

EMERGING STRONGER

JOHN LEWIS PARTNERSHIP PLC
ANNUAL REPORT AND ACCOUNTS 2021





JOHN LEWIS & PARTNERS

JOHN LEWIS PARTNERSHIP

WAITROSE & PARTNERS

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For more information on the progress we are making against our Ethics and Sustainability Strategy and to read our latest Modern Slavery Statement, visit www.johnlewispartnership.co.uk/csr

More detailed, non-financial performance information can also be found at www.johnlewispartnership.co.uk

Message from the Chairman

EMERGING STRONGER

Dear Partner

The past year has been one of the most challenging in the Partnership's history. The worst of times brings out the best in people and I could not be more proud of the commitment and dedication of Partners, in the most unimaginably difficult circumstances. We have come through the pandemic stronger and that is because we are a Partnership.

It's a privilege to be a Partner in the UK's largest employee-owned business. Employee ownership means we pull together in the good times - and in the tougher moments. You have shown extraordinary agility, creativity and adaptability as the Partnership has worked so hard to keep our customers fed and cared for through lockdowns.

Your safety and the safety of our customers have been paramount throughout the pandemic and remain so. We were one of the first businesses to introduce social distancing - ahead of it becoming law - and an early adopter of rapid testing for Partners at scale. We are investing more in mental health support for Partners, conscious of the toll the last year has taken. As a Partnership, it is even more important to us that in the tough times we also reach out to those in our communities with the greatest needs.

The climate emergency presents an even greater challenge than the pandemic, and we believe now is the time to accelerate efforts to improve sustainability. We are not perfect but we are trying hard. We became a signatory of HRH The Prince of Wales' Terra Carta earth charter in February 2021. In the same month, Waitrose topped Greenpeace's annual league table as the best supermarket in tackling single use plastics, thanks in part to our Unpacked initiative. We continue to champion animal welfare standards, becoming the first retailer in the world to measure the emotional wellbeing of farm animals using a specialist mobile app.

OUR FINANCIAL PERFORMANCE

In a difficult year, the Partnership recorded a Loss before tax of £(517)m, compared to a Profit before tax of £146m in the previous year. This is the result of substantial exceptional costs of £(648)m, mainly the write down in the value of John Lewis shops owing to the pronounced shift to online, as well as restructuring and redundancy costs from store closures and changes to our head office. John Lewis shops are now held on our balance sheet at almost half the value they were before this year's and last year's write downs. Before the pandemic we judged that £6 in every £10 spent online with John Lewis was driven by our shops. This has fallen to £3 in every £10.

Our Profit before exceptionals was £131m. While this was up £61m on the previous year, the Partnership would have made a loss before exceptionals if it weren't for crisis-related support from the government. We were helped by support from the government of £190m, which was made up of business rates relief and furlough support (the latter claimed only to July 2020). Government funding has been used for the purpose it was designed for - to protect the business - and was critical to cover the direct operational costs relating to Covid-19 and the substantial hit to trading operating profit. The business rates relief has helped to keep us running and avoid more severe restructuring of the Partnership, which would have put more jobs at risk at a time when the high street is already under pressure. We are not out of the crisis yet and the economic environment remains extremely uncertain. Therefore, our current intention is to accept the business rates relief made available from April to June 2021, but we will keep this under review.

Trading operating profit was significantly challenged as the improvement seen in Waitrose, in part helped by the closure of the hospitality industry, was insufficient to cover the substantial decline in John Lewis as 'non-essential' physical retailing closed temporarily. However, we improved our cost base with pension costs reducing by around £55m following the closure of the Partnership's defined benefit pension scheme in April 2020. There was also an almost £25m reduction in the depreciation of John Lewis shops - i.e. less wear and tear - owing to their significantly reduced value in our accounts through the exceptional write down.

We entered this year with our financial performance already challenged - profits and Partnership bonus having fallen for the past three years. We are having to take very difficult decisions to return the business to a path of sufficient profit of £400m by 2025/26. Last year we closed eight John Lewis stores and seven Waitrose stores that were loss making, and we are in the process of reducing the cost of our head office by 20%. We have seen limited operational impact from Brexit so far owing to our advance preparations and the Brexit trade deal.

With a challenging external environment and difficult decisions as a Partnership, I could not be more proud of Partners. You have responded with exceptional agility - providing new services to customers, whose satisfaction with both brands has risen year on year.

Thanking Partners

In recognition of Partners' hard work, we introduced free food on site and raised the Waitrose shopping discount to 25% during the three lockdowns. We also made thank you payments to all non-management Partners and first level managers who worked in April and May 2020. The total cost was around £55m.

We wish we were in a position to pay a bonus and it was a very difficult decision not to. The Partnership Board believed that to do so would have held back our ability to protect the business in very difficult times and to lay the foundations to return to sustainable profit.

We are committed to restarting bonus as soon as our profits (before exceptionals) reach £150m on a sustainable basis and our debt ratio is below four times, and to paying the voluntary real living wage when profits rise to £200m.

THE YEAR AHEAD

We now have a five-year Partnership Plan. The first priority is to reduce our costs and reinvest the proceeds in improved customer service to ensure that John Lewis and Waitrose remain the go-to brands for quality, value and sustainability, with greater ease and convenience. With retail margins declining and the Partnership wishing to return more benefit to Partners, customers and communities, we are aiming that, by 2030, 40% of our profits will come from areas outside retail, namely financial services, housing and outdoor living.

The outlook is uniquely uncertain as the country charts its exit from lockdown. No one has a crystal ball to predict the strength and pace of the recovery - or the future course of the virus. Our priority is to make sure that the Partnership is well placed to serve our customers, however they want to shop with us. We are expecting working from home to be at higher levels than before the crisis as more people work a 'hybrid' of home and office.

Many customers will have accumulated savings over the past year, having been less able to spend on holidays and going out. This pent up demand might be spent shopping or on the experiences that they have been deprived of in the past year. Equally, with unemployment and inflation both forecast to rise, our customers may be more hesitant about spending and more cost conscious.

Funding the Plan

We managed cash tightly through the year and intentionally slowed investment when the crisis hit to preserve cash. We also obtained new medium term bank loans of £150m, and raised £136m from the sale and leaseback of 11 Waitrose shops.

Consequently, our liquidity as at 30 January 2021 was abnormally high with £1.5bn cash plus bank facilities of £500m. The cash balances will be required to help meet our obligations - we carry £2.1bn of total net debts (including pensions and leases), with £575m of borrowings due to be repaid in the next four years. They will also provide us with a buffer to withstand material volatility in trading. Managing cash prudently is particularly important for the Partnership as we cannot raise money from equity capital markets by design of our structure.

We are targeting a £300m a year cost reduction by 2022/23. Our cash position and focus on cost will allow us to fund our critical turnaround - to secure and grow the Partnership for the benefit of current and future generations of customers and Partners. We expect our liquidity levels to normalise over the medium term as we invest in our Plan and repay borrowings and we will continue to manage cash tightly.

Growth plans

We plan to invest £800m in 2021/22 to support our turnaround, approximately 40% higher than recent years. Given this raised level of investment, we expect our financial results - including liquidity, debt ratio and profit before exceptionals - to worsen in 2021/22 and then improve in later years. Investments include:

- digital investment across both brands, at a significantly higher level than recent years
- improvements in our store estate
- updating major category propositions such as Home, and refreshing financial services products
- new capacity at our John Lewis Magna Park distribution site to handle higher volume of sales
- restructuring to reduce costs

We will provide an update later in the year as to how we are ensuring best value for John Lewis customers as we finalise our review of Never Knowingly Undersold, informed by intensive customer research.

Future of John Lewis stores

As spending shifts online we want to ensure our stores reflect how customers want to shop - 'right space, right place'. Our shops will always be important and we are proud of our presence on the high street across the country. They provide a sensory experience that online cannot, supported by the expert advice of Partners. Both brands will remain a blend of stores and online.

We've undertaken substantial research into how shopping habits vary in different parts of the country and between online and in store. Customers tell us they want to shop with John Lewis closer to home in more convenient locations and they want our stores to be more enticing. We will reshape our store estate over the five years of the Partnership Plan towards:

- **Destination stores**: showcasing our inspiring products - displaying great design with more space given over to experiences and services that cannot be found anywhere else.

- **Smaller service stores**: new formats of smaller, more local shops with the very best of John Lewis.
- **Bringing our brands closer together**: we are trialling the introduction of John Lewis shopping areas in Waitrose stores in Godalming, Horley, Wallingford, Lincoln and Lymington; the early signs are positive. If successful, we will roll out to a significant number of our 331 Waitrose shops. Our plan is for all the general merchandise in Waitrose shops to be sourced from John Lewis.
- **Even greater convenience for customers**: improved Click & Collect service in Waitrose stores and more local collection points through third parties like the Co-op.

All our John Lewis stores need to be exciting places to shop, more reflective of the tastes and interests of local customers. This will require investment and we are working closely with landlords and local authorities. We are keen to play our part in the revitalisation of the high street.

Hard as it is, there is no getting away from the fact that some areas can no longer profitably sustain a John Lewis store and last month we announced the proposed closure of eight shops. This includes four 'At Home' shops in Ashford, Basingstoke, Chester and Tunbridge Wells and four department stores in Aberdeen, Peterborough, Sheffield and York. We will now enter into consultation with affected Partners and should we proceed, we will make every effort to find alternative roles in the Partnership for as many Partners as possible.

Closing a store is one of the hardest decisions we can make as a Partnership. We are acutely sensitive to the impact on our Partners, customers, and communities, particularly at a time when retail and our high streets are undergoing major structural change. We will do everything we can to lessen the impact and will continue to provide community funds to support local areas.

Last month we also confirmed that we have reached an agreement with XPO Logistics to operate our Waitrose distribution centre in Leyland, Lancashire, on our behalf. Leyland remains key to our operations; however, the site remains significantly underused and we have been discussing potential solutions with Partners since last summer. The decision safeguards Leyland's future and secures employment for 436 Waitrose Partners who will transfer to XPO under the Transfer of Undertakings Protection of Employment (TUPE) regulations.

We are going through the greatest scale of change in the Partnership's 156-year history. As employee-owners, we share the responsibility of securing the Partnership for future generations of customers and Partners. Difficult decisions taken now will hopefully set the course for those next generations.

I know I am asking so much of Partners. Retail is changing fast around us. And the Partnership is adapting just as fast. What won't change are the principles and values in which the Partnership is rooted. We have withstood our toughest test and emerged stronger. The strength of the Partnership has seen us successfully navigate the pandemic and will see us to a successful future.

Pages 4 to 60 comprise the Group Strategic Report, which was approved by the Partnership Board on 21 April 2021.

SHARON WHITE
Partner & Chairman
John Lewis Partnership plc
21 April 2021

OUR PURPOSE

Our Founder, John Spedan Lewis, established the John Lewis Partnership to be a better way of doing business, driving positive change in society. We follow the Principles and Rules set out in our Constitution, which defines the Partnership's role in society and our responsibilities to Partners, customers, suppliers and the communities in which we operate (see our Purpose and Principles on page 63).

We are driven to make a difference to people's lives and create positive social change. Our definition of success is not just commercial: our Constitution requires us to make 'sufficient' not 'maximum' profit and that's why we are focused on reinvesting our profits back into our Partners, our business and the communities we serve.

We know we're not perfect but we are working hard. As an organisation with a strong heritage in being purpose-led, it's critical we continue to build on our history and ensure our purpose is clear, responds to the world our Partners and customers live in today, builds a compelling vision for the future and drives decisions and actions for our business.

As part of our five-year Partnership Plan, which we launched in October 2020, we had an exciting opportunity to update our ambition as a business. This has driven our commercial decisions and is helping shape our employment practices. It influences the services we offer to customers and how we work with new commercial partners.

It sees us, for instance, taking firmer action on pay, working conditions, diversity and inclusion and providing support to our suppliers during the pandemic. For example, in Waitrose we kept our fish, cheese and meat counters open so that we could continue supporting our British farmers and producers.

Our purpose has also shaped our biggest ever Partnership campaign - Give A Little Love - which we launched at Christmas, to help to make a significant difference to families in need, generating over £3m for FareShare and Home-Start. We have now pledged a further £2m.

By working together, our Partnership purpose can achieve great things.

At a glance

OUR YEAR

We have used the most challenging year in the Partnership's modern history to lay the foundations for growth. Partners have pulled together in the most extraordinary way and really been there for each other and our customers when they needed us most. Here are some of our highlights from the past year…

- Waitrose.com has grown fourfold since February 2020, now taking around 240,000 orders a week, and stands as a £1bn sales business. This expansion was supported by the opening of a new customer fulfilment centre in Enfield last May, and the extension of online picking and delivery. We also trebled our 'Rapid' delivery service within the first month of lockdown. This has all made Waitrose.com the fastest growing online retailer, growing at more than double the market rate, according to Kantar.

- Johnlewis.com has grown significantly, up 73%, and this year was three quarters of the brand's sales, from 40% before the crisis. Services previously only available in store, such as nursery, home interiors advice, wine tasting and cookery courses, went online, with Partners supporting customers in a personal way via Zoom and apps. A Guinness World Record was broken with the largest ever virtual beauty event masterclass with Charlotte Tilbury.

- One of the benefits of being a Partnership with two brands is that more than 4,500 Partners from John Lewis worked at Waitrose during the various lockdowns, helping to keep the nation fed.

- Launched an on-demand grocery trial with Deliveroo, attracting younger new customers, where 3.5m households across 40 Waitrose shops have access to 650 Waitrose products, delivered in 30 minutes.

- Thirty new fashion and beauty brands have been launched in store and online in John Lewis, with a further 50 being introduced, many of them independent and British. We also successfully trialled a new furniture rental service with Fat Llama.

- Click & Collect is now available at over 900 locations, nearly 400 of which were added in nine weeks, up from 458 last year. This includes John Lewis and Waitrose shops and selected Booths and Co-op shops. Purchases from Boden, Sweaty Betty and Nespresso can also now be picked up through our network.

- John Lewis achieved its highest ever net promoter score of 70, up 4 points year on year, with many more customers recommending the brand than not. And Waitrose's customer satisfaction score rose 5.5 percentage points to 69%.

- We were among the first UK businesses to pilot and roll out rapid lateral flow Covid-19 testing for our Partners, working with the Department of Health and Social Care. We have repurposed space at our head office in Bracknell into a vaccination centre run by the NHS where 35,000 people have been vaccinated up to the beginning of April 2021.

- We brought forward our ambition for our entire operations to be net zero carbon by 15 years to 2035. We also opened our first on-site biomethane gas filling station for our Waitrose heavy goods vehicles at our Bracknell Distribution Centre and added two more at our Milton Keynes distribution hub. Made from food waste and food processing waste materials rather than diesel, biomethane reduces CO2 emissions by 80%. Our biomethane investment was recognised by the 2020 Motor Transport Awards, winning the Low Carbon Award.

- John Lewis continued the roll out of its free supplier engagement programme, Better Jobs, bringing the total number of UK supplier completions of the survey to 49, and over 2,600 employee responses have been collected. Now trialling with suppliers in China, it replaces traditional ethical audits and aims to create more rewarding and enriching jobs for workers.

- We reopened our textiles factory, Herbert Parkinson, during the first lockdown, to make 12,000 medical scrubs for free for the NHS, plus thousands of reusable face masks for Partners. John Lewis also donated fabric to community groups sewing further hospital scrubs. We also delivered almost 2,000 care packages to over 500 NHS hospitals and mental health trusts, which included 110,000 much-needed non-clinical essentials and gifts to NHS staff.

- Waitrose set up a new programme with FareShare, Farm to Family, becoming the first UK supermarket to take surplus food straight from our largest suppliers and farms to the plates of those in need. Waitrose also became a member of the Child Food Poverty Task Force led by footballer Marcus Rashford. John Lewis also donated nearly 5,000 items of warm clothing to Home-Start to distribute to families.

- Waitrose received *The Grocer* magazine's Store of the Week award 18 times and was named Supermarket of the Year by Which? in recognition of our response to Covid-19. John Lewis was named the number one brand in the UK for the fourth consecutive year in YouGov's Brand Rankings survey.

- Tracy Whitfield, Supermarket Assistant at Waitrose Bishop's Stortford, and Philip Costan, Product Technologist at our John Lewis head office, were crowned ultimate winners of the first-ever One Partnership Awards. They beat more than 130 other Partners, who'd been nominated by colleagues for outstanding performance.

- Waitrose Supermarket Assistant, Anisa Omar, became a British *Vogue* cover star after the magazine broke the tradition of featuring their usual A-list celebrities and supermodels, and instead devoted their July 2020 issue to honouring key workers.

- Two Partner advisory groups were set up to support diversity and inclusion: the Black Partner Advisory Group, which acts as a consultative body and sounding board to test ideas and contribute to improving the experiences of Black Partners, and the Part-Time Partner Advisory Group, which improves progression and development for part-time Partners, and addresses issues around cultural bias, pay and performance.

- We launched for the first time, a single, concrete, five-year Plan for the Partnership, so that we can create a thriving Partnership, loved by customers and Partners in years to come.

At a glance

OUR FINANCIAL PERFORMANCE

In March 2020 we launched our Strategic Review and after seven months of work, in October 2020 we announced our five-year Partnership Plan (see pages 21 to 23 and 28 to 37). As a result, new key performance indicators (KPIs) are still in the process of being embedded and have not been in place for the year to January 2021. We have therefore focused below on the financial KPIs as these remain consistent measures of the performance of the Partnership. From 2021/22 new non-financial KPIs and metrics will be reported on to support the monitoring of progress against our Plan. Although new KPIs are not yet embedded, we already monitor a number of non-financial measures, these include but are not limited to:

● Net promoter score and customer satisfaction	Page 9
● Diversity and inclusion measures	Pages 19 to 20
● Ethics and sustainability metrics and commitments	Pages 36 to 37 and *2020/21 Ethics & Sustainability Progress Report*
● Democratic vitality	Page 109

A glossary of financial and non-financial terms is included on pages 220 to 228.

	Post IFRS 16		Pre IFRS 16[1]		
	2021[2]	2020	2019	2018[3,4]	2017[3]
Financial Performance					
Revenue (£bn)	**10.8**	10.2	10.3	10.2	10.0
Borrowings (£m)	**903.5**	762.6	1,047.2	936.8	966.9
Liquidity (£bn)	**2.0**	1.4	1.5	1.3	1.2
(Loss)/profit before tax (£m)	**(517.2)**	146.4	117.4	107.5	452.2
Profit before PB, tax and exceptional items (£m)	**130.8**	69.9[5]	160.0	292.8	370.4
Financial KPIs					
Debt Ratio	**3.4 times**	3.9 times	4.3 times	4.3 times	4.0 times
Return On Invested Capital (ROIC)	**6.7%**	5.8%	7.3%	9.1%	10.1%
Profit per average FTE (£)	**3,500**	3,500	5,000	6,900	6,900

[1] The definitions for 2018/19 and all preceding years are before IFRS 16. IFRS 16 accounted for 0.8 percentage points of the decline in ROIC and £900 of the decline in Profit per average FTE on transition in 2019/20.

[2] 2020/21 is a 53-week year and is reported on that basis. 2020/21 results have benefitted from an additional week's trade compared to 2019/20. The impact on profit before PB, tax and exceptional items is small.

[3] Restated to include above market reward.

[4] Restated for the impact of IFRS 15.

[5] Restated to reflect the adoption of IFRS 16. Last year we reported alternative performance measures before IFRS 16 and our 2019/20 profit before PB, tax, exceptionals and IFRS 16 was £123m.

PROFITABILITY

Our loss before tax, which is after exceptionals, was £(517.2)m. This compares to a profit before tax of £146.4m the previous year. Exceptional costs totalled £(648.0)m (2019/20: exceptional income of £107.4m), principally relating to:

- Restructuring and redundancy costs from store closures and our Head Office Transformation (HOT) programme.
- The write down in value of John Lewis stores. We first reported this at the half year and there has been no significant change since then. Given the pronounced shift to digital, we reassessed how much shops contribute to whether our customers buy online with us or not. Before the pandemic we believed that shops contributed around £6 of every £10 spent online but we now think that figure is £3. John Lewis shops are now held on our balance sheet at almost half the value they were before the write downs were recognised in 2019/20 and 2020/21. For further details on exceptionals see note 2.5.

Before exceptionals, the Partnership made a profit of £131m in 2020/21, which was up £61m on the previous year. Without £190m of government support, we would have made a loss before exceptionals. Government support covered the direct operational costs of the pandemic and the substantial hit to trading operating profit, with the impact of the closure of our department stores, and the weaker margins in John Lewis only partly offset by Johnlewis.com sales growth and the improvement in Waitrose. Furthermore, around £55m of the year on year profit improvement was the result of lower pension costs following the closure of our defined benefit pension scheme in April 2020; around £25m was from lower depreciation costs because of the write down of the value of John Lewis shops.

DEBT RATIO

The strength of our cash position has improved our debt ratio - how much we owe as a proportion of the cash we generate each year - to 3.4 times from 3.9 times last year. We expect this to reverse in 2021/22 as we invest in our turnaround before returning to an improving trajectory the following year. In the medium term we continue to target a debt ratio of around three times.

RETURN ON INVESTED CAPITAL (ROIC) %

The Partnership's ROIC improved from 5.8% to 6.7%, entirely driven by the reduced level of invested capital. This is primarily due to the exceptional impairment of John Lewis shops, the lower level of investment as we slowed this down to preserve cash, store closures and the temporary favourable working capital position.

PROFIT PER AVERAGE FULL-TIME EQUIVALENT (FTE) PARTNER £

Profit before Partnership Bonus, tax and exceptionals was up year-on-year, but after tax and adjusted for above market reward (namely the reduced pension benefit), it was lower. However, this reduction was offset by lower average FTE Partners. As a consequence, Profit per average FTE Partner was in line with last year, at £3,500.

LIQUIDITY

We have managed cash tightly through the year, given both the uncertainty and volatility of trade and our inability to raise funds from issuing shares because we are employee-owned. In addition, we obtained new medium term bank loans of £150m and raised £136m from the sale and leaseback of 11 Waitrose shops.

We also deliberately slowed investment in the early months of 2020 to preserve cash, and our ability to spend was anyway limited by the practical impact of the pandemic. Consequently, our liquidity as at 30 January 2021 was unusually high with £1.5bn cash plus bank facilities of £500m. This cash position is required to help meet our obligations - we carry £2.1bn of total net debts (including pension and leases), with £575m of borrowings due to be repaid in the next four years (see note 7.1.2). It also ensures that there is adequate funding available to withstand material volatility in trading and to allow us to invest in turning around the business.

How we are different

OUR PARTNERSHIP BUSINESS MODEL

The John Lewis Partnership is the UK's largest employee-owned business. Founded on being a better way of doing business, the Partnership champions equality, wellbeing and sustainable living for the good of customers, Partners, suppliers and communities.

HOW OUR BUSINESS MODEL WORKS		PARTNERSHIP PLAN LINK	IN OUR WORDS
OUR PARTNERSHIP Our Founder, John Spedan Lewis, established the John Lewis Partnership to be a Partnership for positive change. We are driven to make a difference to people's lives, creating positive, social change. Our Constitution contains Principles and Rules for how we, as Partners and co-owners of this business, run the Partnership through knowledge and power. Our Constitution states that we are required to make 'sufficient' not 'maximum' profit and that's why we reinvest our profits back into our Partners, our business and the communities we serve.	Profit Knowledge Power	A PARTNERSHIP FOR POSITIVE CHANGE As an organisation with such a strong heritage in being purpose-led, that was founded on being a better way of doing business, it was critical that as we developed our five-year Partnership Plan last year, we continued to build on this history but also update it to make it relevant for today's world. As a result, we are focusing on three key areas - championing equality, wellbeing and sustainable living, for the good of customers, Partners, suppliers and society. Our purpose drives our commercial decisions and shapes our employment practices. It influences the services we offer to customers and how we work with other businesses.	"Focusing on our purpose meant re-engineering the mechanics of how our business operates, defining what success means to us, what metrics are used to measure progress, how the Executive Team and leaders are held to account on progress, and how resources are allocated to ensure purpose is considered alongside normal financial metrics of any business. Probably the most visible sign of our renewed sense of purpose being at the heart of everything we do, has been Give A Little Love." SARAH GILLARD Partner & Director of Special Projects
OUR RESOURCES We have over 80,000 Partners, 331 Waitrose shops, 42 John Lewis shops plus one outlet, 34 customer delivery hubs and distribution sites, five Partnership hotels, two international offices, four Waitrose cookery schools,	Designing and sourcing Inspiring experiences Unique products Growing and	LEAN, SIMPLE, FAST To make the most out of the resources we have, we are simplifying how we work, taking out duplication and cost and giving more freedom to frontline Partners to do what's best for customers. We are creating a simpler, pacier Partnership that	"For the future sustainability of the Partnership, we have to lower our costs and become more profitable so we can afford to invest in Partners and in our customers. That's why we've had to make tough

two customer contact centres, one soft furnishings factory, one heritage centre, one Waitrose farm, one specialist plant nursery and one content production hub. These resources all implement our Partnership business model on a daily basis and help us design and source, create inspiring experiences and unique products, grow and create products, sell and distribute products and provide customer insight.	creating Selling Distributing	can execute the Partnership Plan, reducing spend on the goods we buy, improving operational efficiency and simplifying our processes.	decisions, creating a new operating model. A slimmer, more agile head office, which is more in service of our customer-facing Partners, has been an example of that." CLAIRE YOUNG Partner & Director of Operating Model and Global Process
OUR STAKEHOLDERS The value and impact of our business and the decisions we make for all our stakeholders are important to us. Further information on how we empower our Partners, create retail that customers love, work with our lenders and other businesses to help us grow, support our producers and suppliers and the communities and environments we operate in is on page 41 to 47.	Partners Customers Environment Lenders Producers and suppliers Communities	RETAIL CUSTOMERS LOVE, INSPIRATIONAL NEW SERVICES, PARTNERSHIPS FOR GROWTH Our ambition is to be the UK's go-to brands for customers who want quality, value and sustainability. To do this we will enable customers to shop the way they want with expert advice, brilliantly edited choices and truly memorable experiences through 'retail customers love'. To create inspirational new services we will have trusted new propositions that allow us to play a bigger role in customers' lives. And for partnerships for growth we are accelerating our growth by combining our unique strengths with the capabilities of others.	"Our Partnership Plan is bold in order to grow our business and get us much closer to our customers. We'll offer the best products and customer service on the high street and online. We're creating new inspirational services for customers where strong ethical values and peace of mind matter, like reusing and recycling products, personal savings and rented housing. Our plans will firmly establish Waitrose and John Lewis as the go-to brands for customers that care about quality, value, and sustainability." NINA BHATIA Partner & Executive Director, Strategy & Commercial Development

OUR CULTURE

The inherent strength and difference of the John Lewis Partnership is our community of over 80,000 Partners. As employee-owners, we all have a share in our business - sharing the rewards and responsibilities, when times are good and when times are challenging. We have a collective commitment to go above and beyond for each other and our customers and we have shown in the past year that we can achieve so much through dedication and innovation. More than 4,500 Partners from John Lewis worked at Waitrose during the various lockdowns, helping to keep the nation fed and services previously only available in-store like nursery, home interiors advice, wine tasting and cookery courses, went online.

Being employee-owned, we operate using unique democratic principles, with all Partners sharing power. Our first democratic Council was set up over 100 years ago and today our Partnership Council and Forums enable Partners of all levels and experience, to participate in decision-making, challenge management on performance and have a say in how the business is run. We have 637 Partners who have been formally elected via a democratic process to act as representatives, feeding into our three governing authorities - the Chairman, Partnership Board and Partnership Council - which govern the Partnership. See pages 103 to 110 in the Governance section for more details.

Today, it's more important than ever we use our democracy effectively, enabling Partner opinion to make the Partnership more successful. One example of this in action is when we announced in March 2020 that we were undertaking a Strategic Review, which became our five-year Partnership Plan and launched in October 2020. Partners were encouraged to share their views through an internal strategic review hub which we created on our intranet, via various surveys and listening groups. Overall, over 12,000 Partners provided input, with almost 450 ideas submitted. Without Partners' support we wouldn't have been able to identify the five key priority areas to secure and grow our business. More information on our Partnership Plan is on pages 21 to 23 and 28 to 37.

PARTNER VALUES

The Partnership has always had clear business values, which are set out in Principles 2 to 7 of our Constitution. We also have a set of five personal values that were created by Partners for Partners, to explain what it means to be a Partner and what makes a great one. It has never been more important that we support one another with care and compassion and live by our values.

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.

HEAR FROM OUR PARTNERS

"As a co-owner, being a Partner matters more now than ever before. I understand I need to play my part to make a huge difference on the service we deliver and sales we make. Hoping for the best is not going to make a difference; we need to go out there and make things happen. I like to say to my team that, despite the competition, we have an advantage: the brand's reputation."

KHALED HUSSAIN

Partner & John Lewis Oxford Street Team Manager

"I've only been a Partner for a year, but it already feels like being part of a family and I think that's wonderful. I wanted to work for a company that was renowned, not only for their products, but for the service they provide, and that's the Partnership. I feel fortunate to work with a small dedicated team as to me, the team ethos means being a Partner more than anything else. Within the Partnership at the moment, there's a large amount of uncertainty – I do understand that, for a number of Partners, that is going to feel difficult. We've changed and we need to see what that is going to bring."

HELEN WARD

Partner & Waitrose Clapham Common Supermarket Assistant

SUPPORTING OUR PARTNERS AND COMMUNITIES

It is not enough that we become a sustainable business; our Partners and the communities we operate within must be at the heart of everything we do.

PARTNER HEALTH AND WELLBEING

We've been investing in Partners' health and wellbeing since 1929 - 19 years before the NHS - when we introduced free in-house health and medical services to all our Partners. Today, this continues through our Partnership Health Services team and over £20m is invested annually.

During the pandemic it's been even more important to keep Partners safe, fit and healthy and we expanded the visibility of our health and wellbeing services, introducing some remote delivery options when face-to-face delivery was no longer possible.

This year, we trialled new areas of support such as creating an EatWell FeelWell campaign, a My Resilience health check-up tool, a diabetes screening pilot and became one of the first UK businesses to roll out rapid lateral flow Covid-19 testing for our Partners. We also provided:

1,311 physiotherapy sessions*
5,850+ psychological therapy sessions
451 People Managers participated in mental health awareness training
10,600+ Partners have downloaded the Unmind app and can also now share the benefits by giving free access to a friend or family member with over 270 signed up
11,000+ Partners referred to Partnership Health Services as a self-referral or management referral
933 Partners volunteer as Wellbeing Champions
24 Partnership clubs and societies, ranging from sailing to singing, cycling to photography, with over 8,700 Partners signed up as members
5 Partnership hotels for Partners and their family and friends to use at a specially subsidised rate
16,700+ calls to our in-house Partner Support helpline
£420,000 given in financial assistance to Partners through grants and interest-free loans

*Physiotherapy sessions were fewer than last year due to being unable to deliver face-to-face appointments because of Covid-19.

PARTNER PAY AND REWARD

We want to reward our Partners as much as we can afford. We wish we were in a position to pay a bonus in March 2021 and it was a very difficult decision not to. The Partnership Board believed that to do so would have held back our ability to protect the business in very difficult times and to lay the foundations to return to sustainable profit. We are committed to restarting bonus as soon as our profits (before exceptionals) reach £150m on a sustainable basis and our debt ratio is below four times. We will also pay the voluntary real living wage when profits rise to £200m.

In recognition of Partners' hard work this past year, we introduced free food on site and raised the Waitrose shopping discount to 25% during the three lockdowns. We also made thank you payments to all non-management Partners and first level managers who worked in April and May 2020. The total cost was around £55m[1].

In the 2020/21 financial year, our average hourly rate of base pay for all non-management Partners was £9.90, 14% above the National Living Wage (NLW) of £8.72 (for those aged 25 years and over). We review Partner pay annually each April and have done so again this year. We have prioritised our lowest paid Partners to make sure they earn a decent wage for good performance.

HELPING COMMUNITIES IN NEED

We have donated almost £3m[2] to communities in need and gave £500,000 via a new fund called 'Your Partners Through It All Community Fund', where Partners nominate local charities to receive a donation. We also made a £395,000 donation shared between Age UK, FareShare, the Trussell Trust, Grocery Aid, Kitchen Social and the Retail Trust. We also unveiled a Partnership Community Investment Fund to support local communities impacted by our shop closures.

In 2020/21 the Partnership donated more than £400,000 to the John Lewis & Partners Foundation, an independent charity. The Foundation used this money with its reserves to continue its support for UK and overseas charities with which it already works, primarily in relation to their responses to the pandemic. It meant, for example, that the Baytree Centre in south London was able to continue its women's education work thanks to 'in kind' donations of technology.

We have also been supporting the world's most vulnerable workers in our supply chain throughout the pandemic. Through the Waitrose & Partners Foundation we provided £200,000, helping more than 100,000 workers with sanitation kits, food parcels and communicating the need for social distancing.

To support the NHS, our Waitrose shops protected 'hard to find' and essential products exclusively for NHS workers and provided a priority checkout service. Thousands of essential item care packages were delivered to NHS hospitals and mental health trusts and we provided accommodation to on-call NHS workers at our Leckford Estate in Hampshire, which is normally reserved for Partners. To raise money for NHS Charities Together we sold own-brand products such as leather Rainbow Trainers, face masks, limited edition china mugs and soft toy bears following our Design Your Super Bear competition.

[1] Includes the total cost increase in Partner discount compared to 15% discount rate before the crisis.
[2] £1m was donated through Give A Little Love.

OUR DIVERSITY AND INCLUSION PLAN

The Partnership was formed almost 100 years ago with the principles of humanity and equality for all at its very heart. We know that as we stand where we are today, we have work to do to keep this alive. It needs relentless focus and leadership over many years but we are prepared to take bold action. That's why we are developing a new Partnership-wide diversity and inclusion plan.

Our diversity and inclusion plan has to be agile and start with our purpose. It needs to link to our commitment to be among the UK's most inclusive businesses - for our Partners and customers - reflecting and connecting with the diverse communities that we serve. Like many around the world, we were shocked by the death of George Floyd and it was a sign of the Partnership's values that we were able to have an open and honest debate with Partners about his death and the wider impact it had on each of us individually and how we operate as a business.

Our plan is informed by data and customer and Partner opinion and led by Executive Director, People, Nikki Humphrey. It is receiving input from our seven internal diversity networks - Gender Equality, Unity, LinkAges, Pride in the Partnership, Ability, Faith and Belief, and Working Parents - as well as the diversity and inclusion Focus Group of Partnership Council and a third party specialist. We expect to publish our plan this spring but key areas of focus include:

- **Part-time working.** We launched a Part-Time Advisory Group in 2020 to support part-time Partners and help them progress in our business. We have updated our flexible working policy and plan to create a job share bank, continue to review our recruitment processes and improve access and prioritisation of communication so part-time Partners can keep up to date more easily.
- **Supporting ethnic minorities.** Formed last year, the Black Partner Advisory Group has made significant progress in the way we support ethnic minority Partners. Examples include creating a reverse mentoring scheme, updating our existing challenging bias mandatory e-learning module for all Partners to complete and creating a 'It's not ok' film.
- **Care experienced people.** Within the Partnership Plan we have called out our commitment to improving social mobility, with a focus on care experienced people. We will help people to build their employability skills and support them to become job ready for a career in the Partnership or another employer that aligns with their aspirations.
- **Voluntary Real Living Wage.** We will pay all Partners aged 18 and older the voluntary Real Living Wage when we reach over £200m profit. This is different to the legally stipulated National Living Wage, which we already pay.

PARTNER DIVERSITY

At the end of the financial year, gender and ethnicity (based on 95.2% of Partners who self-declared), by Partnership level:

LEVEL	FEMALE %	MALE %	ETHNIC MINORITIES %**	WHITE %
1-4*	45.0%	55.0%	4.5%	92.5%
5	49.0%	51.0%	5.1%	93.5%
6	53.9%	46.1%	8.1%	91.0%
7	54.7%	45.3%	9.7%	88.6%
8	51.5%	48.5%	10.6%	88.5%
9	46.1%	53.9%	12.7%	85.3%
10	57.9%	42.1%	15.7%	78.7%
TOTAL	**56.3%**	**43.7%**	**14.7%**	**80.5%**

*At the end of the financial year, our Executive Team consisted of five females (71.4%) and two males (28.6%) and our Partnership Board consisted of five females (71.4%) and two males (28.6%).

**At the end of the financial year, our Executive Team consisted of four white members (57.1%) and three (42.9%) from an ethnic minority background and our Partnership Board consisted of five white members (71.4%) and two (28.6%) from an ethnic minority background.

WHAT DO OUR LEVELS MEAN?

Job levelling enables different jobs to be measured based on their relative scale, impact and size and allows us to compare job levels in all different industry sectors in our business. We look at every individual role and not the person in the role to determine a level from 1 to 10 and consider the impact it has on the organisational structure. This allows Partners to see what roles they might be qualified for in other parts of the business, offering a benefit to career development and progression.

LEVEL	JOB ROLE
1	Chairman and Executive Team member
2 and 3	Director
4	Head of department or head of branch
5 and 6	Senior leader or senior specialist
7, 8 and 9	Specialist or junior management
10	Partner entry roles

DID YOU KNOW?

You can read more about our wider commitments and progress on diversity and inclusion in our *2020 Be Yourself. Always Report* which is available at www.johnlewispartnership.co.uk/work/Reports-and-statements.html

OUR PARTNERSHIP PLAN

Knowing our customers and what we can do more of to make them love shopping with us is so important. We need to look at things through our customers' eyes at all times and with shopping habits evolving so fast, understanding the modern-day shopper is vital.

With this in mind and with a new Chairman in place, we announced at our full-year results on 5 March 2020, our intention to undertake a strategic review which later became our Partnership Plan. Our Plan aims to reverse our profit decline and return the Partnership to growth so that we can invest more in our customers and Partners.

We consulted our Partners, around 8,000 customers, more than 100 suppliers, charities and non-governmental organisations to understand what matters most to them, and where our business can have the biggest impact. Following seven months' work, we launched a single concrete five-year Partnership-wide Plan in October 2020.

A PARTNERSHIP FOR POSITIVE CHANGE
Championing equality, wellbeing and sustainable living, for the good of customers, Partners, suppliers and society.

RETAIL CUSTOMERS LOVE Customers shopping the way they want with expert advice, edited choices and memorable experiences.	**INSPIRATIONAL NEW SERVICES** Trusted new propositions that allow us to play a bigger role in customers' lives.
PARTNERSHIPS FOR GROWTH Accelerated growth by combining our unique strengths with the capabilities of others.	**LEAN, SIMPLE, FAST** A lower cost, far simpler business that creates more pace and freedom for Partners and more cash for growth.

A THRIVING PARTNERSHIP, LOVED BY PARTNERS AND CUSTOMERS

Our ambition is to be the UK's go-to brands for customers who want quality, value and sustainability. The Plan has two phases and runs from the beginning of this financial year (February 2021) to the end of the financial year ending January 2026:

Years 1 to 2 (February 2021 - January 2023) - Recover profit and lay foundations for growth
Years 3 to 5 (February 2023 - January 2026) - Accelerate change, reshape and grow

£1bn will be invested between modernising our shop estate and transforming online. We aim to make £300m of annual cost savings by 2022 and reach £200m profit by end of year 2 and £400m by end of year 5.

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 and 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 our existing reporting, such as on ethics and sustainability. Read more at www.johnlewispartnership.co.uk/csr

REPORTING REQUIREMENT	**HOW WE MANAGE THESE ISSUES: POLICIES, STANDARDS, RISKS AND ADDITIONAL INFORMATION**
Environmental matters	● Our Ethics and Sustainability Strategy on page 36 ● Task Force on Climate-related Financial Disclosures on page 38 ● S172(l) Statement (Communities and the Environment) on pages 46 to 47 ● Streamlined Energy and Carbon Reporting on pages 113 to 116 ● *2020/21 Ethics & Sustainability Progress Report* and other ethics and sustainability reports, statements, policies and further information available at www.johnlewispartnership.co.uk/csr
Employees	● Our culture on page 15 ● Supporting our Partners and communities on page 17 ● Our diversity and inclusion plan on page 19 ● S172(1) statement (Partners) on pages 43 to 44 ● Partnership Council President's Report on page 103, including Partnership Democratic Engagement 109 to 110 ● Equal opportunities, diversity and inclusion on page 116 ● Board Diversity Statement on page 92
Human rights	● S172(1) statement (Producers and suppliers, including our Responsible Sourcing Code of Practice (RSCOP)) on pages 45 to 46 ● Our latest Modern Slavery Statement and *2020/21 Ethics & Sustainability Progress Report* and other reports, statements and policies available at www.johnlewispartnership.co.uk/csr
Social matters	● Our Ethics and Sustainability Strategy on page 36 ● Market context and key trends shaping retail on page 24 ● *2020/21 Ethics & Sustainability Progress Report* and other reports, statements, policies and further information available at www.johnlewispartnership.co.uk/csr
Anti-corruption and anti-bribery	● Anti-bribery and corruption on page 33
Policy embedding, due diligence and outcomes	● Throughout this report and *2020/21 Ethics & Sustainability Progress Report* and other reports, statements, policies and further information available at www.johnlewispartnership.co.uk/csr ● Task Force on Climate-related Financial Disclosures on page 38 ● Managing our risks on pages 48 to 60 ● Audit and Risk Committee Report on page 75
Description of principal risks and impact of business activity	● Our principal risks and uncertainties set out in Managing our risks section on pages 49 to 55

Description of our business model	• Our Partnership business model on pages 13 to 14 • Our Partnership Plan on pages 21 to 23 and 28 to 37
Non-financial key performance indicators (KPIs)	• Throughout this report and *2020/21 Ethics & Sustainability Progress Report* and other ethics and sustainability reports, statements, policies and further information available at www.johnlewispartnership.co.uk/csr • In addition, see page 11 for reference to the development of our new KPIs.

MARKET CONTEXT AND KEY TRENDS SHAPING RETAIL

The retail industry has changed dramatically since the start of the pandemic, becoming unrecognisable from our previous trading year of 2019/20. The closure of all but the most essential services, followed by successive waves of restrictions and further lockdowns, accelerated trends, bringing new customer behaviours into play.

IMPACT OF COVID-19 ON CONSUMER BEHAVIOUR

The global pandemic has transformed every aspect of our lives: how we shop, live, communicate, socialise and work. We've reconfigured our living spaces to become offices, schools, gyms and entertainment centres, upgrading technology and updating furnishings and accessories, while switching to loungewear 24/7.

Lack of hospitality has driven volume growth in grocery, with families eating meals at home rather than eating out. Online delivery has become a core part of both general merchandise and food sales.

The pandemic has greatly accelerated the shift to online sales. Trends that might in normal times have taken five years to transpire have happened in five months. Household names have been lost to the high street and are now online only.

What does this mean for the Partnership?

John Lewis began the crisis as a 60:40 bricks and mortar:online retailer. That ratio has more than reversed. The crisis has also led significantly higher numbers of people to get comfortable buying food online - out of necessity. At the start of the financial year, online accounted for 5% of Waitrose sales; it is now 20% with the average across the year being 14%.

What people bought in John Lewis changed compared to a normal year. In John Lewis, overall margins decreased because of the change in sales mix, as profit margins on the categories and products that sold well - especially technology, which was the biggest winner - were lower than those that sold less well like fashion.

We expect most of these trends to reverse as we move out of lockdown, with people buying less tech and more fashion and home furnishings. Once a laptop has been purchased for home working or home schooling, it is unlikely that another will be needed for a while.

The channel shift online has meant higher fulfilment costs. Most online orders have been for home delivery as opposed to Click & Collect (the latter is cheaper to fulfil), reflecting widescale working from home, people's desire not to go out or inability to do so because of self-isolation. We would expect to see higher levels of working from home sustained compared to before the crisis as more people choose to adopt flexible working between home and office on a permanent basis.

In Waitrose, it's not only what people shopped during the pandemic that has changed but how they shop. In line with the rest of the market, we have seen customers condense their shopping into fewer visits, with bigger shops and fewer top-up shops.

While there is clearly uncertainty over the extent to which the shift to online shopping will endure, we are expecting much of the shift online to be permanent and are adapting the business accordingly.

THE ECONOMY

GDP plummeted in Q2 2020 by 20.4%[3] after the first full month of lockdown - the largest quarterly drop on record. PwC estimates that UK GDP for 2020 shrank by 11%[4]. It is expected that GDP will not reach pre-pandemic levels until the middle of 2022 according to the Office for Budget Responsibility[5]. The Bank of England expects the UK's Covid-19 vaccination programme to drive a rapid rebound of the economy later this year, while UK households saved money at a record rate during lockdown. Household savings as a proportion of household disposable income rose from 9.6% in Q1 2020 to 29.1% in Q2 2020[6] - the highest since records began.

What does this mean for the Partnership?

Despite optimism that a recovery is on the horizon, the UK economy's route out of the pandemic remains unclear. Inflation and interest rates over the next few months will have a significant impact on the attractiveness of saving versus consumer spending and this will impact both shop footfall and online demand.

Grocery's tremendous growth in 2020 means the sector will be facing tough comparatives throughout 2021, and it is likely some of the in-store volume growth the Partnership and other grocers have seen may reduce permanently.

In the future, the Government may also need to recoup some of the financial support they have provided throughout the pandemic through additional taxation.

EMPLOYMENT

According to the Office for Budget Responsibility, it expects unemployment to peak at 6.5% by the end of this year[7], lower than previously thought due to the extension to the furlough scheme until the end of September 2021. The British Retail Consortium predicted in 2016 that retail employment would fall over the next decade[8], and while there may be some improvement once the pandemic is over, it is likely that this has simply accelerated an overall trend[9].

What does this mean for the Partnership?

Growing unemployment and GDP well behind 2019 levels is likely to mean reduced spending power for many consumers. The Partnership has also sadly had to reduce its total Partner population and during the financial

[3] ONS GDP quarterly estimate, UK, April - June 2020, www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/apriltojune2020

[4] PwC Economic Update, January 2021, www.pwc.co.uk/services/economics/insights/uk-economic-update-covid-19/january-2021.html

[5] Economic and fiscal outlook - March 2021 https://obr.uk/efo/economic-and-fiscal-outlook-march-2021/

[6] ONS, Coronavirus and its impact on the UK Institutional Sector Accounts, www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/coronavirusanditsimpactontheukinstitutionalsectoraccounts/quarter2aprtojune2020

[7] Economic and fiscal outlook - March 2021 https://obr.uk/efo/economic-and-fiscal-outlook-march-2021/

[8] British Retail Consortium, Retail 2020, Fewer But Better Jobs, February 2016, https://britishdestinations.files.wordpress.com/2013/10/2016-retail-2020-fewer-but-better-jobs.pdf

[9] British Retail Consortium, Economic Briefing Report, February 2021, https://brc.org.uk/media/677082/ebr202102.pdf

year, almost 1,800 Partners left the business due to redundancy. Sadly, more Partners will also leave the business in 2021.

BREXIT

Having left the EU on 31 January 2020, the UK was in a transition period until 31 December 2020 throughout which it continued to negotiate a new trade deal with the EU as well as rolling forward existing bilateral trade agreements with non-EU countries. The EU-UK Trade and Cooperation Agreement was agreed on 24 December 2020 and widespread product shortages, and direct tariff impacts, were mainly avoided. Some disruption at the borders has occurred, predominantly due to post-Brexit customs and documentation requirements and an increase in Covid-19 infections which resulted in lorry drivers requiring testing at various ports. The UK continues to seek further trade deals with non-EU countries.

<u>What does this mean for the Partnership?</u>

We have been preparing for the UK's exit from the EU for some time and put in place various measures such as building stock up to help manage the impact at the end of the transition period. We welcome the EU-UK Trade and Cooperation Agreement, which has helped to mitigate most of the import tariffs which would have occurred in the event of no deal. With the easement periods for some import checks and documentation expected to come to an end over the coming months, we support efforts to streamline the process and reduce non-tariff frictions.

RETAIL CHANGES

Even before Covid-19, the retail sector was suffering. Empty retail space was on the rise, footfall in decline and the sector was grappling with a seismic shift in customer behaviour. The crisis has only accelerated these trends, with thousands of shops forced to close. Research from the Local Data Company for PwC indicates that over 17,500 retail chain outlets closed in 2020, on average 48 a day[10]. The Centre for Retail Research estimates that 182,564 retail jobs have been lost up to 31 December 2020 and expects a further 200,000 jobs to go in the first half of 2021[11]. Overall shop vacancy rates for the UK reached 13.7% and footfall, already in slow decline as online eroded traffic to physical stores, fell an overall 46.1% compared to the previous year.

Retailers who diversified, or had a strong online presence, adapted better to the forced closure of non-essential shops during the pandemic. Those who had little or no online operation struggled.

<u>What does this mean for the Partnership?</u>

Given the significant shift to online shopping in recent years and our belief that this trend will not materially reverse, we can unfortunately no longer profitably sustain a large John Lewis store in some locations where we do not have enough customers. This has resulted in our announcement in March 2021 to propose the closure of eight John Lewis shops. These shops were also financially challenged prior to the pandemic.

Further investment will be made in our online operations for both Waitrose and John Lewis so we can continue making it easy and convenient for customers to shop with us for products as well as booking appointments and services. However a possible introduction of a future online sales tax by the Treasury, which could form part of a much wider review looking at business rates, could increase the overall tax burden on the retail sector, not

[10] PwC, Store Openings and Closures - 2021, www.pwc.co.uk/industries/retail-consumer/insights/store-openings-and-closures.html
[11] Centre for Retail Research, The Crisis in Retailing: Closures and Job Losses, www.retailresearch.org/retail-crisis.html

reduce it, and have a negative effect. Modern retail is multi-channel with online and physical retail complementing one another and this would be a tax on a growing part of the retail industry, penalising more efficient or innovative businesses. It could also mean that this extra tax cost is passed onto consumers. The retail sector accounts for 5% of the economy, but pays 10% of all business taxes and 25% of all business rates.

ETHICS AND SUSTAINABILITY

Consumers continue to rank sustainability as one of their top priorities, after value and price, with Mintel reporting that 26% of consumers saw the environment as a key priority despite the outbreak of Covid-19[12]. Covid-19 has had both positive and negative impacts on the environment, with travel restrictions sharply curtailing the average consumer's carbon footprint and having significant improvements on air quality. However, keeping people safe has meant more plastic packaging and waste has been generated. Investigations into labour violations in Leicester factories and cotton farms in China, threw questions of supply chain ethics into focus, eroding trust and increasing consumer desire for end-to-end product transparency.

What does this mean for the Partnership?

Our new Ethics and Sustainability Strategy will be key to delivering the business vision of being a Partnership for positive change, continuing to respect the interests of people and the planet touched by our business. Key focus areas of our Ethics and Sustainability Strategy include circularity and waste, people in supply chains, agriculture, aquaculture and raw material sourcing. Further details can be found on pages 36 to 37.

[12] Mintel, British Lifestyles November 2020, page 47.

RETAIL CUSTOMERS LOVE

Customer insight helped us build our Partnership Plan. We asked customers about their lives, their interests, their families, what matters to them and specifically when shopping for non-food items. Some of the customers we interviewed were familiar with our brand and shopped with us in the past year, whereas others had either not shopped with us before or not shopped with us recently.

OUR VISION

"For Waitrose, our ambition is to be the ultimate destination for food and drink in the UK. We are strengthening our range, availability and value for money. We are also making more products available through convenience routes via new trial partnerships, refreshing our shops, bringing the best John Lewis products into Waitrose and continuing to lead in sustainable 'field to fork' ethical food chains. We will also continue to grow Waitrose.com."

JAMES BAILEY

Partner & Executive Director, Waitrose

"Our aim is that John Lewis will be the go-to brand for quality, value, style and sustainability, providing customers with more convenience and a great service experience. We are a place where customers can find a carefully edited selection of products and services, designed for all life's moments big and small, suited to their style, with Partners acting as their trusted advisors. We seek to be the number one destination retailer for Home products and Baby Care and Children's products, and our financial services offer is growing in areas where trust really matters. We continue to support customers wherever, whenever and however they choose to shop with us. As part of this, alongside investment in online, we are rebalancing our store estate to make sure that we have the right space in the right place, reflecting how customers want to shop with us."

PIPPA WICKS

Partner & Executive Director, John Lewis

BETTER TOGETHER

One benefit of being one Partnership with two brands is that more than 4,500 Partners from John Lewis were redeployed to Waitrose during the various lockdowns to help keep the nation fed. Some Partners have enjoyed the experience so much they have decided to permanently work in Waitrose.

"I was asked, as a Partnership driver, if I'd think about helping Waitrose out. I did my driver assessment later that week and was redeployed on the Monday. Honestly, I'm not sure I would look back. I like being outside, and seeing customers in their environment is fantastic. It is hard work as you have to get all the totes on the back of the van but, once you're on the road, so long as you look at the schedule and plan ahead, you're your own boss. At first, I was nervous going over to the driver team, as I didn't want to step on anyone's toes, but they made me feel welcome. Everyone is so friendly here that it only took me a couple of weeks to feel part of the team. Waitrose is always on the go, 24 hours a day, so you can find the role and hours to suit you."

MARTIN BURROWS

Partner & former Operations Manager at John Lewis Peterborough and now Customer Delivery Team for Waitrose Peterborough

We have also been trialling the introduction of John Lewis shopping areas in five Waitrose stores - Godalming, Horley, Wallingford, Lincoln and Lymington, with the early signs positive. If successful, we will roll out to a significant number of our 331 Waitrose shops. We also plan for all general merchandise in Waitrose shops to be sourced from John Lewis.

RIGHT SPACE, RIGHT PLACE

As spending shifts online we want to ensure our John Lewis stores reflect how customers want to shop - 'right space, right place'. Our shops will always be important and we are proud of our presence on the high street across the country. They provide a sensory experience that online cannot, supported by the expert advice of Partners. Both brands will remain a blend of stores and online and we will reshape our store estate over the five years of the Partnership Plan in the following ways:

- **Greater convenience**: More local and convenient shops nationwide
- **Destination stores:** Showcase inspiring products and unique experiences
- **Enhanced Click & Collect**: Expanding our network
- **Smaller service stores:** Featuring the very best of John Lewis
- **Bringing our brands closer together**: Trials of John Lewis in Waitrose
- **Rebalance:** Some areas unable to profitably sustain a large store

WAITROSE.COM

Waitrose.com orders increased fourfold since February 2020, now delivering 240,000 orders a week, and stands as a £1bn sales business. This has been supported by the opening of a new Waitrose Customer Fulfilment Centre in Enfield in May 2020, which was designed with the capacity to fulfil 13,500 orders per week and surpassed capacity in 2020/21, with the support of around 850 Partners. In September, we also reduced the minimum customer spend for an online delivery from £60 to £40.

"It's fair to say it was a Herculean effort across many teams in preparation for the opening and to have played a part in that was a great experience. The Enfield team have worked tirelessly through such unprecedented times, reacting, embracing and evolving to ensure we remain on track to serve our customers."
PAUL SHANKS
Partner & General Manager, Waitrose Enfield Customer Fulfilment Centre

NEW BRANDS

We launched 30 new fashion and beauty brands in-store and online and a further 50 are currently being introduced, many of them independent and British. With the popularity of athleisurewear, top brands included Adidas by Stella McCartney, Sweaty Betty, Hush and Calvin Klein Performance. Last month brands such as Mango and Banana Republic joined. In Beauty, Olaplex joined alongside luxury beauty technology from MZ Skin, Foreo, Dermaflash and BeGlow.

In Waitrose, we launched a new Holistic Living range, bringing together a number of different health-focused products, including a certified gut health range, to help our customers live a more balanced lifestyle. Waitrose Duchy Organic was also relaunched and now features over 300 food and drink products.

VALUE

In Waitrose we reduced prices on almost 200 popular own-label products, including meat, fruit and vegetables and cleaning products, with prices lowered by an average of more than 15%. While lowering prices, we're maintaining the quality, high welfare and ethical sourcing that we're renowned for, so shoppers can spend less without compromising.

In John Lewis, we have been reviewing our pricing and a new pricing approach is underway. We will also provide an update later this year on our review of Never Knowingly Undersold, informed by intensive customer research.

VIRTUAL SERVICES

Services - previously only available in store like nursery, home interiors advice, wine tasting and cookery courses - went online. In John Lewis, more than 11,000 virtual appointments, covering nursery, home design and personal styling were delivered. In addition, we hosted over 1,400 virtual events, covering everything from crafting to wellbeing, reaching over 158,000 households.

Customers were also treated to online video tutorials such as how to dress their Christmas tree. We launched a new augmented reality (AR) function on the John Lewis app, allowing users to scan their desired space for a Christmas tree and 'place' the tree decorated or undecorated in their room.

Across selected John Lewis and Waitrose shops, we have also been trialling a virtual queuing system to help keep customers and Partners safe throughout the pandemic.

INVESTING IN JOHN LEWIS CUSTOMER SERVICE

We are also fixing and improving customers' experiences across our contact centres, website, technology aftersales, returns and delivery and installations. A total of £8m was spent on additional customer service resources, including nearly £2m on self-service technology making it easier and quicker for customers to find answers to their questions. We have also enabled customers to cancel, track and change the date and time of orders and provide guest customers access to the same self-serve tracking features as those with a John Lewis account.

DID YOU KNOW?

Waitrose South Harrow Partner, Alice Leonard, Waitrose Exeter Partner, Richard Dinnis and Waitrose Belgravia Partner, Ross Borthwick have all been shortlisted as Frontline Heroes at the Retail Week Awards 2021, with John Lewis's Virtual Britain also nominated for The Customer Experience Award. The nominations highlight how they all helped vulnerable and shielding customers get groceries, supported local community projects and looked after NHS key workers during lockdown.

"I can't take all the credit, it was a huge team effort to pick, pack and deliver food to those who needed it most."
ROSS BORTHWICK
Partner & Waitrose Belgravia Branch Manager

And Waitrose Beaconsfield Partner, Alex Osei Bonsu, was recognised in the Queen's Birthday Honours List. Alex joined a host of retail frontline workers who were recognised and awarded a British Empire Medal for their response to Covid-19 and going above and beyond in their communities. Throughout the pandemic, Waitrose Beaconsfield and The Christian Eye Foundation, which Alex runs, helped get crucial deliveries to the elderly and vulnerable in the local area.

"It's really amazing and something that I never thought would happen. Through being a delivery driver during the pandemic, I feel that I have been able to support my local community more than ever before. Both myself and my family are so happy that I have been awarded this honour."
ALEX OSEI BONSU
Partner & Delivery Driver, Waitrose Beaconsfield

INSPIRATIONAL NEW SERVICES

We are focused on developing in areas where we are trusted and can fulfil customers' needs by making a difference to their lives and the planet. At the launch of the Partnership Plan we aimed to commit £400m investment in new areas, envisaging that by 2030, 40% of profits will come from higher margin activities outside retail - namely financial services, housing and outdoor living.

FINANCIAL SERVICES

We have a long-standing successful business offering customers financial products, including the Partnership credit card, insurance and foreign currency exchange. Financial services had a mixed year. Foreign exchange obviously suffered as a result of severe restrictions on overseas travel. Spend on the Partnership Card was also squeezed. Set against that, sales of car and pet insurance have both risen.

Financial product	**2020/21 performance**
Partnership Card	Customer spend down (18)%
Home insurance	Customer policies down (4)%
Car insurance	Customer policies up 17%
Pet insurance	Customer policies up 16%
Foreign exchange	Customer transactions down (85)%

We will be investing significantly in financial services as part of our Partnership Plan ambition to grow profitability beyond retail. We have taken some important first steps and in February 2021 launched an innovative home insurance product that gives customers more flexibility and choice, and a new interest free retail credit product.

PRIVATE HOUSING

A key area of focus of our Partnership Plan is to develop private housing and we continue to explore the suitability of sites and will submit planning applications this year. We are already a landlord at three residential sites. On the Leckford Estate in Hampshire, we have houses leased to third parties or to our farm workers at affordable rents. We also have flats above John Lewis Welwyn Garden City and flats above our Waitrose shop at Red Houses in Jersey which are privately rented.

OUTDOOR LIVING

We are continuing to explore the experience we already have in outdoor living and horticulture and how we join up Waitrose garden products, our Leckford Estate and Waitrose Farm, John Lewis outdoor living furniture, and landscaping services at Longstock to launch online, in-store and as services. We are considering new partnerships and acquisitions to help us develop our aspirations further.

PARTNERSHIPS FOR GROWTH

We are combining our unique strengths with others and will partner with, or invest in, businesses that respect our ethos and bring capabilities we do not have to help us reach new customers. All suppliers have to adhere to our Responsible Sourcing Code of Practice and we choose our partnerships based on five principles:

- Be led by customers, creating opportunities to address a specific need, or enable access to new customers
- Bring capabilities or resources we don't have and can't easily replicate
- Respect and enhance our purpose, selecting organisations that share our ambitions and values, and bring long-term benefits to the John Lewis Partnership
- Create relationships where we can work together to address societal, community or environmental challenges
- Engage positively to extend our reach and use our position to influence for good

HOME INSURANCE

Following a new partnership with Munich Re Digital Partners, ICE InsureTech, Sedgwick and the Hood Group, we launched an innovative home insurance product. The new home insurance offers greater flexibility and choice so customers only pay for what they need, picking and choosing what's covered. It ensures existing customers on our new product are offered the same or better price than new customers on renewal and policies can change with no additional fees as lifestyles change.

RETAIL CREDIT

A new partnership with BNP Paribas means for the first time we can offer customers interest free retail credit across all our channels, via our call centres, online, as well as shops. This means customers will have access to credit for even more products and greater visibility of their account online and can sign up for at least £1,000 of credit with a maximum of £25,000 for 12 months. Credit for fitted rooms such as kitchens and bathrooms will amount to up to £35,000, with no arrangement fees or hidden extras.

FURNITURE RENTAL

As part of our Partnership Plan and Ethics and Sustainability Strategy, we are developing sustainable rental and recycle options for our customers. Last August we announced the launch of a furniture rental scheme in partnership with Fat Llama. The scheme allows customers to rent John Lewis products including desks, chairs, dining tables and sofas for three, six or twelve months and have the option to buy at any time. We now plan to expand this offering.

"Attitudes towards renting items and the sharing economy have dramatically shifted in recent years, and we know that renting and reselling items and recycling them is a growing priority for our customers. Renting furniture will give more customers access to high-quality furniture, as well as the latest designs."
JOHNATHAN MARSH
Partner & Director of John Lewis Home

RAPID GROCERY DELIVERY

Our trial with Deliveroo in 40 Waitrose shops - through which customers can order over 650 products, delivered in as little as 30 minutes - has helped us to attract younger shoppers, many of whom are new to Waitrose. We also tripled our 'Waitrose Rapid' delivery service within the first month of lockdown, offering up to 25 products for delivery within two hours and 7,000 delivery slots per week.

CLICK & COLLECT

We also plan to expand our John Lewis Click & Collect network which is currently available in over 900 locations, including almost all our Waitrose shops. We currently partner with the Co-op and Booths to offer our customers additional locations for collections and returns which are convenient for them and plan to increase the number of customer touchpoints, exploring opportunities for more Click & Collect partnerships. We have already opened our network allowing Boden, Sweaty Betty and Nespresso purchases to use Click & Collect.

PAYMENT PRACTICES TO OUR SUPPLIERS

In line with government requirements, we publicly report our payment practices to our suppliers. The report and previous submissions are available at www.johnlewispartnership.co.uk/financials/financial-results.html
In summary, at Waitrose we pay our smallest suppliers on seven day terms and the average payment length for all Waitrose suppliers is 38 days. For all John Lewis suppliers, it is 41 days.

ANTI-BRIBERY AND CORRUPTION

The Partnership does not condone bribery or tax evasion in any form and manages risks in respect of bribery, corruption and offences under the Bribery Act 2010 and Criminal Finances Act 2017 through policies, standards, guidance and mandatory training. We have a policy on Anti-Bribery and Corruption (ABC) and Gifts and Hospitality and in 2020 the policy was reviewed with an updated version published in November 2020.

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

The Partnership is also committed to ensuring our third party suppliers adhere to our policies and relevant legislation, through stringent supplier assurance processes. As part of the 2020 review of ABC compliance, we are also in the process of updating the Gifts and Hospitality Register alongside new guidance materials to make compliance obligations even clearer for Partners.

LEAN, SIMPLE, FAST

To deliver our Partnership Plan we will work differently and aim to save £300m per year by 2022. We will do this by creating a simpler, pacier Partnership that can execute the Plan, reduce spend on the goods we buy, improve operational efficiency and simplify our processes and provide Partners with more decision-making freedom and flexible ways of working.

CHANGES TO OUR OPERATING MODEL

A key part of our efficiency plan is to create an agile and flexible Partnership that is even closer to customers and frontline Partners. We have shown through the pandemic how well we can work at pace, and we want this to continue. This phase of efficiency improvements builds on changes begun in October 2019 and we are reducing the size of our head office operations by up to 1,500 roles. We will do this by simplifying how we work and delayering our structures.

Following a comprehensive review of existing IT and Change capabilities and to enable the Partnership to respond quicker to the digital expectations of customers and better support our Partnership Plan, a new Technology and Change function was created. Reconfigured to include Architecture, Technology, Infrastructure, Security and Change, 178 non-customer facing Partners transferred to Wipro who are helping to deliver technology infrastructure services such as cloud hosting, networks, end user compute and an internal help desk for all Partners. A further 92 non-customer facing Partners transferred to Capgemini, to support our technology systems and business processes for trading, supply chain, finance and personnel.

SHOP CLOSURES

As a result of the pandemic, we were forced to close our John Lewis shops for the first time in our history on 23 March 2020. Once restrictions were eased to allow non-essential retail to open, we took the sad and tough decision to not reopen eight stores that were loss making. This included two of the smallest in our estate - travel hub shops at Heathrow and St Pancras, four At Home shops in Croydon, Newbury, Swindon and Tamworth and two full size department stores in Birmingham and Watford. Additionally in March 2021, we announced proposals to close a further eight John Lewis shops. We also closed seven Waitrose shops in Helensburgh, Four Oaks, Waterlooville, Caldicot, Ipswich Corn Exchange, Shrewsbury and Wolverhampton.

IMPAIRMENTS

In light of changing customer behaviours, with more customers now shopping purely online, we reassessed how much our shops contribute to whether our customers buy online with us or not. Before the pandemic, we believed shops contributed around £6 of every £10 spent online. We now think that figure is, on average, around £3. John Lewis shops are now held on our balance sheet at almost half the value they were before this year's and last year's write downs. The decrease in our shop assets has had a significant impact on our net assets, which are now more than 25% lower than at January 2019.

PROPERTY INITIATIVES

In line with our standard approach, we continued to keep our property estate under review. In 2020, we undertook sale and leasebacks of 11 Waitrose shops, raising £136m. We now own the freehold of around a third of Waitrose shops and four John Lewis shops. We also own the freehold of some of our head office and distribution sites, Leckford farm estate and four Partnership hotels, which Partners and their families can enjoy at a specially subsidised rate.

CONTRIBUTING TO THE UK TAX SYSTEM

This year the Partnership paid taxes of £238m and collected £794m. This is broken down by:

TAXES PAID BY THE JOHN LEWIS PARTNERSHIP	TAXES COLLECTED BY THE JOHN LEWIS PARTNERSHIP
£10m Customs duty	£90m Partners' National insurance contributions
£18m Fuel duty	£154m Partners' pay as you earn (PAYE)
£5m Climate change levy	£288m Net VAT
£60m Business rates*	£262m Excise duty
£115m Employer National Insurance Contributions	
£13m Corporation tax	
£9m Other taxes	
£8m Apprenticeship levy[13]	
£238m total	**£794m total**

*The Partnership was helped by crisis-related support from the Government. In our financial year up to 30 January 2021 we received £135m of business rates relief on eligible properties, with John Lewis receiving £50m and Waitrose receiving £85m. Without this support the Partnership would have made a loss before exceptionals and government funding has been used for the purpose it was designed for - to protect the business - and was critical to cover the direct operational costs relating to Covid-19 and the substantial hit to trading profit due to the pandemic. Business rates relief has helped us avoid more severe restructuring of the Partnership, which would have put more jobs at risk at a time when the high street is already under pressure.

Our approach to tax can be found at www.johnlewispartnership.co.uk/financials/financial-results.html

REDUCING WASTE

Waitrose was recognised for single-use plastic reduction, taking the top spot in Greenpeace's annual league table for the second year in a row. The report shows Waitrose has the lowest plastic use per unit among UK supermarkets and praised our refillable Unpacked trial, which allows customers to shop packaging-free on selected lines at pilot shops. Waitrose is now one of the first national supermarkets to integrate refillable items into regular aisles. In John Lewis, since the roll-out of BeautyCycle in late 2019, more than 46,000 customers have made use of the programme, diverting over 230,000 hard-to-recycle beauty packaging empties from landfill.

[13] Before the draw down of funds of £4m

OUR ETHICS AND SUSTAINABILITY STRATEGY

We seek to be a Partnership for positive change, championing equality, sustainability and wellbeing. Building strong relationships with people inside and outside of our business is key to delivering our vision for ethics and sustainability and long-term business success. We respect the interests of people touched by our business - our Partners, customers, suppliers and wider communities. It is important we listen and respond to their concerns, are honest in our expectations and fair in how we communicate our performance.

In 2020 we completed a full review of our Ethics and Sustainability Strategy. The Partnership takes an integrated approach to being a more sustainable, ethical business. Focusing on six areas, each is critical if we are to protect the planet and respect and support the interests of all those touched by our business.

People in supply chains Protecting the rights of workers in our supply chain and championing worker voice	**Agriculture, aquaculture, fisheries and raw material sourcing** Guaranteeing a fair deal for producers, and supporting them to farm with nature	**Circularity and waste** Designing with circularity in mind and eradicating waste
Climate action Reducing greenhouse gas emissions in operations and supply chain	**Health, nutrition and wellbeing** Enabling customers to lead a healthy and happy life	**Social impact** Sense of connection and giving back through communities and charitable causes

Alongside our five-year Partnership Plan, we also launched several new ethics and sustainability commitments:

- We brought forward our ambition to be net zero carbon across our entire operations by 2035. This will be supported by removing fossil fuels across our entire transport fleet by 2030. All our heavy goods vehicles will also be converted to biomethane gas, which is made of food waste, by 2028.
- Waitrose will ensure greenhouse gas emissions from our UK farms are net zero by 2035.
- We will halve food waste in Waitrose's supply chains, and help halve our customers' food waste by 2030.
- All product categories[14] in John Lewis will have a 'buy back' or 'take back' solution by 2025.
- All key raw materials in our own-brand products will be from sustainable or recycled sources by 2025.
- We will develop sustainable rental and resale options for our John Lewis customers.

ETHICS AND SUSTAINABILITY GOVERNANCE

In February 2020, the Corporate Responsibility Group was replaced with a new Ethics and Sustainability Committee, chaired by the Chairman. During the year, the Ethics and Sustainability Committee focused on ethics and sustainability as a core element of the Partnership's purpose and embedding this into the Partnership Plan. It is anticipated that the Committee will play a key role in ensuring that the ambitions and commitments set in the areas of ethics and sustainability are embedded into all strategic outcomes, the brand plans for Waitrose and John

[14] Product categories: Home Furnishings, Home Accessories, Gift Cook & Dine, Technology, Menswear, Womenswear, Beauty, Childrenswear

Lewis, and that progress is rigorously tracked against performance to ensure the Partnership delivers visible and impactful initiatives and positions that resonate with customers and Partners.

Read more about our Ethics and Sustainability Strategy and performance in our *2020/21 Ethics and Sustainability Progress Report* or at www.johnlewispartnership.co.uk/csr

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Climate change is the single greatest challenge facing our planet today. We fully support the Task Force on Climate-related Financial Disclosures (TCFD) and its recommendations and are committed to assessing the impacts of climate risks and opportunities across our operations, physical estate and supply chains. This year, we have focused on establishing our internal process to manage climate risks, opportunities and reporting structure which we plan to further enhance and improve as we evolve along the TCFD journey. We aim to provide full disclosure on the Partnership's climate risks and opportunities via the TCFD framework by April 2022.

GOVERNANCE

During the financial year, climate-related risks and opportunities were managed by operational teams as part of their day-to-day activities in delivering the Partnership's current strategy. Any significant matters would be escalated via the Ethics and Sustainability Committee to the Executive Team's leadership teams and to the Board, if required.

The Ethics and Sustainability Committee, chaired by the Partnership Chairman Sharon White, met four times in the year. The Committee reports to the Partnership's Executive Team who in turn report to the Partnership Board (see page 66). Further details on the number of Partnership Board meetings during the 2020/21 financial year can be found on pages 69 to 70.

Climate change is included within the Partnership's principal 'External Environment' and 'Ethics and Sustainability' risks. Quarterly review and challenge of the Partnership's principal risks are performed by the Executive Team and actions taken are reported to the Audit and Risk Committee and the Partnership Board. For more details on the 2020/21 Partnership risk governance structure see page 49.

LOOKING FORWARD

We are currently reviewing the governance of climate-related risks and opportunities to ensure the Board is able to fully consider these while setting the Partnership's strategy and overseeing major decisions such as capital expenditures and other investments. It will also enable the Board to consider climate-related issues when reviewing and guiding strategy, major plans of action and risk management policies in general.

RISK MANAGEMENT

Climate change risk is considered within two of the Partnership's principal risks: 'External Environment' and 'Ethics and Sustainability' on page 49.

The 'External Environment' principal risk is concerned with changes in the external environment that can impact delivery of strategic objectives or business operations. Climate change is included within the 'External Environment' principal risk to recognise the growing impacts of climate change, climate risks and the transition to a lower-carbon economy.

The 'Ethics and Sustainability' principal risk recognises the risk that could arise from a failure to live up to our ethics and sustainability ambition, given the importance of ethics and sustainability in delivering the Partnership proposition goals, and its prominence within the Partnership Plan. Climate change is included within the 'Ethics and Sustainability' principal risk to recognise the Partnership's impact of our own operations on climate change.

Climate change is also outlined as an emerging risk on page 56 to recognise the growing impact of climate change on our business. Principal risks are assessed and managed in line with the Partnership risk framework as detailed on pages 48 to 56.

LOOKING FORWARD

In 2021, we will perform detailed assessments of climate-related risks and opportunities for the Partnership and will conduct scenario analysis in line with the TCFD recommendations. Any specific risk identified will be assessed and considered alongside other risks using the established Partnership risk management framework and assessment criteria as detailed on pages 48 to 56.

STRATEGY

Addressing our climate risks and opportunities has so far been embedded in our Climate Action Strategy which forms part of our overarching Ethics and Sustainability Strategy. This has increased our knowledge of the climate risks and opportunities faced by the Partnership across our own operations and supply chain and has meant that we continue to invest in measures to mitigate the Partnership's climate change impact, including carbon reduction and energy efficiency programmes. See our *2020/21 Ethics and Sustainability Progress Report* for more detail.

LOOKING FORWARD

In 2021, as part of our Climate Action Strategy, the Partnership will undertake detailed assessments to identify our short, medium and long-term climate risks and opportunities. The Partnership will conduct scenario analysis to strategically evaluate the business implications of these key climate-related risks and opportunities enabling us to design mitigation actions for the future.

METRICS AND TARGETS

The Partnership continues its commitment to reducing its carbon emissions and energy consumption. In 2020, we brought forward our target for our entire operations to be net zero carbon by 15 years to 2035. We have also committed to reducing our absolute energy use by 25% in 10 years from a 2018 baseline and continue to invest in energy efficiency and sustainable energy sources across our operations. More on our targets and performance against each can be found in our *2020/21 Ethics and Sustainability Progress Report.*

The Partnership discloses its operational energy consumption, carbon footprint and energy efficiency initiatives each year in line with the Streamlined Energy and Carbon Reporting (SECR) regulation (see pages 113 to 116). The methodology used to calculate our Greenhouse Gas (GHG) emissions and energy use is the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), using the operational control approach on reporting boundaries.

LOOKING FORWARD

We already measure a number of indirect emissions across multiple categories and continue to look to increase the scope of data we collect. We recognise the need and will continue to look beyond our own direct operations and understand and reduce indirect emissions, such as emissions produced by associated companies that work with us as part of our value chain. Starting with our agricultural supply chains we have committed to ensure net zero greenhouse gas emissions from our UK farms supplying own-brand products by 2035.

In 2021 we aim to conduct scenario analysis to strategically evaluate the business implications of the Partnership's climate risks and opportunities. This exercise will help us create any additional metrics and targets required to manage these risks and opportunities.

PROMOTING THE SUCCESS OF THE PARTNERSHIP - SECTION 172(1) STATEMENT

WHAT IS SECTION 172(1) AND WHY ARE WE REPORTING ON IT?

This section, along with all other pages referred to here, forms the Partnership's Section 172(1) statement setting out how the Directors have, in performing their duties over the course of the year, had regard to the matters set out in Section 172(1) (a) to (f) of the Companies Act 2006 ('the Companies Act')[15]. Large companies must publish a statement setting out how their Directors have complied with Section 172(1) of the Companies Act. This law requires Directors to act in the way they consider would be most likely to promote the success of the company for the benefit of its members as a whole and in doing so have regard (amongst other matters) to:

(a) the likely long-term consequences of decisions;
(b) the interests of the company's employees;
(c) the need to foster the company's business relationships with suppliers, customers and others;
(d) the impact of the company's operations on the community and the environment;
(e) the desirability of the company maintaining a reputation for high standards of business conduct; and
(f) the need to act fairly as between the company's members.

The Directors on the Partnership Board are bound by their duties under the Companies Act. Describing how these duties have been discharged, particularly with regards to their duty to promote the success of the Company for the benefit of its members as a whole, is the central purpose of this Group Strategic Report. In this report we describe how the Partnership, led by the Executive Team and overseen by the Directors on the Partnership Board, has, in particular, responded to the challenges of the Covid-19 pandemic and developed and launched the Partnership's new strategy - the Partnership Plan. And how in doing so balancing the needs, expectations and impacts on Partners, customers, the communities in which we operate and other stakeholders, as well as the impact of our operations on the environment was of central importance.

Considering the needs and expectations of our stakeholders in key business decisions is inherent in our way of doing business because it is enshrined in our written Constitution - a framework that defines the Partnership's Principles and the way it should operate - and is therefore fundamental to our long-term sustainability and ability to thrive as a sustainable, purpose-led business. You will therefore find more information about engagement with stakeholders, building relationships powered by our Principles, considering the likely long-term consequences of decisions and safeguarding our reputation, integrated throughout this Annual Report and Accounts.

WHO ARE OUR 'MEMBERS'?

Where the Companies Act uses the term 'members', this refers to the owners of a company. This is different to the way we describe Partners as members of the Partnership. The Partnership is owned in Trust for the benefit of its members, otherwise known as our Partners. Power is shared between three governing authorities: the Chairman, Partnership Board and Partnership Council. The shared aim of the three governing authorities is to

[15] In accordance with The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by The Companies (Miscellaneous Reporting) Regulations 2018), this section, together with those pages incorporated by reference, also constitutes the Partnership's statements on engagement with, and having due regard to, the interest of our customers, Partners, suppliers and other key stakeholders.

safeguard the Partnership's future, to enhance its prosperity and to ensure its integrity. For more information on how the Partnership is governed, see the Governance Report on pages 61 to 118.

Our Partners are represented by Partnership Council, which shares responsibility for the Partnership's health with the Partnership Board and the Chairman. It discusses, influences and makes recommendations on the development of policy and shares in making decisions about the governance of the Partnership.

OUR PURPOSE AND VALUES

The purpose and values of the Partnership are set out in the Principles of its Constitution. The role of the Partnership Board is to ensure that the Partnership's decision-making is consistent with its Principles. These Principles are set out on page 63 and are consistent with the requirements of Section 172(1) in that they say how the Partnership should operate and how it should conduct its relationships with our Partners (our members and employees), customers, suppliers and other stakeholders and the communities in which the Partnership operates. Every Partner is required to act in accordance with the Partnership's Constitution and this equally applies to the Directors of the Partnership Board in their decision-making.

DECISION-MAKING AT THE BOARD

The responsibilities of the Partnership Board are set out in our Constitution and described in the Governance Report on pages 61 to 118. All matters upon which the Partnership Board is required, under the Partnership's governance arrangements, to reach a decision, are presented at Board meetings. Supporting papers setting out to the Directors the relevant key facts are also provided. These papers set out the background and reasons for any proposal and the associated costs, benefits and risks. The papers also describe any potential impacts and risks for our customers, Partners and other stakeholders including our suppliers, the community and environment and how they are to be managed. The Directors take all these factors into account before making a final decision which they believe is in the best interests of the Partnership and Partners. More information is provided below on how the Directors on the Partnership Board apply the principles of Section 172(1) in carrying out their role and in their decision-making.

LONG TERM SUSTAINABILITY

Our Constitution requires us to make sufficient profit to sustain the Partnership's commercial vitality. This is balanced against the needs of our customers, Partners, other stakeholders and the community to ensure we are conducting all our business relationships with integrity. The Constitution mandates the Partnership Board – alongside the Chairman and Partnership Council – to safeguard the Partnership's future, to enhance its prosperity and to ensure its integrity. The long-term sustainability of the Partnership is at the forefront of decision-making, particularly in response to the challenging conditions in retail over the past three years and those facing all of us as a result of the Covid-19 pandemic, and has been central to the development of the Partnership Plan.

WHO ARE THE PARTNERSHIP'S KEY STAKEHOLDERS?

Effective engagement with our stakeholders is vitally important. Our key stakeholders first and foremost are our Partners. Partners work in service of our customers and they are at the heart of our purpose. We are also focused on responding to the needs of, and building long-term relationships with, our customers. We work closely with our producers and suppliers who we purchase goods and services from, and the communities and the environments in which we operate. With a continued focus on ethics and sustainability, engagement with campaign groups and non-governmental organisations is also key. We have financial stakeholders, including relationship banks and holders of John Lewis plc financial bonds.

The Covid-19 pandemic has had a significant impact on all of the Partnership's stakeholders since it emerged in early 2020. Balancing the needs and expectations of our stakeholders has never been a more important or challenging task and every area of the Partnership has responded to help to keep our customers and Partners safe, protect our business and manage the expectations of different stakeholders.

This past year, our stakeholders have been pivotal in helping us develop our five-year Partnership Plan which we began in March 2020 and launched in October 2020. Over 12,000 Partners provided input, with almost 450 ideas submitted. Around 8,000 customers also contributed, alongside over 100 suppliers and community groups. As the Partnership Plan sets out, a relentless focus on the customer and on service is crucial to the success of both brands, which in turn requires the voice of frontline Partners to continue to be more and more influential.

On the following pages we have described our key stakeholders, an overview of their interests, ways in which the Partnership Board engages and acts with regard to these groups when taking its key strategic decisions, and some key highlights of stakeholder engagement in the Partnership from the year under review:

Stakeholder	**How do we engage?**	**Key highlights from 2020/21**
Partners - Our Partners are central in the differentiation of our business. Our Founder, John Spedan Lewis, talked about not just sharing profit but also sharing both knowledge and power. The Constitution empowers all Partners to shape the future of the Partnership. Hearing Partner opinion and ensuring this is taken into account in decision-making is intrinsic to our employee ownership model and our long-term sustainability and success. Properly incorporating Partner views into Board decision-making is recognised as essential to the future of the Partnership as a modern, sustainable, purpose-led business. <u>FURTHER READING</u>: - Our culture on page 15 - Supporting our Partners and communities, pages 17 to 18 - Our diversity and inclusion plan, pages 19 to 20	The Directors engage with Partners in many different ways. Our Constitution formalises some of this engagement by having three Partners as Directors on the Partnership Board who approach Partnership Board decisions and proposals from their perspective as Partners, contributing to decision-making through their knowledge and experience from working within the Partnership. All members of the Partnership Board are also members of the Partnership Council. Other ways in which Partners are provided with knowledge, Partners' views can be heard, and Directors take account of the views of Partners include: **Sharing knowledge and journalism -** Partners receive	We held for the first time, numerous virtual 'In Conversation' sessions with the Executive Team for all Partners to attend, and launched a podcast series and organised various Executive Team vlogs to be uploaded to the Partner intranet. We also brought *Connections* magazine in-house to bring it closer to the business. Aimed at retired Partners, it was relaunched and redesigned by the *Gazette* team. Partners were consulted and provided ideas and feedback throughout the development of the Partnership Plan. For example, the prioritisation of outdoor living under 'retail customers love' was a strongly supported suggestion on the Partnership intranet hub on which Partners were able to submit their proposals. Consideration of Partners' views and impacts of aspects of the Plan on Partners were fundamental in shaping it. This was also critical for the Partnership

- Partnership Board, pages 67 to 70 - Equal opportunities, diversity and inclusion on page 116 - Partnership Council President's Report on page 103, including Partnership Democratic Engagement pages 109 to 110 - Whistleblowing, page 87	updates on the Partnership's performance from regular dialogue with management, email updates, podcasts, vlogs, the Partnership's intranet and through our weekly independent *Gazette* magazine which has run for 102 years. **Your Voice and Partner Forums -** enable Partner opinion to be regularly heard, through survey opinion tools and meetings where Partner representatives are specially elected to represent Partners' views. They provide data and insights into the cultural and commercial health of the Partnership.	Board, as part of balancing all stakeholder interests and impacts of the proposal, in considering the Plan for adoption.
Customers - We believe in creating exceptional service from an ethical brand that our customers can trust. Our Partners support this by providing specialist expertise and personalised advice. <u>FURTHER READING:</u> - Market review - Market context and key trends shaping retail, pages 24 to 27 - Our Partnership Plan - Retail customers love, pages 28 to 30	Our customer research team is the voice of the customer, understanding how customers and potential customers think and feel. We gather their experiences and expectations through surveys, face-to-face research, customer feedback to Partners and contact centres and external data sources. Regular customer reports are produced for management and Directors for Partnership Board meetings, tracking and reviewing emerging trends and why they are occurring, as well as measuring the business response and feeding in data to support strategic initiatives and decision-making. During the year, the Directors considered customer interests, behaviour and expectations both now and in the future in the development and approval	To develop our Partnership Plan we spoke to around 8,000 customers to gather their opinions on the Partnership's future. This research was critical in shaping the resulting customer strategy in the Plan and we have subsequently completed similar pieces of customer research for both the grocery and financial services markets to inform the strategy for Waitrose and Financial Services. Also as part of the Partnership Plan, extensive research was conducted with customers and Partners to shape the Partnership's overarching purpose, with ambitions to champion equality, wellbeing and sustainable living, for the good of customers, Partners, suppliers and society. In 2020, Directors received reports on customers' views around shopping in stores which, alongside insight provided by Partners in shops, helped inform

	of the final form of the Partnership Plan.	decision-making on shop reopenings for John Lewis, and safety measures for customers across both brands.
Producers and suppliers - A strong, trusted and transparent supply chain is integral to our success as a retailer. We take a responsible and ethical approach to selling products, sourcing raw materials and ensuring our supply chain partners are treated fairly. The Partnership works with a diverse range of over 600 suppliers from 50 countries. The strength of our supplier relationships allow us to source high quality, responsibly produced products and services for our customers. <u>FURTHER READING:</u> - Our Ethics and Sustainability Strategy on page 36 - Waitrose's compliance with the Groceries Supply Code of Practice, pages 85 to 87 - Anti-bribery and corruption, page 33 - Payment practices, page 33 - See our Modern Slavery Statement at www.johnlewispartnership.co.uk/csr	The Board monitors the relationships with the Partnership's suppliers in a number of ways including: through the review by its Audit and Risk Committee of compliance with the Groceries Supply Code of Practice; reports by the Executive Director, Finance on the Partnership's payment practices in line with government requirements; and the steps the Partnership is taking to meet its ethics and sustainability goals, protect the human rights of those who grow, pick, pack or make our products and prevent modern slavery and human trafficking in its business and supply chains through the Ethics and Sustainability Committee (ESC). More information about the ESC can be found on page 36. Our Responsible Sourcing Code of Practice (RSCOP) sets out our expectations of all suppliers on issues such as pay, working hours, child labour, worker rights and representation. The Partnership engages with suppliers to manage and mitigate risk in our supply chains through a number of programmes and advocacy work. For more details visit: www.johnlewispartnership.co.uk/csr	Recognising the need to support suppliers throughout the pandemic, the Partnership responded in a number of ways including: providing health and safety guidance in factories, supporting the management of stock revision requirements and payment for raw material commitments and finished products. We have also given financial support to farming bodies and charities in the UK and continued to support British farmers, sourcing all our beef, chicken, pork, fresh milk and eggs from British producers and 100% British lamb all year from the summer of 2021. We kept our meat, fish and cheese service counters open throughout the pandemic, taking additional stock from British producers providing a much-needed lifeline for suppliers that may otherwise not have had a path to market during the Government mandated lockdown. Wanting to drive more meaningful and sustainable positive behaviour change in its supply base, John Lewis continued the roll-out of a free supplier engagement programme called Better Jobs, bringing the total number of UK supplier completions of the survey since launch to 49, and over 2,600 employee responses have been collected. Now trialling with 15 suppliers in China, it replaces traditional ethical audits and aims to create more rewarding and enriching jobs.

		In September 2020, Waitrose participated in Fairtrade's consultation which proposed a move towards a living wage for all workers at Fairtrade-certified plantations worldwide. From July 2021, a new Fairtrade Base Wage will result in higher wages for thousands of workers, helping them to meet their basic needs. For more details see our *2020/21 Ethics & Sustainability Progress Report* and latest Modern Slavery Statement at: www.johnlewispartnership.co.uk/csr
Communities and the environment - We seek to be a Partnership for positive change - to our customers, Partners and the communities in which we operate. We must minimise the impact our operations may have on the natural environment, source any raw materials we do use more sustainably and farm with nature. FURTHER READING: - Supporting our Partners and communities on page 17 - Reducing waste on page 35 - Our Ethics and Sustainability Strategy on page 36 - Task Force on Climate-related Financial Disclosures, pages 38 to 40 - Streamlined Energy and Carbon Reporting on pages 113 to 116 - For more on how the Partnership engages with communities and limits its impact on the physical environment, read our latest *2020/21 Ethics and Sustainability Progress Report* via	The Directors consider the interests of the communities in which the Partnership operates and potential impacts on the environment as part of business cases and projects proposed for consideration. Safeguarding the relationships we have established with the communities we serve is an important factor in the Board's discussions and has helped shape the Partnership Plan, and in particular, the decision during the year to close eight John Lewis stores and seven Waitrose stores that were loss making. The Board recognises that shop closures are a sensitive, albeit necessary step. Careful management of this process and acknowledging that the closure of these stores may have an impact on the communities in which they are located, was an area of focus for the Board. Partners are encouraged to support their local communities through volunteering opportunities	Our Give A Little Love campaign was launched and generated over £3m for vulnerable families supported through two charities - FareShare and Home-Start. Through our "Community Matters" scheme, John Lewis and Waitrose shops have played and continue to play a pivotal role in our communities. Building on this framework, discretionary community funds were provided for each relevant local Waitrose and John Lewis shop to continue to support community initiatives and a Community Investment Fund was created to distribute funds to charities working in communities that would no longer be served by our shops following the decision during the year to close eight John Lewis stores and seven Waitrose stores. The decision on which charities to fund was taken by a panel which included shop-based Partners. In November we launched our new ten year Agricultural Strategy which includes supporting farmers to farm with nature, enhancing biodiversity, and playing our part in regenerating

www.johnlewispartnership.co.uk/csr	with charity partners and the Partnership continues to support programmes which contribute to societal causes. The Partnership has also put a number of programmes and performance measures in place to reduce its impact on the physical environment.	the natural resources we rely on. We set a new target to ensure greenhouse gas emissions from our UK farms are net zero by 2035 and brought forward our net zero carbon target across our entire operations by 15 years to 2035.
Lenders - This includes our relationship banks and holders of John Lewis plc bonds.	Through our website, we share details on our performance, and our Treasury and Corporate Finance team provide further detail as needed. We invite them to join our financial updates and announcements, which gives them an opportunity to hear and engage with the Executive Team.	Lenders were invited to four virtual calls and presentations hosted by our Executive Team. In addition to this activity, the Head of Treasury & Corporate Finance also held one-to-one meetings with various relationship banks and bondholders throughout the year.
HM Government and regulatory bodies and trade associations	We submit responses to consultation papers, attend Select Committees and lobby on issues that could affect the retail sector.	Through membership of the British Retail Consortium we have focused on Brexit, reviewing business rates and Covid-19.

MAINTAINING A REPUTATION FOR HIGH STANDARDS OF BUSINESS CONDUCT

The Partnership's reputation for its standard of business conduct is a key driver of customer perception of our brands. Accordingly, all Partners are expected to contribute to the maintenance of high standards of business conduct, and the Constitution provides our framework for all Partners to do this. It includes specific Rules for Partners relating to maintaining honesty, fairness, courtesy and promptness in their business conduct. In addition, our personal values set out how we expect Partners to behave - see page 15. The Partnership Board's Audit and Risk Committee oversees how the business manages compliance and, during the year, this has continued to be an area of focus due to the changing nature of the external regulatory environment and impacts of the Covid-19 pandemic. Further information is provided in the risk and uncertainties section on pages 48 to 60 and the Audit and Risk Committee Report on pages 75 to 87.

ACTING FAIRLY AS BETWEEN THE COMPANY'S MEMBERS (PARTNERS)

The Partnership is held in Trust for the benefit of both its current and future Partners, and their interests are at the forefront of Board decision-making.

MANAGING OUR RISKS

“The last year has been an unprecedented period where effective risk management has been fundamental to helping us protect and support the Partnership, our customers, Partners and communities, and positions us well in our decision-making as we look towards future challenges and opportunities.”
JULIE GOODERHAM
Partner & Director of Internal Audit & Risk

OUR APPROACH

Risk is inherent in both our operations, and the decisions we make in pursuit of the Partnership’s goals. The Partnership Board is responsible for the nature and extent of the risks that we are willing to take. It does this by setting a risk appetite, which 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. 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.

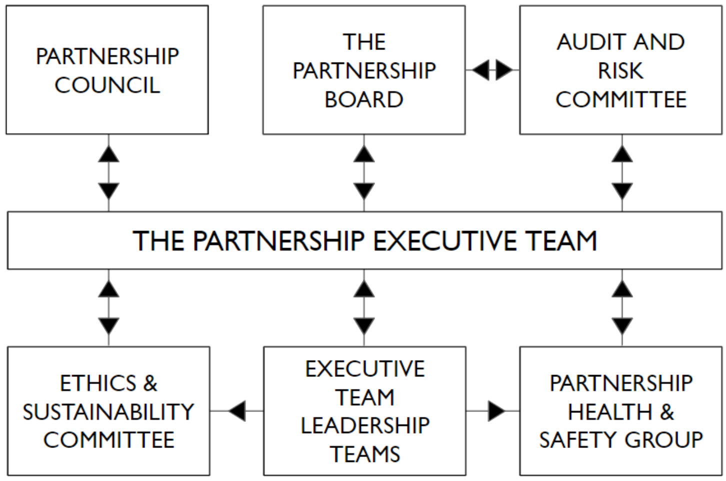
We implement a structured approach to risk management, designed to identify, manage, monitor and communicate risks consistently through our governance structure and take advantage of opportunities across the Partnership. All Partners should be aware of risks in their area of responsibility and manage those risks in their day-to-day activities.

Monitoring of our principal risks 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 occurring. Further details on the approach taken to assess the longer-term viability of the Partnership is on pages 57 to 60. The Partnership Board has undertaken an assessment, with the support of the Executive Team and the Audit and Risk Committee, of the principal risks to the Partnership in relation to achieving our goals and to potential future performance. See pages 49 to 55.

GOVERNANCE

The risk management governance structure, in place for the year under review, is illustrated below. It was launched in February 2020 in response to our changing business structure at that time. The change in governance and approach has driven more connected risk conversations that take less of our time and focus more keenly on the areas of most value to the Partnership. The Executive Team operates the risk framework supported by their Senior Leadership Teams, who collectively challenge our direction, decision-making and monitor the progress of mitigating activity in reducing significant risk. Our small team of risk specialists provide risk-related insight and challenge to decision-making; and report across the governance structure. For further details about key roles and responsibilities, please see the Audit and Risk Committee Report on pages 75 to 87.

RISK MANAGEMENT GOVERNANCE STRUCTURE



PRINCIPAL RISKS AND UNCERTAINTIES

Our principal risks are those that have been assessed as high or very high risk in the pursuit of our strategy when considering the potential impact and likelihood of occurrence. We assess the potential impact should the risk materialise and the likelihood of its occurrence. Oversight and monitoring takes place formally on a quarterly basis.

Our principal risks are:

1) External Environment
2) Proposition
3) Partner Differentiation
4) Information Security
5) Liquidity
6) Change Delivery
7) Customer Experience
8) Regulatory Non-Compliance
9) Ethics and Sustainability
10) Partner Wellbeing

WHAT'S CHANGED SINCE LAST YEAR?

Covid-19 has significantly impacted all of our lives, personally and professionally, and has fundamentally changed the way we live, work, shop and interact. It's changed what our customers want, and when and how they shop, further exacerbating the shift to digital that was already in play. It's further enhanced our focus on customers, communities, ethics and sustainability. These external factors, combined with our most significant response, a new Partnership-wide strategy, and the resultant structural change has led us to rethink our top risk profile over the period and subsequently our focus in managing risk. The resultant material changes to our risk profile over the reporting period are:

- The inclusion of 'Ethics and Sustainability' as a principal risk due to its increasing importance to both society as a whole and our Partnership Plan;
- Management of 'Partner Wellbeing' as a principal risk in recognition of the demands that the pandemic has placed on our Partners both in work and in society as a whole;

- An increase in ‘Customer Experience’ risk in light of the changing needs and demands of our customers and the acceleration in the shift to online;
- Our ‘Liquidity’ risk increased in the year directly as a result of the pandemic and has been proactively managed back to a position of no change year on year; and
- Likewise, other key risks specifically impacted by the pandemic, such as ‘Change Delivery’, ‘Information Security’, ‘Proposition’ and ‘Regulatory Non-Compliance’ have been managed to stable or improved positions year on year despite working through the impact of the challenges presented by the pandemic.

These are set out in more detail in the table below.

MANAGING OUR PARTNERSHIP RISKS

Our new strategy is our most significant response to the external risk environment, where a range of existing, evolving and new emerging risks are driving reduced margins in traditional retail. Effective operationalisation of our strategy is our single most important mitigation.

1 EXTERNAL ENVIRONMENT (No movement) *The previously reported **Operating Model Strain** risk has been included within **External Environment** risk, recognising that the changing external socio-economic pressures are the root cause of the strain in many parts of the Partnership.*		
Risk External environment changes impact delivery of business-as-usual (BAU) operations or strategic objectives. **Key causes and consequences** Reduced margins in traditional retail, Covid-19, Brexit, government policy changes, regulatory changes, climate change, social movements and a weakened economy.	**Mitigations in place** ● Horizon scanning for indicators of change. ● Monitoring of business and market performance by the leadership and Executive Team. ● Regular review of the potential impacts and opportunities of Brexit and Covid-19 to course correct by leadership supported by the crisis management response team. ● Business Continuity framework in place.	**Action taken and planned** ● Partnership Plan launch and proposed new operating model. ● Ongoing delivery of the Partnership Plan. ● Ongoing crisis response, see page 55. ● Assess and report climate change risks as per the TCFD framework including scenario analysis to assess key climate-related physical and transition risks. See page 38. ● Supporting vulnerable communities, in line with our strategic objective to be a force for positive change, including work with Home-Start and FareShare charities through our Give A Little Love campaign. See also our *2020/21 Ethics and Sustainability Progress Report.*

2 PROPOSITION (Decreased)		
Risk Failure to deliver profitable, market-leading propositions to inspire our customers and maintain competitive advantage. **Key causes and consequences** Lack of clarity on customer strategy, service ambition, investment prioritisation and/or availability, and competitor disruption could negatively impact the customer proposition and its competitiveness.	**Mitigations in place** ● Continuing to secure value for all of our customers through our price matching commitments. ● Regular strategic risk review and monitoring by leadership and the Executive Team. ● Regular strategy implementation, customer and performance metrics evaluation.	**Action taken and planned** ● Differentiation in online services and experiences, such as virtual online styling, the My John Lewis events, Waitrose Cookery School and through new partnerships such as furniture rental. ● Continued differentiation on products such as Waitrose No.1 and new or exclusive brands and products in John Lewis, as well as a broadening financial services product range, such as providing customer credit. ● Significant expansion of Waitrose online capacity. ● Better together - unlocking further value between our brands. ● Customer segmentation refresh, including focus on targeted John Lewis customer archetypes. ● Growth strategy across Home and Nursery, with Technology a central part of our offer.
3 PARTNER DIFFERENTIATION (New) *The previously reported **Ownership Model Strain** risk has been reviewed in detail and removed.*		
Risk The responsibilities and benefits of membership are not sufficiently felt and experienced by Partners and/or do not drive a distinctive and better business in service of our purpose. **Key causes and consequences** Lack of clarity, understanding and knowledge of responsibilities and rewards of being a Partner, as well as not delivering against the expectations	**Mitigations in place** ● Partnership values. ● Earning membership. ● Partner handbook. ● The Constitution. ● Democracy structure and channels, including Council and Forum. ● Leadership engagement and communications through specific change via democracy channels.	**Action taken and planned** ● New Partner strategy development and delivery. ● Articulation and clarity of the Partnership's purpose. ● Performance management. ● Raising lowest rates of pay to voluntary Real Living Wage. ● Total review of reward including ensuring pay differential between levels.

of membership could lead to Partners not feeling a differentiated experience.		
4 INFORMATION SECURITY (No movement)		
Risk Loss of key customer, Partner and/or commercially sensitive data leading to financial, regulatory, legal, operational and reputational issues. **Key causes and consequences** External and internal threats, malicious software variants, theft/inappropriate use of data, increased remote working due to the pandemic resulting in loss of data, business disruption, reputational damage, unforeseen costs and regulatory consequences.	**Mitigations in place** ● Information Security and Data Protection Policy, Standards, controls and monitoring. ● Partner training. ● Robust network security monitoring and regular testing to assess network or system vulnerabilities. ● Security impact assessments undertaken for projects to ensure compliance with security standards. ● Security Operations Centre monitoring and responding to threats.	**Action taken and planned** ● Programme of security enhancements to the systems and controls that hold Partner, customer and business data to improve resilience, through the programme of IT Security investment. ● Improvements to prevent, detect and respond to external cyber attacks. ● Information Security Improvement campaigns. ● Further mature cyber security capability.
5 LIQUIDITY (New) *Previously reported as **Pension Obligations** risk.*		
Risk Insufficient cash when needed to support operating cash flows, pay our debts or invest for the future. **Key causes and consequences** Trading results volatility/decline, inability to secure new funding or refinance existing arrangements, increase in pension deficit, acceleration of debt and/or poor liquidity planning leads to insufficient cash available to pay debts as they fall due or to invest in the Partnership Plan.	**Mitigations in place** ● Treasury Standard and controls. ● Pension risk and funding strategy. ● Regular review and monitoring of: liquidity and covenant position, Treasury minimum targets, investment and operational delivery, and pension valuation assumptions through internal and external monitoring. ● Monitoring of monthly performance review by the Executive Team.	**Action taken and planned** ● Partnership Plan funding review. ● Refinancing. ● Pension long term derisking framework agreed. ● Triennial valuation completed. ● Closed the defined benefit section of the pension scheme. ● Partnership Plan performance tracking. ● One-to-one and group meetings with financial stakeholders. ● Covid-19 response - see page 55 ('Protecting Partnership finances' section below).

6 CHANGE DELIVERY (Decreased)		
Risk Change does not realise the desired benefits and drives unforeseen cost and consequences. **Key causes and consequences** Business, operating model and change complexity combined with the volume and pace of change could result in increased costs, disruption to trade and a poor customer and Partner experience.	**Mitigations in place** ● Change management toolkit, reporting and governance. ● Outcome delivery accountability.	**Action taken and planned** ● Implementation of the new change governance and assurance structure to support Partnership Plan delivery. ● Embed and mature Partnership change framework, tools and reporting to support decision-making. ● Align portfolio and change processes. ● Develop portfolio transformation reporting and tracking.
7 CUSTOMER EXPERIENCE (New)		
Risk Customers do not receive differentiated, excellent customer service across touchpoints. **Key causes and consequences** Systems, data, processes, third parties and Partner-related issues impact service quality and convenience in store and online resulting in declining customer loyalty.	**Mitigations in place** ● Service principles and standards. ● Branch Operational Procedures. ● Partner training. ● Service agreements with third parties. ● Regular 'Customer Voice' meeting. ● Customer insight data and KPIs.	**Action taken and planned** ● Prioritisation of safety and service of customers through Covid-19 with social distancing measures, priority shopping for the elderly, disabled, vulnerable and NHS customers, and increased online delivery availability. See page 55. ● Customer Voice Group and Customer Experience Cross Functional Task Force established. ● Customer pain points improvement projects. ● Culture of Service including school of service and service principles.
8 REGULATORY NON-COMPLIANCE (No movement)		
Risk Failure to comply with key regulatory requirements. **Key causes and consequences** Lack of awareness, understanding or control of key regulatory requirements	**Mitigations in place** ● Policies and standards. ● Partner training and monitoring of completion. ● Clear Executive accountability for key regulatory areas including for	**Action taken and planned** ● Data owners continue to work with Information Security teams to develop and deliver data protection priorities.

could cause legal, reputational and/or financial damage which, depending on scale, could cause major trading impacts.	personal data security and privacy across the Partnership. ● Horizon scanning of new/changing regulation and potential Partnership impact and response.	● New HR system to support improved functionality for HR compliance. ● Continue to embed and strengthen new supplier assurance processes and systems. ● High risk regulatory assurance provision.
9 ETHICS AND SUSTAINABILITY (New) *Recognising its importance in delivering on our proposition goals and prominence within the Partnership Plan.*		
Risk Failure to live up to our ethics and sustainability ambition. **Key causes and consequences** Central to the Partnership Plan and our purpose, rising stakeholder expectations, broad and complex supply chains and the need to invest in systems, processes, data and people. Falling short could cause reputational damage through loss of trust, with knock-on effects on trading performance.	**Mitigations in place** ● Ethics and Sustainability Committee chaired by the Chairman and attended by other members of the Executive. ● Responsible Sourcing Code of Practice. ● Factory audits programme. ● Product certification standards and targets. ● Traceability systems. ● Dedicated agricultural supply chains in key product categories.	**Action taken and planned** ● Partnership Ethics and Sustainability Strategy embedded in the Partnership Plan. ● Customer propositions such as the Waitrose & Partners Foundation, Unpacked and BeautyCycle. ● Continue to improve visibility, monitoring and ethical compliance of the supply chain. ● Governance and ways of working review. ● Invest in sustainable propositions. ● Improve communication and engagement with ethics and sustainability activity. ● 2035 net zero carbon roadmap and investment plan. ● Climate change scenario analysis to define targets. See page 39.
10 PARTNER WELLBEING (New) *Reflecting the current internal and external pressures on Partners' wellbeing, fatigue and engagement.*		
Risk Partners' sense of wellbeing is threatened by societal and organisational uncertainty and change. **Key causes and consequences** Pressure on Partners relating to the pandemic through health and broader	**Mitigations in place** ● Wellbeing support services such as Partner Support, Partnership Health Services, Personnel Policy and Advice, Covid-19 and HOT intranet sites and Unmind.	**Action taken and planned** ● Further understanding through Partner surveys. ● Increase Partner engagement in psychological self-help tools like Unmind.

wellbeing, alongside significant internal change in response to the evolving retail market and low utilisation of support available leads to deterioration in Partner wellbeing, increased absence, loss of talent and failure to deliver the Partnership Plan.	• Mental health awareness training for People Managers.	• Simplify existing wellbeing information and improve accessibility. • Increase awareness and reach through *Five Ways to Wellbeing* framework and Wellbeing Champions.

COVID-19

Due to the significance of Covid-19, a summary of the key impacts and how we have managed these over the period are detailed below.

Safety first: Our crisis response team has been in place throughout the year and continues to be operational, working to a 'safety first' posture at all times. Throughout the year extra precautionary measures have been introduced in our stores including limiting the number of customers in store, prioritising access for our elderly, disabled, vulnerable and NHS customers, dedicated marshals to monitor social distancing, screens at checkouts, protective equipment, cashless payments, wearing appropriate face coverings and shopping alone being encouraged. Social distancing measures and protective equipment are also in place across our supply chain and offices. The Partnership will continue to follow our national public health bodies' guidance to implement contingency mitigations as appropriate and do the best possible for our customers, Partners and community groups. The safety and wellbeing of our Partners and customers continues to be our top priority. In addition, the Partnership has supported the UK Government in developing pioneering workplace rapid flow testing, initially rolling this out in our supply chain and now across our stores. We are supporting the vaccine roll out, with our Bracknell sports and leisure centre being used by the NHS.

Securing our supply chain and operations to feed the nation: Our supply chain has been under immense pressure to meet consumer demand, both in store and online. We continue to support our suppliers, add resilience to our distribution network and prioritise the most important goods to serve our customers, whilst not compromising on our sourcing principles. Our John Lewis department stores have been temporarily closed several times during the year and the Partners supporting these shops were, where possible, redeployed to support areas of greatest need across the Waitrose supply chain, shops and online operations in order to support feeding the nation.

Protecting Partnership finances: With the repeated temporary closure of John Lewis department stores and the impact of social distancing safety measures in Waitrose stores, a number of steps have been taken to maintain sufficient liquidity including reducing capital and investment expenditure, deferring or cancelling discretionary spend such as marketing, and negotiating financing arrangements (taking out medium term bank loans totalling £150m, extending the term on our revolving credit facilities, as well as negotiating a more favourable financial covenant package). Also see the Viability Statement on page 57. In addition, the joint HM Treasury and Bank of England Covid Corporate Financing Facility, business rates holiday and wages support have been critical to maintain liquidity through this volatile period.

BREXIT

During the year, the Partnership prepared for a worst-case, no-deal scenario ahead of the end of the transition period on 31 December 2020 as this would have caused the greatest disruption to Partners, customers and trade. Contingency plans were regularly reviewed and, to the extent required, mobilised ahead of 31 December 2020 for our key areas of Brexit risk: clearing customs, currency exposure, access to EU labour and tariffs.

The risk of delays in supply chain due to challenges in clearing customs was partially mitigated by high Christmas stock levels, additional resource to process customs declarations and alternative sourcing. Currency exposure on the depreciation of Sterling, creating a rise in cost of goods, was managed through the Partnership's currency hedging programme. The labour risk was mitigated by providing support to EEA Partners seeking settled and pre-settled status and increased availability in the labour market due to Covid-19 restrictions. The EU-UK Trade and Cooperation Agreement (see page 26) supported mitigation of the tariff risk.

In 2021, as we navigate new processes under the recently signed EU-UK Trade and Cooperation Agreement and new UK regulations, the most significant emerging risks we are actively managing relating to Brexit at the time of writing are: clearing customs; some border delays on goods being received; and uncertainties around new regulations especially as the easement periods end, in particular the permanent arrangements for delivering online sales into Northern Ireland.

EMERGING RISKS

Identifying emerging risks is integral to our risk management process. Emerging risks are reported regularly at each stage in our governance structure, utilising relevant horizon scanning where available and monitored until the time is right to take action. Covid-19 continues to present evolving emerging risks, which are being actively managed and monitored by our operational crisis response team, with escalation to the Executive Team when necessary.

Risks associated with climate change and the transition to a lower-carbon economy are emerging. Scenario analysis to assess the Partnership's exposure to the climate-related physical and transition risks in line with the TCFD framework is planned for this year. See page 39 of TCFD report.

Emerging risks related to digitalisation, new technology, changing regulations and new third party relationships are also being reviewed through our risk management conversations as the Partnership adjusts to a post Covid-19 commercial landscape where disruption reliant on greater connectivity, speed, partnerships and community are of growing importance to differentiate and progress the Partnership.

LOOKING AHEAD

Our principal risk portfolio will continue to be monitored through our governance in the year ahead as our new strategy is operationalised with specific focus over the initial two years on customer satisfaction and managing our costs. This is in order to invest in our future and be able to reward Partners for their significant contribution to our unique business. The focus of activity will remain on proactively managing our response to Covid-19, maintaining customer service and protecting Partners, local communities and trade, alongside our response to Brexit as details of new UK regulations emerge and easement periods end. Further embedding our risk management framework in our new leadership structure to support effective risk-based trade-offs in pursuit of the Partnership Plan are paramount, alongside coaching across the new head office leadership team to ensure we continuously improve the effectiveness of our risk management framework.

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 (page 111), 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 show how they continue to uphold their constitutional obligation to protect the long-term health of the Partnership. This takes into account the Partnership's current position (pages 119 to 198); current strategy (pages 21 to 40); and risks and uncertainties (pages 48 to 60).

Assessment period

The Partnership Plan is designed to develop our business over the long term and is underpinned by work in recent years to strengthen the Partnership's balance sheet and financial sustainability, with £2.0bn in total liquidity available, at the date of approval of these financial statements. As shown below, a wide variety of time horizons are relevant to the management of the Partnership:

	1	**2**	**3**	**4**	**5**	**8**	**10**	**10+**
Strategy	Five-year Partnership Plan							
Forecasting and budgeting	Detailed budget	Currency and commodity hedging forecasts						
Financial Strategy and Funding	Annual Funding and Liquidity Plan		Funding the Partnership Plan			Long-term financial strategy		
Asset lives	Majority of lease payments subject to market review every five years							
	Useful economic lives for intangible assets							
	Useful economic lives for larger tangible assets							
Employee benefit liabilities*						Long leave		Pensions

*Weighted average duration

The Directors have assessed the Partnership's viability over a three-year period to January 2024. Reflecting the speed of change in the retail environment, a three-year period of assessment is deemed an appropriate timeframe as it captures the period over which detailed budgeting and forecasting is provided for planning purposes.

Current climate

Given the pace of change in the retail sector, and the recent economic uncertainty due to Covid-19, we expect to see significant volatility over the short-term. This includes the reopening of many John Lewis stores following the lockdown in early 2021/22. We will continue to take necessary measures to protect the health and safety of customers and Partners, manage supply chain challenges due to the rise of online and redeploy Partners to grocery to meet increased demand.

Downside modelling

In assessing the viability of the Partnership, the Directors considered the Partnership's revenue, profit, net assets and cash position under the budget and the Partnership Plan approved by the Partnership Board. In the context of a challenging retail sector, these took account of factors such as the longer term impact of Covid-19, increased competition, and sustained cost pressures. A severe but plausible downside scenario was applied to incorporate additional sensitivities overlaid on the budget and Partnership Plan. These were based on the potential financial impact of the Partnership's principal risks and the specific risks associated with Covid-19. These are the most relevant risks when assessing the Partnership's viability, and scored highest on the combined scale of impact and likelihood.

The downside scenario and how it corresponds to the principal risks and Covid-19 risks (pages 49 to 55), have been assumed to all occur over the three-year period of assessment in order to assess the Partnership's ability to withstand multiple simultaneous challenges, and also assume that no new financing is obtained and the credit facilities are not renegotiated. For the basis of the assessment, it is assumed that all Partnership borrowings are repaid at their maturity date and that no further refinancing or funding is undertaken. The potential impacts of Covid-19 have been built into the downside scenario but the potential impact of further one-off 'black-swan' events that cannot reasonably be anticipated are not included.

The downside detailed above, is deemed by the Directors to provide a severe, but plausible, stress test on our underlying viability. This includes a significant reduction in year 1 performance as a result of the impact of Covid-19 and reduced trading performance across both brands, resulting in a pre-mitigation cash reduction to Plan in excess of £1.7bn over the three years. Uncertainty exists in respect of the potential impact of Covid-19 in 2021/22.

The downside scenario assumes lockdown conditions continue into Q2 2021/22 and that John Lewis stores are closed during this period, with online sales remaining operational but with reduced demand. Waitrose remains operational both in store and online, albeit with sales and margin pulled back from current trading levels which are significantly ahead of pre-Covid-19 levels in 2019/20. This is followed by a further, deeper recession throughout the assessment period resulting in a further reduction in sales, as well as a reduction in margin across both brands and a number of one-off events, e.g. a regulatory and data security breach, higher impairment charge, increasing pension deficit and project under-delivery. The downside modelled has a significant adverse impact on sales, margin and cash flow. The impacts of the downside adjustments have been reviewed against the Partnership's projected cash position and financial covenants over the three-year viability period. Should these occur, mitigating actions would be required to ensure that the Partnership remains liquid and financially viable.

Mitigating actions

In response, the Directors have identified £2.4bn of mitigations (£1.6bn available within the first two years up to January 2023, and a further £0.8bn available in the third year 2023/24), all within management's control, to reduce costs and optimise the Partnership's cash flow, liquidity and covenant headroom, the majority of which would only be triggered in the event of the downside scenario materialising. These actions were identified as part of the Partnership's contingency planning which considered both feasibility and time frames to execute. Mitigating actions include, but are not limited to, reducing capital and investment expenditure through postponing or pausing projects and change activity; deferring or cancelling discretionary spend (including discretionary Partner benefits); and reducing marketing spend. These mitigations are all within the control of the Partnership and exclude those mitigations which place some reliance on the external market (asset sales). The Partnership's projected cash position included in the budget assumes utilisation of Government support in relation to the business rates holiday to the end of the fiscal year (March 2021) but does not include any allowance for the job retention scheme or assume any further reliance on Government support beyond this date.

Internal mitigations alone would be sufficient to absorb the effects of the downside scenario. Additional liquidity could be sourced from the external market assuming sufficient appetite existed, e.g. asset disposal or sale and leaseback of property. Continuous monitoring of the Partnership's liquidity position enables management to proactively apply these mitigations as required.

Having applied the downside scenario and liquidity mitigations above, we have 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, without further action. The conclusion of our stress test is that the Partnership could sustain a further loss of more than 10% of annual sales over and above the downside scenario already modelled or a further one-off cost of £400m, without breaching our bond covenants. Our committed credit facilities remain undrawn in our stress test. The Partnership would prefer to retain the option to utilise its facilities, therefore, covenant compliance will continue to be monitored closely, and if deemed necessary, the Partnership will seek a covenant relaxation from its bank group, or take other actions to replace the level of liquidity support provided by these facilities.

Viability assessment

We have made our assessment based on our best view of the severe but plausible downside scenario that we might face. If outcomes are unexpectedly significantly worse, the Directors would need to consider what additional mitigating actions were needed, for example accessing the value of our asset base to support liquidity. Consequently, the Directors have concluded that to stress test a level of increased severity (beyond the downside modelled) which may cast significant doubt about the Partnership's ability to continue to be viable over the three-year assessment period, is not currently reasonable.

Having reviewed current performance, forecasts and risks, the Directors have a reasonable expectation that the Partnership:

- Has adequate resources to continue in operation;
- Can meet its liabilities as they fall due;
- Can retain sufficient available cash across all three years of the assessment period; and
- Will not breach any financial covenants attached to its financial debt (bonds, term loans and bank facilities).

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 pages 80 to 81).

Variable	Downside scenario			Partnership principal risks										Covid-19 risks
	21/22 Yr 1	**22/23 Yr 2**	**23/24 Yr 3**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	
Sales underperformance	(4)% vs budget	*(4)% vs Plan	*(4)% vs Plan	x	x	x			x	x		x	x	x
Gross margin rate	(200)bps vs budget	*(240)bps vs Plan	*(230)bps vs Plan	x	x	x			x	x		x	x	x
Foreign exchange	£(23)m	-	-	x										x
Missed project delivery	£(83)m	£(90)m	-		x				x	x			x	x
Target under delivery	£(71)m	-	-		x				x	x		x	x	
One-off IT data breach	£(50)m	-	-				x							x
One-off regulatory non-compliance risk	-	£(25)m	-								x	x		x
Pension deficit increase	£(580)m	-	-					x						x
Additional impairment	£(100)m	-	-											x

*cumulative based on Partnership Plan

Our governance

HOW GOVERNANCE IS SHARED IN THE PARTNERSHIP

The two Trust Settlements made by John Spedan Lewis in 1929 and 1950 established the John Lewis Partnership, to be owned in Trust for the benefit of its members - its employees - who, since 1920, have been known as Partners.

This is Spedan Lewis' experiment in industrial democracy. 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…" ('Partnership For All', 1948).

The Partnership is the general body of Partners, working together for the success of the business to fulfil the purpose and Principles of the Constitution. It is governed according to a written Constitution, which must not conflict with the Settlements that established the Partnership. 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 at www.johnlewispartnership.co.uk

THE TRUST SETTLEMENTS

The Trustee of the two Settlements is John Lewis Partnership Trust Limited (the Trust Company) and its Chairman is the Partnership's Chairman. Its other Directors are the Deputy Chairman and the three Partners elected by Partnership Council as 'Trustees of the Constitution'. The Trust Settlements require that the Chairman and Deputy Chairman of John Lewis Partnership Trust Limited also be the Chairman and Deputy Chairman of the Partnership Board.

The use of the terms 'Chairman' and 'Deputy Chairman' in this report reflect the terminology contained within the Partnership's constitutional documents and are intended to be construed as gender neutral.

The role of the Trust Company is to:

- carry into effect with or without modification the Deeds of Settlement;
- uphold the Constitution; and
- promote in every possible way the wellbeing of the Partnership.

The election by the Partnership Council of three Partners to be Directors of the Trust Company - the 'Trustees of the Constitution' - takes place every three years. The last elections took place in May 2018, when Johnny Aisher, Mark Anderson and Claire Barry were appointed, and the next elections are due to take place in 2021.

The responsibilities of the Directors include:

- Receiving an annual report from the Independent Directors and President of Partnership Council on their work;
- Considering and agreeing any recommendations from Partnership Council (currently delegated to Council's Welfare and Financial Assistance Focus Group) to exclude any Partner from participation in any distribution of Partnership Bonus; and
- Approving the appointment of the successor to the Chairman should a 'Resolution upon the Constitution' be passed by Partnership Council.

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

- Determine constituencies and the number of Councillors, and rule on election procedures;
- Approve the Chairman's outside appointments; and
- 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').

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.

INDEPENDENT DIRECTORS

Following the changes to the Constitution approved by Partnership Council in 2019/20, Clare Tickell and Michael Herlihy were appointed as the Partnership's first Independent Directors in 2019. Their role is to: be a provocative and engaging force that focuses on what the Partnership stands for, inspire people to think differently, challenges and supports leaders; provide independent perspective on the progress of the business towards its purpose and constitutional Principles (and advise the Chairman in this respect); be completely open with the Chairman, and also tell them anything which they ought to know for the good of the Partnership; and maintain focus on the distinctive character of the Partnership, including specifically humanity (amongst Partners and with the communities within which the Partnership operates).

They have the 'right to roam' and investigate any area of the business and are supported by a group of Independent Advisors. The Independent Directors attend, but are not members of, Partnership Board and Partnership Council meetings.

PARTNERSHIP PURPOSE AND VALUES

The Partnership's purpose is contained in Principle 1 of the Constitution, and values are set out in Principles 2 to 7 of the Constitution. They are:

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.

Principle 2 - Power
Power in the Partnership is shared between three governing authorities, Partnership Council, the Partnership Board and the Chairman. See pages 61 to 118.

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. See pages 9 to 12.

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. See pages 17 to 18.

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. See pages 28 to 31.

Principle 6 - Business relationships
The Partnership aims to conduct all its business relationships with integrity and courtesy, and scrupulously to honour every business agreement. See pages 32 to 33.

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. See pages17 to 18.

THREE GOVERNING AUTHORITIES

Power in the Partnership is shared between the three governing authorities: the Chairman, Partnership Board and Partnership Council (Principle 2 of the Constitution). 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 (Rule 2 of the Constitution).

Rule 4 of the Constitution is that: “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 entrepreneurial spirit but must not risk any loss of financial independence.”

For more information on each of the governing authorities, see page 65 on the Chairman, pages 67 to 74 on the Partnership Board and its Committees and pages 103 to 110 on Partnership Council.

THE CHAIRMAN

The Chairman's purpose is to ensure that the Partnership develops its distinctive character and its democratic vitality. In accordance with the Constitution, the Chairman is Chair of the Partnership Trust Company and, by virtue of their appointment in that role, Chair of the Partnership Board.

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. The Nominations Committee keeps the Partnership Board informed of the plans and the process for the Chairman's succession, before the Partnership Board is asked to approve the Chairman's nominee. For the Nominations Committee Report see page 88.

Charlie Mayfield formally stepped down as Chairman on 4 February 2020 and Sharon White officially became the Partnership's sixth Chairman at a meeting of the Trust Company held in front of Partnership Council and webcast to Partners. In accordance with the Partnership's constitutional arrangements, she signed a written undertaking to uphold the Constitution and work to the utmost of her energy and ability for the fulfilment of the Partnership's Principles.

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

1. Chair of the Trust Company.
2. Chair of the Partnership Board, by virtue of their appointment as Chairman of the Trust Company.
3. The senior executive in the Partnership. As such they are ultimately responsible for its commercial performance and supported in this by the Executive Team, which they lead.

THE EXECUTIVE TEAM

The Chairman, supported by the Executive Team, is ultimately responsible for the Partnership's commercial performance. The purpose of the Partnership's Executive Team is to define a strategy to enable the Partnership's continuing experiment to succeed, recommending it for the approval of the Partnership Board and then delivering it through its management and running of the business.

CHANGES DURING THE YEAR

Following a substantive review in 2019, the Partnership implemented a new operating model structure effective on 3 February 2020. This involved significant changes to how we lead and run the Partnership including disbanding the Waitrose and John Lewis Management Boards and the creation of a single Executive Team responsible for the Partnership's strategy and performance.

In addition to the Chairman, the Executive Team comprises of the following members at the date of this report, four of which joined the Partnership during the 2020/21 financial year:

- Nina Bhatia, Executive Director, Strategy and Commercial Development (joined 17 February 2020)
- James Bailey, Executive Director, Waitrose (joined 29 April 2020)
- Pippa Wicks, Executive Director, John Lewis (joined 3 August 2020)
- Nikki Humphrey, Executive Director, People (joined 1 October 2020)
- Bérangère Michel, Executive Director, Finance (commenced current role 1 January 2021)
- Andrew Murphy, Executive Director, Operations

On the appointment of Bérangère Michel as Executive Director, Finance, her former responsibilities as Executive Director, Customer Service, were transferred to James Bailey, Executive Director, Waitrose, and Pippa Wicks, Executive Director, John Lewis.

More information about the members of the Executive Team can be found at www.johnlewispartnership.co.uk

PARTNERSHIP BOARD

The purpose of the Partnership Board is to support the Executive Team to ensure that the Partnership's continuing experiment succeeds.

Under the 1950 Trust Settlement the composition of the Partnership Board includes the Chairman and Deputy Chairman of the Trust Company, with the Chairman being able to nominate up to five other Directors and Partnership Council being able to nominate up to five Directors.

Following on from its 2019 Board effectiveness review, in September 2019 the Partnership Board agreed to reduce its size, which would contribute to enhancing its effectiveness while maintaining a balance of different experience, skills and perspectives. It was agreed that from February 2020, in addition to the Chairman and Deputy Chairman (which would continue as a Non-Executive role), the Board should routinely comprise two other Non-Executive Directors, one Executive Director (Executive Director, Finance) and three Elected Directors. The Partnership Board has determined that this composition provides a balanced leadership, appropriate for an employee-owned business. Elected Directors and Non-Executive Directors together form a majority of the Partnership Board.

At the date of this report, the Partnership Board comprises:

- **Executive Directors:** Sharon White and Bérangère Michel.
- **Elected Directors:** Ollie Killinger, Nicky Spurgeon and Becky Wollam.
- **Non-Executive Directors:** Rita Clifton (Deputy Chairman), Nish Kankiwala, Andy Martin and Laura Wade-Gery.

Biographies for the members of the Partnership Board can be found from page 71. Biographical details for former members can be found in the 2020 Annual Report and Accounts available at www.johnlewispartnership.co.uk

Sharon White succeeded Charlie Mayfield as Chairman on 4 February 2020. Patrick Lewis stood down from the Partnership Board on 31 December 2020 and was succeeded by Bérangère Michel as Executive Director, Finance on 1 January 2021.

Keith Williams stepped down as Deputy Chairman and Non-Executive Director on 15 April 2020 and was succeeded by Rita Clifton who was appointed as Deputy Chairman and Non-Executive Director with effect from 1 February 2021. Andy Martin, a Non-Executive Director, acted as interim Deputy Chairman. Nish Kankiwala was appointed as a Non-Executive Director with effect from 12 April 2021 for an initial three-year term. Laura Wade-Gery's initial three-year term as a Non-Executive Director commencing in September 2017, was extended, and will now expire on 30 April 2021.

Information on the appointment process for members of the Partnership Board can be found in the Nominations Committee Report on pages 89 to 90.

DEPUTY CHAIRMAN

The role of Deputy Chairman includes: having responsibility for leading the Chairman's performance appraisal and remuneration review; chairing both the Nominations and Remuneration Committees; acting as an alternative point of contact to the Chairman for other Directors and, as and when necessary and in periods of organisational stress, acting as an intermediary between the stakeholders to resolve major issues. The intent is that the Deputy Chairman should remain a Non-Executive Director role, but that if the role of Deputy Chairman were to be filled by someone who was not 'independent' (i.e. a Partner or potentially a former Partner), some or all of these responsibilities might need to be reallocated. It had also been recognised that there would be occasions when the Chairman would be acting at the Board in a 'Chief Executive' capacity for certain agenda items and to avoid any potential conflict, the Deputy Chairman could step in and chair the Board meeting for such discussions.

ELECTED DIRECTORS
Elected Directors are neither Executive Directors nor Non-Executive Directors. Although they are not independent, they approach Partnership Board decisions from their individual perspectives as Partners, contributing to decision-making through their knowledge and experience from working within the Partnership. The next elections for Directors nominated by Partnership Council will take place in 2021.

NON-EXECUTIVE DIRECTORS
The Non-Executive Directors bring an independent view to the Partnership Board's discussions and the development of strategy. Their range of skills and experience ensures that the performance of management in achieving the Partnership's plans is appropriately challenged.

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.

ROLE AND RESPONSIBILITIES

The Partnership Board's role is:

- To provide the Executive Team with constructive challenge and make its advice, experience and specialist knowledge available to both the Executive Team and Partnership Council;
- To ensure that in delivering the continuing experiment the Partnership's financial condition remains sound and that the Founder's principle of 'safety first' is upheld; and
- To ensure proper governance for the Partnership.

In performing its role, the Partnership Board: approves the Partnership Strategy, business plan and sets risk appetite; oversees and monitors the delivery by the Executive Team of the business plan, financial performance and management of risk; oversees behaviours within the Partnership to ensure that they are aligned and consistent with the Principles of the Constitution (i.e. with the Partnership's 'purpose' and 'values'); ensures that there is appropriate engagement with Partners (so that their views are listened to and taken into account in a way that encourages their active engagement) and other stakeholders to satisfy itself that the business is operated in a way that is consistent with the experiment and the Principles of the Constitution; and ensures that as Directors they fulfil their legal duties to promote the success of the Partnership.

The role and responsibilities of the Board are contained in the Board's reserved matters which were reviewed during the year and are available at www.johnlewispartnership.co.uk/about/how-we-share-power.html

The Partnership Board is assisted in carrying out its oversight and assurance responsibilities by its Committees; the Audit and Risk Committee (see page 75), the Nominations Committee (see page 88) and the Remuneration Committee (see page 93). The responsibilities and membership of these Board 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.

BOARD EFFECTIVENESS REVIEW

The Partnership Board normally carries out an externally facilitated board evaluation every three years. The last external review was conducted in 2017 and therefore a further external review was due to be carried out in 2020. After taking into account the challenging circumstances of the pandemic, including the Board having to work remotely, and the fact that new directors would be joining the Board in early 2021, it was decided that there would be more value in delaying the external review and instead for an internal review to be performed led by the Company Secretary.

The internal review covered the areas of the Board's strategic oversight, risk and controls, relationships, ethics and sustainability and Partnership culture, Board composition and development, the Board Committees and Board meetings.

It was generally considered that the Board had been more effective during 2020, despite the need for it to work virtually, benefiting from the smaller Board composition, the necessity to respond at speed to the challenges driven by the Covid-19 pandemic and the different approach of the new Chairman. The weight the Board had placed on the views of Partners in its discussions and decisions during the year was particularly highlighted.

Working virtually had presented some challenges, as it was felt that it had stifled the depth of discussion and debate. Due to the number of significant matters coming to the Board during the course of the year, it was felt that there had not always been sufficient time at meetings for a full discussion of all agenda items. This was despite the fact that, although at the start of the year the Board had only been scheduled to meet on seven occasions during 2020/21, 26 meetings were held[16]. Even without the challenges of the pandemic, 2020 was always going to be a different year for the Board and the Executive Team with a new Chairman, a smaller Board with less executive presence, and a new Executive Team assuming responsibility for directly managing the business, succeeding the John Lewis and Waitrose Divisional Management Boards.

In response, the main recommendation from the Board effectiveness review was to spend time over the summer, assuming the resumption of physical meetings, to explore in more depth respective roles, interaction, and the Board's priorities. A number of other actions were also agreed to improve effectiveness and these are in the course of being progressed.

THE BOARD'S AGENDA

The Partnership Board forward plans its meeting agendas for the year ahead. Agendas cover the three broad areas of: strategy - development of the strategic direction and monitoring its delivery; performance - monitoring delivery of the annual operating and investment plans, making adjustments where necessary; and governance - monitoring how our Principles are applied in practice.

[16] Due to the increased number of meetings caused by the demands of the pandemic during the year under review, not all Directors attended every meeting, but the majority of meetings were attended by all Directors who were eligible to attend.

The forward plan is intended to enable the Partnership Board to meet its responsibilities described above including the legal responsibilities of Directors to promote the success of the Partnership. In carrying out their responsibilities, Directors have regard to the matters they are required to consider under Section 172(1) of the Companies Act 2006 and balance their decisions taking into account all these factors. See pages 41 to 47 for the Partnership's statement on Section 172(1).

The Group Strategic Report on pages 4 to 60 contains more information on activities overseen by the Board and led by the Executive Team during the year, and in particular relating to the development and launch of the Partnership's strategy, the Partnership Plan.

BOARD INFORMATION AND ARRANGEMENTS

The Board receives and reviews a broad range of information sources and regular reports including, but not limited to: monthly performance reporting packs which include customer, Partner and financial performance data; quarterly risk reports; and minutes and updates from the meetings of the Executive Team. 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 two Independent Directors, Michael Herlihy and Clare Tickell, attend Partnership Board meetings, but are not Directors of the Partnership Board.

It is the practice for Directors to either not attend a Board or Committee 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 meets on a quorate basis on occasion. These quorate meetings are constituted by the Partnership Board from those members available at that time.

As well as attending Board meetings, the Non-Executive Directors and the Elected Directors met together without the Executive Directors on two occasions during the year. These meetings were facilitated by the Acting Deputy Chairman.

PARTNERSHIP BOARD MEMBERS' BIOGRAPHIES

Key for Committee membership:
A - Audit and Risk Committee
N - Nominations Committee
R - Remuneration Committee
* - Committee Chair

SHARON WHITE (N)
Partner and Chairman
Appointed: February 2020

Sharon White became the Chairman of the John Lewis Partnership and Chairman of John Lewis Partnership Trust Limited on 4 February 2020. Prior to this Sharon was Chief Executive of Ofcom from 2015.

Before joining Ofcom, Sharon had a long career in the civil service. She was Second Permanent Secretary at the Treasury, responsible for overseeing public finances. Before that she held Board level positions at the Ministry of Justice and the Department for International Development. She has worked as a civil service advisor at the Prime Minister's Policy Unit and in Washington DC as a senior economist at the World Bank.

Sharon is a Non-Executive Board member for Barratt Developments plc and Deputy Chairman of Sadler's Wells Trust Limited. She is also a member of the Government's 'Build Back Better Council' which was established in January 2021 to work with the Government to fuel Covid-19 economic recovery and future growth plan, and sits on an advisory Board for Altermind, a strategy consultancy.

Sharon is a trained economist and studied at Cambridge University and University College London.

RITA CLIFTON (A, N, R)
Non-Executive Director and Deputy Chairman
Appointed: February 2021

Rita became Deputy Chairman of the John Lewis Partnership and Deputy Chairman of John Lewis Partnership Trust Limited on 1 February 2021.

Prior to this her career has included being a Vice Chair and Strategy Director at Saatchi & Saatchi, as London CEO and Chair at the global brand consultancy Interbrand and as co-founder of BrandCap. Rita was previously a Board member of ASOS for six years, and held non-executive roles with Dixons Retail, Emap, Bupa and the research firm Populus Group. Non-profit Board experience has included WWF (World Wide Fund for Nature), the UK Sustainable Development Commission and Trustee of the leading environmental think tank Green Alliance.

Rita is also a Non-Executive Director at Nationwide Building Society and Ascential plc and is Chair of Trustees at the leading sustainability organisation Forum for the Future.

NISH KANKIWALA

Non-Executive Director

Appointed: April 2021

Nish Kankiwala joined the Partnership Board as a Non-Executive Director on 12 April 2021. Nish is currently the Chief Executive of Hovis, a business with over 130 years of heritage. He brings 40 years' experience in retail and consumer brands such as PepsiCo, Unilever and Burger King. Nish started his career at Unilever in a number of commercial and operational roles, before moving to PepsiCo where he became President of the soft drinks business in Europe and Africa. He then moved to Burger King International as President. He continued his career within private equity led businesses and joined Hovis in 2014, initially as Chairman and in the past five years as Chief Executive, where he led the transformation of the brand.

Nish is a Fellow at the Institute of Chemical Engineers and Fellow at University College London, where he graduated in Chemical Engineering.

OLLIE KILLINGER (A)
Elected Director, Partner & Digital Product Owner
Appointed: November 2017

Ollie joined the Partnership in 2008 as a part-time weekend Partner in Waitrose Leighton Buzzard. He secured a student transfer to Waitrose Oadby whilst studying at university before returning to Leighton Buzzard in 2013. Since graduating, Ollie has progressed through various management positions in Waitrose 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 working across products touching customer data, loyalty and digital rewarding.

Ollie was elected to 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.

Ollie is also Academy Trustee and Director of Dove House School Academy.

ANDY MARTIN (A*, N*, R)
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 (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. Until August 2020, he was also a Non-Executive Director of easyJet plc. 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 Non-Executive Chairman at Intertek Group plc and Non-Executive Chairman at Hays plc, where he also Chairs the Nominations Committee. He is also Director and Trustee of The Compass Group Foundation.

BÉRANGÈRE MICHEL
Partner & Executive Director, Finance
Appointed: January 2021

Bérangère joined the Partnership in April 2008 as Group Head of Financial Strategy, before being appointed Director, Supply Chain Development and subsequently Finance & Strategy Director and Operations Director for John Lewis. Bérangère became Executive Director, Customer Service in February 2020 and was then appointed Executive Director, Finance in January 2021. Before joining the Partnership, Bérangère spent 11 years at the Royal Mail in a number of finance, change and strategy roles, including as Finance Director of the property division.

Bérangère is a Board Trustee at World Animal Protection - a global animal welfare charity.

NICKY SPURGEON (N, R)
Elected Director, Partner & Programme Manager
Appointed: May 2018

Nicky joined the Partnership in 1998 as a management trainee for John Lewis 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 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 business. Nicky currently manages a portfolio of projects that seek to deliver new propositions as well as enhance customers' experience when shopping with John Lewis or Waitrose.

Nicky's active involvement in democracy started in 2012 as a John Lewis Councillor and was followed by three years as a Partnership Councillor before joining the Partnership Board.

LAURA WADE-GERY (N, R*)
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 Kleinwort Benson. She was an advisor to the Government Digital Service from 2012 to 2016.

Laura is Chair of NHS Digital and a Non-Executive Director of NHS England & Improvement where she co-chairs the Digital Committee. Laura is also a Non-Executive Director of British Land Company plc and Chair of their Remuneration Committee and on the boards of Britten Pears Arts and its trading subsidiary, Snape Maltings Trading. Prior non-executive roles included Immunocore, Trinity Mirror, and the Royal Opera House.

BECKY WOLLAM (N, R)
Elected Director, Partner & Regional Manager
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. In 2018, Becky moved back into Retail Operations as a Regional Manager, accountable for Waitrose shops in central London.

Becky was elected to Partnership Council in 2015 before joining the Partnership Board.

AUDIT AND RISK COMMITTEE REPORT

The Partnership Board's 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 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 the Chair (or their appointed deputy) and at least one member who is independent. The members of the Committee at the date of this report are:

Andy Martin	Chair of the Committee and Non-Executive Director
Rita Clifton	Non-Executive Director
Ollie Killinger	Elected Director
Zarin Patel	Independent External Member
Sharon Rolston	Independent External Member

Rita Clifton was appointed to the Committee on 2 February 2021. In addition, Keith Williams was a member of the Committee until his resignation from the Board on 15 April 2020. During the year, Sharon Rolston agreed to extend her term for a further two years to 30 April 2023. Zarin Patel has confirmed that she intends to step down on 30 April 2021. A search process has commenced to find a successor.

There were eight Committee meetings held during the year under review, which were attended by all members who were eligible to attend, except Sharon Rolston and Zarin Patel who were unable to attend one meeting each.

During at least one meeting in each quarter of the year, the Committee meets separately with each of the external auditor and the Director of Internal Audit and Risk or her designate, without management being present.

RELEVANT QUALIFICATIONS OF COMMITTEE MEMBERS AND COMPETENCE TO THE SECTOR

Andy Martin, Zarin Patel and Sharon Rolston have significant, recent and relevant financial experience. Each is a qualified accountant and has held or currently hold senior finance roles. See pages 71 and 76 for biographical information. Viewed as a whole, the Committee possesses competence relevant to the retail sector in which the Partnership operates.

INDEPENDENT EXTERNAL MEMBERS

Zarin Patel

Appointed: March 2016

Zarin is an Independent Non-Executive Director of Anglian Water Services Limited and chairs its Audit and Risk Committee and sits on its Nominations Committee, a Non-Executive Director of Post Office Limited and sits on its Audit and Risk Committee, and an Independent Member of the HM Treasury Group Audit and Risk Committee. 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 were reviewed and refreshed during the year to ensure they reflect current best practice and are fit for purpose. The Terms of Reference are available at www.johnlewispartnership.co.uk

The role of the Committee is to assist the Partnership Board in fulfilling its responsibility by reviewing and monitoring:

1.	The integrity of the Partnership's financial and narrative statements, other formal announcements relating to the Partnership's financial performance, and reviewing significant financial reporting judgements contained in them;
2.	The effectiveness of the Partnership's system of internal controls and risk management;
3.	The effectiveness of the Partnership's auditor and the internal and external audit process; and
4.	The effectiveness of the Partnership's processes for compliance with laws and regulations, including systems and controls for the detection of fraud.

COMMITTEE EFFECTIVENESS

During the year under review, an internal Board effectiveness review was conducted by the Company Secretary. For further information on the review please see page 69. It included questions on the Board Committees and the support they provide to the Board; Committee members also contributed to an assessment of the Committee's effectiveness. Feedback relative to the Committee is being followed up through the agreed actions.

EXTERNAL FINANCIAL REPORTING

The Partnership prepares consolidated financial statements, which form part of the Annual Report and Accounts, in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and in compliance with International Financial Reporting Standards (IFRS) and IFRS Interpretations

Committee interpretations as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRSs as adopted by the EU). 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 November 2020, 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. In December 2020, the FRC issued a letter to the Partnership in relation to the FRC's corporate reporting thematic review of IFRS 16 'Leases'. The Committee, along with management, have reviewed the letters and have taken the points raised into consideration in the preparation and review of the Partnership's 2021 Annual Report and Accounts, in particular further improving the quality of disclosures in notes 5.6 and 7.1.2.

ANNUAL REPORT AND ACCOUNTS

Since the year-end the Committee has reviewed the draft Annual Report and Accounts 2021 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, giving appropriate weighting to risks, 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 to 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 and distracting detail?
Does the report include simple and 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 2021 is fair, balanced and understandable.

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.

*1. **Impairment** (Notes to the financial statements: 3.1, 3.2)*

Issue

The Partnership has significant non-current assets, both tangible and intangible. Judgement is exercised in reviewing their carrying value in respect of possible impairment. Given the significant shift in trading experienced throughout the year, initial trigger tests, such as whether performance was in line with expectation or significant external changes with an adverse effect on the cash generating unit (CGU), 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. The model includes a number of assumptions in relation to expected cash flows, long-term growth rates, cost inflation, online sales and costs allocation and discount rate. For each intangible asset identified, consideration was given to changes in use, deterioration and evidence of obsolescence, with an impairment charge calculated where appropriate.

Response

The Committee reviewed the results of the trigger tests and challenged the methodology used to test impairment, including the appropriateness of key assumptions and methodologies used. This included review and challenge over the cash flows, growth rates, online sales and costs allocation and discount rate. Additional meetings were held in September 2020 and prior to the year-end, where particular focus and challenge was given to the current and expected performance of John Lewis and proposed changes to the allocation of online sales. In particular the Committee considered the impact of Covid-19 and its longer term impacts on consumer shopping habits, alongside the ambitions set out in the Partnership's five-year Plan. The Committee also considered the sensitivity of the proposed impairment charges and releases to movements in key assumptions such as the discount rate, online sales allocation, performance projections, long-term growth rates, and the wider economic environment.

Where releases of previous impairments were proposed, for some Waitrose shops, the Committee assured itself that the improved performances were ongoing and sustainable. 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 within the tangible and intangible impairment models, together with the resulting impairment charges, were reasonable. The Committee also reviewed the associated disclosure for inclusion within the financial statements.

*2. **Pensions** (Notes to the financial statements: 6.1)*

Issue

The Partnership operates a defined benefit pension scheme which closed to future accrual on 1 April 2020. The pension scheme liability is calculated using an actuarial model with a number of key assumptions, notably the discount rate and inflation rate.

During the year, the 31 March 2019 triennial actuarial valuation concluded. In response to the UK Statistics Authority's RPI reform announcement in September 2019, management reviewed the inflation rate assumptions used for the IAS 19 valuation of the pension scheme liability. At January 2020, management revised the adjustments applied for the inflation risk premium and the gap between RPI and CPI for the cash flows beyond 2030. Following the subsequent announcement by the Chancellor in November 2020, these adjustments have been further revised for the 30 January 2021 year-end.

As a result of the Covid-19 pandemic, management has considered the appropriate approach to take in respect of mortality assumptions. Latest Continuous Mortality Investigation data (CMI 2019) shows an improvement in life expectancy, however subsequent experience during 2020 is expected to lead to a future decline. As a result management has retained the CMI 2018 mortality tables in the actuarial valuation as at January 2021.

Response

The Committee considered 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 peer companies. The Committee satisfied itself as to the acceptability of the key assumptions, particularly the discount rate and inflation rate assumptions, as well as mortality assumptions. The Committee considered the proposed change in the inflation rate assumptions as a result of RPI reform, including compliance with IAS 19, the rationale for the change in parameters and advice from independent actuarial specialists regarding overall trends in the market. The Committee concluded that the overall pension scheme liability is appropriate.

3. Provisions *(Notes to the financial statements: 4.4)*

Issue

The Partnership has significant provisions in relation to its long leave scheme, which provides six months' paid leave after 25 years of service. It also 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 provisions calculations.

Response

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

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.

4. Exceptional items *(Notes to the financial statements: 2.5)*

Issue

Management has consistently applied the Partnership's exceptional policy in the current year, recording an exceptional loss of £648.0m. This principally relates to exceptional shop impairment costs, restructuring and redundancy charges arising as a result of transformational strategic programmes including head office reviews and our physical estate programme.

Response

The Committee considered the items presented as exceptional, in respect of the Partnership's policy to present separately items that are significant by virtue of their size and nature. A charge of £468.1m has been recognised as a result of the impairment of John Lewis stores. Given the unprecedented size of this charge and the change to assumptions in the year, the cost has been recognised as exceptional. The Committee challenged management and the auditor on the inclusion within exceptional items of the John Lewis shop impairment charge, with particular focus on the proportion driven by trading performance compared to that driven by changing assumptions. Having considered the significance of both the size of the impairment charge and the reassessment of assumptions, the Committee concluded that it was appropriate to disclose as exceptional and requested a full explanation be given in the financial statements.

Restructuring and redundancy costs continue to be incurred as a result of strategic reviews, with £96.1m recognised in respect of head office reviews, including the significant Head Office Transformation (HOT) programme announced during the year, and £93.7m in relation to the review of our Physical Estate. The Committee considered and challenged management on the continued inclusion of these costs within exceptional items, and to demonstrate that the costs were part of transformational strategic programmes of activity that would take a number of years to deliver. The Committee requested continued enhanced disclosure to be included within the financial statements. The Committee, having reviewed and discussed both the analysis presented 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.

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 scenario identified, including changes in customer behaviour and further impacts arising from measures to prevent Covid-19 transmission, the Partnership has adequate liquid resources to meet its obligations as they fall due for at least the next 12 months and to remain commercially viable over the three-year period to January 2024.

The Committee reviewed papers presented by management on its assessment of the Partnership's going concern and longer term financial viability based on the budget, Partnership Plan and cash flow forecasts. It also reviewed the stress testing performed in the form of a downside scenario, ensuring this was based on the potential financial impact of the Partnership's principal risks and the specific risks associated with changes in customer shopping patterns and Covid-19. This downside scenario, as set out in the Viability Statement (from page 57), represents a severe but plausible scenario and, whilst being considered by the Directors to be extremely cautious, has a significant adverse impact on sales, margin and cash flow. In response, the Directors have identified a number of actions, all within management's control, to reduce costs and optimise the Partnership's cash flow and liquidity. The Committee reviewed and challenged the appropriateness of the scenario modelled and scrutinised the underlying Partnership Plan to ensure the assumptions within the base case, such as committed levels of investment, did not undermine the validity of proposed mitigations. The Committee also assessed the feasibility of management to deliver the quantum of the mitigations within the time frame required, including assessing the precautionary measures taken in spring 2020 in direct response to the onset of Covid-19 and how quickly and willingly management were able to take action as required. As a result of Covid-19 and its longer term impacts, the Committee also reviewed and tested management's assessment that, whilst there remains significant risk and uncertainty in the market, no material uncertainty exists for the Partnership. The Committee also reviewed the level of disclosure proposed.

As a result of the procedures performed, and the responses received from management on the challenges raised and the level of disclosure proposed, 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 reviewed the expanded basis of preparation disclosures (pages125 to128) to ensure this sufficiently detailed the considerations made in making this conclusion. The Board's going concern statement is included within the Directors' Report on page 117 and the Viability Statement within the Group Strategic Report on page 57.

EXTERNAL AUDIT ACTIVITIES

KPMG LLP were the Partnership's external auditor for 2020/21. 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 March 2021, the Committee conducted an evaluation of the external auditor's performance. Members of the Committee were provided with an opportunity to comment on the effectiveness of the external auditor and the audit process. These comments were collated by the Chair of the Committee and raised with the external auditor as part of the preparations for a change in audit engagement partner.

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 2020/21;
The detailed findings of the interim review and year-end audit, including how the auditor assessed key accounting and audit judgements and discussion of any issues that arose; and
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.

The Committee also considered the findings contained in a report issued following an inspection of KPMG LLP's audit for the year ended 25 January 2020 by the Financial Reporting Council's Audit Quality Review Team. The Committee discussed the findings of this external report and the actions undertaken by KPMG LLP to address the matters raised as part of the 2021 audit. KPMG confirmed that any identified areas for improvement had been addressed.

Based on the above, the Committee 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 30 January 2021 was the fifth year of audit by KPMG LLP and the fifth and final year of the audit engagement partner, Mike Maloney's, appointment. The Committee has commenced work with Nick Frost, who will be the audit engagement partner for 2021/22 and subsequent years. The Committee has reviewed Nick's history of undertaking and leading audits of consumer goods and retail group businesses.

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 Partnership's non-audit services policy is summarised below.

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 Executive Director, Finance for approval. Where fees exceed £100,000, the proposal must be approved by the Chair of the Committee, and where fees exceed £250,000, the proposal must be approved by the whole Committee.

Details of the amounts paid to the external 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 14% (2020: 10%).

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.

OUR 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 implements 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, Partners and a risk governance structure with defined accountability. Further details on this can be found on pages 48 to 56 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 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 of Internal Audit and Risk reports functionally to the Chair of the Committee and operationally to the Executive Director, Finance.

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 the Executive Team.

During the year:

- The Committee has ensured the appropriate assessment and disclosure of viability;
- The Committee has continued to challenge management to understand and appropriately mitigate against the risks arising from changes across the Partnership; from external influences such as Covid-19, Brexit, changing customer demand and competitor behaviour; to internal influences such as the new Partnership strategy, new risk governance structure and revised approach to risk management;
- The Committee has continued to focus on data privacy requirements and plans to improve our IT and cyber security resilience in response to the ongoing external threat of an information security breach or cyber attack;
- The Committee supported the approach to transfer governance of the Partnership's key Brexit-related risks to the Operational Team as the Partnership prepared for a potential no-deal, during the peak trading period and with Covid-19 restrictions. Oversight by the Director of Internal Audit and Risk was maintained, with an escalation route to the Committee, as required;
- The Committee has continued to provide more focus on areas of regulatory compliance due to the changing nature of the external regulatory environment and has provided oversight of the development of the regulatory compliance framework including regulatory assurance capability;
- 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; and
- The Committee continues to have oversight of open and overdue Internal Audit findings, with an ongoing focus on action-owner accountability.

The immediate focus for the year ahead continues to be to proactively manage the risks and the Partnership's response to the potentially prolonged impact of Covid-19, and evolving response to government policy in relation to Brexit in order to maintain customer service and protect Partners, local communities and trade.

The Committee will also focus on the management of risk through the significant strategic and organisational change underway through the implementation of the Partnership Plan, whilst continuing to develop the quality of our risk and control frameworks. In addition, the Committee will reassess the appropriate information flows and governance for the review of principal risks in our evolving internal structure, to ensure we continue to get the most value from our decision-making and challenge. The Partnership's approach to risk management is detailed on pages 48 to 56.

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, as laid out in its charter, is to support the Audit and Risk 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 financial and narrative statements, other formal announcements relating to the Partnership's financial performance, and reviewing significant financial reporting judgements contained in them; and
2. The effectiveness of the Partnership's system of internal controls and risk management.

The Internal Audit work plan is structured to align with the key objectives and risks of the Partnership, and covers both advisory and assurance related reviews of operational, financial and IT processes as well as key change projects and programmes. In response to the challenging and changing retail environment, the Committee had already moved to reviewing and approving the scope of the Internal Audit work programme on a six-month rolling basis; this was increased during the pandemic with the existing plan suspended and rebuilt at speed to focus on heightened risks in the operating environment, business critical activity, and ongoing regulatory and operating compliance. To enable this change, the approach to Internal Audit was also adapted to accelerate delivery and insight, e.g. shorter, advisory type reviews in place of long, traditional assurance exercises and running alongside the business at the same pace of decision-making to provide inflight challenge and real time feedback.

Work undertaken during the year, aligned with the justification for its inclusion in the revised plan, included:

CORE PROCESS REVIEWS	***REGULATORY***
• INTERNAL CONTROLS FRAMEWORK	• GROCERIES SUPPLY CODE OF PRACTICE
• WHISTLEBLOW	• CORONAVIRUS JOB RETENTION SCHEME
INCREASED RISK IN OPERATIONS AS A RESULT OF THE PANDEMIC	
• DATA SECURITY	• WAITROSE.COM STABILITY & RESILIENCE
• CYBER SECURITY & RESILIENCE	• WAITROSE RAPID
• SHOP OPERATIONS & COMPLIANCE	• STOCK MOVEMENTS AND ACCURACY
• PARTNER & CUSTOMER SAFETY	• COVID-19 RESPONSE LESSONS LEARNT

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. Work is currently underway to appoint an assessor for the next review which was delayed in 2020 because of the pandemic.

KPIs measuring the efficiency and effectiveness of the Internal Audit function covering the core value areas of 'impact', 'involvement' and 'influence' are 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 of Internal Audit and Risk reports on these KPIs at every Committee meeting.

FRAUD

The Committee reviewed the Partnership's level of compliance with the Partnership Fraud Standard and, for the first time, received a pan-Partnership (as opposed to individual brand) assessment of the approach to this risk. As part of this, the Committee supported the inclusion, within governance for programmes, of the requirement to conduct a fraud risk assessment of any change proposed.

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

Waitrose is subject to the Groceries (Supply Chain Practices) Market Investigation Order 2009 (the "Order") and the Groceries Supply Code of Practice ("GSCoP" also referred to as the "Code").

Both the Order and, in particular, the Code, regulates Waitrose's everyday trading relationships with our grocery suppliers, ensuring that as a Designated Retailer, we treat our suppliers fairly and in accordance with the Code. The Order also includes provisions on training requirements for our buyers, mandates a need for agreements to be in place with all our groceries suppliers and that any such agreements incorporate the Code. These principles, and the desire to treat our suppliers fairly, are also enshrined within our Principle 6 and Rule 96 of the John Lewis Partnership's Constitution and are therefore in keeping with the Partnership's general ethos.

As required by the Order, the Waitrose Code Compliance Officer ("CCO") is obliged to present a report detailing our compliance to the Code to the Partnership's Audit and Risk Committee, for onwards submission to the Competition and Markets Authority ("CMA"). The reporting period covered was 26 January 2020 to 30 January 2021 and was submitted to the CMA on 13 April 2021.

WORK WITH THE GROCERIES CODE ADJUDICATOR ("GCA")

Retailer compliance with the Code is regulated by the GCA. Over the past year we have seen Mark White take over from Christine Tacon in this role and we have continued to work with Mark and his team in the same cooperative manner that we enjoyed with Christine.

Our collaborative approach with the GCA supports us in identifying underlying issues and trends, and allows us to address individual supplier concerns that the GCA may bring to our attention.

The Chair of the Audit and Risk Committee, Andy Martin, also attended a meeting with the new GCA in the autumn.

WORK WITH SUPPLIERS

We have made wholesale improvements to the content and usability of our supplier portal, Waitrose Engage, to enable suppliers to find the resources and assistance they require more easily. As part of this, we have also provided further information on Engage about the Code, the GCA and the role of the Waitrose CCO, providing additional assurance to suppliers that any concerns that they bring to the CCO's attention will be dealt with confidentially.

Covid-19

The Covid-19 crisis placed unprecedented demand on our business and supply base. Waitrose responded to this with clear and regular communications to our suppliers, explaining the necessity behind the fast-paced and often quite drastic measures that we had to take to maintain our core services and supplies and play our part in feeding the nation. These regular communications were supported by extensive guidance from our Legal and Commercial Management teams, which emphasised the Code and a need to do what we reasonably could to support our suppliers. With every key decision that was communicated, suppliers were actively encouraged to reach out to us if they had concerns or required support. We conducted weekly calls with key suppliers to ensure we understood and could react to issues that our suppliers were facing and to get feedback on how our comms were landing. We were pleased to learn that our suppliers felt our communications during the crisis were clear and that our buyers were well-informed, accessible and dynamic in their dealings with them.

Whilst other retailers shortened their payment terms for small suppliers during the crisis, Waitrose already had these measures in place as a matter of course for the majority of our small suppliers.

The CCO and Senior Finance Manager responsible for GSCoP were also regular attendees at key executive and Covid-19 planning meetings respectively throughout the crisis, enabling a Code lens to be applied throughout our key decision-making.

INTERNAL WORK

Compliance with the Code by Waitrose is overseen by the GSCoP Steering Group, comprising the CCO and representatives from the Commercial, Legal, Finance, and Supply Chain teams. The team meets on a monthly basis and is supported by a GSCoP weekly group (with similar attendees) who monitor ongoing complaints, industry trends and collaborate on continuous improvement activities as well as producing training materials and guidance for our Partners.

This year, we have revised the mandatory GSCoP e-learning that our Partners receive, upweighting training in certain areas where the roles that certain teams now carry out have evolved and are more supplier-facing (requiring, therefore, a more in-depth understanding of the Code).

Our e-learning is also supplemented by training sessions before key events (such as prior to our annual supplier negotiations in the autumn) which has relevant content dedicated to Code compliance, as well as by our "Legal briefing" training sessions for all Trading Partners which are led by Legal, Compliance, Commercial Management and the CCO. This year's sessions focused on delisting, using the appropriate language when making requests of suppliers, payment for positioning and the new Partnership Contract Management system, Coupa.

Contracts project

In October 2020 the John Lewis Partnership launched its new contract management tool, Coupa. This is a pan-Partnership system which will also act as a repository for the main aspects of our agreements with Suppliers, including, in particular, supplier acceptance to our core terms and policies, embodied within our Conditions of Purchase. In time for this change, Waitrose took the opportunity to review our mandatory policies and

Conditions of Purchase with a view to updating and streamlining them with the aim of making Waitrose a simpler retailer to deal with. Following an extensive exercise between our Legal team, policy owners and key commercial stakeholders, the revised terms have been significantly improved from a supplier perspective and are assessed to be fair, reasonable and easy to digest, whilst also making it overtly clear where the Code has been incorporated. In addition, where policies have cost recovery mechanisms, any applicable charging structures and revenue streams have also been revised and streamlined to ensure that they are fair, transparent and justifiable.

SUMMARY

The Partnership continues to take compliance with the Code very seriously and Waitrose has worked hard over the past year to continue to make further improvements to our overall GSCoP compliance. Our progress in this respect has been significantly aided by the fact that our GSCoP governance and operational groups have become more established in their roles over the past year (with the Steering and Working Groups having been first established in 2019). Where a Code-related issue or complaint has been identified, Waitrose will always seek to understand the root cause of the problem and in the case of a supplier complaint, the reasons behind their concerns with the ultimate aim of resolving the issues quickly and ensuring that our suppliers have been treated fairly and in line with the Code. We welcome queries and feedback from our suppliers and, to that end, invite any suppliers reading this report who may have had issues or have any suggested improvements to our Code-related ways of working, to please contact their buyer in the first instance or our CCO, Matt Wilson, which can be done in complete confidence.

WHISTLEBLOWING

The Partnership's whistleblowing policy outlines the Partnership's approach to dealing with allegations which relate to suspected wrongdoing or potential risks at work which have a wider impact. During the year, the management of whistleblowing was undertaken by the People Directorate. The Committee receives biannual reports on the level and nature of issues raised. Any significant matters raised would be escalated to the Audit and Risk Committee Chair on a more timely basis.

The respective responsibilities of the Committee and the Board in respect of whistleblowing are set out in the Terms of Reference. The Committee reviews, on behalf of the Board, the adequacy and security of the Partnership's arrangements for its Partners and those working for the Partnership in a third party relationship to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee ensures that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action. The Board retains responsibility for reviewing reports arising from use of these arrangements.

On behalf of the Audit and Risk Committee.

ANDY MARTIN

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

NOMINATIONS COMMITTEE REPORT

The Nominations Committee's main role is to ensure there is a strong succession and a robust appointment process to the Partnership Board, the Executive Team and other senior management positions that report to the Chairman.

MEMBERSHIP AND COMPOSITION

The membership of the Committee provides a broad mix of members, and 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 their appointed deputy. The members of the Committee at the date of this report are:

Andy Martin	Interim Chair of the Committee and Non-Executive Director
Rita Clifton	Non-Executive Director
Nicky Spurgeon	Elected Director
Laura Wade-Gery	Non-Executive Director
Sharon White	Chairman
Becky Wollam	Elected Director

Sharon White joined the Committee on 4 February 2020 following her appointment as Chairman, replacing Charlie Mayfield who ceased to be a member of the Committee on this date. Keith Williams left the Committee on 15 April 2020, when he stood down from the Partnership Board as Deputy Chairman and a Non-Executive Director. Andy Martin, a Non-Executive Director, joined the Committee on 25 March 2020 and was subsequently appointed Interim Chair of the Committee with effect from 16 April 2020 while the search process was conducted to select a successor to Keith Williams as Deputy Chairman. Rita Clifton joined the Committee on being appointed as Non-Executive Deputy Chairman on 1 February 2021 and will assume the position as Chair of the Committee on 1 May 2021.

There were 11 Committee meetings held during the year under review. All eligible members attended each meeting with the exception of Laura Wade-Gery who was unable to attend one meeting during the year under review. Meetings of the Committee are also regularly attended by the Partnership's two Independent Directors. The Committee is supported by the Executive Director, People and assisted by independent consultants, who attend Committee meetings as required.

ROLE OF THE COMMITTEE

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

(i) There is a formal, rigorous and transparent process for the appointment and succession of new Directors to the Board and the Executive Team; and

(ii) 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 currently in the process of reviewing its Terms of Reference.

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 Executive Director, People to establish the experience and capabilities required on the Board going forward as well as using external search consultants where appropriate. For all appointments the Committee decides on the appropriate search and selection process for a particular appointment, including whether to use open advertising or the services of external search consultants to facilitate the search. During the year under review, the Committee was supported by external search consultancy firms as required for the appointments within their remit, none of which have any other connection with the Partnership aside from the provision of recruitment services.

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

DEPUTY CHAIRMAN

The use of the terms 'Chairman' and 'Deputy Chairman' reflects the terminology contained within the Partnership's constitutional documents and the terms are intended to be construed as gender neutral.

Keith Williams stepped down as both Deputy Chairman and a Non-Executive Director on 15 April 2020 and as Chair of both the Nominations Committee and Remuneration Committee on the same date. The search process for his successor commenced in February 2020.

In May 2020 the Committee supported the Chairman's proposal that Andy Martin become Acting Deputy Chairman in the interim period before a permanent successor was appointed, which was approved by the Board of John Lewis Partnership Trust Limited on 21 May 2020.

The Committee oversaw the appointment of the new Deputy Chairman. This included reviewing the role profile and identifying the experience, skills and capabilities required. A substantial long list of candidates was reviewed by the Chair of the Committee and the Chairman against the role profile to create a short list of potential candidates for interview. Candidates were subsequently interviewed by all the members of the Committee as well as the third Elected Director of the Partnership Board (who was not a member of the Committee), the two Independent Directors and the Executive Director, People.

The Chairman and the Committee recommended to the Board of John Lewis Partnership Trust Limited on 1 December 2020 that Rita Clifton be appointed as Deputy Chairman and the Partnership Board agreed to her appointment as a Director on 10 December 2020. Rita Clifton joined the Partnership as Non-Executive Deputy Chairman on 1 February 2021.

NON-EXECUTIVE DIRECTORS

Laura Wade-Gery's term of office as a Non-Executive Director was due to come to an end on 31 August 2020, but in order to retain continuity on the Board during the challenging period of the Covid-19 pandemic, she kindly agreed to extend her term of office until a successor was appointed, which was agreed by the Board on 25 March 2020.

The recruitment process to appoint a new Non-Executive Director commenced. The Committee considered the experience, skills and capabilities required on the Board to support the Partnership Plan. The Chair of the Committee and the Chairman interviewed a shortlist of candidates for the role of Non-Executive Director.

Following this the preferred candidates were interviewed by all the members of the Committee as well as the third Elected Director of the Partnership Board (who was not a member of the Committee) and the two Independent Directors.

The Chairman and the Committee recommended to the Partnership Board that Nish Kankiwala be appointed as a Non-Executive Director which was approved on 17 February 2021. Nish Kankiwala joined the Partnership Board on 12 April 2021. Laura Wade-Gery will be stepping down from the Partnership Board on 30 April 2021.

Since the year-end, Andy Martin, whose initial three-year term as a Non-Executive Director and Chair of the Audit and Risk Committee was due to expire on 30 June 2021, confirmed that he was willing to extend his term for a further three years commencing on 1 July 2021 until 30 June 2024 which was approved by the Partnership Board on 15 April 2021.

NON-EXECUTIVE MEMBERS OF THE AUDIT AND RISK COMMITTEE

The Partnership's Audit and Risk Committee has two Independent External Members, Zarin Patel and Sharon Rolston, who joined the Committee in March 2016. Their terms of office were due to expire on 30 April 2021. Zarin Patel has confirmed that she intends to step down on 30 April 2021. A search process has commenced to find a successor. Sharon Rolston confirmed that she was willing to extend her term for a further two years which was approved by the Partnership Board on 2 February 2021.

EXECUTIVE DIRECTORS

Following the Chairman's appointment on 4 February 2020, the Chairman identified that a review of the structure of the Executive Team was necessary to produce a single integrated Executive Team with clear accountabilities for each brand, recognising the strengths of the two brands working together, but also the distinctiveness of the customer base and the different rhythms of running a department store and a food business.

The Chairman reviewed with the Committee the composition of the Executive Team and the experience, skills and capabilities required to develop and deliver this transformation through the Partnership's strategy. During the year the Committee oversaw the selection and appointments to the Executive Team.

An external search was conducted for the position of Executive Director, Strategy & Commercial Development, and Nina Bhatia joined the Partnership in this role on 17 February 2020. An external search was also conducted for the positions of Executive Director, John Lewis and Executive Director, Waitrose. James Bailey joined the Partnership as Executive Director, Waitrose on 29 April 2020 and Pippa Wicks joined the Partnership as Executive Director, John Lewis on 3 August 2020.

An external search was conducted for the position of Executive Director, People to find a successor to Tracey Killen. Nikki Humphrey joined the Partnership as Executive Director, People on 1 October 2020.

A search was conducted to find a successor to Patrick Lewis, Executive Director, Finance which included both potential internal and external candidates. Bérangère Michel, formerly Executive Director, Customer Service was appointed Executive Director, Finance on 1 January 2021 and joined the Partnership Board on this date.

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.

There was a recognition that both the Partnership's succession planning and talent management needed to be strengthened to provide a strong internal talent pipeline, particularly in view of the new skills and capabilities required to deliver the outcomes of the Partnership Plan and the need to broaden the diversity of the leadership team. This will be a key area of focus for the Committee in 2021/22.

A capability review of all leadership roles was undertaken for Head Office Transformation (HOT) and informed the proposed leadership changes. For all other roles in the new head office structure, the HOT selection process took into account future capabilities and potential in order to help mitigate the risk of losing critical skills and talent.

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.

A comprehensive induction plan has been arranged for Rita Clifton and Nish Kankiwala, including one-to-one meetings with each of the existing Directors, the Company Secretary, members of the Executive Team, Independent Directors, the President of Partnership Council and other members of senior management. The plan also includes opportunities to meet members of operational teams at Partnership sites across the business including regional and national distribution centres and branch visits, and visits to key Partnership locations such as the Leckford Farm.

COMMITTEE EFFECTIVENESS

During the year under review, an internal Board effectiveness review was conducted by the Company Secretary which included its Committees. For further information on the review please see page 69.

DIVERSITY STATEMENT

The Partnership Board has adopted a Diversity Statement, as set out below, 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 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, three members of the Partnership Board are elected by Partnership Council and their appointments are not subject to oversight by the 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 19 to 20. At year-end, the gender diversity of the Partnership Board was 71.4% female, 28.6% male.

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 Statement 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.

ANDY MARTIN
Non-Executive Director and Interim Chair of the Nominations Committee

REMUNERATION COMMITTEE REPORT

The Committee oversees how the Partnership's pay policy is applied to the Chairman, Executive Directors and other senior leaders who report to the Chairman. As an employee-owned business with over 80,000 Partners, it is also vital that we consider the broader approach to reward across the Partnership.

We are committed to ensuring that pay arrangements for the Chairman and Executive Directors are competitive and appropriate in the context of business performance, the external market and pay arrangements for other Partners, in line with the Partnership's pay policy.

During the year, the Committee placed particular focus on ensuring that remuneration arrangements for new appointments to the Executive Team were appropriate, reflecting our pay policy. The Committee also approved payments for a member of the Partnership Board and Executive Team leaving the Partnership.

In response to the Covid-19 crisis, the Committee noted voluntary temporary pay reductions for the Chairman, Executive Team, Non-Executive Directors and some senior leaders. The Elected Director members of the Committee also reviewed the fees for the Non-Executive Directors of the Partnership Board including the Deputy Chairman.

In addition, in line with market practice the Committee agreed changes to pension supplement arrangements to align pension value for senior Partners with that for other Partners. The Committee reviewed the *2020 Be Yourself. Always Report* which included the Partnership's statutory gender pay gap reporting, together with ethnicity pay gap data as part of a broader diversity report.

The Committee took a close interest in the legislative and best practice developments around senior remuneration. The Committee agreed to voluntarily report a CEO pay ratio for the first time this year in addition to our Rule 63 reporting (see page 98). We are not obliged to adopt all these changes but continue to consider the extent to which they are relevant to the Partnership to ensure our approach to pay remains fair and transparent.

Looking forward, the Committee will continue to focus on ensuring the Executive Team are rewarded appropriately for the work they do whilst also being mindful of broader Partnership pay and external developments. The Committee has noted the Partnership's renewed intent to review its overall approach to pay and benefits. The Committee will also review its Terms of Reference to ensure they reflect best practice.

MEMBERSHIP AND COMPOSITION

The Remuneration Committee normally comprises two Non-Executive Directors and two Elected Directors. This provides a combination of members who are independent of executive management and conscious 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, the required quorum is two Elected Directors when considering

Non-Executive Directors' remuneration. No Committee member can take part in any discussion or decision regarding their own remuneration.

The members of the Committee at the date of this report are:

Laura Wade-Gery	Interim Chair of the Committee and Non-Executive Director
Rita Clifton	Non-Executive Director
Andy Martin	Non-Executive Director
Nicky Spurgeon	Elected Director
Becky Wollam	Elected Director

Andy Martin joined the Committee on 25 March 2020. Keith Williams ceased to be a member and Chair of the Committee on stepping down as Deputy Chairman and a Non-Executive Director on 15 April 2020. Laura Wade-Gery acted as Interim Chair of the Committee for the remainder of the year and will step down as a member and Interim Chair of the Committee on leaving the Partnership Board on 30 April 2021. Rita Clifton joined the Committee on 1 February 2021 and will succeed Laura Wade-Gery as Chair of the Committee on 1 May 2021.

The Committee met on eight occasions during the year under review. All meetings were attended by all members who were eligible to attend, with the exception of Laura Wade-Gery who sent her apologies to one meeting.

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 and the Partnership uses its job evaluation methodology, software and compensation data services.

The Committee was also supported during the year by the Executive Director, People and the Head of Reward & Performance. Both attended Committee meetings by invitation but were not present for any discussions that related 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; and
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 but the Committee is currently in the process of reviewing its Terms of Reference.

COMMITTEE EFFECTIVENESS

During the year under review, an internal Board effectiveness review was conducted by the Company Secretary which included its Committees. For further information on the review please see page 69.

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 sets out how pay rates and ranges are set across the Partnership, as well as details of other pay elements (for example: bonuses, premium payments and allowances), pay review and holiday pay.

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

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 base pay.

CHAIRMAN'S PAY

The Remuneration Committee is responsible for making recommendations 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 and Executive Team 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; and
The pay review approach and level of pay increases awarded to other Partners.

In this reporting year, the Committee did not make a recommendation for the 2020 pay review in respect of Sharon White. Her pay was set inclusive of pay review on her appointment as the Partnership's new Chairman with effect from 4 February 2020.

EXECUTIVE TEAM PAY

The Remuneration Committee also approves the pay of other Executive Directors. The Committee considers the Chairman's pay recommendations and also takes into account external market assessments provided by Willis Towers Watson for these roles.

In the reporting year, the Committee approved pay arrangements for four Executive Team members appointed to new roles including three external appointments. The Committee also approved pay arrangements for one member of the Partnership Board and Executive Team leaving the Partnership. In addition, the Committee supported a voluntary 20% pay reduction for a period of three months for all members of the Executive Team, in response to the Covid-19 pandemic.

PARTNERSHIP PAY

During the year, the Remuneration Committee was provided with information and context on pay across the Partnership. This included the approach and outcomes by Partnership level for the 2020 pay review and senior leadership appointments through Future Partnership.

PENSION CHANGES

As reported last year, the Committee agreed to Partnership Council's Special Committee for Pensions' recommendation that pension value for senior Partners should align with that for other Partners. As a result, pension value for the majority of senior Partners reduced to 12%, with effect from 1 April 2020.

The Committee further agreed to erode the enhanced pension supplements received by a small number of senior Partners to 12% by December 2022.

The Committee also agreed that from 1 April 2020, pension value for senior external hires would reduce to 8%, increasing to 12% after three years' service in line with the arrangements for all new Partners. This change was implemented for all senior external hires from this date, including the new external appointments to the Executive Team.

CEO PAY RATIO

Since last year, UK-quoted companies with over 250 employees have been required to publish their CEO pay ratio figure in their annual reports. Whilst this requirement does not extend to the Partnership, the Committee agreed to the inclusion of a CEO pay ratio for the Partnership as part of this report, on page 98, in order to align with external best practice.

The Committee considered which of the three permitted methodologies represented the most appropriate way to calculate the ratio. The Committee chose to use Option B which involves identifying Partners at the 25th, 50th and 75th percentiles using the most recent gender pay gap information. This methodology was chosen as it makes use of an existing readily available and robust dataset and did not require significant further analysis.

For many years, the Partnership has published its own version of a CEO pay ratio in relation to Rule 63 which is well known and understood by Partners. The Committee therefore agreed to retain the existing Rule 63 disclosure this year (see page 98), in addition to reporting the CEO pay ratio in line with the regulations.

GENDER PAY GAP REPORTING

The Committee reviewed the contents of the Partnership's *2020 Be Yourself. Always Report.* This included the Partnership's statutory gender pay gap reporting and voluntarily included other Partner data including our ethnicity pay gap, age, promotions and health and wellbeing.

The Committee noted the commitments set out in the report to reduce the Partnership's gender pay gap, the key areas of focus for our diversity and inclusion plan and progress made since last year. Further details can be found on pages 19 to 20.

OUTLOOK

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

The Committee will continue to monitor corporate governance developments and best practice 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 provide input as necessary to any review of senior reward arrangements as part of the broader Partnership reward review. The Committee will also continue to review the Partnership's diversity reporting and observe further legislative changes.

The Committee intends to review its Terms of Reference with the intention of broadening its role and remit to include wider consideration of reward across the Partnership in line with corporate governance guidelines.

REMUNERATION REPORT

All references to the Chairman below relate to arrangements for Sharon White unless otherwise stated. All references to Executive Directors refer to any Executive Director who served on the Partnership Board during any part of the year. For the avoidance of doubt, such references do not include any Executive Directors who did not serve on the Partnership Board during the year.

HOW MUCH DO WE SPEND ON PAY?

In 2020/21, the Partnership spent £1,806.1m on employment and related costs (2019/20: £1,603.8m). This represented 16.8% (2019/20: 15.8%) of the Partnership's revenue.

£1,538.3m (2019/20: £1,506.0m) was spent on basic pay. No Partnership Bonus was awarded in respect of the 2020/21 year. For the 2019/20 year each eligible Partner received 2% of their gross pay as a Partnership Bonus at a total cost of £30.9m.

WHAT WAS THE CHAIRMAN PAID IN 2020/21?

In the year under review, Sharon White's total reward was £1,067,000. She was not eligible to receive Partnership Bonus in respect of 2019/20. On joining the Partnership pension scheme, she received a matching contribution of 12% of pay. On subsequently opting out of the Partnership pension scheme, she received pension supplement of 12% of pay. The value of Charlie Mayfield's total reward, as Chairman in the 2019/20 year, was £1,433,000.

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

	2021 Sharon White £	2020 Charlie Mayfield £
Pay	**947,000***	1,109,000
Partnership Bonus	**0**	22,000
Pension	**115,000**	288,000
Cash value of benefits	**5,000**	14,000
Total reward	**1,067,000**	1,433,000

* It should be noted that the Chairman's actual pay in the period reflects the 20% pay reduction taken for a period of three months as noted above and would otherwise have amounted to £990,000.

WHAT WILL THE CHAIRMAN BE PAID IN 2021/22?

In line with the broader pay review restraint for senior leadership within the Partnership, the Committee made no recommendation to the Board in respect of the Chairman's pay and as such it remained unchanged at £990,000.

RULE 63 AND CEO PAY RATIO

The Rule 63 calculation is based on basic pay earned during the reporting period. For the 2020/21 year, the highest paid Partner was the Chairman, Sharon White. At the end of the reporting period, the Chairman's pay was 52 times the average basic pay of non-management Partners calculated on an hourly basis.

Although Rule 63 only applies to basic pay, the Committee also considers the relationship between total reward, including pension benefit and other benefits but excluding Partnership Bonus, 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 Chairman's total reward was 42 times the average total reward, based on the criteria set out above.

	2021	2020	2019	2018	2017
Rule 63: Basic pay only	**52**	63	66	68	70
Rule 63: Total reward excluding Partnership Bonus	**42**	54	55	56	58

Both ratios are significantly lower than in 2020 primarily driven by the Chairman's lower total reward in comparison to her predecessor. The ratios are also impacted by an increase in the average pay of non-management Partners and the changes to the Partnership pension scheme that took effect in April 2020.

This year the Committee also agreed to report a CEO pay ratio in addition to Rule 63 as set out below.

Year	Methodology	25th percentile ratio	50th percentile ratio	75th percentile ratio
2021	Option B	54	49	36

The ratio compares the Chairman's total reward as reported above to the total pay of Partners at the 25th, 50th and 75th percentiles, as identified using 2020 gender pay gap reporting data. Total pay for the purposes of the calculation includes ranking pay, Partnership Bonus and pension value.

It should be noted for the purposes of both the Rule 63 calculations and the CEO pay ratio that the Chairman's actual pay in the period reflects the 20% pay reduction taken for a period of three months as noted above.

NON-EXECUTIVE DIRECTORS' FEES

Non-Executive Directors receive fixed annual fees, which are determined by the Elected Directors on behalf of the Committee and set at levels that reflect the Director's responsibilities and external market data. Fees were reviewed by the Elected Directors in 2020/21 and no changes were proposed.

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.

ELECTED DIRECTORS' PAY

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.

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

The table below shows the total remuneration for the year, including Partnership Bonus and pension benefit, for all Directors who served on the Partnership Board during any part of the year, 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 £2,142,000 (2019/20: £5,362,000). The Chairman, Executive Directors and Elected Directors are also entitled to the same benefits as all other Partners, including Partnership discount, long leave and other subsidies.

Chairman's, Executive Directors' and Non-Executive Directors' Total Remuneration

2020/21		2019/20
2	£1 – £50,000	0
2	£50,001 – £100,000	2
1	£100,001 – £150,000	1
0	£150,001 – £200,000	0
0	£200,001 – £250,000	0
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	0
0	£600,001 – £650,000	0
0	£650,001 – £700,000	0
0	£700,001 – £750,000	0
0	£750,001 – £800,000	1
1	£800,001 – £850,000	0
0	£850,001 – £900,000	0
0	£900,001 – £950,000	1
0	£950,001 – £1,000,000	2
0	£1,000,001 – £1,050,000	0
1	£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
0	£1,400,001 – £1,450,000	1
7	**TOTAL**	**8**

WHAT ARE THE PENSION ARRANGEMENTS FOR EXECUTIVE DIRECTORS?

At year-end, the Chairman and the Executive Directors who served on the Partnership Board during the year had all ceased to accrue further benefits in the Partnership's pension scheme. In lieu of pension accrual for current service, each Director received a monthly pension supplement.

These supplements are cash payments that are equivalent in value to the Partnership's matching contribution that the individual would be entitled to if they were a member of the Partnership's defined contribution pension scheme. Two Executive Directors were in receipt of an enhanced pension supplement. As noted previously, these will erode over time to 12% by December 2022. For 2020/21, the total pension supplement paid to the Chairman and Executive Directors was £245,000 (2020: £1,021,000).

WHAT IS THE DEFINED BENEFIT PENSION VALUE FOR EXECUTIVE DIRECTORS?

The table below shows the aggregate annual defined benefit pension entitlement from the age of 60 accrued at the end of the year, for the 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 £505,000 per annum for three individuals (2020: £763,000 per annum for five individuals). The accrued pension for the Executive Directors increases in line with price inflation, according to 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 the reporting year, no Executive Directors had any entitlement to temporary pensions (2020: £18,000 per annum for three individuals).

Executive Directors' defined benefit pension entitlement

2020/21		2019/20
0	£1 – £50,000	0
1	£50,001 – £100,000	2
1	£100,001 – £150,000	1
0	£150,001 – £200,000	1
0	£200,001 – £250,000	0
0	£250,001 – £300,000	0
1	£300,001 – £350,000	1
3	**TOTAL**	**5**

WHAT DEFINED BENEFIT PENSION WILL THE CHAIRMAN RECEIVE?

The Chairman has no defined benefit pension entitlement.

APPOINTMENTS AND LEAVERS

PAYMENTS TO FORMER DIRECTORS

Patrick Lewis ceased to be a Director of the Partnership Board and Executive Director, Finance on 31 December 2020 and will leave the Partnership on 30 June 2021 after a period of long leave. In connection with leaving the Partnership he will be paid £1,539,237 as payment in lieu of salary, car, pension and other benefits for the remainder of his contractual notice period, payment for loss of office and contributions towards his legal fees.

Rob Collins, formerly a Director of the Partnership Board and Managing Director, Waitrose until 23 January 2020 left the Partnership on 31 July 2020. As noted in the 2020 Report, in connection with leaving the Partnership, he was paid £892,362 in respect of the balance of his notice period, redundancy pay and contributions towards his legal fees. This amount was reported and accounted for in 2019/20 but is noted here again since payment was made in the 2020/21 year.

Paula Nickolds, formerly a Director of the Partnership Board and Managing Director, John Lewis until 23 January 2020 left the Partnership on 31 July 2020. As also noted in the 2020 Report, in connection with leaving the Partnership, she was paid £939,773 in respect of her notice period, contributions towards her legal fees and the provision of outplacement support. This amount was reported and accounted for in 2019/20 but is noted here again since payment was made in the 2020/21 year.

CONTRACTUAL NOTICE PERIODS FOR EXECUTIVE DIRECTORS AND ELECTED DIRECTORS

No Directors' contract of employment contains a notice period of greater than one year. No contract contains a provision regarding compensation for early termination.

EXTERNAL APPOINTMENTS

The Partnership recognises that Executive Directors may be invited to become Non-Executive Directors of other companies and that these appointments can broaden their knowledge and experience to the benefit of the Partnership. The Non-Executive Directorships policy was amended with effect from 1 April 2021 to allow Partners, including Executive Directors, to retain any fee from an external appointment. Details of external appointments for Executive Directors are included within the biographies from page 71.

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 Reports) 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 97 and 101 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.

LAURA WADE-GERY

Non-Executive Director and Interim Chair of the Remuneration Committee

PARTNERSHIP COUNCIL PRESIDENT'S REPORT

2020 marked the first full year of the re-shaped Partnership Council President role, following the appointment of Chris Earnshaw in October 2019. The role has constitutional responsibility for "the independence, health and effectiveness of the Partnership's representative bodies" (Rule 89) and for supporting them "with the necessary practical arrangements to maximise their effectiveness." As part of this remit, Chris also leads the Partnership Democratic Engagement team.

'2020 has been challenging across all areas of our business, including democracy. The impact of social restrictions across the Partnership challenged us to think differently about how and when we engage through formal democracy and the results have given us much to think about.

Our culture has inherently been based around a set of assumptions that formal democratic meetings take place in a defined location with members being physically present. Any representatives and members of the Board unable to do so have, in the past, been recorded as absent and unable to take part in any discussions; with regard to Partnership Council, this also extended to an exclusion from formal voting on constitutional matters, recommendations and elections. This year we have seen a move to virtual meetings and the results will have a lasting impact on how we approach democracy going forward.

We have seen democracy come to life, as it adapted to meet the needs of the business. More regular meetings not only led to better relationships with the Executive and senior leaders but also facilitated more live and 'in the moment' feedback, which was extremely valuable as we responded to the ever changing environment in which we were living.

Although a reliance on technology (and especially using a camera during meetings) does fill some of us with fear, we have learnt to embrace it and use it to our advantage, enabling us to join in from wherever we have been working across the country. We have also learnt that we cannot afford to stand still and, pandemic or not, we needed to continue developing the Partnership Plan and key elements of our business. Our democratic structure is our fundamental point of difference and Partner opinion has been at the heart of our progression as a business this year."
CHRIS EARNSHAW
Partner & Partnership Council President

In this report you will find an overview of our formal democratic channels, both from a governance perspective and on some of this year's main achievements and discussion points. Alongside this, we reflect on the work of the Partnership Democratic Engagement team, including how they have supported and driven improvements in Partner engagement.

PARTNERSHIP COUNCIL

> "Through the creation of the Partnership Plan, we worked closely with Partnership Council, in particular through forming a dedicated sub-group of Council, with whom I and other members of the core team met monthly. Over the six months of the strategic review, I used this group extensively as a sounding board on many of the key elements of the Plan, and they played an important role in the work we did to define our approach to communicating the Plan across the business when we launched in October."
> **Nina Bhatia, Executive Director, Strategy and Commercial Development**

The purpose of Partnership Council is to represent Partner opinion to support the Chairman and the Executive Team to ensure that the Partnership's continuing experiment succeeds. In sharing responsibility for the Partnership's health with the Partnership Board and the Chairman, Partnership Council holds the Chairman to account for the progress of the Partnership. It discusses, influences and makes recommendations on the development of policy. It shares in making decisions about the governance of the Partnership.

Council representatives are elected for a three-year term and reflect the opinions of Partners across the Partnership; we currently have 58 Council seats and held ten by-elections during 2020/21. All Board Directors, including Non-Executive Directors, are members of Partnership Council and regularly attend meetings along with the Trustees of the Constitution and the Independent Directors. These are unique opportunities to enable Directors and Trustees to develop an understanding of Partners' views and to act upon them.

The Council has three vital decision-making powers:

- To elect: three Trustees of the Constitution, three Directors to the Partnership Board, four Trustees to serve as Directors of the John Lewis Partnership Pension Trust, and a number of other roles
- To change the Constitution, with the Chairman's agreement
- To dismiss the Chairman

Partnership Council held six formal meetings during 2020/21 (February, May, July, September, November 2020 and January 2021), two conferences (November 2020 and January 2021) and 16 additional meetings since March 2020 and throughout the pandemic. During the initial phases of the pandemic, the Council and Executive met weekly.

The next Council election will be held in October 2021; this term was extended by four months to allow time for the design of new constituencies following the outcome of the Head Office Transformation (HOT) programme and to allow Forums to be elected in the first half of 2021.

HOLDING THE CHAIRMAN TO ACCOUNT

As usual in May 2020, the Council expressed its views on the progress of the Partnership but it could not formally hold the new Chairman to account (by voting) for the year prior to her joining. The Council instead took the opportunity to produce their first formal written response to the Annual Report and Accounts, which was published in the *Gazette's* Google Currents community. In this they noted where there had been good progress, what had not been so good and where they wanted the Executive Team to focus on in the year ahead. This format was particularly successful as it helped to shape the conversation with the Chairman at the May meeting and provided a clear view of Council's opinion.

Partnership Council's feedback on the overall purpose of the Partnership Plan:

- Finish the strategy work, develop a costed and deliverable plan
- Deliver it and ensure we have a sustainable business in the future
- Be clear, be decisive, be bold, be fast and keep involving Partners

For the September Holding to Account session, the Council chose not to vote on the Chairman's leadership of the Partnership, as the half year had been so unusually impacted by the pandemic. They decided instead to write an open letter to the Chairman, which was published in the *Gazette* (9 October 2020). In this they noted several particular factors which they intend to revisit with the Chairman at the year-end Holding to Account session in May 2021:

- Progress is expected on improving talent planning in the organisation, and on the long-promised review of "total reward".
- More clarity is needed on who is taking the high-level view on profitability, as an end-to-end process.
- As the business changes its strategy, can we still be sure our values and purpose are not being sacrificed for profit? That what makes us a Partnership becomes more important in this period when our financial returns are challenged.
- Progress is also expected with regard to Rule 41 and the Chairman's remit to develop the Partnership's distinctive character and democratic vitality.
- Details on who will take accountability if the Partnership Plan and the related major change programmes do not deliver.
- Council expected the Chairman to have reset expectations for the quality of leadership throughout the organisation. In a period of huge pressure and substantial change, leaders at all levels will help Partners understand, process and deliver change, will unblock the organisation to deliver profit, and will ultimately give Partners a reason to believe in the Partnership.

"By next May Councillors expect to have confidence in you that we will see that difference coming through for our Partners, for our customers and in our profit figures."
Partnership Council letter to the Chairman, September 2020

FOCUS GROUPS

Through its Focus Groups, sub and sprint groups, Partnership Council is able to work in more detail on key areas in which it wishes to influence senior leaders and policy and support the Council to fulfil its responsibilities as a governing authority. The work of the Council and the Focus Groups is coordinated by the Steering Committee, who organise the work of the Council.

PARTNER FOCUS GROUP

The Partner Focus Group aims to support the business in enhancing the Partner experience.

"2020/21 was a mammoth year and in each conversation we focussed on becoming a trusted critical friend to the People and wider Executive Teams. We saw early engagement from them when Covid-19 meant uncertainty hit the Partnership with John Lewis shops closed, and Waitrose shops and our supply chain stepping up to new heights of performance. We influenced the decisions around free PDR offering, Partner recognition during the first lockdown, increased Waitrose discount and we formally requested a review of resourcing challenges at the end of last year. This is not to mention the numerous times we talked about the

transition to a new HR platform, Pay for Performance, Total Reward and talent & progression - all of which we are keen to see addressed through the upcoming Partner Plan."
Sarah Schuh, Partner Focus Group Member

DIVERSITY AND INCLUSION FOCUS GROUP

The Diversity and Inclusion Focus Group supports the Partnership in achieving its aim of becoming the UK's most inclusive business, reflecting and connecting with the diverse communities that we serve.

"The Diversity and Inclusion Focus Group has had a busy year. The group tested and provided feedback for the new Diversity and Inclusion training material before it was released to Partners. We have been working closely with the Partnership Networks to share voice, determine collaborative actions and support them in increasing their visibility and Partners' awareness. We are also challenging how best to 'measure' leadership intent and spirit in engaging with diversity and inclusion conversations."
David Packard, Diversity and Inclusion Focus Group Member

FINANCE FOCUS GROUP

The Finance Focus Group works closely with our Finance teams to bring a Partner perspective to how we best manage and communicate our finances.

"The Finance Focus Group played an important role as a sounding board on some key decision areas during 2020/21. These have included providing feedback and challenges around the decision to pause paying a bonus until newly set targets are reached and influencing how we can help Partners feel rewarded, by influencing the extension of increased discount and free PDRs. We are also always keen to ensure that we communicate these decisions out to the Partnership so that Partners understand the rationale as well as the decision itself."
Antoinette Wood, Finance Focus Group Chair

WELLBEING AND FINANCIAL ASSISTANCE FOCUS GROUP

The Wellbeing and Financial Assistance Focus Group oversees the provision of support to Partners in circumstances of financial hardship. This is not always through the provision of grants or loans: the Partner Support team, which sits within the People Directorate, also assists with advice or signposting on budgeting and similar matters.

Nevertheless, in 2020/21 the Focus Group agreed provision of support to 723 claims: 256 cases related to support for loss of income through illness (£144,590 awarded, of which £3,117 was offered in the form of a recoverable loan); 465 cases related to hardship (£279,870 awarded, of which £181,257 was offered in the form of a recoverable loan); and 2 cases were from Partners seeking assistance with long leave plans (£8,800 was offered in the form of a recoverable loan).

The Focus Group also determines the discretionary awards of Benefits in Retirement and Benefits of Long Service in redundancy. In addition, Council funds were used to pay leaving gifts to Partners with more than ten years' service and wedding gifts. These amounted to £515,990 in 2020/21.

The group is looking forward to playing its part in the Benefits Review, particularly the Benefits in Retirement policy.

CUSTOMER AND DIGITAL FOCUS GROUP

"The Customer and Digital Focus Group was newly formed in October 2020, and we are excited about the opportunity this gives us to champion customer opinion through Partners' voices. Ultimately we will seek to shape business decisions on new and existing propositions and services arising from the Partnership Plan. Working with the two brand Executive Directors (James Bailey and Pippa Wicks) and the Chief Information Officer (Mike Sackman), we will discuss, influence and make recommendations on the development of customer propositions, digital sales channels and technology supporting sales and customer facing services."
Dan James, Customer and Digital Focus Group Chair

PARTNERSHIP PLAN SUB-GROUP

"The Partnership Plan group's ongoing engagement with senior stakeholders has evolved into an 'open door' relationship, ensuring momentum is maintained to deliver the critical elements of the Plan. We have been probing and curious as a group, providing reflective and honest feedback, specifically about the need to land the Plan at pace. The group has agitated in the space around communication, which should be simple, clear and jargon free. We have sense checked the landing of strategic priorities in 2021 and the governance that sits behind these."
Martin Nicholls, Partnership Plan Sub-Group Member

MEMBERSHIP SPRINT GROUP

"The Partnership Plan sets out the ambition of partnering with other businesses to provide business resilience and generate growth. The Council sprint group on Membership was formed in November 2020, to assess the implications of partnering in relation to protecting and enhancing the Partnership's co-ownership model.

We have already considered establishing guardrails for the scale and nature of franchising agreements, enhanced standards and expectations for third parties, and the value of membership. Next we will be looking at how our co-ownership can evolve, initially through testing the existing co-ownership principles against scenarios for different commercial models.

By addressing the key issues and being confident of the right approach, we should be well placed to achieve growth consistent with our principles through combining our unique strengths with the capabilities of others."
Mandy Bagnall, Membership Sprint Group Member

CONSTITUENCY SUB-GROUP

"The Constituency sub-group is working closely with the Partnership Democratic Team to prepare for the 2021-24 Forum elections. Our ambition is to make democracy more accessible for Partners by reviewing constituency structures and election methods.

A number of trials are taking place at the moment to support the final shape and ways of working for Forums. These include subject-led Forums, Night Shift Forums and shared seats to enable greater representation. The group is helping to test thinking and governance around these."
Jay Hawkins, Constituency Sub-Group Member

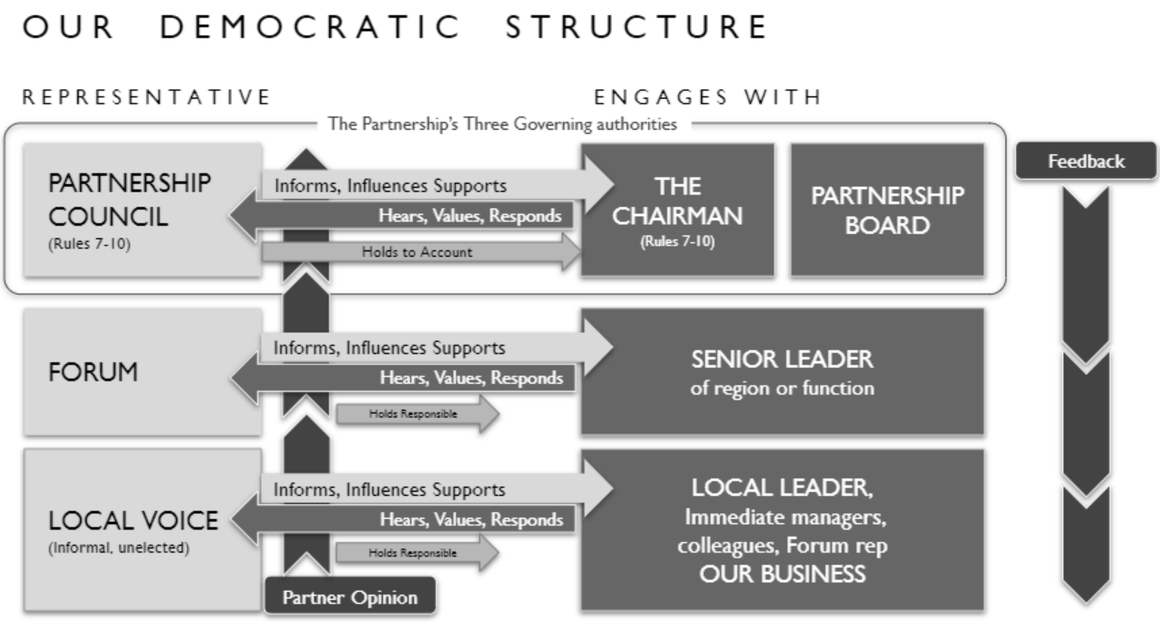
As well as discussions around the business' response to the pandemic (safeguarding; furloughing; reward and recognition), other key Council topics have included Black Lives Matter, PartnerVoice liberation and resourcing.

BLACK LIVES MATTER

A diverse Council is not guaranteed by our election method alone. To better understand the disparity of experience and build tangible actions, the Council were joined at their July meeting by seven black Partners whose experiences have helped build understanding in this area. As a result of this conversation, there are longer-term decisions being taken to ensure we hear more from diverse and unique voices, which will inform how we set up our next term of Partnership Council and Forum constituencies.

PARTNERVOICE LIBERATION

PartnerVoice liberation trials have been taking place across the Partnership since 2019 and, following numerous discussions about the successes, learnings and practicalities of this, Council voted to formally liberate PartnerVoice in September 2020. The impact of this decision is significant, as it not only affects every single Partner in the business but also signalled a trust in leaders to use their autonomy and judgement to bring the principles of democracy alive at the most local level. In effect, Council has removed the rigidity of 'process' and instead given Partners the freedom to determine how best they wish to influence and shape the business they work in.



REVIEW OF RESOURCING

Following a discussion and vote at the November Council meeting, the Council made a recommendation to the Chairman that an independent review be commissioned into resourcing, for the period between September to December 2020. Specifically, Council requested for the business to identify the root causes and the impact on business performance for those units unable to recruit sufficient resources during this time. The results of the review and any lessons learnt are expected to be available before the end of April 2021.

FORUM

Forum is our second formal layer of democracy. Forum representatives are elected for a three-year term and reflect the opinions of the Partners they represent. Senior leaders attend regional Forum meetings, in order to develop an understanding of the views of Partners locally and to act upon them. Partnership Councillors also attend Forum meetings, so that they may hear the views of Partners.

A variety of Forum experiments took place throughout 2020. Express Forums and Informal Representation enabled us to align with agility to the needs of the Partnership and cover representatives away from the business during the pandemic. Full-day, quarterly Forums were replaced with an 'express' virtual format, which gained traction and delivered a far more regular rhythm of conversation than the business was used to. This regularity kept leaders abreast of how Partner opinion changed as the situation and the Partnership's response progressed. This included the provision of personal protective equipment, supporting vulnerable customers and helping John Lewis stores prepare a re-engagement strategy in each shop. This approach continues, with the length and frequency being set to suit each region, community or business area.

Informal Night Shift Forums were set up in two Waitrose communities in response to opinion coming through from Partners on the need for this. An Informal Head Office Forum was set up to support cross functional conversation, regardless of structure limitations and working location. A Pop-up Forum took place for John Lewis in January 2021, to review Christmas from a brand-specific point of view.

PARTNERSHIP DEMOCRATIC ENGAGEMENT

DEMOCRATIC VITALITY

The Democracy Coach team have conducted quarterly assessments on the democratic health of every business unit/area since 2017, which can be used to identify areas of focus and support Council's Rule 41 considerations, when holding the Chairman to account. During the latter part of 2020, these independent assessments have been integrated into Selling and Service metrics which signalled for the first time that Democratic Vitality is an integral, non-negotiable part of our business. During 2021/22, it is expected that the Partnership Democratic Engagement team will assess how these will also evolve in other business areas.

GATHERING VOICE TOOL

The Partnership Democratic Engagement team focused their energies and resources on gathering and sharing Partner sentiment with the Executive and Covid-19 Silver Group in 'real time' this year; at the height of the pandemic this was happening daily and has now settled to a weekly rhythm. Close working with the Partner Communications team built the richest possible picture during the pandemic, which gave weight to the opinion coming through democratic and social media channels and helped to identify new and emerging opinions such as the clear recommendation to increase Partner discount, key lines being reserved for NHS workers and pay for shielding Partners.

FUTURE DEMOCRACY

Democracy is our differentiating competitive advantage in an ever toughening climate. The President's role should optimise Partner voice, opinion, knowledge and power, reflecting the imperative of change, though effective formal democratic structures. In support of this, the 'Future Democracy' project restarted in July 2020, looking at the organisational steps needed to better integrate and activate democratic vitality within the Partnership, including how democratic vitality is supported and the set-up for formal democracy, with a specific focus on hearing diverse and unique voices. The project is intended to be concluded during 2021.

JOURNALISM

There are a number of ways that Partner opinion is 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 comments from the appropriate member of management, within 21 days.

DEMOCRACY IN 2021/22

There has never been a more important time to draw on the ideas and experiences of our Partners, as we navigate our way out of the pandemic. The conclusion of the Future Democracy project will set the stage for a much stronger Partner experience, where everyone's opinion is utilised in service of our purpose, the Partnership Plan and our democratic principles.

We will elect new representatives for our Forums and Partnership Council, and all Partners are encouraged to embrace their new found freedom of expression through the liberation of PartnerVoice. The work of our Council groups will continue to drive forward both the customer and Partner experiences and through these, we will be able to look more closely at, and help to shape, many aspects of the Partnership Plan.

CHRIS EARNSHAW
Partner & President of Partnership Council

DIRECTORS' REPORT

The Directors' Report for John Lewis Partnership plc ('the Partnership' or 'the Company') for the year ended 30 January 2021 comprises pages 61 to 118 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 4 to 7, 21 to 23 and 28 to 37
- **Risk management -** pages 48 to 56
- **Employee engagement -** pages 15 to 16 and pages 103 to 110
- **Engagement with suppliers, customers and others -** pages 9 to 10 and 28 to 33
- **Equal opportunities, diversity and inclusion -** pages 19 to 20, as well as pages 91 to 92
- **Research and development -** pages 21 to 40

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Company's statement on engagement with, and having due regard to, the interests of key stakeholders is contained within the Section 172(1) statement in the Group Strategic Report on pages 41 to 47.

The Partnership's statements on corporate governance can be found in this Governance section of this Annual Report and Accounts on pages 61 to 118. This includes the Audit and Risk Committee Report, the Nominations Committee Report and the Remuneration Committee Report.

For more details on the progress the Partnership is making with its ethics and sustainability aims, for the latest Modern Slavery Statement and for more detailed non-financial performance information, please visit www.johnlewispartnership.co.uk/csr

THE PARTNERSHIP'S CORPORATE GOVERNANCE STATEMENT

Following the revision of the UK Corporate Governance Code (the Code) and the publication of the Wates Principles, and in light of full reviews of its own governance arrangements, the Board agreed in 2018/19 that the Partnership would cease voluntarily reporting against the Code or any other formal corporate governance code, because 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 this Governance section of this Annual Report and Accounts on pages 61 to 118. However, we continue to use the Code 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 the Partnership's model.

The Partnership's model addresses key areas added to the revised Code: 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 the Partnership's Founder, John Spedan Lewis, put at the core of the Partnership's model over 100 years ago.

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). The latest edition of the Code was published in July 2018 and became mandatory for accounting periods starting on or after 1 January 2020. However, the Code only applies to companies with a 'premium listing' on a UK stock market and it is therefore not mandatory for the Partnership.

WHAT ARE THE WATES PRINCIPLES?

Not every large company is listed on a stock market and has to follow the Code. Those that are not are referred to as 'privately held' companies. In response to concerns about responsible business practices in some of these companies, the law was changed in 2018 to introduce new reporting requirements for large privately held companies. The Wates Corporate Governance Principles for Large Private Companies are 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 John Lewis and Waitrose brands: John Lewis operates in a number of different formats including John Lewis stores, online (Johnlewis.com), financial services, in-home services, and sourcing offices in Gurgaon, India and Kwun Tong, Hong Kong; Waitrose operates supermarkets and convenience shops, including shops which operate under licence in the Middle East, online (Waitrose.com and specialist sites for wine, plants and flowers) and the Leckford Estate (the Waitrose 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 of the Company, as employees of John Lewis plc, are 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 other subsidiaries.

CAPITAL STRUCTURE

At 30 January 2021, the Partnership had in issue 612,000 deferred ordinary shares of £1 each and 104,169,594 share incentive plan (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 other subsidiaries within the Partnership. The total issued share capital of the Partnership was £104,781,594 at the year-end (2020: £104,781,594).

DIVIDENDS AND PARTNERSHIP BONUS

No dividends were paid on the deferred ordinary shares (2020: £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 instead to recommend the payment of Partnership Bonus to eligible employees. The Board decided on 4 March 2021 not to award a Partnership Bonus for the financial year 2020/21.

Partners benefit from employee ownership tax relief, which allows them to receive the first £3,600 of their Partnership Bonus free of Income Tax. National Insurance Contributions (NICs) however are still due.

The Partnership also 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. Dividends on SIP shares (issued in connection with BonusSave) during the year under review were £221,000 (2020: £299,000).

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. Details of SIP shares can be found in note 5.5 to the consolidated financial statements.

CONFLICTS OF INTEREST

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 from page 71. 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.

STREAMLINED ENERGY AND CARBON REPORTING

The Partnership continues its commitment to reducing the energy consumption and the carbon impact that our operations have on the physical environment and, in October 2020, we brought forward our net zero carbon target across our operations by 15 years, to 2035. We've also committed to reducing our absolute energy use by 25% in ten years from a 2018 baseline, and continue to significantly invest in sustainable energy sources and energy efficiency programmes.

Since 2017, the Partnership has purchased Renewable Energy Guarantees of Origin (REGO) certified renewable energy. In 2020, 97% of electricity consumption across our physical estate was from REGO certified renewable sources (Scope 2 Market-based). We are working with our landlords to convert the remaining 3%.

We recognise the need to look beyond our own direct operations in order to understand and reduce indirect emissions, including within our supply chains. Starting with our agricultural supply chains, in October 2020 we set a bold new target to only source from net zero carbon farms in the UK by 2035.[17]

[17] This target will be achieved collectively by UK farms providing protein and fresh ingredients in Waitrose own-brand products.

This section of the Director's Report discloses our operational energy consumption, carbon footprint, and energy efficiency initiatives from January 2020 to December 2020 in line with the UK Government's Streamlined Energy and Carbon Reporting (SECR) regulation.

METHODOLOGY

The Partnership reports on all of the Greenhouse Gas (GHG) emission sources as required under the Streamlined Energy and Carbon Reporting (SECR) legislation. The methodology used to calculate our GHG emissions and energy use is the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), using the operational control approach on reporting boundaries.

The data has been calculated using BEIS 2020 emission factors for all carbon streams, with the exception of certain refrigerants, market-based renewable electricity, and emission sources associated with our Leckford Farm, which are taken from industrial and academic sources. All emissions and energy usage is UK based apart from a small percentage of GHG scope 3 business travel. The intensity metric that the Partnership uses for normalising emissions for annual comparison is tCO2e per £million sales.

This year KPMG LLP has issued an unqualified opinion over the selected data highlighted in this table with an asterisk (*) using the assurance standards ISAE (UK) 3000 and ISAE 3410. KPMG LLP's limited assurance statement and the reporting criteria that we used as the basis of preparing the selected data, the 'John Lewis Partnership's Basis of Reporting' are both available at www.johnlewispartnership.co.uk/csr

THE PARTNERSHIP CARBON EMISSIONS AND ENERGY CONSUMPTION

Global GHG emissions data[18]	**2020**	**2019**	**2018 baseline**
Scope 1 (tonnes CO2e)[19] Combustion of gas and fuel for transport purposes, refrigeration	141,078*	156,755	168,029
Scope 2 (tonnes CO2e)[20] Electricity purchased, heat and steam generated for own use – Location-based – Market-based	130,352* 5,817*	160,018 8,121	182,978 7,352
Scope 3 (tonnes CO2e)[21] Offsite water treatment, business travel, waste to landfill and transmission and distribution losses from purchased electricity	31,534*	40,478	44,373
Intensity metric (tonnes CO2e per £m sales) – Location-based – Market-based	25.5 15.0	30.9 17.7	N/A[22] N/A

[18] Figures presented are for each approximate calendar year.

[19] Scope 1: Emissions associated with our direct activities, such as heating our shops and offices and running our fleet of trucks, our agricultural emissions and company cars.

[20] Scope 2: Emissions from the electricity we purchase. '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.

[21] Scope 3: Emissions from our indirect activities under our operational control or operations influences e.g. business travel that isn't in company-owned cars.

[22] In February 2020 the Partnership created a new sales measure known as total trading sales (see note 2.1 for more details). The Partnership only restated this measure for 2019/20, therefore our 2018 'Location-based' and 'Market-based' intensity metrics are not included in this table as the total trading sales which we will use to calculate our intensity metrics going forward are not available for this period.

Energy usage	2020	2019	2018 baseline
Partnership energy consumption Total energy consumed (electricity, gas and transport) (kWh) - Electricity - Gas - Transport	 1,142,282,360 555,536,097 243,672,698 343,073,565	 1,234,662,932 619,994,602 275,471,536 339,196,794	 1,280,410,028 639,096,177 284,809,768 356,504,083
Partnership electricity renewable % Total electricity which is renewable %	97.4%	97.2%	97.7%

In 2020, the Partnership continued to reduce its overall carbon emissions and energy consumption. The Covid-19 pandemic, which forced the closure of John Lewis shops, and during which many Partners worked from home, was a contributing factor. In comparison, due to the surge in e-commerce home deliveries, particularly by Waitrose (as a result of more online shopping and expected growth due to the departure from Ocado), energy usage across the Partnership's transport fleet increased in 2020.

ENERGY EFFICIENCY

Despite the impact of Covid-19 resulting in a number of John Lewis and Waitrose temporary shop closures, in 2020 we continued to progress well with further investment in energy efficiency measures across our physical estate to drive notable savings against our energy reduction targets. These include:

Buildings

- To date, the latest generation LED lighting with integrated occupancy control has been retrofitted into 32 Waitrose shops, 9 John Lewis shops, and three non-trade buildings. The scope of these projects replaces all the conventional lighting throughout each site. Overall the savings are expected to be in excess of 14,750,000 kWh per year.
- We have made further investments in electronically commutated (EC) fan technology in our Heating, Ventilation and Air Conditioning (HVAC) systems with an improved control strategy to further improve system efficiency. In 2020 we have deployed EC fan upgrades into 7 John Lewis and 11 Waitrose shops and one non-trade building. The expected electricity saving across the 19 sites is estimated to be 2,500,000 kWh per year or in excess of 35%.
- We continue to deploy the pioneering 'Air Door' technology which lessens hot and cold air infiltration into a building, thereby reducing energy consumption required to regulate temperatures. We have installed 'Air Doors' in four further shops this year and continue to monitor the benefits these bring to our shops.
- We developed a 'store of the future programme', which includes digital twins of several of our stores, enabling us to virtually model the effects of engineering and energy efficiency measures. This insight will become invaluable when looking at new technologies and, in turn, enable us to trial efficiency measures virtually.

Refrigeration

- We continue to trial innovative energy efficient refrigeration with developments to frozen food cabinets and cold room efficacy. Using advanced Computational Fluid Dynamics (CFD) analysis we have refined the case design to improve chilled air flow, significantly improving their energy efficiency.

- An additional eight Waitrose shops received a refrigeration upgrade this year. This involved a full replacement of conventional Hydrofluorocarbon (HFC) based refrigeration systems to a low GWP water cooled alternative and an upgrade to the latest Next Generation Refrigeration (NGR) case which has been developed using advanced Computational Fluid Dynamics (CFD) and provides significant energy savings versus conventional open cases.
- Following the successful deployment of ECO Blade™ in 273 Waitrose stores, we have further developed this technology to retrofit onto fruit and refrigerated vegetable (FRV) cases. This aligns with our commitment to improve refrigeration efficiency and associated carbon emissions. Starting in February 2021, ECO Blades are being retrofitted onto 211 branch FRV cases and are predicted to deliver further 1,771,055 kWh in electricity savings per year and improve the temperature control of each case.

For more information on the Partnership's Ethics and Sustainability Strategy including climate action visit www.johnlewispartnership.co.uk/csr

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, who was a Director of the Company during the year under review until his resignation on 31 December 2020, 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 pages 19 to 20 in the Group Strategic Report and the Nominations Committee Report on pages 91 to 92 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 is subject to the Order and the GSCoP. Please see pages 85 to 87 of the Audit and Risk Committee Report for more information on compliance with GSCOP and the Order.

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 188 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.

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 page 65). These meetings are also attended by Partnership Board Directors. If Partnership Council judges that the Chairman has failed to fulfil, or is no longer a suitable person to fulfil, the responsibilities of their 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 outcome of a vote of Partnership Council. The next election is expected to take place during 2021.

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. Refer to pages 125 to 128 for further detail, in particular the assessment by the Directors of the impact on the Partnership of the Covid-19 pandemic.

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 60.

VIABILITY STATEMENT

The Directors have assessed the prospects of the Company over a three-year period to January 2024. 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 pages 57 to 60 for the Partnership's full Viability Statement.

EVENTS AFTER THE BALANCE SHEET DATE

Since 30 January 2021, there have been two 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 2021 AGM will be 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 plc
21 April 2021

CONSOLIDATED INCOME STATEMENT

for the year ended 30 January 2021

Our revenue minus our incurred expenses showing the Partnership's overall profit for the year

Notes		2021[1] £m	2020 £m
2.1, 2.2	**Revenue**	**10,771.8**	10,151.3
	Cost of sales	**(7,408.6)**	(6,789.2)
	Gross profit	**3,363.2**	3,362.1
2.3	Other operating income	**102.4**	125.1
2.4	Operating expenses before exceptional items and Partnership Bonus	**(3,178.1)**	(3,255.5)
3.3	Share of profit/(loss) of joint venture (net of tax)	**0.9**	(0.2)
2.1	**Operating profit before exceptional items and Partnership Bonus**	**288.4**	231.5
2.5	Exceptional items	**(648.0)**	107.4
2.1	**Operating (loss)/profit before Partnership Bonus**	**(359.6)**	338.9
5.1	Finance costs	**(168.9)**	(175.3)
5.1	Finance income	**11.3**	13.7
	(Loss)/profit before Partnership Bonus and tax	**(517.2)**	177.3
	Partnership Bonus	**–**	(30.9)
2.6	**(Loss)/profit before tax**	**(517.2)**	146.4
2.9	Taxation	**65.2**	(38.0)
	(Loss)/profit for the year	**(452.0)**	108.4
2.1	**Profit before Partnership Bonus, tax and exceptional items**	**130.8**	69.9

[1] 53-week year

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 January 2021

Profit as shown in the income statement plus other income and expenses not yet realised, giving total comprehensive income for the year

Notes		2021[1] £m	2020 £m
	(Loss)/profit for the year	**(452.0)**	108.4
	Other comprehensive (expense)/income:		
	Items that will not be reclassified to profit or loss:		
6.1	Remeasurement of defined benefit pension scheme	**(237.4)**	(193.6)
2.9	Movement in deferred tax on pension scheme	**53.6**	30.4
2.9	Movement in current tax on pension scheme	**1.6**	2.5
	Items that may be reclassified subsequently to profit or loss:		
	Fair value loss on cash flow hedges	**(5.6)**	(8.7)
2.9	Movement in deferred tax on cash flow hedges	**0.3**	3.2
	Gain on foreign currency translations	**–**	0.3
	Other comprehensive expense for the year	**(187.5)**	(165.9)
	Total comprehensive expense for the year	**(639.5)**	(57.5)

1 53-week year

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEET

as at 30 January 2021

A financial snapshot of the Partnership, showing our assets and how they are financed

Notes		2021 £m	2020 £m
	Non-current assets		
3.1	Intangible assets	**467.9**	495.5
3.2	Property, plant and equipment	**2,983.5**	3,535.4
3.2	Right-of-use assets	**1,540.2**	1,854.9
4.2	Trade and other receivables	**18.0**	16.5
7.2	Derivative financial instruments	**0.1**	0.1
3.3	Investment in and loans to joint venture	**3.4**	2.5
2.9	Deferred tax asset	**103.4**	0.2
		5,116.5	5,905.1
	Current assets		
4.1	Inventories	**643.9**	612.9
4.2	Trade and other receivables	**179.7**	260.9
	Current tax receivable	**9.0**	–
7.2	Derivative financial instruments	**7.2**	4.8
3.4	Assets held for sale	**10.6**	1.5
5.3	Short-term investments	**0.3**	317.2
5.4	Cash and cash equivalents	**1,518.2**	598.3
		2,368.9	1,795.6
	Total assets	**7,485.4**	7,700.7
	Current liabilities		
5.5	Borrowings and overdrafts	**(107.8)**	(43.1)
4.3	Trade and other payables	**(1,543.2)**	(1,513.9)
	Current tax payable	**–**	(9.8)
5.2, 5.6	Lease liabilities	**(127.3)**	(95.4)
4.4	Provisions	**(193.6)**	(108.6)
7.2	Derivative financial instruments	**(20.9)**	(18.7)
		(1,992.8)	(1,789.5)
	Non-current liabilities		
5.5	Borrowings	**(795.7)**	(719.5)
4.3	Trade and other payables	**(45.0)**	(46.8)
5.2, 5.6	Lease liabilities	**(1,910.0)**	(1,999.5)
4.4	Provisions	**(162.4)**	(144.9)
7.2	Derivative financial instruments	**(2.7)**	(3.9)
6.1	Retirement benefit obligations	**(646.9)**	(417.4)

2.9	Deferred tax liability	**(5.2)**	(20.4)
		(3,567.9)	(3,352.4)
	Total liabilities	**(5,560.7)**	(5,141.9)
	Net assets	**1,924.7**	2,558.8
	Equity		
8.1	Share capital	**0.6**	0.6
	Other reserves	**(7.7)**	(7.8)
	Retained earnings	**1,931.8**	2,566.0
	Total equity	**1,924.7**	2,558.8

The financial statements on pages 119 to 198 were approved by the Board of Directors on 21 April 2021 and signed on its behalf by Sharon White and Bérangère Michel, Directors, John Lewis Partnership plc.

Registered number 00238937
Sharon White and Bérangère Michel
Directors, John Lewis Partnership plc

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 January 2021

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 26 January 2019	0.6	5.0	1.4	(0.6)	0.1	2,613.5	2,620.0
	Adjustment on initial application of IFRS 16[1]	–	–	–	–	–	4.8	4.8
	Balance at 27 January 2019	0.6	5.0	1.4	(0.6)	0.1	2,618.3	2,624.8
	Profit for the year	–	–	–	–	–	108.4	108.4
6.1	Remeasurement of defined benefit pension scheme	–	–	–	–	–	(193.6)	(193.6)
	Fair value loss on cash flow hedges	–	–	–	(8.7)	–	–	(8.7)
2.9	Tax on above items recognised in equity	–	–	–	3.2	–	32.9	36.1
	Gain on foreign currency translations	–	–	–	–	0.3	–	0.3
	Total comprehensive (expense)/income for the year	–	–	–	(5.5)	0.3	(52.3)	(57.5)
	Hedging gains transferred to cost of inventory	–	–	–	(8.5)	–	–	(8.5)
	Balance at 25 January 2020	**0.6**	**5.0**	**1.4**	**(14.6)**	**0.4**	**2,566.0**	**2,558.8**
	Loss for the year	–	–	–	–	–	(452.0)	(452.0)
6.1	Remeasurement of defined benefit pension scheme	–	–	–	–	–	(237.4)	(237.4)
	Fair value loss on cash flow hedges	–	–	–	(5.6)	–	–	(5.6)
2.9	Tax on above items recognised in equity	–	–	–	0.3	–	55.2	55.5
	Gain on foreign currency translations	–	–	–	–	–	–	–
	Total comprehensive expense for the year	–	–	–	(5.3)	–	(634.2)	(639.5)
	Hedging losses transferred to cost of inventory	–	–	–	5.4	–	–	5.4
	Balance at 30 January 2021	**0.6**	**5.0**	**1.4**	**(14.5)**	**0.4**	**1,931.8**	**1,924.7**

1 The Partnership has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 January 2021

The Partnership's cash inflows and outflows analysed by various key activities

Notes		2021[1] £m	2020 £m
2.7	**Cash generated from operations before Partnership Bonus**	**831.3**	713.4
	Net taxation paid	**(16.0)**	(17.2)
	Pension deficit reduction payments	**(7.5)**	(12.8)
	Finance costs paid	**(114.7)**	(109.0)
	Net cash generated from operating activities before Partnership Bonus	**693.1**	574.4
	Partnership Bonus paid	**(31.4)**	(45.8)
5.5	Net cash flow in relation to Share Incentive Plan shares	**(11.0)**	(14.4)
	Net cash generated from operating activities after Partnership Bonus	**650.7**	514.2
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(122.5)**	(191.5)
	Purchase of intangible assets	**(99.1)**	(146.7)
	Proceeds from sale of property, plant and equipment and intangible assets	**142.2**	174.9
	Finance income received	**4.0**	4.9
5.2	Cash inflow/(outflow) from short-term investments	**316.1**	(51.4)
	Net cash generated from/(used in) investing activities	**240.7**	(209.8)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	**(31.1)**	(54.2)
	Finance costs paid in respect of financial instruments	**–**	(0.7)
	Payment of capital element of leases	**(90.1)**	(92.7)
5.5	Payments to Share Incentive Plan shareholders	**(0.3)**	(0.3)
	Cash inflow/(outflow) from borrowings	**150.0**	(275.0)
	Net cash generated from/(used in) financing activities	**28.5**	(422.9)
	Increase/(decrease) in net cash and cash equivalents	**919.9**	(118.5)
5.2	Net cash and cash equivalents at beginning of the year	**598.3**	716.8
	Net cash and cash equivalents at end of the year	**1,518.2**	598.3
5.4	**Net cash and cash equivalents comprise:**		
	Cash at bank and in hand	**178.2**	151.2
	Short-term deposits	**1,340.0**	447.1
		1,518.2	598.3

[1] 53-week year

The accompanying notes are an integral part of the financial statements.

Notes to the consolidated financial statements

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

PURPOSE
We prepare our financial statements under international accounting standards in conformity with the requirements of the Companies Act 2006, and in compliance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRSs as adopted by the EU). 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.

Changes to significant accounting policies are described in note 1.1.4.

1.1.1 BASIS OF PREPARATION
The consolidated 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. These consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and in compliance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRSs as adopted by the EU).

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 section 1.1.6.

The financial year is the 53 weeks ended 30 January 2021 (prior year: 52 weeks ended 25 January 2020).

Impact of Covid-19
The Covid-19 pandemic has had a significant impact on the Partnership's financial performance and position for the year ended 30 January 2021. Additional consideration has been given to the key areas of estimation uncertainty and judgement noted below:

- The basis for the expected liability for customer returns of goods sold has been revised and the returns provision increased following shop closures during lockdown (see note 4.4);

Notes to the consolidated financial statements (continued)

1.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

1.1.1 BASIS OF PREPARATION (CONTINUED)

- The net realisable value of inventory has been reassessed and appropriate provision made to reflect the higher levels of stock held at year-end (see note 4.1);
- The value of rebates recognised within trade receivables and accrued income at year-end reflects the realistic expectation of supplier income to be received in respect of the 2020/21 financial year (see note 4.2); and
- The impact of Covid-19 has been factored into our impairment assessment for tangible assets, most notably our re-evaluation of online allocation and near-term trading forecast but also the longer term impact has been considered through applying a risk factor to the discount rate used within the modelling (see note 3.2).

Consideration has also been given as to whether costs and income relating to Covid-19 meet the definition of exceptional items and whether, individually or collectively, they are significant by virtue of their size and nature. Whilst these criteria are met in a number of cases (for example, furlough income and costs of personal protective equipment), given the diverse actions arising in response to the Covid-19 pandemic, isolating and quantifying all individual items of cost and income in an even handed way is difficult to achieve and could be misleading. On this basis, it has been deemed not appropriate to classify costs or income associated with Covid-19 as exceptional.

Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 30 January 2021, the Directors are required to consider whether the Partnership can continue in operational existence for a period of at least 12 months from the approval of the Annual Report and Accounts. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts with specific consideration to the trading position of the Partnership in the context of the current Covid-19 pandemic in the UK, for the reasons set out below.

As at 30 January 2021, the Partnership had total assets less current liabilities of £5.5bn and net assets of £1.9bn. Liquidity as at that date was £2.0bn, made up of cash and cash equivalents, short-term investments and undrawn committed credit facilities of £500m. This increase compared to the £1.4bn liquidity position reported at the 25 January 2020 year-end has been achieved through the active measures undertaken to strengthen the Partnership's liquidity position in response to the risks posed by the Covid-19 pandemic during 2020/21. In addition to a number of operational cash preservation actions taken, the following has also been completed:

- Securing £300m from the Government's Covid Corporate Financing Facility (CCFF), repaid on 21 January 2021 ahead of maturity in March 2021;
- Obtaining two new medium term loans of £75m each maturing in November 2022 and December 2022;
- Generating £136m proceeds (exc VAT) on the sale and leaseback of 11 Waitrose stores;
- Renegotiating the revolving credit facilities covenants for the year-end 2020/21 and 2021/22 tests;
- Extending £386m of the £450m revolving credit facility, which was due to expire in November 2021, to November 2022 (£64m will remain as expiring in November 2021); and
- Extending a £50m bilateral credit facility from March 2021 to September 2022.

Despite the events of the past year, 2020/21 year-end results are encouraging, demonstrating resilience in a volatile market. Both Waitrose stores and its online activities continued to operate during the lockdown periods given that they were designated by the UK Government as part of an 'essential industry' and customer demand increased due to the closure of hospitality services. For John Lewis, online performance has been

Notes to the consolidated financial statements (continued)
1.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)
1.1.1 BASIS OF PREPARATION (CONTINUED)

strong and this is anticipated to continue into 2021/22, particularly with the continued temporary closure of stores during the early part of the financial year. On 24 March 2021, it was announced that a further eight John Lewis stores have been proposed for closure, subject to consultation, and have not reopened since the lockdown was lifted. The full impact of the Covid-19 pandemic is unknown at this time and is unpredictable, and our key priority continues to be the health and wellbeing of our Partners and customers, while we maintain our high standards of service.

Accordingly, the Directors have reviewed the continually evolving situation relating to Covid-19 and considered its longer term impacts, for example on consumer demand, by modelling a downside scenario to cover the going concern assessment period, being for the 12 month period ending April 2022. In addition, as part of the assessment of viability, the Directors have modelled a further period to 28 January 2023 in order to cover the maturity of the revolving credit facility and term loan repayments which fall due ahead of this date. For the purposes of the going concern assessment, it is assumed that all Partnership borrowings are repaid at their maturity date and that no further refinancing or funding is undertaken. The downside case represents an increasingly severe but plausible scenario. It assumes lockdown conditions continue into Q2 2021/22 and that John Lewis stores are closed during this period, with online sales remaining operational but with reduced demand. Waitrose remains operational both in store and online, albeit with sales and margin pulled back from current trading levels which are significantly ahead of pre-Covid-19 levels in 2019/20. This is followed by a further, deeper recession throughout the assessment period resulting in a further reduction in sales, as well as a reduction in margin across both brands and a number of one-off events, e.g. a regulatory and data security breach, higher impairment charge, increasing pension deficit and project under-delivery. The impact of the downside adjustments has been reviewed against the Partnership's projected cash position and financial covenants. Should these occur, mitigating actions would be required to ensure that the Partnership remains liquid and financially viable.

The downside modelled has a significant adverse impact on sales, margin and cash flow. In response, the Directors have identified available mitigations in the going concern assessment period, all within management's control, to reduce costs and optimise the Partnership's cash flow, liquidity and covenant headroom. The majority of these mitigations would only be triggered in the event of the downside scenario materialising. Mitigating actions include, but are not limited to, reducing capital and investment expenditure through postponing or pausing projects and change activity; deferring or cancelling discretionary spend (including discretionary Partner benefits); and reducing marketing spend.

The Partnership has no other debt or facilities that mature prior to November 2021 when the £75m term loan and £64m (of a total £450m) syndicated facility both mature (see note 7.1.2). The Partnership's committed facilities contain one financial performance covenant, which is a profit based covenant ('Fixed Charge Cover'). The downside scenario modelled indicates that without mitigating actions a number of the Partnership's covenants relating to the bonds, term loans and undrawn committed credit facilities would breach at the next balance sheet date due to the reduction in profits and net assets modelled. However, whilst the scenario indicates breaches, the same scenario indicates that post mitigating actions, the cash low point under such a scenario would be £640m, under which our covenants would not breach, the bonds would not be required to be repaid early and the committed credit facilities would remain undrawn. The Partnership would prefer to retain the option to utilise its facilities, therefore, covenant compliance will continue to be monitored closely, and if deemed necessary, the Partnership will seek a covenant relaxation from its bank group, or take other actions to replace the level of liquidity support provided by these facilities.

Notes to the consolidated financial statements (continued)

1.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

1.1.1 BASIS OF PREPARATION (CONTINUED)

The downside detailed above is deemed by the Directors to provide a severe but plausible stress test on our ability to adopt the going concern basis. This includes a significant reduction in 2021/22 performance as a result of Covid-19 and reduced trading performance across both brands, resulting in a pre-mitigation cash reduction to forecast. Uncertainty exists in respect of the potential impact of Covid-19 in 2021/22 and its longer term economic impact. We have made our assessment based on our best view of the severe but plausible downside scenario that we might face. If outcomes are unexpectedly significantly worse, the Directors would need to consider what additional mitigating actions were needed, for example, accessing the value of our asset base to support liquidity. Consequently, the Directors have concluded that to stress test a level of increased severity (beyond the downside modelled) that may create circumstances that represent a material uncertainty and which may cast significant doubt about the Partnership's ability to continue as a going concern, is not currently reasonable.

Consequently, the Directors have concluded that the Partnership and Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the Annual Report and Accounts and therefore have prepared the financial statements on a going concern basis.

1.1.2 BASIS OF CONSOLIDATION

The Partnership's consolidated 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.

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 30 January 2021. Unless otherwise stated, the undertakings listed below are registered at 171 Victoria Street, London, SW1E 5NN, United Kingdom, and all have a single class of ordinary share with a nominal value of £1.

Notes to the consolidated financial statements (continued)
1.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)
1.1.3 SUBSIDIARIES AND RELATED UNDERTAKINGS (CONTINUED)

Company name	Company number
Herbert Parkinson Limited	00318082
JLP Scotland Limited[1]	SC370158
John Lewis Car Finance Limited	04328890
John Lewis International Limited	07501166
John Lewis Partnership Pensions Trust	00372106
John Lewis PT Holdings Limited	07106855

1 Registered office is John Lewis Aberdeen, George Street, Aberdeen, AB25 1BW.

The following UK subsidiaries will take advantage of the exemption from preparing and filing individual accounts as set out within section 394A(1) and 448A of the Companies Act 2006 for the year ended 30 January 2021. Unless otherwise stated, the undertakings listed below are registered at 171 Victoria Street, London, SW1E 5NN, United Kingdom, and all have a single class of ordinary share with a nominal value of £1.

Company name	Company number
Buy.Com Limited	03709785
Jonelle Jewellery Limited	00223203
Jonelle Limited[1]	00240604
Peter Jones Limited	00285318
The Odney Estate Limited	02828420

1 Jonelle Limited has three classes of shares, each with a nominal value of £1.

As required, John Lewis plc, the principal trading subsidiary of the Partnership, guarantees all outstanding liabilities to which the subsidiary companies listed in the tables above are subject at the end of the financial year, until they are satisfied in full. This is in accordance with Section 479C of the Companies Act 2006. The guarantee is enforceable against John Lewis plc as the parent undertaking, by any person to whom the subsidiary companies listed above are liable in respect of those liabilities.

1.1.4 AMENDMENTS TO ACCOUNTING STANDARDS
The following standards, amendments and interpretations were applicable for the period beginning 26 January 2020, and were adopted by the Partnership for the year ended 30 January 2021 and have not had a significant impact on the Partnership's loss for the year, equity or disclosures:

- Amendments to References to Conceptual Framework in IFRS Standards
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IFRS 3: Business Combinations
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
- Amendments to IFRS 16: Covid-19 Related Rent Concessions

Notes to the consolidated financial statements (continued)

1.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

1.1.4 AMENDMENTS TO ACCOUNTING STANDARDS (CONTINUED)

The following are new accounting standards and amendments to existing standards that have been published and are applicable for the Partnership's accounting periods beginning 31 January 2021 onwards, which the Partnership has not adopted early:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2 (applicable for the period beginning 31 January 2021)

The adoption of these standards is not expected to have a significant impact on the Partnership's consolidated financial statements.

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 IAS 16: Property, Plant and Equipment: Proceeds before Intended Use (applicable for the period beginning 30 January 2022)
- Amendments to IFRS 3: Business Combinations (applicable for the period beginning 30 January 2022)
- Amendments to IFRS 37: Onerous Contracts – Cost of Fulfilling a Contract (applicable for the period beginning 30 January 2022)
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current (applicable for the period beginning 29 January 2023)
- IFRS 17 Insurance Contracts (applicable for the period beginning 29 January 2023)
- Amendments to IFRS 17 Insurance Contracts (applicable for the period beginning 29 January 2023)

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.

Notes to the consolidated financial statements (continued)
1.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)
1.1.5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A cash flow hedge is a hedge of the exposure to variability of cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction. The effective portion of changes in the intrinsic fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. All other changes in fair value are recognised immediately in the income statement within other gains or losses. 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
Lease liabilities	5.2, 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.

Notes to the consolidated financial statements (continued)
1.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)
1.1.5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting

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

Foreign currencies

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

Government grants

The Partnership accounts for government grants on an accruals basis and has elected to present receipts relating to government grants as a deduction in reporting the related expense. During the year ended 30 January 2021, the Partnership has recognised grant income receipts from the UK Government's Coronavirus Job Retention Scheme of £54.8m.

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:

Areas of significant risk	Note	Critical accounting estimates and key judgements
Retirement benefits	6.1	Critical accounting estimates
Provisions and liabilities	4.3, 4.4	Critical accounting estimates
Impairment	3.1, 3.2	Critical accounting estimates
Depreciation and amortisation	3.1, 3.2	Critical accounting estimates
Value of intangible work in progress	3.1	Key judgements
Application of residual values	3.2	Key judgements
Exceptional items	2.5	Key judgements
Revenue/deferred income	4.3	Critical accounting estimates
Lease terms	5.6	Key judgements

Notes to the consolidated financial statements (continued)

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 primary 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 220 to 228.

1.2.1 TOTAL TRADING SALES
Total trading sales represents the full customer sales value including VAT as reported weekly to the Partnership's Executive Team, before adjustments for sale or return sales and other accounting adjustments. This measure shows the headline sales trend.

1.2.2 TRADING OPERATING PROFIT
Trading operating profit (TOP) is based on operating profit, but excludes centrally managed costs. These centrally managed costs are outside of the direct influence and control of the brands and are reviewed by the Executive Team at a Partnership level in aggregate. TOP is used to assess the performance of the John Lewis and Waitrose brands and determine the allocation of resources to those segments.

1.2.3 CENTRALLY MANAGED COSTS
Centrally managed costs include all Partnership fixed property costs, head office costs, and one-off adjusting items. One-off adjusting items are those that do not meet the Partnership's definition of "exceptional items", because they are considered to be relevant to the principal activities of the business. However, these are removed from the trading operating profit of each brand, as they are non-recurring in a business-as-usual scenario. This allows management to better assess the underlying performance.

1.2.4 EXCEPTIONAL ITEMS
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 collectively, are significant by virtue of their size and nature. In considering the nature of an item, management's 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.

1.2.5 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.

1.2.6 NET DEBT
Net debt incorporates the Partnership's consolidated borrowings, bank overdrafts, fair value of derivative financial instruments and lease liabilities, 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.

2 PARTNERSHIP PERFORMANCE

IN THIS SECTION

This section focuses on our performance during the year ended 30 January 2021. 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 (loss)/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

During the year we analysed our performance between our two reporting segments, Waitrose and John Lewis. This analysis is consistent with how our Executive Team reviewed performance throughout the year.

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 Executive Team 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 Partnership Bonus is being paid for the year ended 30 January 2021.*

The Partnership Bonus 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.

IFRS 8 Operating Segments requires operating segments to be identified based on the way in which the Partnership's internal financial reporting is organised and regularly reviewed by the chief operating decision-maker (CODM) to allocate resources and to assess the performance of the different operating segments. The Partnership's reporting segments are determined based on the business activities of its brands (John Lewis and Waitrose) for which operating results are reviewed by the CODM.

The Partnership adopted a new organisational structure on 3 February 2020 to improve synergies between brands and allow more costs and resources to be managed centrally. At the same date, the internal decision-making process was reorganised and the CODM changed from the Partnership Board to the Executive Team.

The Executive Team reviews the operating performance for each brand (John Lewis and Waitrose) in the Partnership, creating new non-GAAP measures known as total trading sales and trading operating profit ("TOP") (see note 1.2).

As the Partnership's reportable segments have changed, the comparative information for 2020 has been restated to reflect this. In addition, as part of the new Partnership structure we have taken the opportunity to rationalise sales and margin reporting across the Partnership. Therefore, the trade of four food halls which had been included in the John Lewis segment is now reported within Waitrose, and the general merchandise sales of the Canary Wharf Waitrose shop are now reported within John Lewis.

Notes to the consolidated financial statements (continued)

2.1 SEGMENTAL REPORTING (CONTINUED)

2021	John Lewis £m	Waitrose £m	Partnership £m
Total trading sales	**4,721.9**	**7,595.2**	**12,317.1**
Value added tax	**(766.9)**	**(438.9)**	**(1,205.8)**
Sale or return and other accounting adjustments	**(227.1)**	**(112.4)**	**(339.5)**
Revenue	**3,727.9**	**7,043.9**	**10,771.8**
Trading operating profit[1]	**554.4**	**1,144.6**	**1,699.0**
Centrally managed costs			**(900.6)**
Depreciation and amortisation			**(510.0)**
Operating profit before exceptional items and Partnership Bonus[2]			**288.4**
Exceptional items			**(648.0)**
Operating loss before Partnership Bonus			**(359.6)**
Finance costs			**(168.9)**
Finance income			**11.3**
Loss before Partnership Bonus and tax			**(517.2)**
Partnership Bonus			**–**
Loss before tax			**(517.2)**
Taxation			**65.2**
Loss for the year			**(452.0)**

Reconciliation of profit before Partnership Bonus, tax, and exceptional items to loss before tax:	
Profit before Partnership Bonus, tax and exceptional items	**130.8**
Partnership Bonus	**–**
Exceptional items	**(648.0)**
Loss before tax	**(517.2)**

1 Included in trading operating profit is other operating income of which £95.6m (split between operating segments: £50.0m John Lewis and £45.6m Waitrose) represents further income from external customers (see note 2.3). This is reported to the CODM separately as part of other income and expenses.

2 Included within operating profit before exceptional items and Partnership Bonus is a £0.9m share of profit of a joint venture in John Lewis. See note 3.3.

Notes to the consolidated financial statements (continued)

2.1 SEGMENTAL REPORTING (CONTINUED)

2020[1]	John Lewis £m	Waitrose £m	Partnership £m
Total trading sales	**4,829.9**	**6,917.3**	**11,747.2**
Value added tax	(784.3)	(400.3)	(1,184.6)
Sale or return and other accounting adjustments	(267.6)	(143.7)	(411.3)
Revenue	**3,778.0**	**6,373.3**	**10,151.3**
Trading operating profit[2]	**733.6**	**1,063.2**	**1,796.8**
Centrally managed costs			**(1,026.4)**
Depreciation and amortisation			**(538.9)**
Operating profit before exceptional items and Partnership Bonus[3]			**231.5**
Exceptional items			**107.4**
Operating profit before Partnership Bonus			**338.9**
Finance costs			**(175.3)**
Finance income			**13.7**
Profit before Partnership Bonus and tax			**177.3**
Partnership Bonus			**(30.9)**
Profit before tax			**146.4**
Taxation			**(38.0)**
Profit for the year			**108.4**

Reconciliation of profit before Partnership Bonus, tax, and exceptional items to profit before tax:	
Profit before Partnership Bonus, tax and exceptional items	**69.9**
Partnership Bonus	**(30.9)**
Exceptional items	**107.4**
Profit before tax	**146.4**

1 The Partnership adopted a new organisational structure on 3 February 2020 and the CODM changed from the Partnership Board to the Executive Team. The Executive Team reviews the operating performance for each brand (John Lewis and Waitrose), creating new non-GAAP measures known as total trading sales and TOP. The 2020 comparative information has been restated to reflect this.

2 Included in trading operating profit is other operating income of which £118.4m (split between operating segments: £58.8m John Lewis and £59.6m Waitrose) represents further income from external customers (see note 2.3). This is reported to the CODM separately as part of other income and expenses.

3 Included within operating profit before exceptional items and Partnership Bonus is a £0.2m share of loss of a joint venture in John Lewis. See note 3.3.

Notes to the consolidated financial statements (continued)

2.2 REVENUE

PURPOSE

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 warranties 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 based on assumptions regarding redemption rates and time to expiry. 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.

Notes to the consolidated financial statements (continued)

2.2 REVENUE (CONTINUED)

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 Technology. Services currently comprise free warranties on selected goods. This presentation is consistent with how our Partnership Board and Executive Team review performance throughout the year. In line with our five-year Partnership Plan we expect our service offering to increase in the coming year and as such, will keep this reporting under review, including the classification of commission income from other services as other income rather than revenue.

	2021 £m	2020 £m
Major product lines		
Goods		
– Grocery	**7,040.4**	6,369.7
– Home	**995.5**	1,052.7
– Fashion	**946.6**	1,216.5
– Technology	**1,695.5**	1,350.8
Services		
– Free warranty	**25.9**	26.8
Other revenue	**67.9**	134.8
	10,771.8	10,151.3

2.2.2 REVENUE RECOGNITION POLICIES

The following table provides information about the nature of the major product and service lines generating revenue.

Type of product/ service	Nature and timing of satisfaction of performance obligations	Revenue recognition
Grocery	Grocery products are principally sold by Waitrose and include food, drink, household and other items. Additionally, fuel sales and food halls 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 shops. Where a grocery product is ordered online, it is fulfilled by a Waitrose shop 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 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.
Home	Home products are principally sold by John Lewis 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 shops. 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 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.
Fashion	Fashion products are principally sold by John Lewis 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 shops. 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 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.

Technology	Technology products are principally sold by John Lewis and include televisions, computers, tablets and other electrical items. Customers obtain control of Technology products when the goods are received by the customer. Customers pay at the point of sale in John Lewis shops. Where a Technology 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 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 Technology products are sold with a free warranty 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.
Free warranties	The free service guarantee is provided with certain Technology products which are sold by John Lewis. Customers receive a free warranty of between two and five years on the purchase of specified Technology products. No separate payment is made for this free service guarantee. An element of the sales price of the Technology 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.	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.
Other revenue	Other revenue products/services are principally sold by John Lewis and includes catering, customer delivery and workrooms. Other revenue also includes non-redemption revenue relating to gift vouchers and gift cards that are never redeemed or expire unredeemed. Customers obtain control of other revenue products/services when the products/services have been rendered and the performance obligations have been met. Customers pay at the point of sale in John Lewis shops. Where other revenue products/services are ordered online, it is 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. Non-redemption revenue is recognised in proportion to the pattern of rights exercised by the customer based on assumptions regarding redemption rates and time to expiry.

Notes to the consolidated financial statements (continued)

2.3 OTHER OPERATING INCOME

PURPOSE

Other operating income is income that does not satisfy the definition of revenue in that it does not relate to the main trading operations of the Partnership.

ACCOUNTING POLICIES

Other operating income includes:

Commissions, backhauling, car park income and licence fees: *Income is 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.*

Other operating income	2021 £m	2020 £m
Commissions	**70.1**	80.7
Rental income	**8.0**	8.6
Backhauling income	**6.8**	6.7
Car park income	**4.4**	11.1
Licence fees	**3.7**	2.7
Other income	**9.4**	15.3
	102.4	125.1

Other income mainly relates to concession income and data provision for industry research. 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

PURPOSE

We analyse operating expenses into shop operating expenses and administrative expenses. Shop 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.

Operating expenses before exceptional items and Partnership Bonus	2021 £m	2020 £m
Shop operating expenses	**(2,141.1)**	(2,190.4)
Administrative expenses	**(1,037.0)**	(1,065.1)
	(3,178.1)	(3,255.5)

Notes to the consolidated financial statements (continued)

2.4 OPERATING EXPENSES BEFORE EXCEPTIONAL ITEMS AND PARTNERSHIP BONUS (CONTINUED)

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 and customer delivery.

2.5 EXCEPTIONAL ITEMS

PURPOSE

Exceptional items are items of income/expense that are significant by virtue of their size and nature (see note 1.2.4). We believe these exceptional items are relevant for a better understanding of our underlying business performance, and exceptional items are therefore 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 criterion 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	**2021 Operating (expense)/ income £m**	**2021 Taxation credit/ (charge) £m**	2020 Operating (expense)/ income £m	2020 Taxation credit/ (charge) £m
Strategic restructuring and redundancy programmes				
Head office reviews	**(96.1)**	**18.3**	(35.6)	6.6
Physical estate	**(93.7)**	**15.6**	(27.4)	6.2
Shop operations	**0.6**	**(0.1)**	(0.7)	0.1
	(189.2)	**33.8**	(63.7)	12.9
Shop impairments (Waitrose)	**9.6**	**(1.3)**	13.3	(1.7)
Shop impairments (John Lewis)	**(468.1)**	**72.2**	(110.3)	13.9
John Lewis supply chain	**–**	**–**	9.1	(0.8)
Pay provision	**(0.3)**	**0.1**	–	–
Legal settlement	**–**	**–**	10.0	(1.9)
Pension closure	**–**	**–**	249.0	(42.3)
	(648.0)	**104.8**	107.4	(19.9)

Notes to the consolidated financial statements (continued)
2.5 EXCEPTIONAL ITEMS (CONTINUED)

Strategic restructuring and redundancy programmes

The Partnership Plan envisages a significant level of transformation to ensure the Partnership is thriving for both Partners and customers.

Given the scale of the transformation, the programmes of activity will take a number of years to deliver. The costs incurred over the life of the change programmes outlined are significant in value and, given the level of change, they are significant in nature, therefore the Partnership considers them exceptional items. The financial impact of these programmes for 2021 is detailed below:

***Head office reviews*:** The transformation of pan-Partnership functions and other head office operations continues at pace. Previously, the main focus, beginning at the end of 2017, was the review and centralisation of a number of head office functions. Given the scale of the change, the delivery of these reviews was expected to take four years. At the January 2020 year-end these reviews were well progressed and we expected that costs would continue over the next two years. However, due to Covid-19, the wider programme was delayed with some reviews being temporarily paused.

With the launch of the Partnership Plan, the review of head office functions has become wider and deeper than previously envisaged and this has led to the announcement of the Head Office Transformation (HOT) programme. HOT builds on the centralisation of the earlier reviews but additionally seeks to ensure that the head office functions can deliver on the Lean, Simple, Fast objective central to cost reduction in the Partnership Plan. This stage of the head office reviews is well progressed and we still expect this programme to be broadly complete in the next 12-18 months. In 2021 we have recognised charges of £96.1m (2020: £35.6m) in relation to these reviews. The charges primarily relate to providing for redundancy costs; these costs are expected to be largely paid during 2021/22 but are provided once announced to Partners.

***Physical estate*:** Since 2017 we have been working on our programme of optimising our existing estate and initially we expected that the programme would last five years. With the launch of the Partnership Plan, and the acceleration of change we have seen in customer shopping behaviour over the last year we have refocused on the need to ensure our shops reflect how our customers want to shop - ‘right space, right place’ - and as a result we anticipate that these changes may now be extended to 2025/26.

This year we have recognised a net exceptional charge of £93.7m (2020: £27.4m). 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. The impairment charge for the Waitrose and John Lewis shop closures during the year are included in this category. Where income in relation to previously estimated costs has been realised in the year, these have been shown net, reflecting that the original expenses were shown as exceptional.

Announcements were made on 24 March 2021 in relation to the proposed closure of eight shops. Since the shops were neither approved nor announced for closure as at 30 January 2021, no costs associated with closure or related redundancies have been included in the charge for the year.

***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 shops, we have made a number of changes in our shop operating models. This has included

2.5 EXCEPTIONAL ITEMS (CONTINUED)

reviewing shop 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 complete with a release of £0.6m (2020: £0.7m charge) recognised this year. The release in the current year reflects the release of redundancy provisions for the programme that were not utilised.

Included within operating expenses are £4.0m (2020: £2.5m) 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. These costs are therefore not separately reported as exceptional.

Shop impairments (Waitrose)
In 2021 a credit of £9.6m (2020: £13.3m credit) has been released as a result of improved shop performance, where shop impairment had previously been charged as exceptional.

Shop impairments (John Lewis)
In 2020 as a result of challenging trading conditions and management's reassessment of the allocation of online sales to cash generating units (CGUs), an exceptional net impairment charge of £110.3m was recognised. The Covid-19 pandemic this year has further impacted John Lewis shop trade and the implementation of lockdown and closure of John Lewis shops has led to a surge in online orders. In light of the significant shift in customer shopping behaviour from shops to online through the pandemic, and our expectation that a proportion of customers will adopt a predominantly online shopping pattern in the future, we have reassessed and reduced this element of our allocation of online sales to shops compared to previous years. As such the allocation of online sales to shop CGUs was further reviewed and together with the impact of a revised trading forecast, an impairment charge of £468.1m (2020: £110.3m), was recognised. By virtue of the size of the charge, and that the circumstances which have led to the charge arising are unique and unusual, the charge has been recognised as exceptional.

John Lewis supply chain
In 2017, a review of the John Lewis supply chain led to significant redundancy and restructuring costs which were recognised as exceptional. During the year to 25 January 2020, this restructure was finalised generating releases of £9.1m, principally in relation to a profit on property disposal of £7.6m. These releases were recognised as exceptional to be consistent with the original charges. There are no further charges or income expected in relation to the 2017 supply chain review.

Pay provision
In 2017 it was identified that there were rectification costs relating to the technical non-compliance with National Minimum Wage Regulations. The majority of these costs were settled in 2019, however the final payment arising from this investigation was made in May 2020 for £0.3m and has been recognised as exceptional to be consistent with the original charges. There are no future charges or income expected in relation to the 2017/18 investigation.

Legal settlement
The Partnership reached a settlement in relation to an ongoing legal dispute in 2020, receiving income of £10.0m. Due to the size and nature of this settlement, this income has been recognised as exceptional.

Pension closure
During the year to 25 January 2020, following the decision by Partnership Council on 15 May 2019 to close the Partnership's defined benefit section of the pension scheme to future accrual from April 2020, a past service credit of £249.0m was recognised for the reduction in the pension obligation. Following closure, members'

Notes to the consolidated financial statements (continued)

2.5 EXCEPTIONAL ITEMS (CONTINUED)

deferred pensions will now increase annually by inflation, which is generally lower than the previous pay growth assumption. Given the size and non-recurring nature of this credit, this income was recognised as exceptional.

2.6 (LOSS)/PROFIT BEFORE TAX

PURPOSE

Detailed below are items (charged)/credited to arrive at our (loss)/profit before tax as defined by IFRS and required to be reported under IFRS.

	2021 £m	2020 £m
Staff costs (note 2.8.2)	**(1,806.1)**	(1,603.8)
Depreciation[1]	**(906.1)**	(517.7)
Amortisation of intangible assets	**(129.7)**	(139.0)
Net profit on sale of property (including exceptional items)	**11.9**	42.7
Net loss on disposal of other plant and equipment and intangible assets	**(1.9)**	(4.2)
Net profit on lease exit[2]	**11.1**	0.3
Inventory – cost of inventory recognised as an expense	**(7,408.6)**	(6,789.2)
Sub-lease income:		
– land and buildings	**5.2**	5.7

1 Included within depreciation is an impairment charge of £525.7m (2020: £117.8m) of which £6.9m (2020: £7.5m) is in Waitrose, £508.6m (2020: £110.3m) is in John Lewis and £10.2m is against Partnership central assets (2020: £nil).

2 Includes gain from the early termination of leases liabilities, less cost of the corresponding right-of-use asset and any termination payments or receipts.

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

Auditor's remuneration	**2021 £m**	2020 £m
Audit and audit-related services:		
– Audit of the parent Company and consolidated financial statements	**(0.4)**	(0.4)
– Audit of the Company's subsidiaries	**(1.0)**	(0.6)
	(1.4)	(1.0)
Non-audit services:		
– Other assurance services	**(0.2)**	(0.1)
	(0.2)	(0.1)
Total fees	**(1.6)**	(1.1)

Notes to the consolidated financial statements (continued)

2.7 RECONCILIATION OF (LOSS)/PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS BEFORE PARTNERSHIP BONUS

PURPOSE

We have analysed how our (loss)/profit before tax reconciles to the cash generated from our operating activities before Partnership Bonus. Items added back to, or deducted from, (loss)/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 consolidated statement of cash flows.

	2021 £m	2020 £m
(Loss)/profit before tax	**(517.2)**	146.4
Amortisation and write-offs of intangible assets	**135.6**	151.7
Depreciation[1]	**906.1**	517.7
Share of (profit)/loss of joint venture (net of tax)	**(0.9)**	0.2
Net finance costs	**157.6**	161.6
Partnership Bonus	**–**	30.9
Fair value (gains)/losses on derivative financial instruments	**(0.3)**	0.3
Profit on disposal of property, plant and equipment and intangible assets	**(21.0)**	(37.1)
(Increase)/decrease in inventories	**(30.2)**	45.8
Decrease/(increase) in receivables	**80.0**	(31.4)
Increase/(decrease) in payables	**51.4**	(26.2)
Decrease in retirement benefit obligations	**(8.2)**	(238.4)
Increase/(decrease) in provisions	**78.4**	(8.1)
Cash generated from operations before Partnership Bonus	**831.3**	713.4

1 Includes net impairment charges. See note 3.2.

2.8 PARTNERS

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 80,900 (2020: 80,800). 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:

	2021	2020
John Lewis	**23,900**	27,200
Waitrose	**54,300**	51,300
Other	**2,700**	3,300
	80,900	81,800

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:

	2021 £m	2020 £m
Staff costs:		
Wages and salaries	**(1,538.3)**	(1,506.0)
Social security costs	**(114.4)**	(110.6)
Partnership Bonus	**–**	(27.5)
Employers' National Insurance on Partnership Bonus	**–**	(3.4)
Other pension (charge)/credit (note 6.1.2)	**(143.3)**	45.0
Long leave cost	**(10.1)**	(1.3)
Total before Partner discounts	**(1,806.1)**	(1,603.8)
Partner discounts (excluded from revenue)	**(104.1)**	(74.3)
	(1,910.2)	(1,678.1)

2.8.3 KEY MANAGEMENT COMPENSATION

	2021 £m	2020 £m
Salaries and short-term benefits	**(5.5)**	(11.6)
Post-employment benefits[1]	**(0.7)**	(2.2)
Termination payments[2]	**(1.8)**	(4.4)
	(8.0)	(18.2)

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

Key management includes the Directors of the Company 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.

Notes to the consolidated financial statements (continued)

2.8 PARTNERS (CONTINUED)

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 97 to 101.

	2021 **£m**	2020 £m
Aggregate emoluments	**(2.1)**	(5.4)

2.9 TAXATION

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 further 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 recognise 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 35.

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.

Notes to the consolidated financial statements (continued)

2.9 TAXATION (CONTINUED)

2.9.1 ANALYSIS OF TAX CHARGE FOR THE YEAR

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.

Tax credited/(charged) to the income statement	**2021 £m**	2020 £m
Current tax – current year	**(5.4)**	(17.9)
Current tax – adjustment in respect of prior years	**6.1**	(3.5)
Total current tax credit/(charge)	**0.7**	(21.4)
Deferred tax – current year	**80.3**	(24.1)
Deferred tax – rate change	**(10.9)**	4.5
Deferred tax – adjustment in respect of prior years	**(4.9)**	3.0
Total deferred tax credit/(charge)	**64.5**	(16.6)
	65.2	(38.0)

Tax credited to other comprehensive income	**2021 £m**	2020 £m
Current tax on pension scheme[1]	**1.6**	2.5
Total current tax credit	**1.6**	2.5
Deferred tax on pension scheme	**53.6**	30.4
Deferred tax on cash flow hedges	**0.3**	3.2
Total deferred tax credit	**53.9**	33.6
	55.5	36.1

1 An additional deficit funding contribution of £7.5m has been paid by the Partnership during the year (2020: £12.8m) in relation to the defined benefit pension scheme, resulting in a tax credit of £1.6m (2020: £2.5m) 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

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 lower (2020: higher) than the standard corporation tax rate of 19.0% (2020: 19.0%). The differences are explained on the next page:

Notes to the consolidated financial statements (continued)

2.9 TAXATION (CONTINUED)

2.9.2 FACTORS AFFECTING TAX CHARGE FOR THE YEAR (CONTINUED)

	2021 £m	2020 £m
(Loss)/profit before tax	**(517.2)**	146.4
(Loss)/profit before tax multiplied by standard rate of corporation tax in the UK of 19.0% (2020: 19.0%)	**98.3**	(27.8)
Effects of:		
Changes in tax rate	**(10.9)**	4.5
Adjustment in respect of prior years	**1.2**	(0.5)
Depreciation on assets not qualifying for tax relief	**(49.0)**	(23.1)
Difference between accounting and tax base for land and buildings	**29.1**	11.6
Differences in overseas tax rates	**–**	0.4
Sundry disallowables	**(3.5)**	(3.1)
Total tax credit/(charge)	**65.2**	(38.0)
Effective tax rate (%)	**12.6**	26.0

2.9.3 DEFERRED TAX

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%. The movement on the deferred tax account is shown below:

Deferred tax	**2021 £m**	2020 £m
Opening net liability	**(20.2)**	**(36.2)**
Adjustment on initial application of IFRS 16[1]	**–**	**(1.0)**
Adjusted opening net liability	**(20.2)**	**(37.2)**
Credited/(charged) to income statement	**64.5**	**(16.6)**
Credited to other comprehensive income/(expense)	**53.9**	**33.6**
Closing net asset/(liability)	**98.2**	**(20.2)**

1 The Partnership has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

Notes to the consolidated financial statements (continued)

2.9 TAXATION (CONTINUED)

2.9.3 DEFERRED TAX (CONTINUED)

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

Deferred tax liabilities	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Rollover gains £m	Other £m	Total £m
At 26 January 2019	(91.6)	(8.0)	(38.3)	–	(137.9)
Adjustment on initial application of IFRS 16[1]	–	–	–	(1.0)	(1.0)
At 27 January 2019	(91.6)	(8.0)	(38.3)	(1.0)	(138.9)
Credited/(charged) to income statement	12.0	(2.7)	1.2	–	10.5
At 25 January 2020	(79.6)	(10.7)	(37.1)	(1.0)	(128.4)
Credited/(charged) to income statement	20.4	4.1	(0.3)	–	24.2
At 30 January 2021	**(59.2)**	**(6.6)**	**(37.4)**	**(1.0)**	**(104.2)**

1 The Partnership has initially applied IFRS 16 at 27 January 2019, which requires the recognition of Right-of-use assets for Lease contracts that were previously classified as operating leases. As a result the Partnership recognised a deferred tax liability of £1.0m related to Right-of-use assets from those lease contracts as at 27 January 2019. The Partnership has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

Deferred tax assets	Tax losses £m	Capital gains tax on land and buildings £m	Pensions and provisions £m	Other £m	Total £m
At 26 January 2019	–	11.1	86.4	4.2	101.7
(Charged)/credited to income statement	–	(0.4)	(34.2)	7.5	(27.1)
Credited to other comprehensive income/(expense)	–	–	30.4	3.2	33.6
At 25 January 2020	–	10.7	82.6	14.9	108.2
Credited/(charged) to income statement	23.7	18.3	(2.4)	0.7	40.3
Credited to other comprehensive income/(expense)	–	–	53.6	0.3	53.9
At 30 January 2021	**23.7**	**29.0**	**133.8**	**15.9**	**202.4**

The deferred tax asset in relation to the defined benefit pension scheme is £104.9m (2020: £53.7m).

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	**2021 £m**	2020 £m
Deferred tax assets	**103.4**	0.2
Deferred tax liabilities	**(5.2)**	(20.4)
Deferred tax net	**98.2**	(20.2)

Notes to the consolidated financial statements (continued)
2.9 TAXATION (CONTINUED)
2.9.3 DEFERRED TAX (CONTINUED)

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 30 January 2021 relating to losses in John Lewis Hong Kong Limited of £0.9m (2020: £0.8m).

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.

The Government announced in the spring Budget on 3 March 2021 that the rate of Corporation Tax will increase from April 2023 to 25% for companies with profits over £250,000. As at 30 January 2021 the legislation had not yet been substantively enacted and therefore the tax rate for the purposes of determining the deferred tax recognition rate for assets and liabilities expected to reverse in periods after 1 April 2023 was 19%. The impact of the change is therefore not recognised in these financial statements but would have increased the net deferred tax asset by approximately £32.7m if it had been enacted before 30 January 2021. The impact will be reflected in the financial statements for the year ending 29 January 2022.

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, property, plant and equipment, right-of-use assets, 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

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 (VIU) 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.*

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 the income statement. Management's judgement over the likely outcome of these development projects can therefore affect the level of abortive costs in any one year and the amount capitalised as intangible assets in the future.*

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

CRITICAL ACCOUNTING ESTIMATES

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

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

	Computer software			
Intangible assets	**Purchased £m**	**Internally developed £m**	**Work in progress £m**	**Total £m**
Cost				
At 26 January 2019	251.7	677.4	137.3	1,066.4
Additions[1]	–	–	137.6	137.6
Transfers	15.5	125.7	(141.2)	–
Disposals and write-offs	(21.8)	(29.7)	(12.7)	(64.2)
At 25 January 2020	**245.4**	**773.4**	**121.0**	**1,139.8**
Additions[1]	–	–	108.8	108.8
Transfers to assets held for sale	–	(0.1)	–	(0.1)
Transfers	20.3	96.1	(116.4)	–
Disposals and write-offs	(43.0)	(54.1)	(5.9)	(103.0)
At 30 January 2021	**222.7**	**815.3**	**107.5**	**1,145.5**
Accumulated amortisation				
At 26 January 2019	(177.2)	(377.1)	–	(554.3)
Charge for the year	(37.2)	(101.8)	–	(139.0)
Disposals and write-offs	20.1	28.9	–	49.0
At 25 January 2020	**(194.3)**	**(450.0)**	**–**	**(644.3)**
Charge for the year	(32.6)	(97.1)	–	(129.7)
Transfers to assets held for sale	–	0.1	–	0.1
Disposals and write-offs	44.4	51.9	–	96.3
At 30 January 2021	**(182.5)**	**(495.1)**	**–**	**(677.6)**
Net book value at January 2019	74.5	300.3	137.3	512.1
Net book value at January 2020	51.1	323.4	121.0	495.5
Net book value at January 2021	**40.2**	**320.2**	**107.5**	**467.9**

1 For the year ended 30 January 2021, additions for the year include the non-cash capital expenditure accrual on intangible assets of £1.1m (2020: £1.9m).

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 30 January 2021: two are customer projects (£141.3m, 2020: £134.0m) and two relate to distribution projects (£130.2m, 2020: £127.2m). These assets have useful economic lives ranging from three to ten years.

During the year to 30 January 2021, computer systems valued at £116.4m (2020: £141.2m) were brought into use. This covered a range of selling, support, supply chain, administration and information technology infrastructure applications, with useful economic lives ranging from three to ten years.

Amortisation of intangible assets is charged within operating expenses.

3.2 PROPERTY, PLANT AND EQUIPMENT, AND RIGHT-OF-USE ASSETS

PURPOSE

Our balance sheet contains significant property, plant and equipment, and right-of-use assets, primarily comprising assets relating to shops, 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 31 January 2004 when the Partnership transitioned to report under IFRS. For right-of-use assets, the cost is equivalent to the present value of the future lease payments relating to the leased assets. This note also details any additions and disposals during the year, and 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; this is also known as the useful economic life (UEL). The depreciation charge reduces the initial value of the assets over time and spread evenly over their useful economic lives. The value after deducting accumulated depreciation is known as the net book value.

Each year we review the recoverable amounts of our assets to ensure that the value in use or fair value less cost to dispose 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 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 into 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, as 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.

Right-of-use assets: *Right-of-use assets are initially measured at cost, which is an amount equal to the corresponding lease liabilities (present value of future lease payments) adjusted for any lease payments made at or before the commencement date, less any lease incentives received. See note 5.6 for the lease liabilities accounting policy.*

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:*

Freehold and long leasehold buildings – 25-50 years

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

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

For right-of-use assets depreciation is calculated on a straight-line basis over the expected useful economic life of the lease. Judgement is applied to estimate the lease UEL. This is done on an individual lease basis and considers the lease terms and the enforceable period of the lease.

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 individual shops (including an allocation of online), this 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.*

When 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 as a credit to the income statement when recovery of performance is considered reasonably certain.

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 has 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 lives. 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 and right-of-use 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. As an omni-channel retailer, the presence of a physical shop plays an important role in generating and facilitating online sales. Judgement is required in relation to the proportion of online sales and costs allocated to the future cash flows of John Lewis shops to reflect the role that the shops play. The allocation is based on customer sales data (which identifies omni-channel customers), online shopping behaviour and physical touchpoints with a shop, including Click & Collect. In light of changing customer behaviours, with more customers now shopping purely online, we have reassessed our assumptions around the allocation of online sales to shops to better reflect this trend. The proportion of online sales allocated to shops has therefore been reduced this year. Were there to be significant changes in these estimations, the amount charged as impairment during the year could be materially impacted, or impairment charges recognised in previous years may be reversed.*

Property, plant and equipment	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in course of construction £m	Total £m
Cost				
At 26 January 2019	4,626.2	1,948.4	53.0	6,627.6
Adjustment on initial application of IFRS 16[1]	(23.1)	–	–	(23.1)
At 27 January 2019	4,603.1	1,948.4	53.0	6,604.5
Additions[2]	–	–	189.8	189.8
Transfers	65.1	94.4	(159.5)	–
Disposals and write-offs	(118.2)	(84.3)	(1.7)	(204.2)
Transfers from assets held for sale[3]	16.9	–	–	16.9
At 25 January 2020	**4,566.9**	**1,958.5**	**81.6**	**6,607.0**
Additions[2]	16.3	–	119.7	136.0
Transfers	49.2	57.8	(107.0)	–
Disposals and write-offs	(188.6)	(119.5)	(0.2)	(308.3)
Transfers to assets held for sale	(20.2)	(6.1)	–	(26.3)
At 30 January 2021	**4,423.6**	**1,890.7**	**94.1**	**6,408.4**
Accumulated depreciation				
At 26 January 2019	(1,384.1)	(1,433.8)	–	(2,817.9)
Adjustment on initial application of IFRS 16[1]	13.1	–	–	13.1
At 27 January 2019	(1,371.0)	(1,433.8)	–	(2,804.8)
Charge for the year[4]	(210.2)	(154.4)	–	(364.6)
Disposals and write-offs	24.6	82.2	–	106.8
Transfers from assets held for sale[3]	(9.0)	–	–	(9.0)
At 25 January 2020	**(1,565.6)**	**(1,506.0)**	**–**	**(3,071.6)**
Charge for the year[4]	(405.2)	(154.1)	–	(559.3)
Disposals and write-offs	74.8	117.9	–	192.7
Transfers to assets held for sale	7.6	5.7	–	13.3
At 30 January 2021	**(1,888.4)**	**(1,536.5)**	–	**(3,424.9)**
Net book value at January 2019	3,242.1	514.6	53.0	3,809.7
Net book value at January 2020	3,001.3	452.5	81.6	3,535.4
Net book value at January 2021	**2,535.2**	**354.2**	**94.1**	**2,983.5**

1 The Partnership has initially applied IFRS 16 at 27 January 2019 which requires the recognition of right-of-use assets in place of lease assets. As a result at 27 January 2019 land and building assets with a net book value £10.0m have been reallocated and recognised as right-of-use assets. The Partnership has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

2 For the year ended 30 January 2021, additions for the year include the non-cash capital expenditure accrual on property, plant and equipment of £24.4m (2020: £26.6m).

3 Transfers from assets held for sale in the year ended 25 January 2020 includes the reclassification of a property with a net book value of £9.4m back to property, plant and equipment due to changes in circumstances. This is offset by properties with a total carrying value of £1.5m which have been recorded as held for sale at year-end at 25 January 2020.

4 For the year ended 30 January 2021 this includes an impairment charge of £274.0m to land and buildings (2020: £85.3m) and £41.8m in fixtures and fittings (2020: £14.1).

Right-of-use assets	**Land and buildings £m**	**Fixtures, fittings and equipment £m**	**Total £m**
Cost			
Recognition of right-of-use assets on initial application of IFRS 16 at 27 January 2019[1]	1,938.1	4.9	1,943.0
Additions	80.5	–	80.5
Disposals and write-offs	(17.2)	–	(17.2)
At 25 January 2020	**2,001.4**	**4.9**	**2,006.3**
Additions	91.1	43.5	134.6
Disposals and write-offs	(118.5)	(0.2)	(118.7)
At 30 January 2021	**1,974.0**	**48.2**	**2,022.2**
Accumulated depreciation			
Recognition of right-of-use assets on initial application of IFRS 16 at 27 January 2019[1]	–	–	–
Charge for the year[2]	(152.1)	(1.0)	(153.1)
Disposals and write-offs	1.7	–	1.7
At 25 January 2020	**(150.4)**	**(1.0)**	**(151.4)**
Charge for the year[2]	(343.8)	(3.0)	(346.8)
Disposals and write-offs	16.1	0.1	16.2
At 30 January 2021	**(478.1)**	**(3.9)**	**(482.0)**
Net book value on initial application of IFRS 16 at 27 January 2019[1]	1,938.1	4.9	1,943.0
Net book value at January 2020	1,851.0	3.9	1,854.9
Net book value at January 2021	**1,495.9**	**44.3**	**1,540.2**

1 The Partnership has initially applied IFRS 16 at 27 January 2019, which requires the recognition of right-of-use assets for assets under lease contracts. As a result the Partnership recognised £1,943.0m of right-of-use assets from those lease contracts as at 27 January 2019. The Partnership has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

2 For the year ended 30 January 2021 this includes an impairment charge of £209.9m (2020: £18.4m).

3.2 PROPERTY, PLANT AND EQUIPMENT, AND RIGHT-OF-USE ASSETS (CONTINUED)

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 and includes right-of-use assets. The key assumptions used in the impairment review are the discount rate, long-term growth rate, expected sales performance and costs, the allocation of online sales to shops in the determination of the John Lewis shop CGU and market valuations considered in fair value less costs of disposal calculations.

The value in use calculation is based on five-year cash flow projections using the latest budget and forecast data. In John Lewis different growth expectations are applied to online and shop sales. Any changes in sales performance and costs are based on past experience and expectations of future changes in the market. The forecasts are then extrapolated beyond the five-year period using a long-term growth rate of 2% for both Waitrose and John Lewis. A pre-tax discount rate of 7% for Waitrose (2020: 7%) and 10% for John Lewis (2020: 7%) has been used, calculated by reference to the Partnership's Weighted Average Cost of Capital (WACC) which now includes Partnership lease debt under IFRS 16.

The impact of the Covid-19 pandemic has had differing impacts on the Partnership's two brands and has most significantly adversely impacted the trade in John Lewis shops and online. The Covid-19 pandemic has resulted in UK lockdowns and social distancing measures which have triggered an acceleration of change in customer shopping behaviour. The Partnership has witnessed a move to online for general merchandise and grocery over a number of years and the pace of transition has accelerated significantly during the past year. We anticipate that when 'normal' returns, the proportion of sales arising from online and shop channels will be reweighted to favour online and a significant proportion of John Lewis customers who have previously shopped across both channels will retain a predominantly online shopping pattern with reduced visits to physical shops. This has led to a revision of the Partnership's financial targets and a reassessment of how we allocate online sales to CGUs for the purpose of impairment testing of John Lewis shops.

Following the impairment review, the Partnership recognised a net impairment charge arising from shop performance and trading conditions as an exceptional item of £458.5m across property, plant and equipment and right-of-use assets; £468.1m charge in John Lewis and £9.6m credit in Waitrose. Additionally, £52.7m was recognised in relation to our Physical Estate programme and represents the impairment of assets in our shop closure programme, £40.5m in John Lewis, £2.0m in Waitrose, and the exit of a head office location. A further £14.5m relating to Waitrose was charged but not recognised as exceptional. The total impairment charge for the year is £525.7m.

John Lewis shop impairment

The UK Government's implementation of trade restrictions in response to the Covid-19 pandemic and the change in customer buying patterns both represent impairment triggers. As such all John Lewis shops have been tested for impairment.

The impairment review performed considers the VIU of a CGU compared to the carrying value in the first instance and subsequently the fair value less cost to dispose if the VIU is lower than the CGU carrying value.

3.2 PROPERTY, PLANT AND EQUIPMENT, AND RIGHT-OF-USE ASSETS (CONTINUED)

Cash forecasts

The calculations use a pre-tax cash flow based on a five-year plan approved by the Partnership Board. The forecasts are then extrapolated beyond the five-year period using a long-term growth rate of 2%. The key assumptions in this plan are the recovery of John Lewis shop sales from the impact of Covid-19 restrictions, year on year sales growth and margin assumptions. The plan differentiates between online and shop sales growth, which is relevant to our shop CGUs which continue to include an allocation of online sales.

The John Lewis shop impairment is most sensitive to changes in sales and margin forecasts and the allocation of online sales, and therefore sensitivity analysis has focused on these aspects of the impairment evaluation. Modelling a scenario of slower sales and margin recovery for John Lewis shops by reducing both the sales and margin growth assumptions in year 1 by 100bps, results in an additional impairment of £89m.

Online allocation

Judgement is required as to whether online sales (and associated costs) should be attributed to John Lewis shops for the purposes of impairment testing. Management believes that a proportion of online sales, made by customers who shop both online and in store ("omni-channel"), should be attributed to John Lewis shops. This reflects the role our shops play in providing customers with an opportunity to browse, touch, and feel our product range before purchasing online. The merchandising of the product offer in our physical estate provides inspiration for our customers who may then choose to purchase online (in particular for larger items and more considered purchases in our Home offer). For these reasons, John Lewis allocates online sales to shops based on Click & Collect online sales, and a further proportion of online sales of omni-channel customers to reflect the role the shop plays in facilitating online purchases. This further allocation is based on evidence of a customer's physical touchpoint with a shop through previous purchasing behaviour. In light of the significant shift in customer shopping behaviour from shops to online through the pandemic, and our expectation that a proportion of customers will adopt a predominantly online shopping pattern in the future, we have reassessed and reduced this element of our allocation of online sales to shops compared to previous years. The allocation of the sales and the weighting of the drivers (i.e. Click & Collect versus greater allocation to reflect the role the shop plays in facilitating online sales) varies by shop.

Given the pace of change in customer behaviour and the transition to online purchasing, we have run sensitivities to reflect what a further shift in customer shopping behaviour and therefore online allocation would generate in terms of impairment. If an additional 10% of online sales were allocated to shop CGUs this reduces the impairment charge by £74m, whereas a 10% reduction from the current assumption of online allocation would result in an increased impairment charge of £118m. If the online allocation assumptions were reduced such that only online sales serviced through in store Click & Collect were allocated to CGUs, this would further increase the impairment provision by £284m.

Market valuations

External market valuations are regularly obtained by the Partnership and used within the consideration of fair value less cost to dispose. In light of the Covid-19 pandemic and in consideration of the available market for department store properties, these valuations have been reassessed at the year-end and where applicable revised down.

Discount rate

The discount rate used in the calculation of cash flows is derived from the John Lewis Weighted Average Cost of Capital (WACC). This has increased since the year-end. A number of factors have contributed to this increase as the markets respond to the Covid-19 pandemic; the Partnership's gross debt has increased and the

Notes to the consolidated financial statements (continued)
3.2 PROPERTY, PLANT AND EQUIPMENT, AND RIGHT-OF-USE ASSETS (CONTINUED)

average comparative equity betas used in our calculations have risen to reflect the higher level of risk in the market for general merchandise. A reduction in the discount rate assumption of 100 bps would decrease the John Lewis impairment charge by £13m, and an increase of 100 bps would increase the impairment charge by £16m.

Waitrose shop impairment
The impairment calculations for Waitrose shops use a pre-tax cash flow based on a five-year plan approved by the Partnership Board. The forecasts are then extrapolated beyond the five-year period using a long-term growth rate of 2%. The key assumptions in this plan concern the stabilisation of sales and margin following the disruption of lockdown, Waitrose online sales are allocated directly to the shop that the online order is picked and fulfilled from. Online sales are therefore included in the Waitrose CGUs and as the sales are directly attributable to shop activity, this is not considered a key judgement.

The increase in the Waitrose impairment provision is a net £6.9m. This represents additional impairment for a small number of shops that have seen specific performance deterioration, reversals on other shops which have seen improved performance and which has been judged to be sustainable, and utilisation of the provision following the exit of previously impaired shops.

The discount rate used in the calculation of cash flows is derived from the Waitrose Weighted Average Cost of Capital (WACC). This has reduced from the 19/20 year-end, primarily driven by the decrease in the Partnership's underlying bond rates.

The Waitrose impairment estimation is most sensitive to changes in the sales growth and margin assumptions. The below sensitivities reflect realistic and reasonable variations to the forecast currently used by the Partnership:

- Reducing the sales growth rate assumption by 200 bps in year 1 and flowing through into years 2-5 would result in an additional impairment charge of £2.2m;
- Reducing the long-term growth rate to nil would result in an additional impairment charge of £3.1m;
- Amending the forecast gross margin stabilisation by reducing the gross margin assumption by 50 bps in years 1 and 2 would result in an additional impairment charge of £7.1m; and
- Increasing the discount rate by 100 bps would result in an additional impairment charge of £1.3m.

3.3 INVESTMENT IN AND LOANS TO JOINT VENTURE

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 26 January 2019	2.1	2.0	4.1
Additions	–	–	–
At 25 January 2020	**2.1**	**2.0**	**4.1**
Additions	–	–	–
At 30 January 2021	**2.1**	**2.0**	**4.1**
Share of profit/(loss)			
At 26 January 2019	(1.4)	–	(1.4)
Share of loss	(0.2)	–	(0.2)
At 25 January 2020	**(1.6)**	**–**	**(1.6)**
Share of profit	0.9	–	0.9
At 30 January 2021	**(0.7)**	**–**	**(0.7)**
At 26 January 2019	0.7	2.0	2.7
At 25 January 2020	0.5	2.0	2.5
At 30 January 2021	**1.4**	**2.0**	**3.4**

3.4 ASSETS HELD FOR SALE

PURPOSE

Assets held for sale are assets previously classified as non-current 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 and are therefore classified as current assets.

At 30 January 2021, one property asset in Waitrose was recorded as held for sale with a total carrying value of £10.6m, and has been sold since the year-end. At 25 January 2020, three property assets in Waitrose were recorded as held for sale with a total carrying value of £1.5m.

Notes to the consolidated financial statements (continued)

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. 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.

At 30 January 2021, contracts had been entered into for future capital expenditure of £35.5m (2020: £20.2m) of which £30.5m (2020: £14.3m) relates to property, plant and equipment and £5.0m (2020: £5.9m) relates to intangible assets.

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

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 purchased by the Partnership on a sale or return basis, where the Partnership does not have the risks and rewards of ownership. Slow-moving and obsolete inventory is assessed for impairment at each reporting period based on past experience and 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	2021 £m	2020 £m
Raw materials	3.2	3.2
Work in progress	0.2	0.3
Finished goods and goods for resale	640.5	609.4
	643.9	612.9

Notes to the consolidated financial statements (continued)

4.1 INVENTORIES (CONTINUED)

Provisions against inventories of £34.2m were charged (2020: £22.8m charged) to cost of sales.

Finished goods and goods for resale include a 'right to return goods' asset of £19.0m (2020: £16.9m). This relates to the Partnership's expected returns inventory based on previous rates of return.

4.2 TRADE AND OTHER RECEIVABLES

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 allowances for expected credit losses, using the simplified approach under IFRS 9. 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 expected life of the 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.

Trade and other receivables	2021 £m	2020 £m
Current:		
Trade receivables	**48.2**	85.3
Other receivables	**40.0**	41.3
Prepayments	**54.3**	88.7
Accrued income	**37.2**	45.6
	179.7	260.9
Non-current:		
Other receivables	**15.1**	16.0
Prepayments	**2.9**	0.5
	18.0	16.5

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 which has been invoiced where there is no legal right to offset. Included in trade payables are invoices for supplier income where there is a right to offset and the Partnership intends to offset against amounts owed to suppliers (see note 4.3).

Within accrued income, there is £14.7m (2020: 13.4m) in relation to supplier income which has not yet been invoiced. Additionally, accrued income includes £12.1m (2020: 21.8m) 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 not individually 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 30 January 2021, trade and other receivables of £2.1m (2020: £1.5m) were partially or fully impaired. As at 30 January 2021, trade and other receivables of £38.9m (2020: £35.2m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

Ageing analysis	2021 £m	2020 £m
Up to 3 months past due	**37.1**	33.2
3 to 12 months past due	**1.5**	1.3
Over 12 months past due	**0.3**	0.7
	38.9	35.2

Notes to the consolidated financial statements (continued)

4.3 TRADE AND OTHER PAYABLES

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 free warranties. 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 warranties for Technology products. The Partnership allocates a portion of the consideration received for the Technology product to the free warranty on a cost plus margin basis. The amount allocated to the free warranty 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 warranties, deferred income is based on the expected future repair or replacement costs for all goods sold with a free warranty, plus a margin. The expected future costs are based on historical evidence of claims and costs to repair or replace. Management exercise a degree of estimation regarding the margin percentage.*

Trade and other payables	**2021 £m**	2020 £m
Current:		
Trade payables	**(997.3)**	(915.6)
Other payables	**(147.0)**	(158.8)
Other taxation and social security	**(133.7)**	(169.3)
Accruals	**(162.1)**	(159.1)
Deferred income	**(103.1)**	(83.5)
Partnership Bonus	**–**	(27.6)
	(1,543.2)	(1,513.9)
Non-current:		
Other payables	**(0.1)**	(0.1)
Deferred income	**(44.9)**	(46.7)
	(45.0)	(46.8)

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

Notes to the consolidated financial statements (continued)

4.3 TRADE AND OTHER PAYABLES (CONTINUED)

Included in deferred income are contract liabilities for free warranties of £35.6m (2020: £42.4m) and payments from customers for goods and services sold but not delivered of £71.5m (2020: £50.0m). During the year an amount of £25.9m (2020: £26.8m) was released to the income statement in relation to free warranties matching to the period over which the free warranties are utilised. The deferral for the year was £19.0m (2020: £19.2m). All of the contract liabilities for goods and services sold but not delivered at 25 January 2020 have been recognised as revenue in the year ended 30 January 2021.

4.4 PROVISIONS

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 and property-related costs.

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 25 January 2020	(153.5)	(28.8)	(25.3)	(21.9)	(24.0)	(253.5)
Charged to income statement	(15.6)	(37.2)	(8.8)	(131.5)	(37.6)	(230.7)
Released to income statement	11.3	–	–	12.6	9.6	33.5
Utilised	7.1	28.8	7.4	50.4	1.0	94.7
At 30 January 2021	**(150.7)**	**(37.2)**	**(26.7)**	**(90.4)**	**(51.0)**	**(356.0)**
Of which:						
Current	(36.5)	(37.2)	(11.4)	(90.4)	(18.1)	(193.6)
Non-current	(114.2)	–	(15.3)	–	(32.9)	(162.4)

Notes to the consolidated financial statements (continued)

4.4 PROVISIONS (CONTINUED)

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, salary growth, National Insurance and overtime earnings assumptions. The real discount rate applied differs from the real discount rate used for the Partnership's retirement benefits (note 6.1) as it reflects a rate appropriate to the shorter duration of the long leave liability, so as to accrue the cost over Partners' service periods. Illustrated below is the sensitivity of the long leave provision to changes in key assumptions. The sensitivities have been derived using approximate methods which are consistent with the rest of the disclosure:

	£m	% change
Long leave provision as at 30 January 2021	(150.7)	
Sensitivity of 0.1% increase to:		
- Discount rate	1.5	1.0%
- Salary growth	(1.5)	(1.0%)

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. The provisions 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 head office reviews and shop closures. Within the current year, the reorganisation provision is a £66.3m provision for redundancies arising from the Head Office Transformation programme. As this programme was in its early stages at the year-end date the provision contains a significant degree of estimation and is sensitive to changes in assumptions on the number of Partners who leave through redundancy and the average salary and average service of those Partners. If 100 fewer Partners left through redundancy than expected, the provision would decrease by approximately £4.4m.

Other provisions primarily include property-related costs.

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 leases.

5.1 NET FINANCE COSTS

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.

	2021 £m	2020 £m
Finance costs		
Net interest payable on:		
Commitment fees and bank overdrafts	**(2.1)**	(1.3)
Other loans repayable within five years[1]	**(28.1)**	(26.3)
Other loans repayable in more than five years	**(12.9)**	(12.7)
Interest payable in relation to lease liabilities	**(104.2)**	(104.2)
Amortisation of issue costs of bonds and credit facilities	**(2.6)**	(1.5)
Share Incentive Plan dividends	**(0.2)**	(0.2)
Finance costs in respect of borrowings	**(150.1)**	(146.2)
Fair value measurements and other	**(2.5)**	(3.6)
Net finance costs arising on defined benefit retirement scheme	**(7.8)**	(6.9)
Net finance costs arising on other employee benefit schemes	**(8.5)**	(18.6)
Total finance costs	**(168.9)**	(175.3)
Finance income		
Finance income in respect of cash and short-term investments[2]	**8.8**	11.4
Fair value measurements and other	**2.5**	2.3
Total finance income	**11.3**	13.7
Net finance costs	**(157.6)**	(161.6)

1 Other loans repayable within five years includes interest payable on interest rate swaps of £5.3m (2020: £5.8m).

2 Finance income in respect of cash and short-term investments includes interest receivable on interest rate swaps of £6.1m (2020: £6.1m).

Capitalised borrowing costs totalled £2.2m (2020: £5.1m) of which £2.1m (2020: £4.6m) were capitalised within Intangible assets and £0.1m (2020: £0.5m) were capitalised within property, plant and equipment.

Notes to the consolidated financial statements (continued)

5.2 ANALYSIS OF NET DEBT

PURPOSE

Net debt summarises our debt position as at the year-end, excluding the pension deficit. Net debt incorporates the Partnership's borrowings, bank overdrafts, fair value of derivative financial instruments and obligations under 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.

	2020 £m	Cash movements £m	Other non-cash movements £m	**2021 £m**
Non-current assets				
Derivative financial instruments	0.1	–	–	**0.1**
	0.1	–	–	**0.1**
Current assets				
Cash and cash equivalents	598.3	919.9	–	**1,518.2**
Short-term investments	317.2	(316.1)	(0.8)	**0.3**
Derivative financial instruments	4.8	(3.6)	6.0	**7.2**
	920.3	600.2	5.2	**1,525.7**
Current liabilities				
Borrowings and overdrafts	(43.1)	10.3	(75.0)	**(107.8)**
Unamortised bond transaction costs	–	–	–	**–**
Lease liabilities	(95.4)	194.3	(226.2)	**(127.3)**
Derivative financial instruments	(18.7)	8.2	(10.4)	**(20.9)**
	(157.2)	212.8	(311.6)	**(256.0)**
Non-current liabilities				
Borrowings	(726.1)	(149.2)	75.0	**(800.3)**
Unamortised bond transaction costs	9.4	0.8	(1.4)	**8.8**
Fair value adjustment for hedged element on bonds	(2.8)	–	(1.4)	**(4.2)**
Lease liabilities	(1,999.5)	–	89.5	**(1,910.0)**
Derivative financial instruments	(3.9)	–	1.2	**(2.7)**
	(2,722.9)	(148.4)	162.9	**(2,708.4)**
Total net debt	(1,959.7)	664.6	(143.5)	**(1,438.6)**

Notes to the consolidated financial statements (continued)
5.2 ANALYSIS OF NET DEBT (CONTINUED)

Reconciliation of net cash flow to net debt	**2021 £m**	2020 £m
Increase/(decrease) in net cash and cash equivalents in the year	**919.9**	(118.5)
Cash (inflow)/outflow from movement in short-term investments	**(316.1)**	51.4
Cash outflow from SIP shares	**11.0**	14.4
Cash outflow from movement in other net debt items	**49.8**	462.1
Cash movement in net debt for the year	**664.6**	409.4
Opening net debt	**(1,959.7)**	(88.6)
Adjustment on initial application of IFRS 16[1]	**–**	(2,078.0)
Non-cash movement in net debt for the year	**(143.5)**	(202.5)
Closing net debt	**(1,438.6)**	(1,959.7)

1 The Partnership initially applied IFRS 16 at 27 January 2019 and recognised £2.1bn of lease liabilities on the balance sheet. The Partnership applied IFRS 16 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

Our total borrowings and lease liabilities are summarised below.

	Borrowings £m	Lease liabilities £m	**Total £m**
At 26 January 2019	(1,058.5)	(21.1)	(1,079.6)
Adjustment on initial application of IFRS 16[1]	–	(2,078.0)	(2,078.0)
At 27 January 2019	(1,058.5)	(2,099.1)	(3,157.6)
Movements arising from financing cash flows	289.3	196.9	486.2
Other non-cash movements	–	(192.7)	(192.7)
At 25 January 2020	(769.2)	(2,094.9)	(2,864.1)
Movements arising from financing cash flows	(138.9)	194.3	55.4
Other non-cash movements	–	(136.7)	(136.7)
At 30 January 2021	**(908.1)**	**(2,037.3)**	**(2,945.4)**

1 The Partnership has initially applied IFRS 16 at 27 January 2019 and recognised £2.1bn of lease liabilities on the balance sheet. The Partnership applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

Borrowings exclude unamortised bond transaction costs of £8.8m (2020: £9.4m) and the fair value adjustment for hedged element on bonds of £4.2m loss (2020: £2.8m loss).

5.3 SHORT-TERM INVESTMENTS

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. Investments in Variable Net Asset Values (VNAV) with a weighted average maturity of less than 90 days, are included within short-term investments due to the fact they do not bear an insignificant risk of changes in value.*

Short-term investments	2021 £m	2020 £m
Short-term investments	**0.3**	317.2

For the year ended 30 January 2021, the effective interest rate on short-term investments was 0.7% (2020: 1.1%) and these investments had an average maturity of 75 days (2020: 62 days).

The decrease in short-term investments year on year reflects a temporary shift from short-term investments to cash and cash equivalents. This shift provided quicker access to cash, helping to mitigate uncertainty and possible trading volatility caused by Covid-19.

5.4 CASH AND CASH EQUIVALENTS

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 on 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.*

Cash and cash equivalents	2021 £m	2020 £m
Cash at bank and in hand	**178.2**	151.2
Short-term deposits	**1,340.0**	447.1
	1,518.2	598.3

For the year ended 30 January 2021, the effective interest rate on short-term deposits was 0.2% (2020: 0.7%) and these deposits had an average maturity of two days (2020: three days).

At 30 January 2021, £11.8m (2020: £13.4m) of the Partnership's cash balance and £nil (2020: £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.

5.5 BORROWINGS AND OVERDRAFTS

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 3.1% (2020: 4.7%).

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.*

Borrowings and overdrafts	**2021 £m**	2020 £m
Current:		
Share Incentive Plan shares (SIP)	**(32.8)**	(43.1)
Bank loans	**(75.0)**	–
	(107.8)	(43.1)
Non-current:		
Bank loans[1]	**(200.0)**	(125.1)
6⅛% Bonds, 2025	**(300.0)**	(300.0)
4¼% Bonds, 2034	**(300.0)**	(300.0)
Unamortised bond and loan transaction costs	**8.8**	9.4
Fair value adjustment for hedged element on bonds	**(4.2)**	(2.8)
Share Incentive Plan shares (SIP)	**(0.3)**	(1.0)
	(795.7)	(719.5)

[1] Additional bank loans were agreed in 2020/21. See section 7.1.2.

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

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 bonus for this purpose. At 30 January 2021, the value of SIP shares purchased by John Lewis Partnership Trust Limited on behalf of Partners was £33.1m (2020: £44.1m), £71.1m lower than the value of SIP shares issued of £104.2m (2020: £104.2m).

Notes to the consolidated financial statements (continued)
5.5 BORROWINGS AND OVERDRAFTS (CONTINUED)

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 £11.0m (2020: £14.4m) is shown as an operating cash flow in the consolidated statement of cash flows alongside the Partnership Bonus paid during the year. Payments made to SIP shareholders, in respect of interest of £0.3m (2020: £0.3m) are shown as cash flows used in financing operations.

5.6 LEASE LIABILITIES

PURPOSE

The Partnership enters into leases for property, plant and equipment. The Partnership's lease portfolio is principally comprised of property leases of land and buildings in relation to Waitrose and John Lewis shops, distribution centres and head offices. The leases typically run for terms between 5 and 100 years and may include break clauses or options to renew beyond the non-cancellable periods. The majority of the Partnership's lease payments are subject to market review, usually every five years, and some lease agreements include rental payments contingent on turnover or economic indices. These contingent lease payments are excluded from the calculation of lease liabilities under IFRS 16.

ACCOUNTING POLICIES

Lease liabilities: *The Partnership assesses whether a contract is or contains a lease based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.*

At inception or on reassessment of a contract that contains a lease component, the Partnership allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

Under IFRS 16, the Partnership recognises right-of-use assets and lease liabilities at the lease commencement date. The lease liabilities are initially measured at the present value of the lease payments that are not yet paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Partnership's incremental borrowing rate. Generally, the Partnership uses the incremental borrowing rate as the discount rate and this rate is determined on a portfolio basis, in relation to asset type and location.

Lease liabilities are subsequently measured at amortised cost and are increased by the interest charge and decreased by the lease payments made. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a renewal or purchase option is reasonably certain to be exercised or a break clause is reasonably certain not to be exercised.

The Partnership has elected to apply the exemption for recognising right-of-use assets and lease liabilities on the balance sheet where the underlying asset is of low value. Lease expenses relating to low value assets will be recognised in the income statement on a straight-line basis.

In relation specifically to vehicle leases, the Partnership has also elected to apply the exemption for short-term leases and therefore will not recognise right-of-use assets and lease liabilities on the balance sheet for vehicle leases of less than 12 months in duration.

Contingent rentals are recognised as an expense in the income statement when incurred.

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.

Sale and leaseback: *A sale and leaseback transaction is where the Partnership sells an asset and immediately leases back the same asset from the buyer. On sale, the property, plant and equipment asset is derecognised from the balance sheet and the Partnership measures a right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the rights of use retained by the Partnership. The Partnership also recognises a lease liability at the date of the transaction. Any gain or loss that relates to the rights of the buyer is recognised in the income statement.*

KEY JUDGEMENTS

Lease terms: *The Partnership has applied judgement to determine the lease term for those lease contracts that include a renewal or break option. The assessment of whether the Partnership is reasonably certain to exercise a renewal option or reasonably certain not to exercise a break option significantly impacts the value of lease liabilities and right-of-use assets recognised on the balance sheet.*

Extension options and break clauses are included in a number of the Partnership's leases. These are used to maximise flexibility in terms of managing the assets used in the Partnership's operations. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not utilise a break clause. Extension options (or periods after break clauses) are only included in the lease term if the lease is reasonably certain to be extended (or break clause not utilised).

For leases of shops, distribution centres, offices and vehicles, the following factors are considered the most relevant:

- *If there are significant penalties to break leases (or not extend), the Partnership is typically reasonably certain to extend (or not to utilise the break clause); and*
- *The Partnership considers other factors including the likely value of future rentals, the importance of the underlying assets to the Partnership's operations, whether the asset is specialised in nature and the costs and business disruption required to replace the leased asset.*

The following amounts are included in the Partnership's consolidated financial statements in respect of its leases:

	2021 £m	2020 £m
Depreciation charge for right of use assets (excluding impairment) (see note 3.2)	**(136.9)**	(134.7)
Interest expense on lease liabilities	**(104.2)**	(104.2)
Expense relating to short-term leases	**(0.8)**	(0.8)
Expense relating to leases of low-value assets that are not shown above as short-term leases	**(1.8)**	(1.8)
Expense relating to variable lease payments not included in lease liabilities	**(3.2)**	(5.5)
Total cash outflow for leases comprising interest and capital payments (see note 5.2)	**(194.3)**	(196.9)
Additions to right-of-use assets (see note 3.2)	**134.6**	80.5
Carrying amount of right-of-use assets (see note 3.2)	**1,540.2**	1,854.9
Gains arising from sale and leaseback transactions[1]	**12.7**	14.8
Income from sub-leasing right-of-use assets	**5.2**	5.7

[1] The Partnership completed sale and leaseback transactions during the year in relation to 11 shops (2020: 7 shops). Cash proceeds of £136.2m (2020: £103.7m) were received.

We currently do not disclose potential future undiscounted lease payments not included in lease liabilities as these are subject to a high level of judgement regarding expected lease extension terms and future end dates. Additionally, the value of rental payments are subject to future market rates applicable as at the date of extension which are parameters not yet publicly known. As a result, we do not consider the potential future undiscounted lease payments to be able to be reliably estimated. There were no leases not yet commenced to which the Partnership is committed that are not included in lease liabilities as at the year-end.

Notes to the consolidated financial statements (continued)

6 PENSIONS

IN THIS SECTION

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

6.1 RETIREMENT BENEFITS

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 whilst the assets are held at fair value.

On 1 April 2020, the defined benefit section of the scheme closed to future accrual. Following closure, members' deferred pensions will now increase annually by inflation up to 5% per annum (measured using the Consumer Price Index, CPI).

The defined contribution section of the scheme is available to all Partners and pays fixed 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, other than any accrual for the previous period's monthly defined contribution payments.

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 increases.*

The current service cost is the increase in the present value of the retirement benefit obligation resulting from employees' service in the current year, up to 1 April 2020. The current service cost is included within operating profit in the consolidated income statement. Following the closure of the defined benefit section of the pension scheme, no future current service costs will be recognised.

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

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

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

Contributions to the 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 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.

The scheme includes a funded final salary defined benefit section, providing pensions and death benefits to members. This scheme closed to new members and future accrual on 1 April 2020 and all active members of the scheme moved to become deferred members.

Following closure, members' deferred pensions will now increase annually by inflation up to 5% per annum (measured using CPI), which is generally lower than the previous pay growth assumption and resulted in a reduction of the defined benefit obligation on closure. The accounting impact of the closure was a reduction in the defined benefit obligation of £156.0m. This reflected a past service gain of £249.0m, recognised as an exceptional credit at 25 January 2020, representing the break in future salary linkage. The gain was partially offset by a £93.0m actuarial loss, recognised through equity. This reflected a decrease in future expected commutation of the defined benefit pensions (i.e. exchanging defined benefit pensions for tax-free cash), as the defined contribution element of Partners' total pension entitlement increases. All contributions to the defined benefit section of the pension scheme to meet the obligations are funded by the Partnership.

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 the Retail Price Index (RPI) inflation (up to a maximum of 5%). From January 2017, this increase is granted in line with CPI inflation (up to a maximum of 2.5%).

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.

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.

Notes to the consolidated financial statements (continued)
6.1 RETIREMENT BENEFITS (CONTINUED)

The most recent valuation has been carried out by an independent professionally qualified actuary as at 31 March 2019. As part of the triennial actuarial valuation of the scheme, underlying membership data was updated as at 31 March 2019. This resulted in an actuarial gain as at 25 January 2020, recognised through equity, of £160.6m, reflecting the difference between actual experience compared to assumptions made in estimating the asset and liability growth. Pension commitments recognised in these financial statements have been calculated based on that updated membership data rolled forward for known movements.

The valuation at 31 March 2019 resulted in a funding deficit of £58.0m (31 March 2016: £479.0m). The market value of the assets of the scheme as at 31 March 2019 was £6,012.0m (31 March 2016: £4,377.0m). The actuarial valuation showed that these assets were sufficient to cover 99% (31 March 2016: 90%) of the benefits which had accrued to members.

The valuation calculated under the funding valuation basis of £58.0m is different from the accounting valuation which is presented on the balance sheet in the Partnership's financial statements of £646.9m. 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 2019 and 30 January 2021.

For funding valuation purposes the liabilities are determined based on assumptions set by the Trustee following consultation with the Partnership and Scheme Actuary. The discount rate used for the funding valuation as at 31 March 2019 is based on index linked gilt yields plus 2.2% and 0.8% for pre and post retirement respectively.

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 £58.0m over a six-year period. As part of this plan, it was agreed that deficit reducing contributions would be paid in equal monthly instalments from 1 April 2020 to 31 March 2026 totalling £10m per annum.

The next triennial actuarial valuation of the scheme will take place as at 31 March 2022.

During the year, the Partnership and the Trustee also agreed a long term derisking framework, see section 6.1.4 for more details.

Pension commitments recognised in these accounts have been calculated based on the most recent actuarial valuation, as at 31 March 2019, which has been updated by actuaries to reflect the assets and liabilities of the scheme as at 30 January 2021, 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.

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

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 increase in life expectancy leading to an increase in the scheme's liabilities: An increase in life expectancy would mean pensions are expected to be paid for a longer period, so increasing the liability and the scheme's deficit. This is offset in part by the scheme applying a Life Expectancy Adjustment Factor, whereby future pensions coming into payment are adjusted to allow for increases in life expectancy.

6.1.1 ASSUMPTIONS

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 30 January 2021. The following financial assumptions have been used to value the obligation:

	2021	2020
Discount rate	**1.55%**	1.90%
Future RPI inflation	**2.75%**	2.80%
Future CPI inflation	**2.30%**	2.00%
Increase in pensions – in payment		
Pre-April 1997	**1.75%**	1.60%
April 1997-April 2016	**2.65%**	2.70%
Post-April 2016	**1.75%**	1.60%
Increase in pensions – deferred	**2.30%**	2.00%

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

Notes to the consolidated financial statements (continued)
6.1 RETIREMENT BENEFITS (CONTINUED)
6.1.1 ASSUMPTIONS (CONTINUED)

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 23 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.

Future RPI and CPI inflation: The inflation assumptions used to calculate the Partnership's defined benefit pension obligations are based on a cash flow weighted Bank of England RPI, which is then adjusted for inflation risk. As at 30 January 2021, in order to reflect the impact of recent confirmation by the UK Chancellor and the UK Statistics Authority (UKSA) to align the RPI with CPIH (a variant of the Consumer Price Index that includes an estimate of housing costs) from 2030, the assumptions applied to adjust for the inflation risk premium and the long-term gap between RPI and CPI were reassessed for the period beyond 2030. An inflation risk premium of 0.2% has been applied until 2030, increasing to 0.5% beyond this date (an average margin of 0.35%). A long-term gap of 1.0% between RPI and CPI has been applied until 2030, reducing to 0.1% beyond this date (an average long-term gap of 0.45%). The impact of these changes has resulted in an actuarial loss of £68.5m recognised in equity.

Demographic assumptions

The post-retirement mortality assumptions used in valuing the pension liabilities were based on the S2 Light (2020: 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 CMI 2018 improvements model with a smoothing parameter of 7.0 (2020: CMI 2018, smoothing parameter of 7.0) subject to a long-term trend of 1.25%.

The average life expectancies assumed were as follows:

	2021		2020	
	Male	**Female**	Male	Female
Average life expectancy for a 65 year old (in years)	**21.1**	**23.4**	21.0	23.3
Average life expectancy at age 65, for a 50 year old (in years)	**22.0**	**24.5**	21.9	24.5

Notes to the consolidated financial statements (continued)
6.1 RETIREMENT BENEFITS (CONTINUED)
6.1.2 AMOUNTS RECOGNISED IN THE FINANCIAL STATEMENTS

PURPOSE

This section details the amounts recognised in our consolidated financial statements in relation to the defined benefit section of 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 defined benefit section of the pension scheme.

Amounts recognised in the balance sheet	**2021 £m**	2020 £m
Defined benefit obligation for funded arrangements	**(7,422.8)**	(6,798.9)
Defined benefit obligation for unfunded arrangements	**(20.7)**	(22.1)
Total defined benefit obligation	**(7,443.5)**	(6,821.0)
Total value of scheme assets	**6,796.6**	6,403.6
Defined benefit liability at end of year	**(646.9)**	(417.4)

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. Following the closure of the defined benefit section of the pension scheme on 1 April 2020, no further service costs will be recognised.

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	**2021 £m**	2020 £m
Current service cost	**(18.9)**	(109.1)
Past service gain as a result of closure[1]	**–**	249.0
Contribution expense[2]	**(107.9)**	(82.0)
Administrative expenses – funded by the pension scheme	**(7.7)**	(7.0)
Administrative expenses – funded by the employer	**(8.8)**	(5.9)
Total operating (expense) / income	**(143.3)**	45.0
Net interest on net defined benefit liability	**(7.8)**	(6.9)
Total pension (charge) / credit	**(151.1)**	38.1

1 This was recognised as exceptional income, see note 2.5 for details.

2 Includes Partnership contributions to the defined contribution section of the pension scheme of £105.7m (2020: £78.0m), together with cash supplements in respect of certain Partners in lieu of future pension accrual of £2.2m (2020: £4.0m). Of the total contribution expense, £0.3m was recognised as an exceptional expense, see note 2.5 for details.

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

6.1.3 RECONCILIATION OF RETIREMENT BENEFITS

Amounts recognised in equity	**2021 £m**	2020 £m
Return on plan assets greater than interest income	**412.6**	693.6
Remeasurements:		
– loss from changes in financial assumptions	**(618.1)**	(1,004.3)
– loss from changes in demographic assumptions	**(64.4)**	(43.5)
– experience gains	**32.5**	160.6
Total loss recognised in equity	**(237.4)**	(193.6)

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 pension operating expense set out above in 6.1.2, but excluding contribution expense and administrative expenses met directly by the employer.

Contributions paid into the scheme will reduce the value of the net pension liability.

Gains or losses recognised in equity relating to returns on plan assets being different to the interest income and remeasurements (explained further below).

Reconciliation of net defined benefit liability	**2021 £m**	2020 £m
Net defined benefit liability at beginning of year	**(417.4)**	(468.1)
Pension (charge)/credit	**(34.4)**	126.0
Contributions	**42.3**	118.3
Total losses recognised in equity	**(237.4)**	(193.6)
Net defined benefit liability at end of year	**(646.9)**	(417.4)

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. Following the closure of the defined benefit section of the pension scheme, there will be no further current or past service costs recognised from 1 April 2020.

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	**2021 £m**	2020 £m
Defined benefit obligation at beginning of year	**(6,821.0)**	(6,083.0)
Past service gain as a result of closure	**–**	249.0
Current service cost	**(18.9)**	(109.1)
Interest on pension liabilities	**(128.1)**	(159.3)
Remeasurements		
– loss from changes in financial assumptions	**(618.1)**	(1,004.3)
– loss from changes in demographic assumptions	**(64.4)**	(43.5)
– experience gains	**32.5**	160.6
Benefits paid	**174.5**	168.6
Defined benefit obligation at end of year	**(7,443.5)**	(6,821.0)

The scheme liabilities are nil in respect of active scheme participants, 71.2% in respect of deferred scheme participants and 28.8% in respect of retirees.

The weighted average duration of the scheme liabilities at the end of the year is 23 years (2020: 22 years).

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 interest income 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.

Notes to the consolidated financial statements (continued)
6.1 RETIREMENT BENEFITS (CONTINUED)
6.1.3 RECONCILIATION OF RETIREMENT BENEFITS (CONTINUED)

Reconciliation of value of assets	2021 £m	2020 £m
Value of assets at the beginning of year	**6,403.6**	5,614.9
Interest income on assets	**120.3**	152.4
Return on plan assets greater than interest income	**412.6**	693.6
Benefits paid	**(174.5)**	(168.6)
Administrative expenses paid	**(7.7)**	(7.0)
Contributions	**42.3**	118.3
Value of assets at the end of year	**6,796.6**	6,403.6

6.1.4 ANALYSIS OF ASSETS

	2021				2020			
	Quoted £m	**Unquoted £m**	**Total £m**	**Total**	Quoted £m	Unquoted £m	Total £m	Total
Equities								
UK	**37.4**	**24.6**	**62.0**	**0.9%**	45.7	39.0	84.7	1.3%
Rest of the world	**769.9**	**1,163.7**	**1,933.6**	**28.4%**	887.5	1,178.2	2,065.7	32.3%
Bonds								
Government – Rest of the world	**203.5**	**2.1**	**205.6**	**3.0%**	113.8	0.1	113.9	1.8%
Corporates – UK	**11.9**	**0.9**	**12.8**	**0.2%**	3.6	–	3.6	<0.1%
Corporates – Rest of the world	**221.6**	**217.2**	**438.8**	**6.5%**	86.5	113.6	200.1	3.1%
Property								
UK	–	**496.9**	**496.9**	**7.3%**	–	516.9	516.9	8.1%
Rest of the world	–	**0.1**	**0.1**	**<0.1%**	–	0.1	0.1	<0.1%
Alternative assets								
Liability driven investments	**–**	**1,709.2**	**1,709.2**	**25.1%**	–	1,530.4	1,530.4	23.9%
Hedge funds	**–**	**588.1**	**588.1**	**8.7%**	–	642.9	642.9	10.0%
Private equity	**–**	**418.4**	**418.4**	**6.2%**	–	375.5	375.5	5.9%
Other alternative assets	**–**	**687.4**	**687.4**	**10.1%**	–	613.2	613.2	9.6%
Cash and other	**243.7**	**–**	**243.7**	**3.6%**	256.6	–	256.6	4.0%
Total market value of assets	**1,488.0**	**5,308.6**	**6,796.6**	**100.0%**	1,393.7	5,009.9	6,403.6	100.0%

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

6.1.4 ANALYSIS OF ASSETS (CONTINUED)

The Trustee's investment strategy was revised during the year and is contained in their Statement of Investment Principles dated 25 September 2020. That investment strategy which the Trustee consulted upon with the Partnership is to target full funding on a low dependency basis by 2044. The Trustee will pursue an investment strategy that generates investment returns in excess of government bonds but with a risk level that is commensurate with the strength of the covenant. During the year the Trustee and the Partnership agreed a derisking framework to help determine the appropriate allocation to the Return-Seeking portfolio based on improvements in the Trust's funding level at a given point in time, with the overall aim of reducing risk and reducing the Scheme's future reliance on the Partnership. The Trustee has commenced activity since the year-end and as a result, £809.4m of the Scheme's investment in equities has been moved into lower risk investments.

The interest rate hedging at the year-end was 100% of assets and the inflation coverage was 80%.

In 2018, the Trustee implemented an equity hedge strategy. Its objective was to reduce the value-at-risk contribution from equities by approximately 50% while giving up limited upside in a market rally. This is achieved by replicating a portfolio of long-dated, at-the-money put options whilst selling short-dated, out-of-the-money call options. This is structured as a total return swap. The equity hedge was half unwound towards the end of 2018 and was taken off completely in March 2020 as it had achieved its objective.

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 £3,693.8m (2020: £3,221.5m) and associated repurchase agreements and swaps valued at £(1,984.6)m (2020: £(1,691.1)m). This is part of the Trustee's interest rate and inflation hedging strategy.

Other alternative assets include investments in infrastructure funds of £308.4m (2020: £309.0m), insurance linked funds £79.7m (2020: £95.1m), private debt £299.3m (2020: £239.2m) and equity options £nil (2020: £(30.1)m).

Cash and other includes cash deposits of £235.8m (2020: £247.4m), forward foreign exchange contracts valued at £8.7m (2020: £12.6m) and other items valued at £(0.8)m (2020: £(3.4)m).

Actual return on assets	**2021 £m**	2020 £m
Interest income on assets	**120.3**	152.4
Return on plan assets greater than interest income	**412.6**	693.6
Actual return on assets	**532.9**	846.0

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

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 defined benefit obligation to changes in key assumptions.

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

	£m	% change
Defined benefit obligation as at 30 January 2021	**(7,443.5)**	
Sensitivity of 0.1% increase to:		
– Discount rate[1]	**170.3**	**2.3**
– Retail price inflation	**(34.7)**	**(0.5)**
– Consumer price inflation	**(76.5)**	**(1.0)**
Sensitivity of one-year increase in life expectancy	**(274.9)**	**(3.7)**

1 The discount rate sensitivity does not allow for the impact of the Trustee's investment strategy. As set out in note 6.1.4 this is designed to offset movements in the discount rate and their impact on the liabilities.

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 £76.6m (2020: £73.8m) 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.

Notes to the consolidated financial statements (continued)
6.1 RETIREMENT BENEFITS (CONTINUED)
6.1.6 OTHER ARRANGEMENTS (CONTINUED)

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, 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 £760.0m of net assets.

Waitrose Limited guarantee
As part of agreeing the funding valuation in 2020, Waitrose Limited 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, then the pension scheme can claim against Waitrose Limited for those payments. There is no requirement for Waitrose Limited to maintain a minimum net asset position.

The guarantees have 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 co-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, with the aim of maintaining a financial risk profile consistent with an investment grade credit rating to ensure the long-term financial sustainability of the Partnership. Although the Partnership does not have an external credit rating, it routinely monitors its capital and liquidity requirements, primarily through the Debt Ratio (see pages 11 to 12), whilst maintaining an appropriate level of liquidity (cash plus undrawn committed credit facilities) 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 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.

At the year-end, the Partnership had undrawn committed credit facilities of £500m (2020: £500.0m), of which £64.3m matures in November 2021, £50m matures in September 2022 and £385.7m matures in November 2022. In addition to these facilities, the Partnership had listed bonds at the year-end totalling £600.0m (2020: £600.0m), 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 £150.0m were agreed during 2020/21 in addition to £125.0m of bank

7.1 MANAGEMENT OF FINANCIAL RISKS (CONTINUED)

7.1.2 LIQUIDITY RISK (CONTINUED)

loans already existing (2020: £125.0m), of which £75.0m matures in Q4 2021, £150.0m matures in Q4 2022 and £50.0m in Q4 2023. The loans have variable interest payments. The maturity profiles of financial debt are set out below. In May 2020 the Partnership's application to the Bank of England and HM Treasury CCFF was approved and £300m was drawn down. The CCFF was repaid in January 2021.

The Partnership's listed bonds, bank loans and committed credit facilities contain financial covenants. In April 2020 in response to the Covid-19 pandemic, the Partnership's banking group agreed to a relaxation of the financial covenant contained within the committed credit facilities. Throughout the year the Partnership maintained comfortable headroom against its covenants (for further detail see pages 57 to 60).

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

	Carrying amount £m	Total contractual cash flows £m	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	(903.5)	(908.1)	(107.8)	(150.0)	(650.3)
Interest payments on borrowings	–	(262.0)	(37.0)	(35.0)	(190.0)
Lease liabilities[1]	(2,037.3)	(3,254.8)	(211.3)	(211.7)	(2,831.8)
Trade and other payables	(1,306.5)	(1,306.5)	(1,306.4)	(0.1)	–
Derivative financial liabilities					
Derivative contracts – receipts	–	448.4	356.0	80.2	12.2
Derivative contracts – payments	–	(464.1)	(372.4)	(81.7)	(10.0)
At 30 January 2021	(4,247.3)	(5,747.1)	(1,678.9)	(398.3)	(3,669.9)

1 The lease liabilities due 2 years and beyond can be further broken down as £(609.9)m 2-5 years, £(696.3)m 5-10 years, £(744.3)m 10-15 years and £(781.3)m 15 years and beyond.

Notes to the consolidated financial statements (continued)
7.1 MANAGEMENT OF FINANCIAL RISKS (CONTINUED)
7.1.2 LIQUIDITY RISK (CONTINUED)

	Carrying amount £m	Total contractual cash flows £m	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	**(762.6)**	**(769.2)**	**(43.1)**	**(75.0)**	**(651.1)**
Interest payments on borrowings	**–**	**(289.6)**	**(34.1)**	**(33.6)**	**(221.9)**
Lease liabilities	**(2,094.9)**	**(3,628.4)**	**(199.2)**	**(200.8)**	**(3,228.4)**
Trade and other payables	**(1,261.2)**	**(1,261.2)**	**(1,261.1)**	**(0.1)**	**–**
Derivative financial liabilities					
Derivative contracts – receipts	**–**	**475.4**	**367.1**	**89.9**	**18.4**
Derivative contracts – payments	**–**	**(493.5)**	**(383.0)**	**(93.2)**	**(17.3)**
At 25 January 2020	**(4,118.7)**	**(5,966.5)**	**(1,553.4)**	**(312.8)**	**(4,100.3)**

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 below. 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.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of GBP LIBOR with alternative risk-free rates, and the Financial Conduct Authority (FCA) has confirmed that all GBP LIBOR settings will cease after 31 December 2021. The Partnership has some exposure to Sterling LIBOR on its borrowings and financial instruments. To transition existing contracts and agreements that reference GBP LIBOR, adjustments for term differences and credit differences might need to be applied. The greatest change will be amendments to the contractual terms of GBP LIBOR-referenced floating rate debt and interest rate swaps. However, the changed reference rate will also affect other systems, processes, risk and valuation models, as well as having tax and accounting implications.

Notes to the consolidated financial statements (continued)
7.1 MANAGEMENT OF FINANCIAL RISKS (CONTINUED)
7.1.3 INTEREST RATE RISK (CONTINUED)

The Partnership has applied the following reliefs that were introduced by the amendments made to IFRS 9 Financial Instruments in September 2019:

- When considering the 'highly probable' requirement, the Partnership has assumed that the adjustments for term differences will mean that the interest rate used after the reform will be the same as if still referenced to GBP LIBOR;
- In assessing whether the hedge is expected to be highly effective on a forward-looking basis the Partnership has assumed that adjustments for term differences will mean that the interest rate on which the cash flows of the hedged debt and the interest rate swap that hedges it are based, is not altered; and
- The Partnership has not recycled the cash flow hedge reserve relating to the period after the reforms are expected to take effect.

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 and John Lewis, 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 contacts of £425.2m (2020: £444.7m) had been entered into, to hedge purchases in foreign currencies which will mature over the next 18 months.

In addition, the Partnership purchased $200.0m of Sterling/US dollar options and €100.0m of Sterling/Euro options, which expired in February 2020, and $200m of Sterling/US dollar options, which expired in January 2021, in order to help manage its indirect currency risk. The indirect risk hedged is defined as the Partnership'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 (CONTINUED)

7.1.5 CREDIT RISK

The Partnership has no significant exposure to an individual customer's credit risk due to transactions being principally of a high volume, low value and short maturity. Cash deposits and other financial instruments give rise to credit risk on the amounts due from counterparties. These risks are managed by restricting such transactions to an approved list of counterparties, who have an investment grade credit rating by at least two of the three primary rating agencies. Appropriate credit limits are designated to each counterparty.

The Partnership considers its maximum exposure to credit risk is as follows:

	2021 £m	2020 £m
Trade and other receivables	**103.3**	142.6
Short-term investments	**0.3**	317.2
Cash and cash equivalents	**1,518.2**	598.3
Derivative financial instruments	**7.3**	4.9
	1,629.1	1,063.0

7.1.6 ENERGY RISK

The Partnership operates risk management processes for the energy costs associated with the Partnership's activities. The Partnership regularly reviews its 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 primarily 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 £1.3m (2020: £1.4m) had been entered into, to hedge future purchases of diesel.

Notes to the consolidated financial statements (continued)

7.1 MANAGEMENT OF FINANCIAL RISKS (CONTINUED)

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 provisions, which is addressed in notes 4.4 and 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.

	2021		2020	
	Income statement +/- £m	**Equity +/- £m**	Income statement +/- £m	Equity +/- £m
UK interest rates +/- 1% (2020: +/- 1%)	**9.3**	**–**	3.5	–
US Dollar exchange rate (GBP/USD) +/- 10% (2020: +/- 10%)	**–**	**20.0**	13.3	22.7
Euro exchange rate (GBP/EUR) +/- 10% (2020: +/- 10%)	**–**	**17.1**	6.9	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.

Notes to the consolidated financial statements (continued)

7.2 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES (CONTINUED)

7.2.1 BASIS OF FAIR VALUE

Fair value estimation

The different levels per the IFRS 13 fair value hierarchy have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

During the year ended 30 January 2021, 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:

	2021				2020			
Fair value of derivative financial instruments	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
Non-current								
Currency derivatives - cash flow hedge	**0.1**	**(2.2)**	**(2.1)**	**–**	0.1	(3.0)	(2.9)	–
Other derivatives	**–**	**(0.5)**	**–**	**(0.5)**	–	(0.9)	–	(0.9)
	0.1	**(2.7)**	**(2.1)**	**(0.5)**	0.1	(3.9)	(2.9)	(0.9)
Current								
Currency derivatives - cash flow hedge	**3.0**	**(19.7)**	**(16.7)**	**–**	2.0	(18.2)	(16.2)	–
Other derivatives	**4.2**	**(1.2)**	**–**	**3.0**	2.8	(0.5)	–	2.3
	7.2	**(20.9)**	**(16.7)**	**3.0**	4.8	(18.7)	(16.2)	2.3

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

The fair value of the derivative financial instruments held by the 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 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES (CONTINUED)

7.2.3 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES HELD AT AMORTISED COST

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

		2021 £m		2020 £m
	CV	**FV**	CV	FV
Financial liabilities				
Listed bonds	**(591.2)**	**(641.5)**	(590.6)	(645.7)

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.

7.3 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

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	1,410.0	108.2	1,518.2
Other financial assets	0.3	–	0.3
At 30 January 2021	**1,410.3**	**108.2**	**1,518.5**
Sterling financial assets	823.9	91.2	915.1
Other financial assets	0.4	–	0.4
At 25 January 2020	824.3	91.2	915.5

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 shops and cash in transit, primarily made up of credit and debit card transactions not yet settled.

7.3 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

7.3.2 ANALYSIS OF FINANCIAL LIABILITIES

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

Currency analysis	Fixed rate £m	Floating rate £m	Total £m
All Sterling			
At 30 January 2021	**(2,529.4)**	**(407.2)**	**(2,936.6)**
At 25 January 2020	(2,586.0)	(268.7)	(2,854.7)

Notes to the consolidated financial statements (continued)

8 OTHER NOTES

IN THIS SECTION

This section includes other financial information that is required by accounting standards.

8.1 SHARE CAPITAL

PURPOSE

Share capital consists of ordinary shares. It is measured as the number of shares issued and fully paid, multiplied by their nominal value.

Share capital	2021 Authorised £m	2021 Issued and fully paid £m	2020 Authorised £m	2020 Issued and fully paid £m
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, 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.

Notes to the consolidated financial statements (continued)
8.2 RELATED PARTY TRANSACTIONS (CONTINUED)

8.2.3 OTHER TRANSACTIONS

Key management compensation has been disclosed in note 2.8.3.

During the year the Partnership provided administrative support services to charities related to the Partnership. The estimated value of these support services is £86,000 (2020: £90,000). The Partnership also made donations totalling £0.4m (2020: £0.7m) to the John Lewis & Partners Foundation.

8.3 SUBSEQUENT EVENTS

PURPOSE
Events that take place after the balance sheet date of 30 January 2021 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.

As part of our plan to reshape our store estate over the five years of the Partnership Plan, on 24 March 2021, John Lewis informed Partners that eight shops are proposed for closure and would not reopen alongside the rest of our estate. The stores impacted are Aberdeen, Ashford, Basingstoke, Chester, Peterborough, Sheffield, Tunbridge Wells, and York. As a result 1,465 Partners have been put at risk of redundancy. No accounting for potential redundancies or exit costs was recorded for the year ended 30 January 2021 in respect of these shop closures on the basis that both the Partnership Board decision and the announcement to Partners were after the year-end. For the leasehold properties, negotiations with landlords to exit the leases are ongoing and at this stage it is not possible to estimate any financial liability arising. Across the eight shops, only £8.7m in respect of PPE assets remains on the balance sheet after consideration of the 2020/21 impairment provision.

Additionally on 24 March 2021, we confirmed that we have reached an agreement with XPO Logistics to operate our Waitrose distribution centre in Leyland, Lancashire, on our behalf. As a result, 436 Waitrose Partners will transfer to XPO under the Transfer of Undertakings Protection of Employment (TUPE) regulations.

COMPANY FINANCIAL STATEMENTS

COMPANY BALANCE SHEET

as at 30 January 2021

A financial snapshot of the Company, showing our assets and how they are financed.

Notes		**2021** **£m**	2020 £m
	Non-current assets		
11	Investments	**123.1**	123.0
	Total assets	**123.1**	123.0
	Current liabilities		
13	Trade and other payables	**(0.3)**	(1.2)
	Non-current liabilities		
12	Borrowings	**(104.2)**	(104.2)
	Total liabilities	**(104.5)**	(105.4)
	Net assets	**18.6**	17.6
	Equity		
14	Share capital	**0.6**	0.6
	Capital redemption reserve	**5.0**	5.0
	Retained earnings	**13.0**	12.0
	Total equity	**18.6**	17.6

The financial statements on pages 199 to 204 were approved by the Board of Directors on 21 April 2021 and signed on its behalf by Sharon White and Bérangère Michel, Directors, John Lewis Partnership plc.

Sharon White and Bérangère Michel

Directors, John Lewis Partnership plc

Registered number 00238937

The accompanying notes are an integral part of the financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30 January 2021

Notes		Share capital £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
	Balance at 26 January 2019	0.6	5.0	11.3	16.9
10	Profit for the year and total comprehensive income	–	–	0.7	0.7
	Balance at 25 January 2020	0.6	5.0	12.0	17.6
10	Profit for the year and total comprehensive income	–	–	1.0	1.0
	Balance at 30 January 2021	**0.6**	**5.0**	**13.0**	**18.6**

The accompanying notes are an integral part of the financial statements.

Notes to the company financial statements

9 ACCOUNTING POLICIES

PURPOSE

John Lewis Partnership plc (the Company) prepares its accounts in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and in compliance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRSs as adopted by the EU). 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 accounting standards in conformity with the requirements of the Companies Act 2006, and in compliance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRSs as adopted by the EU). 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.

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 cash flow statement is not required.

Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 30 January 2021, the Directors are required to consider whether the Company can continue in operational existence for a period of at least 12 months from the approval of the financial statements.

The Directors have concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts with specific consideration to the Company in the context of

Notes to the company financial statements (continued)
9 ACCOUNTING POLICIES (CONTINUED)

the current Covid-19 pandemic in the UK, for the reasons set out in note 1.1.1. Consequently, the Directors have concluded that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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

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 £1.0m profit (2020: £0.7m profit).

Details of auditor's remuneration are provided in note 2.6 to the Partnership's consolidated financial statements.

11 INVESTMENTS

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 30 January 2021:

	Subsidiary		Other	
Investments	**Shares in John Lewis plc £m**	**Loan to John Lewis plc £m**	**Shares in John Lewis Partnership Trust Limited £m**	**Total £m**
At 25 January 2020	11.3	111.6	0.1	123.0
Movements	–	0.1	–	0.1
At 30 January 2021	**11.3**	**111.7**	**0.1**	**123.1**

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

Notes to the company financial statements (continued)

12 BORROWINGS

PURPOSE
Borrowings consist of long-term loans from Partnership companies in respect of Share Incentive Plan shares, which are allocated to Partners who are entitled to a dividend.

Borrowings	2021 £m	2020 £m
Non-current:		
Loans from Partnership 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.

Trade and other payables	2021 £m	2020 £m
Other payables	**(0.3)**	(1.2)

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.

	2021		2020	
Share capital	**Authorised £m**	**Issued and fully paid £m**	Authorised £m	Issued and fully paid £m
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. 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 the Pension Scheme Trustee are disclosed within note 8.2 to the Partnership's consolidated financial statements.

16 SUBSIDIARIES AND RELATED UNDERTAKINGS

The Company has a number of subsidiaries which contribute to the overall profitability of the Partnership. In accordance with section 409 of the Companies Act 2006 and Schedule 4 of The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, a full list of related undertakings, registered office addresses and the percentages of share class owned as at 30 January 2021 are disclosed below.

The Company's only direct 100% owned subsidiary as at 30 January 2021 was:

Name	Principal activity	Country of incorporation	Class of share	Percentage shareholdings
John Lewis plc	Retailing and corporate services	England & Wales[1]	Ordinary	100%

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

The whole of the ordinary share capital of the subsidiary undertakings of John Lewis plc as shown on the next page is held within the Partnership. Except where noted, 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 not appended the accounts of JLP Scottish Partnership and JLP Scottish Limited Partnership. Separate accounts for these partnerships are not required to be filed with the Registrar of Companies.

Notes to the company financial statements (continued)
16 SUBSIDIARIES AND RELATED UNDERTAKINGS (CONTINUED)

Subsidiary and related undertakings of John Lewis plc:

Name	Principal activity	Country of incorporation	Class of share	Percentage shareholdings
Admiral Park Retail Management Limited	Property holding company	Guernsey[1]	Ordinary	54%
Buy.Com Limited	Dormant	England & Wales[2]	Ordinary	100%
Carlisle Place Ventures Limited	Home services	England & Wales[2]	Ordinary	100%
Clicklink Logistics Limited	Joint venture	England & Wales[3]	Ordinary	50%
Herbert Parkinson Limited	Manufacturing and making up	England & Wales[2]	Ordinary	100%
JLP Insurance Limited	Insurance	Guernsey[4]	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[2]	Ordinary	100%
John Lewis Hong Kong Limited	Sourcing company	Hong Kong[7]	Ordinary	100%
John Lewis India Private Limited	Sourcing company	India[8]	Ordinary	100%
John Lewis International Limited	International retail	England & Wales[2]	Ordinary	100%
John Lewis Partnership Pensions Trust	Non-trading	England & Wales[2]	Ordinary	100%
John Lewis Properties plc	Property holding company	England & Wales[2]	Ordinary	100%
John Lewis PT Holdings Limited	Holding company	England & Wales[2]	Ordinary	100%
Jonelle Jewellery Limited	Dormant	England & Wales[2]	Ordinary	100%
Jonelle Limited	Dormant	England & Wales[2]	Ordinary	100%
Park One Management Limited	Provision of management services	England & Wales[9]	Ordinary	37%
Peter Jones Limited	Dormant	England & Wales[2]	Ordinary	100%
The Odney Estate Limited	Dormant	England & Wales[2]	Ordinary	100%
Waitrose (Jersey) Limited	Food retailing	Jersey[10]	Ordinary	100%
Waitrose (Guernsey) Limited	Food retailing	Guernsey[1]	Ordinary	100%
Waitrose Limited	Food retailing	England & Wales[2]	Ordinary	100%

1 The address of the registered office is PO Box 119 Martello Court, Admiral Park, St Peter Port, Guernsey, GY1 3HB.
2 The address of the registered office is 171 Victoria Street, London SWIE 5NN.
3 The address of the registered office is Clipper Logistics Group, Gelderd Road, Leeds, West Yorkshire LS12 6LT.
4 The address of the registered office is PO Box 155 Mill Court, La Charroterie, St Peter Port, Guernsey GY1 4ET.
5 The address of the registered office is John Lewis Aberdeen, George Street, Aberdeen AB25 1BW.
6 The address of the registered office is John Lewis, 60 Leith Street, Edinburgh EH1 3SP.
7 The address of the registered office is Suite 3201, Jardine House, 1 Connaught Place, Central, Hong Kong.
8 The address of the registered office is 3rd Floor, Tower B, Signature Towers, South City, Sector - 30, Gurgaon, Haryana, India, 122001
9 The address of the registered office is Number 22 Mount Ephraim, Tunbridge Wells, Kent TN4 8AS.
10 The address of the registered office is 44 Esplanade, St Helier, Jersey JE4 9WG.
(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.

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 are required to prepare the Partnership financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework.

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;
- for the Partnership financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (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.

Sharon White and Bérangère Michel
Directors, John Lewis Partnership plc
21 April 2021

KPMG

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 30 January 2021 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 Group's and of the parent Company's affairs as at 30 January 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("IFRSs as adopted by the EU");
- the parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, 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 five financial years ended 30 January 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: 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 decreasing order of audit significance, 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

	The risk	Our response
Going concern *Refer to pages 49 to 566(principal risks), pages 57 to 60 (viability statement) and pages 80 to 81 (Audit and Risk Committee report)*	**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 Covid-19 on sales, profitability and cash flow based on a weaker UK economy and consumer confidence, in particular due to John Lewis branches being closed for an extended period of time, potential disruption to John Lewis' online business, the potential for reduced store and online trading for the remainder of the financial year, and the potential disruption to the grocery supply chain.	We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Partnership's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively. **Our procedures also included:** - **Test of details:** Evaluated the mathematical accuracy of the models the Directors used in its assessment; - **Test of details:** Evaluated whether the assumptions were realistic, achievable and consistent with the external environment and other matters identified in the audit; - **Sensitivity analysis:** We considered sensitivities over the level of available financial resources indicated by the Partnership'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;

	The risk	Our response
Going concern (continued)	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.	- **Historical comparisons:** Considered the historical accuracy of the Partnership's cash flow forecasts and growth rates by assessing the accuracy of previous forecasts made by the Partnership against actual performance; - **Evaluating directors' intent:** Evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise, which include reducing capital and investment expenditure and reduced marketing spend, taking into account the extent to which the Directors can control the timing and outcome of these. - **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 (2020: acceptable).

	The risk	Our response
Impairment of property, plant and equipment and right-of-use assets **£791.4 million of the total PPE and ROUA of £4,523.7 million (2020: £1,151.3 million of the total PPE and ROUA of £5,390.3 million)** *Pages 156 to 157 (accounting policy) and page 157 to 161 (financial disclosures)*	The Partnership has significant property, plant and equipment (PPE) and right-of-use assets (ROUAs) held on the consolidated balance sheet. In the year an impairment charge of £525.7 million was recognised, predominantly in relation to John Lewis PPE and ROUAs. There is a risk that the carrying value of stores and related PPE and ROUAs may be higher than the recoverable amount. Where a review for impairment, or reversal of impairment, is conducted, the recoverable amount is determined based on the higher of 'value-in-use' (VIU) or 'fair value less costs of disposal'. The recoverable amount was assessed for £791.4 million of the total PPE and ROUA net book value (2020: £1,151.3 million) and identified as supported by VIU calculations. This estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows and could be manipulated to yield a specific outcome. The key assumptions used in the VIU calculations for estimating the recoverable amount are expected sales and costs in the short-term cash-flow forecasts, the long-term growth rate, the discount rate and specifically for John Lewis, the online allocation.	**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, where applicable. - **Our sector experience:** We evaluated assumptions used, in particular those relating to forecast revenue growth and profit margins for each Waitrose and John Lewis branch. We also challenged the Directors as to the achievability of their forecasts and business plans, taking into account the historical accuracy of previous forecasts. - **Benchmarking assumptions:** We compared the director's assumptions to externally derived data in relation to key inputs such as projected economic growth, cost inflation and discount rates. - **Sensitivity analysis:** We performed sensitivity analysis to stress-test the assumptions noted above. - **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 and ROUAs.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

	The risk	Our response
Impairment of property, plant and equipment and right-of-use assets (continued)	The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the VIU had 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 3.2) disclose the sensitivities estimated by the Partnership.	**Our results** We found the resulting estimate of recoverable amount of PPE and ROUAs to be acceptable (2020: acceptable).
Net defined benefit obligation **£646.9 million (2020: £417.4 million)** *Refer to pages 176 to 177 (accounting policy) and pages 177 to 187 (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 and mortality rates) can have a material impact on 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 28.6% (£1,942.9 million) of the total pension assets held. The asset classes where significant audit effort and judgement was focused were investment properties, special purpose investment vehicles and private equity investments.	**Our procedures included:** - **Benchmarking assumptions:** We used our actuarial specialists to challenge the key assumptions (in particular, the discount rate and inflation and mortality rates). This involved comparing the assumption to available market data, our expectation and to other similar UK pension schemes' assumptions; - **Assessing base data:** We used our actuarial specialists to challenge the methodology used to roll-forward the results of the triennial valuation as at 31 March 2019;

	The risk	Our response
Net defined benefit obligation (continued)	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 valuation expertise:** For hard-to-value plan assets, we used our own property valuation specialist to assess the key inputs and assumptions used by external valuers by reference to our own market and industry benchmarks. For private equity funds and special purpose vehicles, 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 net deficit to these assumptions. **Our results** We found the valuation of the gross defined pension obligation and level 3 assets to be acceptable (2020: acceptable).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

	The risk	Our response
Long leave provision **£150.7 million (2020: £153.5 million)** *Refer to page 167 (accounting policies) and pages 167 to 168 (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 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:** -**Benchmark assumptions:** We used our own actuarial specialists to consider the key assumptions used. This involved comparing the assumptions used such as the discount rate, RPI inflation rate and salary increases to available market data and our expected range; - **Sensitivity analysis:** We performed sensitivity analysis over these assumptions. **Our results** From the evidence obtained, we considered the level of provisioning to be acceptable (2020: acceptable).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

3. Our application of 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 revenue (as disclosed in note 2.2), of £10,771.8 million, of which it represents 0.13% (2020: 0.13%).

Materiality for the parent company financial statements as a whole was set at £3.7 million (2020: £3.7 million), determined with reference to a benchmark of Company total assets of £123.1 million, of which it represents 3.0% (2020: 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 18 (2020: 18) reporting components, we subjected 6 (2020: 6) to full scope audits for Partnership purposes. In addition, 1 component (2020: 1) was subjected to specified risk-focused audit procedures. The latter was not individually 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 following percentages; 98% of Partnership revenue (2020: 99%), 86% of Partnership total assets (2020: 93%) and 87% of Partnership profit before tax (2020: 79%). The remaining 2% of Partnership revenue, 14% of Partnership total assets and 13% of Partnership profit before tax is represented by 11 reporting components, none of which individually represented more than 1% of any Partnership revenue, Partnership total assets or Partnership profit before tax. 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 £3.0 million to £13.5 million, having regard to the mix of size and risk profile of the Partnership across the components. The work on 1 of the 7 components (2020: 1 of the 7 components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

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 Partnership or the Company or to cease their operations, and as they have concluded that the Partnership's and the Company'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").

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Partnership's or Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

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 above conclusions are not a guarantee that the Partnership or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit and risk committee, internal audit, legal counsel and inspection of policy documentation as to the Partnership's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Partnership's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit and Risk Committee and Remuneration Committee meeting minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we performed procedures to address the risk of management override of controls, in particular the risk that Partnership management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as impairment, long leave provision assumptions and pension assumptions. On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited perceived pressure on management to achieve an expected revenue target and limited opportunity to commit fraud.

We also identified a fraud risk related to the calculation of impairment in response to increased forecast risk as a result of Covid-19 leading to opportunity to manipulate assumptions. Further detail in respect of this is set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior management, manual journals posted irregularly by users and unusual opposing entries including cash or borrowings.
- Assessing significant accounting estimates for bias.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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 our 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.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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), distributable profits legislation, pensions 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. We identified the following areas as those most likely to have such an effect; health and safety, General Data Protection Regulation (GDPR), fraud bribery and corruption, environmental protection legislation, export control, Consumer Rights Act 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. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the Audit and Risk Committee matters related to actual or suspected breaches of laws and regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

6. 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.

7. 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.

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 205, 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 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 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.

9. 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 and the terms of our engagement by the company. 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 the further matters we are required to state to them in accordance with the terms agreed with the Company, 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.

M Maloney

(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square, London, E14 5GL

21 April 2021

FIVE-YEAR FINANCIAL RECORD

for the year ended January

Income statement	**2021 £m**	2020[1] £m	2019 £m	2018[2] £m	2017[2] £m
Total trading sales / Gross sales [3]					
Waitrose	**7,595.2**	6,917.3	6,835.0	6,753.7	6,633.2
John Lewis	**4,721.9**	4,829.9	4,889.1	4,855.8	4,741.0
	12,317.1	11,747.2	11,724.1	11,609.5	11,374.2
Revenue					
Waitrose	**7,043.9**	6,373.3	6,429.5	6,354.7	6,245.5
John Lewis	**3,727.9**	3,778.0	3,887.2	3,861.1	3,780.7
	10,771.8	10,151.3	10,316.7	10,215.8	10,026.2
Trading operating profit [4]					
Waitrose	**1,144.6**	1,063.2			
John Lewis	**554.4**	733.6			
	1,699.0	1,796.8			
Operating profit before exceptional items and Partnership Bonus	**288.4**	231.5	227.0	364.4	478.2
Net finance costs	**(157.6)**	(161.6)	(67.0)	(71.6)	(107.8)
Profit before Partnership Bonus, tax and exceptional items	**130.8**	69.9	160.0	292.8	370.4
Exceptional items	**(648.0)**	107.4	2.1	(111.3)	171.2
Partnership Bonus	–	(30.9)	(44.7)	(74.0)	(89.4)
As a percentage of eligible pay	–	2%	3%	5%	6%
Taxation	**65.2**	(38.0)	(40.1)	(30.5)	(98.7)
Profit for the year	**(452.0)**	108.4	77.3	77.0	353.5
Number of employees at year-end	**80,900**	80,800	83,900	85,500	86,700
Average number of full-time equivalent employees	**56,800**	59,700	60,800	60,600	63,300

1 The Partnership has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

2 IFRS 15 was adopted in 2019 on a fully retrospective basis. Figures for 2018 were therefore restated. However, figures for 2017 have not been restated.

3 The Partnership adopted a new organisational structure on 3 February 2020 (see note 2.1), creating a new non-GAAP measure known as total trading sales. 2021 and 2020 reflect total trading sales. Years 2019-2017 have not been restated and reflect gross sales.

4 The Partnership adopted a new organisational structure on 3 February 2020 (see note 2.1), creating a new non-GAAP measure known as trading operating profit, only 2020 has been restated.

FIVE-YEAR FINANCIAL RECORD (CONTINUED)

Balance sheet	**2021 £m**	2020[1] £m	2019 £m	2018[2] £m	2017[2] £m
Non-current assets	**5,116.5**	5,905.1	4,383.1	4,563.1	4,661.7
Current assets	**2,368.9**	1,795.6	1,929.0	1,690.6	1,627.6
Total assets	**7,485.4**	7,700.7	6,312.1	6,253.7	6,289.3
Current liabilities	**(1,992.8)**	(1,789.5)	(2,055.9)	(1,945.1)	(1,843.3)
Non-current liabilities	**(3,567.9)**	(3,352.4)	(1,636.2)	(2,006.9)	(2,404.0)
Total liabilities	**(5,560.7)**	(5,141.9)	(3,692.1)	(3,952.0)	(4,247.3)
Net assets	**1,924.7**	2,558.8	2,620.0	2,301.7	2,042.0
Borrowings	**(903.5)**	(762.6)	(1,047.2)	(936.8)	(966.9)
Net debt	**(1,438.6)**	(1,959.7)	(88.6)	(216.5)	(250.6)

1 The Partnership has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

2 IFRS 15 was adopted in 2019 on a fully retrospective basis. Figures for 2017-2018 were therefore restated.

GLOSSARY

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	DEFINITION, PURPOSE AND RECONCILIATION
Adjusted cash flow	Operating profit before PB, exceptional items, depreciation and amortisation, but after lease adjusted interest and tax. This measure is important to assess our Debt Ratio.

	2020/21 £m	2019/20 £m
Operating profit before PB and exceptional items	288	231
add back		
Depreciation, amortisation and write-offs	525	553
less		
Lease adjusted interest	(149)	(145)
Tax	(40)	(18)
Adjusted cash flow	**624**	**621**

APM	DEFINITION, PURPOSE AND RECONCILIATION
Average NMP hourly rate of pay above National Living Wage	Average non-management Partner hourly rate of pay for Partners on permanent contracts and aged 18 years old and over, as a percentage above the 2020/21 National Living Wage of £8.72.

	2020/21	2019/20
National Living Wage	8.72	8.21
Partnership pay	9.90	9.58
Differential	**13.5%**	**16.7%**

APM	DEFINITION, PURPOSE AND RECONCILIATION
Debt Ratio	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.

	2020/21 £m	2019/20 £m
Total net debts	2,097	2,436
Adjusted cash flow	624	621
Debt ratio	**3.4**	**3.9**

APM	DEFINITION, PURPOSE AND RECONCILIATION
Profit before PB, tax and exceptional items	Profit before PB, tax and exceptional items. This measure is important as it allows for a comparison of underlying profit performance.

	2020/21 £m	2019/20 £m
Profit before PB, tax and exceptional items	131	70
Exceptional items	(648)	107
Partnership Bonus	-	(31)
(Loss)/profit before tax	**(517)**	**146**

APM	DEFINITION, PURPOSE AND RECONCILIATION
Profit per average FTE	Profit before PB and exceptional items but after tax, adjusted for above market reward, divided by the average number of full-time equivalent Partners. This measure is important as it provides the best indication of Partner productivity.

	2020/21 £m	2019/20 £m
Profit before PB, tax and exceptional items	131	70
Tax	(40)	(18)
Above market reward	105	160
	196	**212**
Average FTEs	**56,800**	**59,700**
Profit per average FTEs (£k)	**3.5**	**3.5**

APM	DEFINITION, PURPOSE AND RECONCILIATION
Return on invested capital (ROIC)	Operating profit before PB and exceptionals, adjusted for above market rewards and a notional tax charge (at the statutory marginal tax rate for the year), as a proportion of average operating net assets. The measure is important as it demonstrates how effectively we are utilising our assets.

	2020/21 £m	2019/20 £m
Operating profit before PB and exceptional items	288	231
Above market reward	105	160
Notional tax	(74)	(74)
	319	**317**
Net assets	1,925	2,559
add back		
Borrowings and overdrafts	904	762
Pensions deficit (net of deferred tax)	542	363
Lease liabilities	2,037	2,095
Operational cash	327	489
less		
Cash and short-term investments	(1,519)	(916)
Operating net assets	**4,216**	**5,352**
Average operating net assets	**4,784**	**5,512**
ROIC	**6.7%**	**5.8%**

APM	DEFINITION, PURPOSE AND RECONCILIATION
Total net debts	The Partnership's borrowings and overdrafts, lease liabilities, derivative financial instruments and IAS 19 pension deficit (net of deferred tax), less any liquid cash, short-term deposits and investments.

	2020/21 £m	2019/20 £m
Borrowings and overdrafts	904	762
Derivative financial instruments	16	18
Pension deficit (after deferred tax)	542	363
Lease liabilities	2,037	2,095
Liquid cash, short-term deposits and investments	(1,402)	(802)
Total net debts	**2,097**	**2,436**

APM	DEFINITION, PURPOSE AND RECONCILIATION
Total trading sales	Total trading sales represents the full customer sales value, including VAT, that is used to assess ongoing sales performance. It is before adjustments for sale or return sales and other accounting adjustments.

2020/21	**Waitrose £m**	**John Lewis £m**	**Partnership £m**
Total trading sales	7,595	4,722	12,317
Value added tax	(439)	(767)	(1,206)
Sale or return, concessions and other accounting adjustments	(112)	(227)	(339)
Revenue	**7,044**	**3,728**	**10,772**

2019/20	**Waitrose £m**	**John Lewis £m**	**Partnership £m**
Total trading sales	6,917	4,830	11,747
Value added tax	(400)	(784)	(1,184)
Sale or return, concessions and other accounting adjustments	(144)	(268)	(412)
Revenue	**6,373**	**3,778**	**10,151**

APM	DEFINITION, PURPOSE AND RECONCILIATION
Trading operating profit	Trading operating profit represents operating profits used to assess the performance of the John Lewis and Waitrose brands and determine the allocation of resources to them. It excludes centrally managed costs, including fixed property costs and depreciation.

2020/21	**Waitrose £m**	**John Lewis £m**	**Partnership £m**
Trading operating profit	1,145	554	1,699
Centrally managed costs			(900)
Depreciation and amortisation			(510)
Exceptional items			(648)
Net finance costs			(158)
Loss before tax			**(517)**

2019/20	**Waitrose £m**	**John Lewis £m**	**Partnership £m**
Trading operating profit	1,063	734	1,797
Centrally managed costs			(1,026)
Depreciation and amortisation			(539)
Exceptional items			107
Net finance costs			(162)
Partnership Bonus			(31)
Profit before tax			**146**

TERM	DEFINITION
Above market reward	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.
Amortisation	An expense recorded to write down intangible assets to their residual values over their useful economic lives (UELs).
Amortised cost	The value of an intangible asset after accounting for amortisation and impairment. Sometimes referred to as carrying value or net book value.
Assets	Something of value that the Partnership owns, benefits from, or has use of, in generating income or cash.
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.
Average hourly pay	The pay received per hour, calculated from pay received divided by hours worked.
Average NMP hourly rate of pay	Average non-management Partner hourly rate of pay for Partners on permanent contracts and aged 18 years old and over.
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.
Biomethane	An alternative to fossil fuels, similar to natural gas, which is produced from organic waste, and is suitable for use as vehicle fuel.
Capital investment/ expenditure	Cash outflows in relation to additions to tangible fixed assets (property, plant, and equipment), and intangible assets (IT software) recognised on the balance sheet.
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.
Click & Collect	A service offered through Johnlewis.com to enable customers to buy or order goods and collect from a local Waitrose or John Lewis.
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.

TERM	DEFINITION
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	Items of income and/or expense which are significant by virtue of their size and nature are presented as exceptional items. The separate reporting of exceptional items helps to provide an indication of the Partnership's underlying business performance.
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.
Financial year	The period of 371 days, or 53 weeks, running from 26 January 2020 to 30 January 2021.
Foreign exchange (FX) exposure	The risk that the 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.
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.
Full-time equivalent (FTE)	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.
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.
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.
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.
Her Majesty's Revenue and Customs (HMRC)	The UK Government department that administers and collects taxes, including corporation tax and value added tax (VAT).
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.
Investment	Total investment spend includes capital investment, revenue investment, restructuring and redundancy costs, and lease disposal costs.
KPI	A Key Performance Indicator is a type of performance measurement used by businesses to check progress towards their goals.
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.

TERM	DEFINITION
Like-for-like (LFL) sales	Comparison of sales between two periods in time (e.g. this year to last year), removing the impact of shop openings and closures. Waitrose like-for-like sales excludes fuel.
Liquidity	The cash, short-term investments and undrawn committed credit facilities we have available to us, which we can use to settle liabilities as they fall due.
Long leave	The long leave scheme provides Partners up to six months' paid leave after 25 years' Partnership service.
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.
Market comparator	John Lewis - British Retail Consortium (BRC), Waitrose - Kantar Worldpanel.
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.
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' 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.
Operating profit/(loss)	Profit/(loss) earned by the Partnership over a specific period of time, before accounting for net finance costs and tax.
Operating profit/(loss) before exceptional items	Profit/(loss) earned by the Partnership over a specific period of time, before accounting for exceptional items, net finance costs and tax.
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.
PB	Partnership Bonus.

TERM	DEFINITION
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.
ppt	Percentage point.
Profit/(loss) before tax (PBT)	Profit/(loss) generated by the Partnership over a specific period of time, before accounting for tax.
Profit/(loss) before tax before exceptional items (PBTBE)	Profit/(loss) the Partnership earned over a specific period of time, before accounting for tax and exceptional items.
Qualifying services	A person's services as a director of the company and his or her services at any time while he or she is a director of the company.
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.
Restructuring	A change to internal organisational structures, designed to streamline processes and create more efficient and cost-effective ways of working.
Revenue investment	Investment spend recognised directly in the income statement.
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).
Trading operating profit %	Trading operating profit divided by total trading sales.
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.

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 the Company Secretary, John Lewis Partnership plc, 171 Victoria Street, London, SW1E 5NN.

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 or John Lewis please visit:
www.waitrose.com
facebook.com/waitrose
twitter.com/waitrose
youtube.com/waitroseandpartners
pinterest.com/waitrose
instagram.com/waitrose
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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 John Lewis Partnership website.