm our suppliers' financial resilience.	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.	– Monthly monitoring of business performance by the Executive Team. – Horizon scanning. – Brexit team regularly reviews and communicates on the potential impacts and opportunities to influence outcomes internally and externally.	– External economic factors have been incorporated into the business plan. – Analysis and activity in relation to Brexit risk since vote. – Ongoing monitoring, analysis and actions implementation to mitigate the potential impacts of Brexit (see page 42). – Continued focus on differentiating our customer service, product quality and product innovation.
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7. OWNERSHIP MODEL STRAIN

Partners and their engagement are key to the success of our employee ownership model. Commercial decisions made to secure the economic success of the business as well as external pressures on Partners could unconsciously impact Partners belief in, and commitment to, our employee ownership model.	Loss of belief in our employee ownership model could compromise individual Partner performance, collective productivity and brand advocacy (Principle 1), thus losing the competitive advantage of our employee ownership model.	– Leadership engagement through change. – Annual Your Voice Partner survey to assess and respond to Partner sentiment. – Registry function support for Partners. – Oversight of Board, Executive Team and our democratic bodies.	– Completed checks and balances review over our senior governance and controls to deliver the Constitution. – Unlocking Partner Potential initiatives introduced to provide better career opportunities for Partners, improve total reward, continue to develop the quality of leadership and increase purpose and learning across all roles. – Increased communication in response to Partner feedback. – Continue to focus on developing the effectiveness of democratic channels and leading through change. – Lead on wellbeing in the workplace. – Continued focus on initiatives to empower Partners.
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Principal risks and uncertainties — continued

BREXIT

The Partnership continues to take a proactive approach to preparing for Brexit and managing the potential impacts it may have on the Partnership. Since the referendum in 2016, the Partnership has been preparing for a worst case, no-deal scenario as this would cause the most disruption to Partners, customers and trade.

Throughout 2018 we have seen the impact of low consumer confidence, exacerbated by Brexit uncertainty and other external socio-economic drivers having a significant negative effect on the Partnership and retail more broadly. Brexit has placed additional strain on the Partnership's existing principal risk profile.

A Partnership-wide approach has been adopted to risk assess the potential impact of Brexit, develop plans and mitigate ongoing risks across both trading brands. A Partnership Brexit group with established risk leaders has been leading on planning, monitoring and actioning options to mitigate the potential impacts of Brexit.

Progress and recommendations in relation to our highest risks have been regularly reported through our existing governance structure. They have been reviewed by Divisional Risk Committees and Divisional Boards, the Executive Team, and the Audit and Risk Committee on behalf of the Partnership Board on a quarterly basis.

Brexit affects the Partnership in a large number of ways. Our detailed analysis and activity has been focused on the areas that would have the largest impact on our Partners, customers and trade.

This is centred on the following areas of most risk:

AREA OF RISK	MITIGATIONS
A. ACCESS TO EU LABOUR	
Potential for rising costs and recruitment challenges throughout our supply chain, especially in warehousing, seasonal agriculture and distribution, comprising both Partner and third party labour.	– The Partnership is supporting non-UK EU Partners in obtaining settled status should they wish to apply, to enable them to live and work within the UK after December 2020. – The Partnership is also working with retail industry bodies to influence the forthcoming Government Immigration Bill, to recognise and support the contribution of workers in the retail supply chain. – Several initiatives to improve recruitment, flexibility, provide better pay and unlock Partner potential have been introduced.
B. CURRENCY EXPOSURE	
The Partnership trades with domestic and international suppliers, many of which have costs in currencies other than Sterling. A depreciation in Sterling may lead to a rise in the costs of goods both for resale and not for resale.	– The Partnership has a hedging programme in place to smooth and defer the impact of currency movements. – To protect against a significant Sterling devaluation, the Partnership has invested in currency options to partially offset an increase in cost of goods and services.
C. TARIFFS	
Potential increases in trade tariffs on products we import could lead to rising costs. In a no-deal scenario, the UK would revert to World Trade Organisation tariffs, or the temporary import tariffs published by the UK Government on certain products, which would be applied to all imports and exports. The UK would also lose access to EU trade agreements with the rest of the world.	– The Partnership has undertaken tariff impact analysis to understand the impact that World Trade Organisation tariffs could have on our imports. – To provide short-term tariff relief, both brands have assessed additional stock-holding requirements and are also pursuing options to offset longer-term tariff increases. – Waitrose & Partners has a strong focus on UK sourcing and supplier relationships.
D. CLEARING CUSTOMS	
Future additional import procedures, such as checking product standards and customs declarations for EU imports, could increase supply chain lead times, particularly impacting on perishable goods, and increase supply chain costs.	– Both brands have assessed additional stock-holdings required to protect against potential delays. – Options to reduce lead times have been assessed. – Additional resource required to process increased volumes of customs declarations has been assessed.

The uncertainty of Brexit and its impact is likely to continue through 2019 and at the time of publication, there remains no clear Brexit outcome. As a result, the Partnership continues to plan for a worst case, no-deal scenario.

VIABILITY STATEMENT

The UK Corporate Governance Code (the Code) requires Directors of all Companies with a Premium Listing to make a statement on the viability of their business within their annual reports. Although the Partnership is not required to adhere to the requirements of the Code (see page 82), in the case of the viability statement we believe that the Code provides the best framework for the Directors to communicate how they have assessed the Partnership's ability to remain commercially viable in line with best practice, and to demonstrate how they continue to uphold their constitutional obligation to protect the long-term health of the Partnership. In doing so, they have taken into account the Partnership's current position (see pages 86 to 136); current strategy (see pages 24 to 37); and principal risks and uncertainties (see pages 38 to 42).

The One Partnership strategy is designed to develop and strengthen our business over the long-term, whatever the economic or political environment. Building on the It's Your Business 2028 strategy, it places greater focus on differentiation rather than scale, by offering customers unique products and services. It has been underpinned by work in recent years to strengthen the Partnership's balance sheet and financial sustainability, with liquidity of £1.5bn – almost double its level five years ago. This gives us the resources and confidence to continue with planned levels of investment and to cope with any short-term disruption in the retail sector.

Although the One Partnership strategy has been designed with the long-term prospects of the Partnership in mind, for the current year's viability statement the Directors have decided to continue to assess the Partnership's viability over a three-year period to January 2022. This is because a three-year period matches our business planning cycle, which allows financial modelling to be supported by the budget and business plan approved by the Partnership Board. Additionally, given the pace of change in the retail sector, and the current political and economic uncertainty due to Brexit, it is difficult to assess our principal risks with reasonable clarity beyond this period.

In assessing the viability of the Partnership, the Directors considered the Partnership's revenue, profit, net assets and cash position under the most recent budget and business plan, which have been prepared in the context of a challenging retail sector and taking account of factors such as increased competition, sustained cost pressures and Brexit uncertainty. The Directors have assumed that the strategies in the latest budget and business plan are delivered.

Challenging but plausible downside scenarios were then applied as additional sensitivities overlaid to the budget and three-year business plan. These scenarios are based on the potential financial impact of the Partnership's seven principal risks. These risks are deemed the most relevant when assessing the Partnership's viability, as they have scored highest on the combined scale of impact and likelihood during ongoing assessment performed as part of the Partnership's risk management process.

In addition to these principal risks, additional downside sensitivities have been applied this year to model the specific risks associated with Brexit as detailed on page 42. In the case of access to migrant labour, this has not been included as an overlay in the downside modelling as it is believed that the effect of this has largely come through already following the referendum result in 2016, and as such is embedded in the base case budget and business plan.

The downside scenarios used in the modelling and how they correspond to the seven principal risks and Brexit risks (see pages 38 to 42) are listed in the table below.

The downside scenarios have been assumed to all occur simultaneously in order to assess the Partnership's ability to withstand multiple challenges at once, and also assume that no new financing is obtained over the three-year viability period. Consistent with prior years, the potential impact of additional one-off 'black-swan' events that cannot reasonably be anticipated are not included.

The impact of the adjustments in the table below has been reviewed against the Partnership's projected cash position and the Partnership's financial covenants over the three-year viability period. Should these occur as modelled, mitigating actions would be required to ensure that the Partnership remains liquid and financially viable. These actions have been identified as part of the Partnership's contingency planning and include but are not limited to asset sales and reductions in planned capital expenditure. They would be sufficient to absorb the effects of the challenging but plausible downside scenarios considered in the viability assessment and could be extended further should this be required. The continuous monitoring of the Partnership's principal risks and financial position should also allow management to proactively apply these mitigations should conditions deteriorate.

Having applied the downside scenarios and liquidity mitigations listed, we have then also performed reverse stress testing to identify what it would take to 'break' the Partnership's financial model; being a situation in which the Partnership was no longer liquid or could not meet the requirements of our financial covenants, assuming no further action was undertaken. Based on this analysis the Directors are satisfied that no material uncertainties exist related to events or conditions assumed in the viability modelling that may cast doubt on the Partnership's ability to continue in operation and meet its liabilities as they fall due.

Based on the modelling and mitigations as described above, the Partnership has resources and strategies to retain sufficient available cash across all three years of the assessment period and no financial covenants would be breached. The Directors therefore have a reasonable expectation that the Partnership will remain commercially viable over the three-year period of assessment. An overview of the process undertaken to reach this conclusion was provided to, and reviewed by, the Audit and Risk Committee (see page 62).

DOWNSIDE SCENARIOS

PARTNERSHIP RISKS

BREXIT RISKS

	Year 1	Year 2	Year 3	Competitive Customer Proposition	Operating Model Strain	Information Security	Pension Obligations	Change Delivery	External Environment	Ownership Model Strain	Currency Exposure	Tariffs	Clearing Customs
Sales underperformance	LFL -5% vs Budget	Growth in LFL -1% vs Plan	Growth in LFL -1% vs Plan	●	●				●	●			●
Gross margin rate	-2% vs Budget	Growth in line with Plan	Growth in line with Plan	●	●				●			●	●
Foreign exchange	£30m cost	£50m cost	–						●		●		
Missed project delivery	£50m cost	£42m cost	£50m cost					●					
Unbudgeted one-off cost	£25m cost	–	–			●							
Pension deficit	£800m increase in deficit	–	–				●						

How we make decisions

POWER



SIR CHARLIE MAYFIELD
Partner & Chairman
John Lewis Partnership

This section of the Annual Report and Accounts sets out the roles and responsibilities of our three governing authorities, and summarises changes to our governance model proposed during the year.

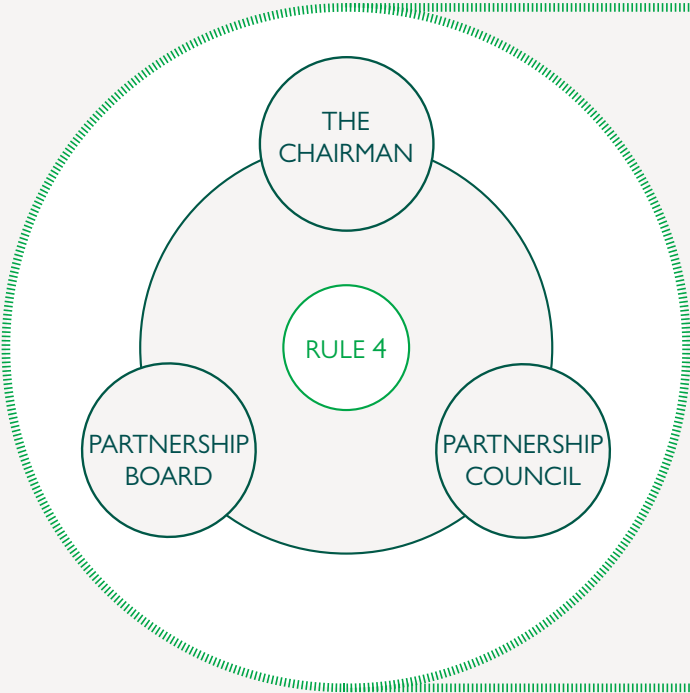
The Partnership is owned in Trust for the benefit of our Partners and is governed by our Constitution. This has been a year of review and renewal of our governance arrangements, against a backdrop of challenging trading conditions for our business and changes to external corporate governance standards. We have closely examined our governance model in order to ensure that it is fit for the future and supports our Founder’s vision of an experiment in industrial democracy where employees share profit, knowledge and power.

“
The experiment may be summed up as an attempt so to organise and conduct a business that all the advantages whatsoever of owning it shall be shared as fairly as possible by all who are working in it...

JOHN SPEDAN LEWIS
“Partnership For All”, 1948

THE THREE GOVERNING AUTHORITIES

Power in the Partnership is shared between the three governing authorities:



THE CHAIRMAN

Ensuring that the Partnership develops its distinctive character and democratic vitality, and ultimately responsible for its commercial performance.

- Chair of the Trust Company 50
- Chair of the Partnership Board 51
- Leading the Executive Team 52

PARTNERSHIP BOARD

Supporting the Executive Team with advice and challenge; ensuring financial prudence and providing governance.

- The Partnership Board 54
- Audit and Risk Committee report 58
- Corporate Responsibility Committee report 66
- Nominations Committee report 69
- Remuneration Committee report 72

Partnership Secretary's introduction

FIT FOR
THE FUTURE

MICHAEL HERLIHY
Partner & Partnership Secretary
John Lewis Partnership

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 (Rule 4).

Their power to direct the Partnership's affairs depends on the consent of Partners, whose opinion is expressed through:

- i. Formal arrangements for sharing knowledge
- ii. Representative bodies
- iii. Personal contact between Partners, both formal and informal

“

Governance is the way something is run – the system of rules, practices and processes (formal and informal) by which an organisation is directed and controlled. Governance ensures we have the right checks and balances in place to safeguard the Partnership.

Michael Herlihy was appointed to the newly created position of Partnership Secretary in April 2018. This report sets out information about our governance model and the proposals to make changes to it that have been recommended from the reviews which have been taking place during the year.

'Governance' is simply the way something is run and how decisions are made – the system of rules, practices and processes (formal and informal) by which an organisation is directed and controlled. Governance ensures we have the right checks and balances in place to safeguard the Partnership.

In the Partnership our formal governance model is made up of our three governing authorities: the Chairman, the Partnership Board and its Committees and the Partnership Council. The three governing authorities work together in constructive, dynamic tension to ensure the Partnership continues to be a successful business.

This model is overseen by the Partnership Trust Company Board whose role is to uphold the Constitution and to promote in every possible way the wellbeing of the Partnership.

WHY ARE WE REVIEWING OUR GOVERNANCE?

In last year's Annual Report and Accounts we explained that we were reviewing our governance arrangements to ensure that they continued to provide the necessary framework fit for the next decade.

Although we were confident that we had a good governance system, it was felt that it was not realising its full potential. In addition, we needed to make sure that it would support our new strategic approach. The goal of all the recommended changes is to enhance our unique democracy and improve the speed and quality of our decision making.

PARTNERSHIP COUNCIL

Using Partner opinion to provide insight and views which help the Chairman and Executive ensure that the experiment succeeds, sharing in decisions on governance and holding the Chairman to account.

– Partnership Council and democracy	78
– What has happened at Council this year?	79
– Democratic vitality	81

Partnership Secretary's introduction — continued

WHAT WE'VE BEEN DOING TO REVIEW GOVERNANCE

THREE GOVERNANCE REVIEWS STARTED IN THE AUTUMN OF 2017

DEMOCRACY COMMISSION

Set up by Partnership Council to develop proposals to enhance its effectiveness today and for the future.

"CHECKS AND BALANCES" REVIEW

To explore ways in which we could strengthen the "critical" or "independent" influence within the Partnership so that the internal checks and balances of our governance and Constitution could work to their full effect for the benefit of Partners and the Partnership.

BOARD GOVERNANCE REVIEW

Coming out of the Board Effectiveness Review in 2017 this review focused on Board governance, particularly the roles of the Partnership Board and the Chairman.

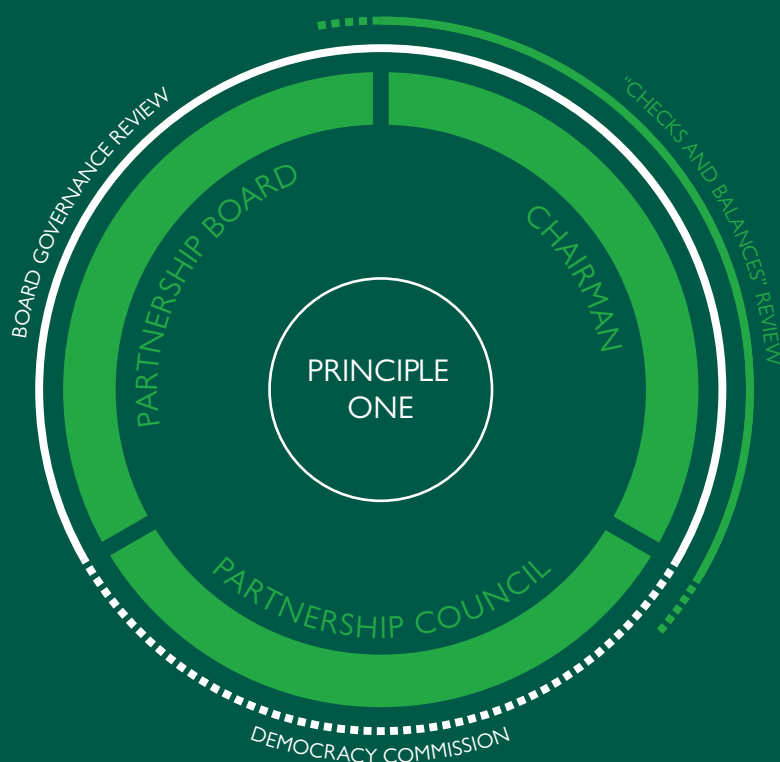


THE FOUR THEMES WHICH UNDERPINNED THE PROPOSALS



The reviews concluded towards the end of 2018. Although they had focused on different areas, there were common themes to the recommendations. The Partnership needs:

1. To renew our confidence in our own model of governance, placing more emphasis on what we need to do to make it work well, rather than seeking to adapt it or align it with other models of corporate governance;
2. To look back and consider the original intent of the Partnership whilst rising to the challenge of finding our own interpretation of the Partnership's purpose to achieve our current strategic objectives;
3. To address our systems and structures of governance, but equally address our behaviours, belief and courage as we face into current challenges; and
4. Finally, to ensure the linkages between our governing authorities are in good order so that they work together effectively.



WHAT CHANGES ARE PROPOSED AND WHO NEEDS TO APPROVE THEM?

The five main proposals to strengthen the governance model are:



GOVERNING AUTHORITIES

We will reaffirm that our three governing authorities are independent, equal and collectively responsible to Partners for the success of the Partnership.



ONE PARTNERSHIP

We will ensure our governance model supports our strategic approach to work as One Partnership with two brands. Unnecessary duplication and divisionalisation will be removed, in favour of pan-Partnership working.



ENHANCED ROLE FOR THE PRESIDENT OF PARTNERSHIP COUNCIL

An enhanced role for the President who is appointed by Partnership Council will give them the ability to represent the collective view and power of the Council outside of meetings and to support the organisation of its work.



ROLE OF THE PARTNERSHIP SECRETARY

The Partnership Secretary is a new role focused on bringing good governance to life across the Partnership and building effective relationships between the governing authorities.



REINVIGORATING THE PARTNERSHIP'S INDEPENDENT SIDE

Over time, the number of senior roles providing critical thinking and insight on the health of our employee ownership model has reduced. A new independent function will be led by two Independent Directors, one focused on Partners and the other on customers and suppliers.

Many of the changes are within the scope of the Chairman's own authority, though he has consulted the Partnership Board, which is supportive, on all of the proposed changes.

A number of matters, however, either fell to Partnership Council to determine or needed amendments to the Constitution which require a two thirds majority vote of Council. These matters were approved by voting at Partnership Council at their meeting held on 4 April 2019.

FURTHER CHANGES PROPOSED BY THE DEMOCRACY COMMISSION

The Commission proposed three sets of changes relating to Partnership Council and our democratic structures:

- To build on current work such as better training and development for Councillors, more time for them to do their role and a clearer job description.
- Changes which strengthen the power and independence of Partnership Council: a stronger President, better communications support for Council, a clearer budget and a more robust communication flow of information and agenda planning between the Council, Chairman and Board – a process coordinated by the Partnership Secretary.
- Changes which aim to remove administration and duplication from our other democratic bodies – for example, removing the current requirements around PartnerVoice meetings and administration so that leaders and Partners can choose how PartnerVoice should work to better suit their local circumstances. The Commission also recommends further work to consider whether, in the future, Divisional Councils could form subgroups of Partnership Council.

On 4 April 2019, Partnership Council agreed to set up a Special Committee to take forward the work of the Democracy Commission, including the development of PartnerVoice, Forums and Divisional Councils.

BOARD GOVERNANCE REVIEW

As reported in the 2018 Annual Report and Accounts, an externally facilitated board effectiveness review was carried out by Dr Tracy Long of Boardroom Review Limited and her report was presented to the Partnership Board in July 2017. In September 2017 the Partnership Board asked the Deputy Chairman, Keith Williams to lead a review to consider and make recommendations on its findings with a particular focus on Board composition, the roles of the Chairman and the Deputy Chairman and the process for succession, against the backdrop of the changing external corporate governance landscape. The results of this review are covered later in the Governance report in their relevant sections.

IN CONCLUSION

All of these changes are designed to ensure that our governance model is aligned to our strategic plan to work as One Partnership with two brands and allow us to achieve our goal to enhance our unique democracy and improve the speed and quality of our decision making.

Together, the changes will combine to create an environment in which Partners have clarity on the outcomes we're aiming to achieve as One Partnership and feel responsibility for delivering them, whilst being enabled to experiment and learn from best practice across the organisation.

MICHAEL HERLIHY
Partner & Partnership Secretary
John Lewis Partnership

Our Constitution

DEFINING OUR RIGHTS
AND RESPONSIBILITIES

OUR CONSTITUTION

Our founder, John Spedan Lewis, believed there was a better way of managing a business. This was his experiment in industrial democracy. In 1948 he wrote "the design was complete by October of 1910 and has been developing ever since". He described it as "an attempt so to organise and conduct a business that all the advantages whatsoever of owning it shall be shared as fairly as possible by all who are working in it..."

Spedan Lewis created his experiment through Trust Settlements in 1929 and 1950 (the Settlements), when he transferred his shareholding and the ownership of the Partnership into a Trust to be held for the benefit of its members (employees), who are Partners from the day they join.

The Trustee of the Settlements is John Lewis Partnership Trust Limited (the Trust Company).

The Partnership is governed according to a written Constitution, which is subordinate to, and must not conflict with, the Settlements. Our Constitution contains the Principles and Rules for how we run our business. Our purpose is set out in Principle 1. The Constitution governs how the Partnership behaves both in relation to Partners' rights and responsibilities and in relation to our responsibilities to others. The Constitution also sets out the role of the Partnership in society, defining our responsibilities to customers, suppliers and the environment.

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.

The Constitution has been refreshed over the years to reflect the changing societal, business and economic environment facing a business operating today, yet retains a direct connection with the fundamental principles established in 1928.

The Constitution is available to all Partners on the Partner intranet and to other interested parties on our website.

www.johnlewispartnership.co.uk

PRINCIPLE

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

PAGES 12 TO 13



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.

PRINCIPLE

2

POWER

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

PAGES 44 TO 85

PRINCIPLE

5

CUSTOMERS

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

PAGES 30 TO 33

PRINCIPLE

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.

PAGES 34 TO 37

PRINCIPLE

4

MEMBERS (PARTNERS)

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

PAGES 26 TO 29

PRINCIPLE

6

BUSINESS RELATIONSHIPS

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

PAGES 18 TO 19

PRINCIPLE

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.

PAGES 20 TO 21

“

The challenge for Partners 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 the competitive conditions facing a modern retailing business. 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.

FOREWORD TO THE CONSTITUTION

The Chairman

CHAIR OF THE
TRUST COMPANY

The role of the Chairman of the Trust Company is to “support the Constitution in all proper ways for all proper purposes”.

The role of the Trust Company is:

To carry into effect with or without modification the Deeds of Settlement

To uphold the Constitution and to promote in every possible way the wellbeing of the Partnership

In addition to the Chairman and the Deputy Chairman, three Directors are elected to the Trust Company every three years by Partnership Council. The last elections took place in May 2018 when Mark Anderson and Claire Barry (succeeding Karen Crisford and Cathy Houchin) and Johnny Aisher (re-elected) were appointed. They are known as the ‘Trustees of the Constitution’.

The separate role of the Trustees of the Constitution is to:

- Determine constituencies/number of Councillors and rule on election procedures;
- Approve the Chairman's outside appointments;
- Agree to disciplinary action or the dismissal of the President of Partnership Council (if the person elected is a Partner), Independent Directors and Partnership Secretary (as a ‘check and balance’);
- Receive an annual report from the Independent Directors and President of Partnership Council on their work; and
- as Directors, approve the appointment of the successor to the Chairman should a ‘Resolution upon the Constitution’ be passed by the Partnership Council.

The Trustees of the Constitution may, whenever they believe it necessary, call a meeting attended by the Independent Directors and President of Council to discuss any matter.

HISTORY AND THE ROLE OF THE PARTNERSHIP'S CHAIRMAN

The role of the Chairman is central to our governance structure. Our Chairman has three roles:



Chair of the Trust Company



Chair of the Partnership Board, by virtue of his appointment as Chairman of the Trust Company.



The senior executive in the Partnership. As such he is ultimately responsible for its commercial performance and leads the Executive Team (see page 52).

1929–1955

JOHN SPEDAN LEWIS



1955–1972

SIR BERNARD MILLER



CHAIR OF THE PARTNERSHIP BOARD



The role of the Chairman is central to the Partnership's governance model including responsibility for developing its distinctive character and its democratic vitality and for its commercial performance.

A key principle of the UK Corporate Governance Code is that there should be a clear division of responsibilities between running the board and executive responsibility for managing the business. One of the main objectives of the Board Governance Review was therefore to consider whether the responsibilities of the Partnership's Chairman should continue to be held by a single individual.

On balance the Board Governance Review concluded that under the Partnership's Trust arrangements and Constitutional model it was not feasible to split the key responsibilities into separate roles as they are inherently interlinked. However, it recognised that it was therefore essential that the Partnership's system of 'checks and balances' required both a high level of transparency and disciplined execution to demonstrate the integrity of the governance system.

These checks and balances include:

- the Deputy Chairman, an Independent Non-Executive Director, chairing the Nominations Committee;
- the Deputy Chairman carrying out the Chairman's appraisal;
- the Deputy Chairman being available as a focal point for other stakeholders (such as the other Non-Executive Directors, Elected Directors and President of the Council);
- the new Independent Directors providing knowledge and insight to the Chairman and feedback on his own performance;
- the Partnership Board having a veto over the Chairman's nomination of his successor;
- the power of the Partnership Council, if it judges that the Chairman has failed to fulfil (or is no longer a suitable person to fulfil) the responsibilities of office, to propose a resolution upon the Constitution to dismiss the Chairman; and
- the Partnership Secretary monitoring Board agendas and debates to identify times when the Chairman needs to ask the Deputy Chairman to take the chair to enable the Chairman to participate fully in discussions and debate in leading the Executive.

The expectation is that the role of the Deputy Chairman will be performed by an independent Non-Executive Director. However, should the role of Deputy Chairman ever be held in the future by a Partner, then the responsibilities of the Deputy Chairman described above would be allocated to one of the independent Non-Executive Directors on the Partnership Board.

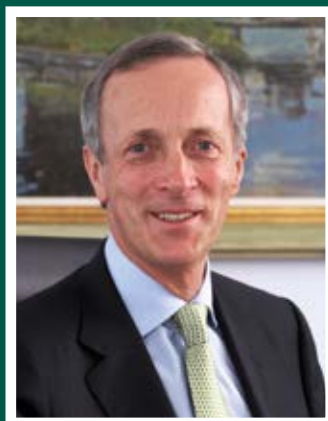
1972–1993

PETER LEWIS



1993–2007

SIR STUART HAMPSON



2007–PRESENT

SIR CHARLIE MAYFIELD



The Chairman — continued

LEADING THE
EXECUTIVE TEAM

As the Senior Executive in the Partnership, the Chairman is ultimately responsible for its commercial performance and leads the Executive Team.

In addition to the Chairman, the Executive Team at the date of this report are:

Rob Collins	Managing Director, Waitrose & Partners
Michael Herlihy	Partnership Secretary
Tracey Killen	Director of Personnel
Patrick Lewis	Group Finance Director
Andrew Murphy	Chief Information Officer
Paula Nickolds	Managing Director, John Lewis & Partners

STRATEGY

The main priority for the Executive Team in the first part of the year was to finalise the development of the plans to deliver the strategic objectives first set out in 'It's Your Business 2028' by seeking growth through differentiation. The next phase of the business strategy was formally launched in June 2018 and formed the basis for the three-year business plan. This includes plans to free up £500m over three years and maintain investment levels at £400m–£500m a year to deliver the level of distinctive difference and innovation we need for the future.

The business plan was submitted to and approved by the Board in July 2018 and progress against it is described in the Strategic report.

PLANNING FOR 2019

As announced in the half-year results, the outlook foresaw substantially lower profits. This was due to continuing uncertainty facing consumers and the economy (in part due to ongoing Brexit negotiations) driving increased promotional activity and continuing margin pressure in John Lewis & Partners, and also as a result of the incremental costs of investment in the business. With the Brexit outcome becoming more uncertain as the year progressed, the Executive Team recognised that it was increasingly likely that 2019 trading conditions would remain challenging.

In developing the Partnership's budget for 2019/20, it therefore sought to counter the uncertain outlook by maintaining liquidity, continuing to focus on removing duplication and increasing efficiency within the business and targeting ways to reduce central costs over the period of the business plan. The 2019/20 budget was submitted to and approved by the Board in December 2018. In February 2019 the Board approved an updated budget which formed the basis for the Directors to assess the Partnership's long-term viability (see pages 43 and 85 for further details).

CHANGING THE WAY WE WORK

The Chairman established the Executive Team towards the end of 2016 because he recognised that the response to the pace of change in retail and customer behaviour needed to include adapting the way in which the Partnership was run.

The Executive Team has led a transition over the past two years to align the direction for the Partnership's Waitrose & Partners and John Lewis & Partners brands. At the same time it has overseen major reorganisation within the business to create single functions in IT, Personnel, Property and Finance to support both brands. These functions work across the whole Partnership providing greater operational and cost efficiencies by removing duplication and streamlining processes.

Having defined the direction and intent for the Partnership and with the even greater pressures on retail, the Executive Team recognised the increasing urgency to complete the transition to the One Partnership with two brands model. In June 2018 the Executive Team participated in a two-day workshop which focused on its own ways of working and how it could most effectively lead the Partnership to deliver the strategic objectives.

The transition work continued during the course of the year and most recently has concentrated on simplification and empowerment to increase the speed of decision making and delivery within the new model. The Executive Team has defined its role as defining the strategic objectives and setting out the activity required for these to be achieved as well as the associated outcomes and timescales. The role of the brands and supporting functions is to deliver the outcomes within the direction set by the Executive Team, in a way that delivers an ever more differentiated customer experience to maximise the value for the Partnership overall.

This has included the launch of integrated objectives for the Executive Team and senior leaders. These sit under the headings of Partner, Customer, Profit, and Power, which describe the key shifts that need to be made to deliver success and the high level priorities to deliver them. More details are on pages 24 to 37.

In February 2019 the Executive Team announced its decision to simplify governance and decision making for the areas of Risk, Corporate Responsibility, Health & Safety and Wellbeing by consolidating at the executive-level the various separate groups supporting the brands and the functions. Continuing simplification work is ongoing at the date of this report.

The Executive Team is currently dedicating time to define the implications that One Partnership will have for its operating model. This includes understanding the current internal challenges and benefits associated with working in a different way, as well as looking outside the Partnership to understand how other organisations are structured to deliver their strategic priorities. By putting our customers and Partners right at the heart of One Partnership, we will unlock opportunities for our customers in the fastest and most effective way, and create better jobs and more meaningful careers for our Partners.

66

The purpose of the Executive Team is to define how the Partnership's continuing experiment will succeed, identifying what needs to change and galvanising Partners around this.

**SIR CHARLIE
MAYFIELD**
Partner & Chairman
John Lewis Partnership

1. TRACEY KILLEN ▲**Partner & Director of Personnel****Appointed to the Partnership Board:**
April 2007

Tracey has spent her working life with the Partnership, joining in 1982 as an A-Level trainee at John Lewis & Partners Bristol. After several retail roles, Tracey was promoted to Managing Director, John Lewis & Partners Cribbs Causeway in 2000 and became Personnel Director for John Lewis & Partners in July 2002. She has developed extensive knowledge of the Partnership and joined the Partnership Board as Director of Personnel in April 2007.

Tracey is also the Chair of the John Lewis Partnership Golden Jubilee Trust. She is a Non-Executive Director of Morgan Sindall Group plc and Chair of their Remuneration Committee and a member of their Nominations and Audit Committees.

2. MICHAEL HERLIHY**Partner & Partnership Secretary**

Michael joined the Partnership in April 2018 as Partnership Secretary. Prior to joining the Partnership, Michael was General Counsel at Smiths Group plc for almost ten years. Prior to his time at Smiths, Michael spent 26 years at Imperial Chemical Industries plc. He has also held a variety of non-executive roles including that of Senior Independent Director at Imperial Brands plc. He is a solicitor.

3. ANDREW MURPHY**Partner & Chief Information Officer**

Since joining the Partnership in 1992 Andrew has held a number of roles including Managing Director of John Lewis & Partners Aberdeen and of John Lewis & Partners Edinburgh. In 2009 Andrew was appointed Director, Operational Development before becoming Retail Director, John Lewis & Partners in 2010 and Group Productivity Director in 2015, where he led the Partnership's change programme. Andrew commenced his current role of Chief Information Officer on 1 February 2018.

Over the last decade Andrew has worked extensively in the pursuit of sustainable improvement in the economic performance of the UK's cities and city-regions – most notably as a Board member of London First and the New West End Company, the founding Chair of Scotland's first city centre Business Improvement District – "Essential Edinburgh" – and, latterly, as Chairman of both the UK China Visa Alliance and the Scottish Retail Consortium.

4. PAULA NICKOLDS ▲**Partner & Managing Director, John Lewis & Partners****Appointed to the Partnership Board:**
January 2017

Paula joined the Partnership in 1994 as a graduate trainee at John Lewis & Partners Oxford Street. Paula has developed her extensive retail leadership and customer proposition expertise through various roles in the John Lewis & Partners buying and marketing teams including as Head of Buying, Furniture and Head of Product Development for Fashion and Home. She joined the John Lewis & Partners Management Board in 2013 as Buying and Brand Director and was latterly Commercial Director, before joining the Partnership Board as Managing Director of John Lewis & Partners in January 2017.

5. SIR CHARLIE MAYFIELD ●▲**Partner & Chairman****Appointed to the Partnership Board:**
September 2001

Sir Charlie Mayfield joined the Partnership in 2000 as Head of Business Development and the Partnership Board as Development Director in 2001. He was appointed Managing Director of John Lewis & Partners in 2005 and Chairman of the Partnership in 2007. Knighted in 2013 for services to business, he has extensive retail and business leadership experience.

Sir Charlie is Chairman of John Lewis Partnership Trust Limited. He is also Non-Executive Chairman of QA Group, a member of the Industrial Strategy Council and Retail Sector Council, President of the Employee Ownership Association, Non-Executive Chairman of the Productivity Leadership Group (charity), a member of the Blueprint Trust Advisory Council, Director of Central Surrey Health Trustee Limited, Trustee of Place2Be, the children's charity, and a Governor of Radley College.

6. ROB COLLINS ▲**Partner & Managing Director, Waitrose & Partners****Appointed to the Partnership Board:**
April 2016

Rob joined the Partnership in 1993 as a graduate trainee in John Lewis & Partners Oxford Street and progressed to a number of other store roles, including Managing Director of John Lewis & Partners Aberdeen and John Lewis & Partners Cribbs Causeway. Rob was appointed to the Waitrose & Partners Management Board as Personnel Director in 2010 and Retail Director in 2012. His career in the Partnership has given him in-depth knowledge of markets and changing business environments as well as expertise in operational success. He joined the Partnership Board as Managing Director of Waitrose & Partners in April 2016.

Rob is also a Trustee and Vice Chairman of The Prince's Countryside Fund.

7. PATRICK LEWIS ▲**Partner & Group Finance Director****Appointed to the Partnership Board:**
February 2009

Patrick joined the Partnership in 1994 and has held a variety of shop roles in John Lewis & Partners. Patrick has extensive experience in strategic planning and became Director, Retail Operations in April 2007. In 2009 he took up the role of Partners' Counsellor and subsequently became Managing Director, Partnership Services in October 2012. He was appointed Group Finance Director in September 2015.

Patrick is also the Non-Executive Chair of Trustees for 3BM, and a Director of Girls Education Company Limited, Wycombe Abbey School.

MEMBER OF:

- ▲ Partnership Board
- Nominations Committee



The Partnership Board

THE PARTNERSHIP BOARD

Their diversity of skills and experience allows the Board to provide constructive challenge to, and support for, the Executive Team, and collectively they demonstrate a strong understanding of the Partnership's business and its stakeholders.

MEMBERSHIP

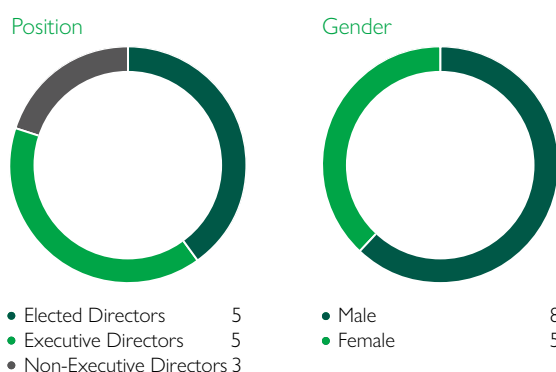
The composition of the Partnership Board is different from listed UK company boards due to the requirement of the Partnership's Constitution to have five Partner representatives selected by Partnership Council.

Members of the Partnership Board bring a range of skills and experience to the Boardroom through the mix of five Executive Directors, five democratically Elected Directors and three Non-Executive Directors, including the Deputy Chairman. Their diversity of skills and experience allows the Board to provide constructive challenge to, and support for, the Executive Team, and collectively they demonstrate a strong understanding of the Partnership's business and its stakeholders.

The Partnership Board comprises:

- **Executive Directors:** Sir Charlie Mayfield; Rob Collins; Tracey Killen; Patrick Lewis; and Paula Nickolds. See page 53 for biographical details for the Executive Directors and other members of the Executive Team.
- **Elected Directors:** Steve Gardiner; David Hay; Ollie Killinger; Nicky Spurgeon; and Becky Wollam.
- **Non-Executive Directors:** Keith Williams (Deputy Chairman); Andy Martin and Laura Wade-Gery.

Board composition



Five Partners are elected to the Partnership Board through a democratic voting process following the end of each three-year term of the Partnership Council. One of the recommendations from the governance reviews is that rolling elections of Elected Directors by Partnership Council will take place from 2021.

Elected Directors are neither Executive Directors nor Non-Executive Directors. Although they are not independent, they approach Partnership Board decisions and proposals by the Executive from their perspective as Partners, contributing to decision making through their knowledge and experience from working within the Partnership.

The Partnership Board reviews the independence of all Non-Executive Directors annually and has determined that they bring strong independent oversight and 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. The letters of appointment of the Non-Executive Directors are available on request from the Company Secretary.

During the year under review, the following changes to the membership of the Partnership Board occurred:

- Tom Athron, former Development Director, ceased to be a Director with effect from 27 April 2018;
- Steve Gardiner and Ollie Killinger were both re-elected by Partnership Council and therefore continued as Directors and David Hay, Nicky Spurgeon and Becky Wollam were elected by Partnership Council and succeeded Chris Coburn, Kim Lowe and Baiju Naik as Directors with effect from 24 May 2018;
- Baroness Hogg's term of office as a Non-Executive Director and Chair of the Audit and Risk Committee expired on 30 June 2018. She was succeeded by Andy Martin who joined the Board as a Non-Executive Director and Chair of the Audit and Risk Committee on 1 July 2018 for an initial term of three years.

ROLE AND RESPONSIBILITIES

The Partnership Board is responsible for approving the Partnership Strategy as well as the Partnership's business plan. It has ultimate responsibility for issues of major policy and for allocating the financial and other resources of the business. It decides the Partnership's policy for the prudent and adequate financing and development of its business, and monitors its efficient implementation. It takes responsibility for preparing financial statements, which must give a fair, balanced and understandable assessment of the state of affairs of the Partnership.

Through its Audit and Risk Committee, the Partnership Board 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 our strategic objectives.

1. LAURA WADE-GERY ●●● Non-Executive Director

Appointed: September 2017

Laura is a leading British senior executive with experience of multi-channel retail. She has worked for a number of businesses including Marks & Spencer Group plc, where she was Executive Director heading up multi-channel and e-commerce from 2011 to 2016, including, from 2014, responsibility for UK stores. Prior to this she held roles, including CEO of Tesco.com, at Tesco plc, and at Gemini Consulting and Kleinfort Benson.

Laura is also a Non-Executive Director of British Land Company plc and NHS Improvement, a Non-Executive Director and Chair of the Remuneration Committee of Immunocore Limited, a member of the Government Digital Strategy Advisory Board and is on the Board of two charities: as a Trustee of the Royal Opera House and a Director of Snape Maltings Trading Limited.

2. ANDY MARTIN ■ Non-Executive Director

Appointed: July 2018

Andy was until 2015, Group Chief Operating Officer, Europe and Japan, for Compass Group plc, having previously been its Group Finance Director from 2004 to 2012. Before joining Compass Group, Andy was Group Finance Director at First Choice Holidays plc (now TUI Group) and prior to that held a number of senior finance roles at Granada Group plc and was a Partner at Arthur Andersen. Andy brings to the Board extensive experience in managing the associated risks and complexities of driving change in difficult climates. He is a chartered accountant.

Andy is a Non-Executive Director of easyJet plc, chairing its Finance Committee, and a Non-Executive Director at Intertek Group plc where he chairs the Audit Committee. He is Non-Executive Chairman of Hays plc.

3. KEITH WILLIAMS ■■■■ Non-Executive Director and Deputy Chairman

Appointed: March 2014

Keith is a highly regarded business leader with an extensive track record of operational transformation, digital strategy and industrial relations – including pensions – across a range of customer-focused industries. He was until March 2016 the Executive Chairman of British Airways having previously been its Chief Executive. He was also a Non-Executive Director of Transport for London and held senior roles at Reckitt and Coleman, Apple Computer Inc and Boots. He is a chartered accountant.

Keith is also the Deputy Chairman of John Lewis Partnership Trust Limited, Non-Executive Chairman of Halfords Group plc, Independent Non-Executive Director of Aviva plc and Royal Mail plc, and a co-opted member of the Audit Committee of the British Museum. He is also currently Independent Chair of a Government review of the rail industry.

4. DAVID HAY ● Elected Director, Partner & Service Experience Manager Partnership IT John Lewis Partnership

Appointed: May 2018

David has worked with the Partnership for over 30 years having joined as a warehouse assistant at Stevenage in May 1988. Having spent 10 years within distribution he moved to his first role in IT in 1998. Since then David has held a variety of service management roles and is currently Service Experience Manager Partnership IT which involves improving the IT delivered internally to Partners across the business. David was elected to Partnership Council in 2015 and was formerly a member of the Use of Profit and Finance Groups.

5. BECKY WOLLAM ● Elected Director, Partner & Head of Shop Trade, Home Counties & East Waitrose & Partners

Appointed: May 2018

Becky joined the Partnership in 2009 as a graduate trainee. She secured her first Branch Manager position in Leighton Buzzard, before leading branches in York, Leek and Glasgow. After six years in Retail Operations Becky moved into head office, with a year in Finance, representing retail on a large change programme before spending a year leading change within Retail. Becky moved back into Retail Operations as a Regional Manager, accountable for Waitrose & Partners shops in central London, before becoming Head of Shop Trade, Home Counties & East. Becky was elected to Partnership Council in 2015.

6. OLLIE KILLINGER ● Elected Director, Partner & Product Owner Waitrose & Partners

Appointed: November 2017

Ollie joined the Partnership in 2008 as a part-time weekend Partner in Waitrose & Partners Leighton Buzzard. He secured a student transfer to Waitrose & Partners Oadby whilst studying at University before returning to Leighton Buzzard in 2013. Since graduating, Ollie has progressed through various management positions in Waitrose & Partners branches, being part of the High Wycombe shop opening at the start of a large change programme looking at the operating model of our shops. This led to various Change Management roles in head office, looking at transformational programmes across Retail, Finance, Commercial, Product Supply and IT. Currently, Ollie is working within the Digital Development team looking at the future of personalisation and loyalty to truly differentiate our customers' experience. Ollie was elected to the Partnership Council in 2015, joining the Partner Group, a sub-committee of the Council, at the same time, before moving to Chair the Customer Group in November 2016.

7. STEVE GARDINER ●● Elected Director, Partner & Cirencester Branch Manager Waitrose & Partners

Appointed: May 2012

Steve joined the Partnership in 1996 as a management trainee for Waitrose & Partners. His training took him to branches in Petersfield and Godalming and he was subsequently appointed as Department Manager to Waitrose & Partners West Byfleet. Steve managed branches in Coulsdon and Weybridge before being appointed as Branch Manager at Waitrose & Partners Cirencester. Whilst at Cirencester, Steve has completed several secondment roles, including managing the opening of Waitrose & Partners Barry and Waitrose & Partners Buxton and as Registrar for Group L Waitrose. Steve's active involvement in the democratic structure began in 2009 when he was elected as a Partnership Councillor. He became an Elected Director in 2012 and is now in his third term in this role.

Steve is also a Trustee Director at employee-owned business, the Useful Simple Trust.

8. NICKY SPURGEON ●● Elected Director, Partner & Programme Manager John Lewis & Partners

Appointed: May 2018

Nicky joined the Partnership in 1998 as a management trainee for John Lewis & Partners and had a number of management roles in shops for five years before joining the johnlewis.com start-up team. Nicky went on to work in John Lewis & Partners head office taking on various positions in trading before moving into Project and Programme management. She has delivered projects which are now an integral part of the John Lewis & Partners business. Nicky currently manages customer focused projects that seek to develop new propositions as well as enhance customers' experience when shopping with John Lewis & Partners. Nicky's active involvement in democracy started in 2012 as a John Lewis & Partners Councillor and was followed by three years as a Partnership Councillor before joining the Partnership Board.



MEMBER OF:

- Audit and Risk Committee
- Corporate Responsibility Committee
- Nominations Committee
- Remuneration Committee
- Committee Chairs shown as squares

The Partnership Board — continued

ACTIVITY DURING THE YEAR

PARTNERSHIP BOARD MEETINGS

There were nine Partnership Board meetings held during the year under review. As part of the continuing development of the role of the Executive Team and consistent with the simplification of our governance approach there will be fewer Board meetings from 2019/20.

All Directors attended all meetings they were eligible to attend with the exception of: Tom Athron was not able to attend the meeting held on 12 April 2018; Paula Nickolds was not able to attend the meeting held on 11 September 2018; David Hay was not able to attend the meeting held on 19 July 2018; Becky Wollam was not able to attend the meeting held on 11 September 2018; and Keith Williams was not able to attend the meeting held on 19 July 2018. In addition, due to pre-existing commitments that he informed the Partnership of prior to his appointment, Andy Martin was not able to attend two meetings held on 18 October 2018 and 15 November 2018.

Senior executives attend Partnership Board and Committee meetings as appropriate to support business proposals and investments, and report on material matters in relation to the business.

The Partnership Secretary and the Acting Partners' Counsellor, Helen Hyde, attended Partnership Board meetings held during the year but are not Directors. It is anticipated that the two new Independent Directors will attend Partnership Board meetings, but will not be Directors of the Partnership Board.

It is the practice of the Partnership Board and its Committees for Directors to either not attend a meeting, or to absent themselves from relevant agenda items, where they have a conflict or potential conflict of interest in what is being discussed.

In addition to the full Board meetings held during the year, the Board also met on a quorate basis on two further 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.

In addition to attending Board meetings, the Non-Executive Directors and the Elected Directors met together without the Executive Directors twice during the year. These meetings were facilitated by the Deputy Chairman.

STRATEGY

The Board received regular updates from the Executive Team on the development of the Partnership's strategy. This included a two-day meeting in May 2018 when it reviewed the plans in detail against the context of the market and performance. In particular the Board focused on how the pressures that were being faced would be addressed through the updated strategic direction which was announced in June 2018, building on 'It's Your Business 2028'. Since then the Board has also received regular updates.

The Board reviewed and approved the Partnership's business plan in July 2018 and the Partnership's 2019/20 budget in December 2018 following submission by the Executive Team (see page 52). In February 2019 the Board approved an updated budget which formed the basis for the Directors to assess the Partnership's long-term viability (see pages 43 and 85 for further details).

PERFORMANCE AND PROFIT

In March 2018 the Partnership Board considered the amount of the previous year's profits which should be retained for the maintenance and development of the Partnership's business and the amount which could be distributed to Partners as Partnership Bonus. The Partnership Board decided that Partnership Bonus for 2017/18 be distributed to Partners at the rate of 5% of their pay (6% for 2016/17). At the same time the Partnership Board reviewed and approved the announcement of the 2017/18 year-end results.

In March 2019, the Partnership Board considered and decided that Partnership Bonus for 2018/19 be distributed to Partners at the rate of 3% of their pay.

In April 2018, the Partnership Board approved the Partnership's Annual Report and Accounts 2018 and in September 2018 approved the release of the Interim Results for 2018/19.

The Partnership Board monitors the performance of the business at every meeting through the monthly financial performance report including the Partnership's liquidity position and an overview provided by the Group Finance Director, supported by trading updates from the Managing Directors of both brands.

BUSINESS PROPOSALS

During the course of the year and in accordance with its reserved matters, the Partnership Board reviewed and approved significant business proposals. During 2018/19 these included: the proposal to engage with the Partnership Council on a revised pension offer; authorisation of funding for the Waitrose Master Data Management and Merchandise Operations projects; approvals for the disposal of Waitrose & Partners shops; the proposal to commence detailed design work to restructure the Partnership's IT and Change functions; the move to an outsourced solution for property maintenance; and the closure of the Knight & Lee & Partners store.

Under Rule 39(ix) of the Constitution the Partnership Board considers any proposal that places 12 or more Partners at potential risk of redundancy, either as part of the business plan or on a case-by-case basis. A number of such proposals were considered by the Partnership Board during the year.

Under the Partnership's Who is a member Policy the business case for activities that will involve the transfer of employment of 100 or more people must be submitted to the Partnership Board for approval. A number of such business cases were considered by the Partnership Board during the year.

GOVERNANCE

“

We are in the midst of making a number of changes – not because previous changes were wrong but because governance should follow strategic changes.

SIR CHARLIE MAYFIELD

Partner & Chairman
John Lewis Partnership

During the year the Board oversaw the progress of the governance reviews described on pages 46 to 47. This included approving the potential redundancy implications for roles in Registry Leadership and Partnership Assurance roles.

Following the introduction of the new UK Corporate Governance Code and the publication of the Wates Principles, and in light of full reviews of its own governance arrangements, the Board agreed that the 2019 Annual Report and Accounts would state that the Partnership does not apply any formal corporate governance code. It is governed by its own Constitution. The Constitution is broadly consistent with the Wates Principles. A full explanation of the Partnership's governance is provided in the Governance section of this Annual Report and Accounts on pages 44 to 85. See page 82 for more information on the Partnership's response to corporate governance reforms.

The Board endorsed the Chairman's objectives for 2018/19.

The Audit and Risk Committee recommended to the Partnership Board that KPMG LLP be re-appointed as statutory auditor of the Partnership and all of its subsidiaries for the 2018/19 financial year, which the Partnership Board approved in April 2018.

“

I was delighted to be elected onto the Board. It is clear we will need to continue to lead through significant and ever evolving change in the years ahead. But what excites me and gives me confidence, is we have what makes our business unique, Partners.

BECKY WOLLAM

Elected Director, Partner
& Head of Shop Trade,
Home Counties & East
Waitrose & Partners



BOARD INFORMATION

The Board receives and reviews a broad range of information sources and regular reports including, but not limited to:

- minutes and updates from the meetings of the Executive Team and the Partnership Board Committees;
- monthly financial reporting from the Group Finance Director against key performance indicators;
- quarterly risk update reports identifying any changes to principal risks and the progress of mitigating actions; and
- an annual report from the Chair of the Pension Trustee.

BOARD COMMITTEES

The Partnership Board is assisted in carrying out its oversight and assurance responsibilities by its Committees:

- the Audit and Risk Committee (see page 58);
- the Corporate Responsibility Committee (see page 66);
- the Nominations Committee (see page 69); and
- the Remuneration Committee (see page 72).

The responsibilities and membership of these Committees are set out in each Committee's report, and their respective Terms of Reference are available at

www.johnlewispartnership.co.uk

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

The Partnership Board: Audit and Risk Committee report

BUILDING TRUST THROUGH
INTEGRITY AND CHALLENGE

ANDY MARTIN
Non-Executive Director
& Chair of the Audit
and Risk Committee

Committee
composition

- Independent External Members 2
- Non-Executive Directors 2
- Elected Directors 1

In an increasingly challenging and evolving retail environment, effective oversight of our finances, controls and risk management has never been more important.

The Audit and Risk Committee provides independent scrutiny and challenge to ensure that the Partnership always presents a true and fair view of its performance, focusing on the accuracy, integrity and communication of financial reporting. It also provides assurance that risks are being managed appropriately through examination of the Partnership's control environment and risk management strategies.

MEMBERSHIP AND COMPOSITION

The Partnership Board's Audit and Risk Committee comprises two Non-Executive Directors, one Elected Director and two Independent External Members. This composition allows the Committee to maintain appropriate levels of objectivity and independence when providing assurance over the Partnership's systems, operations and financial probity. Decisions can only be made by the Committee when three members are present, including at least one member who is independent. The members of the Committee at year-end and at the date of this report are:

Andy Martin	Chair of the Committee and Non-Executive Director
Ollie Killinger	Elected Director
Zarin Patel	Independent External Member
Sharon Rolston	Independent External Member
Keith Williams	Non-Executive Director & Deputy Chairman

Baroness Hogg stepped down as a member and Chair of the Committee on 30 June 2018. She was succeeded by Andy Martin on 1 July 2018. Kim Lowe stepped down as a member of the Committee on 24 May 2018. Ollie Killinger was co-opted as a member of the Committee for the purposes of the meeting held on 21 June 2018 and then appointed as a member of the Committee with effect from 19 July 2018.

Five Committee meetings were held during the year under review, which were attended by all members who were eligible to attend.

At each regularly scheduled meeting, the Committee meets separately with each of the external auditor and the Director, Audit and Risk, without management being present.

RELEVANT QUALIFICATIONS OF AUDIT AND RISK
COMMITTEE MEMBERS AND COMPETENCE RELEVANT
TO THE SECTOR

Andy Martin, Keith Williams, Zarin Patel and Sharon Rolston have significant, recent and relevant financial experience. Each is a qualified accountant and held senior finance roles. See below and page 55 for biographical information.

Andy Martin, Keith Williams, Ollie Killinger and Sharon Rolston have significant, relevant and in some cases ongoing experience of retail and customer facing businesses. See below and page 55 for biographical information.

Viewed as a whole, the Committee possesses competence relevant to the retail sector in which the Company operates.

INDEPENDENT EXTERNAL MEMBERS



Zarin Patel
Appointed: March 2016

Zarin is an Independent Non-Executive Director of Anglian Water Services Limited and sits on its Audit and Risk and Nominations Committees, and an Independent Member of the HM Treasury Group Audit & Risk Committees. She also sits on the Board of Trustees of the National Trust and chairs its Audit and Risk Committee. Zarin was most recently the Chief Operating Officer of The Grass Roots Group PLC. She was the BBC's Chief Financial Officer and member of its Board from 2004 to 2013. She was also Non-Executive Director, BBC Worldwide where she chaired both the Audit Committee and the Remuneration Committee. Zarin is a fellow of the Institute of Chartered Accountants in England and Wales.



Sharon Rolston
Appointed: March 2016

Sharon is Group Controller of Diageo PLC, joining in January 2010 from Nortel Networks Corporation where she held a number of senior finance leadership positions. Prior to her current role, she spent time in Diageo Europe; first as Finance Director Europe and latterly as Western Europe Finance and Strategy Director. She became Group Treasurer in 2014 and then Head of Investor Relations in February 2017. Sharon is a fellow of the Institute of Chartered Accountants in Ireland.

ROLE OF THE COMMITTEE

The Audit and Risk Committee operates in accordance with its Terms of Reference, which are available at

www.johnlewispartnership.co.uk

The role of the Committee is to:

1. Oversee the Partnership's external financial reporting including the integrity of the Partnership's Annual Report and Accounts, and other formal announcements relating to the Partnership's financial performance
2. Oversee the Partnership's relationship with its external auditors
3. Oversee the work and findings of the Partnership's Internal Audit function
4. Oversee the Partnership's systems of risk management and internal control, including an annual review of the effectiveness of the Partnership's processes

The Chair of the Corporate Responsibility Committee, Keith Williams, is a member of the Committee and when appropriate, provides updates on the key risk areas overseen by the Corporate Responsibility Committee, such as Health and Safety, Product and Food Safety, and Responsible Sourcing.

EXTERNAL FINANCIAL REPORTING

The Partnership prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) 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 operates under an internal control and risk management framework, which supports the preparation of consolidated financial statements. This includes policies and procedures designed to ensure that adequate accounting records are maintained and transactions are accurately recorded.

REGULATORS AND FINANCIAL REPORTING

In October 2018, the Financial Reporting Council (FRC) issued a letter to Audit Committee Chairs and Finance Directors on key matters relating to the preparation of annual reports and accounts. The Committee, along with management, have reviewed the letter and have taken the points raised into consideration in the preparation and review of the Partnership's 2019 Annual Report and Accounts.

ANNUAL REPORT AND ACCOUNTS

Since the year-end the Committee has reviewed the draft Annual Report and Accounts 2019 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, performance, business model and strategy.

The Committee considered and challenged management's assessment of the following:

Does the Annual Report and Accounts provide a balanced view of the Partnership's performance and prospects, appropriately weighting setbacks and challenges?

Is the report reflective of internal reporting and discussions, or have any items been omitted which should have been included?

Are key issues and judgements discussed in the narrative reporting consistent with the Audit and Risk Committee report and estimates and judgements referred to in the financial statements?

Are the KPIs presented and explained appropriately, with clear linkage from strategy and a clear track record of performance?

Are financial measures not defined under IFRS clearly explained and used consistently with appropriate reconciliations to measures defined by IFRS?

Are important messages, policies, transactions and significant changes from prior periods highlighted, explained, and not obscured by unnecessary detail?

Does the report include simple, appropriate explanations of the business model, strategy and accounting policies?

Does the governance section clearly explain how decisions are made?

Is the language used in the report clear and precise, avoiding generic wording that is not specific to the Partnership?

Is the layout of the Annual Report and Accounts clear, with good linkage throughout the report?

The Committee was satisfied that, taken as a whole, and having regard to the amendments made by the Committee, the John Lewis Partnership plc's Annual Report and Accounts 2019 is fair, balanced and understandable.

The Partnership Board: Audit and Risk Committee report — continued

OUR
SIGNIFICANT
FINANCIAL
REPORTING
ISSUES, AND
OUR RESPONSE

As part of the preparation of the Annual Report and Accounts, the Committee considered the following significant financial reporting issues.

*Notes to the
financial statements**Issue**Response*1.
IMPAIRMENT

3.1, 3.2

The Partnership has significant non-current assets, both tangible and intangible. Judgement is exercised in reviewing their carrying value in respect of possible impairment. Initial trigger tests, such as whether performance was in line with expectation, identified some assets with indicators of potential impairment. For each tangible asset identified, management prepared a value in use model or obtained valuations to assess the asset's recoverable amount and calculated an impairment charge where appropriate. For each intangible asset identified, consideration was given to changes in use, deterioration and evidence of obsolescence and an impairment charge calculated where appropriate.

The Committee reviewed the results of the trigger tests and challenged the methodology used to test impairment, including the assumptions used in cash flow projections as part of the value in use calculations. The Committee considered the sensitivity of the proposed impairment charges to movements in key assumptions such as the discount rate, long-term growth rate, performance projections and the wider economic environment. The Committee considered programmes where significant intangible assets have been capitalised or are in the course of construction, to ensure it is comfortable that future economic benefits will be generated.

The Committee satisfied itself that the assumptions used and the resulting impairment charges were reasonable.

2.
EXCEPTIONAL ITEMS

2.5

Following challenge from the Committee, management has reviewed and updated the Partnership's accounting policy for exceptional items during the current year, with a view to improving the transparency and clarity of policy application.

In addition, in response to a request from the Committee, management reviewed the appropriateness of the inclusion within exceptional items of restructuring and redundancy costs which were incurred over more than one year.

The Committee challenged both management and the auditors on the wording of the new exceptional policy and recommended the definition be amended to provide greater transparency to the users of the accounts. The subsequent change in wording was approved by the Committee.

The Committee also challenged management and the auditors on the continued inclusion within exceptional items of restructuring and redundancy costs, given that costs have been incurred by the Partnership over recent years. Following provision of detailed analysis by management, it was proposed that restructuring and redundancy charges arising as a result of transformational strategic programmes would continue to be included under 'exceptional items'. Management also gave detailed consideration to the exceptional items disclosure within the financial statements, providing significantly increased disclosure on each programme.

The Committee, having reviewed and discussed both the analysis and draft disclosures provided by management, satisfied itself as to the appropriateness of the items reported as exceptional and the transparency included within the disclosures.

3.

PENSIONS

6.1

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 sensitive to small movements in the discount rate and inflation rate.

During the year, management reviewed and proposed to change the methodology used in calculating the mortality assumptions, as set out in note 6.1.

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 peer companies.

The Committee considered the proposed change in the mortality assumptions, including its compliance with IAS 19, and the rationale for change in methodology.

The Committee satisfied itself as to the acceptability of the key assumptions, particularly the discount rate and mortality assumptions, and concluded that the overall pension scheme liability is appropriate.

4.

PROVISIONS

4.4

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 makes provisions for expected future customer refunds, insurance claims and other items such as reorganisation, property related costs and pay. Judgement is exercised in making the assumptions that form the basis of the provision calculations.

The Committee reviewed the methodology and key assumptions used in determining significant provisions, including the basis for any release of provision. The Committee considered the past utilisation of each provision, as well as the sensitivity of the assumptions, when reviewing the appropriateness of the provision.

The Partnership held a specific pay provision for the potential costs of complying with the National Minimum Wage (NMW) Regulations. During the year, the Committee reviewed updates from management detailing the status of discussions with HMRC, the legal basis, and advice from independent NMW specialists. The Committee reviewed management's conclusions and the key assumptions used in calculating their relative sensitivities, including the amounts relating to penalties. The Committee also reviewed utilisation in the form of payments to Partners, the release of provision following clarification of the calculation, and how this should be presented in the financial statements.

The Committee concluded that the amounts recorded in respect of provisions were appropriate, represented the current best estimate of each liability and that associated disclosures were appropriate.

5.

DEPRECIATION
AND USEFUL
ECONOMIC LIVES

3.2

The Partnership has significant non-current tangible assets in the form of freehold land and buildings and long leasehold buildings. Depreciation is recorded to write down non-current assets to their residual value over their estimated useful lives. Determining an asset's residual value and estimated useful life involves significant judgement.

The Committee satisfied itself that the residual values and useful economic lives were appropriate, considering the sensitivity of changes in residual value on depreciation.

6.

FREE WARRANTIES

2.2

The Partnership offers warranties on Electricals & Home Technology goods. These are provided 'free' to the customer but represent a separate performance obligation for the Partnership under IFRS 15. The Partnership's IFRS 15 sales model estimates the fair value of the 'free' warranties included within the sales price of these items. The fair value of these warranties is deferred on the balance sheet and recognised as revenue over the life of the warranty.

The Committee received a memorandum from management detailing the calculation used to establish the fair value of the 'free' warranties, and the assumptions and judgements used within it. The Committee satisfied itself that the deferred income recognised in respect of 'free' warranties was appropriate along with the profile of recognition in the income statement.

The Partnership Board: Audit and Risk Committee report — continued

VIABILITY AND GOING CONCERN

The Directors must satisfy themselves as to the Partnership's ability to continue as a going concern for a minimum of 12 months from the approval of the financial statements. Additionally, the Directors report on the longer-term viability of the Partnership, over a period of three years. The Committee supported the Board in its assessment of both going concern and viability by considering whether, in the challenging but plausible risk scenarios identified, the Partnership has adequate liquid resources to meet its obligations as they fall due in the next 12 months and to remain commercially viable over the three-year period to January 2022.

The Committee reviewed the Partnership's budget, business plan and cash flow forecasts and the potential impact of a range of downside scenarios, ensuring these were consistent with the risks to achieving the Partnership's strategy identified and reviewed by the Board. The Committee also considered the impact of multiple risks occurring simultaneously and challenged the feasibility and time frames associated with the Board's mitigating actions.

As a result of the procedures performed, the Committee satisfied itself that the going concern basis of preparation is appropriate and that the Partnership is commercially viable over the duration of its assessment period. The Committee also considered ways that management could further enhance the viability disclosure, particularly in light of recent FRC guidance and recommendations on best practice reporting, by including references to the wider market context and mitigation options. The Board's Going Concern Statement is included within the Directors' report on page 85 and the Viability Statement is within the Strategic report on page 43.

NEW ACCOUNTING STANDARDS

During the year, the Partnership adopted and reported under IFRS 15 (Revenue from Contracts with Customers) and IFRS 9 (Financial Instruments) for the first time. The Committee reviewed and approved the transition adjustments, judgements, estimates and disclosures required in respect of these standards.

Throughout the year, the Committee considered and approved the transition approach and accounting policies in respect of IFRS 16 (Leases), including the judgements, assumptions and estimates made by management and the impact these would have on the financial statements upon transition on 27 January 2019 and in the first year of adoption to 25 January 2020.

EXTERNAL AUDIT ACTIVITIES

EVALUATION AND RE-APPOINTMENT OF AUDITOR

KPMG LLP were the Partnership's external auditor for 2018/19. They provided the Committee with relevant reports, reviews, information and advice throughout the year, as set out in their engagement letter.

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

In February 2019, the Committee conducted an evaluation of the external auditor's performance. Members of the Committee and senior finance management within the Partnership were provided with an opportunity, through an evaluation questionnaire, to comment on the effectiveness of the external auditor and the audit process.

In assessing the effectiveness of the external auditor, the following were considered:

The terms and the scope of the work of the external auditor, as set out in the engagement letter.

The experience and expertise of the audit team.

The audit work plan for the financial year 2018/19.

The detailed findings of the interim review, including how the auditor assessed key accounting and audit judgements and discussion of any issues that arose.

The constructive challenge and professional scepticism applied by the audit team in dealing with management.

The outcome of the evaluation was considered by the Committee, which concluded that the effectiveness of the external auditor and the audit process was satisfactory and recommended the re-appointment of KPMG LLP to the Partnership Board.

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 relating to tendering the external audit contract at least every 10 years.

Following the audit tender process in 2015/16, the year ended 26 January 2019 was the third year of audit by KPMG LLP and the third year of the audit engagement partner, Mike Maloney's, appointment.

AUDITOR'S 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 auditor and receives confirmation from the external auditor, 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 auditor is a fundamental safeguard for the interests of Partners. 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 was reviewed in light of EU Regulations, which became effective in June 2016, with no significant changes required. The Partnership's non-audit services policy is summarised below.

Details of the amounts paid to the external auditor are given in note 2.6 to the consolidated financial statements. The ratio of non-audit services fees to audit and audit-related services fees was 10% (2018: 22%).

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 auditor's independence.

SUMMARY OF NON-AUDIT SERVICES POLICY

In line with our policy, the Partnership's auditor is 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 the UK regulator's ethical guidance

There is a specific approval process for any non-audit work to be undertaken by the external auditor. 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

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 with defined accountability. Further details on this can be found on pages 38 to 42, along with details of our principal risks and how we mitigate them.

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 strategy and objectives. As a consequence, our internal controls can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Partnership Board receives updates through the Chair of the Committee and copies of its minutes on the operation of the systems of internal control for risk management. During the year under review, reporting was through presentations from senior management, the Chairs of Divisional Risk Committees and Financial Control as well as the work of Internal Audit, which provides objective assurance on the effectiveness of controls through the delivery of a risk-based work plan. The Director, Audit and Risk reports functionally to the Chair of the Committee and operationally to the Group Finance Director.

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.

During the year:

The Committee has continued to focus on the challenges presented by the complex GDPR requirements introduced in the year, as well as plans to improve our IT resilience and Data Privacy compliance in response to the ongoing external threat of an information security breach or cyber attack

The Committee has continued to support the Partnership's approach to identifying and managing risks exacerbated by Brexit and has focused challenge on proposed options to mitigate the Partnership's key Brexit related risk areas

The Committee has provided more focus on areas of regulatory compliance due to the changing external regulatory environment

The Committee has reviewed reports from management in relation to controls activity undertaken in the year in relation to key financial risks, including the testing of key controls

The Committee continues to have oversight of open and overdue Internal Audit findings, with an ongoing focus on action-owner accountability and consequences for non-delivery

The focus for the year ahead is to continue to proactively manage our response to the Partnership's Brexit related Partner, customer and trading risks, and oversee the implementation of activities as the external landscape becomes more clear, whilst continuing to develop the quality of our risk and control frameworks. The Partnership's approach to risk management is detailed on pages 38 to 42.

The Partnership Board: Audit and Risk Committee report — continued

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 challenging, 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:

1. The integrity of the Partnership's Annual Report and Accounts, and other formal announcements relating to the Partnership's financial performance
2. 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 Committee reviews and approves the scope of the Internal Audit work programme on an annual basis, which covers both advisory and assurance related reviews of operational, financial and IT processes as well as key change projects and programmes across the Partnership. Work undertaken during the year includes the reviews set out below.

At each meeting of the Committee, the Director, Audit and Risk reports on the current status against the agreed audit plan, control weaknesses identified and management's progress in developing the control environment.

Partnership Internal Audit was subject to independent external quality assessment (EQA) during 2015, 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 improve the quality and operations of the function. Progress against recommendations raised by the EQA is presented by the Director, Audit and Risk at each Committee meeting and is on track.

KPIs measuring the efficiency and effectiveness of the Internal Audit function were introduced during 2015/16, covering the core value areas of 'impact', 'involvement' and 'influence'. These continue to be used to benchmark performance against prior years and to demonstrate the continuous improvements made to mature the function and the quality of service provided to the Partnership. The Director, Audit and Risk reports on these KPIs at every Committee meeting.

The Partnership's Internal Audit Team won the Chartered Institute of Internal Auditors 'Outstanding Team' Award for UK Private Sector businesses at the 2018 IIA Annual Awards. The award recognised the team's successful change over the last three years, with the judges acknowledging the team's transformation, trust built with leaders and influence on behaviour, culture and operations across our business, as key differentiators from the competition.

REVIEWS UNDERTAKEN DURING THE YEAR**FINANCE**

INTERNAL CONTROLS FRAMEWORK
CAPITAL EXPENDITURE AND FIXED ASSETS

REGULATORY/OTHER

GSCOP
GDPR READINESS
IMPORT LOGISTICS & COMPLIANCE
WHISTLEBLOWING
PRODUCT RECALL

IT & PROGRAMME

IT SERVICE MANAGEMENT
IT SECURITY PROGRAMME REVIEW
FUNCTIONAL CHANGE

OPERATIONS

WAITROSE BUYING OFFICE
ANCILLARY DISTRIBUTION CENTRE
REBATES

“

My work as a member of the Audit and Risk Committee has given me deeper insight into the workings of the Partnership. Through each member's focus on appropriate oversight and challenging of the status quo, we aim to provide assurance to Partners that external financial reporting, internal controls, risk management and risk tolerance levels are supporting their Partnership.

OLLIE KILLINGER
Elected Director, Partner
& Product Owner
Waitrose & Partners



GROCERIES (SUPPLY CHAIN PRACTICES) MARKET INVESTIGATION ORDER 2009 (THE ORDER) AND THE GROCERIES SUPPLY CODE OF PRACTICE (GSCOP)

Waitrose & Partners is subject to the Order and the GSCoP. As required by the Order and the GSCoP, Waitrose & Partners' Code Compliance Officer (CCO) is obliged to present an annual report detailing the business' compliance to GSCoP to the Partnership's Audit and Risk Committee, for onwards submission to the Competition and Markets Authority (CMA). The reporting period covered is 28 January 2018 to 26 January 2019.

The CCO presented the report to the Committee on 9 April 2019 and reported a slight decrease in the number of suppliers raising GSCoP queries in the trading period. Two concerns were carried over from the previous year and there were ten new issues raised by suppliers, of which four involved the CCO. In each case we worked with the suppliers involved to understand their concerns and seek a resolution in a timely manner. One query was still in progress at the end of the reporting period. There were no formal disputes raised during the year.

The Committee reviewed and approved the annual report and also noted and agreed with the points raised in the Internal Audit report on GSCoP compliance. They welcomed the activity undertaken to enhance training and support materials and discussed the findings of the recent Groceries Code Adjudicator (GCA) investigation. They supported the approach and plan for ensuring ongoing GSCoP compliance.

See page 84 of the Directors' report for further information.

WHISTLEBLOWING

The Partnership's whistleblowing procedures allow Partners to raise any concerns about possible improprieties including matters of financial reporting, risk, fraud, internal controls and auditing issues. During the year, whistleblowing was managed by Registry, which can engage Internal Audit, or other third parties as appropriate, when conducting investigations. The Committee receives bi-annual reports on the level and nature of issues raised.

An Internal Audit review of the whistleblowing process was undertaken this year and recommendations to improve the process have been agreed.

On behalf of the Audit and Risk Committee.

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

The Partnership Board: Corporate Responsibility Committee report

BEING A RESPONSIBLE
BUSINESS

KEITH WILLIAMS
Non-Executive Director
and Chair of the
Corporate Responsibility
Committee

Committee
composition

- Elected Directors 2
- Non-Executive Directors 2
- Independent External Members 1

The Partnership continues to recognise the need to act rapidly in the face of significant social and environmental challenges facing the business and the communities in which we operate.

As the Partnership's Corporate Responsibility Committee, we have worked with our Corporate Responsibility teams to support the Partnership in responding to these challenges and in seeking the opportunities they bring for our business, customers, Partners and other stakeholders.

MEMBERSHIP AND COMPOSITION

The members of the Committee at year-end and at the date of this report are:

Keith Williams	Chair of the Committee & Non-Executive Director
David Hay	Elected Director
Dame Fiona Reynolds	Independent External Member
Laura Wade-Gery	Non-Executive Director
Becky Wollam	Elected Director

Steve Gardiner was co-opted as a member of the Committee for the purposes of the meeting held on 5 June 2018 only. Chris Coburn and Baiju Naik stood down as members of the Committee on 24 May 2018 and David Hay and Becky Wollam joined the Committee with effect from 19 July 2018.

There were four meetings held during the year under review. All meetings were attended by those members eligible to attend with the exception of Laura Wade-Gery who was unable to attend the meeting held on 5 June 2018 and Becky Wollam who was unable to attend the meeting held on 4 December 2018.

During the year under review, the Committee was supported by the Director of Personnel, the Director, Legal and Director, Corporate Responsibility who attended meetings on a regular basis.

Decisions could only be made by the Committee when three members are present including at least one Non-Executive Director and one Elected Director.

INDEPENDENT EXTERNAL MEMBER



Dame Fiona Reynolds
Appointed: March 2016

Dame Fiona is Master of Emmanuel College, Cambridge. She is a Non-Executive Director of Wessex Water and Chair of its Futures Panel and a Trustee of the Grosvenor Estate. In a voluntary capacity she also Chairs the Cathedrals Fabric Commission for England, the Cambridge University Botanic Garden Syndicate, the environmental charity Green Alliance and the International National Trusts Organisation. She is also a member of the Government's review of Protected Landscapes in England. She was Director General of the National Trust from 2001–2012 and previously Senior Independent Director of the BBC's Executive Board.

ROLE OF THE COMMITTEE

The Corporate Responsibility Committee was established by the Partnership Board in September 2015. It operated in accordance with its Terms of Reference that are available at www.johnlewispartnership.co.uk

The role of the Committee was to:

1. Oversee and make recommendations to the Board in respect of the Partnership's Corporate Responsibility (CR) Policy and objectives
2. Monitor performance against the Partnership's CR Policy
3. Monitor the effectiveness of the management of the Partnership's CR obligations and risks
4. Review the effectiveness of the Partnership's procedures for maintaining and safeguarding the Partnership's corporate reputation
5. Review and endorse the Partnership's CR report available at www.johnlewispartnership.co.uk/csr

The Committee had responsibility for providing oversight in a number of areas previously under the remit of the Audit and Risk Committee including Health and Safety, Food Safety, Product Safety and Responsible Sourcing and received regular updates from the Partnership Health and Safety Management Committee, the John Lewis & Partners Corporate Social Responsibility Committee and the Waitrose & Partners Corporate Social Responsibility Committee.

CORPORATE RESPONSIBILITY IN THE PARTNERSHIP

The Partnership has always taken a long-term view and our Founder, John Spedan Lewis, understood that the choices we make as a business impact both our future success and the wider society in which we operate. Specifically, the Principles set out in our Constitution define how the Partnership should behave in relation to Partners (Members), customers, business relationships and the community (see pages 48 to 49 for the Principles in full). In addition, Section 3 of the Constitution outlines clearly our 'Responsibilities to others' in respect of our dealings with customers, suppliers and competitors and our impact on the environment.

Our approach to corporate responsibility continues to be underpinned by these values as we navigate a radically changing world. Our strategy describes our corporate responsibility priorities and how they support the Partnership's business strategy. We use this framework to manage our most material issues and make a positive contribution in those areas where we can have the greatest impact. Our commitments of Transforming Lives, Always Fair and Never Wasteful unite John Lewis & Partners and Waitrose & Partners around shared goals, whilst providing flexibility for each brand to respond in a way that's right for them.

2018/19 REVIEW

Through updates on corporate responsibility strategy and Divisional plans, the Committee received updates on all areas of the corporate responsibility agenda and reviewed the Partnership's progress across a number of issues with particular focus on the following key areas:

CORPORATE RESPONSIBILITY STRATEGY INTEGRATION

In June and October 2018, the Committee received updates from the Managing Directors of Waitrose & Partners and John Lewis & Partners. The updates focused on progress the brands were making in relation to corporate responsibility and how corporate responsibility strategy was being embedded into strategic decision making and business planning.

The Committee also reviewed an update on corporate responsibility performance in the Partnership's procurement function which clarified the performance of the function and outlined key developments for the year ahead. The approach to corporate responsibility formed a significant part of the overall business review of the procurement function and is now being embedded across the function with an emphasis on supplier selection.

TRANSFORMING LIVES

The Committee reviewed an update on assurance against the Partnership's Diversity and Inclusion Policy. The Policy is designed to ensure the business meets both the legal obligations and business objective to be an inclusive business, as set out in the Constitution. The Committee discussed the benefits of taking positive actions to tackle the gender pay gap and our recruitment levels from the Black, Asian and Minority Ethnic (BAME) community.

In December 2018, the Committee reviewed progress of the Partnership's wellbeing, Diversity and Inclusion and community strategy and its role as part of the broader business strategy of empowering our Partners. Amongst other considerations, the Committee challenged areas that were less developed – for example, the level of integration and role of volunteering within both the community investment strategy and the broader Partner strategy.

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Regardless of the context of acutely challenging times for retail, we continue to take our corporate responsibilities very seriously, and have made further progress in addressing our impact on, and responsibility for, the environment and our communities.

PAULA NICKOLDS
Partner &
Managing Director
John Lewis & Partners

OUR CORPORATE RESPONSIBILITY STRATEGY

Pages 24 to 25



The Partnership Board: Corporate Responsibility Committee report — continued

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Our corporate responsibility strategy is designed to support both the overall Partnership corporate responsibility strategy and our business plan. The Committee have provided valuable insight and challenge and encouraged us to drive our initiatives forward for Partners, customers and society.

ROB COLLINS
Partner &
Managing Director
Waitrose & Partners

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RULE 109 OF THE CONSTITUTION
The Partnership must take all reasonable steps to minimise any detrimental effects its operations may have on the environment, and to promote good environmental practice.

ALWAYS FAIR

The Committee reviewed and endorsed the Partnership's 2017/18 Modern Slavery Statement. The statement was reviewed alongside the Partnership's *Corporate Responsibility Report* as well as corporate responsibility content in the Annual Report and Accounts. The Committee challenged the team to continue ensuring that corporate responsibility related communications were engaging and Partner friendly. Through updates from the brands, the Committee monitored progress against our ethical trading, raw material sourcing and farming and animal welfare plans. These plans support the Partnership's commitment to being always fair with how we source, make and sell products.

NEVER WASTEFUL

The Committee considered the Partnership's operational corporate responsibility strategy including detailed analysis of the risks of climate change, key targets we need to meet and how we would meet them as well as some of the opportunities our approach presented.

HEALTH AND SAFETY

Health and Safety was a significant focus area for the Committee. Over the course of the year, the Committee received updates on the progress of the Partnership's new Health and Safety operating model, including the new set of Health and Safety KPIs and other Health and Safety controls.

NARRATIVE REPORTING

Since the year-end, the Committee endorsed the corporate responsibility content in the Annual Report and Accounts and the *Corporate Responsibility Report* 2018/19, along with the Modern Slavery Statement 2018/19.

GOVERNANCE GOING FORWARD

As part of the Executive Team's decision to simplify governance, the Committee held its last meeting in March 2019 and is in the process of being disbanded. A new Partnership Corporate Responsibility Group, chaired by the Managing Director, Waitrose & Partners, is to be established to oversee the Partnership's corporate responsibility framework on behalf of the Executive Team, and to ensure that it is fully embedded within the business supporting the objective of differentiation to drive additional value from the brands.

GREENHOUSE GAS EMISSIONS

The Partnership is committed to reducing our environmental impact, sourcing renewable energy, finding more efficient ways to distribute our goods and managing our waste and use of resources. We have set a new target to be net zero carbon emissions by 2050. The table to the right provides more detail on our greenhouse gas emissions and a description of what each 'Scope' means, as well as the methodology behind the figures.

METHODOLOGY

The Partnership has reported on all of the Greenhouse Gas (GHG) emission sources as required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. The methodology used to calculate our GHG emissions is the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), using the operational control approach on reporting boundaries. This covers the properties where the Partnership has operational control and is financially responsible for the utility supply. Data has been calculated using Defra 2017 emission factors, with the exception of certain refrigerants, and emission sources associated with our Leckford Farm, which are taken from industrial and academic sources. Further detail on the methodology is set out within the John Lewis Partnership Basis of Reporting available on our website.



"The Partnership remains committed to tackling issues impacting communities in which we operate, and the wider environment. The new executive-level Partnership Corporate Responsibility Group further demonstrates how addressing the impact of our business is part of our strategy."

DAVID HAY
Elected Director, Partner
& Service Experience Manager, Partnership IT

Global GHG emissions data¹

	2018	2017
Scope 1 (tonnes CO₂e)²		
Combustion of fuel and operation of facilities, refrigeration	168,029	176,611
Scope 2 (tonnes CO₂e)³		
Electricity purchased and heat and steam generated for own use		
– Location-based	182,978	227,334
– Market-based	7,352	6,425
Scope 3 (tonnes CO₂e)⁴		
Water, business travel, waste to landfill and transmission and distribution losses from purchased electricity	44,373	50,510
Intensity measurement (tonnes CO₂e per £m sales)		
– Location-based	34.2	39.3
– Market-based	19.0	19.9

1 Figures presented are for each approximate calendar year.

2 Scope 1: Emissions associated with our direct activities, such as heating our shops and offices and running our fleet of trucks and company cars.

3 Scope 2: Emissions from the electricity we purchase to run our buildings. 'Location-based' represents the GHG intensity of the grids where we have sites and 'market-based' reflects the emissions for the electricity we have purchased as a business and is lower because of our renewable energy sourcing.

4 Scope 3: Emissions from our indirect activities such as business travel that isn't in company-owned cars, our water use or unrecycled waste disposal.

On behalf of the Corporate Responsibility Committee.

KEITH WILLIAMS
Non-Executive Director and Chair of the Corporate
Responsibility Committee

The Partnership Board: Nominations Committee report

LEADERSHIP AND EFFECTIVENESS



KEITH WILLIAMS
Non-Executive Director
and Chair of the
Nominations Committee

Committee composition



• Elected Directors	2
• Non-Executive Directors	2
• Executive Directors	1

The Nominations Committee's main role is to ensure there is a strong succession and a robust appointment process to the Partnership Board.

MEMBERSHIP AND COMPOSITION

In view of the upcoming work on the Chairman's succession and as part of the recommendations from the Board governance review, it was agreed that Keith Williams, Non-Executive Director and Deputy Chairman, would be Chair of the Committee with effect from 19 July 2018.

The members of the Committee at year-end and at the date of this report are:

Keith Williams	Chair of the Committee & Non-Executive Director
Sir Charlie Mayfield	Chairman
Steve Gardiner	Elected Director
Nicky Spurgeon	Elected Director
Laura Wade-Gery	Non-Executive Director

This provides a broad mix of members, including those mindful of Partners' interests. To ensure this balance is preserved, the quorum (three members) requires at least one Non-Executive Director and one Elected Director along with the Chairman of the Committee (or his appointed deputy).

Baroness Hogg stood down as a member of the Committee on 30 June 2018 and was succeeded by Laura Wade-Gery with effect from 19 July 2018. Kim Lowe stood down as a member of the Committee with effect from 24 May 2018 and Nicky Spurgeon was appointed with effect from 19 July 2018.

There were nine Committee meetings held during the year under review. All eligible members attended each meeting with the exception of: Baroness Hogg was unable to attend the meeting held on 1 March 2018; and Keith Williams was unable to attend the meeting held on 19 July 2018. In his absence this meeting was chaired by Michael Herlihy, Partnership Secretary.

ROLE OF THE COMMITTEE

The Committee's responsibilities are to support the Chairman in ensuring that:

1. There is a formal, rigorous and transparent process for the appointment and succession of new Directors to the Board
2. Appropriate development and training is provided to enable each Board member to fulfil their accountabilities as a member of the Board

The 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.

APPOINTMENTS

The Nominations Committee oversees the process for selecting and recommending candidates for appointments to the Partnership Board. This includes working with the Chairman and the Director of Personnel to establish the experience and capabilities required on the Board going forward as well as using external search consultants where appropriate.

The Nominations Committee takes no part in the appointment of the Elected Directors, which is overseen by Partnership Council.

The Partnership Board: Nominations Committee report — continued

CHAIRMAN

In November 2018 Sir Charlie Mayfield announced that he would be standing down as Chairman, having been in the role since 2007. 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. As set out in the Trust Company's constitutional documents, the ultimate choice of successor remains with the outgoing Chairman. However, this process is overseen by the Nominations Committee, chaired by Keith Williams, Deputy Chairman. The Nominations Committee informs the Board concerning the plans and the process for the Chairman's succession and the Partnership Board approves the Chairman's nominee to succeed him on retirement.

The Nominations Committee is overseeing the search process for the new Chairman supported by independent search consultants, Egon Zehnder Limited. This has included developing the role specification, a selection process designed to include consideration of both internal and external candidates, a candidate brief and timeline. In January 2019 the Committee participated in a workshop on unconscious biases led by Egon Zehnder Limited as part of its preparation before the formal assessment of potential candidates. At the date of signing this Annual Report and Accounts the search process is ongoing. Egon Zehnder Limited has also provided the Partnership with the following services: coaching services; Executive Leadership Profile programmes; Executive Team and senior executive leadership development programmes; facilitating an Executive Team leadership day in Manchester in June 2018; and support for team facilitation for teams outside of the remit of the Committee.

The use of the term 'Chairman' reflects the terminology contained within the Partnership's constitutional documents and is intended to be construed as gender neutral for these purposes.

NON-EXECUTIVE DIRECTOR RECRUITMENT

The Committee oversaw the recruitment and selection process to succeed Baroness Hogg as Non-Executive Director and Chair of the Partnership's Audit and Risk Committee, assisted by Russell Reynolds Associates, an external search consultant. Russell Reynolds Associates has no other connection with the Partnership.

The Committee recommended the appointment of Andy Martin, which was agreed by the Partnership Board and he became a Non-Executive Director and Chair of the Audit and Risk Committee, effective 1 July 2018. The Committee also recommended that Baroness Hogg's term of office be extended from 31 May 2018 to 30 June 2018 to enable a handover of her responsibilities as Chair of the Audit and Risk Committee, which was approved by the Board.

Non-Executive terms of office

Keith Williams has indicated to the Partnership Board that he intends to stand down as Deputy Chairman, following completion of the Chairman's succession process. The Committee recommended to the Board that his term of office, which was due to expire on 28 February 2019, be extended accordingly, which was approved by the Board.

The Nominations Committee recommended to the Board that the terms of office of Zarin Patel and Sharon Rolston as Independent External Members of the Audit and Risk Committee, which were due to expire on 1 March 2019, be extended to 30 April 2021, which was approved by the Board.

The Nominations Committee also recommended to the Board that the term of office of Dame Fiona Reynolds as an Independent External Member of the Corporate Responsibility Committee, which was due to expire on 1 March 2019, be extended, subject to considering the implications of the decision to establish a Partnership Corporate Responsibility Group, which was approved by the Board.

“

It's a unique opportunity to be personally responsible in the search process for our new Chairman. I constantly remind myself that my duty is to balance both Partner interests and the overall sustainability of the business.

NICKY SPURGEON
Elected Director, Partner
& Programme Manager
John Lewis & Partners

FOR FURTHER
INFORMATION

See pages

55 – Andy Martin

58 – Zarin Patel

58 – Sharon Rolston

66 – Dame Fiona
Reynolds

MEMBERSHIP OF BOARD COMMITTEES

Following changes on the Partnership Board the Committee accordingly considered and made recommendations on changes to the membership of the Board Committees, which were approved by the Partnership Board.

SUCCESSION PLANNING AND TALENT MANAGEMENT

During the year, the Committee continued to oversee how the Partnership was developing its succession planning and talent management programmes to ensure that the right balance of senior management skills, knowledge, capabilities and experience were in place to deliver the Partnership's strategy and objectives.

INDUCTION, TRAINING AND DEVELOPMENT

Following appointment an induction programme is arranged for each Director to help them gain an understanding of our business, key issues, the Partnership Board processes and agenda, and to provide them with information to help them to be effective and make a contribution to Board debates.

During the year under review, induction programmes were devised for the four new Directors who joined the Partnership Board: Andy Martin (Non-Executive Director); David Hay (Elected Director); Nicky Spurgeon (Elected Director); and Becky Wollam (Elected Director). These included one-to-one meetings with the Chairman and each of the existing Directors, the Company Secretary and the Partnership Secretary, and other members of senior management. They also met members of operational teams across the Partnership.

Not having held the role of Director previously, information and training was provided to David Hay, Nicky Spurgeon and Becky Wollam on Directors' duties and the role of Elected Director, both prior to selection by Partnership Council and as part of their induction.

As a new member of the Audit and Risk Committee during the year, Ollie Killinger attended a three-day professional development course on 'Finance for Non-Financial Directors' delivered by the Institute of Directors.

REVIEW OF BOARD AND COMMITTEE EFFECTIVENESS

The external independent evaluation in 2017 formed the basis for the governance reviews which were carried out during 2017 and 2018 (see pages 46 to 47). For 2019/20 it is proposed to perform an internal Board effectiveness review to be conducted by the Partnership Secretary.

DIVERSITY STATEMENT

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 Partnership's 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 Partnership Board.

Through the Nominations Committee, the structure, size, composition and balance of the Partnership Board (including skills, knowledge, experience and backgrounds) are monitored, to ensure that when considering Partnership 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. However, it should be noted that under the Constitution, five members of the Partnership Board are elected by Partnership Council and their appointments are not

subject to oversight by the Nominations Committee or the Partnership Board.

All other Partnership 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 Partnership Board's policy to set specific targets by legally protected characteristics such as gender or ethnicity.

Further information on Diversity and Inclusion in the Partnership can be found on pages 28 and 84.

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.

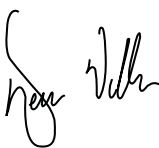
The Partnership has a Diversity and Inclusion Policy which applies to all Partners and we have a clear action plan which aims to encourage an inclusive and vibrant community of Partners. Our Partnership Board Diversity policy reflects that Policy.

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 and objective criteria in order to enhance the Board's overall effectiveness and, within this context, should have due regard for diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.
- 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.
- Potential internal candidates for Board appointments 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 Nominations Committee monitors the structure, size and composition of the Board to ensure due regard is given to diversity.

On behalf of the Nominations Committee.



KEITH WILLIAMS
Non-Executive Director and Chair
of the Nominations Committee

The Partnership Board: Remuneration Committee report

OVERSEEING HOW THE PAY
POLICY IS APPLIED

KEITH WILLIAMS
Deputy Chairman
and Chair of the
Remuneration
Committee

Committee
composition

● Elected Directors 2
● Non-Executive Directors 2

During the year, the Committee undertook the Annual Pay Review for the Executive Team. Other areas of focus for the Committee were regulatory developments regarding executive pay which formed part of a wider package of corporate governance reforms.

The Committee oversees how the Partnership's pay policy is applied to the Chairman, Executive Directors and senior managers who report to the Chairman. However, as an employee owned business with 83,900 Partners, it is important that we are also mindful of the broader approach to pay across the Partnership.

We are committed to ensuring that pay arrangements for the Chairman, Executive Directors and senior managers who report to the Chairman remain competitive and appropriate in the context of business performance, the external market and wider pay arrangements for Partners, in line with our Terms of Reference.

During the year, the Committee undertook the annual pay review for the Chairman and Executive Team. The Committee also noted the Pension Review and resulting proposals to change the Partnership's pension arrangements and the publication of the Partnership's second Gender Pay Gap report.

In addition, the Committee considered its response to corporate governance reforms relating to remuneration. As an unquoted company, we are not obliged to adopt all these changes but will continue to consider the extent to which they are relevant to ensure our approach to pay remains fair and transparent.

Looking forward, the Committee will continue to focus on ensuring our Executive Team are rewarded appropriately for the work they do whilst also being mindful of broader Partnership pay.

KEY INFORMATION

CHAIRMAN'S REMUNERATION

In the 2018/19 year, the Chairman's total reward package was made up of the following:

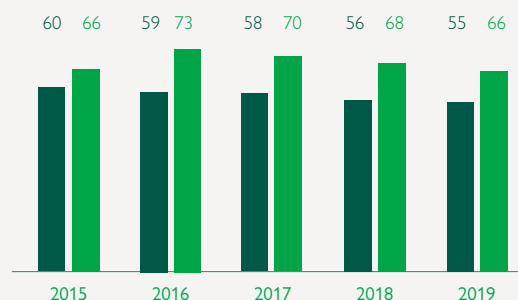
Pay	
Base pay received in the financial year	£1,109,000
Partnership Bonus	
Bonus amount received in respect of the 2018/19 trading year	£33,000
Pension benefit	
Cash supplement in lieu of further defined pension accrual	£288,000
Benefits	
Cash value of benefits	£14,000
Total reward	£1,411,000
	£1,444,000

● 2018 ● 2019

RULE 63

In the 2018/19 year, the Chairman's:

- Pay was 66 times the average basic pay of non-management Partners, calculated on an hourly basis; and
- Total reward, excluding Partnership Bonus, was 55 times the average total reward, excluding Partnership Bonus, of non-management Partners with three or more years' service.



● Rule 63: Basic Pay Only
● Rule 63: Total Reward excluding Partnership Bonus

APPROACH

MEMBERSHIP AND COMPOSITION

The members of the Committee at year-end and at the date of this report are:

Keith Williams	Chair of the Committee and Non-Executive Director
Steve Gardiner	Elected Director
Nicky Spurgeon	Elected Director
Laura Wade-Gery	Non-Executive Director

Baroness Hogg stepped down as a member of the Committee on 30 June 2018. Kim Lowe stepped down as a member of the Committee on 24 May 2018. Nicky Spurgeon and Laura Wade-Gery joined the Committee with effect from 19 July 2018.

Five Committee meetings were held during the year under review attended by all members who were eligible to attend.

COMMITTEE INDEPENDENCE

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

Decisions can only be made by the Remuneration Committee when at least one Non-Executive Director and one Elected Director are present. However, when considering Non-Executive Directors' remuneration the necessary quorum is two Elected Directors.

No Committee member can take part in any discussion or decision regarding their own remuneration.

ADVISORS

In carrying out its responsibilities, the Committee is advised by Willis Towers Watson as independent remuneration consultant.

Willis Towers Watson provides the Committee with executive remuneration advice and external market assessments. It also provides the Partnership with talent and reward consulting services, including advice regarding the Partnership's job evaluation methodology and compensation data. In addition, Willis Towers Watson provides actuarial services in relation to pensions.

The Committee was also supported during the year by the Director of Personnel and the Head of Total Reward. Both may attend the Committee meetings by invitation but are not present for any discussions that relate directly to their own remuneration.

ROLE OF THE COMMITTEE

The Committee is responsible for:

1. Ensuring that there is a formal and transparent process for developing and applying executive remuneration policy to enable the Partnership to attract, retain and motivate executive management without paying more than is necessary with reference to the market
2. Making recommendations to the Partnership Board regarding the Chairman's pay and considering the pay of individual Executive Directors and senior management who report to the Chairman

In addition, the Elected Director members are responsible for:

3. Setting the fees for the Non-Executive Directors of the Partnership Board

The full Terms of Reference for the Committee can be found at www.johnlewispartnership.co.uk

PAY POLICY

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's pay policy is set out in Rules 61, 62 and 63 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.

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.

The pay policy is supported by the Pay Standard which provides a clear definition of how pay rates and ranges are set across the Partnership, as well as details of other pay elements (for example, premium payments, bonuses and allowances), pay review and holiday pay.

Each role in the Partnership, including Executive Team roles, has a pay range that is informed by the market for comparable roles in comparable organisations. Each Partner's pay rate is reviewed annually with reference to the pay range for the role and the Partner's performance.

As an employee-owned business, the Partnership does not operate annual incentive plans as would typically be the case in comparable organisations. However, Partners who make a special contribution to the Partnership outside of their normal responsibilities or who deliver exceptional performance in their role may be recognised with a special contribution bonus award of up to 10% of salary.

The Partnership Board: Remuneration Committee report — continued

KEY ACTIVITIES

CHAIRMAN'S PAY

The Remuneration Committee makes a recommendation to the Partnership Board regarding the Chairman's pay.

When considering its recommendation, the Committee takes into account:

The annual review of the Chairman's contribution, undertaken by the Deputy Chairman and Chair of the Remuneration Committee. This is conducted through an assessment of performance against objectives with input from members of the Partnership Board in order to attain a '360 degree' view.

The Partnership's overall performance in the year.

An external market assessment provided by Willis Towers Watson.

Rule 63 of the Partnership's Constitution.

The pay review approach and level of pay increases awarded to all Partners.

EXECUTIVE TEAM PAY

The Remuneration Committee also approves the pay of Executive Directors and senior managers who report to the Chairman. The Committee considers the Chairman's pay recommendations taking into account external market assessments provided by Willis Towers Watson for these roles.

Executive Directors and senior managers who report to the Chairman have an annual performance discussion with the Chairman and future objectives are agreed. To support the 2019 pay review outcomes, the Committee was provided with a summary of each performance discussion, including evidence of progress against objectives and targets.

The Committee also agreed with the Chairman that this year the Executive Directors and senior management reporting to the Executive Team would be assigned a performance rating to reflect their achievement against objectives for the performance year, in order to support a rigorous and fair assessment of performance. This is in line with the approach to assessing individual performance across the Partnership and these ratings were shared with the Committee.

PARTNERSHIP PAY

The Remuneration Committee has oversight of pay recommendations for other senior management who report to the Executive Team, to ensure that proposals are in line with the Partnership's pay policy.

During the year, the Remuneration Committee is also provided with information and context on pay across the Partnership. This includes the approach and outcomes by Partnership Level for pay reviews across the Partnership.

CORPORATE GOVERNANCE REFORMS

2018 saw the introduction of various corporate governance reforms. Further information on the Partnership's response to wider corporate governance reforms can be found on page 82. The Committee has taken a close interest in the legislative and best practice developments around senior remuneration.

For a number of years, the Partnership has published its own version of a CEO pay ratio in relation to Rule 63. From next year, large UK-quoted companies will be required to publish their CEO pay ratio figure in their annual reports. This new requirement does not extend to the Partnership; in addition, the legislation, while allowing some flexibility in the basis used, does not permit quoted companies to report using the methodology used by the Partnership. However, the Committee intends that a CEO pay ratio based on one of the permitted methodologies will be included in the 2020 Annual Report and Accounts.

“

As a member of the Remuneration Committee, I am mindful of Partners' best interests when considering pay arrangements for our senior leaders. In the context of the current public debate about whether and how Remuneration Committees can take into account employee views, I believe the Partnership's model demonstrates how including Elected Directors on the Committee can offer challenge to our leadership, influence discussions and provide a Partner perspective.

STEVE GARDINER

Elected Director, Partner &
Cirencester Branch Manager
Waitrose & Partners



Further reforms also include broadening the remit of the Remuneration Committee and the structure of executive remuneration schemes. Best practice dictates these should be aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the organisation.

Of particular note is the expectation that going forward, executive pension schemes should be in line with those for the rest of the workforce and this will be considered further by the Remuneration Committee linked to the outcomes of the Pension Review.

GENDER PAY GAP REPORTING

During the year under review, the Committee reviewed the contents of the Partnership's second Gender Pay Gap report, which included progress on actions taken to address the gap, and agreed to recommend it to the Board for publication. Further details on the report and the results for the Partnership can be found on page 28.

ADVISOR APPOINTMENT

Following a competitive tender process, the Committee re-appointed Willis Towers Watson as independent remuneration consultant in September 2018 to advise on executive remuneration and provide external market assessments.

OUTLOOK

During the coming year, the Committee will continue to focus on ensuring remuneration arrangements for the Chairman, Executive Directors and senior managers who report to the Chairman remain relevant and competitive for the Partnership today.

The Committee notes that the Chairman's term of office is due to end during the first half of 2020 and that the process to appoint his successor has commenced. The Committee will place particular focus on ensuring that remuneration arrangements for the new Chairman are appropriate and reflect the Partnership's Constitution.

The Committee will continue to consider the impact of corporate governance reforms relating to remuneration and how these should apply within the Partnership. The Committee will oversee any remuneration policy changes that are required and their application.

The Committee will consider the most suitable and practical method of calculation in order to meet the new CEO pay ratio reporting requirements. It will also continue to oversee the Partnership's gender pay gap reporting and monitor any further legislative changes.

The Committee awaits the outcome of the Department for Business, Energy and Industrial Strategy's consultation on ethnicity pay reporting that concluded in January 2019.

Consideration will also be given to the role and remit of the Remuneration Committee. It is intended that the Committee's Terms of Reference are reviewed to ensure they remain relevant and appropriate.

REMUNERATION REPORT

PAY

HOW MUCH DO WE SPEND ON PAY?

In 2018/19, the Partnership spent £1,863.2m on employment and related costs (2017/18: £1,846.9m). This represented 18.1% (2017/18: 18.1%¹) of the Partnership's revenue.

£1,480.0m (2017/18: £1,441.3m) was spent on basic pay and every eligible Partner received 3% of their 2018/19 gross pay as a Partnership Bonus, at a total cost of £44.7m (2017/18: £74.0m).

WHAT IS THE CHAIRMAN PAID?

In the year under review, the value of the Chairman's total reward increased by 2.3% to £1,444,000 due to receiving Partnership Bonus for this year.

As noted in the 2018 report, the Chairman indicated to the Committee that his rate of pay should remain unchanged for the April 2018 pay review.

The Committee therefore decided not to conduct a review of the Chairman's pay and as a result his annual basic rate of pay remained held at £1,108,800 in April 2018.

For the 2018/19 trading year, the Chairman received a Partnership Bonus of 3% of pay in line with that awarded to all eligible Partners.

The total reward package for the reporting period is made up of the following elements:

	2019 £	2018 £
Pay	1,109,000	1,109,000
Partnership Bonus (see below)	33,000	—
Pension supplement in lieu of further defined pension accrual	288,000	288,000
Cash value of benefits	14,000	14,000
Total reward	1,444,000	1,411,000

WHAT WILL THE CHAIRMAN BE PAID IN 2019/20?

The Chairman was eligible to be considered for a pay review in April 2019. In line with the broader pay review restraint for senior management within the Partnership, the Committee recommended to the Partnership Board that it would not be appropriate to award any pay increase in April 2019. The Board agreed that the Chairman's annual basic rate of pay would remain unchanged at £1,108,800.

¹ Recalculated for the impact of IFRS 15.

The Partnership Board: Remuneration Committee report — continued

WHAT ABOUT RULE 63?

At the end of the reporting period, the pay of the highest paid Partner, the Chairman, was 66 times the average basic pay of non-management Partners calculated on an hourly basis.

Although Rule 63 itself applies only to basic pay, each year the Committee also considers 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.

At the end of the reporting period, the total reward of the Chairman was 55 times the average total reward, based on the criteria set out above.

	2019	2018	2017	2016	2015
Rule 63: Basic Pay Only	66	68	70	73	66
Rule 63: Total Reward excluding Partnership Bonus	55	56	58	59	60

WHAT ARE THE CHAIRMAN, EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS PAID?

The table opposite shows the total remuneration for the year, including Partnership Bonus and pension benefit, for all Directors on the Partnership Board excluding the Elected Directors.

The aggregate amount of remuneration paid to or receivable by Directors in respect of qualifying services for the year under review was £5,505,000 (2017/18: £6,060,000).

The Chairman, Executive Directors and Elected Directors are also entitled to the same benefits as all other Partners, including long leave, Partnership discount and other subsidies.

The table opposite includes payments made to former Directors Jane Burgess (for 2017/18) and Tom Athron in respect of qualifying services until they ceased to be Directors on the Partnership Board on 27 September 2017 and 27 April 2018 respectively.

WHAT ARE THE ELECTED AND NON-EXECUTIVE DIRECTORS PAID?

Elected Directors' pay is determined by their respective roles and responsibilities in the Partnership. They do not receive any additional pay or benefits for serving on the Partnership Board. Their pay is therefore not considered by the Remuneration Committee or Partnership Board.

Non-Executive Directors receive fixed annual fees, which are determined by the Elected Directors on behalf of the Committee. Fees are reviewed periodically and set at levels that reflect the Director's responsibilities, the Chairman's views and external market data provided by Willis Towers Watson.

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

Chairman, Executive Directors
& Non-Executive Directors pay

	2018/19	2017/18
1	£1 – £50,000	2
2	£50,001 – £100,000	1
2	£100,001 – £150,000	1
0	£150,001 – £200,000	0
0	£200,001 – £250,000	1
0	£250,001 – £300,000	0
0	£300,001 – £350,000	0
0	£350,001 – £400,000	0
0	£400,001 – £450,000	0
0	£450,001 – £500,000	0
0	£500,001 – £550,000	0
0	£550,001 – £600,000	1
0	£600,001 – £650,000	0
0	£650,001 – £700,000	0
0	£700,001 – £750,000	1
1	£750,001 – £800,000	0
0	£800,001 – £850,000	0
0	£850,001 – £900,000	0
1	£900,001 – £950,000	1
2	£950,001 – £1,000,000	2
0	£1,000,001 – £1,050,000	0
0	£1,050,001 – £1,100,000	0
0	£1,100,001 – £1,150,000	0
0	£1,150,001 – £1,200,000	0
0	£1,200,001 – £1,250,000	0
0	£1,250,001 – £1,300,000	0
0	£1,300,001 – £1,350,000	0
0	£1,350,001 – £1,400,000	0
1	£1,400,001 – £1,450,000	1
10	TOTAL	11

Chairman and Executive Directors' defined
benefit pension entitlement

	2018/19	2017/18
0	£1 – £50,000	0
3	£50,001 – £100,000	4
1	£100,001 – £150,000	1
1	£150,001 – £200,000	1
0	£200,001 – £250,000	0
0	£250,001 – £300,000	0
1	£300,001 – £350,000	1
6	TOTAL	7

PENSION ARRANGEMENTS

WHAT ARE THE PENSION ARRANGEMENTS FOR EXECUTIVE DIRECTORS?

The Chairman and Executive Directors have all ceased to accrue further benefits in the Partnership's pension scheme. In lieu of pension accrual for current service, each Director receives a monthly pension supplement.

These supplements are cash payments that are broadly equivalent in value to the defined benefit pension that the individual would previously have accrued in the Partnership's pension scheme.

WHAT IS THE PENSION SUPPLEMENT FOR EXECUTIVE DIRECTORS?

During the year ended 26 January 2019, the total pension supplement paid to the Chairman and Executive Directors was £1,041,000 (2018: £1,130,000).

WHAT IS THE DEFINED BENEFIT PENSION VALUE FOR EXECUTIVE DIRECTORS?

The table opposite shows the aggregate annual defined benefit pension entitlement from the age of 60 accrued at the end of the year, for the Chairman and Executive Directors 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 was £838,000 per annum for six individuals (2018: £894,000 per annum for seven individuals).

The accrued pension for the Chairman and Executive Directors 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, until their state pension starts.

The aggregate entitlement to temporary pensions was £18,000 per annum for three individuals (2018: £29,000 per annum 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 £nil (2018: £nil).

WHAT PENSION WILL THE CHAIRMAN RECEIVE?

The Chairman's aggregate defined benefit pension entitlement from the age of 60 accrued at the end of the year was £300,000 per annum (2018: £300,000 per annum).

APPOINTMENTS AND LEAVERS

CONTRACTUAL NOTICE PERIODS FOR EXECUTIVE DIRECTORS

The Chairman's and the Executive Directors' contracts of employment contain notice periods of between six months and one year. No contract contains a provision regarding compensation for early termination.

PAYMENTS FOR LOSS OF OFFICE

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

EXTERNAL APPOINTMENTS

An Executive Director with an external appointment may not retain any earnings from the appointment unless it dates from before they joined the Partnership. Details of external appointments for Executive Directors are included on page 53.

REPORTING REQUIREMENTS

This report forms part of the Directors' report and has been prepared in accordance with the disclosure requirements applying to the Partnership, as set out in Schedule 5 of the Large and Medium-sized Companies and Groups (Accounts and Report) Regulations 2008 (the Regulations).

As 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 that apply 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 75 and 76 is cross-referenced with note 2.8.3 of the financial statements and forms part of the audited financial statements.

On behalf of the Remuneration Committee.



KEITH WILLIAMS

Non-Executive Director and
Chair of the Remuneration Committee

Partnership Council

PARTNERSHIP COUNCIL AND DEMOCRACY

Partnership Council is one of the three governing authorities. It is the most senior level of democracy in the Partnership and is run by Partners on behalf of Partners.

The Partnership model is unique. The Partnership exists today because of the extraordinary vision and ideals of John Spedan Lewis. He believed that an 'industrial democracy' where employees shared knowledge, power and profit was a better form of business. The distinctiveness of the Partnership's model stems from all Partners having a say in the way the business is run, through many ways of engaging with and listening to Partners. Ultimately, this culminates in the work of Partnership Council as one of the three governing authorities.

In 1919 Spedan Lewis established the Council, writing to his colleagues in Peter Jones that "its function will be to decide such questions as the Board may leave to its discretion, to make suggestions and to give advice to the Board on other matters." He hoped it would be "a real success and play a very large part in the actual management of the Company." One hundred years later that aim is largely unchanged: the Constitution describes both how power is shared between the Chairman, the Partnership Board and the Council and also how the Council shares responsibility for the Partnership's health through influencing policy, making governance decisions and holding the Chairman to account.

The Council has three vital decision making powers:

1. To elect three Trustees of the Constitution, five Directors to the Partnership Board and four Trustees to serve as Directors of John Lewis Partnership Pension Trust
2. To change the Constitution, with the Chairman's agreement
3. To dismiss the Chairman



“

Partner opinion is sovereign.

JOHN SPEDAN LEWIS
Partner & Founding Chairman
John Lewis Partnership

“

It is the job of all of us to drive democratic engagement and vitality in the Partnership.

SIR CHARLIE MAYFIELD
Partner & Chairman
John Lewis Partnership

WHAT HAS HAPPENED AT PARTNERSHIP COUNCIL THIS YEAR?

ELECTIONS

In June 2018 a new Partnership Council was elected and began its three-year term. See page 14 for information about the number of candidates and the outcome of the election. At the final meeting of the previous Council in May 2018, Councillors expressed their appreciation for the outgoing president, Trevor Phillips.

SHARING RESPONSIBILITY FOR THE PARTNERSHIP'S HEALTH

Governance in the Partnership has been at the heart of the Council's agenda this year as it seeks to strengthen its role as a governing authority. Under Principle 1 all Partners share the responsibilities of ownership (as well as its rewards), but as the body elected by Partners to reflect their opinion as a whole, the Council's direct access to the Board, the Chairman and the Executive Team give it a special responsibility to ensure that their decisions are truly in the long-term interest of the Partnership.

In addition to its normal schedule of four formal meetings and an annual conference, this year the Council organised three briefing days. An extra formal meeting was held in April 2019 in part to allow sufficient time to discuss the recommendations of the governance reviews and the Democracy Commission (see pages 46 to 47 for further details on the governance reviews).

Councillors welcomed the common theme of these reviews, namely that it should step more boldly into the space intended for it in the Constitution. Recommendations already adopted include a more explicit and user-friendly Councillor role profile, enhanced training for Councillors, an agreement to increase the time allocation for Council work and to set aside a "budget to be brilliant", and a renewed drive on line manager support and proper recognition during end of year performance conversations.

FOCUS GROUPS

Through its Focus Groups, 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 Focus Groups is coordinated by the Steering Committee. The Focus Groups at the date of this report are:

- Finance Focus Group
- Partner Focus Group
- Wellbeing and Financial Assistance Focus Group

There is also a Special Committee on pensions policy. In addition, at the meeting held in April 2019, Council agreed to set up a Special Committee to supervise the implementation of the Democracy Commission recommendations.

INFLUENCING POLICY

The Council has influenced the review of the Partnership's pension policy both through the Council's Special Committee and through numerous Council briefing sessions and Q&As. A formal vote is expected in May, following the current formal consultation of all Partners.

On reward, there is already an expectation that the Council's influence could be focused in a similar way for the planned review of total reward expected to begin later in 2019. The Board clearly heard Council's views in February on whether paying a Bonus would be prudent, and Council's concern that our Pay for Performance policy was "not broken, but breaking".

During the year Councillors also asked management to show a little more humility in recognising when mistakes are made having reviewed the difficulties arising from the transition to Core Home Services.

Much of Council's influence on management is behind the scenes and through its Focus Groups. Examples this year include the amended line management guidance for pay review, a focus on resourcing (particularly in Waitrose & Partners) and the establishment of a working group on Diversity and Inclusion.

Reflecting the importance placed on it by Council, the Partnership Financial Assistance Committee added wellbeing to both its remit and name. It continues to review complex hardship cases and oversee the provision of financial assistance to Partners, over 1,500 of whom were supported during the year.

Recognising the importance of Partner Dining Room subsidy in supporting our ambition to become Britain's Healthiest Workplace by 2025, in October the Council formally confirmed a set of principles and requested an annual progress update on this matter.



PURPOSE

The purpose and authority of Partnership Council is set out in the Constitution in Rule 7: "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 the governance of the Partnership."

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."

Partnership Council — continued



2018–21 PARTNERSHIP COUNCIL ELECTIONS

Candidates	Seats
197	58
2015/16: 171	2015/16: 65
Turnout	Councillors re-elected
42%	22
2015/16: 52%	2015/16: 22

Subsequently there have been six by-elections.

GOVERNANCE DECISIONS

Of key importance to our governance model is the choice, every three years, of Board members and Trustees of the Constitution. In May 2018 there were 23 and 9 candidates respectively, compared to 17 and 7 in 2015.

The governance reviews led to a number of changes to the Constitution being passed in April 2019, amongst them the new Rules to describe the independent function replacing Registry, and the broader role of the Council's President. Trevor Phillips' predecessor as President, David Jones, received a fitting farewell from the Council, on which he served for nearly 25 years, at his final meeting in February 2019 prior to his retirement from the Partnership.

HOLDING TO ACCOUNT

For the second time in recent years the Council's key formal vote on the Chairman's leadership was held in May so that the results of the Your Voice Principle 1 survey as well as the Annual Report and Accounts could be available to Councillors when debating the proposal:

"This Council welcomes the Chairman's report for the year ended 27 January 2018 and supports his leadership of the Partnership and the continued progress towards achieving Principle 1."

Again a secret ballot was called (last year's was the first for ten years) but support for the proposal, at 46 in favour and 15 against, was higher than in 2017 (40 in favour, 15 against and 8 abstentions). October's vote on a similar proposal at the half-year stage – the first holding to account session for the newly elected 2018–21 Council – received almost unanimous support (1 abstention), compared to the previous October (8 against and 3 abstentions). Recognising that 'holding to account' is as much about a constant conversation as voting on a specific proposal, Council intends to revert to an annual vote from May 2019, meaning that this May would be the last such session with the current Chairman.

DEMOCRATIC VITALITY

KNOWLEDGE

Partners receive updates on the Partnership's performance and other matters concerning them from regular dialogue with management, email updates, the Partnership's intranet and through information in the Gazette. Through our external website, we share information with Partners and financial stakeholders (primarily the Partnership's relationship banks and holders of John Lewis plc bonds) on the Partnership's performance, and provide contact details should they wish to discuss anything with the Partnership directly. We invite the investor community to join our financial updates and announcements, which gives them an opportunity to hear from, and engage with, the Partnership's senior management.

JOURNALISM

There are a number of ways that Partner views are voiced and taken into account in decision making in all levels of the Partnership. The Partnership fosters lively correspondence in its journalism, and any Partner may write, anonymously if they wish, to express their opinions on any topic through the open system of journalism in the weekly Gazette, without fear of repercussions. This is safeguarded in the Constitution. A letter to the Gazette must be published, with any comment from the appropriate member of management, within 21 days of acknowledgement.

PARTNER VOICE

The Partnership Board is committed to regular two-way dialogue with Partners through many different channels. Empowering Partners to take responsibility for achieving the required outcomes set by the Executive Team, as well as sharing their ideas and concerns, is a vital contribution to securing the long-term prosperity of our business.

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. 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 brand level, and ultimately at Partnership Council.



PYRAMID OF DEMOCRATIC REPRESENTATIVES



Figures as at the date of this report.

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.

Directors are members of Partnership Council and regularly attend meetings. These information sharing opportunities enable Directors to develop an understanding of Partners' views and to act upon them. In turn, Partners are able to influence decision making.

The Partnership seeks and values feedback on the value and impact our business and the decisions we make have on all stakeholders. See pages 14 to 21 for more information.

The Partnership also conducts an annual Your Voice Principle 1 survey and a number of Pulse surveys in which Partners are asked their opinion on a wide range of topics. See page 7. More information for Partners is available on the Your Voice Partner intranet pages and Google+ community.

Other disclosures

DIRECTORS' REPORT



PETER SIMPSON
Partner & Company
Secretary
John Lewis Partnership



IN THIS SECTION
Directors' report
The Directors' report is a document produced by the Board of Directors under the requirements of UK company law. It details the state of the company and its compliance with applicable financial, accounting and corporate social responsibility regulations.

The Directors' report for the year ended 26 January 2019 comprises pages 44 to 85 of this Annual Report and Accounts, together with the sections of the Annual Report and Accounts incorporated by reference. The Company has chosen, as permitted under section 414C(11) of the Companies Act 2006, to include certain matters in its Group Strategic report that would otherwise be required to be disclosed in the Directors' report as the Partnership Board considers them to be of strategic importance.

Specifically, these are:

FUTURE BUSINESS DEVELOPMENTS

PAGES 8 TO 11 AND 30 TO 33

RISK MANAGEMENT

PAGES 38 TO 42

EMPLOYEE INVOLVEMENT

PAGES 14 TO 15 AND 26 TO 29, AS WELL AS PAGES 78 TO 81

ENGAGEMENT WITH SUPPLIERS, CUSTOMERS AND OTHERS

PAGES 16 TO 21 AND 30 TO 33

EQUAL OPPORTUNITIES, DIVERSITY AND INCLUSION

PAGES 27 TO 29, AS WELL AS PAGES 71 AND 84

RESEARCH AND DEVELOPMENT

PAGES 26 TO 37

The Partnership's statements on corporate governance can be found in the Governance section of this Annual Report and Accounts on pages 44 to 85. This includes the Audit and Risk Committee report, the Corporate Responsibility Committee report, the Nominations Committee report and the Remuneration Committee report.

For more detail on the progress the Partnership is making with its corporate responsibility aims and for the latest Modern Slavery Statement, please see the separate reports at

www.johnlewispartnership.co.uk/csr

More detailed non-financial performance information can also be found online at

www.johnlewispartnership.co.uk

THE PARTNERSHIP'S RESPONSE TO EXTERNAL CORPORATE GOVERNANCE REFORMS

The reviews of the Partnership's governance (see pages 46 to 47) have taken place against the backdrop of significant change in corporate governance in the UK. These include changes in the UK Corporate Governance Code ("the Code") and changes affecting large private companies through the introduction of new corporate governance reporting requirements and the launch of the Wates Corporate Governance Principles for Large Private Companies.

Having spent well over a year reviewing our governance arrangements, we have renewed confidence in our own model and believe that it is fit for the future providing an appropriate level of protection for Partners and other stakeholders. The coincidence of the updates to UK corporate governance requirements and our own governance reviews has allowed us to review the Partnership's approach to reporting. In this context the Partnership Board has decided to cease voluntarily reporting against the Code. However, we will continue to use it as a benchmark against which to measure the continued relevance of the Constitution. Upholding good standards of corporate governance has always been, and will always be, part of the foundations for our model.

Our model addresses key areas added to the Code in 2018: that a company's culture should promote integrity and openness, value diversity and be responsive to the views of shareholders and wider stakeholders; and that company boards should ensure there are mechanisms in place for effective engagement with the views of the wider workforce – an approach which Spedan Lewis put at the core of our model nearly 100 years ago. It is also consistent with the Wates Principles.



WHAT IS THE CODE?

The Code sets out standards of good practice on board composition and development, remuneration, shareholder relations, accountability and audit. It is published by the Financial Reporting Council (FRC). As part of a wider package of Government corporate governance reforms the FRC issued a new Code in July 2018 applying to accounting periods starting on or after 1 January 2019.

The 2018 Code places greater emphasis on relationships between companies, shareholders and stakeholders. It also promotes the importance of establishing a corporate culture that promotes integrity and values diversity and is aligned with company purpose and business strategy. As was the case with previous editions, the 2018 Code applies to all companies with a 'premium listing' on a UK stock market, and it is therefore not mandatory for the Partnership.



WHAT ARE THE WATES PRINCIPLES?

In response to concerns about corporate governance and responsible business practices in privately held UK companies, the legal and regulatory framework for these companies has been strengthened through the introduction of various new reporting requirements. The launch of the Wates Corporate Governance Principles for Large Private Companies in December 2018 is designed to provide companies with a framework against which they may choose to report.

Both the Wates Principles and the Code are available to view at www.frc.org.uk

PRINCIPAL ACTIVITY

The Partnership's principal activity is retailing, with the main trading operations being the Waitrose & Partners and John Lewis & Partners businesses: John Lewis & Partners operates in a number of different formats including John Lewis & Partners department stores, John Lewis & Partners at home stores, online (johnlewis.com), a John Lewis & Partners liaison office in Gurgaon, India and a sourcing office in Kwun Tong, Hong Kong; Waitrose & Partners operates supermarkets and convenience shops, including shops which operate under licence in the Middle East, online (waitrose.com) and the Leckford Estate (the Waitrose & Partners Farm); there are also business to business contracts in the UK and abroad and ancillary manufacturing activities (together the Partnership). The Company's subsidiaries and related undertakings are listed in note 16.

DIRECTORS' INTERESTS

Under the Constitution of the Partnership, the Executive Directors and Elected Directors, as employees of John Lewis plc, are necessarily interested in the 612,000 Deferred Ordinary Shares in John Lewis Partnership plc, which are held in Trust for the benefit of employees of John Lewis plc and certain other subsidiaries.

Any conflicts of interest are disclosed in this report and details of the Directors' service agreements and notice periods are given on pages 53, 55 and 77.

CAPITAL STRUCTURE

At 26 January 2019, the Partnership had in issue 612,000 Deferred Ordinary Shares of £1 each and 104,169,594 SIP shares of £1 each. 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. The total issued share capital of the Partnership was £104,781,594 at the year-end (2018: £104,781,594).

DIVIDENDS

No dividends were paid on the Deferred Ordinary Shares (2018: £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 declare a dividend upon the Deferred Ordinary Shares, but to recommend the payment of Partnership Bonus to their eligible employees.

Dividends on SIP shares (issued in connection with BonusSave) during the year under review were £344,000 (2018: £428,000).

BONUSSAVE

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. Partners benefit from Employee Ownership tax relief, which allows them to receive the first £3,600 of their Partnership Bonus free of Income Tax (NICs will still be due).

The Partnership operates BonusSave, a Share Incentive Plan (the Plan), which is available to all eligible Partners in the UK and has been approved by HMRC. On the announcement of the annual results, eligible 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 a Partner to be held in shares in the Partnership, in a class created specifically for this purpose known as SIP shares. It enables participating Partners to save Income Tax and NICs when the funds are invested for five years. Also, participating Partners are paid a cash dividend for every full year the investment remains in the plan. Details of SIP shares can be found in note 5.5 to the consolidated financial statements.

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.

CONFLICTS OF INTEREST AND BOARD INDEPENDENCE

The Partnership Board has determined that the composition of the Board provides a balanced leadership, appropriate for an employee-owned business. Elected Directors and Non-Executive Directors together 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 Company Secretary and reconfirmed every six months for the whole Board.

The Partnership Board has looked closely at the other appointments held by Directors, details of which are contained in their biographies on pages 53 to 55. The Partnership Board considers that the Chairman and each of the Directors are able to devote sufficient time to fulfil the duties required of them under the terms of their contracts or letters of appointment.

During the year no Director declared a material interest in any contract of significance with the Partnership or any of its subsidiary undertakings, other than any 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.

Other disclosures — continued

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.

EQUAL OPPORTUNITIES, DIVERSITY AND INCLUSION

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

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

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

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

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

For further information please see page 28 in the Strategic report and the Nominations Committee report on pages 69 to 71 for more information on the Diversity and Inclusion Policy and the Board Diversity Statement in respect of diversity on the Partnership Board.

GROCERIES (SUPPLY CHAIN PRACTICES) MARKET INVESTIGATION ORDER 2009 (THE ORDER) AND THE GROCERIES SUPPLY CODE OF PRACTICE (GSCOP)

Waitrose & Partners is subject to the Order and the GSCoP. Both regulate our trading relationships with grocery suppliers, including training requirements for buyers and the content of supplier contracts. Our approach to GSCoP compliance reflects our long-term commitment to treating our suppliers fairly, as set out in the Constitution (Principle 6 and Rule 96). See page 65 for information on the annual report from the Waitrose & Partners Code Compliance Officer (CCO) to the Audit and Risk Committee required by the Order and the GSCoP.

We have a positive working relationship with the Groceries Code Adjudicator (GCA) and her team and welcome discussions and advice on how to enhance supplier relationships. Meetings are constructive and cover discussions on a range of topics. The feedback from both the GCA annual survey and the quarterly meetings were helpful in identifying suppliers' concerns and resulted in a number of changes to our processes.

We work collaboratively with our suppliers and internally adopt an approach of continuous review and improvement, which this year included new GSCoP guidance notes and a new site for reference information and guidance.

Day-to-day advice, online guidance and support is available to buyers with more specialist advice offered by the CCO team and the Partnership's Legal department. We have an online site for relevant Partners which includes advice, templates and details of where to get further support.

For suppliers we provide information about the GSCoP on 'Waitrose Engage' – an online resource for all of our suppliers which includes GSCoP related content.

Each query is taken seriously to understand the concern, seek resolution and identify whether further guidance or changes to our processes are required. We have also proactively carried out internal reviews and identified areas where we need to strengthen our processes through clear action plans.

POLITICAL DONATIONS

It is not the Partnership's policy to make donations to political groups. No political donations were made in respect of the year under review.

USE OF FINANCIAL INSTRUMENTS

The notes to the financial statements, including note 7 from page 130 onwards, include further information on our use of financial instruments.

RETIREMENT BY ROTATION

The Partnership does not operate a system of retirement by rotation or annual election or re-election at three-year intervals by shareholders. 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.

If 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 pass 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 as detailed on page 54.

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 Partnership Council (see pages 50 to 53). These meetings are also attended by Partnership Board Directors. In addition, the brands operate Councils which enable Partners to review performance, future strategy and the direction of the brands and to hold the Directors responsible.

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 approval of this report. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the Annual Report and Accounts.

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 Group Strategic report on pages 4 to 43.

VIABILITY STATEMENT

The Directors have assessed the prospects of the Company over a three-year period to January 2022. This has taken into account the business model, strategic aims, risk appetite, and principal risks and uncertainties, along with the Company's current financial position. Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period under review. See page 43 for the Partnership's full Viability Statement.

EVENTS AFTER THE BALANCE SHEET DATE

Since 26 January 2019, there have been subsequent events which require disclosure in the financial statements. See note 8.3 for further information.

AUDITOR AND DISCLOSURE OF INFORMATION TO AUDITOR

The auditor, KPMG LLP have indicated their willingness to continue in office, and a resolution that they will be re-appointed will be proposed to the Annual General Meeting, together with a resolution to authorise the Directors to determine the auditor's 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 auditor in connection with preparing their report and to establish that the auditor is aware of that information. As far as the Directors are aware, there is no such information of which the Partnership's auditor has not been apprised.

COMPANY SECRETARY

Peter Simpson was appointed Company Secretary with effect from 31 January 2018.

ANNUAL GENERAL MEETING (AGM)

The Partnership's AGM will be held on 17 July 2019 at 171 Victoria Street, London, SW1E 5NN. The 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.

The Directors' report was approved by the Partnership Board and signed on its behalf by.



PETER SIMPSON

Partner & Company Secretary

John Lewis Partnership
11 April 2019

Consolidated income statement

For the year ended 26 January 2019



Our Revenue minus our incurred expenses showing the Partnership's overall Profit for the year.

Notes	2019 £m	2018 (restated, see note 1.1.4) £m
1.2, 2.1 Gross sales	11,724.1	11,609.5
2.1, 2.2 Revenue	10,316.7	10,215.8
Cost of sales	(6,931.0)	(6,847.7)
Gross profit	3,385.7	3,368.1
2.3 Other operating income	112.1	111.3
2.4 Operating expenses before exceptional items and Partnership Bonus	(3,270.1)	(3,114.0)
3.3 Share of loss of joint venture (net of tax)	(0.7)	(1.0)
2.1 Operating profit before exceptional items and Partnership Bonus	227.0	364.4
2.5 Exceptional items	2.1	(111.3)
2.1 Operating profit before Partnership Bonus	229.1	253.1
5.1 Finance costs	(80.6)	(85.7)
5.1 Finance income	13.6	14.1
Profit before Partnership Bonus and tax	162.1	181.5
Partnership Bonus	(44.7)	(74.0)
2.6 Profit before tax	117.4	107.5
2.9 Taxation	(40.1)	(30.5)
Profit for the year	77.3	77.0
2.1 Profit before Partnership Bonus, tax and exceptional items	160.0	292.8

The accompanying notes are an integral part of the financial statements.

Consolidated statement of comprehensive income

For the year ended 26 January 2019



Profit as shown in the Income statement plus other income and expenses not yet realised, giving Total comprehensive income for the year.

Notes	2019 £m	2018 (restated, see note 1.1.4) £m
Profit for the year	77.3	77.0
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
6.1 Remeasurement of defined benefit pension scheme	272.7	247.5
2.9 Movement in deferred tax on pension scheme	(55.3)	(57.4)
2.9 Movement in current tax on pension scheme	7.1	17.2
Items that may be reclassified subsequently to profit or loss:		
Fair value gain/(loss) on cash flow hedges ¹	21.8	(30.9)
2.9 Movement in deferred tax on cash flow hedges	(4.1)	5.9
Gain on foreign currency translations	0.2	0.4
Other comprehensive income for the year	242.4	182.7
Total comprehensive income for the year	319.7	259.7

¹ Presentation has changed as a result of IFRS 9. See note 1.1.4.

The accompanying notes are an integral part of the financial statements.

Consolidated balance sheet

As at 26 January 2019

Notes	2019 £m	2018 (restated, see note 1.1.4) £m
Non-current assets		
3.1 Intangible assets and goodwill	512.1	495.7
3.2 Property, plant and equipment	3,809.7	3,971.2
4.2 Trade and other receivables	58.4	65.3
7.2 Derivative financial instruments	0.2	–
3.3 Investment in and loans to joint venture	2.7	2.9
2.9 Deferred tax asset	–	28.0
	4,383.1	4,563.1
Current assets		
4.1 Inventories	657.6	661.5
4.2 Trade and other receivables	259.3	261.7
7.2 Derivative financial instruments	6.8	5.2
3.4 Assets held for sale	23.1	–
5.3 Short-term investments ¹	265.4	166.0
5.4 Cash and cash equivalents ¹	716.8	596.2
	1,929.0	1,690.6
Total assets	6,312.1	6,253.7
Current liabilities		
5.5 Borrowings and overdrafts ¹	(331.2)	(68.7)
4.3 Trade and other payables	(1,595.7)	(1,677.3)
Current tax payable	(8.7)	(10.7)
5.6 Finance lease liabilities	(0.5)	(0.7)
4.4 Provisions	(112.3)	(167.9)
7.2 Derivative financial instruments	(7.5)	(19.8)
	(2,055.9)	(1,945.1)
Non-current liabilities		
5.5 Borrowings ¹	(716.0)	(868.1)
4.3 Trade and other payables	(258.6)	(252.1)
5.6 Finance lease liabilities	(20.6)	(22.6)
4.4 Provisions	(134.7)	(122.7)
7.2 Derivative financial instruments	(2.0)	(4.0)
6.1 Retirement benefit obligations	(468.1)	(731.3)
2.9 Deferred tax liability	(36.2)	(6.1)
	(1,636.2)	(2,006.9)
Total liabilities	(3,692.1)	(3,952.0)
Net assets	2,620.0	2,301.7
Equity		
8.1 Share capital	0.6	0.6
Other reserves	5.9	(10.6)
Retained earnings	2,613.5	2,311.7
Total equity	2,620.0	2,301.7

¹ Reclassified. See note 1.1.4.

The financial statements on pages 86 to 136 were approved by the Board of Directors on 11 April 2019 and signed on its behalf by Sir Charlie Mayfield and Patrick Lewis, Directors, John Lewis Partnership plc.

Registered number 00238937

The accompanying notes are an integral part of the financial statements.



A financial snapshot of the Partnership, showing our assets and how they are financed.

Consolidated statement of changes in equity

For the year ended 26 January 2019



A reconciliation between the beginning and the end of the year which discloses Profit or loss, items of Comprehensive income/(expense) 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 28 January 2017	0.6	5.0	1.4	8.1	(0.5)	2,040.8	2,055.4
1.1 Restatement for IFRS 15	—	—	—	—	—	(13.4)	(13.4)
Balance at 28 January 2017 ¹	0.6	5.0	1.4	8.1	(0.5)	2,027.4	2,042.0
Profit for the year ¹	—	—	—	—	—	77.0	77.0
6.1 Remeasurement of defined benefit pension scheme	—	—	—	—	—	247.5	247.5
Fair value losses on cash flow hedges	—	—	—	(22.8)	—	—	(22.8)
— transfers to inventories ²	—	—	—	(8.1)	—	—	(8.1)
2.9 Tax on above items recognised in equity	—	—	—	5.9	—	(40.2)	(34.3)
Gain on foreign currency translations	—	—	—	—	0.4	—	0.4
Total comprehensive income/(expense) for the year	—	—	—	(25.0)	0.4	284.3	259.7
Balance at 27 January 2018 ¹	0.6	5.0	1.4	(16.9)	(0.1)	2,311.7	2,301.7
Profit for the year	—	—	—	—	—	77.3	77.3
6.1 Remeasurement of defined benefit pension scheme	—	—	—	—	—	272.7	272.7
Fair value gains on cash flow hedges	—	—	—	21.8	—	—	21.8
2.9 Tax on above items recognised in equity	—	—	—	(4.1)	—	(48.2)	(52.3)
Gain on foreign currency translations	—	—	—	—	0.2	—	0.2
Total comprehensive income for the year	—	—	—	17.7	0.2	301.8	319.7
Hedging gains transferred to cost of inventory ²	—	—	—	(1.4)	—	—	(1.4)
Balance at 26 January 2019	0.6	5.0	1.4	(0.6)	0.1	2,613.5	2,620.0

1 Restated, see note 1.1.4.

2 Presentation has changed as a result of IFRS 9. See note 1.1.4.

The accompanying notes are an integral part of the financial statements.

Consolidated statement of cash flows

For the year ended 26 January 2019

Notes	2019 £m	2018 (restated, see note 1.1.4) £m
2.7	Cash generated from operations before Partnership Bonus	610.8
	Net taxation paid	(33.9)
	Pension deficit reduction payments	(37.1)
	Finance costs paid	(1.8)
	Net cash generated from operating activities before Partnership Bonus	538.0
	Partnership Bonus paid	(74.9)
5.5	Net cash flow in relation to Share Incentive Plan shares ¹	(15.4)
	Net cash generated from operating activities after Partnership Bonus	447.7
	Cash flows from investing activities	
3.2	Purchase of property, plant and equipment	(143.9)
3.1	Purchase of intangible assets	(166.2)
	Proceeds from sale of property, plant and equipment and intangible assets	13.6
	Finance income received	2.4
3.3	Cash outflow from investment in and loans to joint venture	(0.5)
5.2	Cash outflow from short-term investments ¹	(99.0)
	Cash outflow from acquisition of trade and assets	(1.0)
	Net cash used in investing activities	(394.6)
	Cash flows from financing activities	
	Finance costs paid in respect of bonds	(54.2)
	Finance (costs paid)/income received in respect of financial instruments	(0.5)
5.2	Payment of capital element of finance leases	(1.7)
5.5	Payments to Share Incentive Plan shareholders	(0.4)
	Cash inflow from borrowings	124.4
	Net cash from/(used in) financing activities	67.6
	Increase/(decrease) in net cash and cash equivalents	120.7
5.2	Net cash and cash equivalents at beginning of the year ¹	596.1
	Net cash and cash equivalents at end of the year	716.8
5.4	Net cash and cash equivalents comprise:	
	Cash at bank and in hand	128.2
	Short-term deposits	588.6
	Bank overdrafts	—
		716.8

¹ Reclassified. See note 1.1.4.

The accompanying notes are an integral part of the financial statements.



The Partnership's cash inflows and outflows analysed by various key activities.

Notes to the consolidated financial statements

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READING THE NOTES

In order to make our notes more user-friendly and understandable, we have grouped them under eight headings and provided additional explanations.

i PURPOSE

These boxes explain the purpose of each note.

£ ACCOUNTING POLICIES

These 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

i PURPOSE

We prepare our financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. We have set out our significant accounting policies in these notes. These have been applied in the current reporting period and apply to the financial statements as a whole. All of the Partnership's accounting policies are set in line with the requirements of IFRS.

During the year, we have adopted two new accounting standards, IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' as required by IFRS and prior year balances have been restated where appropriate. We have also revisited the presentation of the components of cash and cash equivalents and the split of current and non-current borrowings, reclassifying prior year balances, and we have updated our accounting policy for exceptional items.

1.1.1 BASIS OF PREPARATION

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

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

The financial year is the 52 weeks ended 26 January 2019 (prior year: 52 weeks ended 27 January 2018).

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 approval of this report. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the Annual Report and Accounts.

1.1.2 BASIS OF CONSOLIDATION

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

1.1.3 SUBSIDIARIES AND RELATED UNDERTAKINGS

Subsidiary undertakings are all entities over which the 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. Joint ventures are investments for which the Partnership shares joint control with a third party.

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

1.1.4 AMENDMENTS TO ACCOUNTING STANDARDS AND CHANGES FROM PRIOR YEAR

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

The following policies were adopted by the Partnership for the year ended 26 January 2019 and have had a significant impact on the Partnership's profit for the year, equity and disclosures:

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

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

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

The impact of these changes, going forward, is a decrease in Revenue recognised at the point of sale with a corresponding increase in the Deferred income liability held in Trade and other payables and the elimination of the Provision held in relation to the warranties on the Balance sheet.

The opening Balance sheet position and comparative periods have been restated through Retained earnings to reflect the decrease in Provisions and the increase in the Deferred income liability, as well as the impact of Taxation. On the transition date, opening Retained earnings mainly decreased as a result of previously recognised revenue being deferred under IFRS 15, and subsequently being released to Revenue over the period of the warranty resulting in an increase in the amounts previously reported as Revenue in 2018.

Following the application of IFRS 15, the impact on Revenue in any given year is the net of Revenue deferred in relation to warranties sold in year and the recognition of Revenue released from Deferred income in respect of warranties deferred in prior years (as illustrated in note 4.3).

As at 28 January 2017 there is a decrease of £13.4m to brought forward Retained earnings as a result of the fully retrospective approach.

The changes as at, and for the period ended 27 January 2018 are shown in the tables below:

Consolidated balance sheet

	2018 (restated) £m	Adjustments	2018 £m
Assets			
Deferred tax asset	28.0	2.5	25.5
Other assets	6,225.7	–	6,225.7
Total assets	6,253.7	2.5	6,251.2
Liabilities			
Trade and other payables	(1,929.4)	(68.1)	(1,861.3)
Provisions	(290.6)	55.1	(345.7)
Other liabilities	(1,732.0)	–	(1,732.0)
Total liabilities	(3,952.0)	(13.0)	(3,939.0)
Equity			
Share capital	0.6	–	0.6
Other reserves	(10.6)	–	(10.6)
Retained earnings	2,311.7	(10.5)	2,322.2
Total equity	2,301.7	(10.5)	2,312.2

Consolidated income statement

	2018 (restated) £m	Adjustments	2018 £m
Gross sales	11,609.5	11.8	11,597.7
Revenue	10,215.8	11.8	10,204.0
Cost of sales	(6,847.7)	(8.2)	(6,839.5)
Gross profit	3,368.1	3.6	3,364.5
Operating expenses and finance costs	(3,260.6)	–	(3,260.6)
Profit before tax	107.5	3.6	103.9
Taxation	(30.5)	(0.7)	(29.8)
Profit for the year	77.0	2.9	74.1

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

IFRS 9 'Financial Instruments' sets out the requirements for recognising, classifying and measuring financial assets and financial liabilities and includes guidance in respect of general hedge accounting. This standard replaces IAS 39 'Financial Instruments: Recognition and Measurement' and sets out two key criteria for determining the classification and measurement of financial assets including the entity's business model for managing financial assets and the contractual cash flow characteristics. IFRS 9 also sets out a single impairment model to ensure expected credit losses on financial instruments are always recognised as soon as they are forecast. The Partnership has assessed the credit risk around the financial instruments and expected credit losses are not considered to be material. In relation to hedge accounting, IFRS 9 adopts a principles-based approach for testing hedge effectiveness instead of setting specific numerical thresholds.

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

Notes to the consolidated financial statements — continued

1.1 ACCOUNTING PRINCIPLES AND POLICIES CONTINUED**1.1.4 AMENDMENTS TO ACCOUNTING STANDARDS AND CHANGES FROM PRIOR YEAR CONTINUED**

The following standards, amendments and interpretations were applicable for the period beginning 28 January 2018, and were adopted by the Partnership for the year ended 26 January 2019. They have not had a significant impact on the Partnership's profit for the year, equity or disclosures:

- Annual Improvements to IFRSs 2014-2016 Cycle (Amendments to IFRS 1 and IAS 28)
- IFRIC 22: Foreign Currency Transactions and Advance Consideration
- Amendments to IAS 40: Transfers of Investment Property
- Clarifications to IFRS 15: 'Revenue from Contracts with Customers'

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 27 January 2019 onwards, which the Partnership has not adopted early:

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

IFRS 16 'Leases' specifies how to recognise, measure, present and disclose leases. The standard will be effective for the Partnership for the year ending 25 January 2020 and its adoption is expected to have a very significant impact on the Partnership's Consolidated income statement and Consolidated balance sheet. The Partnership intends to adopt the modified retrospective approach on transition. For each individual lease, the Right-of-use asset will be measured at the amount of the Lease liability on adoption (adjusted for any prepaid or accrued lease expenses and any provision for impairment).

This will require an adjustment to Equity as at 27 January 2019, however prior year comparatives will not be restated. The Partnership will apply both the short-term and low value lease exemptions on transition and will adopt the transition reliefs in relation to initial direct costs and use of hindsight.

The Partnership's IFRS 16 project is governed by a Steering Group which oversees the relevant project work streams, approves key decisions and provides regular updates to the Audit and Risk Committee. During the year to 26 January 2019, work has progressed to finalise the discount rate methodology, accounting policies and internal controls, complete the data collection and validation of the Partnership's portfolio of lease data and fully implement the IT system solution which will record and calculate the IFRS 16 impact.

The Partnership's lease portfolio is principally comprised of property leases in relation to Waitrose & Partners and John Lewis & Partners stores, distribution centres and head offices. As shown in note 3.5, the undiscounted value of operating lease commitments in relation to the Partnership's leases is £3.7bn.

On adoption of IFRS 16, the main impact for the Partnership will be the recognition of Right-of-use assets and Lease liabilities on the Consolidated opening balance sheet for all applicable leases. On 27 January 2019, the Partnership expects to recognise Lease liabilities of £2.1bn representing the total cash commitments under Operating leases (£3.7bn) discounted to present value. The Partnership will also recognise Right-of-use assets of the equivalent value (£2.1bn). The Right-of-use assets will be adjusted for the reclassification of prepaid lease expenses, Deferred income and onerous lease provisions (£151m) and £62m of impairment, resulting in a net Right-of-use assets balance of £1.9bn on transition. Overall Net assets will decrease by £46m, after adjusting existing IAS 17 Finance leases by £7m and recognising £62m for impairment of the Right-of-use assets. A Deferred tax asset of £9m will also be recognised as a result of this adjustment to Equity.

Going forward, a straight-line depreciation expense will be recognised in the Consolidated income statement in relation to the Right-of-use assets and an amortising interest charge will be recognised in the Consolidated income statement in relation to the Lease liabilities. The interest charge will be front-loaded in the earlier periods of a lease as the interest element unwinds. This will replace the Operating lease expense currently recognised in the Income statement under IAS 17. For the year ending 25 January 2020, assuming no changes in the lease portfolio, this will result in a material reduction in Profit before tax of approximately £40m, comprising an increase in Operating profit of approximately £63m offset by an estimated increase in Finance costs of £103m.

There will be no quantitative impact to cash flows (other than the phasing of tax cash flows related to movements in Profit), however the classification of cash flows will change. It is estimated that the Partnership's Operating cash outflows will decrease and Financing cash outflows will increase by approximately £88m as repayment of the principal portion of the Lease liabilities will be classified as Cash flows from financing activities.

The effect of these changes will also be reflected in the Partnership's KPIs including the Debt Ratio, Return on Invested Capital (ROIC) and Partnership Profit per average full-time equivalent (FTE) Partner. For the year ending 25 January 2020, assuming no changes in the lease portfolio, this will result in a 0.4% decrease in ROIC and a £550 decrease in Partnership Profit per average FTE Partner. The Debt Ratio will remain consistent as the IFRS 16 Lease liabilities on transition are closely aligned to the estimates previously included in the published Debt Ratio figures.

The Partnership's activities as a lessor are not material and therefore the Partnership does not expect any significant impact on the financial statements. However, as required by IFRS 16, additional disclosures will be included within the notes to the financial statements for the year ending 25 January 2020.

- IFRIC 23: Uncertainty over Income Tax Treatments. The adoption of IFRIC 23 is not expected to have any impact on the Partnership's Consolidated income statement or Consolidated balance sheet.
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRSs 2015-17 Cycle – various standards
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to IFRS 9: Prepayment Features with Negative Compensation

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

- Amendments to References to the Conceptual Framework in IFRS Standards (applicable for the period beginning 26 January 2020)
- IFRS 17: Insurance Contracts (applicable for the period beginning 31 January 2021)
- Amendment to IFRS 3: Business Combinations (applicable for the period beginning 26 January 2020)
- Amendments to IAS 1 and IAS 8: Definition of Material (applicable for the period beginning 26 January 2020)

Change in accounting policy: Exceptional items

During the year, the Directors have reviewed the accounting policy for Exceptional items. As part of this review, the Directors have changed the accounting policy for Exceptional items to improve the transparency and clarity of the application of the policy. The new policy is described in note 1.2.2.

No restatement of items disclosed in prior periods is required as a result of this change in accounting policy, however the classifications of some balances within Exceptional items have been relabelled to more appropriate descriptions and provide clearer comparability year on year.

Reclassification of Short-term investments and Cash and cash equivalents

Following a review of the Partnership's Short-term deposits, certain deposits previously presented as Cash and cash equivalents at 27 January 2018 are now considered Short-term investments due to the risk of variability in the value of these funds. As a result, £46.0m of deposits previously classified as Cash and cash equivalents have been reclassified to Short-term investments in the current and comparative periods, impacting the Balance sheet, Statement of cash flows and related notes to the accounts. There is no impact on Current assets, Cash generated from operations after Partnership Bonus or Net debt. For further details on Short-term investments and Cash and cash equivalents please refer to notes 5.3 and 5.4.

Reclassification of Current and Non-current borrowings

The Partnership operates the BonusSave scheme (the scheme), a Share Incentive Plan (SIP) which allows Partners to elect to invest part of their Partnership Bonus back into the Partnership. The scheme is operated by John Lewis Partnership Trust Limited which purchases SIP shares on behalf of Partners who have chosen to invest a portion of their Partnership Bonus for this purpose.

The amounts in respect of SIP shares are classified as debt as the Partnership has a clear obligation to repay the amounts.

Following a review of the scheme, the Partnership has concluded that as per the definitions of accounting standards, control of the scheme is held by John Lewis Partnership plc and accordingly the scheme is now consolidated within the Partnership's consolidated financial statements. As a result, the Partnership now shows amounts owed directly to Partners rather than the Partnership's liability to the scheme. Necessarily, these amounts owed are presented as current and non-current dependent on the withdrawal profile of the SIP shares. This has resulted in a reclassification of Non-current borrowings amounting to £68.6m to Current borrowings as at 27 January 2018, impacting the Balance sheet, Statement of cash flow and related notes to the accounts. There is no impact on the Income statement, Net assets, Cash generated from operations after Partnership Bonus or Net debt.

1.1.5 SIGNIFICANT ACCOUNTING POLICIES

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

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, interest rate swaps and foreign exchange options.

Derivative financial instruments are initially 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. Subsequent to initial recognition, unless designated as hedging instruments, derivatives are measured at fair value and any gains or losses arising from changes in fair value are taken directly to the Income statement.

Hedge accounting has been adopted for Derivative financial instruments where possible. At inception of designated hedging relationships, the risk management objective and strategy for undertaking the hedge is documented. Additionally, the Partnership documents the economic relationship between the item being hedged and the hedging instrument, and a qualitative and forward-looking approach is taken to assessing whether the hedge will be effective on an ongoing basis. At the end of each financial reporting period, for each Derivative financial instrument, prospective testing is performed to ensure that the economic relationship remains, the impact of credit risk on changes in values is reviewed, and the hedging ratio is reassessed.

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.

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 is recognised in Equity. All other changes in fair value are recognised immediately in the Income statement within other gains or losses. When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as Inventory, the amount accumulated in the hedging reserve is included directly in the initial cost of the non-financial item when it is recognised. For all other hedged forecast transactions, amounts accumulated in Equity are recycled to the Income statement in the periods when the hedged item affects Profit or loss. Derivative financial instruments qualifying for cash flow hedge accounting are principally forward currency contracts.

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

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

	Note	Measurement
Financial assets:		
Trade receivables	4.2	Amortised cost
Other receivables	4.2	Amortised cost
Short-term investments	5.3	Amortised cost
Cash and cash equivalents	5.4	Amortised cost
Derivative financial instruments	7.2	Fair value through profit and loss or OCI ¹
Financial liabilities:		
Borrowings and overdrafts	5.5	Amortised cost
Trade payables	4.3	Amortised cost
Other payables	4.3	Amortised cost
Accruals	4.3	Amortised cost
Partnership Bonus	4.3	Amortised cost
Finance lease liabilities	5.6	Amortised cost
Derivative financial instruments	7.2	Fair value through profit and loss or OCI ¹

¹ 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.

As a result of the introduction of IFRS 9, there has been no change to the method of measurement or carrying value of any of the Partnership's financial assets and liabilities.

Offsetting

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

Foreign currencies

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

Notes to the consolidated financial statements — continued

1.1 ACCOUNTING PRINCIPLES AND POLICIES CONTINUED

1.1.6 KEY JUDGEMENTS AND CRITICAL ACCOUNTING ESTIMATES

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

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

- **Retirement benefits:** Details of critical accounting estimates and assumptions are given in note 6.1
- **Provisions and liabilities:** Details of critical accounting estimates and assumptions are given in notes 4.3 and 4.4
- **Impairment:** Details of critical accounting estimates and assumptions are given in notes 3.1 and 3.2
- **Depreciation and amortisation:** Details of critical accounting estimates and assumptions are given in notes 3.1 and 3.2
- **Value of intangible work in progress:** Details of key judgements are given in note 3.1
- **Application of residual values:** Details of key judgements are given in note 3.2
- **Exceptional items:** Details of key judgements are given in note 2.5
- **Revenue/Deferred income:** Details of critical accounting estimates are given in notes 2.2 and 4.3

1.2 NON-GAAP MEASURES

PURPOSE

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. For definitions, and where applicable, reconciliations, of other non-GAAP measures, please see the glossary on pages 152 to 157.

1.2.1 Gross Sales Gross sales represents the amount receivable by the Partnership for goods and services supplied to customers. Gross sales includes the sale of stock purchased on a sale or return basis, VAT and adjustments for expected customer returns. Gross sales is net of any discount offered and revenue deferred in respect of free service guarantees. This measure shows the headline sales trend.

1.2.2 EXCEPTIONAL ITEMS

Items which are significant by virtue of their size and nature are presented as Exceptional items within their relevant Consolidated income statement category.

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

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

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

No restatement of items disclosed in prior periods is required as a result of this change in accounting policy. For details of our Exceptional items see note 2.5.

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, excluding the pension deficit and operating leases.

2. PARTNERSHIP PERFORMANCE

IN THIS SECTION

This section focuses on our performance during the year ended 26 January 2019. Information is provided on segmental performance, revenue, other operating income, operating expenses, exceptional items, Partner-related costs and taxation. This section also includes a reconciliation of our profit before tax to the cash generated from operations before Partnership Bonus, which shows how our performance translates into cash.

2.1 SEGMENTAL REPORTING

PURPOSE

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

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

ACCOUNTING POLICIES

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.

Partnership Bonus: The Partnership Bonus is announced and paid to Partners each March and is determined in relation to the performance for the previous financial year. No liability is recorded for Partnership Bonus at the half-year as the majority of the 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 the amount can be reliably estimated once the results for the year are known and prior to the approval of the Partnership's financial statements.

Notes to the consolidated financial statements — continued

2.1 SEGMENTAL REPORTING CONTINUED

2019	Waitrose & Partners £m	John Lewis & Partners £m	Group £m	Total £m
Gross sales	6,835.0	4,889.1	—	11,724.1
Adjustment for sale or return sales	—	(259.0)	—	(259.0)
Value added tax	(405.5)	(742.9)	—	(1,148.4)
Revenue	6,429.5	3,887.2	—	10,316.7
Operating profit before exceptional items, Partnership Bonus and net profit on sale of property¹	202.5	113.4	(91.8)	224.1
Net profit on sale of property ²	0.7	1.3	0.9	2.9
Operating profit before exceptional items and Partnership Bonus	203.2	114.7	(90.9)	227.0
Exceptional items	(4.0)	(22.1)	28.2	2.1
Operating profit before Partnership Bonus	199.2	92.6	(62.7)	229.1
Finance costs				(80.6)
Finance income				13.6
Partnership Bonus				(44.7)
Profit before tax				117.4
Taxation				(40.1)
Profit for the year				77.3
Reconciliation of Profit before Partnership Bonus, tax and exceptional items to Profit before tax:				
Profit before Partnership Bonus, tax and exceptional items				160.0
Partnership Bonus				(44.7)
Exceptional items				2.1
Profit before tax				117.4
Segment assets	2,839.8	2,105.7	1,366.6	6,312.1
Segment liabilities	(793.7)	(877.3)	(2,021.1)	(3,692.1)
Net assets	2,046.1	1,228.4	(654.5)	2,620.0
Other segment items:				
– Depreciation ³	(153.3)	(119.6)	(14.6)	(287.5)
– Amortisation ³	(32.3)	(61.3)	(29.3)	(122.9)
– Capital expenditure – property, plant and equipment	93.0	61.3	9.8	164.1
– Capital expenditure – intangible assets	52.8	65.6	39.7	158.1
– Decrease in provisions	(3.8)	(7.9)	(31.9)	(43.6)

1 Included within Operating profit before exceptional items, Partnership Bonus and net profit on sale of property is a £0.7m share of loss of a joint venture in John Lewis & Partners (2018: £1.0m share of loss). See note 3.3.

2 Net profit on sale of property includes losses of £0.9m in Waitrose & Partners (2018: £2.1m), £0.5m in Group (2018: £nil), and £0.1m in John Lewis & Partners (2018: £nil).

3 Includes net charges for impairment. See notes 3.1 and 3.2.

2018	Waitrose & Partners £m	John Lewis & Partners £m	Group £m	Total £m
Gross sales¹	6,753.7	4,855.8	–	11,609.5
Adjustment for sale or return sales	–	(254.6)	–	(254.6)
Value added tax	(399.0)	(740.1)	–	(1,139.1)
Revenue¹	6,354.7	3,861.1	–	10,215.8
Operating profit before exceptional items, Partnership Bonus and net profit on sale of property^{1,5}	169.1	247.3	(65.4)	351.0
Net profit on sale of property ²	2.9	10.5	–	13.4
Operating profit before exceptional items and Partnership Bonus¹	172.0	257.8	(65.4)	364.4
Exceptional items	(52.2)	(21.3)	(37.8)	(111.3)
Operating profit before Partnership Bonus^{1,3}	119.8	236.5	(103.2)	253.1
Finance costs				(85.7)
Finance income				14.1
Partnership Bonus				(74.0)
Profit before tax¹				107.5
Taxation ¹				(30.5)
Profit for the year¹				77.0
Reconciliation of Profit before Partnership Bonus, tax and exceptional items to Profit before tax:				
Profit before Partnership Bonus, tax and exceptional items¹				292.8
Partnership Bonus				(74.0)
Exceptional items				(111.3)
Profit before tax¹				107.5
Segment assets¹	2,890.1	2,150.8	1,212.8	6,253.7
Segment liabilities¹	(784.9)	(902.0)	(2,265.1)	(3,952.0)
Net assets¹	2,105.2	1,248.8	(1,052.3)	2,301.7
Other segment items:				
– Depreciation ⁴	(196.2)	(110.2)	(16.9)	(323.3)
– Amortisation ⁴	(38.2)	(54.3)	(21.6)	(114.1)
– Capital expenditure – property, plant and equipment	109.0	72.8	45.0	226.8
– Capital expenditure – intangible assets	52.7	107.0	22.8	182.5
– Increase/(decrease) in provisions ¹	(2.0)	10.5	7.4	15.9

1 Restated, see note 1.1.4.

2 Net profit on sale of property includes losses of £2.1m in Waitrose & Partners.

3 Included within Operating profit before Partnership Bonus is an impairment charge of £52.3m, of which £42.7m is in Waitrose & Partners, £7.2m is in John Lewis & Partners, and £2.4m is in Group (see notes 3.1 and 3.2).

4 Includes net charges for impairment. See notes 3.1 and 3.2.

5 Included within Operating profit before exceptional items, Partnership Bonus and net profit on sale of property is a £1.0m share of loss of a joint venture in John Lewis & Partners (see note 3.3).

Notes to the consolidated financial statements — continued

2.2 REVENUE

i PURPOSE

During the year, as required by IFRS, a new accounting standard has been adopted – IFRS 15 'Revenue from Contracts with Customers'. This introduces the concept of a performance obligation which is effectively a written or unwritten contract for a good or a service. Note 1.1.4 describes the impact of restating for IFRS 15 and this note reflects the new disclosure requirements.

Revenue is generated solely from contracts with customers.

Revenue is measured based on the consideration specified in a contract with a customer. The Partnership recognises revenue when it transfers control over a good or service to a customer.

£ ACCOUNTING POLICIES

Revenue: We evaluate our Revenue with customers based on the five-step model under IFRS 15: 'Revenue from Contracts with Customers': (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognise revenues when (or as) each performance obligation is satisfied. We generate the majority of our revenue from the sale of goods or from providing services to our customers.

Revenue from the sale of goods and services is recognised when the Partnership has satisfied its performance obligations by transferring a promised good or service to the customer. The good or service is considered to be transferred when the customer obtains control of that good, or the service is complete. 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, adjustments for the sale of free service guarantees and adjustments for expected customer returns. Revenue is recognised in respect of sales under bill and hold arrangements when the buyer takes control of the asset, even if it has not physically been transferred to the customer. Revenue under bill and hold arrangements is not recognised when there is simply an intention to acquire.

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. Non-redemption revenue is recognised in proportion to the pattern of rights exercised by the customer. Certain entities 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. This is further discussed under inventory note 4.1.

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

2.2.1 DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

We analyse our revenue between goods and services. Goods are split into four major product lines: Grocery, Home, Fashion and Electricals and Home Technology (EHT). Services comprise free service guarantees on selected goods. This presentation is consistent with how our Partnership Board and Divisional Management Boards review performance throughout the year.

Major product lines	2019 £m	2018 £m
Goods		
– Grocery	6,429.5	6,354.7
– Home	1,085.8	1,133.6
– Fashion	1,215.7	1,179.4
– EHT (Electricals and Home Technology)	1,393.6	1,370.1
Services		
– Free service guarantee	41.3	31.3
Other revenue	150.8	146.7
	10,316.7	10,215.8

2.2.2 REVENUE RECOGNITION POLICIES

The following table provides information about the nature of the major product service lines generating revenue.

Type of product/ service	Nature and timing of satisfaction of performance obligations	Revenue recognition under IFRS 15 (new accounting policy)	Revenue recognition under IAS 18 (previous accounting policy)
Grocery	Grocery products are principally sold by Waitrose & Partners and include food, drink, household and other items. Additionally, fuel sales are shown here. Customers obtain control of grocery products when the goods are received by the customer. Customers pay at the point of sale in Waitrose & Partners stores. Where a grocery product is ordered online, it is fulfilled by a Waitrose & Partners store and customers are charged on the day of delivery. For business to business (B2B) customers, invoices are raised and are usually payable within 30 days. Waitrose & Partners accepts returns in accordance with a customer's statutory rights under consumer laws in the United Kingdom and has a discretionary goodwill policy. Under the goodwill policy, customers can return products within 35 days after receipt, if not entirely satisfied.	Revenue is recognised when the goods have been received by the customer and control obtained. Adjustments are recorded for returns where material, based on historic trends and recent sales patterns. The right to return goods is included under inventory, note 4.1.	Revenue is recognised when the goods have been received by the customer. Adjustments are recorded for returns where material, based on historic trends and recent sales patterns.

Type of product/ service	Nature and timing of satisfaction of performance obligations	Revenue recognition under IFRS 15 (new accounting policy)	Revenue recognition under IAS 18 (previous accounting policy)
Home	Home products are principally sold by John Lewis & Partners and include items intended for use in the home environment. Customers obtain control of home products when the goods are received by the customer. Customers pay at the point of sale in John Lewis & Partners stores. Where a home product is ordered online, it is generally fulfilled from a centralised location. For B2B customers, invoices are raised and are payable on a variety of payment terms up to 30 days. John Lewis & Partners accepts returns in accordance with a customer's statutory rights under consumer laws in the United Kingdom and has a discretionary goodwill policy. Under the goodwill policy, customers can return products within 35 days after receipt, if not entirely satisfied.	Revenue is recognised when the goods have been received by the customer and control obtained. Adjustments are recorded for returns where material, based on historic trends and recent sales patterns. The right to return goods is included under inventory, note 4.1.	Revenue is recognised when the goods have been received by the customer. Adjustments are recorded for returns where material, based on historic trends and recent sales patterns.
Fashion	Fashion products are principally sold by John Lewis & Partners and include clothing, jewellery and other items. This also includes 'sale or return' sales. Customers obtain control of fashion products when the goods are received by the customer. Customers pay at the point of sale in John Lewis & Partners stores. Where a fashion product is ordered online, it is generally fulfilled from a centralised location. For B2B customers, invoices are raised and are payable on a variety of payment terms up to 30 days. John Lewis & Partners accepts returns in accordance with a customer's statutory rights under consumer laws in the United Kingdom and has a discretionary goodwill policy. Under the goodwill policy, customers can return products within 35 days after receipt, if not entirely satisfied.	Revenue is recognised when the goods have been received by the customer and control obtained. Adjustments are recorded for returns where material, based on historic trends and recent sales patterns. The right to return goods is included under inventory, note 4.1.	Revenue is recognised when the goods have been received by the customer. Adjustments are recorded for returns where material, based on historic trends and recent sales patterns.
Electricals and Home Technology (EHT)	EHT products are principally sold by John Lewis & Partners and include televisions, computers, tablets and other electrical items. Customers obtain control of EHT products when the goods are received by the customer. Customers pay at the point of sale in John Lewis & Partners stores. Where an EHT product is ordered online, it is generally fulfilled from a centralised location. For B2B customers, invoices are raised and are payable on a variety of payment terms up to 30 days. John Lewis & Partners accepts returns in accordance with a customer's statutory rights under consumer laws in the United Kingdom and has a discretionary goodwill policy. Under the goodwill policy, customers can return products within 35 days after receipt, if not entirely satisfied.	Revenue is recognised when the goods have been received by the customer. When EHT products are sold with a free service guarantee an element of the sales price is allocated to the performance of that service (see below). Adjustments are recorded for returns where material, based on historic trends and recent sales patterns. The right to return goods is included under inventory, note 4.1.	Revenue is recognised when the goods have been received by the customer, for the full price of the goods sold, excluding VAT. Adjustments are recorded for returns where material, based on historic trends and recent sales patterns.
Free service guarantee	The free service guarantee is provided with certain EHT products which are sold by John Lewis & Partners. Customers receive a free service guarantee of between two and five years on the purchase of specified EHT products. No separate payment is made for the free service guarantee. An element of the sales price of the EHT product is allocated to the free service guarantee on a cost plus margin basis. This amount is deducted from revenue and deferred on the Balance sheet. The deferred income is released to the Income statement over the period of the guarantee on a straight-line basis.	Revenue is deferred on the Balance sheet and then released to the Income statement over the period of the guarantee on a straight-line basis. Deferred income is shown under trade and other payables, see note 4.3.	The free service guarantee was accounted for under IAS 37 Provisions. No adjustment was made to revenue which was fully recognised at the point of sale and the best estimate of the costs of fulfilling the free service warranty was recorded as a provision.
Other revenue	Other revenue products/services are principally sold by John Lewis & Partners and include catering, customer delivery, foodhalls and workrooms. Customers obtain control of other revenue when the products/services have been rendered and the performance obligations have been met. Customers pay at the point of sale in John Lewis & Partners stores. Where other revenue products/services are ordered online, these are generally fulfilled from a centralised location.	Revenue is recognised when the products/services have been received by the customer and the performance obligations have been met.	Revenue is recognised when the products/services have been received by the customer.

Notes to the consolidated financial statements — continued

2.3 OTHER OPERATING INCOME

i PURPOSE

Detailed below is income received that does not relate to the Partnership's main activities.

£ ACCOUNTING POLICIES

Other operating income is income that does not relate to the main trading operations of the Partnership.

Other operating income includes:

Commissions: Commissions are recognised when the Partnership has satisfied its performance obligation by delivering a promised service to the customer in accordance with the transaction price agreed.

Rental income: Rental income is recognised on a straight-line basis based on the length of the contract and when the performance obligation of the contract is satisfied.

Other income: Other income is recognised when the services have been rendered to the customer and performance obligations have been met.

For those services below, within the scope of IFRS 15, there was no change in recognition policy upon adoption of the accounting standard, and therefore the comparatives have not been restated.

	2019 £m	2018 £m
Other operating income		
Commissions	64.7	66.1
Rental income	7.6	6.8
Licence fees	2.7	3.0
Other income	37.1	35.4
	112.1	111.3

Other income mainly relates to: car parking income; backhauling; concession income; and compensation for loss of profit under landlord commercial agreements where development work has impacted branch sales. It is made up of items that individually are not material and no other material groups were considered to be shown.

2.4 OPERATING EXPENSES BEFORE EXCEPTIONAL ITEMS AND PARTNERSHIP BONUS

i PURPOSE

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.

	2019 £m	2018 £m
Operating expenses before exceptional items and Partnership Bonus		
Branch operating expenses	(2,198.1)	(2,158.4)
Administrative expenses	(1,072.0)	(955.6)
	(3,270.1)	(3,114.0)

In addition to the items disclosed in note 2.6, within Operating expenses before exceptional items and Partnership Bonus we include charges such as marketing expenses, general rates, rent payable, and customer delivery.

2.5 EXCEPTIONAL ITEMS

i PURPOSE

Exceptional items are items of income and/or expense that are significant by virtue of their size and nature (see note 1.2.2). We believe these exceptional items are relevant for a better understanding of our underlying business performance, and therefore 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.

KEY JUDGEMENTS

Exceptional items: Exceptional items are those where, in management's opinion, their separate reporting provides a better understanding of the Partnership's underlying business performance; and which are significant by virtue of their size and nature. In considering the nature of an item, management's assessment includes, both individually and collectively, whether the item is outside the principal activities of the business; the specific circumstances which have led to the item arising; the likelihood of recurrence; and if the item is likely to recur, whether it is unusual by virtue of its size.

No single criteria alone classifies an item as exceptional, and therefore management must exercise judgement when determining whether, on balance, presenting an item as exceptional will help users of the financial statements understand the Partnership's underlying business performance.

Exceptional items	2019 Operating (expense)/ income £m	2019 Taxation credit/ (charge) £m	2018 Operating (expense)/ income £m	2018 Taxation credit £m
Strategic restructuring and redundancy programmes				
Head office reviews	(19.3)	3.7	(40.5)	7.6
Physical estate	(5.1)	1.5	(5.5)	0.4
Shop operations	(6.7)	1.3	(29.2)	5.5
	(31.1)	6.5	(75.2)	13.5
Branch impairments (Waitrose & Partners)	–	–	(35.7)	4.5
Branch impairment (John Lewis & Partners)	(12.6)	1.2	–	–
John Lewis & Partners supply chain	0.5	(0.1)	(3.1)	0.6
Pay provision	30.3	(5.6)	–	–
Legal settlement	15.0	(2.9)	–	–
Profit on disposal of items previously recognised as exceptional	–	–	2.7	–
	2.1	(0.9)	(111.3)	18.6

Strategic restructuring and redundancy programmes

In April 2016, the Partnership launched its long-term strategy: It's Your Business 2028 (IYB 2028). The IYB 2028 strategy outlined three key pillars centred on Customer, Partner and Profit and the steps we would need to take in order to adapt the Partnership for the future. The acceleration of our plans in order to ensure the Partnership's success in line with our One Partnership objectives, is requiring an unprecedented level of internal change. In June 2018, the Partnership provided a strategy update outlining in more detail the key focus areas fundamental to meeting our Profit objective. Further detail on these can be found on pages 34 to 37 of the Strategic report. Given the scale of these changes, the programmes of activity will take a number of years to deliver. These costs form part of our strategic transformation programme and therefore will recur across a number of financial years. As we move towards delivering our strategic vision, transformation programmes in other areas may be required. Over the life of the programme they are significant in value and, given the level of change, they are significant in nature and therefore the Partnership considers them exceptional items. The financial impact of these for 2019 and 2018 is detailed below:

Head office: As part of IYB 2028, an internal productivity agenda was launched in 2016 with the appointment of a Group Productivity Director, the main focus of which was a transformation of pan-Partnership functions and other head office operations. These principally included evaluations of a number of functions which began at the end of 2017. Given the scale of the change, the delivery of these was expected to take four years, and is now well progressed, but further costs are expected over the next two years as we finalise the reviews of the remaining functions. In 2019 we have incurred expenses of £19.3m (2018: £40.5m) in relation to this programme. The expense includes project costs, onerous contracts and, where announced, redundancy costs.

Physical estate: In 2017, we announced our intention to cut back on plans to open new shops and instead to prioritise investment in our existing estate. This led to exceptional charges in 2017 for the write down of property, other assets and related costs, principally in relation to future development plans of the Waitrose & Partners estate (previously presented in exceptional items as Strategic review). Since 2017, our focus has shifted to an assessment and optimisation of our existing estate, and as highlighted in our June 2018 update, this continues to be a key part of our strategy, which includes ensuring that the size and shape of our physical estate is delivering on both our customer proposition, and financial returns. We expect this programme and the associated costs and incomes to take approximately five years to deliver. This year we have recognised a net exceptional expense of £5.1m (2018: £5.5m). The net charge includes the impairment of assets (reflecting the shortening of the useful economic life), accelerated depreciation of buildings, fixtures and fittings and management's best estimate of closure costs including onerous leases, dilapidations and, where closure has been approved and announced, redundancy costs. Where income in relation to previously estimated costs has been realised in the year, this has been shown net, reflecting that the original expenses were shown as exceptional.

Shop operations: Alongside the assessment of our physical estate, we also identified that the way in which we run and manage our shops would require adjustment. In order to improve the customer experience and efficiencies in our stores, we have made a number of changes in our shop operating models. This has included reviewing store management structures, the centralisation of certain functions, and aligning regional offerings in order to deliver a more flexible, multi-skilled and productive model. This programme is now largely complete with costs of £6.7m (2018: £29.2m) recognised this year. The expenses in the current year principally include redundancy costs, where announced, as specific elements of our shop operating models are restructured.

Included within operating expenses, and not separately reported as exceptional, are £12.7m of restructuring and redundancy costs which are considered by the Partnership to be separate from our strategic programmes and part of the underlying business performance.

Branch impairments (Waitrose & Partners)

In 2018, £38.9m of impairment charges were recognised in relation to Waitrose & Partners stores. Of this, £3.2m related to stores due for closure, which have now been relabelled as Physical estate within the 2018 comparative balances above. The remaining £35.7m was driven by continuing uncertainty with respect to Brexit outcomes and changes to the grocery market, leading us to review our approach and assumptions with respect to possible impairment in Waitrose & Partners, where margins were trending significantly lower. This £35.7m was recognised as exceptional given the nature of the exercise and the size of the cost. In 2019 no such impairment charges have been recognised as exceptional, and any impairments as a result of store closures are included within Physical estate, while any impairments resulting from poor store performance have been included within operating expenses.

Branch impairment (John Lewis & Partners)

Following the signing of an amended lease contract, a charge of £12.6m (2018: £nil) has been recorded in relation to branch impairment in John Lewis & Partners.

John Lewis & Partners supply chain

In 2017, a review of the John Lewis & Partners supply chain led to significant redundancy and restructuring costs which were recognised as exceptional. During the year to January 2019, a small credit of £0.5m (2018: £3.1m charge) has been recognised as actual costs incurred have been smaller than anticipated.

Notes to the consolidated financial statements — continued

2.5 EXCEPTIONAL ITEMS CONTINUED

Pay provision

In 2017, a £36.0m provision was recorded as an exceptional charge to cover the potential costs of complying with the National Minimum Wage Regulations. During the year, the methodology for calculating the liability has been clarified and the project finalised, resulting in a £30.3m (2018: £nil) release of the provision. Discussions with HMRC have now been completed and rectification payments have been made.

Legal settlement

In September 2018, the Partnership reached a settlement in relation to an ongoing legal dispute, receiving income of £15.0m. Due to the size and nature of this settlement, this income has been recognised as exceptional.

Profit on disposal of items previously recognised as exceptional

In 2018, income of £2.7m was recognised upon finalisation of a property disposal which was previously recorded as exceptional. In 2019 profit on disposal of items previously recognised as exceptional was £nil.

2.6 PROFIT BEFORE TAX

i PURPOSE

Detailed below are items (charged)/credited to arrive at our profit before tax as defined by IFRS and required to be reported under IFRS.

	2019 £m	2018 (restated, see note 1.1.4) £m
Staff costs (note 2.8.2)	(1,863.2)	(1,846.9)
Depreciation – owned assets ¹	(286.8)	(322.6)
Depreciation – assets held under finance leases	(0.7)	(0.7)
Amortisation of intangible assets ²	(122.9)	(114.1)
Net profit on sale of property (including exceptional items)	3.9	16.1
Net loss on disposal of other plant and equipment and intangible assets	(3.8)	(0.3)
Inventory – cost of inventory recognised as an expense ³	(6,931.0)	(6,847.7)
Operating lease rentals:		
– land and buildings	(190.7)	(186.9)
– plant and machinery	(1.3)	(0.5)
Sub-lease income:		
– land and buildings	5.7	5.8

1 Included within depreciation – owned assets is an impairment charge of £18.6m (2018: £40.7m) of which £6.0m (2018: £40.7m) is in Waitrose & Partners and £12.6m (2018: £nil) is in John Lewis & Partners.

2 Included within amortisation of intangible assets is an impairment charge of £2.0m (2018: £11.6m) of which £0.2m (2018: £2.0m) is in Waitrose & Partners, £nil (2018: £7.2m) is in John Lewis & Partners and £1.8m (2018: £2.4m) is in Group.

3 Restated, see note 1.1.4.

Contingent rents expensed during the year were £2.2m (2018: £0.8m). Contingent rents are determined based on store revenues.

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

	2019 £m	2018 £m
Auditor's remuneration		
Audit and audit-related services:		
– Audit of the parent Company and consolidated financial statements	(0.4)	(0.3)
– Audit of the Company's subsidiaries	(0.6)	(0.6)
	(1.0)	(0.9)
Non-audit services:		
– Other assurance services	(0.1)	(0.2)
	(0.1)	(0.2)
Total fees	(1.1)	(1.1)

2.7 RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS BEFORE PARTNERSHIP BONUS

i PURPOSE

We have analysed how our profit before tax reconciles to the cash generated from our operating activities before Partnership Bonus. Items added back to, or deducted from, profit before tax are non-cash items that are adjusted to arrive at cash generated from operations before Partnership Bonus which is shown in the Statement of cash flows.

	2019 £m	2018 £m
Profit before tax ¹	117.4	107.5
Amortisation and write-offs of intangible assets ²	141.7	114.1
Depreciation ³	287.5	323.3
Share of loss of joint venture (net of tax)	0.7	1.0
Net finance costs	67.0	71.6
Partnership Bonus	44.7	74.0
Fair value losses on derivative financial instruments	2.1	0.2
Loss/(profit) on disposal of property, plant and equipment and intangible assets ⁴	1.4	(15.8)
Decrease/(increase) in inventories	3.9	(33.7)
Decrease/(increase) in receivables	8.3	(21.8)
(Decrease)/increase in payables ¹	(46.7)	6.6
Increase in retirement benefit obligations	29.6	29.5
(Decrease)/increase in provisions ¹	(46.8)	12.0
Cash generated from operations before Partnership Bonus	610.8	668.5

1 Restated, see note 1.1.4.

2 Includes net impairment charges. See note 3.1.

3 Includes net impairment charges. See note 3.2.

4 This amount represents only the cash received in the year, amounts due to be received next year of £1.5m are included within receivables. The net of these amounts is £0.1m as per note 2.6.

2.8 PARTNERS

i PURPOSE

The average number of Partners employed during the year, together with details of the area of the Partnership in which they work, and total employment related costs are shown in the tables below. At the end of the year, our total number of Partners was 83,900 (2018: 85,500). This note also covers Partner benefits, including pay for senior Partners and the Partnership Board.

2.8.1 PARTNER NUMBERS

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

	2019	2018
John Lewis & Partners	28,100	28,500
Waitrose & Partners	52,400	53,000
Group	3,200	3,000
	83,700	84,500

Notes to the consolidated financial statements — continued

2.8 PARTNERS CONTINUED

2.8.2 PARTNER PAY AND BENEFITS

Employment and related costs were as follows:

	2019 £m	2018 £m
Staff costs		
Wages and salaries	(1,480.0)	(1,441.3)
Social security costs	(110.5)	(111.6)
Partnership Bonus	(39.8)	(65.7)
Employers' National Insurance on Partnership Bonus	(4.9)	(8.3)
Other pension expenses (note 6.1.2)	(219.1)	(215.6)
Long leave cost	(8.9)	(4.4)
Total before Partner discounts	(1,863.2)	(1,846.9)
Partner discounts (excluded from revenue)	(76.2)	(69.3)
	(1,939.4)	(1,916.2)

2.8.3 KEY MANAGEMENT COMPENSATION

Salaries and short-term benefits	(13.2)	(13.1)
Post-employment benefits ¹	(2.4)	(2.0)
	(15.6)	(15.1)

¹ Includes cash supplements in lieu of future pension accrual.

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, Partnership Bonus, National Insurance costs, pension costs and the cost of other employment benefits, such as company cars, private medical insurance and termination payments where applicable. Costs of key management compensation are included within operating expenses and exceptional items as 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 therefore no allowance has been made for this benefit in the amounts disclosed.

2.8.4 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 75 to 77.

	2019 £m	2018 £m
Aggregate emoluments	(5.5)	(6.1)

2.9 TAXATION

i PURPOSE

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.

Our Tax Strategy aligns to the Principles of our Constitution and, as a responsible leading retailer, we believe that paying taxes arising from our activities is an important part of how our business contributes to the societies in which we operate. The Tax Strategy adopted by the Partnership Board is available on the Partnership's website. In addition our total tax contributions are shown on page 21.

£ ACCOUNTING POLICIES

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

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

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

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

2.9.1 ANALYSIS OF TAX CHARGE FOR THE YEAR

i PURPOSE

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 income/(expense). Deferred tax is explained in note 2.9.3.

	2019 £m	2018 £m
Tax (charged)/credited to the income statement		
Current tax – current year	(46.2)	(52.1)
Current tax – adjustment in respect of prior years	2.3	(0.4)
Current tax on IFRS 15 restatement	2.5	–
Total current tax charge	(41.4)	(52.5)
Deferred tax – current year ¹	5.1	21.7
Deferred tax – rate change	–	(7.3)
Deferred tax – adjustment in respect of prior years	(1.3)	7.6
Deferred tax on IFRS 15 restatement	(2.5)	–
Total deferred tax credit	1.3	22.0
	(40.1)	(30.5)
Tax (charged)/credited to other comprehensive income		
Current tax on pension scheme ²	7.1	17.2
Total current tax credit	7.1	17.2
Deferred tax on pension scheme	(55.3)	(57.4)
Deferred tax on cash flow hedges	(4.1)	5.9
Total deferred tax charge	(59.4)	(51.5)
	(52.3)	(34.3)

1 Restated, see note 1.1.4.

2 An additional deficit funding contribution of £37.1m has been paid by the Partnership during the year (2018: £89.8m) in relation to the defined benefit pension scheme, resulting in a tax credit of £7.1m (2018: £17.2m) to the statement of other comprehensive income/(expense) and a corresponding reduction in our current tax liability.

2.9.2 FACTORS AFFECTING TAX CHARGE FOR THE YEAR

i PURPOSE

Taxable profit differs from profits as reported in the income statement because some items of income or expense 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 temporary 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 (2018: higher) than the standard corporation tax rate of 19.0% (2018: 19.2%). The differences are explained below:

	2019 £m	2018 £m
Profit before tax ²	117.4	107.5
Profit before tax multiplied by standard rate of corporation tax in the UK of 19.0% (2018: 19.2%)	(22.3)	(20.6)
Effects of:		
Changes in tax rate	–	(7.3)
Adjustment in respect of prior years	1.0	7.2
Depreciation on assets not qualifying for tax relief	(14.4)	(14.0)
Difference between accounting and tax base for land and buildings	(2.0)	4.9
Differences in overseas tax rates	(0.1)	(0.1)
Sundry disallowables	(2.3)	0.2
Other permanent differences on sale of property	–	(0.8)
Total tax charge²	(40.1)	(30.5)
Effective tax rate ² (%)	34.2	28.4

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

2 Restated, see note 1.1.4.

Notes to the consolidated financial statements — continued

2.9 TAXATION CONTINUED

2.9.3 DEFERRED TAX

i PURPOSE

Deferred tax is the tax expected to be payable or recoverable in the future due to 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 on temporary differences using a tax rate of 19% for deferred tax assets and liabilities expected to reverse before 1 April 2020, and 17% for those assets and liabilities expected to reverse after 1 April 2020. In the year to 27 January 2018, a tax rate of 19% was used for deferred tax assets and liabilities expected to reverse before 1 April 2020 and 17% for those assets and liabilities expected to reverse after 1 April 2020.

The movement on the deferred tax account is shown below:

	2019 £m	2018 £m
Deferred tax		
Opening net asset ¹	21.9	51.4
Credited to income statement ¹	1.3	22.0
Charged to other comprehensive income/(expense)	(59.4)	(51.5)
Closing net asset¹	(36.2)	21.9

¹ Restated, see note 1.1.4.

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

	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Rollover gains £m	Total £m
Deferred tax liabilities				
At 28 January 2017	(101.5)	(8.8)	(38.7)	(149.0)
Credited to income statement	2.6	0.5	0.4	3.5
At 27 January 2018	(98.9)	(8.3)	(38.3)	(145.5)
Credited to income statement	7.3	0.3	—	7.6
At 26 January 2019	(91.6)	(8.0)	(38.3)	(137.9)

	Capital gains tax on land and buildings £m	Pensions and provisions £m	Other £m	Total £m
Deferred tax assets				
At 28 January 2017 ¹	12.8	181.2	6.4	200.4
Credited/(charged) to income statement ¹	1.4	17.2	(0.1)	18.5
(Charged)/credited to other comprehensive income/(expense)	—	(57.4)	5.9	(51.5)
At 27 January 2018 ¹	14.2	141.0	12.2	167.4
(Charged)/credited to income statement	(3.1)	0.7	(3.9)	(6.3)
Charged to other comprehensive income/(expense)	—	(55.3)	(4.1)	(59.4)
At 26 January 2019	11.1	86.4	4.2	101.7

¹ Restated, see note 1.1.4.

The deferred tax asset in relation to the defined benefit pension scheme is £63.3m (2018: £109.9m).

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

Deferred tax	2019 £m	2018 £m
Deferred tax assets ¹	–	28.0
Deferred tax liabilities	(36.2)	(6.1)
Deferred tax net	(36.2)	21.9

¹ Restated, see note 1.1.4.

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

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future profits is probable. There are unrecognised deferred tax assets in respect of losses for the year ended 26 January 2019 relating to losses in John Lewis Hong Kong Limited of £0.7m (2018: £nil).

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

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

As a result of exemptions on dividends from subsidiaries and capital gains on disposal, there are no significant taxable temporary differences associated with investments in subsidiaries and interests in joint arrangements.

2.9.4 FACTORS AFFECTING TAX CHARGES IN CURRENT AND FUTURE YEARS



PURPOSE

Here we explain any changes to the current or future tax rates that have been announced or substantively enacted.

Legislation has been enacted to reduce the UK corporation tax rate from 19% to 17% from 1 April 2020.

Notes to the consolidated financial statements — continued

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 goodwill, property, plant and equipment, investment in and loans to our joint venture, as well as commitments for future expenditure which will be used to help generate our performance in future years. Assets held for sale are included within this section as they relate to current assets which have previously been used in delivering our results.

3.1 INTANGIBLE ASSETS AND GOODWILL

i PURPOSE

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 economic life (UEL). The amortisation charge reduces the initial value of the assets over time spread evenly over their useful economic lives. The value after deducting accumulated amortisation is known as the amortised value.

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 profits.

£ ACCOUNTING POLICIES

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

Amortisation: Once available for use, the purchased or internally developed software is amortised on a straight-line basis over its useful economic life, which is deemed to be between three and ten years. The assets' useful economic lives are reviewed and adjusted if appropriate at each balance sheet date.

Goodwill: Goodwill arises on consolidation and represents the surplus of fair value of the amount paid for a business (or company) less the fair value of the net assets acquired (assets, liabilities and contingent liabilities). Goodwill is not amortised but subject to annual impairment testing. Revisions to goodwill are accounted for in the same manner as the original goodwill.

Impairment: Assets are reviewed for impairment at least annually or whenever events or circumstances indicate that the amortised value may not be recoverable. An impairment loss is recognised for the amount by which the asset's amortised cost exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to dispose and value in use. The reversal of an impairment loss is recognised immediately as a credit to the income statement.

KEY JUDGEMENTS

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

During the year to 26 January 2019, the Partnership has capitalised a significant proportion of WIP that has built up over recent years. Management's review has concluded that the remaining intangible WIP balances presented at the reporting date are expected to result in intangible assets as defined by IAS 38.

CRITICAL ACCOUNTING ESTIMATES

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

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

Intangible assets and goodwill	Goodwill	Computer software			Total £m
	£m	Purchased £m	Internally developed £m	Work in progress £m	
Cost					
At 28 January 2017	–	216.6	491.3	157.4	865.3
Additions ¹	–	–	–	182.5	182.5
Transfers	–	23.4	72.0	(95.4)	–
Disposals and write-offs	–	(26.6)	(60.6)	(5.4)	(92.6)
At 27 January 2018	–	213.4	502.7	239.1	955.2
Additions ¹	1.1	–	–	157.0	158.1
Transfers	–	46.9	194.2	(241.1)	–
Disposals and write-offs	(1.1)	(8.6)	(19.5)	(17.7)	(46.9)
At 26 January 2019	–	251.7	677.4	137.3	1,066.4
Accumulated amortisation					
At 28 January 2017	–	(139.1)	(293.5)	–	(432.6)
Charge for the year ²	–	(30.5)	(83.6)	–	(114.1)
Disposals and write-offs	–	27.2	60.0	–	87.2
At 27 January 2018	–	(142.4)	(317.1)	–	(459.5)
Charge for the year ²	–	(43.4)	(79.5)	–	(122.9)
Disposals and write-offs	–	8.6	19.5	–	28.1
At 26 January 2019	–	(177.2)	(377.1)	–	(554.3)
Net book value at January 2017	–	77.5	197.8	157.4	432.7
Net book value at January 2018	–	71.0	185.6	239.1	495.7
Net book value at January 2019	–	74.5	300.3	137.3	512.1

1 For the year ended 26 January 2019, additions for the year include the non-cash capital expenditure accrual on intangible assets of £71m (2018: £22.3m).

2 For the year ended 26 January 2019, this includes an impairment charge of £2.0m (2018: £11.6m) to intangible assets of which £0.2m (2018: £2.0m) is in Waitrose & Partners, £nil (2018: £7.2m) is in John Lewis & Partners and £1.8m (2018: £2.4m) is in Group.

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

There are four individually significant assets within the total carrying amount of intangible assets as at 26 January 2019: two are customer projects (£139.0m, 2018: £126.8m) and two are distribution projects (£126.2m, 2018: £126.2m).

During the year to 26 January 2019, computer systems valued at £241.1m (2018: £95.4m) were brought into use. This covered a range of selling, support, supply chain, administration and information technology infrastructure applications, with asset lives ranging from three to ten years.

Amortisation of intangible assets is charged within operating expenses.

Goodwill relates to the surplus of consideration over the assets and liabilities acquired as part of the acquisition of the trade of Opun Group Limited on 1 June 2018. This was subsequently written off in full during the year.

Notes to the consolidated financial statements — continued

3.2 PROPERTY, PLANT AND EQUIPMENT

i PURPOSE

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 when the Partnership transitioned to report under IFRS. It also details any additions and disposals during the year. Additionally, the note shows depreciation, which is an expense in the income statement to reflect 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 accumulated 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 forecast performance. If an asset value falls below its net book value, this is reflected through an additional 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 in to working condition ready for its intended use. This may include capitalised borrowing costs.

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

Other assets are held at cost.

Depreciation: No depreciation is charged on freehold land or assets in the course of construction. Depreciation is calculated for all other assets to write off the cost or valuation, less residual value, on a straight-line basis over the following expected useful economic lives (UELs):

Freehold and long leasehold buildings – 25 to 50 years

Other leaseholds – over the shorter of the useful economic life or the remaining period of the lease

Building fixtures – 10 to 40 years

Fixtures, fittings and equipment (including vehicles and information technology equipment) – 3 to 10 years

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

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

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

KEY JUDGEMENTS

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

CRITICAL ACCOUNTING ESTIMATES

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

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

Property, plant and equipment	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in course of construction £m	Total £m
Cost				
At 28 January 2017	4,569.5	1,957.2	85.9	6,612.6
Additions ¹	–	–	226.8	226.8
Transfers	136.0	95.3	(231.3)	–
Disposals and write-offs	(62.2)	(133.3)	(0.4)	(195.9)
At 27 January 2018	4,643.3	1,919.2	81.0	6,643.5
Additions ¹	2.9	–	161.2	164.1
Transfers	89.1	99.0	(188.1)	–
Disposals and write-offs	(31.4)	(69.8)	(1.1)	(102.3)
Transfers to assets held for sale	(77.7)	–	–	(77.7)
At 26 January 2019	4,626.2	1,948.4	53.0	6,627.6
Accumulated depreciation				
At 28 January 2017	(1,161.2)	(1,339.0)	–	(2,500.2)
Charge for the year ²	(172.9)	(150.4)	–	(323.3)
Disposals and write-offs	18.0	133.2	–	151.2
At 27 January 2018	(1,316.1)	(1,356.2)	–	(2,672.3)
Charge for the year ²	(142.4)	(145.1)	–	(287.5)
Disposals and write-offs	19.8	67.5	–	87.3
Transfers to assets held for sale	54.6	–	–	54.6
At 26 January 2019	(1,384.1)	(1,433.8)	–	(2,817.9)
Net book value at January 2017	3,408.3	618.2	85.9	4,112.4
Net book value at January 2018	3,327.2	563.0	81.0	3,971.2
Net book value at January 2019	3,242.1	514.6	53.0	3,809.7

1 For the year ended 26 January 2019, additions for the year include the non-cash capital expenditure accrual on property, plant and equipment of £28.7m (2018: £12.7m).

2 For the year ended 26 January 2019, this includes a net impairment charge of £18.6m to land and buildings (2018: £40.7m).

Included above are land and building assets held under finance leases with a net book value of £14.6m (2018: £15.8m).

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

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

The value in use calculation is based on three-year cash flow projections using the latest budget and forecast data. Any changes in sales performance and costs are based on past experience and expectations of future changes in the market. The forecasts are then extrapolated beyond the three-year period using a long-term growth rate. The discount rate is derived from the Partnership's pre-tax weighted average cost of capital of 8% (2018: 8%).

The impairment review performed considers the value in use calculation based on the above methodology and assumptions, as well as other potential impairment triggers such as strategy changes. Following the impairment review, the Partnership recognised an impairment charge to land and buildings in the year of £6.0m in Waitrose & Partners (2018: £40.7m) and £12.6m in John Lewis & Partners (2018: £nil).

A reduction of 0.5% in the long-term growth rate would result in an additional impairment charge of £1.5m (2018: £9.3m). An increase in the discount rate of 0.5% would result in an additional impairment charge of £0.9m (2018: £4.6m).

Notes to the consolidated financial statements — continued

3.3 INVESTMENT IN AND LOANS TO JOINT VENTURE

i PURPOSE

Our balance sheet includes an investment in a joint venture, Clicklink Logistics Limited, which is used to support our business and the generation of our profits.

This note shows the cost of the investment in, and loans made to, the joint venture. It also includes details of the share of profit/loss and any dividends received from the joint venture during the year.

£ ACCOUNTING POLICIES

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

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

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

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

Joint venture	Investment £m	Loan £m	Total £m
Cost			
At 28 January 2017	2.1	1.5	3.6
Additions	—	—	—
At 27 January 2018	2.1	1.5	3.6
Additions	—	0.5	0.5
At 26 January 2019	2.1	2.0	4.1
Share of (loss)/profit			
At 28 January 2017	0.3	—	0.3
Share of loss	(1.0)	—	(1.0)
At 27 January 2018	(0.7)	—	(0.7)
Share of loss	(0.7)	—	(0.7)
At 26 January 2019	(1.4)	—	(1.4)
At 27 January 2018	1.4	1.5	2.9
At 26 January 2019	0.7	2.0	2.7

3.4 ASSETS HELD FOR SALE

i PURPOSE

Assets held for sale are non-current assets which are expected to be sold rather than held for continuing use in the Partnership. These have principally arisen as part of the Partnership's review of its physical estate. Assets held for sale 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 26 January 2019, five property assets in Waitrose & Partners (£13.7m) and one in John Lewis & Partners (£9.4m) were recorded as held for sale with a total carrying value of £23.1m. Two of these properties have been sold since the year-end and the remaining four are expected to complete within the next 12 months.

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

3.5 COMMITMENTS AND CONTINGENCIES



PURPOSE

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.

In line with accounting standards, commitments and contingencies are not included within the balance sheet, but are detailed in the note below. The amounts below represent the maximum amounts that we are obliged to pay, with the exception of commitments under operating leases, where the future minimum payments under non-cancellable operating leases are disclosed. See note 5.6 for the leases accounting policy.

3.5.1 CAPITAL COMMITMENTS

At 26 January 2019, contracts had been entered into for future capital expenditure of £44.1m (2018: £36.0m) of which £33.0m (2018: £29.3m) relates to property, plant and equipment and £11.1m (2018: £6.7m) relates to intangible assets.

3.5.2 LEASE GUARANTEES

Previously, John Lewis plc provided lease guarantees in favour of the Partnership's former associate company, Ocado Limited, in respect of leased land and buildings. For 2018, the maximum liability due from the Partnership as the guarantor was £6.8m which would have become payable had Ocado Limited defaulted on rental payments. For 2019, this guarantee is no longer provided.

3.5.3 COMMITMENTS UNDER OPERATING LEASES

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

	2019 Land and buildings £m	2018 Land and buildings £m
Future aggregate minimum lease payments under non-cancellable operating leases, payable:		
Within one year	(192.5)	(188.9)
Later than one year and less than five years	(757.4)	(738.2)
After five years	(2,716.1)	(3,148.5)
Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years:		
Later than five years and less than ten years	(825.7)	(847.6)
Later than ten years and less than 20 years	(1,087.5)	(1,152.0)
Later than 20 years and less than 40 years	(517.7)	(598.0)
Later than 40 years and less than 80 years	(248.9)	(271.1)
After 80 years	(36.3)	(279.8)
	(2,716.1)	(3,148.5)

For the year ending 25 January 2020, the Partnership will adopt the new accounting standard for leases, IFRS 16. Under this standard the commitments under operating leases reflected in the tables above (£3.7bn) will be recognised on the Consolidated balance sheet as lease liabilities discounted to present value (£2.1bn). See note 1.1.4.

Total future sub-lease payments receivable relating to the above operating leases amounted to £10.9m (2018: £10.9m).

Amounts recognised in the income statement	2019 £m	2018 £m
Operating lease rentals:		
– land and buildings	(190.7)	(186.9)
– plant and machinery	(1.3)	(0.5)
Sub-lease income:		
– land and buildings	5.7	5.8

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

i PURPOSE

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 an appropriate provision is made against the inventory balance. 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 POLICIES

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 held 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 an appropriate provision is made. Inventory also includes a 'right to return goods' asset, which represents the value of inventory expected to be returned as a result of customers exercising their rights under the Partnership's returns policy. The expected level of returns is based on past experience.

Inventory	2019 £m	2018 £m
Raw materials	3.6	4.2
Work in progress	0.1	0.1
Finished goods and goods for resale	653.9	657.2
	657.6	661.5

Provisions against inventories of £27.7m were charged (2018: £10.7m charged) to cost of sales.

Finished goods and goods for resale includes a 'right to return goods' asset of £20.0m (2018: £22.5m).

4.2 TRADE AND OTHER RECEIVABLES

i PURPOSE

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 and prepayments are split into current and non-current to show those amounts due within one 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.

ACCOUNTING POLICIES

Trade receivables: Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less an allowance for expected credit losses. Such allowances are based on an individual assessment of each receivable, which is informed by past experience, and are recognised at amounts equal to the losses expected to result from all possible default events over the life of each financial asset. The Partnership also performs analysis on a case by case basis for particular trade receivables with irregular payment patterns or history.

Supplier income (shown as part of accrued 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 (shown as part of trade receivables) 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 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.

	2019 £m	2018 £m
Trade and other receivables		
Current:		
Trade receivables	74.5	84.5
Other receivables	39.1	39.8
Prepayments	110.6	101.5
Accrued income	35.1	35.9
	259.3	261.7
Non-current:		
Other receivables	16.2	18.3
Prepayments	42.2	47.0
	58.4	65.3

Trade receivables are non-interest bearing and generally on credit terms of less than 90 days. Concentrations of credit risk are considered to be very limited. The carrying amount of trade and other receivables approximates to fair value and is denominated in Sterling. Within trade receivables is supplier income that has been invoiced but not yet paid of £15.4m (2018: £9.7m). Supplier income that has been invoiced but not yet settled against future trade payable balances is included in trade payables (see note 4.3).

Within accrued income, there is £12.7m (2018: £9.3m) in relation to supplier income which has not yet been invoiced. Additionally, accrued income includes £20.5m (2018: £24.6m) in relation to other operating income items (see note 2.3) which has not been billed at the reporting date. The unbilled amounts of other operating income is made up of items that are individually not material for further disclosures and had no significant changes during the period.

The Partnership recognises loss allowances for expected credit losses within operating expenses in the income statement. As at 26 January 2019, trade and other receivables of £4.0m (2018: £2.9m) were partially or fully impaired. As at 26 January 2019, trade and other receivables of £23.3m (2018: £26.2m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

	2019 £m	2018 £m
Ageing analysis		
Up to 3 months past due	22.9	24.5
3 to 12 months past due	0.4	1.1
Over 12 months past due	–	0.6
	23.3	26.2

Notes to the consolidated financial statements — continued

4.3 TRADE AND OTHER PAYABLES

i PURPOSE

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. Deferred income includes amounts owed to customers through goods or services to be delivered, including in respect of warranties and incentives on property leases spread over the duration of the lease. Non-current trade and other payables and non-current deferred income balances are not expected to be settled within the next financial year.

£ ACCOUNTING POLICIES

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

Deferred income: Deferred income is recognised when the Partnership has received cash in advance of providing a good or service. It includes revenue in respect of free service guarantees for EHT products. The Partnership allocates a portion of the consideration received for the EHT product to the free service guarantee on a cost plus margin basis. The amount allocated to the free service guarantee is deferred and recognised as revenue over the period of the guarantee on a straight-line basis.

CRITICAL ACCOUNTING ESTIMATES

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

Deferred income: In relation to free service guarantees, deferred income is based on the expected future repair costs for all goods sold plus a margin. The expected future costs are based on historic evidence of claims and cost to repair. Management exercise a degree of estimation regarding the margin percentage.

Trade and other payables	2019 £m	2018 £m
Current:		
Trade payables	(919.7)	(943.3)
Other payables	(179.0)	(184.7)
Other taxation and social security	(178.4)	(178.8)
Accruals	(189.9)	(192.1)
Deferred income ¹	(89.0)	(111.9)
Partnership Bonus	(39.7)	(66.5)
	(1,595.7)	(1,677.3)
Non-current:		
Other payables	(0.2)	(0.3)
Deferred income ¹	(258.4)	(251.8)
	(258.6)	(252.1)

¹ Restated, see note 1.1.4.

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

Deferred income primarily relates to free service guarantees. During the year an amount of £41.3m (2018: £31.3m restated) was released to the Income statement. The charge for the year was £25.6m (2018: £21.5m restated). The year-end position of free service guarantees is £50.0m (2018: £65.8m restated). The remaining balance in deferred income relates to goods and services sold but not yet delivered and lease incentives.

4.4 PROVISIONS

i PURPOSE

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 the year-end. Our provisions primarily relate to the expected cost of long leave, expected customer refunds, insurance claims, reorganisation costs, property related costs and pay provisions.

£ ACCOUNTING POLICIES

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.

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

CRITICAL ACCOUNTING ESTIMATES

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

Provisions	Long leave £m	Customer refunds £m	Insurance claims £m	Reorganisation £m	Other £m	Total £m
At 27 January 2018 ¹	(139.6)	(39.4)	(25.0)	(30.2)	(56.4)	(290.6)
Charged to income statement	(14.1)	(34.3)	(8.0)	(27.2)	(8.2)	(91.8)
Released to income statement	4.8	–	0.8	5.8	35.3	46.7
Utilised	7.1	39.4	7.3	27.1	7.8	88.7
At 26 January 2019	(141.8)	(34.3)	(24.9)	(24.5)	(21.5)	(247.0)
Of which:						
Current	(35.9)	(34.3)	(9.8)	(24.4)	(7.9)	(112.3)
Non-current	(105.9)	–	(15.1)	(0.1)	(13.6)	(134.7)

¹ Restated, see note 1.1.4.

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 benefits (note 6.1), with the exception of the real discount rate, where a rate appropriate to the shorter duration of the long leave liability is used, so as to accrue the cost over Partners' service periods.

Provisions for customer refunds reflect 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.

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

Other provisions include property related costs and pay provisions. The release of £35.3m in the year principally relates to releases in respect of the National Minimum Wage provision of £30.3m, as detailed in note 2.5.

Notes to the consolidated financial statements — continued

5. FINANCING

IN THIS SECTION

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

5.1 NET FINANCE COSTS

i PURPOSE

Net finance costs include our costs in respect of interest payable on borrowings, our defined benefit pension and other employee benefit schemes. Finance income includes interest received from short-term deposits, short-term investments and fair value movements.

	2019 £m	2018 £m
Finance costs		
Net interest payable on:		
Commitment fees and bank overdrafts	(1.5)	(1.3)
Other loans repayable within five years	(19.6)	(18.3)
Other loans repayable in more than five years ¹	(33.6)	(32.2)
Finance lease interest payable	(0.9)	(0.9)
Amortisation of issue costs of bonds and credit facilities	(1.6)	(1.5)
Share Incentive Plan dividends	(0.2)	(0.4)
Finance costs in respect of borrowings	(57.4)	(54.6)
Fair value measurements and other	(5.9)	(1.9)
Net finance costs arising on defined benefit and other employee benefit schemes	(17.3)	(29.2)
Total finance costs	(80.6)	(85.7)
Finance income		
Finance income in respect of cash and short-term investments ²	10.1	6.8
Fair value measurements and other	3.5	7.3
Total finance income	13.6	14.1
Net finance costs	(67.0)	(71.6)

¹ Other loans repayable in more than five years includes interest payable on interest rate swaps of £5.7m (2018: £4.7m).

² Finance income in respect of cash and short-term investments includes interest receivable on interest rate swaps of £6.1m (2018: £5.4m).

	2019 £m	2018 £m
Total finance costs in respect of borrowings, excluding interest rate swaps	(51.7)	(49.9)
Net interest receivable in respect of interest rate swaps	0.4	0.7
Finance income in respect of cash and short-term investments, excluding interest rate swaps	4.0	1.4
Net finance costs in respect of borrowings and short-term investments	(47.3)	(47.8)
Fair value measurements and other	(2.4)	5.4
Net finance costs arising on defined benefit retirement scheme	(17.0)	(25.3)
Net finance costs arising on other employee benefit schemes	(0.3)	(3.9)
Net finance costs	(67.0)	(71.6)

Capitalised borrowing costs totalled £7.4m (2018: £8.4m) of which £6.1m (2018: £7.2m) were capitalised within intangible assets and £1.3m (2018: £1.2m) were capitalised within property, plant and equipment.

5.2 ANALYSIS OF NET DEBT

i PURPOSE

Net debt summarises our debt position as at the year-end, excluding the pension deficit and operating leases. 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.

	2018 £m	Cash movements £m	Other non-cash movements £m	2019 £m
Non-current assets				
Derivative financial instruments	–	–	0.2	0.2
	–	–	0.2	0.2
Current assets				
Cash and cash equivalents ¹	596.2	120.6	–	716.8
Short-term investments ¹	166.0	99.0	0.4	265.4
Derivative financial instruments	5.2	(0.2)	1.8	6.8
	767.4	219.4	2.2	989.0
Current liabilities				
Borrowings and overdrafts	(68.7)	12.4	(275.0)	(331.3)
Unamortised bond transaction costs	–	–	0.1	0.1
Finance leases	(0.7)	1.7	(1.5)	(0.5)
Derivative financial instruments	(19.8)	2.6	9.7	(7.5)
	(89.2)	16.7	(266.7)	(339.2)
Non-current liabilities				
Borrowings	(880.3)	(121.9)	275.0	(727.2)
Unamortised bond transaction costs	11.1	0.7	(1.4)	10.4
Fair value adjustment for hedged element on bonds	1.1	–	(0.3)	0.8
Finance leases	(22.6)	–	2.0	(20.6)
Derivative financial instruments	(4.0)	–	2.0	(2.0)
	(894.7)	(121.2)	277.3	(738.6)
Total net debt	(216.5)	114.9	13.0	(88.6)

1 Reclassified, see note 1.1.4.

	2019 £m	2018 £m
Reconciliation of net cash flow to net debt		
Increase/(decrease) in net cash and cash equivalents in the year ¹	120.7	(77.6)
Cash outflow from movement in short-term investments ¹	99.0	106.0
Cash outflow from SIP shares	15.4	–
Cash (inflow)/outflow from movement in other net debt items	(120.2)	9.3
Cash movement in net debt for the year	114.9	37.7
Opening net debt	(216.5)	(250.6)
Non-cash movement in net debt for the year	13.0	(3.6)
Closing net debt	(88.6)	(216.5)

1 Reclassified, see note 1.1.4.

Our total borrowings and finance lease liabilities are summarised below.

	Borrowings £m	Finance lease liabilities £m	Total £m
At 28 January 2017	(979.2)	(24.5)	(1,003.7)
Movements arising from financing cash flows	30.2	1.2	31.4
At 27 January 2018	(949.0)	(23.3)	(972.3)
Movements arising from financing cash flows	(109.5)	1.7	(107.8)
Other non-cash movements	–	0.5	0.5
At 26 January 2019	(1,058.5)	(21.1)	(1,079.6)

Borrowings exclude unamortised bond transaction costs of £10.5m (2018: £11.1m) and the fair value adjustment for the hedged element on bonds of £0.8m (2018: £1.1m).

Notes to the consolidated financial statements — continued

5.3 SHORT-TERM INVESTMENTS

i PURPOSE

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 POLICIES

Short-term investments: Short-term investments comprise tradable securities and deposits with original maturities of greater than 90 days but less than one year. Maturity periods are not the sole factor. Given the AA VNAV's have a weighted average maturity of less than 90 days they have been included within Short-term investments due to the fact they do not bear an insignificant risk of changes in value.

	2019 £m	2018 £m
Short-term investments		
Short-term investments¹	265.4	166.0

1 Reclassified, see note 1.1.4.

For the year ended 26 January 2019, the effective interest rate on short-term investments was 1.0% (2018: 0.5%) and these investments had an average maturity of 116 days (2018: 99 days¹).

5.4 CASH AND CASH EQUIVALENTS

i PURPOSE

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 POLICIES

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 which are subject to an insignificant risk of changes in value. In the consolidated statement of cash flows, net cash and cash equivalents comprise cash and cash equivalents, as defined above, net of bank overdrafts.

	2019 £m	2018 £m
Cash and cash equivalents		
Cash at bank and in hand	128.2	128.4
Short-term deposits ¹	588.6	467.8
	716.8	596.2

1 Reclassified, see note 1.1.4.

For the year ended 26 January 2019, the effective interest rate on short-term deposits was 0.6% (2018: 0.3%) and these deposits had an average maturity of three days (2018: one day).

At 26 January 2019, £19.6m (2018: £20.5m) of the Partnership's cash balance and £0.1m (2018: £nil) 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:

	2019 £m	2018 £m
Cash and cash equivalents, as above ¹	716.8	596.2
Less bank overdrafts	—	(0.1)
Net cash and cash equivalents	716.8	596.1

1 Reclassified, see note 1.1.4.

5.5 BORROWINGS AND OVERDRAFTS

i PURPOSE

Our borrowings comprise bonds, bank loans, 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.

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

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.

	2019 £m	2018 £m
Borrowings and overdrafts		
Current:		
Bank overdraft	–	(0.1)
8½% Bonds, 2019	(275.0)	–
Share Incentive Plan shares (SIP) ¹	(56.3)	(68.6)
Unamortised bond transaction costs	0.1	–
	(331.2)	(68.7)
Non-current:		
Bank loans	(125.0)	–
8½% Bonds, 2019	–	(275.0)
6½% Bonds, 2025	(300.0)	(300.0)
4¼% Bonds, 2034	(300.0)	(300.0)
Unamortised bond and loan transaction costs	10.4	11.1
Fair value adjustment for hedged element on bonds	0.8	1.1
Share Incentive Plan shares (SIP) ¹	(2.2)	(5.3)
	(716.0)	(868.1)

¹ Reclassified, see note 1.1.4.

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

During the year, the Partnership entered into new loan arrangements with its banking partners totalling £125.0m. These loans mature between 2021 and 2023.

In April 2019 the Partnership repaid the 2019 Bond amounting to £275.0m.

The Partnership operates the BonusSave scheme, a Share Incentive Plan (SIP) which allows Partners to elect to invest part of their Partnership Bonus back into the Partnership. SIP shares are issued as part of the BonusSave scheme. Partners who wish to invest part of their Partnership Bonus in SIP shares 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. The amounts in respect of SIP shares are classified as debt as the Partnership has a clear obligation to repay the amounts.

The BonusSave scheme is operated by John Lewis Partnership Trust Limited which purchases SIP shares on behalf of Partners who have chosen to invest a portion of their Partnership Bonus for this purpose. At 26 January 2019, the value of SIP shares purchased by John Lewis Partnership Trust Limited on behalf of Partners was £58.5m (2018: £73.9m), £45.7m lower than the total value of SIP shares issued of £104.2m (2018: £104.2m).

The SIP shares shown as current and non-current borrowings above reflect amounts owed directly to Partners in respect of the scheme. The cash flow movement as a result of the net subscriptions and redemptions of shares of £15.4m (2018: £30.3m) is shown as an operating cash flow in the Statement of cash flows alongside the Partnership Bonus paid during the year.

Payments made to SIP shareholders in respect of interest of £0.4m (2018: £0.9m) are shown as cash flows used in financing operations.

Notes to the consolidated financial statements — continued

5.6 FINANCE LEASE LIABILITIES

i PURPOSE

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 POLICIES

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.

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

Sub-lease income is recognised as other operating income on a straight-line basis over the sub-lease term, less allowances for situations where recovery is doubtful (see note 3.5).

For the year ending 25 January 2020, the Partnership will adopt the new accounting standard for leases, IFRS 16. See notes 1.1.4 and 3.5 for further details.

	2019 £m	2018 £m
Finance lease liabilities		
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	(1.3)	(1.6)
Later than one year but not more than five	(4.8)	(5.5)
More than five years	(30.4)	(35.2)
	(36.5)	(42.3)
Future finance charge on finance leases	15.4	19.0
Present value of finance lease liabilities	(21.1)	(23.3)
Of which:		
Not later than one year	(0.5)	(0.7)
Later than one year but not more than five	(2.2)	(2.6)
More than five years	(18.4)	(20.0)

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

6. PENSIONS

IN THIS SECTION

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

6.1 RETIREMENT BENEFITS



PURPOSE

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

The defined contribution section of the scheme is available to all Partners. Once Partners complete five years' service with the Partnership, they automatically join the defined benefit section of the scheme.

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

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



ACCOUNTING POLICIES

Employee benefits: The defined benefit scheme assets are 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 allows for projected future salary increases.

The current service cost is the increase in the present value of the retirement benefit obligation resulting from Partners' service in the current year. The current service cost is included within operating profit in the Consolidated income statement.

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

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

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

Contributions to the Partnership's defined contribution section are charged to the Income statement as they are incurred. The Partnership has no further obligation once the contributions have been made.

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

CRITICAL ACCOUNTING ESTIMATES

Retirement benefits: This section details the assumptions used to calculate the total defined benefit pension obligation. This is the estimate of the current cost of meeting future benefits to be paid out by the pension scheme. The calculation requires the application of a discount rate to estimate the present day fair value of the pension payments, as well as assumptions on mortality rates, salary increases and inflation. Given the size of the Partnership's defined benefit obligation, relatively small movements in these assumptions could cause a material adjustment to the carrying amount of the obligation. Sensitivity analysis on the discount rate and other key assumptions is provided in note 6.1.5.

Retirement benefits

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

Notes to the consolidated financial statements — continued

6.1 RETIREMENT BENEFITS CONTINUED

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 took place in two stages. From 1 April 2015 the waiting period to join the defined benefit section of the scheme was increased from three to five years. Then from 1 April 2016, the principal changes were to reduce the annual defined benefit accrual rate from 1/60th to 1/120th of final salary, and to provide an enhanced level of defined contribution pension for those Partners who have completed the waiting period. Other changes, applying only to any pension built up after 1 April 2016, included linking the Partnership normal retirement age to the State Pension Age, and a change in the rate of pension increases in payment.

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

The Partnership's pension scheme is not affected by a judgement published on 26 October 2018 resulting from a recent High Court hearing in respect of the equalisation of guaranteed minimum pensions. This is because the Partnership's pension scheme did not contract out of the Additional State Pension (formerly known as the State Earnings Related Pension Scheme).

The Partnership is currently engaged in discussions with Partnership Council on the level and form of future provision of pension benefits to Partners (see page 35).

Funding valuation

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

The valuation calculated under the funding valuation basis of £479.0m is different from the accounting valuation which is presented on the Balance sheet in the Partnership's financial statements of £468.1m. Differences arise between the funding valuation and accounting valuation, mainly due to the use of different assumptions to value the liabilities and changes in market conditions between the two valuation dates, of 31 March 2016 and 26 January 2019.

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

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

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

- A reduction in the contribution rate from 16.4% to 10.4% of eligible monthly payroll;
- Deficit reducing contributions from 1 April 2016 to 31 March 2019 of £33.0m per annum to be paid in equal monthly instalments, increasing by 3% at 31 March 2017 and 31 March 2018;
- Deficit reducing contributions from 1 April 2019 to 31 March 2026 of £6.6m per annum to be paid in equal monthly instalments, increasing on 31 March each year by 3%; and
- One-off contributions of £100.0m and £50.0m due by 31 January 2017 and 31 March 2017 respectively, of which the £100.0m was paid on 18 January 2017 and £50.0m was paid on 24 February 2017.

The balance of the deficit is expected to be met by investment returns on the scheme assets. Total contributions to the scheme in 2019/20 under this agreement are expected to be £108.5m, subject to any changes as a result of the next triennial actuarial valuation of the scheme (as at 31 March 2019), which will be completed during the 2019/20 financial year.

Subsequent to the funding valuation being agreed, it was identified that certain pension scheme members were omitted from the calculation of the pension liabilities. Including these additional members increased the estimated pension liabilities by £31.0m (0.6%), from £4,856.0m to £4,887.0m. As a result, the Partnership has agreed to payments, in addition to the contributions described above, of £6.1m made in December 2017 and a further £3.2m per annum payable in equal monthly instalments from 1 April 2018 to 31 March 2026, increasing on 31 March each year by 3%.

Pension commitments recognised in these accounts have been calculated based on the most recent actuarial valuation, as at 31 March 2016, which has been updated by actuaries to reflect the assets and liabilities of the scheme as at 26 January 2019, calculated on assumptions that are appropriate for accounting under IAS 19.

Risk management

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

6.1.1 ASSUMPTIONS

i PURPOSE

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

Financial assumptions

Scheme assets are stated at market values at 26 January 2019.

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

	2019	2018
Discount rate	2.80%	2.75%
Future RPI inflation	3.15%	3.25%
Future CPI inflation	2.15%	2.25%
Increase in earnings	3.25%	3.45%
Increase in pensions – in payment		
– Pre-April 1997	1.65%	1.70%
– April 1997-April 2016	2.95%	3.00%
– Post-April 2016	1.65%	1.70%
Increase in pensions – deferred	2.15%	2.25%

Nominal discount rate: IAS 19 Employee Benefits requires that the nominal discount rate is set by reference to market yields on high quality corporate bonds of a suitable term consistent with the scheme cash flows. Where there are no high quality corporate bonds of appropriate duration to reference, an extrapolation from other bond yields is required.

The Partnership's pension scheme has cash flows spanning out over 50 years and an average duration of 22 years. At long durations there are few suitable high quality corporate bonds to reference in setting the nominal discount rate assumption. The model adopted by the Partnership is a yield curve approach, based on corporate bonds within the iBoxx AA corporate bond index. At very long durations, where there are no high quality corporate bonds of appropriate duration to reference, the yield curve is extrapolated based on observable corporate bond yields of mid to long durations reflecting expected yields on high quality corporate bonds over the duration of the Partnership's pension scheme.

Increases in earnings: Increases in earnings are projected to be at 3.25% until 2022 and then at a long-term rate of 1.0% above consumer price inflation (2018: 1.0% above consumer price inflation). Increases in pensions in payment are projected to be 0.50% below consumer price inflation (2018: 0.55% below consumer price inflation) for pensionable service built up before April 1997, 0.20% (2018: 0.25%) below retail price inflation for pensionable service built up between April 1997 and April 2016, and 0.50% (2018: 0.55%) below consumer price inflation for pensionable service built up after April 2016, reflecting the impact of a cap on the level of pension increases. Increases in deferred pensions are projected to be in line with consumer price inflation.

Demographic assumptions

The post-retirement mortality assumptions used in valuing the pension liabilities were based on the S2 Light (2018: S2 Light) series standard tables. Based on scheme experience, the probability of death at each age was multiplied by 127% for males and 106% for females. Future improvements in life expectancy have been allowed for in line with the most recent CMI 2017 improvements model with a smoothing parameter of 7.0 (2018: CMI 2016, smoothing parameter of 7.5), subject to a long-term trend of 1.25%.

The average life expectancies assumed were as follows:

	2019		2018	
	Men	Women	Men	Women
Average life expectancy for a 65 year old (in years)	21.1	23.5	21.5	23.8
Average life expectancy at age 65, for a 50 year old (in years)	22.0	24.6	22.5	25.0

Notes to the consolidated financial statements — continued

6.1 RETIREMENT BENEFITS CONTINUED

6.1.2 AMOUNTS RECOGNISED IN THE FINANCIAL STATEMENTS

i PURPOSE

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 the pension scheme.

Amounts recognised in the balance sheet	2019 £m	2018 £m
Defined benefit obligation for funded arrangements	(6,060.0)	(6,200.0)
Defined benefit obligation for unfunded arrangements	(23.0)	(24.0)
Total defined benefit obligation	(6,083.0)	(6,224.0)
Total value of scheme assets	5,614.9	5,492.7
Defined benefit liability at end of year	(468.1)	(731.3)

i PURPOSE

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

Service cost is the cost to the Partnership of future benefits earned by members which is attributable to members' service in the current period.

Contribution expense is in respect of the Partnership's contributions to the defined contribution section of the pension scheme and cash supplements in respect of certain Partners in lieu of future pension accrual.

Administrative expenses are in relation to the pension scheme.

Net interest on the net defined benefit liability is made up of the interest cost on pension liabilities and interest income on pension assets.

Amounts recognised in the income statement	2019 £m	2018 £m
Current service cost	(134.6)	(138.7)
Contribution expense ¹	(72.5)	(66.9)
Administrative expenses – funded by the pension scheme	(6.1)	(5.3)
Administrative expenses – funded by the employer	(5.9)	(4.7)
Total operating expenses	(219.1)	(215.6)
Net interest on net defined benefit liability	(17.0)	(25.3)
Total pension charge	(236.1)	(240.9)

¹ Includes Partnership contributions to the defined contribution section of the pension scheme of £68.5m (2018: £62.5m), together with cash supplements in respect of certain Partners in lieu of future pension accrual of £4.0m (2018: £4.4m).

Amounts recognised in equity	2019 £m	2018 £m
Return on plan assets (less)/greater than the discount rate	(15.0)	243.2
Remeasurements:		
– gain/(loss) from changes in financial assumptions	184.9	(97.7)
– gain from changes in demographic assumptions	102.4	124.5
– experience gains/(losses)	0.4	(22.5)
Total gains recognised in equity	272.7	247.5

6.1.3 RECONCILIATION OF RETIREMENT BENEFITS

i PURPOSE

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 during the year. Movements in scheme assets are explained further in 6.1.4.

Movements in the net defined benefit liability are as follows:

Pension expense, which is the cost associated with providing defined benefit pension benefits over the year. This is equal to the total pension charge set out in note 6.1.2, but excluding contribution expense and administrative expenses met directly by the employer.

Contributions paid into the scheme will reduce the value of the net pension liability.

Gains or losses recognised in equity relating to returns on plan assets being different to the discount rate and remeasurements (explained further below).

Reconciliation of net defined benefit liability	2019 £m	2018 £m
Net defined benefit liability at beginning of year	(731.3)	(1,013.7)
Pension expense	(157.7)	(169.3)
Contributions	148.2	204.2
Total gains recognised in equity	272.7	247.5
Net defined benefit liability at end of year	(468.1)	(731.3)

i PURPOSE

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 period. The service cost is charged to the Income statement, along with any gains or losses on settlement.

Future pension obligations are stated at present value. A discount rate is used to calculate the current value of the future liability. The interest on pensions liabilities is the unwinding of this discount rate and is charged to the Income statement within net finance costs.

Remeasurements arise from the uncertainty in making assumptions about future events when calculating the liability. These may arise from changes in assumptions, for example movements in the discount rate, or experience adjustments which result from differences between the assumptions made and what actually occurred over the period. Remeasurements are recognised in equity and shown in the Statement of comprehensive income/(expense).

Any cash benefits paid out by the scheme will reduce the defined benefit obligation.

Reconciliation of defined benefit obligation	2019 £m	2018 £m
Defined benefit obligation at beginning of year	(6,224.0)	(6,059.0)
Current service cost	(134.6)	(138.7)
Interest on pension liabilities	(169.2)	(173.7)
Remeasurements		
– gain/(loss) from changes in financial assumptions	184.9	(97.7)
– gain from changes in demographic assumptions	102.4	124.5
– experience gains/(losses)	0.4	(22.5)
Benefits paid	157.1	143.1
Defined benefit obligation at end of year	(6,083.0)	(6,224.0)

The scheme liabilities are 31.5% in respect of active scheme participants, 41.8% in respect of deferred scheme participants and 26.7% in respect of retirees.

The weighted average duration of the scheme liabilities at the end of the year is 22 years (2018: 22 years).

Notes to the consolidated financial statements — continued

6.1 RETIREMENT BENEFITS CONTINUED

6.1.3 RECONCILIATION OF RETIREMENT BENEFITS CONTINUED

i PURPOSE

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 during the year. 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 within net finance costs in the Income statement.

Return on plan assets greater/(less) than the discount rate represents 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.

	2019 £m	2018 £m
Reconciliation of value of assets		
Value of assets at the beginning of year	5,492.7	5,045.3
Interest income on assets	152.2	148.4
Return on plan assets (less)/greater than discount rate	(15.0)	243.2
Benefits paid	(157.1)	(143.1)
Administrative expenses paid	(6.1)	(5.3)
Contributions	148.2	204.2
Value of assets at the end of year	5,614.9	5,492.7

6.1.4 ANALYSIS OF ASSETS

	2019				2018			
	Quoted £m	Unquoted £m	Total £m	Total %	Quoted £m	Unquoted £m	Total £m	Total %
Equities								
UK	33.2	34.1	67.3	1.2%	55.4	39.8	95.2	1.7%
Rest of the world	641.5	999.1	1,640.6	29.2%	623.0	1,058.4	1,681.4	30.6%
Bonds								
Government – Rest of the world	102.3	2.5	104.8	1.9%	76.7	5.3	82.0	1.5%
Corporates – UK	5.2	1.8	7.0	0.1%	2.9	2.1	5.0	0.1%
Corporates – Rest of the world	95.5	80.9	176.4	3.1%	52.2	124.4	176.6	3.2%
Property								
UK	–	550.3	550.3	9.8%	–	515.4	515.4	9.4%
Rest of the world	–	0.4	0.4	<0.1%	–	0.9	0.9	<0.1%
Alternative assets								
Liability driven investments	–	937.7	937.7	16.7%	–	848.7	848.7	15.5%
Hedge funds	–	1,002.9	1,002.9	17.9%	–	957.8	957.8	17.4%
Private equity	–	340.9	340.9	6.1%	–	294.0	294.0	5.4%
Other alternative assets	–	670.8	670.8	11.9%	–	671.6	671.6	12.2%
Cash and other	115.8	–	115.8	2.1%	164.1	–	164.1	3.0%
Total market value of assets	993.5	4,621.4	5,614.9	100%	974.3	4,518.4	5,492.7	100.0%

The Trustee's investment strategy as set out in their Statement of Investment Principles dated 27 September 2018 is to hold 80% of assets in a return seeking portfolio that aims to reduce concentrations of risk by diversifying across a range of asset classes and geographies. The remaining assets are used to provide a liability matching portfolio with the intention of matching movements in the assessed values of the pension liabilities due to movements in interest rates and inflation. In 2016 the Trustee initiated a three to five year interest rate and inflation hedging programme which has increased the level of liability matching to 60% in line with its stated target. As this will be achieved using derivatives and repurchase agreements, the allocation to return seeking assets is not intended to reduce.

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

Liability driven investments include UK government bond and cash equivalent assets valued at £2,397.9m (2018: £1,561.7m) and associated repurchase agreements and swaps valued at £(1,460.2)m (2018: £(713.0)m). This is part of the Trustee's interest rate and inflation hedging strategy.

Other alternative assets include investments in infrastructure funds of £275.3m (2018: £236.6m), insurance linked funds £193.6m (2018: £201.6m), private debt £205.6m (2018: £233.4m) and equity options £(3.7)m (2018: £nil).

Cash and other includes cash deposits of £101.7m (2018: £118.3m), forward foreign exchange contracts valued at £13.8m (2018: £40.3m) and other items valued at £0.3m (2018: £5.5m).

	2019 £m	2018 £m
Actual return on assets		
Interest income on assets	152.2	148.4
Return on plan assets (less)/greater than discount rate	(15.0)	243.2
Actual return on assets	137.2	391.6

6.1.5 SENSITIVITY ANALYSIS



PURPOSE

The defined benefit deficit 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
Deficit as at 26 January 2019	(468.1)	
Sensitivity of 0.1% increase to:		
– Discount rate ¹	55.0	11.7
– Retail price inflation	(35.0)	(7.5)
– Consumer price inflation	(20.0)	(4.3)
– Salary increases	(30.0)	(6.4)
Sensitivity of one-year increase in life expectancy	(230.0)	(49.1)

¹ The discount rate sensitivity allows for the impact of the Trustee's investment strategy. As set out in note 6.1.4 this is designed to offset movements in the discount rate and their impact on the liabilities.

6.1.6 OTHER ARRANGEMENTS

JLP Scottish Limited Partnership

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

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 £71.7m (2018: £80.8m) investment in JLP Scottish Limited Partnership held by the pension scheme. The distribution of JLP Scottish Limited Partnership profits to the pension scheme is reflected as pension contributions in these consolidated financial statements on a cash basis.

John Lewis Properties plc guarantee

As part of agreeing the funding valuation in 2017, John Lewis Properties plc provided a corporate guarantee to the pension scheme. This guarantee means that if John Lewis plc fails to make any payments due to the scheme for any reason, then the pension scheme can claim against John Lewis Properties plc for those payments. As part of the guarantee, John Lewis Properties plc is required to maintain at least £800.0m of net assets. The guarantee has improved the recovery to the pension scheme in the event of insolvency of the Partnership.

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

 PURPOSE

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 are to safeguard its ability to continue as a going concern, provide returns for its Partners and to maintain a prudent level of funding. The Partnership is a long-term business, held in Trust for the benefit of its Partners. The employee ownership model means that it is not able to raise equity externally.

The Partnership's capital management strategy is to maintain a prudent capital structure, seeking to ensure the long-term financial sustainability of the Partnership by maintaining a financial risk profile consistent with an investment grade credit rating. Although the Partnership does not have an external credit rating, it routinely monitors its capital and liquidity requirements, primarily through the Debt Ratio (see page 152), whilst maintaining an appropriate level of cash and committed debt headroom and a managed debt maturity profile to reduce refinancing risk and ensure continuity of funding. Forms of borrowing include bond issues, bank debt, assets acquired via finance leases, assets obtained for use via operating leases, the pension deficit and Share Incentive Plan shares as part of the BonusSave scheme.

7.1.2 LIQUIDITY RISK

In line with the Partnership Board approved Treasury Standard, the Partnership is required to hold a minimum amount of liquidity, made up of a mixture of cash and undrawn committed credit facilities. Liquidity requirements are managed in line with short and long-term cash flow forecasts and reviewed against the Partnership's debt portfolio and maturity profile. Surplus cash is invested in interest bearing accounts, short-term deposits and other short-term investments with sufficient, prudent liquidity determined by the above mentioned cash flow forecasts. The Partnership actively reviews and manages its cash holdings, sources of debt and committed credit facilities. Greater emphasis has been placed on cash balances providing a material portion of the Partnership's overall liquidity, with undrawn committed credit facilities complementing these balances. The Partnership has a £450.0m committed credit facility, maturing in November 2021 and a £50.0m committed credit facility maturing in March 2021. At the year-end, the Partnership had undrawn committed credit facilities of £500.0m (2018: £500.0m). In addition to these facilities, the Partnership had listed bonds at the year-end totalling £875.0m (2018: £875.0m), of which £275.0m matured in April 2019, with £300.0m due to mature in 2025 and the remaining £300.0m due to mature in 2034. The bonds have fixed coupons. Bank loans totalling £125.0m (2018: £nil) were agreed during the year, of which £75.0m matures in 2021 and £50.0m in 2023. The loans have variable interest payments. The maturity profiles of financial debt are set out in note 7.3.

The Partnership's listed bonds, bank loans and committed credit 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 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	(331.3)	–	(727.2)
Interest payments on borrowings	(57.2)	(34.2)	(254.2)
Finance lease liabilities	(1.3)	(1.3)	(33.9)
Trade and other payables	(1,328.3)	(0.2)	–
Derivative financial liabilities			
Derivative contracts – receipts	360.4	70.6	24.6
Derivative contracts – payments	(360.1)	(72.3)	(23.5)
At 26 January 2019	(1,717.8)	(37.4)	(1,014.2)
	Due within 1 year £m	Due between 1 and 2 years £m	Due 2 years and beyond £m
Non-derivative financial liabilities			
Borrowings and overdrafts ¹	(68.7)	(275.0)	(605.3)
Interest payments on borrowings	(54.2)	(54.2)	(283.1)
Finance lease liabilities	(1.5)	(1.4)	(39.4)
Trade and other payables	(1,386.6)	(0.3)	–
Derivative financial liabilities			
Derivative contracts – receipts	335.1	97.7	30.7
Derivative contracts – payments	(349.2)	(99.6)	(31.8)
At 27 January 2018	(1,525.1)	(332.8)	(928.9)

¹ Restated, see note 1.1.4.

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 Standard. 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 has converted £100.0m of fixed rate debt to floating rate debt using interest rate swap contracts. The interest rate swap contracts are designated as fair value hedges and fair value movements are recognised within the Income statement. Derivative financial instruments recognised as fair value hedges during the year were effective.

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 other organisations. Foreign exchange management committees exist for each of Waitrose & Partners and John Lewis & Partners and they meet regularly to oversee the foreign exchange purchasing activities for each brand. Foreign currency exposures are hedged primarily using forward foreign exchange contracts covering up to 100% of forecast direct exposures on a rolling basis. Forward foreign exchange contracts used to hedge forecast currency requirements are designated as cash flow hedges with fair value movements recognised in equity. Derivative financial instruments that were designated as cash flow hedges during the year were effective. At the balance sheet date, the notional value of open forward foreign currency contracts of £418.5m (2018: £437.1m) had been entered into, to hedge purchases in foreign currencies which will mature over the next 18 months.

In order to help manage its indirect currency risk, the Group held \$200.0m of Sterling/US dollar options and €100.0m of Sterling/Euro options at the Balance sheet date and as at the date of this report. Fair value movements in the option contracts are recognised within the Income statement. The indirect risk being hedged is defined as the Group's economic exposure to the change in price of goods and services which have foreign currency input costs, but which are predominantly paid for in Sterling.

Notes to the consolidated financial statements — continued

7.1 MANAGEMENT OF FINANCIAL RISKS**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:

	2019 £m	2018 £m
Trade and other receivables	129.8	142.6
Short-term investments ¹	265.4	166.0
Cash and cash equivalents ¹	716.8	596.2
Derivative financial instruments	7.0	5.2
	1,119.0	910.0

¹ Restated, see note 1.1.4.

7.1.6 ENERGY RISK

The Partnership operates risk management processes for the energy costs associated with the Partnership's 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 strategies for forward purchasing and hedging of energy costs using flexible purchase contracts and by entering into over-the-counter diesel swap contracts.

Diesel cost exposures are hedged using over-the-counter diesel swaps covering up to 100% of forecast direct exposures on a rolling basis. Diesel swaps used to hedge forecast diesel requirements are designated as fair value hedges with fair value movements recognised in profit or loss. Derivative financial instruments that were designated as fair value hedges during the year were effective. At the Balance sheet date, the notional value of open diesel swaps of £1.1m (2018: £1.0m) had been entered into, to hedge purchases of diesel that will mature within the next month.

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, which is addressed in note 6.1.5.

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

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.

	2019		2018	
	Income statement +/- £m	Equity +/- £m	Income statement +/- £m	Equity +/- £m
UK interest rates +/- 1% (2018: +/- 1%)	5.7	—	4.9	—
US Dollar exchange rate (GBP/USD) +/- 10% (2018: +/- 10%)	12.4	20.1	12.2	21.9
Euro exchange rate (GBP/EUR) +/- 10% (2018: +/- 10%)	7.3	15.8	0.7	15.7

The Partnership's strategy for managing foreign currency risk includes the use of options. The exchange rate sensitivities above therefore include the expected increase in the value of these options should underlying exchange rates move unfavourably. However, in the event that exchange rates move favourably, the Partnership could choose not to exercise these options to benefit from associated foreign exchange gains. In this scenario, the cost of the options reflected in the Income statement would be limited to the value of the premiums paid to obtain them.

7.2 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES

PURPOSE

We use cash flow hedges to manage the risk of adverse currency movements.

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 26 January 2019, 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:

	2019				2018			
	Assets £m	Liabilities £m	Recognised in Other Comprehensive Income £m	Recognised in Income Statement £m	Assets £m	Liabilities £m	Recognised in Other Comprehensive Income £m	Recognised in Income Statement £m
Fair value of derivative financial instruments								
Non-current								
Currency derivatives – cash flow hedge	0.2	(1.4)	(1.2)	–	–	(2.9)	(2.9)	–
Other derivatives	–	(0.6)	–	(0.6)	–	(1.1)	–	(1.1)
	0.2	(2.0)	(1.2)	(0.6)	–	(4.0)	(2.9)	(1.1)
Current								
Currency derivatives – cash flow hedge	6.4	(5.9)	0.5	–	1.5	(19.8)	(18.3)	–
Other derivatives	0.4	(1.6)	–	(1.2)	3.7	–	–	3.7
	6.8	(7.5)	0.5	(1.2)	5.2	(19.8)	(18.3)	3.7

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.

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):

	2019 £m		2018 £m	
	CV	FV	CV	FV
Financial liabilities				
Listed bonds	(864.5)	(858.2)	(863.9)	(982.6)

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

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

Notes to the consolidated financial statements — continued

7.3 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

i PURPOSE

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 denominated in Sterling.

Currency analysis	Floating rate £m	Non-interest bearing £m	Total £m
Sterling financial assets	883.6	98.2	981.8
Other financial assets	0.4	–	0.4
At 26 January 2019	884.0	98.2	982.2
Sterling financial assets	663.1	98.4	761.5
Other financial assets	0.7	–	0.7
At 27 January 2018	663.8	98.4	762.2

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

7.3.2 ANALYSIS OF FINANCIAL LIABILITIES

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

Currency analysis	Fixed rate £m	Floating rate £m	Total £m
All Sterling			
At 26 January 2019	(786.3)	(282.8)	(1,069.1)
At 27 January 2018	(787.2)	(174.0)	(961.2)

Maturity of financial liabilities	2019 £m	2018 £m
Repayable within one year		
Bank overdrafts	–	(0.1)
Property finance leases	(0.5)	(0.7)
Bonds	(275.0)	–
Share Incentive Plan shares	(56.3)	(68.6)
Unamortised bond transaction costs	0.1	–
	(331.7)	(69.4)
Repayable between one and two years		
Property finance leases	(0.6)	(0.6)
Bonds	–	(275.0)
Unamortised bond transaction costs	–	0.4
	(0.6)	(275.2)
Repayable between two and five years		
Property finance leases	(1.6)	(2.0)
Loan	(125.0)	–
Unamortised loan transaction costs	0.7	–
	(125.9)	(2.0)
Repayable in more than five years		
Property finance leases	(18.4)	(20.0)
Bonds	(600.0)	(600.0)
Unamortised bond transaction costs	9.7	10.7
Share Incentive Plan shares	(2.2)	(5.3)
	(610.9)	(614.6)
	(1,069.1)	(961.2)

8. OTHER NOTES

IN THIS SECTION

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

8.1 SHARE CAPITAL



PURPOSE

Share capital consists of Ordinary Shares. It is measured as the number of shares issued and fully paid, multiplied by their nominal value.

	2019		2018	
	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 in Trust for the benefit of Partners. Ultimate control rests with John Lewis Partnership Trust Limited.

8.2 RELATED PARTY TRANSACTIONS



PURPOSE

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, key management personnel and certain related charities. 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 AND RELATED UNDERTAKINGS

All transactions between the Partnership and its subsidiaries and related undertakings are eliminated upon consolidation, and therefore do not need to be disclosed separately. A list of subsidiaries and related undertakings within the Partnership is included within note 16. Loans to joint ventures are disclosed in note 3.3.

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.

8.2.3 ARRANGEMENTS WITH JOHN LEWIS PARTNERSHIP TRUST LIMITED

John Lewis Partnership Trust Limited is a related party and holds the Deferred Ordinary Shares in the Partnership on behalf of the Partners. John Lewis Partnership Trust Limited facilitates the approval and payment of the Partnership Bonus and BonusSave. At the year-end, the value of Share Incentive Plan shares purchased by John Lewis Partnership Trust Limited on behalf of Partners was £58.5m (2018: £73.9m), £45.7m lower than the total value of SIP shares issued of £104.2m (2018: £104.2m). The £104.2m of SIP shares issued are recorded in the Company's balance sheet within borrowings, offset by a receivable from the John Lewis Partnership Trust Limited of £45.7m (2018: £30.3m). See note 5.5.

8.2.4 OTHER TRANSACTIONS

Key management compensation has been disclosed in note 2.8.

During the year the Partnership provided administrative support services to charities related to the Partnership. The estimated value of these support services is £84,000 (2018: £81,000). The Partnership also made donations totalling £0.7m (2018: £0.6m) to the John Lewis Foundation.

Notes to the consolidated financial statements — continued

8.3 SUBSEQUENT EVENTS

PURPOSE

Events that take place after the Balance sheet date of 26 January 2019 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 COMMERCIAL OPERATING MODEL

On 31 January 2019, Waitrose & Partners announced changes to the Commercial Operating Model in head offices. No accounting for potential redundancies was recorded for the year ended 26 January 2019 in respect of these changes.

8.3.2 COMMERCIAL AGREEMENT WITH OCADO

On 27 February 2019, Waitrose & Partners confirmed that following careful review of the relationship, the commercial arrangement with Ocado will come to an end in September 2020, in line with contractual terms. We have strengthened our own online business significantly in recent years, and said last summer that we will double waitrose.com within five years. This change will be a major part of achieving this, and in the future, waitrose.com and our shops will be the exclusive places in the UK to buy Waitrose & Partners products. We plan to open a second fulfilment centre to support growing volumes in the London area.

8.3.3 WAITROSE & PARTNERS STORE CLOSURES

On 6 March 2019, Waitrose & Partners informed Partners that five shops will be sold to other retailers. No accounting for potential redundancies was recorded for the year ended 26 January 2019 in respect of these shop disposals.

Company financial statements



A financial snapshot of the Company showing our assets and how they are financed.

Company Balance sheet

As at 26 January 2019

Notes		2019 £m	2018 £m
	Non-current assets		
11	Investments	122.4	121.1
	Total assets	122.4	121.1
	Current liabilities		
13	Trade and other payables	(1.3)	(1.4)
	Non-current liabilities		
12	Borrowings	(104.2)	(104.2)
	Total liabilities	(105.5)	(105.6)
	Net assets	16.9	15.5
	Equity		
14	Share capital	0.6	0.6
	Capital redemption reserve	5.0	5.0
	Retained earnings	11.3	9.9
	Total equity	16.9	15.5

The financial statements on pages 137 to 140 were approved by the Board of Directors on 11 April 2019 and signed on its behalf by:

SIR CHARLIE MAYFIELD AND PATRICK LEWIS
Directors, John Lewis Partnership plc

Registered number 00238937

The accompanying notes are an integral part of the financial statements.



A reconciliation between the beginning and the end of the year which discloses Profit or loss.

Company Statement of changes in equity

For the year ended 26 January 2019

Notes		Share capital £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
	Balance at 28 January 2017	0.6	5.0	8.9	14.5
10	Profit for the year and total comprehensive income	—	—	1.0	1.0
	Balance at 27 January 2018	0.6	5.0	9.9	15.5
10	Profit for the year and total comprehensive income	—	—	1.4	1.4
	Balance at 26 January 2019	0.6	5.0	11.3	16.9

The accompanying notes are an integral part of the financial statements.

Notes to the Company financial statements

9 ACCOUNTING POLICIES

i PURPOSE

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 during the year other than those set out under 'Amendments to accounting standards' in note 1 to the Partnership's consolidated financial statements.

Basis of preparation

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

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

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. The settlement of these transactions is reflected in the intercompany loan. As a result, no cash flows through John Lewis Partnership plc and no cash is generated from its operations, so a Company statement of cash flows 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

i PURPOSE

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 income/(expense).

The result dealt with in the accounts of the Company amounted to £1.4m profit (2018: £1.0m profit).

Details of auditor's remuneration are provided in note 2.6 to the Partnership's consolidated financial statements.

11 INVESTMENTS

i PURPOSE

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 at 26 January 2019.

Investments	Subsidiary		Other	Total £m
	Shares in John Lewis plc £m	Loan to John Lewis plc £m	Shares in John Lewis Partnership Trust Limited £m	
At 27 January 2018	11.3	109.7	0.1	121.1
Movements	—	1.3	—	1.3
At 26 January 2019	11.3	111.0	0.1	122.4

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

12 BORROWINGS

PURPOSE

Borrowings consist of long-term loans from Group companies in respect of Share Incentive Plan shares, which are allocated to Partners who are entitled to a dividend.

	2019 £m	2018 £m
Borrowings		
Non-current:		
Loans from Group companies	(104.2)	(104.2)
	(104.2)	(104.2)

13 TRADE AND OTHER PAYABLES

PURPOSE

Trade and other payables include amounts we owe in respect of BonusSave dividends, and to HMRC in the form of taxes.

	2019 £m	2018 £m
Trade and other payables		
Other payables	(1.3)	(1.4)

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

PURPOSE

Share capital consists of Ordinary Shares and is measured as the number of shares issued and fully paid multiplied by their nominal value.

	2019		2018	
	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 in Trust for the benefit of Partners. Ultimate control rests with John Lewis Partnership Trust Limited.

15 RELATED PARTY TRANSACTIONS

PURPOSE

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 and John Lewis Partnership Trust Limited. 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 Trustee and John Lewis Partnership Trust Limited are disclosed within note 8.2 to the Partnership's consolidated financial statements.

Notes to the Company financial statements — continued

16 SUBSIDIARIES AND RELATED UNDERTAKINGS

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

The Company's only direct 100% owned subsidiary as at 26 January 2019 was:

Name	Principal activity	Country of incorporation	Class of share	Percentage shareholdings
John Lewis plc	Department store retailing and corporate services	England & Wales ¹	Ordinary	100%

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

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 ²	Ordinary	54%
Buy.Com Limited	Dormant	England & Wales ¹	Ordinary	100%
Carlisle Place Ventures Limited*	Home improvement services	England & Wales ¹	Ordinary	100%
Clicklink Logistics Limited	Logistical services	England & Wales ⁸	Ordinary	50%
Herbert Parkinson Limited*	Manufacturing and making up	England & Wales ¹	Ordinary	100%
JLP Insurance Limited*	Insurance	Guernsey ⁷	Ordinary	100%
JLP Scotland Limited	Non-trading	Scotland ⁵	Ordinary	100%
JLP Scottish Limited Partnership ⁽ⁱ⁾	Investment holding undertaking	Scotland ⁶	Partnership interest	100%
JLP Scottish Partnership ⁽ⁱⁱ⁾	Investment holding undertaking	Scotland ⁶	Partnership interest	100%
John Lewis Car Finance Limited*	Car finance	England & Wales ¹	Ordinary	100%
John Lewis Delivery Limited (in liquidation)	—	England & Wales ⁹	Ordinary	100%
John Lewis Hong Kong Limited	Sourcing company	Hong Kong ⁴	Ordinary	100%
John Lewis Properties plc*	Property holding company	England & Wales ¹	Ordinary	100%
John Lewis PT Holdings Limited	Holding company	England & Wales ¹	Ordinary	100%
John Lewis Partnership Pensions Trust	Non-trading	England & Wales ¹	Ordinary	100%
John Lewis International Limited*	International online retail	England & Wales ¹	Ordinary	100%
Jonelle Jewellery Limited	Dormant	England & Wales ¹	Ordinary	100%
Jonelle Limited	Dormant	England & Wales ¹	Ordinary	100%
Park One Management Limited	Provision of management services	England & Wales ¹	Ordinary	37%
Peter Jones Limited	Dormant	England & Wales ¹	Ordinary	100%
The Odney Estate Limited	Dormant	England & Wales ¹	Ordinary	100%
Waitrose (Jersey) Limited*	Food retailing	Jersey ³	Ordinary	100%
Waitrose (Guernsey) Limited*	Food retailing	Guernsey ²	Ordinary	100%
Waitrose Limited*	Food retailing	England & Wales ¹	Ordinary	100%

* Principal subsidiary undertaking as at 26 January 2019.

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

² The address of the registered office is Martello Court, Admiral Park, St Peter Port, Guernsey GY1 3HB.

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

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

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

⁶ The address of the registered office is 60 Leith Street, Edinburgh EH1 3SP.

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

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

⁹ The address of the registered office is Hill House, 1 Little New Street, London EC4A 3TR.

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

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

The whole of the Ordinary share capital of the subsidiary undertakings of John Lewis plc as shown above 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 Register of Companies.

Statement of Directors' responsibilities in respect of the Annual Report and Accounts

The Directors are responsible for preparing the Partnership and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Partnership and parent Company financial statements for each financial year. Under that law they have elected to prepare the Partnership and the parent Company financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU) and applicable law.

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable, relevant and reliable;
- State whether they have been prepared in accordance with IFRSs as adopted by the EU;
- Assess the Partnership and parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Partnership or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

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

On behalf of the Board.



SIR CHARLIE MAYFIELD AND PATRICK LEWIS
Directors, John Lewis Partnership plc
11 April 2019

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



1. OUR OPINION IS UNMODIFIED

We have audited the financial statements of John Lewis Partnership plc ("the Company") for the year ended 26 January 2019 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows, company balance sheet, company statement of changes in equity, company statement of cash flows and the related notes, including the accounting policies in note 1.

IN OUR OPINION:

- the financial statements give a true and fair view of the state of the Partnership's¹ and of the parent company's affairs as at 26 January 2019 and of the Partnership's profit for the year then ended;
- the Partnership financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

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

We were first appointed as auditor by the shareholders on 8 June 2016. The period of total uninterrupted engagement is for the three financial years ended 26 January 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Partnership in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

¹ In this report, we use the term "Partnership" to mean the Group.

OVERVIEW

Materiality: Partnership financial statements as a whole	£13.7m (2018: £14.5m) 5% of the 3-year average (2018: 5% of actual) of consolidated profit before tax, Partnership Bonus and exceptional items
Coverage	86% (2018: 97%) of Partnership consolidated profit before tax, Partnership Bonus and exceptional items
Key audit matters	vs 2018
Recurring risks	Carrying amount of property, plant and equipment (PPE) ◀▶ Net defined benefit obligation ▶▶ Long leave provision ▶▶ New: Fair value of free service warranty (IFRS 15)
Event driven	New: Brexit New: Going concern

2. KEY AUDIT MATTERS: INCLUDING OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

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

	THE RISK	OUR RESPONSE
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to page 38 to 42 (Principal Risks), page 43 (Viability Statement) and page 62 (Audit and Risk Committee Report)	Unprecedented levels of uncertainty All audits assess and challenge the reasonableness of estimates, in particular as described in carrying amount of PPE, net defined benefit obligation, long leave provision, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements below. All of these depend on assessments of the future economic environment and the Partnership's future prospects and performance. In addition we are required to consider the other information presented in the Annual Report and Accounts including the principal risks disclosure and the viability statement and to consider the Directors' statement that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Partnership's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: – Our Brexit knowledge: We considered the Directors' assessment of Brexit-related sources of risk for the Partnership and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. – Sensitivity analysis: When addressing carrying amount of PPE, net defined benefit obligation and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. – Assessing transparency: As well as assessing individual disclosures as part of our procedures on carrying amount of PPE, net defined benefit obligation and other areas, we considered all of the Brexit related disclosures together, including those in the Strategic report, comparing the overall picture against our understanding of the risks. Our results – As reported under carrying amount of PPE, net defined benefit obligation and long leave provision, we found the resulting estimates and related disclosures and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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

	THE RISK	OUR RESPONSE
Carrying amount of property, plant and equipment £3,809.7 million (2018: £3,971.2 million) <i>Refer to page 60 (Audit and Risk Committee Report), page 110 (accounting policy) and page 111 (financial disclosures)</i>	Forecast-based valuation Impairment considerations: The Partnership has significant Property, Plant and Equipment (PPE) assets held on its consolidated balance sheet. In particular, PPE in Waitrose & Partners is significant and at risk of irrecoverability due to continuing decelerated sales growth and margins achieved. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The key assumptions used in the value-in-use (VIU) calculations for estimating the recoverable amount are expected sales and costs in the short-term cash-flow forecasts, the long-term (LT) growth rate and the discount rate. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the VIU has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than that materiality. Subjective judgement Residual values of buildings: The judgement around determination of residual values drives the depreciation charged to the income statement. In particular, the determination of such residual value requires specific expertise and knowledge of the market. The Directors engage third party specialists to review a sample of the property portfolio to assist them in determining the value of the residual values. These valuations include, in most cases, land and buildings together and therefore the Directors need to exercise judgement over the amount that is to be allocated to the buildings which, unlike land, are depreciated. Given the magnitude of the PPE balance, movements in these judgements could result in a material misstatement if there were to be a significant decrease in the value allocated to the property portfolio as a whole. However, in conducting our final audit work, we reassessed the degree of estimation uncertainty of residual values to be less than that materiality over depreciation expense in any particular year.	Our procedures included: – Re-performance: We re-performed the calculations the Directors performed for determining the VIU of each cash generating unit and compared data used in the model against source information, when applicable. – Our sector experience: We evaluated assumptions used, in particular those relating to forecast revenue growth and profit margins for each Waitrose & Partners branch. We also challenged the Directors as to the achievability of their forecasts and business plan, taking into account the historical accuracy of previous forecasts and wider market factors (such as performance of competitors). – Benchmarking assumptions: We compared the Directors' assumptions to externally derived data in relation to key inputs such as projected economic growth, competition, cost inflation and discount rates. – Sensitivity analysis: We performed sensitivity analysis to stress-test the assumptions noted above. – Our property valuation expertise: With the assistance of our property valuation specialist, we reviewed the third-party valuation reports produced for a sample of the assets to establish residual values. Our specialist critically assessed the methodology and assumptions behind these valuations by using their own expertise and market understanding. – Assessing disclosures: We also assessed whether the Partnership's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the carrying amount of PPE. Our results: – We found the resulting estimate of the recoverable amount of PPE in Waitrose & Partners and the Partnership's assessment of residual values of its buildings to be acceptable (2018 result: acceptable).

THE RISK

OUR RESPONSE

Net defined benefit obligation

£468.1 million
(2018: £731.3 million)

Refer to page 61
(Audit and Risk Committee
Report), page 123
(accounting policy) and pages
123 to 129 (financial disclosures)

Subjective valuation

A significant level of estimation is required in order to determine the valuation of the gross liability. Small changes in the key assumptions (in particular, discount rates, inflation, mortality rates and salary increases) can have a material impact on the gross liability.

Due to the volume of members both joining and moving categories (i.e. between active, deferred and pensioner) errors in the membership records could result in a material misstatement if not complete and accurately included in the calculation of the gross liability.

In addition, within the Partnership's pension asset portfolio are a number of assets whose valuation require significant judgement as a result of quoted prices being unavailable (level 3 assets). These holdings together represented 35.2% (£1.9 billion) of the total pension assets held. The asset categories within this where significant audit effort and judgement was focused were investment property, special purpose investment vehicles and private equity investments.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the gross defined benefit obligation and level 3 pension assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 6.1.5) disclose the sensitivity estimated by the Partnership.

Our procedures included:

- **Benchmarking assumptions:** We used our actuarial specialists to challenge the key assumptions (in particular, discount rates, inflation, mortality rates and salary increases). This involved comparing the assumptions to available market data, our expectation and to other similar UK pension schemes' assumptions.
- **Assessing base data:** We have confirmed the data used in the current year valuation is consistent with that prepared at the triennial valuation as at 31 March 2016. We also confirmed that there have been no changes to membership terms in the current year. We used our actuarial specialists to challenge the methodology used to roll-forward the results of the triennial valuation as at 31 March 2016.
- **Our valuation expertise:** For hard-to-value plan assets, we used our own property valuation specialists to assess the key inputs and assumptions used by external valuers by reference to our own market and industry benchmarks. For private equity funds we obtained direct confirmations and assessed historical accuracy of valuations to help inform whether current valuations were appropriate.
- **Methodology choice:** We have assessed the pricing model methodologies used with reference to the Royal Institute of Chartered Surveyors for property and the International Private Equity and Venture Capital Valuation guidance for private equity funds included in plan assets.
- **Assessing disclosures:** We also considered the adequacy of the Partnership's disclosures in respect of the sensitivity of the deficit to these assumptions.

Our results

- We found the valuation of the net defined benefit obligation to be acceptable (2018 result: acceptable).

Long leave provision

**£141.8 million (2018:
£139.6 million)**

Refer to page 61
(Audit and Risk Committee
Report), page 117
(accounting policy) and page 117
(financial disclosures)

Subjective estimate

The Partnership has a long leave scheme, open to all Partners, which provides up to six months' paid leave after 25 years' service. The basis of the calculation of the liability is based upon a significant level of estimation and judgement. Small changes in the key assumptions, for example the discount rate, staff turnover rates and salary increases can have a material impact on the liability.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the long leave liability has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than that materiality.

Our procedures included:

- **Benchmarking assumptions:** We used our own actuarial specialists to consider the key assumptions used. This involved comparing the assumptions to available market data and our expected range.
- **Sensitivity analysis:** We also performed sensitivity analysis over these assumptions.

Our results

- From the evidence obtained, we considered the level of provisioning to be acceptable (2018 result: acceptable).

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

	THE RISK	OUR RESPONSE
Fair value of free-service warranty £50.0 million (2018: £65.8 million) <i>Refer to page 61 (Audit and Risk Committee Report), page 91 (accounting policy) and pages 98 to 99 and 116 (financial disclosures)</i>	Accounting application and subjective estimate Following the adoption of IFRS 15, the timing of revenue recognition of free service warranty in John Lewis & Partners, principally for certain electrical products, has changed because the free warranty is now considered a separate performance obligation. Accordingly, the Partnership allocates a portion of the product's full sale value (consideration received) to providing such warranty. This allocation is based on the stand alone selling price of the product and the relative fair value of the warranty. The amount allocated to free warranties is then recorded as deferred income on the balance sheet and released to revenue over the period of the warranty. In order to determine the fair value of the extended free warranty, management uses a cost-plus approach, which comprises of a valuation technique that reflects the amount that would be required to replace or repair the service capacity of the good sold. Therefore, a significant level of estimation is required for the assumptions around frequency and value of the expected future costs of servicing the free warranty and use of appropriate historical data to form the assumptions. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the fair value of free service warranty has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than that materiality.	Our procedures included: – Assessing methodology and assumptions: We have considered the underlying calculations for the free-service warranty calculation, including assessing the underlying data/historical data used and comparing this to source documentation, the methodology and appropriateness of assumptions used in calculating the cost to repair for item sold in the period to a margin is applied. In particular, we evaluated whether the source of the historical data was reasonable based on our understanding of the industry and business and performed trend analyses in respect of historical cost per unit. – Sensitivity analysis: We have performed sensitivity analysis on the assumptions made, including the product repair and replace frequency rates. – Independent re-performance: We have re-performed the calculation using the underlying data inputs. Our results – We found the amounts of revenue deferred at 26 January 2019 to be acceptable.
Parent company financial statements – Valuation of investments £122.4 million (2018 £121.1 million) <i>Refer to page 138 (financial disclosures)</i>	Low risk, high value The carrying amount of the Company's investment in subsidiaries are valued at cost, less allowances for impairment. We do not consider the valuation of these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: – Test of details: Comparing the investment carrying values to the net assets of the investment to identify whether the net asset values of the subsidiaries, being an approximation of their minimum recoverable amount, were in excess of their carrying amount. – Assessing subsidiary audits: Assessing the work performed by the audit team on the subsidiaries and considering the results of the work on those subsidiaries' profit and net assets. Our results – We found assessment of the carrying value of investments to be acceptable (2018 result: acceptable).

	THE RISK	OUR RESPONSE
Going concern Refer to page 62 (Audit and Risk Committee Report) and page 90 (accounting policy)	Disclosure quality The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Partnership and parent company. That judgement is based on an evaluation of the inherent risks to the Partnership's and Company's business model and how those risks might affect the Partnership's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Partnership's and Company's available financial resources over this period were the impact of Brexit on the Partnership's and Company's supply chain, recruitment needs and cost base both relating to foreign exchange and import/export tariffs. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: – Test of details: Evaluated the process and models the Directors used in its assessment, including use of the work of specialists. – Test of details: Evaluated whether the assumptions are realistic and achievable and consistent with the external and/or internal environment and other matters identified in the audit. – Sensitivity analysis: We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively. – Test of details: Evaluated management's assessment of the entity's compliance with debt covenants. – Historical comparisons: Considering the historical accuracy of the group's cash flow forecasts and growth rates by assessing the accuracy of previous forecasts made by the group against actual performance. – Our expertise: Consultation with our restructuring specialists to assess the directors' going concern assessment. – Benchmarking assumptions: We compared the projected growth rates to externally derived data. – Our sector expertise: Challenged management's plans for future actions, and verified the reliability and relevance of data used including plans to refinance external debt against our own knowledge of the industry. – Assessing transparency: Assessing the reasonableness of the going concern disclosure. Our results We found the going concern disclosure without any material uncertainty to be acceptable (2018 result: acceptable).

The service guarantee provision is no longer required after adopting IFRS 15 in 2019. We continue to perform procedures over the carrying amount of intangibles, customer refunds provision, and other provisions in respect of national minimum wage. However, intangibles capitalised in the prior year were brought into use this year and the degree of estimation and uncertainty over these other provisions has been reassessed to be less than materiality. Therefore, we have not assessed these as the most significant risks in our current year audit and they are not separately identified in our report this year.

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

3. OUR APPLICATION OF PARTNERSHIP MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Materiality for the Partnership financial statements as a whole was set at £13.7 million, determined with reference to a benchmark of Partnership profit before tax, normalised to exclude this year's Partnership Bonus and exceptional items (as disclosed in notes 2.8.2 and 2.5, respectively) by averaging over the last three years due to fluctuations in the business cycle, of £273.6 million, of which it represents 5.0% (2018: 5.0% of actual partnership profit before tax, Partnership Bonus and exceptional items).

Materiality for the parent company financial statements as a whole was set at £3.6 million (2018: £3.6 million), determined with reference to a benchmark of company total assets, of £122.4 million, of which it represents 3.0% (2018: 3.0%).

We agreed to report to the audit and risk committee any corrected or uncorrected identified misstatements exceeding £0.7 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

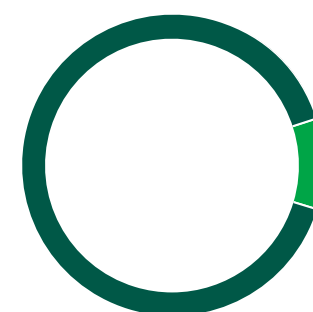
Of the Partnership's 17 (2018: 16) reporting components, we subjected 6 (2018: 11) to full scope audits for Partnership purposes. The decrease in components subject to full scope audits is attributable to the statutory audits of 5 subsidiaries being substantially completed at the same time as the audit of the Partnership in the previous year. In addition, 1 component (2018: 1) was subjected to specified risk-focused audit procedures. The latter was not individually financially significant enough to require a full scope audit for Partnership purposes, but did present specific individual risks that needed to be addressed over a liability balance.

The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 1% of total Partnership revenue, 14% of Partnership profit before tax and 9% of total Partnership assets is represented by 10 reporting components, none of which individually represented more than 4% of any of total Partnership revenue, Partnership profit before tax or total Partnership assets. For these residual components, we performed analysis at an aggregated Partnership level to re-examine our assessment that there were no significant risks of material misstatement within these.

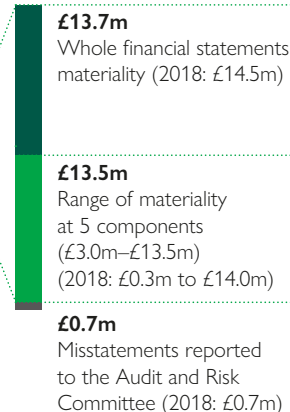
The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £13.5 million to £3.0 million, having regard to the mix of size and risk profile of the Partnership across the components. The work on 2 of the 7 components (2018: 1 of the 11 components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team. The Group team performed procedures on the items excluded from normalised Partnership profit before tax, Partnership Bonus and exceptional items.

Partnership profit before tax, Partnership Bonus and exceptional items (3 year average) £273.6m

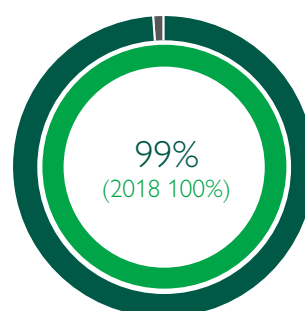


- Profit before tax
- Partnership materiality

Materiality

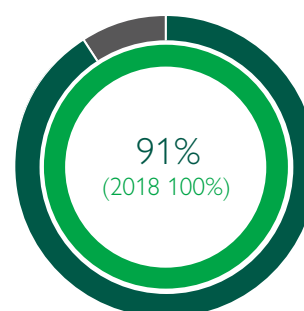


Partnership revenue



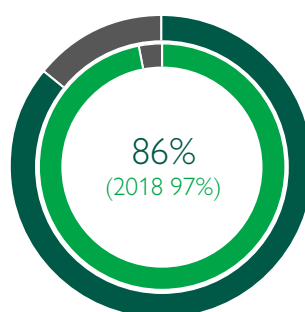
- 2019
- 2018

Partnership total assets



- 2019
- 2018

Partnership profit before tax, Partnership Bonus and exceptional items



- 2019
- 2018

4. WE HAVE NOTHING TO REPORT ON GOING CONCERN

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Partnership or to cease their operations, and as they have concluded that the Company's and the Partnership's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Partnership and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if we have anything material to add or draw attention to in relation to the Directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cause significant doubt over the Partnership and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. WE HAVE NOTHING TO REPORT ON THE STRATEGIC REPORT AND THE DIRECTORS' REPORT

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

Our responsibility is to read the Strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the Strategic report and the Directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. WE HAVE NOTHING TO REPORT ON THE OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

We have nothing to report in these respects.

7. RESPECTIVE RESPONSIBILITIES

DIRECTORS' RESPONSIBILITIES

As explained more fully in their statement set out on page 141, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Partnership and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Partnership or the parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES

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

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

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

IRREGULARITIES – ABILITY TO DETECT

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Directors and other management (as required by auditing standards), and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Partnership is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation) and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Partnership is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Partnership's licence to operate. We identified the following areas as those most likely to have such an effect: health and safety, General Data Protection Regulation (GDPR), anti-bribery and employment law recognising the nature of the Partnership's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

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



MICHAEL MALONEY (SENIOR STATUTORY AUDITOR)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
11 April 2019

Five year financial record

For the year ended January

	2019 £m	2018 ¹ £m	2017 ³ £m	2016 ³ £m	2015 ^{1,3} £m
Income statement					
Gross sales					
Waitrose & Partners	6,835.0	6,753.7	6,633.2	6,461.4	6,508.9
John Lewis & Partners	4,889.1	4,855.8	4,741.0	4,557.4	4,433.7
	11,724.1	11,609.5	11,374.2	11,018.8	10,942.6
Revenue					
Waitrose & Partners	6,429.5	6,354.7	6,245.5	6,086.0	6,135.3
John Lewis & Partners	3,887.2	3,861.1	3,780.7	3,662.8	3,565.7
	10,316.7	10,215.8	10,026.2	9,748.8	9,701.0
Operating profit before exceptional items and Partnership Bonus					
Waitrose & Partners	203.2	172.0	253.5	232.6	237.4
John Lewis & Partners	114.7	257.8	243.2	250.2	250.5
Group and other	(90.9)	(65.4)	(18.5)	(80.7)	(45.6)
	227.0	364.4	478.2	402.1	442.3
Net finance costs	(67.0)	(71.6)	(107.8)	(96.6)	(99.6)
Profit before Partnership Bonus, tax and exceptional items	160.0	292.8	370.4	305.5	342.7
Exceptional items	2.1	(111.3)	171.2	129.3	7.9
Partnership Bonus	(44.7)	(74.0)	(89.4)	(145.0)	(156.2)
As a percentage of eligible pay	3%	5%	6%	10%	11%
Taxation	(40.1)	(30.5)	(98.7)	(66.6)	(50.9)
Profit for the year	77.3	77.0	353.5	223.2	143.5
Number of employees at year-end	83,900	85,500	86,700	91,500	93,800
Average number of full-time equivalent employees²	60,800	60,600	63,300	63,900	64,500

1 53-week year.

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

3 Restated, see note 1.1.4. Although IFRS 15 has been adopted on a fully retrospective basis, figures for 2015–2017 have not been restated.

	2019 £m	2018 ² £m	2017 ² £m	2016 ² £m	2015 ^{1,2} £m
Balance sheet					
Non-current assets	4,383.1	4,563.1	4,661.7	4,677.0	4,682.1
Current assets	1,929.0	1,690.6	1,627.6	1,534.7	1,170.4
Total assets	6,312.1	6,253.7	6,289.3	6,211.7	5,852.5
Current liabilities	(2,055.9)	(1,945.1)	(1,843.3)	(1,848.7)	(1,692.0)
Non-current liabilities	(1,636.2)	(2,006.9)	(2,404.0)	(2,297.9)	(2,641.7)
Total liabilities	(3,692.1)	(3,952.0)	(4,247.3)	(4,146.6)	(4,333.7)
Net assets	2,620.0	2,301.7	2,042.0	2,065.1	1,518.8
Borrowings	(716.0)	(868.1)	(966.9)	(1,031.8)	(1,030.2)
Net debt	(88.6)	(216.5)	(250.6)	(372.5)	(721.7)

1 Restated to reflect changes made in 2016 to classify cash in transit balances as payables rather than to recognise an overdraft.

2 Restated, see note 1.1.4. Although IFRS 15 has been adopted on a fully retrospective basis, figures for 2015–2016 have not been restated.

Glossary: Alternative performance measures

Throughout the Annual Report and Accounts, alternative performance measures (APMs) have been reported which are non-GAAP measures and are presented to provide stakeholders with additional financial information on the performance of the Partnership.

These APMs should not be viewed in isolation or as an alternative to the equivalent GAAP measure.

The measures detailed below are not defined by IFRS and therefore may not be directly comparable with other companies' APMs – this includes those in the retail industry.

APM	CLOSEST EQUIVALENT GAAP MEASURE	DEFINITION, PURPOSE AND RECONCILIATION
Adjusted cash flow	None	Operating profit before PB, exceptional items, depreciation, amortisation and average one-year lease payments, but after lease adjusted interest and tax. This measure is important to assess our Debt Ratio.
		2018/19 £m
		2017/18 £m
		Operating profit before PB and exceptional items
		227.0
		364.4
		add back:
		Depreciation, amortisation and write-offs
		414.4
		398.5
		Average one year lease payments
		190.7
		186.1
		less:
		Lease adjusted interest
		(175.1)
		(183.9)
		Tax
		(39.2)
		(49.1)
		Adjusted cash flow
		617.8
		716.0
Average NMP hourly pay above National Living Wage	None	Average non-management Partner hourly pay for Partners on permanent contracts and aged 18 years old or over, as a percentage above the 2018/19 National Minimum Wage of £7.83. Non-management Partners are Level 9 and Level 10 Partners, excluding Assistant Section Managers.
		2018/19 £
		2017/18 £
		National Minimum Wage
		7.83
Debt Ratio	None	JLP Pay
		9.16
		8.91
		Differential
		17.0%
		18.8%
Gross sales	None	Comparison of our Total net debts to Adjusted cash flow. This measure is important as it provides an indication of our ability to repay our debts.
		2018/19 £m
		2017/18 £m
		Total net debts
		2,682.2
Gross sales growth	None	Adjusted cash flow
		617.8
		716.0
		Debt Ratio
		4.3
		4.3
Gross sales growth	None	Total sales of goods and services including sale or return sales and VAT, net of Partnership discount.
		2018/19 ¹ £m
		2017/18 £m
		Current year gross sales
		11,724.1
Gross sales growth	None	Prior year gross sales
		11,609.5
		11,374.2
		Gross sales growth
		1.0%
		2.0%
		1 based on restated 2018 figures for IFRS 15.

APM	CLOSEST EQUIVALENT GAAP MEASURE	DEFINITION, PURPOSE AND RECONCILIATION
Like-for-like sales	Year on year movement in revenue per the income statement	Comparison of sales between two periods in time (e.g. this year to last year), removing the impact of non like-for-like sales (mainly the impact of branch openings and closings), business to business and fuel sales.
Partner pay as a % of sales	None	This APM takes the total cost of wages and salaries for the year and divides this by the gross sales for the year (excluding VAT). This APM is a guide of how much money each Partner generates for the Partnership and is an indication of Partner productivity.
Operating cash	None	A measure of the amount of cash generated by the regular trading activities of the Partnership. Includes trading and excludes costs associated with long-term investment on capital items such as interest. This APM is important as it provides a clearer picture of the current reality of business operations.
		See note 2.7.
Profit before PB, tax and exceptionals	Profit before tax	This APM gives a high level view of the Partnership's performance. The measure is based on profit before the impact of items which are due to events during the year or transactions that are large in terms of size or nature.
		See note 2.6.

Glossary: Alternative performance measures — continued

APM	CLOSEST EQUIVALENT GAAP MEASURE	DEFINITION, PURPOSE AND RECONCILIATION																																																						
Profit per average FTE	None	Profit before PB and exceptional items but after tax, adjusted for above market rewards, divided by the average number of full-time equivalent Partners. This measure provides the best indication of Partner productivity. Our 2017/18 measure has been restated to adjust for above market rewards. <table> <tr> <th></th><th>2018/19 £m</th><th>2017/18 £m</th></tr> <tr> <td>Profit before PB, tax and exceptional items</td><td>160.0</td><td>292.8</td></tr> <tr> <td>Tax</td><td>(39.2)</td><td>(49.1)</td></tr> <tr> <td>Above market rewards</td><td>183.3</td><td>174.4</td></tr> <tr> <td></td><td>304.1</td><td>418.1</td></tr> <tr> <td>Average FTEs</td><td>60,800</td><td>60,600</td></tr> <tr> <td>Profit per average FTE (£k)</td><td>5.0</td><td>6.9</td></tr> </table>		2018/19 £m	2017/18 £m	Profit before PB, tax and exceptional items	160.0	292.8	Tax	(39.2)	(49.1)	Above market rewards	183.3	174.4		304.1	418.1	Average FTEs	60,800	60,600	Profit per average FTE (£k)	5.0	6.9																																	
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Return on Invested Capital (ROIC)	None	Operating profit before PB and exceptionals, adjusted for above market rewards, a notional interest on leases (at a 5% interest rate on lease liabilities) and a notional tax charge (at the statutory marginal tax rate for the year), as a proportion of average operating net assets, adjusted to reflect the value of leased assets. This is important because it demonstrates how effectively we are utilising our assets. Our 2017/18 measure has been restated to adjust for above market rewards. <table> <tr> <th></th><th>2018/19 £m</th><th>2017/18 £m</th></tr> <tr> <td>Operating profit before PB and exceptional items</td><td>227.0</td><td>364.4</td></tr> <tr> <td>Above market rewards</td><td>183.3</td><td>174.4</td></tr> <tr> <td>Notional interest on leases</td><td>105.1</td><td>104.1</td></tr> <tr> <td>Notional tax</td><td>(97.9)</td><td>(122.2)</td></tr> <tr> <td></td><td>417.5</td><td>520.7</td></tr> <tr> <td>Net assets</td><td>2,620.0</td><td>2,301.7</td></tr> <tr> <td>add back:</td><td></td><td></td></tr> <tr> <td>Borrowings and overdrafts</td><td>1,047.2</td><td>936.8</td></tr> <tr> <td>Finance lease liabilities</td><td>21.1</td><td>23.3</td></tr> <tr> <td>Pension deficit (net of deferred tax)</td><td>404.7</td><td>623.1</td></tr> <tr> <td>Present value of operating leases</td><td>2,076.4</td><td>2,126.2</td></tr> <tr> <td>Operational cash</td><td>479.8</td><td>453.0</td></tr> <tr> <td>less:</td><td></td><td></td></tr> <tr> <td>Cash and short-term investments</td><td>(982.2)</td><td>(762.2)</td></tr> <tr> <td>Operating net assets</td><td>5,667.0</td><td>5,701.9</td></tr> <tr> <td>Average operating net assets</td><td>5,684.5</td><td>5,681.5</td></tr> <tr> <td>ROIC</td><td>7.3%</td><td>9.1%</td></tr> </table>		2018/19 £m	2017/18 £m	Operating profit before PB and exceptional items	227.0	364.4	Above market rewards	183.3	174.4	Notional interest on leases	105.1	104.1	Notional tax	(97.9)	(122.2)		417.5	520.7	Net assets	2,620.0	2,301.7	add back:			Borrowings and overdrafts	1,047.2	936.8	Finance lease liabilities	21.1	23.3	Pension deficit (net of deferred tax)	404.7	623.1	Present value of operating leases	2,076.4	2,126.2	Operational cash	479.8	453.0	less:			Cash and short-term investments	(982.2)	(762.2)	Operating net assets	5,667.0	5,701.9	Average operating net assets	5,684.5	5,681.5	ROIC	7.3%	9.1%
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Total net debts	None	The Partnership's borrowings and overdrafts, finance lease liabilities and derivative financial instruments, IAS 19 pension deficit net of deferred tax, and the present value of future rentals payable under operating leases calculated using a 5% discount rate, less any liquid cash, short-term deposits and investments. <table> <tr> <th></th><th>2018/19 £m</th><th>2017/18 £m</th></tr> <tr> <td>Borrowings and overdrafts</td><td>1,047.2</td><td>936.8</td></tr> <tr> <td>Finance lease liabilities</td><td>21.1</td><td>23.3</td></tr> <tr> <td>Derivative financial instruments</td><td>2.5</td><td>18.6</td></tr> <tr> <td>Pension deficit (net of deferred tax)</td><td>404.7</td><td>623.1</td></tr> <tr> <td>Present value of operating leases</td><td>2,076.4</td><td>2,126.2</td></tr> <tr> <td>Liquid cash, short-term deposits and investments</td><td>(869.7)</td><td>(644.5)</td></tr> <tr> <td>Total net debts</td><td>2,682.2</td><td>3,083.5</td></tr> </table>		2018/19 £m	2017/18 £m	Borrowings and overdrafts	1,047.2	936.8	Finance lease liabilities	21.1	23.3	Derivative financial instruments	2.5	18.6	Pension deficit (net of deferred tax)	404.7	623.1	Present value of operating leases	2,076.4	2,126.2	Liquid cash, short-term deposits and investments	(869.7)	(644.5)	Total net debts	2,682.2	3,083.5																														
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Glossary: Financial terms

Above market rewards – these are Partner benefits which are higher than those typically paid by our competitors, as a result of the Partnership model. Above market rewards principally includes pensions, long leave, Partner discount and costs of our democracy. This measure is important for adjusting our financial Key Performance Indicators (KPIs) to be able to assess them against our competitors.

Amortised cost – the value of an intangible asset after accounting for amortisation and impairment. Sometimes referred to as carrying value or net book value.

Amortisation – an expense recorded to write down intangible assets to their residual values over their useful economic lives (UELs).

Assets – something of value that the Partnership owns, benefits from, or has use of, in generating income or cash.

Average hourly pay – the pay received per hour, calculated from pay received divided by hours worked.

Balance sheet – a financial statement that shows assets, liabilities, and capital/equity at a particular point in time, giving a summary of what the Partnership/Company owns and what it owes.

Capital investment/expenditure – additions to tangible fixed assets (property, plant and equipment), and intangible assets (IT software).

Cash equivalents – short-term deposits which the Partnership can quickly and easily convert into cash.

Cash flow (statement of) – a financial statement that shows how changes in balance sheet accounts, income, and expenses affect cash and cash equivalents. It breaks the analysis down to operating, investing and financing activities. It is a measure of cash generation, working capital efficiency and capital discipline of the business.

Committed credit facilities – similar to a personal overdraft, this is an agreement with banks to provide the Partnership with additional funds as and when we might require.

Cost of sales – the cost to the business of producing and purchasing goods sold over a specific period of time.

Cost price inflation – increases in the costs paid by the Partnership for the raw materials and products which will then be sold to customers.

Debt – money the Partnership has borrowed which it is required to repay.

Depreciation – an expense recorded to write down non-current assets to their residual values over their useful economic lives (UELs).

Exceptional items – one-off and material items of significant value relating to events or transactions which do not occur every year, such as redundancy and restructuring.

Full-time equivalent – The hours worked by one Partner on a full-time basis. The concept converts the hours worked by several part-time Partners into the hours worked by full-time Partners to enable like-for-like comparisons of resource.

Financial year – the period of 364 days, or 52 weeks, running from 28 January 2018 to 26 January 2019.

Foreign exchange (FX) exposure – the risk that Partnership faces when a financial transaction is denominated in a currency other than GBP (Sterling). This will primarily be for products the Partnership sells which we buy from suppliers in another currency.

GAAP – Generally Accepted Accounting Practice. Non-GAAP measures are those which are not required under IFRS, but are included to enhance the relevance and usefulness of the financial statements.

Gross domestic product (GDP) – a measure of a country's economy, the total value of goods produced and services provided by a country during one year.

Hedging – a financial technique that helps to reduce or mitigate the effects of a measurable type of risk.

IAS – International Accounting Standards.

IFRS – International Financial Reporting Standards.

Impairment – a reduction in the value of an asset due to a fall in the expected future economic benefits generated by the asset.

Lease – a contract in which one party lends land, property or services to another for a specified period of time, usually in return for payment.

Liabilities – a present obligation arising from past events, the settlement of which is expected to result in an outflow of resources.

(Total) liquidity – the money and committed credit facilities we have available to us, which we can use to settle liabilities as they fall due.

Market comparator – John Lewis & Partners – British Retail Consortium (BRC), Waitrose & Partners – Kantar Worldpanel.

Margin (gross) – the difference between a product or service's selling price and its cost of purchase/production.

Margin (operating) – the difference between a product or service's selling price and all costs, including purchase/production, distribution and other operating costs.

Glossary: Financial terms — continued

Material items – items in the financial statements are material if their omission or misstatement could influence the economic decisions of users. Items may be material by size or by nature.

Materiality concept – the universally accepted accounting principle that all material matters should be disclosed in the accounts.

Net book value – the value of an asset after accounting for amortisation/depreciation and impairment. Sometimes referred to as carrying value.

Net finance costs – interest payable on our borrowings, our defined benefit pension scheme and long leave scheme, offset by interest received from investments.

Operating profit before exceptional items – profit earned by the Partnership over a specific period of time, before accounting for exceptional items, net finance costs and tax.

Operating profit – profit earned by the Partnership over a specific period of time, before accounting for net finance costs and tax.

PB – Partnership Bonus.

Pension deficit (accounting) – the accounting deficit is the pension deficit presented in the balance sheet. It is presented in accordance with the requirements of IAS 19, which requires all companies to assume their pension fund grows at a standard rate reflecting a relatively low level of risk.

Pension deficit (actuarial/funding) – the actuarial or funding deficit is a measure that is used to judge the money that the Partnership needs to contribute to the pension scheme based on predicted growth rates and risks specific to the Partnership's scheme.

Profit before tax (PBT) before exceptional items – profit the Partnership earned over a specific period of time, before accounting for tax and exceptional items.

Profit before tax (PBT) – profit generated by the Partnership over a specific period of time, before accounting for tax.

Residual value – 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.

Restated – The Partnership adopted IFRS 15 'Revenue from Contracts with Customers' 28 January 2018 using a fully retrospective approach. The main impact is in respect of the timing of revenue recognition of free service guarantees in John Lewis & Partners, principally for certain electrical products. The impact on the prior year financial statements was disclosed in the Partnership's Unaudited condensed Interim Financial Statements for the half-year ended 28 July 2018 published on 13 September 2018.

Revenue – sales of goods and services, including warranties, extended warranties, commission income and margin in respect of sale or return transactions, net of Partner discounts and VAT.

Revenue investment – Investment spend recognised directly in the income statement.

Segments (reporting) – the three segments through which we analyse our reporting are Waitrose & Partners, John Lewis & Partners and Group. This is consistent with how the Partnership Board review performance throughout the year.

Short-term investments – cash placed with financial institutions (such as banks) for a period of between three months and a year. The Partnership receives more interest on these short-term investments compared to immediately accessible cash kept in bank accounts.

Solvency – ability of the Partnership to meet its long-term financial obligations (e.g. repayment of its debts).

Total net debts – all the borrowings and overdrafts (including pension deficit and operating leases) the Partnership has outstanding, less any liquid cash and short-term investments, at a particular point in time.

Value added tax (VAT) – a tax on the sales value of a product or service which is collected by HMRC.

Variable Net Asset Value (VNAV) – Fund prices change on a daily basis in relation to the net asset value of the underlying holdings included within the fund.

Working capital – the cash the Partnership utilises as part of its day-to-day trading operations. This includes aspects such as the money tied up in stock, the money we owe to suppliers for goods we haven't yet paid for, and any money we may be owed from customers and suppliers.

Glossary: Non-financial terms

Audit – a detailed review and inspection of accounts, disclosures and procedures, checking for consistency, accuracy, and adherence to accounting and reporting standards. The objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement.

Auditor – an individual or body who undertakes the work required for an audit. The Partnership's auditor is KPMG LLP.

Biomethane – an alternative to fossil fuels, similar to natural gas, which is produced from organic waste, and is suitable for use as vehicle fuel.

BREEAM (Building Research Establishment Environmental Assessment Method) – a sustainability assessment method for assets, which takes into account an asset's environmental, social and economic sustainability performance.

Click & Collect – a service offered through johnlewis.com to enable customers to buy or order goods and collect from a local Waitrose & Partners or John Lewis & Partners.

Executive Team – responsible for developing and recommending Partnership strategy to the Partnership Board and setting the direction for the Partnership in the execution of that strategy; and responsible for prioritising the allocation of capital and resources.

Freehold – outright ownership of land and buildings and the right to control usage for an unlimited period without any future obligation to transfer ownership to another party.

General Data Protection Regulation (GDPR) – an EU directive, approved on 14 April 2016 and enforced from 25 May 2018, which governs the way personal data is handled by organisations.

Her Majesty's Revenue and Customs (HMRC) – the UK Government department that administers and collects taxes, including corporation tax and value added tax (VAT).

KPI – a Key Performance Indicator is a type of performance measurement used by businesses to check progress towards their goals.

Leasehold – ownership of land and buildings and the right to control usage for a fixed period of time after which ownership reverts back to the freeholder.

Net Promoter Score (NPS) – an external benchmark which calculates a measure between -100 and +100, that shows the willingness of customers to recommend products and services to others. A larger positive figure represents a higher level of customer satisfaction and loyalty to a brand.

Never Knowingly Undersold (NKU) – John Lewis & Partners' price promise to customers to match the prices of high street competitors and monitor the prices of branded products on a daily basis.

Non-management Partners (NMP) – Level 9 and Level 10 Partners, excluding Assistant Section Managers in Waitrose & Partners.

OCCO – Omni Channel Customer Ordering.

Partners (members) – the name given to all employees of the John Lewis Partnership.

Partnership Board – the Partnership Board is one of the three governing authorities of the Partnership. As stated by Rule 38 of the Constitution, the Board has ultimate responsibility for issues of major policy and for allocating the financial and other resources of the business to keep the Partnership true to its principles – both in terms of the vitality of its commercial progress and its distinctive employee ownership objectives.

Restructuring – a change to internal organisational structures, designed to streamline processes and create more efficient and cost effective ways of working.

Notes

GENERAL INFORMATION

INDEPENDENT AUDITOR

KPMG LLP

REGISTERED OFFICE

John Lewis Partnership plc, 171 Victoria Street, London, SW1E 5NN.
Incorporated and registered in England & Wales, under Company no. 00238937.

PREFERENCE SHARES

Any remaining queries relating to the Preference Shares previously in issue (which were cancelled in November 2016) should be directed to Company Secretary, John Lewis Partnership plc, Partnership House, Carlisle Place, London, SW1P 1BX.

MORE INFORMATION

For more information about the John Lewis Partnership please visit:
www.johnlewispartnership.co.uk
twitter.com/JLPartnership
linkedin.com/company/john-lewis-partnership

For more information about Waitrose & Partners or John Lewis & Partners please visit:

www.waitrose.com
facebook.com/waitroseandpartners
twitter.com/waitrose
youtube.com/waitroseandpartners
pinterest.co.uk/waitroseandpartners
instagram.com/waitroseandpartners
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instagram.com/JohnLewisandPartners
linkedin.com/company/johnlewisandpartners

CONTACT INFORMATION

You are invited to contact us with your enquiry or comments. To enable us to respond to your enquiry as quickly as possible, please use the 'Contact us' section on the Partnership website.

PHOTOGRAPHY

Darren Bell, David Cotter, Angela Robertson, BGA Photography, Stonehouse Photographic, James Mackenzie, Mark Mackenzie, Neil Cooper, Jeff Hopkins, Julia Topliss.



