OUR FUTURE PARTNERSHIP

JOHN LEWIS PARTNERSHIP PLC
ANNUAL REPORT AND ACCOUNTS 2020

JOHN LEWIS & PARTNERS

JOHN LEWIS PARTNERSHIP

WAITROSE & PARTNERS

What's inside

Find out more

For more information on the progress we are making on our ethics and sustainability aims and to read our latest Modern Slavery Statement, visit www.johnlewispartnership.co.uk/csr

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

EIGHTY ONE THOUSAND PARTNERS TWO BRANDS ONE VISION FOR OUR FUTURE PARTNERSHIP

"The world we live in is changing rapidly, undeniably now more than ever with the recent global spread of Coronavirus and its far-reaching and uncertain consequences. But right now, there's never been a greater time for us to be a better and different kind of business. Our Founder, John Spedan Lewis, established the Partnership to be a force for good in society and this is what we need to continue. That's why we are focused on reinvesting most of our profits, to make a difference to people's lives and help create positive social change.

SHARON WHITE
Partner & Chairman

At a glance

WHAT MAKES US DIFFERENT

Over 100 years ago, our Founder John Spedan Lewis began an experiment into a better way of doing business by including staff in decision-making on how the business should be run. He set out operating Principles and produced a written Constitution to help Partners understand their rights and responsibilities as employee-owners. He also stated that the Partnership should make sufficient profit, not maximum profit. This vision, so ahead of its time and remains true today, is what makes us different.

2013
HERITAGE CENTRE
In 2013 we opened our own archive, documenting the Partnership's history. Partners and the public can visit the Heritage Centre to view photos, business documents and unique objects, such as fabric we supplied for the Titanic.

980+
THE GOLDEN JUBILEE TRUST
For the past 20 years we have run a unique Partner volunteering scheme – The Golden Jubilee Trust. Over 980 Partners have participated, with the Trust covering the cost of the secondment, for up to six months full-time, at a UK charity of the Partner's choice.

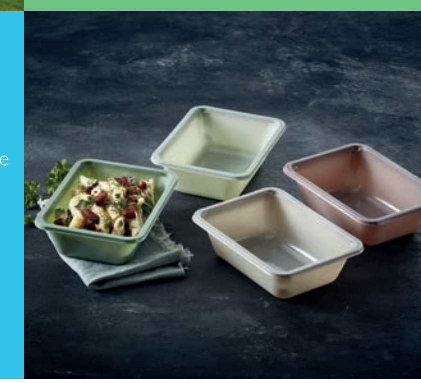
3,000
DEMOCRATIC REPRESENTATIVES
We have over 3,000 elected representatives who feed into three governing authorities – the Chairman, the Partnership Board and Partnership Council.

74,122
BED NIGHTS IN PARTNERSHIP HOTELS
The Partnership owns five Partnership hotels specifically for Partners and their families and friends to use at a specially subsidised rate. This year, 74,122 bed nights have been recorded.

1
WAITROSE FARM
We are the only UK supermarket to operate our own farm. It supplies our Waitrose shops with milk, flour, cox cider, apple juice, sparkling wine, apples, pears, mushrooms and rapeseed oil.

1929
HEALTH & WELLBEING SERVICES
We were a pioneer of employee health and wellbeing services, introducing free in-house health and medical services to all Partners in 1929, 19 years before the NHS was established.

85%
RECYCLABLE PACKAGING
Our commitment to reducing plastic waste means 85% of all Waitrose own-brand packaging is now widely recyclable and 99% of own-brand black plastic has been removed. Loose fruit and vegetable bags are now home compostable and 5p single-use Waitrose carrier bags have been discontinued.



6
ANIMAL WELFARE
Waitrose is one of the top five companies in the world for farm animal welfare standards, as confirmed for the sixth time by the Global Business Benchmark.

8/10
LOYAL CUSTOMERS
Eight out of ten of our most loyal customers shop in both John Lewis and Waitrose.

1
TEXTILE FACTORY
Since 1953 we have operated our own textile factory. Over 250 Partners at Herbert Parkinson make John Lewis own-brand soft furnishings, duvets and pillows, and all Made to Measure 7-day service curtains, and roman and roller blinds.

2050
NET ZERO CARBON EMISSIONS
Our commitment to the environment means the year 2050 is the latest we will make our entire operations net zero carbon. However, all our transport fleet will achieve this by 2045 and our heavy goods vehicles will be switched to low-carbon biomethane by 2028, cutting emissions by over 80%.

102
GAZETTE
We have the UK's longest-standing weekly internal publication that has not changed its name since launch. Running for 102 years, the Gazette is written by Partners, for Partners, and sets its own editorial agenda, operating separately from management.

2001
ONLINE SHOPPING
John Lewis became one of the first retailers in the UK to start selling our broad range of products online in 2001.

At a glance

OUR YEAR

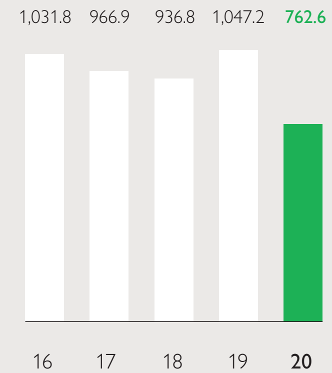
As expected, trading remained challenging throughout the year. At full year, profit before Partnership Bonus, tax, exceptional items and IFRS 16 was 23% lower than last year. However, our balance sheet and liquidity position remained strong and we improved our Debt Ratio. We continue to review our plans to secure our long-term future.

Our Annual Report and Accounts includes alternative performance measures (APMs) which we believe provide readers with important additional information on the Partnership. A glossary of terms is included on pages 158 to 163.

BORROWINGS £m

£762.6m

We have reduced our borrowings by over £200m in the year, which allowed us to improve our Debt Ratio to 3.9 times.

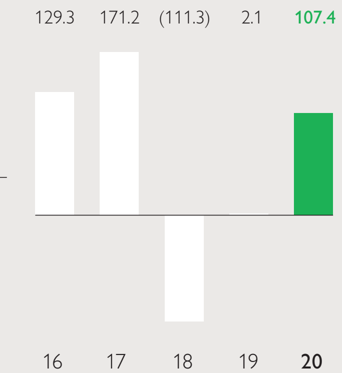


EXCEPTIONAL ITEMS £m

£107.4m

NET INCOME

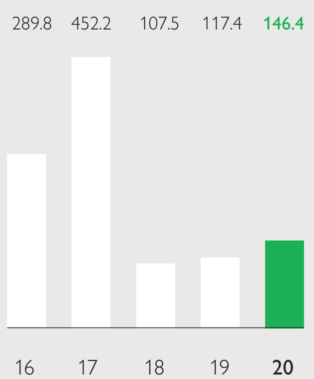
Exceptional income totalled £107.4m with £30.6m charge in Waitrose, £101.0m charge in John Lewis and £239.0m income in Group. Read more about our exceptional items on pages 104 to 106.



PROFIT BEFORE TAX £m

£146.4m

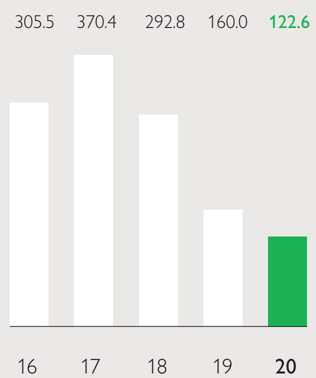
Our overall profit before tax has increased to £146.4m. This is due to an increase in exceptional profits driven by the reduction in pension obligations following the decision to close the defined benefit section of the pension scheme.



PROFIT BEFORE PARTNERSHIP BONUS, TAX, EXCEPTIONAL ITEMS AND IFRS 16 £m

£122.6m

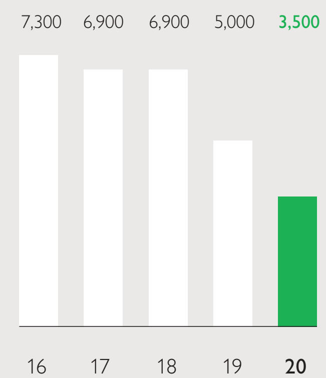
Our Partnership profit before Bonus, tax, exceptional items and IFRS 16 was £122.6m, a weaker performance than we had hoped for, driven by significant operating profit decline in John Lewis, which was partly offset by operating profit growth in Waitrose, and lower Group costs.



PROFIT PER AVERAGE FULL-TIME EQUIVALENT PARTNER £

£3,500

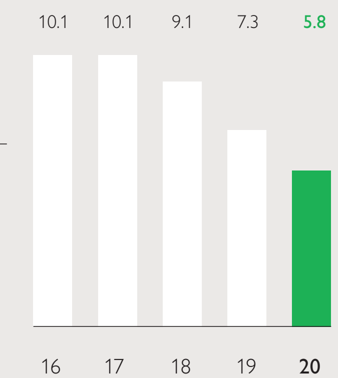
In line with the reduced Partnership profit, our profit per average FTE has also reduced to £3,500. However, last year's number has not been restated to include the effect of IFRS 16, which accounts for £900 of the £1,500 decline.



RETURN ON INVESTED CAPITAL (ROIC) %

5.8%

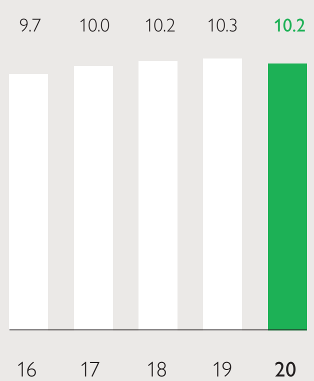
The Partnership's ROIC declined by 1.5 percentage points, with 0.8 of this due to the impact of adopting IFRS 16, the latest accounting standard for leases, with the remaining 0.7 being driven by the fall in the Partnership's operating profit.



REVENUE £bn

£10.2bn

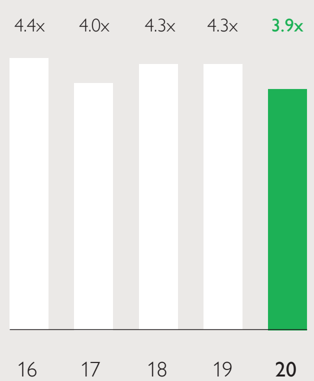
Due to the challenging retail environment, we have seen a slight drop in revenue. This drop was more pronounced in John Lewis, which experienced a decline in like-for-like sales of 1.8%, compared to 0.2% in Waitrose.



DEBT RATIO

3.9x

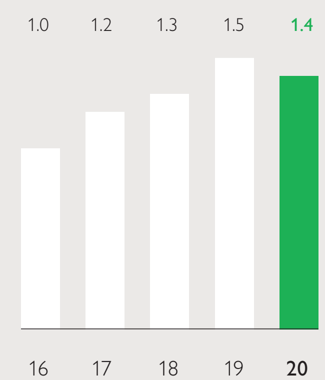
Our Debt Ratio improved to 3.9 times, the lowest level since January 2014, and we continue to review our plans to reduce it to around three times cash flow within four years.



LIQUIDITY £bn

£1.4bn

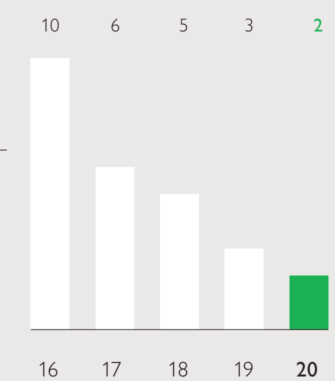
We have maintained a strong liquidity position at over £1.4bn, despite repaying our £275m bond in April 2019.



PARTNERSHIP BONUS %

2%

Profits in 2019/20 were at the lower end of what we had forecast. The Partnership Board therefore awarded a Bonus of 2%. This was prudent and affordable and recognises the contribution made by Partners working in the business today without creating risk for our future sustainability.



Chairman's statement

These are extraordinary times in society and in retail. The Partnership is well placed to successfully navigate the changes that face us.

OUR FUTURE PARTNERSHIP

KEY FINANCIAL HEADLINES

PROFIT

Our Partnership profit before Bonus, tax, exceptional items and IFRS 16 was £123m, down 23% on last year, a weaker performance than hoped for. As a result, we announced to Partners that there would be a modest Bonus of 2% this year, as we focus on reducing debts and investing for future growth. Over the year, total net debts reduced by more than £230m, helped by strong cash flow generation and the decision to close the final salary defined benefit pension scheme. The Partnership's Debt Ratio improved to 3.9 times cash flow and we continue to review plans to reduce it to around three times cash flow within four years.

OUTLOOK

Our financial strategy is focused on improving our financial strength and flexibility and managing cash and liquidity tightly. This will be even more vital during 2020 as the business adapts to the impact of Coronavirus. In 2020, we will also undertake a Strategic Review of the business, to create a growth plan for the future.

> The Partnership does not have external shareholders. Indeed, our Constitution requires us to make 'sufficient' profit, not the maximum amount possible.

Dear Partner

I am honoured to be the new Chairman of the John Lewis Partnership. The Partnership is the biggest employee-owned business in the UK, and amongst the biggest in the world. Through our two brands – John Lewis and Waitrose – we have been serving customers for over 155 years.

As a co-owned business we seek to provide our customers with exceptional service and over the past few months we have been going above and beyond for our customers as we deal with the impact of Coronavirus. This is the Partnership at its best, coming together for collective good, supporting the community and helping the most vulnerable at a time of global crisis. At moments like this, our purpose – people and the community before profit – and the trust it instils in our brands comes to the fore.

Our Partners have been outstanding – supporting each other and responding to the huge surge in demand at Waitrose and at johnlewis.com. Thousands of John Lewis Partners have transferred over to Waitrose and our online businesses to help and even more so when we had to make the unimaginable decision to temporarily close our John Lewis shops for the first time in our 155 year history. I am truly grateful to everyone for their hard work and commitment and that's why it was important we provided a recognition award.

The Partnership is focused on providing our Partners with fulfilling work, that pays a decent wage and offers the chance to progress. We are investing substantially in apprenticeships, in mental wellbeing services working closely with Samaritans, and in leadership programmes. We believe that happy Partners make for happy customers. With that in mind, making the decision to furlough was extremely tough. It was made with the safety and wellbeing of Partners in mind, ensuring we were creating satisfying and meaningful work, while also protecting the financial sustainability of the Partnership.

The Partnership does not have external shareholders. Indeed, our Constitution requires us to make 'sufficient' profit, not the maximum amount possible. This means we can invest in the business for the long-term good of our customers and give back to our communities. Last year the John Lewis & Partners Foundation donated £800,000 to UK and overseas communities where John Lewis operates. The Waitrose & Partners Foundation accrued funds of £1.8 million, to support our overseas producers.

We are a business that was established with the very objective to put people and the community ahead of profit. We are setting standards in animal welfare and Waitrose is one of the top five companies in the world for farm animal welfare standards. Last year we launched a trial of 'Unpacked' in four of our Waitrose shops, tackling head-on the use of plastics. And in John Lewis Oxford, fashion and beauty packaging buy-back schemes have been introduced and will be rolled out to a further six shops and one Waitrose shop. We are also working towards our ambition to be net zero carbon in our heavy goods vehicles fleet by 2028. The Partnership should be seeking to be the most ethical and sustainable business in the UK.

Coming new to retail, I am all too conscious of the rapid pace of change caused by technology. Customers have more choice of how and when they shop, and more value than ever before. I saw similar changes in my old industry – the media – where established TV companies face competition from streamers like Netflix and Amazon. The Partnership is not immune to these changes and we need to up the pace of change in order to continue to serve customers with the ease, convenience and high levels of service they expect.

Profits last year of £123m were weaker than we had hoped for and we want to improve our profitability so that we can invest in our customers and in our Partners in the way we would wish. In the last year we have begun a major reorganisation and streamlining of our central functions to take out duplication and cost, make it easier for customers to shop between our two brands and for Partners in branches to provide more local assortments of product and services. More than 1,200 Partners left the business through redundancy in the last year and there will be further job losses in the coming year. These decisions are never taken lightly and there is a need to reassess these future plans and the achievable timescales due to the impact of Coronavirus.

Nevertheless, to date we have been investing significantly in the expansion of waitrose.com in anticipation of the new tie-up between Ocado and M&S in September. Waitrose online will then be the only digital place that customers can buy Waitrose products delivered by Partners. We hope to invest more in our customer service which has not always been as consistent as it should be, particularly where customers make purchases that touch on different parts of the business and our supply chain.

We will also be revamping our Home offer in John Lewis to provide a better range of inspiring products at more accessible prices. With more of us shopping online, we will continue to look at our store estate to ensure that it is fit for the future. In some instances that will mean repurposing or reducing the size of existing stores as we have done at John Lewis Peterborough and Waitrose Cheltenham. In other cases it may mean opening new stores in different formats or it may mean closing stores. In the last year we closed 12 Waitrose shops and one John Lewis shop – Knight & Lee in Southsea.

> We are a business that was established with the very objective to put people and the community ahead of profit.

We also need to secure the future of the Partnership over the long term, not just the next few years. We have launched a Strategic Review which will consider how we further develop our existing services and products, as well as new services outside retail. We will undoubtedly be required to reprioritise the phasing and shape of the Strategic Review over the coming months as the Coronavirus pandemic evolves. Therefore it is likely that our Strategic Review will take longer than originally planned. What is certain, is that however our plans develop and however long this takes, customers and Partners remain firmly at the heart of everything we do and every decision we make. We will engage with the Partnership's three governing authorities, which includes our Partnership Council, and with Partners more widely as we set our course for the future.

Finally, I want to pay tribute to Charlie Mayfield, my predecessor as Chairman, and to Paula Nickolds and Rob Collins, former Managing Directors respectively of John Lewis and Waitrose. Charlie leaves the Partnership after 20 years, 13 of them as Chairman. He leaves an extraordinary legacy, having established John Lewis' online business. Paula and Rob have served the Partnership with passion and professionalism. I also want to give thanks to Keith Williams, the Partnership's Deputy Chairman and Non-Executive Director who will step down on 15 April after six years. He has made a significant contribution and I wish him well for the future.

The impact of Coronavirus means none of us know what is going to happen over the coming weeks and months. All of us will have anxieties about the wellbeing of friends and families and the disruption to normal life. My priority is that Partners and the people we love are safe and cared for.

I also know that the Partnership is well placed to successfully navigate these tough times – we are two of the best loved brands on the high street; we have a corporate structure that allows us to take a long-term view; we have a track record of enterprise and innovation; and we have knowledgeable and passionate Partners, committed to the highest levels of customer service.

Pages 4 to 51 comprise the Group Strategic Report. The Group Strategic Report was approved by the Partnership Board on 15 April 2020.

SHARON WHITE
Partner & Chairman
John Lewis Partnership plc
15 April 2020

How we are different

OUR PARTNERSHIP BUSINESS MODEL

The John Lewis Partnership is the UK's largest employee-owned business and parent company of our two cherished retail brands: John Lewis and Waitrose.

HOW IT WORKS

OUR PARTNERSHIP

We are the largest employee-owned business in the UK and amongst the largest in the world. We are to all intents and purposes a social enterprise; the profits that we make are reinvested into the business – for our customers and our Partners. Our Constitution requires us to make sufficient profit to keep the Partnership going, not create the highest amount possible, and to put our customers and our Partners ahead of profit.

PROFIT
KNOWLEDGE
POWER

OUR RESOURCES

We have 80,800 Partners, 338 Waitrose shops, 50 John Lewis shops, 33 customer delivery hubs and distribution sites, five Partnership hotels, two international offices, five Waitrose cookery schools, 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.

DESIGNING AND SOURCING
INSPIRING EXPERIENCES
UNIQUE PRODUCTS
GROWING AND CREATING
SELLING
DISTRIBUTING

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 deliver more for our customers, empower our Partners and support our producers and suppliers and the communities and environments we operate in are covered on pages 30 to 45.

PARTNERS
CUSTOMERS
ENVIRONMENT
LENDERS
PRODUCERS AND SUPPLIERS
COMMUNITIES

STRATEGIC LINK | IN OUR WORDS | IN NUMBERS

DELIVERING MORE FOR OUR CUSTOMERS

We work to build brand trust and loyalty and provide customers with increasingly personalised, unique and exclusive products and services that are authentic and inspiring. We are designing, sourcing and curating products and services that are ethically focused, that customers can trust, as well as creating experiences that help customers live healthier lives, enjoy their homes, and manage their finances.

PAGES 18-19 & 30-33

"Designing a new look for a room can be a lot of fun and a chance to express our personalities. However, customers tell us uncertainty about what new products will look like in their home can make decision-making hard. Our virtual reality experience, 'Visualise your Space', enables customers to be braver in their choices, and test technology that architects and interior designers have been using to visualise their designs in their home."

NICOLA WALLER
Partner & Head of Category Proposition Group for Home Furnishings

Gross sales decline
-1.5%
down from 1.0% growth in 2018/19.

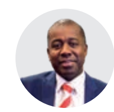
8/10
of our most loyal customers shop in both John Lewis and Waitrose.

328
John Lewis Click & Collect expanded and now available for pick-up at 328 Waitrose shops.

EMPOWERING OUR PARTNERS & TRANSFORMING HOW POWER AND KNOWLEDGE IS SHARED

We're more than employees, we're Partners, which makes the Partnership a better and different way of doing business. We share the responsibilities and rewards of employee-ownership through sharing profit, power and knowledge. By putting Partners first and empowering them, we believe we can better honour our commitment to not only offer our customers quality products and outstanding service but also support the communities and environments we operate within.

PAGES 20-21, 34-39 & 44-45



"In what other business can a Partner at any level tell the Chairman how people are feeling? This is very unique."

MARK ANDERSON
Partner & Team Manager

Average hourly rate of pay for non-management Partners
£9.58
up from £9.16 in 2018/19.

Over 8,000
Partners have subscribed to the free mental wellbeing app Unmind.

Over 1,940
Partners enrolled in an apprenticeship since the scheme launched in 2017.

GENERATING MORE VALUE FOR OUR EMPLOYEE–OWNERS

The Partnership does not have external shareholders and this means we can invest in the business for the long term. Indeed, our Constitution requires us to make 'sufficient' profit, not the maximum amount possible from the trading operations of Waitrose and John Lewis. We are committed to driving value for our customers, Partners, producers and suppliers and giving back to the communities we operate within. We are also mindful of reducing our environmental footprint and further details can be found about our ethics and sustainability aims by visiting www.johnlewispartnership.co.uk/csr

PAGES 40-43

"Waitrose.com growth is rapid and we know there are many more new customers who would like to buy our products from us online. Acquiring a new customer fulfilment centre in Enfield, north London, is the latest in an exciting raft of operational investments we are making that will ensure customers have a really convenient, easy way to buy from us."

BEN STIMSON
Partner & Digital Director

Over £4m
donated through our Community Matters charitable giving scheme at Waitrose and John Lewis.

Waitrose committed to halving food waste by
2030

Profit per average full-time equivalent Partner
£3,500
down from £5,000 in 2018/19.

How we are different

OUR VALUES AND CULTURE

The Partnership is the business for our times, with Principles and values that are as meaningful and relevant today as they were in Spedan's day.

OUR PURPOSE

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

OUR CULTURE

The Partnership operates on democratic principles, sharing power with all Partners. Our first Democratic Council was set up over 100 years ago and today our Partnership Council, Forums and PartnerVoice enable Partners to participate in decision-making, challenge management on performance and have a say in how the business is run.

We have over 3,000 elected representatives who feed into our three governing authorities – the Chairman, the Partnership Board and Partnership Council – which govern the Partnership. See pages 52 to 89 in the Governance Report for more information.

Today, it's more important than ever to use our democracy effectively, enabling Partner opinion to make the Partnership more successful. But how do we help facilitate that?

PARTNERS' VOICES ARE HEARD AND ACTIONED VIA:

DIALOGUE

Regular dialogue with their People Manager.

7,840

People Managers across the Partnership.

PARTNERSHIP INTRANET AND WEBSITE

In 2019, both www.johnlewispartnership.co.uk and the Partner Intranet were refreshed to make them simpler to use and compatible to view on mobile phones and tablets.

PARTNERSHIP COUNCIL

Partnership Councillors.

58

GAZETTE

News articles and the letter pages. Any Partner can write a letter, anonymously if they wish, and express their opinions on any topic, without fear of repercussions. A letter must be published with comment from an appropriate member of management, within 21 days.

PARTNERVOICE REPRESENTATIVES

PartnerVoice collects local Partner views and represents them through meetings with senior leaders to ensure they are reflected in local decisions and business plans. Issues raised can also be pursued, if appropriate, at Partnership Council.

OUR VALUES

As employee-owners we all have a share in the business and a shared commitment to go above and beyond for each other, our customers and the communities and environments we operate in.

The Partnership has always had strong business values which are set out in Principles 2 – 7 of the Constitution. We also have a set of five personal values that were created by Partners to explain what it means to be a Partner and what makes a great one.

Our values are:

DO RIGHT

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

ALL OR NOTHING

We put everything we have into everything we do.

GIVE MORE THAN YOU TAKE

We put more in, so everyone gets more out.

BE YOURSELF. ALWAYS

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

WE NOT ME

When we work together, anything is possible.

Our values also drive our 'For us, it's personal' customer manifesto which is displayed in our shops.

"I felt empowered to Do Right when I saw the Waitrose Chocolate Easter ducks which included a dark chocolate one labelled 'ugly'. I parked my personal feelings to bring about change for the better. I wrote a letter to the *Gazette*, which led to a face-to-face meeting with the Customer Director and Head of Production Innovation and Own Brand. I love that as a business we provide the channels for two-way conversations and feel encouraged and supported to speak up.

DEBORAH CLARKE
Partner & Resourcing Manager

"I think we should put heart, enthusiasm and a desire to be the best into everything we do. For me, that personifies All Or Nothing. By going all in, we're displaying all of the values. My vision is for customers to forget they're in a supermarket when they stand in front of my counters, and to feel like they're getting a tailor-made traditional service similar to the one they'd get in a farm shop. I want my customers to leave feeling inspired by my passion and get the same level of service every day, whether that's on a Monday morning or Fish Friday. Everything I do is driven by a desire to give customers an experience and I always aim to make someone's day.

JOHN BARKER
Partner & Meat and Fish Specialist

Section 172(1) statement

PROMOTING THE SUCCESS OF THE PARTNERSHIP

"If you want your team to work in the spirit of owners, you must give them the feelings of owners.

JOHN SPEDAN LEWIS
'Partnership For All', 1948

SECTION 172(1) STATEMENT

This section, together with those pages incorporated by reference, acts as the Partnership's Section 172(1) statement. However, because the Partnership has a written Constitution – a framework that defines the Partnership's Principles and the way it should operate – you will 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, incorporated throughout this Annual Report and Accounts.

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.

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

This is the first year that large companies must publish a statement setting out how their Directors have complied with Section 172(1) of the Companies Act 2006. This 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 owners.

These pages 14 to 17, and the pages incorporated by reference, describe how the Directors of the Partnership Board take these factors into account in their decision-making.

WHO ARE OUR MEMBERS?

The Partnership is owned in Trust for the benefit of its members, our Partners. Power is shared between three governing authorities: the Chairman, the Partnership Board and Partnership Council. The shared aim of the three governing authorities is to safeguard the Partnership's future, to enhance its prosperity and to ensure its integrity. See the Governance Report on pages 52 to 89 for more information on how the Partnership is governed.

Our members 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 55 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.

STRATEGY AND RISK

The purpose of the Partnership is set out in Principle 1 of the Constitution: "The Partnership's ultimate purpose is the happiness of all its members, through their worthwhile and satisfying employment in a successful business". Principle 3 of the Constitution says that "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".

These two Principles are the core fundamentals that underpin the Partnership's strategic direction. In our 2019 Annual Report and Accounts we described our updated 'One Partnership' strategy and since the year-end we have launched a Strategic Review which will consider how we can further develop our existing services and products to secure the future of the Partnership over the long term. See pages 28 to 29 for more information on Future Partnership.

In setting the strategic direction of the Partnership, Directors take into account the principal risks facing the business and these are described on pages 46 to 51.

DECISION-MAKING AT THE BOARD

The responsibilities of the Partnership Board are also set out in our Constitution and are described in the Governance Report.

All matters on 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 its members, our Partners. Further information about the key decisions made by the Board during the year can be found in the Governance Report on pages 52 to 89.

"I want to listen to what Partners and our customers are saying.

SHARON WHITE
Partner & Chairman

WHO ARE THE PARTNERSHIP'S KEY STAKEHOLDERS?

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

Section 172(1) statement

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 two years and, since the year-end, those facing all of us as a result of the Coronavirus pandemic.

PARTNERS

Our Partners are central in the differentiation of our business. Spedan Lewis talked about not just sharing profit, but also sharing knowledge and sharing 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.

The Directors engage with Partners in many different ways. Our Constitution formalises some of this engagement by having Partners on the Partnership Board and all members of the Partnership Board are also members of Partnership Council.

Other ways in which Directors can take account of the views of Partners include:

Sharing knowledge and journalism – Partners receive updates on the Partnership's performance from regular dialogue with management, email updates, the Partnership's intranet and through the independent *Gazette*. See page 12 for more information.

Your Voice – Your Voice is a programme of activity designed to enable Partner opinion to be regularly heard, through the effective and innovative use of opinion tools. The programme provides data that can be used to develop insights into the cultural and commercial health of the Partnership.

FURTHER READING

The Partnership Board, pages 59 to 62
Partnership Council report, pages 81 to 84
Gazette, page 12
Empowering our Partners, pages 34 to 39
Transforming how power and knowledge is shared, pages 44 to 45
Whistleblowing, page 71
Democratic vitality, page 85
Human rights, see our Modern Slavery Statement at www.johnlewispartnership.co.uk/csr

CUSTOMERS

Our Partners work in service of our customers, they are at the heart of our purpose. We aim to build long-term relationships with our customers and play a role in key moments in their lives.

The Customer Research Team is the voice of the customer within the business, understanding how customers and potential customers think and feel, their experiences and expectations through surveys, face-to-face research, customer feedback to our Partners and contact centres and external data sources.

Regular customer reports are produced for management and these are now regularly shared with Directors with the papers for Partnership Board meetings. These reports track and review emerging trends and why they are occurring, as well as measuring the business response and feeding in data to support strategic initiatives.

FURTHER READING

Delivering more for our customers, pages 30 to 33
Our markets and key trends, pages 26 to 27

> Partner engagement is at the heart of the customer journey.

SIMON BURDESS
Partner & Director of Selling & Service Delivery

PRODUCERS AND SUPPLIERS

A strong, trusted and transparent supply chain is integral to our success as a retailer. We aim to conduct all of our business relationships with integrity and expect the same from our suppliers. We work closely with a diverse range of producers and suppliers from many different countries. It is the strength of these working relationships that allows us to source high quality, sustainable and ethically sourced responsibly produced products for our customers.

The Partnership's Responsible Sourcing Code of Practice (RSCOP) sets out the Partnership's expectations of suppliers on issues such as pay, working hours, child labour, worker rights and representation. The RSCOP focuses on Labour Standards. However, responsible sourcing also incorporates sustainable sourcing of raw materials, environmental stewardship and ensuring high standards of animal welfare. These issues are important to the Partnership, and Waitrose and John Lewis have a series of associated standards tailored to specific product areas.

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 takes to meet its sustainability goals and prevent modern slavery and human trafficking in its business and supply chains through the Ethics and Sustainability Committee (and its predecessors).

FURTHER READING

Producers and suppliers, pages 22 to 23
Always Fair, page 33
Waitrose's compliance with the Groceries Supply Code of Practice, pages 70 to 71
Anti-bribery and corruption, page 23
Payment practices, page 23
See our Modern Slavery Statement at www.johnlewispartnership.co.uk/csr

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

RULE 96
Constitution of John Lewis Partnership

FINANCIAL STAKEHOLDERS

The Partnership seeks to make information available to financial stakeholders such as the Partnership's relationship banks and holders of John Lewis plc bonds. Through our external website, we share information with Partners and financial stakeholders on the Partnership's performance, and provide contact details should they wish to discuss anything with the Partnership directly. We invite the investor community to join our financial updates and announcements, which gives them an opportunity to hear from, and engage with, the Chairman and the Executive Director, Finance.

FURTHER READING

Further information is available at www.johnlewispartnership.co.uk

COMMUNITY & ENVIRONMENT

The Partnership aims to contribute to the wellbeing of the communities where it operates, including those which create and grow our products and minimise any detrimental effects its operations may have on the environment. Partners are encouraged to support their local communities through volunteering opportunities with charity partners and the Partnership continues to support programmes which contribute to societal causes. This includes working with the Farming Community Network and Linking Environment and Farming (LEAF) to support current and future farming communities. The Partnership is working to decarbonise our operations as quickly as possible through significant investment in new greener technologies and is setting bold targets including net zero carbon across our entire operations by 2050. We are also working across our own operations and supply chains to find creative and innovative solutions to divert as much waste from landfill as possible.

In 2019 it was decided to disband the Partnership Board's Corporate Responsibility Committee and replace it with a new executive Corporate Responsibility Group, chaired by Rob Collins, who was Managing Director, Waitrose and a member of the Partnership Board. The change was designed to strengthen the embedding of the Partnership's corporate responsibility aims within business initiatives and day-to-day business operations. The work of the Corporate Responsibility Group during the year was reviewed by the Partnership Board in December 2019. In February 2020, the Corporate Responsibility Group was replaced with a new Ethics and Sustainability Committee, chaired by the Chairman, the work of which will continue to be reviewed by the Board. See page 29 for more on the purpose of the Ethics and Sustainability Committee.

FURTHER READING

See pages 24 and 39 on additional activities designed to help Partners and communities thrive such as the Waitrose & Partners Foundation and John Lewis & Partners Foundation and The Golden Jubilee Trust.
See page 43 on initiatives aimed to reduce our environmental impact.


Sensory Gardens

MAINTAINING A REPUTATION FOR HIGH STANDARDS OF BUSINESS CONDUCT

The Constitution provides our framework for all Partners to maintain high standards of business conduct. In addition, our personal values set out how we expect Partners to behave (see page 13).

The Partnership Board's Audit and Risk Committee oversees how the business manages compliance and, during the year, this has seen a greater focus due to the changing nature of the external regulatory environment. Further information is provided in the risks section (pages 46 to 51 and the Audit and Risk Committee report (pages 63 to 71).

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

PRINCIPLE 6
Constitution of John Lewis Partnership

ACTING FAIRLY AS BETWEEN THE COMPANY'S OWNERS

Because the Partnership is held in Trust for the benefit of its members, all Partners share an obligation to improve our business in the knowledge that we share the rewards of success. The share of profit is in the form of a Partnership Bonus.

FURTHER READING

For more information about how the Partnership is governed see the Governance Report on pages 52 to 89.

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

RULE 109
Constitution of John Lewis Partnership

Our better way of doing business

CUSTOMER

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.

REMOVING UNNECESSARY PACKAGING

To help customers shop differently and save thousands of tonnes of unnecessary plastic, our 'Unpacked' trial launched at Waitrose Botley Road, Oxford in June 2019. Aisles show more than 200 products out of their packaging, a dedicated refillable zone, the UK's first supermarket frozen 'pick and mix' section and four different wines and beers available on tap. Such was the trial's success that three more shops in Cheltenham, Wallingford and Abingdon are now 'Unpacked'. John Lewis Oxford is also trialling fashion and beauty packaging buy-back schemes. See page 32 for more details.

SPEAKING YOUR LANGUAGE

A trial to help customers feel more at home by helping them identify Partners at Waitrose and John Lewis stores that speak their language launched at ten Waitrose shops and seven John Lewis shops.

> The UK is made up of a wealth of different languages and cultures and we want to celebrate that diversity by offering an even more tailored level of customer service by providing our Partners with badges to show which languages they speak.

JODIE GIBSON
Partner & Organisation Change Manager

NEW PRODUCTS

In Waitrose, 59 category reviews were completed. We also launched our largest summer food range – Scrumptious Summer – and relaunched Waitrose No.1 with more than 200 new and improved product lines. Autumn saw the most significant investment to date for John Lewis menswear with a 280-piece collection designed by our Partners. This was supported by a new men's personal styling experience at John Lewis Oxford Street. During the two-hour service, guests are fed, watered or whiskied, while a personal stylist sets to work.

ONE SHOP, TWO BRANDS

Waitrose Lincoln and Lymington are giving shoppers access to more products and services from both brands. At John Lewis Southampton, we have brought services from both brands together under one roof, offering customers expertise and exciting experiences such as cooking, gardening, interior design and style advice. This included opening our first Waitrose cookery school in a John Lewis shop, launching The World of Design interior design concept, and the opening of a rooftop garden and shop from the Waitrose Farm and our Leckford Estate.

ONLINE DELIVERY AND COLLECTION

Both our brands have been providing customers with more flexibility and convenience when it comes to online shopping. At Christmas, John Lewis Click & Collect orders could be collected until 24 December. We also extended our Click & Collect network to third party retailers, starting with a trial with Boden. This followed the introduction of partnerships with Co-op and Booths, offering customers access to our Click & Collect service in areas where we have a lower shop presence. John Lewis also launched a new evening delivery service offering customer slots between 6pm and 10pm, Monday to Friday. John Lewis returns can also now be returned to waitrose.com delivery drivers.

FOOD AND SERVICE AMBASSADORS

To ensure every Waitrose Partner becomes a food ambassador, we launched School of Food. Classes are held at our cookery schools in Finchley Road, London and Salisbury, and combine cooking and learning sessions with chefs so Partners can gain confidence in sharing recommendations and inspiring customers to try new products. To date, over 3,500 Partners have attended. In a similar vein, we anticipate a new School of Service will launch at John Lewis Stratford in 2020, to upskill our customer-facing John Lewis Partners.

We have trialled a new pop-up service in Waitrose Canary Wharf and John Lewis White City, offering shoppers the opportunity to make healthier choices, based on their unique DNA and lifestyle.

SHOP WITH YOUR DNA

> Retailers have an important role to play in helping shoppers who want to be healthier, so we are pleased to team up with DnaNudge to offer shoppers the opportunity to use their unique DNA profile to help 'nudge' them towards healthier and personalised choices.

MOIRA HOWIE
Partner & Nutrition and Health Manager

We expanded our apprenticeship programme, introducing new apprenticeships including butchery, fishmongery, chef specialisms, customer service, accountancy and taxation, and vehicle maintenance and repair. Since 2017, 1,940 Partners have signed up to our apprenticeship scheme.

“I was surprised as I didn’t think apprenticeships would be available for people my age, but I jumped at the chance. I had this assumption that apprenticeships were for people straight out of school, but I’ve been shown there are opportunities for all. There’s lots to learn and it can be pretty hectic at times but if you want to succeed, you have to put the time and effort in.

MATT SIMMONS
Partner & Customer Delivery Section Manager

NEW APPRENTICESHIPS

Our better way of doing business

PARTNER

The people that work here are more than employees, they’re Partners. They give the Partnership our unique point of difference.

NIGHT CLUB VISITS

535 night shift Partners from three of our distribution sites took part in a special ‘Night Club’ sleep project. Partnership Health Services worked alongside The Liminal Space and the Wellcome Trust to give night shift Partners the opportunity to learn about the science of sleep and how it affects your body, speak to nutritionists and sleep specialists and try healthy food and drinks. 65% of Partners who took part said that they will now change what they do to improve their sleep.

HONOURING OUR LONG-SERVING PARTNERS

A celebration brunch honouring Partners reaching the incredible milestones of 45, 50 and 55 years of Partnership service took place at John Lewis Oxford Street in the summer.

“I started straight out of school in September 1964 and I’ve been looked after very well in my 55 years. I’ve seen lots of changes, not least the introduction of online and companies like Amazon, but I believe the Partnership will sail through it all.

SIMON CASSIDY
Partner & Stock Manager

£9.58

We continued to invest in non-management Partner pay and our average hourly rate of pay for non-management Partners is £9.58, up 4.6% from January 2019 and 16.7% above the National Living Wage.

EMPOWERED LEADERSHIP

We have invested significantly in leadership development, with more than 8,000 managers across the Partnership attending a series of one-day ‘Empowered Leadership’ events. It marked the start of a broader training programme for line managers to be People Managers and ‘specialists in people’, taking a more personal approach to managing their teams.

MENTAL WELLBEING SUPPORT

Seven of the UK’s biggest retailers, including the Partnership, uniquely teamed up to fund a new online guide to help retail workers look after their mental wellbeing. Developed with the expertise of Samaritans, Wellbeing in Retail aims to support the 2.9 million people that work in retail. It helps workers to look after their own mental health, gives advice on how to support others who may be struggling, and signposts where to go for extra help.

8,000

Almost 8,000 retail workers have accessed the tool since it launched. Partners can access the guide via the Partner Development Website (PDW).

In 1953 we purchased the Herbert Parkinson textile factory in Lancashire and ever since it's been a thriving example of UK design, quality and craftsmanship. Combining the best of modern technology and traditional skills, over 250 Partners make John Lewis own-brand soft furnishings, duvets and pillows, and all Made to Measure 7-day service curtains, cushions, and roman and roller blinds.

QUALITY & CRAFTSMANSHIP

“The quality is right up there. It's in our DNA. The team's got a motto. Whatever they're doing through the process: if it's not good enough for them, it does not go to the customer.

MARGARET RUSH
Partner & Senior Production Manager

Our better way of doing business

PRODUCERS & SUPPLIERS

We take a responsible and ethical approach to selling products, sourcing raw materials and working with our supply chain partners.

HAPPY BIRTHDAY

2019 marked 90 years since the Leckford Estate in Hampshire was purchased by our Founder, John Spedan Lewis, who was a keen naturalist. Waitrose is the only UK supermarket to operate our own farm and supplies Waitrose shops with milk, flour, cox cider, apple juice, sparkling wine, apples, pears, mushrooms and rapeseed oil. In seven years we will also produce one of the culinary world's most sought-after ingredients – truffles – after creating a new oak and hazel plantation to honour our birthday.

100%

target for all cocoa in own-brand confectionery to be sourced on Fairtrade terms.

“For us as a business, it's the right thing to do to ensure we are sourcing our cocoa sustainably.

JANE GOODSON
Partner & Confectionery Buyer

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. The Partnership has a Policy on Anti-Bribery and Corruption and Gifts and Hospitality. 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 the requirements of the Charitable Giving Standard are met, and 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.

WAITROSE.COM

After a successful 19 years together, we announced our commercial relationship with Ocado would end in September 2020. This means the only place you will be able to buy our products online in future is via waitrose.com. We've been running the Ocado relationship alongside waitrose.com for a number of years and seen strong online growth. We are continuing to invest in waitrose.com to achieve our growth ambitions. This is supported by a new customer fulfilment centre opening in Enfield this year which complements our existing site in Coulsdon and our network of branch-picking from shops across the country.

13%

online growth in 2019/20.

PAYMENT PRACTICES

In line with government requirements, we publicly reported 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 within seven days and the average payment length for all Waitrose suppliers is 37 days. For all John Lewis suppliers, it is 40 days.

DEVELOPING MORE SUSTAINABLE PRODUCTS

John Lewis became the first British retailer to join The Egyptian Cotton Private Sector Working Group, a UNIDO (United Nations Industrial Development Organisation) backed initiative working to improve Egypt's sustainable cotton production in collaboration with the Better Cotton Initiative (BCI). We also made strides with our fashion suppliers and over 60% of the cotton sourced for our John Lewis own-brand fashion products comes from more sustainable sources.

Waitrose was the first UK supermarket to achieve 'Fine to Flush' certification for its own-brand wet wipes and launched its target for all cocoa in own-brand confectionery to be sourced on Fairtrade terms from the start of 2020.

Our better way of doing business

COMMUNITIES

We believe that our business should give more than it takes – to our customers, the communities we operate in, and each other.

FESTIVE FEASTS

As part of our Christmas charity campaign, 1,500 people across the country enjoyed a community festive feast provided by our Partners. Organised alongside food redistribution charity FareShare, it formed part of our joint campaign to bring people together at Christmas.

DISABILITY CONFIDENT LEADER

The Partnership achieved Disability Confident Leader status, which is the highest accreditation awarded by a government scheme and recognises and supports employers who recruit and retain people with disabilities. In 2017, the Partnership was also made a Disability Confident Employer.

"Being visually impaired means I might work in a slightly different way, such as needing a larger screen or more time to digest a briefing document, but I'm just as capable of doing the work as anyone else. Getting the necessary adjustments sorted is essential, but what has been most important is being recognised and seen as a valued Partner.

JONATHAN FLEET

Partner & Skills Compliance Administrator

SUPPORTING OVERSEAS COMMUNITIES

The John Lewis & Partners Foundation was established in 2007 to benefit communities in the UK and overseas where John Lewis operates. One such example is the donation of over £121,000 over three years to the Street to School project, run by Toybox. Street to School works with parents to improve understanding of the importance of education and sending their children to school. It runs education clubs in slum communities, providing working and street children with informal schooling and homework support, and helps children enrol in a local school.

Waitrose & Partners Foundation celebrated 10 years supporting communities in Kenya and Ghana. The Foundation works with the farmers and growers who produce, pick and pack our fresh produce. In Ghana it has helped improve educational opportunities and supports projects to increase access to water and sanitation. In Kenya the Foundation has invested in energy-saving stoves, solar street lighting and micro finance programmes to improve the lives of workers and their communities. Read more at www.johnlewispartnership.co.uk/csr

MILLION POUND CHALLENGE

Waitrose launched a £1m grant fund to support projects focusing on reducing unnecessary plastic pollution in the UK. Plan Plastic – The Million Pound Challenge – was funded by our 5p carrier bag levy and saw Waitrose allocate grants to five projects, each receiving grants from £150,000 to £300,000. Projects ranged from technology that tags fishing nets to plastic-eating fungi. In a similar commitment to reducing plastic waste, all plastic hangers in John Lewis can now be recycled, enabling the recycling of up to 10 million hangers a year.

MENTAL HEALTH AT WORK COMMITMENT

The Partnership joined forces with other UK businesses, mental health charities and non-governmental organisations in the most widespread collaboration of its kind to promote a nationwide commitment on improving mental healthcare in the workplace. The Mental Health at Work Commitment provides a framework for employers who recognise the importance of promoting staff wellbeing. For more information visit www.mentalhealthatwork.org.uk/commitment

We have a rich tradition of supporting our local communities through donations, fundraising and volunteering. Our commitment to contribute to the wellbeing of the communities where we operate is enshrined in our Constitution.

FORCE FOR GOOD

"The Golden Jubilee Trust is a real jewel in our Partnership. It has been a huge honour and privilege to be a Trustee for over four years, a role that I have found immensely humbling, rewarding and satisfying. It is great to see the real difference our fantastic Partners make at charities, big or small, across the UK. I'm particularly proud of the work the Trustees have done more recently with Samaritans and, going forward, as we celebrate the Trust's 20th anniversary, with FareShare and SeeAbility, which are opening up significantly more secondment opportunities for Partners.

SHALABH BAIJAL

Partner & Senior Finance Manager and Deputy Chair of the Golden Jubilee Trust

Market review

OUR MARKETS AND KEY TRENDS

It is important for the Partnership to have a good understanding of the markets we operate in, as it helps us plan for our future.

THE ECONOMY

The economy remained sluggish through 2019, with Gross Domestic Product (GDP), which measures the country's economy and the total value of everything produced by all people and companies in the UK, close to flat. Inflation, which measures price increases in products and services, slowed, from 2.1% at the end of 2018 to 1.3% in 2019. With price inflation low, the lowest unemployment figures since the 1970s and continuing wage growth, consumers should have had more money in their pockets, but that didn't translate into retail spend. Instead, consumers were cautious, choosing to focus on paying down credit and putting money into savings. However, in light of Coronavirus, we now expect to see significant changes to both the UK and world economy, with a global recession a strong possibility and consumer spending changing.

WHAT THIS MEANS FOR OUR PARTNERSHIP

Prior to Coronavirus, consumer confidence remained low. Retail spend, even over the usual shopping 'golden quarter' was slow, with December's Office for National Statistics (ONS) growth figures showing the fifth successive month of no growth in quantity of goods bought – the longest period of no growth since 1957. General merchandise sales declined, and food sales only grew fractionally. Online sales continued to grow at the expense of physical shopping, according to the British Retail Consortium (BRC). Due to government advice on Coronavirus, we are seeing and will continue to see shopping habits changing, with customers shopping online and prioritising grocery products over general merchandise.

BREXIT

During 2019/20, UK politics was almost entirely focused on the ongoing uncertainty around Brexit. With three 'hard Brexit' deadlines, legal challenges and a deadlocked House of Commons, there was very little space for other policy issues to rise up the agenda. This culminated in the December General Election. For some retailers, the uncertainty contributed to weak demand during the festive trading period. Prior to Coronavirus, many commentators had hoped to see an increase in consumer confidence in 2020, but that is now in doubt.

WHAT THIS MEANS FOR OUR PARTNERSHIP

Having left the EU on 31 January 2020, the UK is now in a transition period until 31 December 2020. During this period the government intends to negotiate a new trade deal with the EU. Failure to secure a comprehensive deal, and if there is no extension to the current arrangements, could mean the imposition of tariffs from January 2021 on goods we trade with the EU which would push up costs. There will also be additional documentation required to accompany goods crossing the border and associated customs and regulatory checks at the ports, which will add friction to supply chains. We have various measures and plans to reduce the impact of a no-deal on the products we import and export.

Freedom of movement, which allows EU citizens to live and work in the UK without a visa will also end on 31 December 2020 and will be replaced by a points based immigration system. Our EU Partners and their families who are already living in the UK by the end of the transition period, can apply to the EU Settlement Scheme in order to stay and we are providing our Partners with support with this and access to free and confidential legal advice.

RETAIL CHANGES

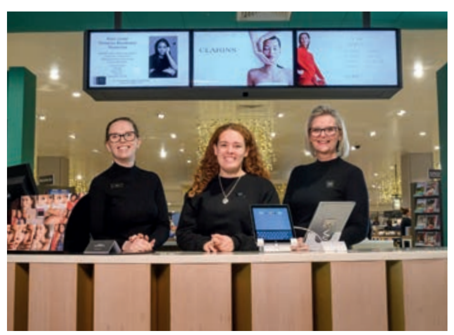
2019 was another difficult year with 43 large retailers using CVAs, impacting 2,051 shops and 46,506 employees, the most since 2008, when over 74,000 employees in retail lost their jobs. A third (33%) of all retailers on the London Stock Exchange issued a profit warning in 2019, compared to just 17% of all companies listed on the Exchange.

Fewer shoppers visited physical shops, with online taking 19% of all retail sales, compared to 11% in 2014, and footfall continuing to decline everywhere except retail parks. By the end of 2019, retail space had fallen back to 2014 levels from its 2017 peak, and experts believe it will continue to reduce as the impact of online sees more warehouses and fewer shops. From 2014 to 2019, over 40,000 retail locations were converted to other uses, residential, logistics or office space, and 12% of retail properties stood vacant by July 2019.

WHAT THIS MEANS FOR OUR PARTNERSHIP

As consumer demand for physical retail has declined, there has been an issue with oversupply – particularly for many large retailers with extensive store estates. Sales per store have declined, but retailers have continued to face high costs connected to their properties. Major retailers have been forced to address the oversupply problem with store closures and rent renegotiations.

The experience economy continues to grow; retail spending as a proportion of income is expected to decline 20% in the next ten years, with more spent on experiences, eating out and services. However, it is expected that measures to mitigate the Coronavirus pandemic may have a serious effect on consumers' interest in experiences outside the home, and these may take some time to recover.



EMPLOYMENT

During 2019, the unemployment rate fell to 3.8%, the lowest since the 1970s, and the tight labour market meant that wage growth stayed well ahead of inflation. This improvement in UK employment was not reflected in retail employment, where the difficulties faced by retailers have resulted in a net reduction in both the number of people employed in retail and the number of hours worked. While 3.2 million people are employed in retail today, the BRC estimates that this will fall to 2.1 million by 2025.

WHAT THIS MEANS FOR OUR PARTNERSHIP

When unemployment is low, recruitment becomes more competitive. Increasingly, pay is also a key part of staying competitive. The Partnership's commitment to pay Partners market rate means that we've seen growth in our overall wage bill. The Partnership is starting to reap the benefits of automation, looking at new ways of working, finding ways to automate repetitive tasks – from product launch processes, to checking Never Knowingly Undersold undersales, to experimental projects like Small Robots at our Waitrose Farm. At the same time we are actively developing and upskilling our Partners to do more complex, valuable tasks. This, along with social distancing measures implemented as a result of Coronavirus, inevitably means that the way that work is structured, and the way we work with Partners, is changing, and is likely to continue to do so for some time.

ETHICS AND SUSTAINABILITY

Businesses are under increasing pressure from campaign groups, organisations including the government, and customers, to be responsible citizens in the communities in which they operate. The Partnership recognises that society is at the early stages of a sustainability revolution and this will transform the way our economy operates. In order to thrive we must take bold steps to ensure we are part of this transformation. We place ethics and sustainability at the core of our business model and our evolving ethics and sustainability strategy sets out our ambition in this space.

Aside from environmental concerns, there is an increasing expectation that businesses will actively address social issues such as equality and inclusivity, pay, tax avoidance and health.

WHAT THIS MEANS FOR OUR PARTNERSHIP

Packaging and plastic waste is an example of an area where we have seen increased focus and pressure to make changes. We have seen a very positive response to our Waitrose 'Unpacked' and John Lewis BeautyCycle and Fashion Buy-Back trials. 'Unpacked' saw packaging removed from a range of products, including fruit and vegetables, refillable alcohol, washing-up liquid, and self-serve dry goods such as nuts and grains. Many competitors are now undertaking plastic free and plastic reduction initiatives, similar to 'Unpacked'.

Veganism and 'flexitarianism' are also on the rise, with consumers actively reducing the amount of meat in their diet. This is partially driven by concerns that raising animals for food is damaging to the environment. As a result, Waitrose will continue investing in vegan and vegetarian product ranges.

JOHN VARY

Partner & Futurologist

VIEW FROM OUR FUTUROLOGIST

The most common question I get asked is from people wanting to know what a Futurologist does. Well, my role is not to predict the future as I don't believe it's possible for a person to predict a future or futures. Instead, my mission is to make the Partnership think critically and creatively about alternative possible futures. I do this by leading a team of cross-functional designers and together we focus on creating tangible outputs that help encourage new ways of thinking about the future.

From 2020 onwards, new types of home and product ownership such as rental, could create new human expectations and behaviours when it comes to things we desire and the things we no longer need.

As we have seen as a result of the Coronavirus pandemic, the role of the community will play an even greater role in our lives. We will begin to see many advantages to sharing resources, products and spaces – a financial one of course, as people mutualise their bills and are able to access more choice for the same budget; but also building up communities.

These communities are made up of individuals that share interests and values, but also complete each other – in particular intergenerational communities, in an age where over 60s now represent a quarter of the UK population. As the nuclear family model is slowly being abandoned, single parents, pet owners, students and isolated retirees are rediscovering the benefits of sharing responsibilities with the community to make life easier. Digital technology will help connect community members to exchange services and share resources efficiently.

Strategic Review

FUTURE PARTNERSHIP

We are stepping into a vital new phase for the Partnership and in March 2020 we launched a Strategic Review. We need to reverse our profit decline and return to growth so that we can invest more in our customers and in our Partners. This will require a transformation in how we operate as a Partnership and could take three to five years to show results. The Strategic Review will be led by the Executive Team but all Partners, those who are active in the democracy and those who are not, will have the chance to contribute and shape our future. The review will focus on how we strengthen our core retail business and develop new services outside retail. As part of this we will also look at 'right sizing' our store estate across both brands, through a combination of new formats and new locations; repurposing and space reductions of existing stores; and closures, where necessary. Through these changes the Partnership will:

- Continue to be employee-owned;
- Retain our two brands – John Lewis and Waitrose;
- Put exceptional customer service at the heart of what we do – whether in store, online or in customers' homes;
- Focus on quality and value, with Partners empowered to offer products and services that are more local; and
- Put even greater emphasis on ethics and sustainability.

OUR PRIORITIES WERE: | WHAT WE FOCUSED ON IN 2019/20:

DELIVERING MORE FOR OUR CUSTOMERS

PAGES 30–33

- Designing, sourcing and curating products and services that are good value and creating experiences that help customers live healthily, enjoy their homes, and manage their finances.
- Both brands working closer together, as one Partnership, and transforming online experiences.
- Increasing our focus on sustainability by launching our 'Unpacked' trial and reducing plastics.

ETHICS AND SUSTAINABILITY:

ALWAYS FAIR

- Embedding the use of sustainable material sources and practices throughout our own-brand key raw material supply chains.
- Developing sustainable farming practices and continuing to raise the baseline on animal welfare standards.
- Rollout of key in-country programmes that aim to ensure people working throughout our supply chains are treated with respect, kept safe, are fairly rewarded and have a platform to voice their opinions.

EMPOWERING OUR PARTNERS

PAGES 34–39

- Investing in and enhancing the quality of our leadership through training events and restructuring our leadership team, reducing it by a third.
- Becoming a workplace leader on health and wellbeing with the Working Well and Be Yourself. Always reports as examples.
- Reviewing and modernising Partner pensions and pay.

ETHICS AND SUSTAINABILITY:

TRANSFORMING LIVES

- Our Partners and customers working together to deliver local, national and international programmes supporting those in need.
- Supporting the health and wellbeing of our Partners and customers by providing new initiatives and tools to ensure they are well supported and enabling them to make healthier food choices.
- Continued to further build our inclusivity movement through our employee engagement networks, democracy and diversity champions.

GENERATING MORE VALUE FOR OUR EMPLOYEE-OWNERS

PAGES 40–43

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

ETHICS AND SUSTAINABILITY:

NEVER WASTEFUL

- Decarbonising our operations through significant investment in new greener technologies to run our operations, e.g. biomethane trucks.
- Diverting as much waste from landfill as possible across our supply chains and own operations.
- Providing customers with creative and innovative solutions for product reuse or a way to dispose of their products responsibly, such as through our BeautyCycle programme.

OUR PRIORITIES WERE: | WHAT WE FOCUSED ON IN 2019/20:

TRANSFORMING HOW POWER AND KNOWLEDGE IS SHARED

PAGES 44–45

- Making changes to our leadership and democratic structure to provide the right framework for our Future Partnership plan.
- One team of Executive Directors now run both John Lewis and Waitrose. The size of the Partnership Board was reduced and Divisional Boards and Councils were removed.
- Electing a new President of the Partnership Council and two Independent Directors and supporting the appointment of a new Chairman.

NINA BHATIA

Partner & Executive Director,
Strategy & Commercial Development

> A key priority for the year ahead will be developing a single strategy for the Partnership as a whole. In the past, we have had multiple strategies which were not always fully aligned and missed cross-cutting opportunities. As a consequence, we did not always make the most of our assets for the benefit of our customers and Partners.
>
> The Strategic Review, which we kicked off in March, will look at how we strengthen our core retail businesses in an increasingly competitive market and in the face of continued technology disruption. We will also assess new potential services where our ownership model and trusted brands can make a difference.
>
> Going forward, we will have a much greater focus on sustainability, which is an increasing concern for our customers. Some things won't change, however: our co-ownership model; Waitrose and John Lewis as our core retail brands; and our commitment to service, quality and our communities.

LINKS

Our markets and key trends pages 26–27.
We need to be aware of the challenges we face. There are external factors that impact on the Partnership such as uncertainty in the economy, societal and technology changes and disruption in the retail sector.

Our Partnership business model pages 10–11.
Our Future Partnership plan clearly links with our Partnership business model, and defines how our business model needs to evolve to meet the challenges and capture the opportunities that lie ahead.

Our risks and uncertainties pages 46–51.
We define risk as anything that can adversely affect our ability to meet the Partnership's objectives and comply with regulatory standards.

ETHICS AND SUSTAINABILITY

Our approach to sustainability is key to our Future Partnership. It's fundamental not only for our business longevity but the planet too and we recognise its importance to Partners and customers, as well as the commercial opportunities of being an environmentally responsible and ethically focused business. Our strategy is currently underpinned by three commitments: Always Fair, Transforming Lives and Never Wasteful. However, as part of the Future Partnership Strategic Review we will be placing even greater emphasis on business ethics and sustainability.

In February 2020, the Corporate Responsibility Group was disbanded and replaced with a new Ethics and Sustainability Committee, chaired by our Chairman and made up of senior leaders from across the business. Its purpose is to ensure ethics and sustainability is core to the Future Partnership strategy and that the Partnership continues to build inclusive, sustainable and transparent relationships between our suppliers, customers, products and services as well as responding to the increasing environmental and social challenges faced by today's society. Our Corporate Responsibility team now sits within the Strategy area, to reflect the Partnership's ambition.

We are committed to understanding the climate risks and opportunities within our business and expect to begin to report this via the Task Force on Climate-related Financial Disclosures Framework (TCFD) from next year. For further details visit www.johnlewispartnership.co.uk/csr

KEY PERFORMANCE INDICATORS

The following sections detail our progress against our strategy over the past financial year. This progress is reported against the Key Performance Indicators (KPIs) set out under One Partnership, as these were applicable for 2019/20. From 2020/21, new KPIs and objectives will be set as the new Future Partnership plan evolves.

NON-FINANCIAL REPORTING STATEMENT

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

By 'non-financial information' we mean quantitative and qualitative information on the strategies, policies or activities we pursue towards our business, environmental and social goals. In reporting this, we focus on the aspects that are most material to our business, our Partners and other stakeholders. This builds on existing reporting that is appropriate to the Partnership. You can read more about our ethics and sustainability aims at www.johnlewispartnership.co.uk/csr

REPORTING REQUIREMENT POLICIES	HOW WE MANAGE THESE ISSUES: POLICIES, STANDARDS, RISKS AND ADDITIONAL INFORMATION
Environmental matters	Our better way of doing business: Communities, pages 24–25 Never Wasteful, page 43
Employees	Our better way of doing business: Partner, pages 20–21 Our progress: Empowering our Partners, pages 34–39
Human rights	Our better way of doing business: Producers & suppliers, pages 22–23, Communities, pages 24–25 Always Fair, page 33 Modern slavery – see separate Modern Slavery Statement on www.johnlewispartnership.co.uk/csr
Social matters	Our better way of doing business: Communities, pages 24–25 Always Fair, page 33, Transforming Lives, page 39
Anti-corruption and anti-bribery	Our better way of doing business: Producers & suppliers, pages 22–23
Policy embedding, due diligence and outcomes	Throughout this report, in the sections outlined above and via www.johnlewispartnership.co.uk/csr
Description of principal risks and impact of business activity	Our risks and uncertainties, pages 46–51, and throughout this report, in the sections outlined above and via www.johnlewispartnership.co.uk/csr
Description of our business model	How we are different: Our Partnership business model, pages 10–11
Non-financial key performance indicators	Throughout this report, in the sections outlined above and via www.johnlewispartnership.co.uk/csr

Our progress

DELIVERING MORE FOR OUR CUSTOMERS

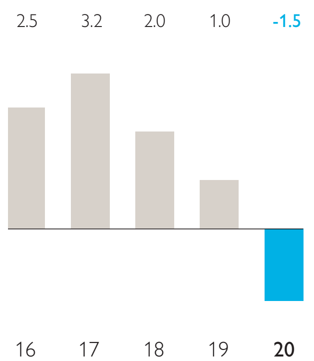
We want to deliver more for our customers by understanding their most important needs and creating brilliant, differentiated propositions, in order to build valuable, long-term relationships.

KPI COMMENTARY

We are a unique business, continually differentiating ourselves through the services we offer, our product innovation, and product quality in both brands. Although the Partnership remains profitable, 2019/20 saw a decline in gross sales growth for both brands. In John Lewis, like-for-like sales reduced by 1.8% year-on-year, whilst Waitrose saw a slight decline of 0.2%. However, for waitrose.com, sales growth was 13% up, reflecting an accelerating shift to online. Delivering exceptional customer service is at the heart of what we do, however there are areas where we know we can do better. Our focus to bring our brands closer together as one business and heavily enhance the shopping experience online are just two examples of the many ways we will succeed in delivering more for our customers.

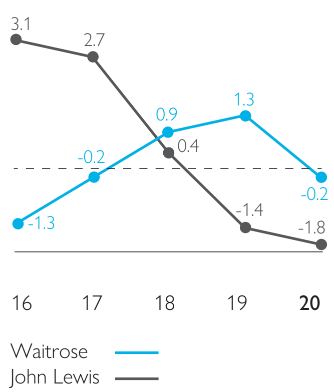
Definitions, and where applicable, reconciliations, of our KPIs can be found in the glossary on pages 158 to 163.

Partnership gross sales growth %



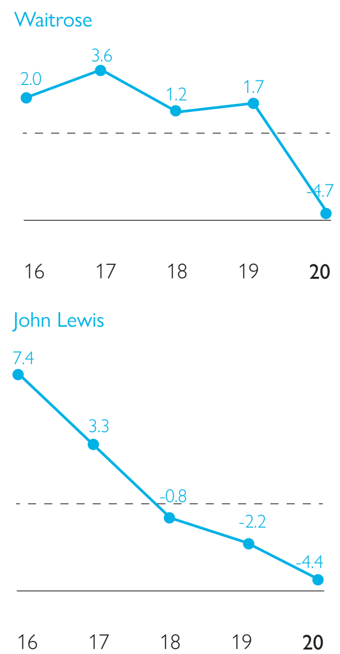
Total sales of goods and services including VAT, net of Partnership discount, reported for a particular time period. Our gross sales reduced by 1.5% in 2019/20.

Like-for-like sales growth %



Comparison of sales between two periods in time such as this year to last year, removing the impact of branch openings and closures. Waitrose like-for-like sales were down 0.2% and John Lewis like-for-like sales were down 1.8%.

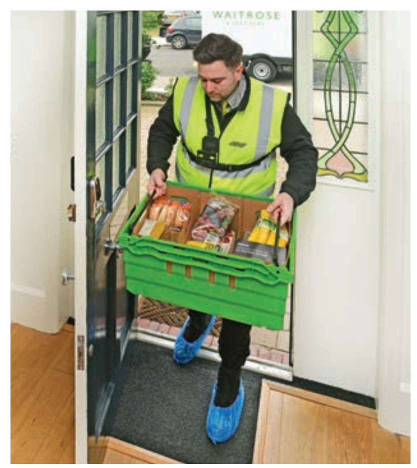
Change in high-spending customers %



Percentage change in high-spending customers during the reporting period. High-spending customers are those customers who exceed particular spend and frequency thresholds over a given time frame. As time passes the level of data available on customer spend increases; primarily returns data and the ability to link spend to a specific customer. Prior year KPIs are therefore restated each year to reflect the most recent data available. This year, there was a decline in high-spending customers across both brands.

BÉRANGÈRE MICHEL
Partner & Executive Director, Customer Service

"Customer service is the bedrock of both our John Lewis and Waitrose brands. Our reputation for service remains strong, as evidenced by customer satisfaction results and external recognition in the form of national awards for service. However, we know that too often we let our customers down, and we will continue to be restless in addressing all the root causes behind these failures. We have a plan to improve customer satisfaction and service further. As part of it, we will be launching new mechanisms to listen to and act upon customer-facing Partners and customers' feedback; we will review processes and resources to address instances where shortfalls cause our service levels to fall short; and finally, we will be providing our customer-facing Partners greater freedom to use their judgement when they serve customers.



DESIGNING, SOURCING AND CURATING PRODUCTS AND SERVICES

In John Lewis, we launched our third season of own-brand Womenswear following the full redesign of our range last year, as well as launching Women's own-brand swimwear and nightwear and lingerie. In addition, we relaunched our own-brand Menswear with a 280-piece collection.

Style Studios were rolled out to all shops, putting them in the centre of the fashion floor. We launched our own-brand gift food and our first The World of Design in our Peterborough and Southampton shops, bringing together our Home Stylist expertise in one new dedicated space at the heart of our Home department. We also launched Beauty Society in four of our shops. At Christmas, personalised Quality Street tins were made available in double the amount of shops compared to last year and our 'try before you buy' Fever-Tree gin-tasting bars proved popular.

In Waitrose we completed 59 category reviews, alongside launching our largest-ever summer food range – Scrumptious Summer – and relaunching Waitrose No.1 with 200 new product lines. Over 300 new and improved Waitrose Christmas products were launched and at Christmas we also won 27 taste tests across major national publications, which is more than any other retailer.

Waitrose expanded its two-hour rapid delivery and While You're Away trials to more postcodes. Waitrose Rapid is now available to customers in London and Hove, where they can get a delivery of up to 25 items.

Hot on the heels of Waitrose Wine Tasting At Home, Discover Whisky was also launched. The two-hour, at-home experience showcases five whiskies from around the world, plus demonstrates making three simple cocktails and pairing whiskies with chocolate and cheese.

280
piece own-brand Menswear collection.

Our progress

DELIVERING MORE FOR OUR CUSTOMERS

ONE PARTNERSHIP, TWO BRANDS

This year, more than ever, our brands have been working closer together as one business. Our new concept stores at Waitrose Lincoln and Lymington are giving shoppers access to more products, services and Partner skills from across the Partnership, such as fashion and style talks, calligraphy classes, barista workshops and photography courses. Particular focus is on providing customers with the 'Perfect Pairings' such as choosing the perfect wine glasses for your red wine.

John Lewis Southampton also became a pioneer for the future of the department store. We brought services from both brands together under one roof, offering customers expertise and exciting experiences such as cooking, gardening, interior design and style advice. This included opening our first Waitrose cookery school in a John Lewis shop, launching The World of Design interior design concept, and the opening of a rooftop garden and shop from the Waitrose Farm and our Leckford Estate.

To bring the brands closer still, we have our first pan-Partnership branch manager who oversees Waitrose and John Lewis Ipswich.

For the first time, our two brands ran a joint Christmas advertising campaign. Excitable Edgar is one of the most successful to date for both brands and the advert was viewed on social media 38 million times. The main character, Edgar, was loved by customers, leading to a record number of toys and books sold for one of our Christmas campaigns.

Both brands have been providing customers with more flexibility and convenience as John Lewis customers can now return their online purchases to Waitrose delivery drivers at the same time as they receive their groceries. The service was created to make returns more convenient for our customers and means shoppers can return clothing and home purchases without leaving the comfort of their own home.

As our Click & Collect service is so loved by our customers, it also gave us the confidence to explore this area further and the service is now available in selected Co-op and Booths shops. We also took this decision to offer the service to third party retailers, starting with a trial with Boden at 30 Waitrose stores, expanding to 150 over the peak period.

In Waitrose we saw strong progress against our plans to strengthen our online capabilities, as we build towards trebling the size of waitrose.com over the next three years. In 2019/20 we saw growth of 13%.

FASHION AND BEAUTY PACKAGING BUY-BACK SCHEMES

Following our successful Waitrose 'Unpacked' trial in four shops (see page 18), John Lewis Oxford is trialling the removal of all single-use carrier bags and offering 50p reusable polypropylene carrier bags, replacing traditional bubble wrap with an eco alternative and recycling unwanted plastic, wooden or metal hangers from any retailer. The store is also offering for all Click & Collect parcels to be de-boxed and unwrapped by Partners before being handed over to customers to ensure the packaging is recycled. We are trialling a beauty products recycling scheme, exclusively for myJohnLewis members. In partnership with TerraCycle, BeautyCycle enabled over 11,000 customers to bring in their used beauty products to 36 John Lewis shops, saving over 56,000 beauty empties from landfill. myJohnLewis customers can also participate in Fashion Buy-Back in seven shops, where they can bring back pre-loved items from brands stocked at John Lewis to receive a voucher to spend in the Partnership.

CUSTOMER SERVICE

There are areas of the business where we know we need to serve customers better. Going forward, in John Lewis we will be refreshing our Home offering, introducing more inspirational and contemporary ranges with improved pricing and delivery. We will also be making improvements to John Lewis online to make it easier to shop. We have already launched a new evening delivery service offering customer slots between 6pm and 10pm, Monday to Friday. We are also investing significantly in waitrose.com, ahead of our partnership with Ocado ending in September 2020.

John Lewis opened a new Customer Delivery Hub (CDH) in Southampton. The state-of-the-art South Central CDH was built with sustainability in mind and features solar panels, electric vehicle charging posts and efficient lighting.

> It has twice as many loading docks as our previous CDH, provides a more efficient working environment for Partners and easier access to the motorway network.

PAT PHILLIPS
Partner & CDH Regional Manager

To support during Coronavirus we have implemented new measures to help meet the needs of our customers, with a particular focus on the elderly and the vulnerable. We have created protected shopping time in Waitrose for them and are exploring offering online classes and advice from our expert Partners.

We have also set aside a proportion of hard-to-find and essential products exclusively for NHS staff and they are given priority at Waitrose checkouts. At John Lewis we are sending care packages to NHS workers to help make their breaks more comfortable. We are donating items such as pillows, phone chargers, eye masks, hand cream and Easter treats.

To help customers shop safely in Waitrose and to protect Partners we are limiting customer numbers, there is safe distance floor signage, two-metre marshals to help manage queues, protective screens at checkouts, additional security and we are encouraging contactless shopping.

ALWAYS FAIR

To source and sell our products with integrity.

ANIMAL WELFARE

Waitrose continued to demonstrate its commitment to farm animal welfare and received the 'Best Retailer Award' from Compassion in World Farming for the third time in a row, beating competition from 27 other retailers across Europe. We also ranked in the top tier in the Global Business Benchmark on farm animal welfare for the sixth year in a row. Waitrose scored six out of six in the World Wildlife Fund's 2019 report comparing retailers' soya policies.

6/6

in the World Wildlife Fund's 2019 report comparing retailers' soya policies.

SUSTAINABLE TUNA

Waitrose celebrated its 10 year anniversary of its exclusive commitment to selling only pole and line caught tuna across its own-brand label canned tuna and remains the only dedicated food supermarket retailer to do so. It is a highly selective way to fish, helping to minimise the risk of catching other species, including endangered turtles, dolphins and sharks. Waitrose is also the only current supermarket in the UK to exclusively have all its own-label tinned tuna MSC (Marine Stewardship Council) certified.

PROMOTING BETTER JOBS IN THE JOHN LEWIS SUPPLY CHAIN

Our innovative 'Better Jobs Programme' aims to promote better jobs for the people who make our John Lewis own-brand products. We're using our values and expertise to support our suppliers so they can provide good jobs and develop their employees. Suppliers are provided with guidance and dedicated resources through an online portal based on a framework spanning seven areas of work. In 2019 we had 23 suppliers complete the framework and 800 workers complete the employee survey. We are using these responses to define areas of activity suppliers should prioritise, tracking progress year-on-year.

Our progress

EMPOWERING OUR PARTNERS

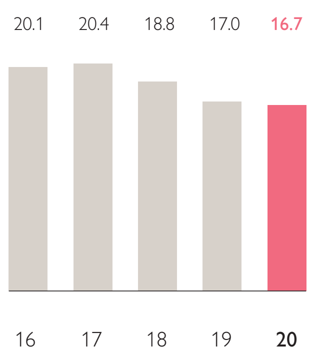
Partners are at the heart of our business as the Partnership was created for Partners. Partners are central to our Future Partnership plan going forward.

KPI COMMENTARY

Our employee ownership means we are continually committed to empowering and investing in our Partners. Being Partners, not just employees, enables an improved contribution from everyone across the business. We have continued to invest in Partner pay, increasing Partner pay as a percentage of sales, with a particular focus on non-management Partners. As well as pay, the Partnership looks to reward Partners through other means referred to as above market rewards. Our above market rewards include, but are not limited to, our pension, long leave and Partner discount, which are benefits beyond those typically paid by our competitors. We have also continued to advance towards our goal of becoming Britain's Healthiest Workplace by 2025, improving by three places this year. We are focused on both physical and mental wellbeing, working closely with Samaritans, offering physiotherapy sessions and free subscription for Partners to the Unmind app.

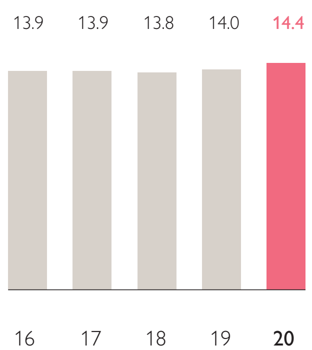
Definitions, and where applicable, reconciliations, of our KPIs can be found in the glossary on pages 158 to 163.

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



Average non-management Partner hourly pay for those on permanent contracts and aged 18 years old and over, as a percentage above the April 2019 National Living Wage of £8.21 for 25 years and over. Non-management Partners are Level 9 and Level 10 Partners, excluding Assistant Team Managers. Our average hourly rate of base pay for non-management Partners increased from £9.16 to £9.58, which is 16.7% above the National Living Wage.

Partner pay as a percentage of sales %



Partner pay divided by sales. The pay measure is total wages and salaries. The sales measure is gross sales excluding VAT. Our Partner pay as a percentage of sales this financial year was 14.4%.

Britain's Healthiest Workplace ranking

15th

Britain's Healthiest Workplace is an annual external survey. Developed by VitalityHealth, the 2019 survey gathered data from 120 small, medium and large businesses and 23,632 employees who volunteer health and wellbeing information on the provision and use of workplace wellness interventions, facilities, services, leadership and culture. 2019 was the second year the Partnership took part, with over 1,901 Partners contributing to help determine our ranking. The Partnership moved up three places from last year, ranking 15th out of 42 large businesses. Our ambition is to be ranked number one by 2025.

TRACEY KILLEN

Partner & Executive Director, People

"Society as we know it is undergoing dramatic change and so is our business. So it's more important than ever for us to stay true to our Partnership Principles and our point of difference: our Partners. As an employee-owned business, we've always put the happiness and wellbeing of our Partners as our first priority. But in these challenging times, we need to support each other more than ever before. We will provide health and wellbeing support for our Partners and we have refreshed our commitment to inclusion and our communities. We would like to be the UK's most inclusive business – for our Partners and for our customers, reflecting and connecting with the diverse communities that we serve.

8,000

Almost 8,000 managers from across the Partnership gathered over two weeks in May for Empowered Leadership one-day sessions.

INVESTING IN AND ENHANCING OUR LEADERSHIP

Our ultimate purpose (Principle 1 in our Constitution) is to create worthwhile and satisfying employment for our Partners in a successful business. This year we helped demonstrate this by our commitment to Empowered Leadership and supporting all managers to become 'specialists in people'.

Almost 8,000 managers from across the Partnership gathered over two weeks in May for Empowered Leadership one-day sessions. This was the first step in a new learning and training series for new and existing People Managers to become 'specialists in people'. Managers learnt to take a more personal approach to managing their teams and use these six characteristics – engage, motivate, develop, coach, empower and drive.

During the sessions Partners could preview tools such as 360 feedback, coaching and mentoring services, Workday, which is replacing our existing personnel and HR system, and the new-look Partner Development Website (PDW). Interactive sessions on self-awareness, the Partnership's culture and examples of good leadership were also provided. Since the event, managers have been able to continue attending regional workshops, courses and learning modules on Empowered Leadership.

"Empowered Leadership really reminded me of the importance of motivation and knowing each Partner personally. We do it for our hotel guests, but it can be easily missed with your own team when you're busy. It was also useful to network and see the six characteristics of people management brought to life.

ANDREW CRAIG-MAIR

Partner & Manager of Brownsea Castle

Our progress

EMPOWERING OUR PARTNERS

BECOMING A LEADER OF HEALTH AND WELLBEING

We introduced free in-house health and medical services to all Partners in 1929, 19 years before the NHS. Today, we continue to offer comprehensive health and wellbeing services, investing over £20 million a year to enable our Partners to feel well, enjoy life and have support when they need it. This financial year our Partnership Health Services provided 7,656 physiotherapy sessions to 3,488 Partners, 6,007 psychological therapy sessions to 1,215 Partners and 4,883 podiatry treatments to 1,888 Partners. 1,016 People Managers attended Mental Health Awareness training and over 8,000 Partners have downloaded the Unmind app. We also now have 742 Wellbeing Champions in the business across 217 locations. Our in-house Partner Support phone helpline took 28,814 calls and over £1 million was given by the Partnership for financial assistance, with the greatest number of claims for additional support when Partners have exhausted their sick pay entitlement.

£20m

Over £20 million investment a year to enable our Partners to feel well.

7,656
physiotherapy sessions

742
Wellbeing Champions

6,007
psychological therapy sessions

8,000
Partners have downloaded the Unmind app

4,883
podiatry treatments

28,814
calls to our in-house Partner Support phone helpline

1,016
People Managers attended Mental Health Awareness training

BE YOURSELF. ALWAYS

We became one of the first major UK high street retailers to publicly report both our gender and ethnicity pay gaps, as well as provide data on age, health and wellbeing by publishing our new Be Yourself. Always report. This is just the first step and we know there is much more we need to do to enable Partners from all walks of life to feel valued for their individuality, thrive in our business and share a sense of belonging, which is reflected in our Partnership values. To read the full report, visit www.johnlewispartnership.co.uk/csr/reports.html

Our gender pay mean gap for April 2019 is 13%, which is a slight increase of 0.3% since April 2018. The median gap is 8%, which is a slight decrease of 0.2% since April 2018. The key reasons for our gap are structural as there are more women than men in lower paid roles but fewer in higher paid ones. We employ 80,800 Partners in a variety of roles, all with variable pay ranges informed by their market value. Calculations also cover other pay elements; for example, a premium is usually paid for night work and this impacts the overall pay gap as the majority of night workers are men.

To calculate our ethnicity pay gap, we designed the methodology ourselves, using data from the number of Partners in the business in April 2019. Because of this, the data may not be comparable to future years if mandatory ethnicity reporting is introduced by the government. Our ethnicity mean gap is 8% and our median gap is -1.2%. The factors that can affect ethnicity pay gap data are different to gender. In particular, location can play a key role. As a national retailer, we have a higher proportion of Partners from ethnic minority backgrounds in London. This is in line with the diverse demographics in the capital, where hourly pay is higher compared to the rest of the UK, which explains our mean gap. But having a minus median pay gap means pay for our ethnic minority Partners is higher than that of Partners not from ethnic minority backgrounds.

Gender

FEMALE %
57.3%

MALE %
42.7%

Ethnicity

ETHNIC MINORITIES %
16.9%

WHITE %
83.1%

DIVERSITY

Gender diversity of the Partnership[1]

	2020 FEMALE %	2020 MALE %	2019 FEMALE %	2019 MALE %
Partnership Board[2]	**38**	**62**	38	62
Directors & Management Board	**34**	**66**	28	72
Senior Managers	**49**	**51**	50	50
All other Partners	**58**	**42**	58	42

1 As at the year-end date.
2 Since Sharon White's appointment as Chairman, the gender diversity of the Partnership Board is 50% female and 50% male.

Ethnicity split of the Partnership[1,2]

	2020 %	2019 %
Asian or Asian British	**6.8**	6.8
Black or Black British	**4.7**	4.7
Chinese or other ethnic group	**1.3**	1.3
Mixed origin	**2.5**	2.4
Not given	**1.6**	1.6
White	**83.1**	83.2

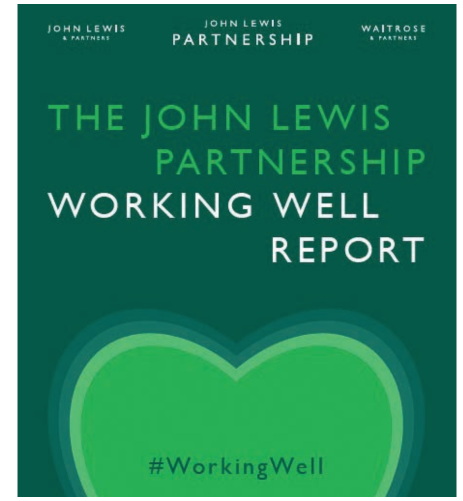
1 As at the year-end date.
2 Based on Partners who self-declared ethnicity.

HOW DO WE DEFINE OUR LEVELS?

Job levelling enables different jobs to be measured based on their relative scale, impact and size. The Partnership hierarchy consists of 10 levels, with every job in the Partnership sitting in one of these. Our job levelling system allows us to compare job levels in all the different industry sectors in our business. We look at every individual role and not the person in the role to determine a Partnership level 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 big benefit to career development and progression.

PARTNERSHIP ROLE LEVELS

1 Chairman and Executive Director
2+3 Director
4 Head of Department/Head of Branch
5+6 Leadership, Specialist and Senior Specialist
7+8+9 Specialist Partner and Junior Management
10 Partner entry roles



WORKING WELL

In June, we launched our Working Well campaign, calling on the government to make all employer-provided occupational health services tax exempt so UK workers can get early clinical support if they need it. We also want to encourage more employers to invest in workplace health and wellbeing and make it available for all, regardless of job title or length of service, because we think no one should have to struggle with a physical or mental health condition at work unsupported.

After minor illnesses, mental health and musculoskeletal conditions are the two largest causes of sickness absence in UK workplaces. Supported by research from the Centre for Economics and Business Research, our report revealed the total cost of absenteeism and reduced productivity due to these conditions for UK businesses could be as much as £87.8 billion by 2025. However, these costs could be reduced to £38.1 billion by 2025 if more employers invested in early clinical interventions for these conditions.

Many businesses, large and small, find their efforts hampered by the complex tangle of tax rules. No one, especially those on low pay, should be stung by a surprise tax bill after getting early support through their employer if they need it. We therefore created a coalition of small and large employers, business groups, charities and health experts. Together we are lobbying the government by collectively writing letters, hosting events in Parliament and giving joint comments to government consultations.

In the 11 March 2020 Budget, the Chancellor of the Exchequer announced that counselling services like cognitive behavioural therapy would become tax exempt, therefore enabling employers to invest in mental health services for employees thanks to this tax saving. For more information, visit www.johnlewispartnership.co.uk/workingwell

Our progress

EMPOWERING OUR PARTNERS

PARTNER DINING ROOMS

A new round of investment in Partner Dining Rooms (PDRs) saw £750,000 given to 83 John Lewis and Waitrose branches to improve their dining rooms. Branches were able to order furniture, plants and finishes from a set catalogue.

£750,000

to improve Partner Dining Rooms.

REVIEWING PAY AND PENSIONS

We have been strengthening pay for performance and structuring Partner pay ranges in line with newly designed jobs. Our average hourly rate of base pay for non-management Partners increased to £9.58 from £9.16, which is 16.7% above the National Living Wage.

Following a year-long review, surveys, branch listening sessions and a two-month consultation with Partners, Partnership Council unanimously voted in favour of the new pension proposals which closed the defined benefit section of our pension scheme on 1 April 2020. Partners will now see an increase in the level of contributions that the Partnership matches, from 4.5% to 8% of pay, under the defined contribution scheme. The Partnership will also contribute 4% of pay to a Partner's pension after three years of service, whether they pay in or not, making the new offering fairer.

£3m

An additional £3 million has been set aside to make financial education available to help Partners make decisions about their pension.

RESTRUCTURING

As part of our Future Partnership plan to enable the organisation to be managed and operated as a single business and ensure we are delivering truly great customer service, a number of areas across the business have been restructured or are undertaking a restructuring process. This includes reviewing our IT and Change teams, which will become Technology & Change. Technology & Change plays a key role in the business and is critical to the long-term sustainability of the Partnership. This new integrated function will provide a smarter way of working, allowing the Partnership to consolidate decision-making, while benefiting from advances in operational best practice and technology, which will ultimately provide a better digital experience for our customers.

TRANSFORMING LIVES

To help our Partners and communities thrive.

DONATING SURPLUS FOOD

The FareShare Go scheme is now in 286 of our Waitrose branches, giving charities and community groups access to free surplus food to turn into meals for those in need. By the end of the financial year we reached the landmark of donating two million meals.

RED CROSS DONATIONS

In 2019 the Partnership made a donation of £100,000 to the Red Cross Disaster Relief Alliance fund with additional donations of £29,000 to the British Red Cross for their special appeals following Cyclone Idai and the Christchurch incident.

20 YEARS OF PARTNER VOLUNTEERING

Our unique volunteering programme – The Golden Jubilee Trust – celebrates 20 successful years of awarding Partner secondments. In two decades, it has given practical help to over 900 national and local charities across the UK by placing Partners on secondments at a charity of their choice for up to six months, while still on full Partnership pay and benefits. Over 980 Partners have participated during that time, equating to over 393,000 hours donated and representing a community value of over £25 million. To honour this milestone, the Trust has chosen to work closely with two charities during 2020. Some 23 Partners from all parts of the Partnership will be seconded for up to six months to FareShare and SeeAbility, to help the charities grow.

In addition to The Golden Jubilee Trust secondments, Partners can also volunteer throughout the year on short-term projects. Partners based at the Partnership's head office in London Victoria volunteered over 800 additional hours supporting local causes.

Customers can help the Partnership decide which charities to fundraise for throughout the year, through our Community Matters scheme. Waitrose and John Lewis shops support local charities and organisations near to them, with customers nominating and voting using green tokens collected at till points to decide how donations are allocated.

THE GOLDEN JUBILEE TRUST
CELEBRATING 20 YEARS

£4m

This year £4 million was donated via Community Matters.

THE PRINCE OF WALES'S CHARITABLE FOUNDATION

Total sales of the Waitrose Duchy Organic brand have now surpassed £1 billion, generating a contribution of more than £23.5 million to The Prince of Wales's Charitable Foundation, which supports many good causes.

£23.5m

contributed to The Prince of Wales's Charitable Foundation.

SUPPORT DURING CORONAVIRUS

In order to help the most vulnerable during the Coronavirus pandemic, we have created a £1 million Community Support Fund which our Waitrose shops are using to support those most in need in their local communities. In addition, a donation of £225,000 has been shared equally to Age UK, FareShare and the Trussell Trust which will give vital help to those in local communities undergoing isolation and food insecurity.

Our progress

GENERATING MORE VALUE FOR OUR EMPLOYEE-OWNERS

This year's Bonus of 2% reflects our continued commitment to our Partners whilst retaining a consistent proportion of profits for future investment. This will secure our ability to meet the needs of our customers, deal fairly with our suppliers and make a difference in our communities for many years to come.

KPI COMMENTARY

Long-term financial sustainability underpins our Partnership strategy. We measure it through the following three Key Performance Indicators (KPIs): Return on Invested Capital (ROIC), Debt Ratio and Partnership profit per average full-time equivalent (FTE) Partner. Our ROIC and Profit per average FTE Partner have reduced, reflecting significantly lower profits and also the impact of IFRS 16, the new accounting standard for leases. Our Debt Ratio has improved and we have been on track to reduce this to around three times within four years. This will be reviewed in light of the recent Coronavirus pandemic.

WHAT IS IFRS 16?

IFRS 16 is a new mandatory accounting standard relating to leases. It requires leases, a form of debt, to be included on the balance sheet, whereas previously, for the vast majority of leases (including a large proportion of our shop estate), we simply recognised a rental charge in the income statement. This year, we adopted IFRS 16, using the modified retrospective approach on transition. Our last year results are therefore not restated.

Whilst IFRS 16 has decreased our reported profit before tax by £52.7m, primarily due to the length of our lease portfolio, it does not change the underlying economics of our business and it has no impact on cash flows. Further details of the impact of IFRS 16 are included in our accounting policy note 1.1.4 on pages 95 to 96.

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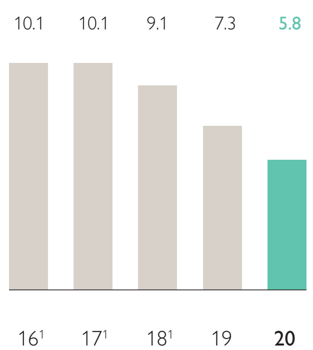
Definitions, and where applicable, reconciliations, of our KPIs can be found in the glossary on pages 158 to 163.

Return on Invested Capital (ROIC) %

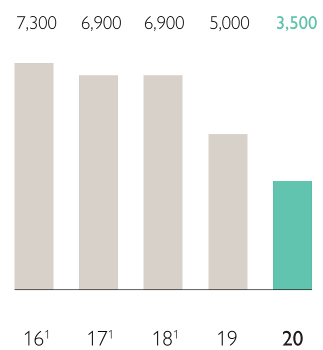


1 Restated to include above market reward.

Operating profit before Partnership Bonus and exceptional items, but after IFRS 16, adjusted for above market reward and a notional tax charge, as a proportion of average operating net assets. The definition for 2018/19 and all preceding years is before IFRS 16 and includes operating profit before Partnership Bonus and exceptional items, adjusted for above market reward, a notional interest on leases and a notional tax charge, as a proportion of average operating net assets, adjusted to reflect the value of leased assets.

This measure is important as it demonstrates how effectively we are utilising our assets. Our ROIC declined by 1.5 percentage points, with 0.8 due to the impact of IFRS 16 in 2019/20.

Profit per average FTE Partner £

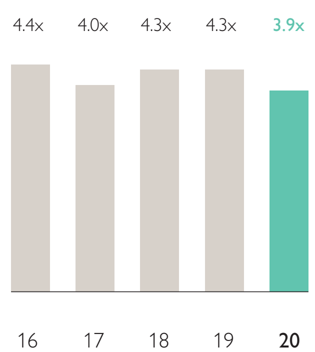


1 Restated to include above market reward.

Profit before Partnership Bonus and exceptional items, but after IFRS 16 and tax, adjusted for above market reward, divided by the average number of full-time equivalent Partners. The definition for 2018/19 and all preceding years is before IFRS 16.

This measure is important as it provides the best indication of Partner productivity. Profit per average FTE declined by £1,500, with £900 due to the impact of IFRS 16 in 2019/20.

Debt Ratio



Comparison of our total net debts (including pension deficit and lease liabilities) to adjusted cash flow we generate each year. This year our Debt Ratio has improved to 3.9 times. We aim to reduce our Debt Ratio to around three times within four years. We will review this in light of the recent Coronavirus pandemic.

i

DEBT RATIO
Number of years it would take to repay our debts from our annual cash flow.

> It has been a tough year for trading, both in the Partnership and the retail industry more widely. Partnership profit before Bonus, tax, exceptional items and IFRS 16 was 23% less than 2018/19, a weaker performance than hoped for. However, continued cash generation alongside the decision to close the defined benefit pension scheme enabled us to reduce total net debts by more than £230m. In the year ahead, we have set our aims to build trading momentum, radically cut costs and seek smart investments in order to secure sustainable profit growth for the future. Given the impact of Coronavirus, we are now adapting our plans.

PATRICK LEWIS
Partner & Executive Director, Finance

PARTNERSHIP PERFORMANCE

Our Partnership profit before Bonus, tax, exceptional items and IFRS 16 declined to £123m from £160m in 2018/19. In John Lewis this was predominantly driven by sales being weaker than last year and also by the substantial investment we have made in IT. In Waitrose, profits were broadly consistent year-on-year as margins improved and costs were well controlled.

Looking ahead, we are renewing our focus on exceptional customer service and designing, developing and scaling innovative omni-channel propositions that will set us ahead of the curve.

We are planning for the market to remain volatile, in particular in light of the current political and economic uncertainty related to Coronavirus. In the short-term we may be required to reassess our financial priorities, and take measures such as paying suppliers early, and increasing the number of Partners dedicated to serving our customers' immediate needs on the shopfloor, on the road and in our warehouses. However, we remain confident that in the longer term our focus on new products and service offerings will reinforce the strength of our brands and harness the power of our key differentiator, our Partners.

STRENGTHENING OUR BALANCE SHEET

Against this background, we continue to pursue sustained cash generation, allowing us to further strengthen our balance sheet and maintain our level of investment. Our balance sheet and liquidity position remained strong and 2019/20 saw an improvement in our Debt Ratio at 3.9 times, the lowest level since January 2014. We previously had a commitment to meet our Debt Ratio target of three times, in around four years. This will be reviewed in light of the spread of Coronavirus.

We took a set of actions over the last four years knowing our profit could be volatile, and because of those actions we have retained robust cash reserves. We have maintained a liquidity position of £1.4bn despite repaying our £275m bond in April 2019, out of cash reserves, as part of our financial strategy to deleverage the business. We have no financial debt maturing this year.

In readiness for Brexit, we also ensured our financial resilience and have been taking steps to increase our foreign currency hedging, build stock where sensible to do so, and improve customs readiness.

RECENT EVENTS

To help manage the impact Coronavirus is having on British retailers, the government's decision to introduce a business rates holiday will save the Partnership around £160m over the next 12 months. In addition, VAT and wages support is welcomed.

Our current scenario, which takes into account the temporary closure of our John Lewis department stores and models a significant net cash outflow in the year, shows that we have sufficient liquidity. However, we are not complacent; the scale of the societal and business impact of Coronavirus is like nothing we have seen in recent times.

We will continue to take further steps to protect our liquidity as far as possible by reducing expenditure such as:

– Reducing our capital and investment expenditure by pausing projects and change activity;

– Deferring or cancelling discretionary spend, reducing non-essential spend at all levels and freezing non-essential recruitment; and

– Reducing the supply pipeline in general merchandise to reflect the impact of our temporary shop closures.

CONTRIBUTING TO THE UK TAX SYSTEM

The Partnership believes that paying taxes arising from our activities is an important part of how the business contributes to the communities in which we operate. This year the Partnership paid taxes of £362m and collected £772m. Our tax strategy can be found at www.johnlewispartnership.co.uk/financials/financial-results.html

TAXES PAID BY THE JOHN LEWIS PARTNERSHIP

- Customs duty *£12m*
- Fuel duty *£18m*
- Climate change levy *£5m*
- Business rates *£182m*
- Employer's NICs *£115m*
- Corporation tax *£14m*
- Other taxes *£9m*
- Apprenticeship levy[1] *£7m*

£362m

TAXES COLLECTED BY THE JOHN LEWIS PARTNERSHIP

- Partners' NICs *£91m*
- Partners' PAYE *£155m*
- Net VAT *£303m*
- Excise duty *£222m*
- Other taxes *£1m*

£772m

SUPPLIERS
LOGISTICS
SHOPS
CUSTOMERS
TOTAL

£1.134bn

1 Before the draw down of funds of £3m.

Our progress

GENERATING MORE VALUE FOR OUR EMPLOYEE-OWNERS

SUPPLY CHAIN

Over the last decade we've made significant investments in our supply chain: in automation, systems, physical capacity, new format replenishment, online and in customer fulfilment. The time is now right to bring all that firepower together. We are planning to bring our supply chains together into a single operation serving both John Lewis and Waitrose during 2020. This is designed to make the Partnership's distribution and supply chain more efficient, as well as supporting both brands' future ambitions.

2020

will see supply chains coming together into a single operation serving both John Lewis and Waitrose.

PENSION

On 1 April 2020, the defined benefit section of our pension scheme closed to future accrual. The closure will save approximately £80m annually and the pension scheme is also now considered to be fairer. Partners will build up pension benefits in the defined contribution section of the scheme only. This review allowed us to make sure that we continue to use profits in the fairest way possible to reward the performance and contribution of all Partners, and to retain our difference from other employers.

STORE CLOSURES

We regularly review all of our property portfolio as a vital part of ensuring our business is strong and sustainable for the future. During the year we had to make some difficult decisions about our shop estate. We do whatever we can to avoid closing shops and the implications for Partners is always at the forefront of our minds. Our decision to sell or close is in no way a reflection on the Partners that work in these shops. In Waitrose we announced the sale of five shops to other retailers and then closed a further seven later in the year. We also announced in March that a further three Waitrose shops will close later this year. In July for John Lewis we closed Knight & Lee in Southsea, after 85 years of trading. Going forward, we continue to focus on 'right sizing' our estate as part of the Strategic Review in order to drive maximum value from our existing stores.

IMPAIRMENTS

At each reporting date, we are required to perform a review of the future economic benefits expected to be generated from our estate. For those stores and sites where these future cash flows do not support the current value held on the Partnership's balance sheet for these assets, we are required to recognise an impairment charge. In tougher trading conditions we would anticipate a higher level of impairments, but would expect to see these reverse in circumstances where individual branch performance improves.

In 2019/20, there has been a reassessment of the role that shops play in driving online purchases. With online becoming a stronger channel in its own right, that link isn't as strong any more. The Partnership has therefore reduced the online sales used in the estimation of how much money the shop might make in the future. This has led to a lower proportion of those online cash flows being considered attributable to individual shops. Combined with challenging trading conditions, this resulted in a net impairment charge in the year of £110.3m in John Lewis. For further detail, including future considerations, please see page 141.

PROPERTY INITIATIVES

We continue to seek opportunities for cash generation and asset optimisation. During the year, we completed sale and leasebacks of seven stores, generating cash proceeds on sale of approximately £100m. In January we announced the sale completion of a parcel of land belonging to our Waitrose Farm in the Leckford Estate. The 1,200 acres were sold to a private buyer and the land is primarily under arable use. We will continue to provide the new landowner with farming services under a Contract Farming Agreement for an initial period of three years. The sale will not impact the Leckford Estate's product lines for Waitrose and we have 2,800 acres of land still remaining.

MAINTENANCE SERVICES

Last July, we changed the way maintenance services are delivered to John Lewis and Waitrose shops. The Partnership had been operating the same way for more than 15 years and that structure would not suit our future needs. We now work in a new pan-Partnership Facilities Management function and have formed a strategic partnership with CBRE, a large global facilities management organisation. These changes mean we will not only see improvements to the services we deliver, but we will also reduce our costs. Around 350 Partners were subject to the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) and 50 roles were made redundant.

NEVER WASTEFUL

To innovate to reduce our environmental impact.

REDUCING PLASTIC WASTE

In Waitrose, 85% of all our own-brand packaging is now widely recyclable and 99% of own-brand black plastic has been removed. Loose fruit and vegetable bags were replaced with home compostable alternatives and 5p single-use Waitrose carrier bags removed, saving in total 134 million plastic bags a year. As a result, Waitrose moved up two places in this year's Greenpeace plastics survey to first position on their score card, reflecting our efforts to eliminate unnecessary packaging. Nevertheless, we appreciate that we still have a huge amount of work to do.

In John Lewis, we have committed to ensuring all our plastic packaging is reusable, recyclable or compostable by 2025. All plastic hangers can now be recycled and shrink-wrap plastic has been reduced by 61%.

The Partnership also signed up as a member of The UK Plastics Pact.

61%

reduction in shrink-wrap plastic.

REFRIGERATION

We are phasing out core refrigeration units containing HFC greenhouse gases and investing in renewable energy. We've developed innovative solutions for our refrigeration systems to ensure they are as environmentally friendly as possible, introducing EcoBlade™ technology – shelf edge strips – to reduce energy consumption by up to 25%. This will also have the added benefit of creating an improved shopping environment for our customers and Partners due to warmer aisles. These and other measures should result in CO_2 savings equivalent to removing 16,000 petrol cars from the roads each year by 2028.

GOOD AS NEW

John Lewis customers have helped disadvantaged people across the country by paying John Lewis to collect their old sofas. These are re-used where possible, diverting thousands of items from landfill.

FOOD WASTE

At Waitrose we set a new target that no good food will be wasted in our UK operations and we are committed to helping halve food waste by 2030 to ensure any food that is safe to eat is utilised. Waitrose shops now have food waste included as one of their Key Performance Indicators and Partners are encouraged to reduce waste in a number of ways. This includes using surplus food in our Partner Dining Rooms, selling it to Partners and redistributing it to charities in the local area via the FareShare Go app.

50%

reduction in food waste by 2030.

Our progress

TRANSFORMING HOW POWER AND KNOWLEDGE IS SHARED

The Partnership operates on strong democratic principles, sharing power with all Partners, meaning we all have a say in how the organisation is run.

"Based on first-hand experience, I 100% believe that, if a Partner puts in the effort to provide constructive feedback or thought-through ideas, opinion is heard at any level of the business, no matter what role you play in the Partnership.

SEAN TOWNSEND
Partner & Visual Merchandiser

NEW GOVERNANCE STRUCTURES

Our Future Partnership plan means we are becoming one business and over the past year we have seen democratic changes where we are transforming our sharing of knowledge and power in order to be more customer-centric, faster, simpler and more joined up in our decision-making. In uncertain times, it's more important than ever to use our democracy effectively, enabling our opinion to make the Partnership even more successful and ensuring our customers remain the centre of our focus. How do we do that? We all need to engage more with democracy and allow our employee-ownership model to work harder.

In April, Partnership Council, which is our body of democratically elected representatives that represent the views of Partners across the business, voted in support of changes to the Constitution which ensure the way in which power is shared across the business is fit for purpose for the future. These changes included the appointment of two new Independent Directors and an enhanced role for a new President of Partnership Council. Our two separate Divisional Councils for John Lewis and Waitrose ceased to exist from the start of the 2020/21 financial year and our current PartnerVoice and Forums will be reviewed to align with the Future Partnership structure. We still have over 3,000 democratic representatives who voice opinions on behalf of Partners.

Partnership Council also voted in favour of a proposal to remove reference to the Partners' Counsellor and Partnership Assurance Lead roles from the Constitution, allowing plans to move ahead to make those, and a number of other roles, redundant, with the Registry function one of the areas to close. Our Partner Support, Democratic Engagement and the Your Voice teams continue, but moved to a new function area.

3,000

democratic representatives who voice opinions on behalf of Partners.

SHARING KNOWLEDGE

Following last year's Your Voice Principle 1 survey a few key responses were actioned. The Voyager programme was further established to boost and develop senior leadership engagement. The Empowered Leadership training programme was created, following Partner feedback about inconsistent line management experiences, for all People Managers across the business. A new 360 degree feedback tool, which gives Partners an opportunity to give feedback to managers on their areas of strength and where they need to develop their line management skills further, was also launched. And inconsistencies of the application of the pay policy were voiced by Partners, with the People Directorate set to undertake a review of all aspects of the total reward proposition.

NEW APPOINTMENTS

NEW INDEPENDENT DIRECTORS

Clare Tickell and Michael Herlihy were appointed as the Partnership's first Independent Directors. Reporting to the Chairman, they play a critical part in ensuring the integrity of the Partnership which is linked to our Constitution and includes aspects that relate to Partners, democracy, suppliers and commercial matters. They have the 'right to roam' and investigate any area of the business and are supported by a group of Independent Advisors.

DAME CLARE TICKELL

Clare joined the Partnership to take up her role as an Independent Director in October 2019. She is currently a Non-Executive Director and Remuneration Committee Chair at the National Audit Office and a Fellow of the RSA. Clare has had a number of roles in the charitable and housing sectors, including Chief Executive of Hanover Housing, Action for Children and Stonham Housing Association. Clare was also a Non-Executive Director on the Board of the Information Commissioner, chaired the Community, Voluntary and Local Services Honours Committee and carried out an Independent Review into The Early Years Foundation Stage in 2010 at the request of the Minister for Children.

MICHAEL HERLIHY

Michael joined the Partnership as Partnership Secretary and a member of the Partnership's Executive Team in April 2018. He began his new role as an Independent Director in February 2020.

Michael joined the Partnership from Smiths Group plc, where he was General Counsel for almost 10 years prior to which he spent 26 years at Imperial Chemical Industries plc including 10 years as General Counsel. He has also held a variety of non-executive roles including that of Senior Independent Director at Imperial Brands plc. He is a solicitor and graduate of Oxford University.

NEW PARTNERSHIP COUNCIL PRESIDENT

As part of a major review of the Partnership's democratic and governance structure, we announced a new Partnership Council President. Chris Earnshaw, who was Head of Shop Trade, North, for Waitrose, was appointed Partnership Council President. Chris is responsible for helping to shape the Partnership's democracy and promote its independence and works with the Partnership's representative bodies, supporting them with the necessary practical arrangements to maximise their effectiveness. The President also works closely with the two Independent Directors and the Trustees of the Constitution.

"At a time when retail is going through dynamic changes, our democratic structure is our fundamental point of difference as we look to develop the Partnership. My role is to ensure the voice of the Partner is supporting, shaping and influencing our unique business now and in the future.

CHRIS EARNSHAW
Partner & Partnership Council President

APPOINTING A NEW CHAIRMAN

One of the most important decisions you have to take as a Chairman is to appoint a new Chairman when your tenure comes to an end. Although appointing new Chairman Sharon White may have ultimately been past Chairman Charlie Mayfield's decision, the process also involved oversight from the Nominations Committee and the Partnership Board. Two of the Partner representatives on the Board, Elected Directors who also sat on the Nominations Committee, supported the appointment.

"The responsibility I felt to make sure the Partner lens was evident through the whole process was extraordinary. This was a once-in-a-career opportunity so we wanted to do the best possible job. It's a great example of what makes this business different.

NICKY SPURGEON
Partner & Programme Manager and Elected Director

Our risks and uncertainties

EFFECTIVE RISK MANAGEMENT

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

JULIE GOODERHAM

Partner & Director of Internal Audit & Risk

> Proactive risk management is fundamental to protect and grow our business and test our thinking more so than ever, as we face into a heightened period of unprecedented change.

OUR APPROACH

Risk is inherent in our operations and the decisions we make in pursuit of our Partnership goals. The Partnership Board is responsible for the nature and extent of the principal risks that we are willing to take. It has undertaken an assessment of the principal risks to the Partnership in relation to achieving our goals and our future performance, including solvency and liquidity. See pages 48 to 49 for more information. The Partnership Board is also responsible for ensuring that risk is effectively managed through our governance structure in line with its risk appetite. All Partners should be aware of risks in their area of responsibility and manage those risks intelligently in their day-to-day activities.

We have a structured approach designed to identify, manage, monitor and communicate risks consistently through our governance structure, and take advantage of opportunities across the Partnership. 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 landing. Further detail on the approach taken to assess the longer-term viability of the Partnership is on page 51.

GOVERNANCE

The risk management governance structure, in place for the year under review, and the new structure, launched in February 2020 as part of Future Partnership, is illustrated on page 47. The governance supporting our brands and functions over the past year has been simplified to make our risk conversations more connected, take less time and focus more keenly on the areas of most value to the Partnership. In our new operating model, the Executive Team has ownership of Partnership level risk management and is supported in our governance by Leadership Teams and through our strategic missions to constantly challenge our direction and decision-making. For further details about key roles and responsibilities within our governance structure, please see the Audit and Risk Committee report on pages 63 to 71.

EMERGING RISKS

The identification of emerging risks is integral to our risk management. Emerging risks are reported regularly at each stage in our governance structure, utilising relevant horizon scanning where available depending on their proximity. The emerging risk continues to be monitored under a watching brief until the time is right to take action.

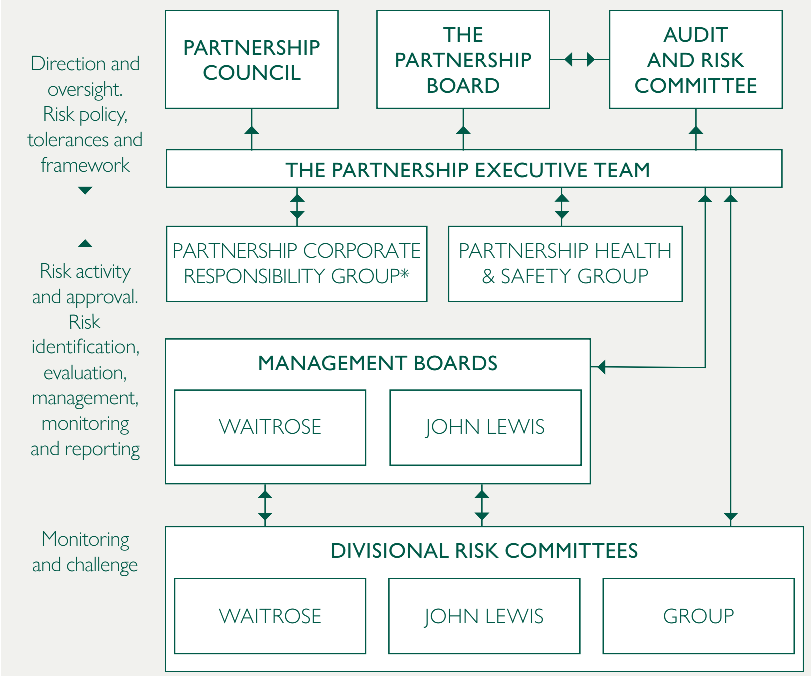
Coronavirus is being actively managed in response to the impact on our customers, Partners and business, most significantly across our supply chain, stores and online operations. A crisis response team was formed in February 2020 and meets on a daily basis to plan, adapt and respond to the latest developments in order to maintain customer service and protect customers, Partners and trade. The Partnership will continue to follow Public Health England (PHE) and government guidance to implement contingency mitigations as appropriate and do the best possible for our customers, Partners and community groups. In addition to exacerbating our overall principal risk profile, Coronavirus has presented two main emerging risks; Liquidity as a result of the economic downturn and John Lewis stores closure impact on profit; and Customer and Partner Health and Safety. These are both being actively managed by the Executive Team.

RISK APPETITE

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

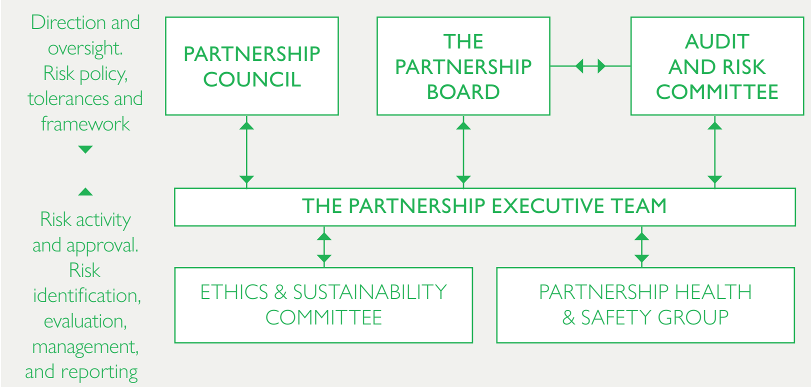
A scale of one to five illustrates the range of our risk appetite for each type of risk. For example, we will take more risk in pursuit of our strategic objectives to drive our business forward and less risk in the delivery of our day-to-day operations. If too much risk is being taken for the expected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

Risk Management Governance Structure: February 2019 – January 2020



* In April 2019 the Partnership Board's Corporate Responsibility Committee was disbanded and a new executive group, the Partnership Corporate Responsibility Group, was formed.

Risk Management Governance Structure: from February 2020



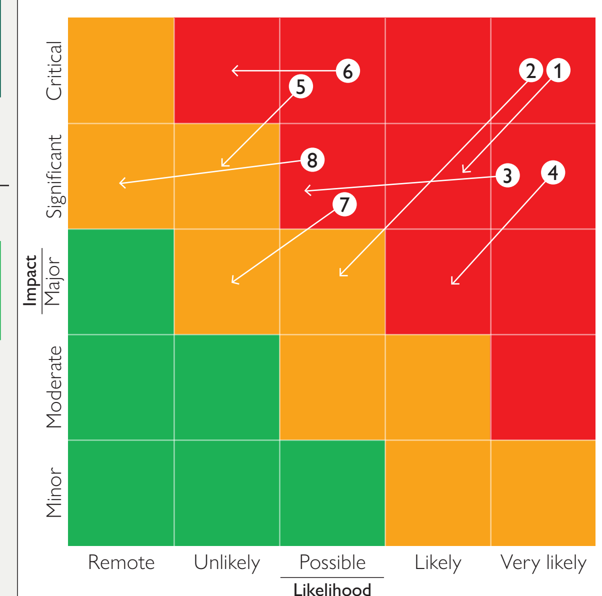
PRINCIPAL RISKS

Our principal risks are those that have been assessed in the red zone and risk owners have plans in place to reduce the risk, which are monitored and assessed on a quarterly basis. We measure risk in terms of its potential impact and likelihood of occurrence. We assess what the potential Partner, customer, financial and regulatory impact could be if the risk materialises.

Our principal risks

1. Competitive Customer Proposition
2. External Environment
3. Operating Model Strain
4. Change Delivery
5. Information Security
6. Pension Obligations
7. Ownership Model Strain
8. Regulatory Non-Compliance

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



O Net risk profile, after current mitigating control
→ Target risk profile, if further actions are successful

Our risks and uncertainties

MANAGING OUR PARTNERSHIP RISKS

As at year-end, our top eight principal risks cause us most concern, with new risks emerging as a result of external factors. We are actively managing and monitoring these risks as a priority to protect and develop the Partnership. The trading environment over the past year was challenging. It is now both changed and unprecedented as a result of the Coronavirus pandemic. Brexit continues to provide a less immediate but nevertheless uncertain backdrop.

WHAT'S CHANGED SINCE LAST YEAR?

Our principal risks evolve over time and the way in which we mitigate our risks changes as we develop our goals and business plan. The likelihood of Change Delivery risk materialising has increased due to the implementation of significant organisational change through Future Partnership. This is key to mitigating our Operating Model Strain risk. Regulatory Non-Compliance was elevated to a principal risk during the year, due to the increasing and changing nature of the regulatory environment; and an increasing reliance on third party suppliers to comply with the law and our policies. The impact and likelihood of External Environment risk increased to reflect the current economic downturn in relation to Coronavirus. A significant number of Partners have been focused on risk mitigation activity across all areas of the Partnership in relation to Brexit and towards the end of the year, on Coronavirus.

LOOKING AHEAD

At the end of the year a new risk governance structure and a revised approach to risk management was implemented. The new Executive Team has reviewed the principal risk portfolio ahead of year-end reporting, resulting in the principal risks and mitigations being developed to reflect unprecedented change across the external environment and the changes made by the Partnership to respond in line with our values. Our principal risk portfolio will continue to be developed as our strategy evolves later in the year. In addition to embedding the new governance structure, the focus of activity will remain on proactively managing our response to the outbreak of Coronavirus, maintaining customer service and protecting Partners, local communities and trade; alongside our response to Brexit as government information becomes more clear. Further details are included on page 50.

HOW OUR RISKS LINK TO STRATEGY

- Delivering more for our customers
- Empowering our Partners
- Generating more value for our employee-owners
- Transforming how power and knowledge is shared

RISK TREND

Increasing · No Change · Decreasing

RISK	CONTROLS IN PLACE	MITIGATIONS
1. COMPETITIVE CUSTOMER PROPOSITION (No Change)		
Failure to deliver our customer promise and not maintain our competitive advantage due to: – Competitor actions putting pressure on market value, our margin and threatening our volumes in grocery; and – The growth of online business models in the general merchandise sector means customers focus more on value for money and are less loyal. This could negatively impact customer proposition and service, which may result in losing customers, impairing our ability to grow long-term profitability.	– Continuing to secure value for all of our customers through our price matching commitments. – Regular strategic risk review and monitoring by the Executive Team. – Regular horizon scanning to inform strategic reviews to continually enhance our customer offer. – Regular strategy implementation, customer and performance metrics evaluation.	– Successful launch of our first joint Partnership Christmas advert. – Continued differentiation on services and experiences. This year, new in-store initiatives launched, such as Waitrose 'Unpacked' trials and additional Style Studios in John Lewis, to improve customer experience. – Continued differentiation on products – Waitrose No.1 launched and new exclusive brands and products launched in John Lewis this year. – Development of online offering and expansion of Waitrose online capacity. – Unlocking further value between our brands. – Further increasing focus on customer service excellence.
2. EXTERNAL ENVIRONMENT (Increasing)		
External economic pressures, due to the impact of government policy, Brexit, a weaker economy and lower pay increases, reduce our customers' spending power and harm our suppliers' financial resilience. This could result in our customers moving away from our core product offers or buying less, or key suppliers demanding higher prices or failing us. This could impair our ability to grow profitably.	– Monthly monitoring of business performance by the Executive Team. – Horizon scanning. – The Brexit Team regularly review the potential impacts and opportunities to influence outcomes.	– External economic factors have been incorporated into the business plan. – Ongoing monitoring, analysis and actions implementation to mitigate the potential impacts of Brexit (see page 50). – Crisis response team actively managing the response to the rapidly changing Coronavirus situation (see page 50).
3. OPERATING MODEL STRAIN (No Change)		
Increasing external pressures create strain on the effectiveness and efficiency of our operating model to deliver customer needs. Strain on our Partners, systems and operational potential could ultimately impair our ability to meet customer needs and grow profitably.	– Annual business plan process robustly reviewed. – Monthly Executive Team business performance review and action taken. – Regular review of programmes to reprioritise to support the ongoing development of our operating model.	– Implementation of Future Partnership to bring together the two brands and create a more effective and efficient operating model. – Further development of Waitrose online ahead of our deal with Ocado ending in September 2020. – Savings achieved through improved management of the property portfolio. – Implementation of further phases of our Technology & Change transformation programme.

RISK	CONTROLS IN PLACE	MITIGATIONS
4. CHANGE DELIVERY (Increasing)		
The complex nature and scale of interdependencies of the change programmes may affect our ability to implement programmes/projects to time, budget and quality, ability to manage, and ability to embed the change into the business and realise the benefits. This could result in increased costs, disruption to our trading activities impacting our customer experience, missing our growth ambitions and losing the engagement of our Partners.	– Programme and project governance in place enables early identification and remediation of issues considering the impact on Partners and interdependencies on other programmes and projects.	– Change team operating model centralised, to support delivery of the Partnership change portfolio. – Implementation of the new change governance structure to align to Future Partnership. – Embedding and maturing Partnership tools, framework and reporting to support decision-making.
5. INFORMATION SECURITY (No Change)		
Loss of key Partner, customer or business data, due to a breach of IT or data security and/or failure to protect integrity and availability of data. This could cause financial, regulatory, legal and reputational damage, and disruption to business operations.	– Robust network security and regular testing to provide early identification of network or system vulnerabilities. – Continuous security monitoring. – Security impact assessments undertaken for projects to ensure compliance with security standards. – Partner training.	– Continued enhancements made to the systems and controls that hold Partner, customer and business data to improve resilience, through implementation of the IT Security programme. – Improvements to prevent, detect and respond to external cyber attacks. – Continuous Awareness campaign. – Simplifying the IT estate. – Implementation of operating model change for IT Security as part of Future Partnership transformation.
6. PENSION OBLIGATIONS (No Change)		
Increases in the pension liabilities, driven by a decrease in the real discount rate for example, and a significant devaluation in the assets being held could cause a significant increase in the size of the pension deficit. This could result in additional funding required by the Partnership, diverting resources away from other investment opportunities.	– Regular review of valuation assumptions through internal and external monitoring. – Regular monitoring of external factors to inform hedging strategy. – Pension risk and funding strategy reviewed regularly.	– Triennial valuation under way. – Pension Benefit Review approved by Partnership Council and the Partnership Board. Changes to the pension scheme are being implemented, including closure of the defined benefit section of the scheme.
7. OWNERSHIP MODEL STRAIN (No Change)		
Partners and their engagement are key to the success of our co-ownership model. Commercial decisions made to secure the economic success of the business as well as external pressures on Partners could unconsciously impact Partners' belief in, and commitment to, our co-ownership model. This could compromise individual Partner performance, collective productivity and brand advocacy (Principle 1), thus losing the competitive advantage of our co-ownership model.	– Leadership engagement through change. – Annual Your Voice Partner survey to assess Partner sentiment. – Oversight of Partnership Board, Executive Team and our democratic bodies.	– Continued focus on initiatives to empower Partners. All leadership attended an Empowered Leadership event to support their leadership development. – A review of democratic engagement under way to align to the new Future Partnership structure. Partnership Council to agree and implement changes. – Continue to lead on wellbeing in the workplace. – Increased communication in response to Partner feedback.
8. REGULATORY NON-COMPLIANCE (Increasing)		
Failure to comply with key regulatory requirements, due to lack of awareness or understanding and/or failure to follow guidance on regulations. This could cause financial, regulatory, legal and/or reputational damage, which, depending on scale, could cause major trading impacts.	– Policies and Partner training in place. – Clear accountability for personal data security and privacy across the Partnership.	– Data owners continue to work with Information Security teams to develop and deliver data protection priorities. – Implement a new HR system to support improved functionality for HR compliance. – Embed new supplier assurance process and system. – Development and implementation of the Partnership's regulatory framework. – Ongoing horizon scanning of new regulation and potential Partnership impact and response.

Our risks and uncertainties

CORONAVIRUS

The Coronavirus pandemic is the most significant external risk currently facing the Partnership, impacting our customers, Partners, supply chain, stores and online operations. A summary of the key impacts of Coronavirus and our response is included below:

Customers and the community: During this unprecedented time, it is more important than ever to support our customers, local communities and those that are most vulnerable. The Partnership has created a £1m community support fund for Waitrose branches to use where help is needed most, dedicated £225,000 to charities, introduced a priority shopping hour for elderly and vulnerable customers and set aside essential goods for NHS workers.

Partners: The safety and wellbeing of our Partners is our top priority. Extra steps and precautionary measures have been introduced in our stores to protect Partners, including our five point plan, which includes limiting the number of customers in store, dedicated marshals to monitor social distancing, screens introduced at checkouts, protective visors made available to Partners and cashless payments being encouraged.

Supply chain: Our grocery supply chain has been under immense pressure to meet consumer demand, both in store and online. We continue to support our suppliers as we see some stabilisation, add resilience to our distribution network and prioritise the most important goods to serve our customers, whilst not compromising on our sourcing principles.

Temporary store closures: For the first time in the Partnership's history, 50 of our John Lewis department stores have temporarily closed and the Partners supporting these branches, where possible, have been redeployed to support areas of greatest need across Waitrose supply chain, branches and online operations in order to aid feeding the nation. johnlewis.com continues to operate to serve our customers.

Liquidity: Whilst the temporary closure of John Lewis department stores has a significant impact on cash flow, a number of steps are being taken to maintain sufficient liquidity. For example, significantly reducing capital investment over the year, reducing discretionary spend such as on marketing and reducing the supply pipeline in general merchandise to reflect the impact of our temporary shop closures. Furthermore, the government's decisions to introduce a business rates holiday and VAT and wages support is welcomed.

The Partnership will continue to follow Public Health England (PHE) and government guidance to implement contingency mitigations as appropriate and do the best possible for our customers, Partners and community groups.

BREXIT

The Partnership continues to take a proactive approach to preparing for Brexit. During the year, the Partnership prepared for a worst case, no-deal scenario ahead of the three potential no-deal Brexit dates, as this would have caused the greatest disruption to customers, Partners and trade. The Partnership will monitor closely the negotiations on the future EU-UK economic relationship, contributing to that process where relevant, and taking the necessary steps to prepare for either the new trading relationship or a potential no-deal Brexit scenario from 2021.

A Partnership-wide approach continues to be adopted to risk assess the potential impact of Brexit as the outcomes of trade negotiations become clearer throughout the year. Brexit mitigation groups, with established risk leaders, have been leading on monitoring and actioning options to mitigate the potential impacts of Brexit. Ahead of each potential no-deal Brexit date, contingency plans were mobilised, such as stock building, the implementation of our hedging strategy; and incident teams put on standby, ultimately to be stood down.

Progress and recommendations in relation to our highest risks have been regularly reported through our existing governance structure.

Brexit affects the Partnership in a large number of ways. Our detailed analysis and activity has been focused on the areas that would have the largest impact on our customers, Partners and trade. This is centred on the following areas of most significant risk:

HOW OUR RISKS LINK TO STRATEGY

- Delivering more for our customers
- Empowering our Partners
- Generating more value for our employee-owners
- Transforming how power and knowledge is shared

AREA OF RISK	MITIGATIONS
A. ACCESS TO EU LABOUR	
Potential for rising costs and recruitment challenges throughout our supply chain.	– Continued support to non-UK EU Partners in obtaining settled status should they wish to apply. – Several initiatives to improve recruitment, flexibility and provide better pay continue to be introduced.
B. CURRENCY EXPOSURE	
A depreciation of Sterling may lead to a rise in the costs of goods both for resale and not for resale.	– The Partnership has a hedging programme in place and has previously invested in currency options in the event of a significant Sterling devaluation.
C. TARIFFS	
Potential increases in trade tariffs on products we import could lead to rising costs. The UK could potentially also lose access to EU trade agreements with the rest of the world.	– Tariff impact analysis has been undertaken to understand the impact that the government's tariff regime could have on our imports. – To provide short-term tariff relief, both brands assessed and built additional stock-holding requirements ahead of the potential no-deal Brexit dates.
D. CLEARING CUSTOMS	
Future additional import procedures, such as checking product standards and customs declarations for EU imports, could increase supply chain lead times and supply chain costs.	– Both brands built additional stock holdings on key products ahead of the potential no-deal Brexit dates to protect against potential delays. – Additional resource to process a potential increase in the volume of customs declarations was secured. – Alternative sourcing has been assessed.

The uncertainty of Brexit and its impact is likely to continue through 2020. At the time of publication, the change to a majority government has provided some stability. However, there remains no clear Brexit outcome as yet. The Partnership will continue to plan for the worst-case, no-deal scenario as a matter of prudence and adapt accordingly as information transpires in 2020.

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 86), 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 90 to 141); current strategy (pages 28 to 45); and risks and uncertainties (pages 46 to 50).

The Future 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 £1.5bn in total liquidity available, at the date of approval of these financial statements. Consistent with previous years, the Directors have assessed the Partnership's viability over a three-year period to January 2023. This matches our business planning cycle, which allows financial modelling to be supported by the budget and business plan ('Plan') approved by the Partnership Board.

Given the pace of change in the retail sector, and the recent political and economic uncertainty due to Coronavirus, we expect to see significant volatility over the short term reducing our expected performance for 2020/21. This includes the temporary closure of John Lewis stores as we take necessary measures to protect the health and safety of customers and Partners, manage supply chain challenges and redeploy Partners to Grocery to meet increased demand. The measures we're taking now will help to protect us against future uncertainty and, given the experience in regions of the world where the pandemic was first felt, we believe that trading conditions will partially recover as we move through into 2021/22.

In assessing the viability of the Partnership, the Directors considered the Partnership's revenue, profit, net assets and cash position under the most recent Plan approved by the Partnership Board. In the context of a challenging retail sector, these took account of factors such as increased competition, sustained cost pressures and Brexit uncertainty; however they did not reflect the impact of Coronavirus. Severe but plausible downside scenarios were therefore applied as additional sensitivities overlaid on the Plan. These were based on the potential financial impact of the Partnership's principal risks and the specific risks associated with Coronavirus and Brexit. 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 scenarios and how they correspond to the principal risks, Coronavirus and Brexit risks (pages 46 to 50), have been assumed to all occur over the three-year period of assessment in order to assess the Partnership's ability to withstand multiple challenges, and also assume that no new financing is obtained. The potential impacts of Coronavirus have been built into the downside scenarios, but, the potential impact of further one-off 'black-swan' events that cannot reasonably be anticipated are not included. We modelled two scenarios (A and B) to stress test the likely cash and profit impact of different levels of falling sales and margin.

Scenario A assumes closure of all John Lewis shops for a period of 12 weeks with significant decline in sales in John Lewis, for both shops and online, for the remainder of 2020/21 of 33% against Plan based on a weaker UK economy and consumer confidence. In Waitrose which represents nearly 60% of total Partnership sales, the downside models a decline in sales of -10% for 4 months despite seeing actual sales increase since the pandemic outbreak. This represents the impacts of short supply and potential shop closures to consolidate resources rather than falling demand. This scenario models a level of activity in Waitrose consistent with prior years notwithstanding that current levels of activity, both in store and online, are significantly ahead of last year. The downside also models an additional cash outflow of £200m in respect of working capital and unbudgeted one-off costs.

Scenario B assumes closure of John Lewis shops and online for a period of 6 months with a further significant decline in sales, in both shops and online, for the remaining 4 months of 2020/21 of up to 45% against Plan. The decline in Waitrose and additional cash outflows modelled in Scenario A continue to be included in Scenario B (see table below). The impact of the downside adjustments has been reviewed against the Partnership's projected cash position and financial covenants over the three-year viability period for each scenario. Should these occur, mitigating actions would be required to ensure that the Partnership remains liquid and financially viable. 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 planned capital, revenue and marketing spend, lowering pay costs, asset sale and leasebacks and removal of Partnership Bonus. This includes mitigations within the control of the Partnership (£1.8bn, Scenario A; £2.3bn, Scenario B) and excludes those which place some reliance on the external market (asset sales). The Partnership's projected cash position assumes utilisation of government support including the business rates holiday and job retention scheme. Our mitigations assume a degree of ongoing government support for job retention schemes should the current social distancing requirements be extended and consequently stores closed for longer. Internal mitigations alone would be sufficient to absorb the effects of the downside scenarios. 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 scenarios 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 most severe downside, Scenario B as 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 Coronavirus and reduced trading performance across both brands for years 2 and 3 of the assessment, resulting in a pre-mitigation cash reduction to Plan in excess of £2bn over the 3 years. In order for the mitigations described above to be insufficient to maintain liquidity and covenant headroom, a further unbudgeted cost of £0.4bn would need to be incurred in 2020/21. Unprecedented uncertainty exists in respect of the potential impact of Coronavirus in 2020/21. We have made our assessment based on our best view of the severe but plausible downside scenarios 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 Scenario B) which may cast significant doubt about the Partnership's ability to continue to be viable over the 3 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; meet its liabilities as they fall due; retain sufficient available cash across all three years of the assessment period; and not breach any covenants under any drawn 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 (pages 63 to 71).

	Coronavirus severe downside			Partnership risks								Brexit risks			Coronavirus risks
Scenario	Year 1	Year 2	Year 3	1	2	3	4	5	6	7	8	Currency exposure	Tariffs	Clearing customs	
A Sales under-performance	(15.4)% vs Plan	*(5.5)% vs Plan	*(7.0)% vs Plan	●	●	●	●			●				●	●
B Sales under- performance	(26.2)% vs Plan	*(5.5)% vs Plan	*(7.0)% vs Plan	●	●	●	●			●				●	●
A Gross margin rate	(4)bps vs Plan	*(150bps) vs Plan	*(200)bps vs Plan	●	●	●	●			●			●	●	●
B Gross margin rate	(46)bps vs Plan	*(150)bps vs Plan	*(200)bps vs Plan	●	●	●	●			●			●	●	●
Foreign exchange	–	£(50)m	–		●							●			●
Missed project delivery	£(20)m	(£5)m	£(8)m	●		●	●								●
Unbudgeted one-off cost	£(50)m	–	–					●			●				●
Working capital reduction	£(130)m	–	–		●										●

*cumulative based on Plan.

Our Governance

HOW GOVERNANCE IS SHARED IN THE PARTNERSHIP

THE EXPERIMENT

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 was 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…".

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 www.johnlewispartnership.co.uk

PARTNERSHIP TRUST

The Trustee of the two Settlements is John Lewis Partnership Trust Limited 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 role of the Board of the Trust Company is to carry into effect with or without modification the Trust Settlements and to uphold the Constitution, while promoting in every possible way the wellbeing of the Partnership.

POWER

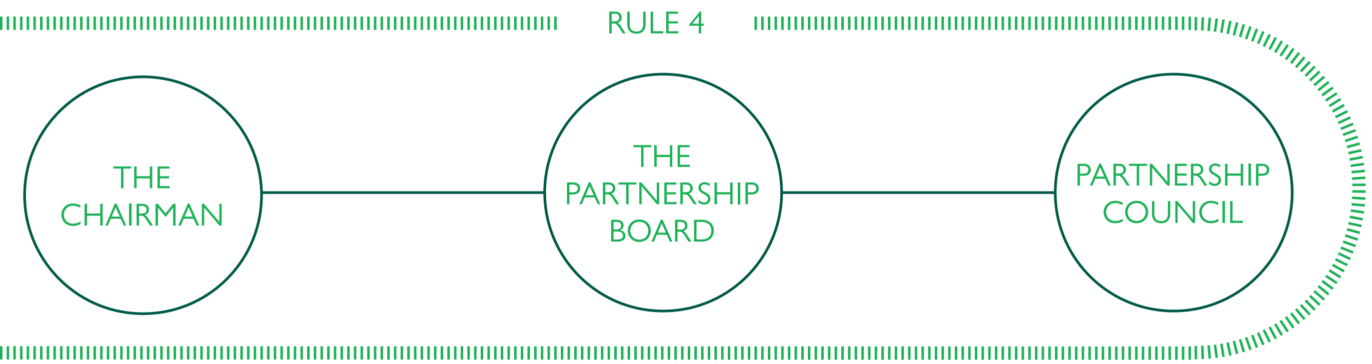
Power in the Partnership is shared between three governing authorities: the Chairman, the Partnership Board and Partnership Council. The shared aim of the three governing authorities is to safeguard the Partnership's future, to enhance its prosperity and to ensure its integrity. They should encourage creativity and an entrepreneurial spirit but must not risk any loss of financial independence. Their power to direct the Partnership's affairs depends on the consent of Partners.

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.

THE THREE GOVERNING AUTHORITIES

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



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

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

> The experiment may be summed up as an attempt so to organise and conduct a business that all the advantages whatsoever of owning it shall be shared as fairly as possible by all who are working in it...
>
> **JOHN SPEDAN LEWIS**
> 'Partnership For All', 1948

THE CHAIRMAN

The Chairman's purpose is to ensure that the Partnership develops its distinctive character and its democratic vitality. The Chairman is Chair of the Partnership Trust Company and Chair of the Partnership Board.

As the senior executive in the Partnership, the Chairman, supported by the Executive Team, is ultimately responsible for its commercial performance.

CHAIRMAN
PAGE 57

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.

THE EXECUTIVE TEAM
PAGE 58

THE PARTNERSHIP BOARD

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

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. It is responsible for ensuring that in delivering the continuing experiment, the Partnership's financial condition remains sound and that the Founder's principle of 'safety first' is upheld. It also ensures proper governance for the Partnership. The Partnership Board is assisted in carrying out its oversight and assurance responsibilities by its Committees.

THE PARTNERSHIP BOARD
PAGE 59
AUDIT AND RISK COMMITTEE REPORT
PAGE 63
NOMINATIONS COMMITTEE REPORT
PAGE 72
REMUNERATION COMMITTEE REPORT
PAGE 75

The Corporate Responsibility Committee was disbanded in April 2019. See page 29 for more on the governance of ethics and sustainability in the Partnership.

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.

PARTNERSHIP COUNCIL

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.

The Council's role is to provide the Executive Team with insight into Partner opinion. It discusses, influences and makes recommendations on the development of policy, shares in making decisions about the governance of the Partnership and holds the Chairman to account for the progress of the Partnership.

PARTNERSHIP COUNCIL
PAGE 81
DEMOCRATIC VITALITY
PAGE 85

Our Governance

GOVERNANCE REVIEWS

Drawing on the findings of the Partnership Board Effectiveness Review in 2017, three reviews of the Partnership's governance arrangements were initiated in the autumn of 2017. Although we were confident that we had a good governance system, it was felt that it was not realising its full potential. In addition, we needed to make sure that it would support our new strategic approach.

The first review focused on Board governance, particularly the roles of the Partnership Board and the Chairman. The second review was set up by the Chairman and examined the 'Checks and Balances' within the Partnership. This review particularly explored ways in which the 'critical' or 'independent' influence within the Partnership could be strengthened so that the internal checks and balances of our governance and the Constitution could work to their full effect, for the benefit of Partners and the Partnership. Finally Partnership Council set up a 'Democracy Commission' to develop proposals to enhance its effectiveness.

THEMES:

These reviews concluded towards the end of 2018 and although they had focused on different areas, as reported in the 2019 Annual Report and Accounts, there were common themes to the recommendations. In summary, these were:

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

THE KEY CHANGES WERE:

CLARIFYING AND CONFIRMING THE DIFFERENT ROLES OF THE CHAIRMAN, THE PARTNERSHIP BOARD AND THE EXECUTIVE TEAM

BOARD EFFECTIVENESS REVIEW 2019 – PAGE 60

ENHANCED ROLE FOR THE PRESIDENT OF PARTNERSHIP COUNCIL

APPOINTMENT OF A FULL-TIME PRESIDENT – PAGE 81

REINVIGORATING THE PARTNERSHIP'S INDEPENDENT SIDE

CREATION OF A NEW 'INDEPENDENT' FUNCTION LED BY TWO INDEPENDENT DIRECTORS – PAGE 45

At meetings during 2019, Partnership Council and the Chairman agreed the necessary amendments to the Partnership's Constitution to put the recommendations from the three governance reviews into effect.

PARTNERSHIP PURPOSE AND VALUES

The Partnership's purpose and values are set out in the Principles of the Constitution.

PRINCIPLE
1. PURPOSE

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

PAGES 12 TO 13

PRINCIPLE
2. POWER

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

PAGES 52 TO 89

PRINCIPLE
3. PROFIT

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

PAGES 40 TO 43

PRINCIPLE
4. MEMBERS (PARTNERS)

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

PAGES 34 TO 39

PRINCIPLE
5. CUSTOMERS

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

PAGES 30 TO 33

PRINCIPLE
6. BUSINESS RELATIONSHIPS

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

PAGES 22 TO 23

PRINCIPLE
7. THE COMMUNITY

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

PAGES 24 TO 25

Our Governance

THE TRUST COMPANY

The role of the Trust Company is:

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

To uphold the Constitution

To promote in every possible way the wellbeing of the Partnership

In addition to the Chairman and the Deputy Chairman, three Directors are elected to the Trust Company every three years by Partnership Council. The last elections took place in May 2018, when Johnny Aisher, Mark Anderson and Claire Barry were appointed. They are known as the 'Trustees of the Constitution'.

The responsibilities of the Directors include:

- Considering and agreeing any recommendations from Partnership Council to exclude any Partner from participation in any distribution of Partnership Bonus;
- Receiving an annual report from the Independent Directors and President of Partnership Council on their work; 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.

THE CHAIRMAN

In November 2018, Charlie Mayfield announced that he would be standing down as Chairman, having been in the role since 2007.

In accordance with the Constitution, the Chairman is the Chairman of the Partnership Board, by virtue of their appointment as Chairman of the Trust Company. As set out in the Trust Company's constitutional documents, the ultimate choice of successor remains with the outgoing Chairman. However, this process is overseen by the Nominations Committee, chaired by Keith Williams, Deputy Chairman. The Nominations Committee 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.

NOMINATIONS COMMITTEE REPORT
PAGE 72

On 6 June 2019, the Partnership announced that Charlie Mayfield, with the approval of the Partnership Board, had nominated Sharon White as his successor. Before joining the Partnership, Sharon White had been the Chief Executive of Ofcom, the UK's communications services regulator, since March 2015. Before that she was Second Permanent Secretary at the Treasury, responsible for overseeing public finances, and previously held Board level positions at the Ministry of Justice and the Department for International Development. She has also worked as an advisor at the Prime Minister's Policy Unit and in Washington DC as a senior economist at the World Bank. She was made a Dame in the 2020 New Year Honours list in recognition of her public service at Ofcom.

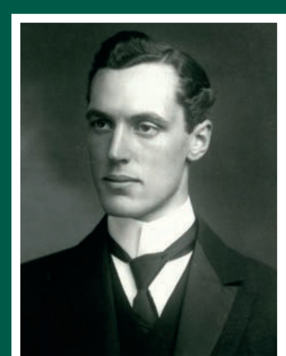
Charlie Mayfield formally stepped down as Chairman on 4 February 2020 and Sharon White officially became the Partnership's sixth Chairman at a meeting of the Trust Company held in front of Partnership Council and webcast to Partners. In accordance with the Partnership's constitutional arrangements, she 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.

HISTORY AND THE ROLE OF THE PARTNERSHIP'S CHAIRMAN

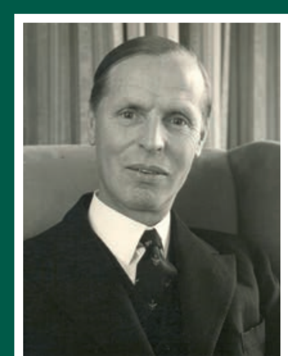
The role of the Chairman is central to our governance structure. Our Chairman has three roles:

- Chair of the Trust Company
- Chair of the Partnership Board, by virtue of their appointment as Chairman of the Trust Company.
- The senior executive in the Partnership. As such they are ultimately responsible for its commercial performance and lead the Executive Team (see page 58).

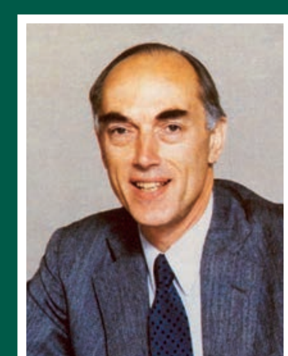
1929–1955
JOHN SPEDAN LEWIS



1955–1972
SIR BERNARD MILLER



1972–1993
PETER LEWIS



1993–2007
SIR STUART HAMPSON

2007–2020
SIR CHARLIE MAYFIELD

2020-PRESENT
SHARON WHITE

Our Governance

THE EXECUTIVE TEAM

The Chairman, supported by the Executive Team, is ultimately responsible for the Partnership's commercial performance.

The Executive Team started the year dedicating time to defining the implications that the One Partnership strategy (described in the 2019 Annual Report and Accounts) would have for the Partnership's operating model. Future Partnership is the evolution of the One Partnership strategy which was announced in October 2019, with the changes coming into effect on 3 February 2020.

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

Nina Bhatia	Executive Director, Strategy & Commercial Development
Tracey Killen	Executive Director, People
Patrick Lewis	Executive Director, Finance
Bérangère Michel	Executive Director, Customer Service
Andrew Murphy	Executive Director, Operations

At the date of this report, Simon Coble, Director of General Merchandise, Martin George, Director of Marketing and Rupert Thomas, Director of Food & Grocery have joined the Executive Team on an interim basis.

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

Chairman Sharon White visiting Partners at John Lewis St Pancras

THE PARTNERSHIP BOARD

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

BOARD COMPOSITION

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

Executive Directors: Sharon White and Patrick Lewis.
Elected Directors: Ollie Killinger, Nicky Spurgeon and Becky Wollam.
Non-Executive Directors: Keith Williams (Deputy Chairman), Andy Martin and Laura Wade-Gery.

Biographies for the members of the Partnership Board can be found on page 62.

See page 37 for information on the gender diversity of the Partnership, including that of the Partnership Board, at year-end. Since year-end and Sharon White's appointment as Chairman in succession on Charlie Mayfield, the gender diversity of the Partnership Board is 50% male and 50% female.

Board composition

• Elected Directors	3
• Executive Directors	2
• Non-Executive Directors	3

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.

Sharon White succeeded Charlie Mayfield as Chairman on 4 February 2020. Keith Williams joined the Partnership Board in March 2014 as a Non-Executive Director and became Deputy Chairman in April 2016. Following six years on the Partnership Board, Keith Williams will step down as Deputy Chairman and Non-Executive Director on 15 April 2020 and the search has commenced for his successor (see page 72).

In September 2019, the Partnership Board assessed and agreed to a proposal to reduce its size, which it considered would contribute to enhancing its effectiveness while maintaining a balance of 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 comprise two other Non-Executive Directors, one Executive Director (Executive Director, Finance) and three Elected Directors.

As a result, three Executive Directors agreed to step down and Rob Collins, Tracey Killen and Paula Nickolds resigned as Directors on 23 January 2020. The reduction in the number of Elected Directors was agreed by Partnership Council in November 2019 as was a proposal for the five Elected Directors to agree between them which two would step down. Consequently, Steve Gardiner and David Hay stepped down as Directors on 23 January 2020.

Biographical details for the former members of the Partnership Board can be found in the 2019 Annual Report and Accounts available at www.johnlewispartnership.co.uk

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

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

Our Governance

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's responsibilities are:

- approving the Partnership Strategy and business plan and setting risk appetite, encouraging creativity and an entrepreneurial spirit, whilst not risking any loss of financial independence and satisfying itself that the strategic direction will safeguard the Partnership's future, enhance its prosperity and ensure its integrity;
- overseeing and monitoring that the business plans are delivered in a way that promotes John Spedan Lewis' 'experiment in industrial democracy' and takes full commercial advantage of sharing knowledge, power and profit so that it is a better form of business;
- overseeing 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');
- ensuring 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;
- considering and approving any matters that are reserved for the Partnership Board's decision, including Partnership Bonus, capital and revenue expenditure plans, viability and liquidity; and
- ensuring that as Directors they fulfil their legal duties to promote the success of the Partnership.

Through its Audit and Risk Committee, the Partnership Board is also responsible for reviewing the effectiveness of the Partnership's internal controls, including financial, operational, compliance and risk management systems, and for determining appropriate risk levels to achieve its strategic objectives.

BOARD EFFECTIVENESS REVIEW

In 2019 the Board carried out an internal effectiveness review in relation to the Board and its Committees, led by Michael Herlihy, the Partnership Secretary. There were a variety of views on the Board's overall effectiveness and how this could be developed. The output from the review was reported to the Board in July 2019, with three key elements:

1. The role of the Board (and in particular how this was distinct from the role of the Executive Team in the transition to the new 'Future Partnership' operating model);
2. The size of the Board; and
3. Ways to enhance Board meeting agendas and discussion.

Recommendations were considered and adopted at the Board's meeting in September 2019 (see Role and Responsibilities and Board Composition above).

FOCUS OF THE BOARD DURING THE YEAR

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 and values are applied in practice.

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 14 to 17 for the Partnership's statement on Section 172(1).

The main areas of focus for the Board during the year were overseeing and supporting the response of the Executive Team to the trading challenges, the progress being made to differentiate the offers of the two brands and on managing costs and liquidity. Since the year-end the priority for the Partnership Board and the Executive Team has been the impact of the Coronavirus pandemic on its Partners and the business and how it can continue to serve its customers during this difficult period.

A summary of the main activities of the Board during the year is explained below:

FUTURE PARTNERSHIP

During the year, the Board monitored the progress of the Executive Team's development of the Future Partnership operating model to address the growing market challenges and their impact on trading performance and the Partnership's costs model. In September 2019 the Board approved the new operating model to enable the Waitrose and John Lewis brands to be operated as a single business. This was announced on 1 October 2019 and became effective on 3 February 2020.

PERFORMANCE

The Partnership Board monitors the performance of the business at every meeting through the monthly financial performance and liquidity reports, alongside a trading overview provided by the Executive Director, Finance, supported by updates from the two brands.

During the course of the year and in accordance with its reserved matters, the Partnership Board reviewed and approved significant business proposals. During 2019/20 these included: Waitrose Master Data Management and Merchandise Operations projects; approvals for the disposal of shops; the restructure of the Partnership's IT and Change functions; and the development of the Waitrose online grocery proposition.

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

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

2020/21 BUDGET

In January 2020, the Board approved the Partnership's budget for 2020/21. Of particular importance for the Board in approving the 2020/21 budget was assessing the Executive Team's priorities to respond to the increasingly challenging retail trading conditions, as well as the plans to reduce cost within the business, improve the Partnership's liquidity position and strengthen the balance sheet. The Board will continue to monitor these closely during the year, including the impact of Coronavirus.

PARTNERSHIP BONUS

On 28 February 2019, the Partnership Board considered the amount of the previous year's profits which should be retained for the maintenance and development of the Partnership's business and the amount which could be distributed to Partners as Partnership Bonus. The Partnership Board decided that Partnership Bonus for 2018/19 be distributed to Partners at the rate of 3% of their pay (5% for 2017/18). At the same time the Partnership Board reviewed and approved the announcement of the 2018/19 unaudited year-end results.

On 27 February 2020, the Partnership Board considered and decided that Partnership Bonus for 2019/20 be distributed to Partners at the rate of 2% of their pay.

CLOSURE OF DEFINED BENEFIT PENSION ARRANGEMENTS

In April 2019 after a comprehensive consultation exercise, the Partnership Board formally recommended closing the Partnership's defined benefit pension arrangements. This was agreed by Partnership Council on 15 May 2019, saving approximately £80m in annual pension costs from April 2020.

ANNUAL REPORT AND ACCOUNTS

In April 2019, the Partnership Board approved the Partnership's Annual Report and Accounts 2019 and in September 2019 approved the release of the Interim Results for 2019/20.

The Audit and Risk Committee recommended to the Partnership Board that KPMG LLP be re-appointed as statutory auditor of the Partnership and all of its subsidiaries for the 2019/20 financial year, which the Partnership Board approved in April 2019.

CORONAVIRUS

At meetings on 27 February, 17 March, 24 March, 31 March, 9 April 2020 and 15 April 2020, the Partnership Board discussed the potential implications of the Coronavirus pandemic for the business.

BOARD INFORMATION

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

- Minutes and updates from the meetings of the Executive Team;
- Minutes and updates from the meetings of the Board Committees;
- Monthly financial reporting including liquidity from the Executive Director, Finance against Key Performance Indicators;
- Quarterly risk update reports identifying any changes to principal risks and the progress of mitigating actions;
- Customer insight reports; and
- An annual report from the Chair of the Pension Trustee.

PARTNERSHIP BOARD MEETINGS

There were 11 Partnership Board meetings held during the year under review. All Directors attended the meetings they were eligible to attend during the year, with the exception of: Keith Williams, who was not able to attend two meetings; and Laura Wade-Gery and Andy Martin, who each were not able to attend one meeting.

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

The Partnership Secretary, Michael Herlihy, and the Acting Partners' Counsellor, Helen Hyde, attended Partnership Board meetings held during the year but were not Directors. The two Independent Directors, Michael Herlihy and Clare Tickell, now 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 met on a quorate basis on two further occasions. These quorate meetings were constituted by the Partnership Board from those members available at that time, to approve the final form of the announcements for the full and half year results.

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

1. SHARON WHITE
Partner and Chairman

Appointed: February 2020

Sharon White became the Chairman of the John Lewis Partnership 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. Sharon is a trained economist and studied at Cambridge University and University College London.

2. PATRICK LEWIS
Partner & Executive Director, Finance

Appointed: February 2009

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

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

3. LAURA WADE-GERY
Non-Executive Director

Appointed: September 2017

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

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

4. ANDY MARTIN
Non-Executive Director

Appointed: July 2018

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

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

5. KEITH WILLIAMS
Non-Executive Director
and Deputy Chairman

Appointed: March 2014

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

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

6. BECKY WOLLAM
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 the Partnership Council in 2015.

7. OLLIE KILLINGER
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.

8. NICKY SPURGEON
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 customer focused projects that seek to develop new propositions as well as enhance customers' experience when shopping with John Lewis and 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.

MEMBER OF:
- Audit and Risk Committee
- Nominations Committee
- Remuneration Committee
- Committee Chairs shown as squares

The Partnership Board: Audit and Risk Committee report

PROVIDING CHALLENGE AND OVERSIGHT IN TIMES OF CHANGE

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

Committee composition

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

With the Partnership going through major changes and facing a continued challenging retail environment, effective oversight of our finances, controls and risk management has never been more important.

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

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

There were six Committee meetings held during the year under review, which were attended by all members who were eligible to attend, except the meeting on 26 February 2019 which Keith Williams was unable to attend.

At each regularly scheduled meeting, 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 AUDIT AND RISK COMMITTEE MEMBERS AND COMPETENCE RELEVANT TO THE SECTOR

Andy Martin, Keith Williams, Zarin Patel and Sharon Rolston have significant, recent and relevant financial experience. Each is a qualified accountant and held senior finance roles. See below and page 62 for biographical information.

Andy Martin, Keith Williams, Ollie Killinger and Sharon Rolston have significant, relevant and in some cases ongoing experience of retail and customer-facing businesses. See below and page 62 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 sits on its Audit and Risk and Nominations Committees, 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 & 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.

The Partnership Board: Audit and Risk Committee report

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 auditors and the internal and external audit process; and
4. The effectiveness of the Partnership's processes for compliance with laws and regulations.

EXTERNAL FINANCIAL REPORTING

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

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

REGULATORS AND FINANCIAL REPORTING

In October 2019, the Financial Reporting Council (FRC) issued a letter to Audit Committee Chairs and Finance Directors on key matters relating to the preparation of annual reports and accounts. The Committee, along with management, have reviewed the letter and have taken the points raised into consideration in the preparation and review of the Partnership's 2020 Annual Report and Accounts.

ANNUAL REPORT AND ACCOUNTS

Since the year-end the Committee has reviewed the draft Annual Report and Accounts 2020 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 2020 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	2. PENSIONS
Notes to the financial statements	3.1, 3.2	6.1
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. 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, identified some assets with indicators of potential impairment. This included the challenging trading performance of the John Lewis business as a whole. 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.	The Partnership operates a defined benefit pension scheme open to all Partners, subject to length of service. The pension scheme liability is calculated using an actuarial model with a number of key assumptions, notably the discount rate and inflation rate. On 15 May 2019, Partnership Council voted in favour of proposals by the Partnership Board to close the defined benefit section of the scheme to future accrual from 1 April 2020. Following closure, members' deferred pensions will now increase annually by inflation up to 5%, which is generally lower than the previous pay growth assumptions. The breaking of future salary linkage resulted in an exceptional curtailment gain in respect of the past service cost, reducing the deficit by £249.0m. The gain is partially offset by a £93.0m actuarial loss, recognised through equity, reflecting a decrease in future expected commutation of defined benefit pensions. During the year, the 31 March 2019 triennial actuarial valuation has been underway and is yet to be concluded. As part of this exercise, underlying membership data has been updated as at 31 March 2019. This has resulted in an actuarial gain of £160.6m, reflecting the difference between actual experience compared to the assumptions made in estimating the liability. 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. As a result, the adjustments applied for the inflation risk premium and the gap between RPI and CPI were revised for the cash flows beyond 2030. This resulted in a net actuarial gain of £23.6m.
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. An additional meeting was held prior to the year-end, where particular focus and challenge was given to the proposed changes to the allocation of online sales and costs for John Lewis and the underlying performance projections. The Committee 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, 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 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 assumptions relating to the scheme closure, including the break in salary linkage and revised commutation expectations. 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.

The Partnership Board: Audit and Risk Committee report

3. EXCEPTIONAL ITEMS

Notes to the financial statements: 2.5

Issue

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

Management has consistently applied the updated policy in the current year, recording an exceptional gain of £107.4m. This principally relates to an exceptional curtailment gain in relation to the approved closure of the Partnership's defined benefit pension scheme as well as branch impairment costs and restructuring and redundancy charges arising as a result of transformational strategic programmes.

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 past service credit of £249.0m has been recognised for the reduction in the pension obligation due to the breaking of salary linkage following the closure of the scheme in April 2020. Given the size and non-recurring nature of this credit, this income has been recognised as exceptional.

The Committee also challenged management and the auditors on the inclusion within exceptional items of the John Lewis branch impairment charge. 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. 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.

4. IFRS 16

Notes to the financial statements: 1.1.4, 3.2, 5.6

Issue

The Partnership has a substantial lease portfolio, principally comprised of property leases in relation to Waitrose and John Lewis stores, distribution centres and head offices. Under *IFRS 16 – Leases*, the Partnership recognises right-of-use assets and lease liabilities on the balance sheet at the lease term commencement date. Lease liabilities are initially measured at the present value of the lease payments due until the end of the lease term, discounted using the applicable incremental borrowing rate.

Significant judgement is exercised in determining the lease term. IFRS 16 defines the lease term as the 'non-cancellable' period beyond which any extension is not reasonably certain. In November 2019, the IFRS Interpretations Committee (IFRIC) clarified this definition and highlighted that an entity should give consideration to the broader economics of a contract when determining the enforceable period of the lease. This includes the period of expected utility of the leasehold improvements and the costs of abandoning or dismantling non-removable leasehold improvements on lease exit.

Judgement is also applied in relation to the right-of-use assets which are assessed for impairment at least annually or whenever events or circumstances indicate that the net book value may not be recoverable.

Response

At the start of the year, the Committee considered and approved the transition approach and assumptions in respect of IFRS 16. This included the proposed approach to review lease terms on a six-monthly basis.

During the year, as part of half year and year-end reporting, the Committee reviewed the key judgements and draft disclosures provided by management. As a result of this review, the Committee has satisfied itself as to the appropriateness of the assumptions and the presentation in the financial statements.

5. 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, as well as the sensitivity of the assumptions, 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.

6. USEFUL ECONOMIC LIVES AND LEASE TERMS

Notes to the financial statements: 3.2

Issue

The Partnership has significant non-current tangible assets. Depreciation is recorded to write down non-current assets to their residual value over their estimated useful economic lives. Determining an asset's estimated useful economic life requires judgement. The Partnership's accounting policy requires that the useful economic life of leasehold improvement assets is calculated as the shorter of the useful economic life of the asset or the length of the lease term.

During the year, management performed a review of the useful economic life of leasehold improvement assets. This included comparison to the relevant lease terms as determined under IFRS 16 and clarified by IFRIC in November 2019. In cases where the useful economic life of leasehold improvement assets exceeded the length of the lease term, the judgements over lease term and useful economic life were reassessed and aligned where required.

Response

The Committee reviewed the papers prepared by management and challenged the judgements applied.

The Committee satisfied itself that the lease terms and useful economic lives were appropriate and aligned to the clarification issued by IFRIC in November 2019.

The Committee's review included consideration of the sensitivities and impacts on the depreciation charge in the income statement and lease liabilities recognised on the balance sheet that would result from a change in lease term.

7. FREE WARRANTIES

Notes to the financial statements: 2.2

Issue

Warranties on Electricals and Home Technology (EHT) goods are offered to customers by the Partnership. Whilst these warranties are 'free' to the customer, they also represent a separate performance obligation for the Partnership to fulfil under IFRS 15. The Partnership's IFRS 15 sales model estimates the fair value of the 'free' warranties included within the sales price of these items. The fair value of these warranties is deferred on the balance sheet and recognised as revenue over the life of the warranty.

Response

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

The Partnership Board: Audit and Risk Committee report

VIABILITY AND GOING CONCERN

The Directors must satisfy themselves as to the Partnership's ability to continue as a going concern for a minimum of 12 months from the approval of the financial statements. Additionally, the Directors' report on the longer term viability of the Partnership, over a period of three years. The Committee supported the Board in its assessment of both going concern and viability by considering whether, in the challenging but plausible risk scenarios identified, including the impact of Coronavirus, the Partnership has adequate liquid resources to meet its obligations as they fall due in the next 12 months and to remain commercially viable over the three-year period to January 2023.

The Committee reviewed papers presented by management on its assessment of the Partnership's going concern and longer term financial viability based on budgets, business plan and cash flow forecasts and the stress testing performed in the form of severe downside scenarios, ensuring these were based on the potential financial impact of the Partnership's principal risks and the specific risks associated with Coronavirus and Brexit. These downside scenarios, as set out in the viability statement (see page 51), represent severe but plausible scenarios and, whilst being considered by the Directors to be extremely prudent, have a significant adverse impact on sales, margin and cash flow. In response, the Directors have taken 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 scenarios modelled, the feasibility of management to deliver the quantum of the mitigations within the time frame required, and the level of disclosure proposed. In light of market uncertainty as a result of Coronavirus, the Committee also challenged management's assessment that no material uncertainty existed.

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 (page 94) 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 89 and the viability statement within the Strategic Report on page 51.

NEW ACCOUNTING STANDARDS

During the year, the Partnership adopted and reported under *IFRS 16 – Leases* for the first time. The Committee reviewed and approved the transition approach and accounting policies in respect of this new standard, including the judgements, assumptions and estimates made by management and the impact these have had on the financial statements during 2019/20.

EXTERNAL AUDIT ACTIVITIES

EVALUATION AND RE-APPOINTMENT OF AUDITOR

KPMG LLP were the Partnership's external auditor for 2019/20. 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 2020, the Committee conducted an evaluation of the external auditor's performance. Members of the Committee and senior finance management within the Partnership were provided with an opportunity, through an evaluation questionnaire, to comment on the effectiveness of the external auditor and the audit process.

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

- The terms and the scope of the work of the external auditor, as set out in the engagement letter;
- The experience and expertise of the audit team;
- The audit work plan for the financial year 2019/20;
- 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, which concluded that the effectiveness of the external auditor and the audit process was satisfactory and recommended the re-appointment of KPMG LLP to the Partnership Board.

AUDIT FIRM TENDERING

It is the Committee's policy to ensure that there is audit partner rotation every five years to safeguard the external auditor's objectivity and independence. In 2012/13, the Committee adopted a policy relating to tendering the external audit contract at least every 10 years.

Following the audit tender process in 2015/16, the year ended 25 January 2020 was the fourth year of audit by KPMG LLP and the fourth and penultimate year of the audit engagement partner, Mike Maloney's, appointment.

AUDITOR'S INDEPENDENCE AND OBJECTIVITY AND NON-AUDIT SERVICES

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

The Committee recognises that the independence of the external auditor is a fundamental safeguard for the interests of Partners. The Partnership has a non-audit services policy that allows the external auditor to be appointed to provide non-audit services in exceptional circumstances. The 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 10% (2019: 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.

THE PARTNERSHIP'S SYSTEMS OF RISK MANAGEMENT AND INTERNAL CONTROL

RISK MANAGEMENT

Assessing and managing risk is fundamental to safeguarding our Partners' interests, protecting our reputation, complying with regulatory standards and achieving our business objectives.

To enable this, the Partnership has a risk management framework, including a process for how we identify, evaluate, manage and monitor the principal risks faced by the Partnership, supported by tools, dedicated Partners and a risk governance structure with defined accountability. Further details on this can be found on pages 46 to 50, along with details of our principal risks and how we mitigate them.

INTERNAL CONTROL

The systems of internal control we have established are designed to manage, rather than eliminate, the risk that is inherent in pursuit of our business strategy and objectives. As a consequence, our internal controls can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Partnership Board receives updates through the Chair of the Committee and copies of its minutes on the operation of the systems of internal control for risk management. During the year under review, reporting was through presentations from senior management, the Chairs of Divisional Risk Committees and Financial Control as well as the work of Internal Audit, which provides objective assurance on the effectiveness of controls through the delivery of a risk-based work plan. The Director 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 reviewed and agreed with management's conclusions that Coronavirus is a non-adjusting post balance sheet event, but requested additional disclosure in relation to potential impairment in respect of intangible assets and further sensitivities in relation to John Lewis branch impairments be made;
- 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 has continued to support the Partnership's approach to identifying and managing risks exacerbated by Brexit and has focused challenge on contingency plans to mitigate the Partnership's key Brexit related risk areas and prepare for potential no-deal Brexit dates;
- 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;
- The Committee has continued to challenge management to understand and appropriately mitigate against the risks arising from change across the Partnership;
- 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 and consequences for non-delivery.

The immediate focus for the year ahead is to proactively manage the risks and the Partnership's response to the potentially prolonged impact of Coronavirus, in order to maintain customer service and protect Partners, local communities and trade. Focus will also remain on the Partnership's Brexit related customer, Partner and trading risks through the short transition period, and overseeing the implementation of activities as the external landscape becomes more clear, whilst continuing to develop the quality of our risk and control frameworks. The Committee will also focus on the management of risk through the significant organisational change underway in Future Partnership. The Partnership's approach to risk management is detailed on pages 46 to 50.

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 Committee now reviews and approves the scope of the Internal Audit work programme on a six-month rolling basis in response to the challenging and changing retail environment. The 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. Work undertaken during the year includes the reviews set out on the following page.

Partnership Internal Audit was subject to independent external quality assessment (EQA) during 2015, in compliance with section 1312 of the Institute of Internal Auditors (IIA) standards, which requires independent EQA once every five years.

The Partnership Board: Audit and Risk Committee report

REVIEWS UNDERTAKEN DURING THE YEAR

FINANCE
- INTERNAL CONTROLS FRAMEWORK
- PURCHASE TO PAY

REGULATORY/OTHER
- DATA CODE COMPLIANCE
- BRANCH REPORTING
- PRIOR AGREED ACTIONS

IT & PROGRAMME
- PRODUCT PROGRAMME MDM/MO
- SUPPLY CHAIN OPTIMISATION
- TECHNOLOGY & CHANGE STRATEGIC REVIEW
- PENSION BENEFIT CHANGE IMPLEMENTATION
- JL.COM REPLATFORMING

OPERATIONS
- PROPERTY RENTS & RATES
- SUPPLIER & CONTRACT MANAGEMENT
- REBATES AUTOMATION

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 regulate our trading relationships with grocery suppliers, including training requirements for buyers and the content of supplier contracts. Our approach to Code compliance reflects our long-term commitment to treating our suppliers fairly, as set out in the John Lewis Partnership's Constitution (Principle 6 and Rule 96). This approach is supported by clear processes and procedures which enable us to review and monitor our compliance with the Code.

As required by the Order and the GSCoP, the Waitrose Code Compliance Officer ('CCO') is obliged to present a report detailing the business' compliance to GSCoP to the Partnership's Audit & Risk Committee, for onwards submission to the Competition and Markets Authority ('CMA'). The reporting period covered is 27 January 2019 to 25 January 2020.

The CCO presented the report to the Committee on 7 April 2020 and reported a slight increase in the number of suppliers raising GSCoP queries in the trading period. 11 suppliers either alleged a breach or used Code language in their concerns (10 allegations last year). Several of these involved the CCO. In each case we worked with the suppliers involved to understand their concerns and seek a resolution in a timely manner. One query was still in progress at the end of the reporting period. There were no formal disputes raised during the year.

The Committee reviewed and approved the Annual Report and also noted the work being undertaken to strengthen governance and provide more self-regulation. They welcomed the activity undertaken to enhance training and the support for the buyers. They supported the approach and plan for ensuring ongoing GSCoP compliance.

WORK WITH GCA

We have a positive working relationship with the Groceries Code Adjudicator ('GCA') and her team and welcome discussions and advice on how we can enhance our supplier relationships. We hosted a visit by the GCA to our offices in May where she was able to discuss ongoing matters with a number of Directors. Overall, meetings are constructive and cover a range of topics. The feedback from both the GCA Annual Survey and the regular meetings were helpful in identifying any suppliers' concerns.

We are very supportive of the GCA's move towards retailers adopting a self-governance approach to Code compliance and have worked hard to improve reporting in order to identify underlying issues and trends. A quarterly dashboard of KPIs has been created and is used as part of routine reports sent to the GCA.

The Chair of the Committee, Andy Martin, attended a meeting with the GCA in the autumn to discuss the approach to self-governance and reporting.

WORK WITH SUPPLIERS

For suppliers we provide information about the Code on Waitrose Engage, an online resource for all of our suppliers which includes Code-related content. Our ongoing work to develop systems and processes has been carried out in conjunction with regular feedback from suppliers and we have continued to improve the usability of Waitrose Engage. This has included specific feedback sessions from suppliers.

Following the restructure in our Commercial Directorate, we have centralised a number of processes into a new Supplier Administration Hub which has led to a more consistent experience for suppliers. We have also worked hard to improve any concerns related to delays in payment, providing suppliers with access to a dedicated team in our accounts department whose remit is to help resolve any finance-related queries or issues that they may have.

We have followed up all the concerns raised by suppliers relating to the Code during their reporting period, which covered a range of issues, and continue to welcome suppliers' feedback on how we can make further improvements.

INTERNAL WORK

Day-to-day advice, online guidance and support is available to buyers with more specialist advice offered by the CCO's team and the John Lewis Partnership's Legal Department. We have an online site for Commercial Partners (employees) which includes advice, templates and details of where to get further support. We have a dedicated GSCoP advisor who sits within the Commercial team and collaborative advice and guidance is issued to the business on a regular basis by the above parties, to respond to supplier queries and emerging trends.

All new buying Partners are trained on the Code as part of their induction and all supplier-facing Partners in our Commercial Directorate complete online training and a test which requires a score of 100% to pass. As part of the annual training there are regular briefings before key events and this year there was an in-depth briefing on De-listing which was delivered by the Compliance and Legal teams and included an introductory video from Christine Tacon.

Compliance to the Code is reviewed and monitored by a cross-Directorate senior group of Partners who review Code-related activities on a monthly basis and provide oversight of our day-to-day compliance, escalating issues for further investigation and resolution as appropriate. Examples of topics covered by this group include:
– Regular updates and review of the GCA's latest activity;
– Regular reviews of current supplier queries; and
– Upcoming changes to systems and supplier-facing processes to ensure they do not adversely affect our compliance to the Code.

In addition, the group has looked at:
– The work of our Forensic Auditors following a review by Internal Audit, with the aim of improving our internal processes and oversight of how they are processing claims in our name to ensure suppliers are being treated fairly;
– Our approach to IFCO trays to ensure the process operates for the benefit of all parties involved;
– The manner in which we have introduced a new Supplier Delivery Scheduling system for suppliers, to ensure they have had plenty of notice and awareness of this changed way of working and the benefits it will bring;
– Supplier compliance to delivery standards as part of the ongoing work on improving efficiency in our supply chain, with a more in-depth review of our standards to follow;
– Preparing suppliers for forthcoming changes to our Master Data Management and Merchandise Operations systems; and
– The potential Code implications of the closer working relationship with the John Lewis brand.

SUMMARY

Each supplier query is taken seriously to understand their concerns, seek a quick resolution to it and identify whether further guidance or changes to our processes are required. We welcome queries and feedback from 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.

"In times of change, such as our ongoing transition into Future Partnership, consistent and active oversight of systems of internal control and risk management becomes even more important. The rigour and challenge that the members of the Partnership Board's Audit and Risk Committee have continued to display during the year should provide Partners with assurance that the Partnership's companies continue to be governed with a suitable attitude to risk. Conversations remain tough with a focus on accountability, as the outcome we all pursue continues to be a prosperous, compliant and exciting Partnership for the future."

OLLIE KILLINGER
Elected Director, Partner & Digital Product Owner

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 whistleblowing policy was updated and the management of whistleblowing was transferred from Registry to 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 were clarified in the Terms of Reference which were refreshed during the year. The Committee reviews, on behalf of the Board, the adequacy and security of the Partnership's arrangements for its Partners and contractors 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.

Andrew Martin

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

The Partnership Board: Nominations Committee report

LEADERSHIP AND EFFECTIVENESS

KEITH WILLIAMS

Non-Executive Director and Chair of the Nominations Committee

Committee composition

- Elected Directors 2
- Non-Executive Directors 2
- Executive Director 1

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

MEMBERSHIP AND COMPOSITION

The members of the Committee at year-end were:

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

The membership 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).

Steve Gardiner (Elected Director) stood down on 23 January 2020 on ceasing to be a Director and was succeeded by Becky Wollam.

There were 11 Committee meetings held during the year under review. All eligible members attended each meeting with the exception of Steve Gardiner and Laura Wade-Gery who were each unable to attend one meeting during the year under review.

CHANGES SINCE THE YEAR-END

Charlie Mayfield stood down on 4 February 2020 on ceasing to be the Partnership's Chairman and was succeeded by Sharon White.

Keith Williams joined the Partnership Board in 2014 and became Deputy Chairman in 2016. After five years on the Board, he had intended to step down during 2019. However, he agreed to stay on longer to oversee the Chairman's succession process and to provide continuity in the period until Sharon White was able to join the Partnership in succession to Charlie Mayfield. He will step down as both Deputy Chairman and a Non-Executive Director on 15 April 2020, and will step down as Chair of both the Nominations Committee and Remuneration Committee on the same date. The search has commenced for his successor supported by independent search consultants Russell Reynolds Associates. Russell Reynolds Associates is providing executive search consultancy services to the Committee but otherwise has no other connection with the Partnership. In the meantime, the Committee will be chaired by Andy Martin, who joined the Committee on 25 March 2020.

The role of Deputy Chairman had been reviewed as part of the 2018 governance reviews and endorsed by the Partnership Board as: 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.

ROLE OF THE COMMITTEE

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

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

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

The Committee is supported by the Executive Director, People and assisted by independent consultants, as required.

APPOINTMENTS

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

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

CHAIRMAN

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

In November 2018, Charlie Mayfield announced that he would be standing down as Chairman, having been in the role since 2007. In accordance with the Constitution, the Chairman is the Chairman of the Partnership Board, by virtue of his appointment as Chairman of the John Lewis Partnership Trust Company. As set out in the Trust Company's constitutional documents, the ultimate choice of successor remains with the outgoing Chairman. However, for the first time, this process was overseen by the Nominations Committee which informed the Board of the plans and process supporting, and ultimately the outcome of, the Chairman's final decision and recommendation to the Partnership Board.

During 2019, the Nominations Committee oversaw the search process for the new Chairman supported by independent search consultants, Egon Zehnder Limited. This included developing the role specification, a selection process featuring evaluation of both internal and external candidates, participation in the interview and assessment process and ultimately provision of advice to the Chairman regarding the suitability of prospective candidates. The Committee was also supported by the Partnership Secretary, and by Jane Kirton, a former Partner and leadership and organisational development consultant. The Committee participated in a workshop on unconscious biases led by Egon Zehnder Limited as part of its preparation before the formal assessment of potential candidates. The Chairman of the Committee then met candidates informally before the formal assessment process was held in spring 2019. In May 2019, the Committee provided the Chairman with a commentary regarding the suitability of prospective candidates prior to his meetings with the final short listed candidates. The Committee then received references on the Chairman's nominee, collated by Egon Zehnder Limited, before the Chairman informed the Partnership Board of his choice and it agreed to Sharon White's appointment.

Egon Zehnder Limited has also provided the Partnership with the following services: coaching services; Executive Leadership Profile programmes; Executive Team and senior executive leadership development programmes; executive search; and support for team facilitation for teams outside of the remit of the Committee.

NON-EXECUTIVES

The Nominations Committee recommended to the Board that the terms of office of Zarin Patel and Sharon Rolston as Independent External Members of the Audit and Risk Committee, which were due to expire on 1 March 2019, be extended to 30 April 2021, which was approved by the Board. Following the decision to replace the Corporate Responsibility Committee with an executive-led group (now the Ethics and Sustainability Committee) after its meeting in March 2019, Fiona Reynolds' appointment as an Independent External Member of the Committee came to an end. On behalf of the Board, we would like to thank Fiona for her contribution to our work on Corporate Responsibility.

EXECUTIVE APPOINTMENTS

During the year the Committee oversaw the selection and appointment for new Executive positions in the new Future Partnership operating model effective 3 February 2020. The following internal appointments were made: Andrew Murphy as Executive Director, Operations; Bérangère Michel as Executive Director, Customer Services; Patrick Lewis as Executive Director, Finance; Paula Nickolds as Executive Director, Brand; and Tracey Killen as Executive Director, People.

"It was a big responsibility to represent Partners by being personally involved in the selection process for our new Chairman. My role was to balance Partners' opinions along with what I felt the business needed to stay relevant for our future customers.

NICKY SPURGEON

Elected Director, Partner & Programme Manager

FOR FURTHER INFORMATION
See pages
63 – Zarin Patel
63 – Sharon Rolston

The Partnership Board: Nominations Committee report

An external search was conducted for the position of Executive Director, Strategy & Commercial Development supported by Spencer Stuart, and Nina Bhatia joined the Partnership in this role in February 2020. Spencer Stuart has no other connections with the Partnership.

SUCCESSION PLANNING AND TALENT MANAGEMENT

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

INDUCTION, TRAINING AND DEVELOPMENT

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

An induction plan was arranged for Sharon White, who joined the Partnership on 13 January 2020 and was appointed Chairman on 4 February 2020. This included one-to-one meetings with the former Chairman and each of the existing Directors, the Company Secretary and the Partnership Secretary, the Independent Directors, and other members of senior management. She has also met members of operational teams at Partnership sites across the business.

REVIEW OF BOARD AND COMMITTEE EFFECTIVENESS

During the year under review, an internal Board effectiveness review was conducted by the Partnership Secretary. This involved a survey of all members of the Board and the two appointed members of the Audit & Risk Committee, and one to one meetings between the Partnership Secretary and all Directors along with Andrew Murphy (Executive Director, Operations) and Helen Hyde (former Acting Partners' Counsellor). The Board discussed the findings in July and September 2019. A summary of the agreed actions coming out of the review is provided on page 60.

Separate, shorter evaluations were undertaken on each Board Committee, with action plans developed to take forward agreed recommendations during 2020. An externally facilitated review of the Board is scheduled to take place towards the end of 2020.

DIVERSITY STATEMENT

The Partnership Board has adopted a Diversity Statement, as set out to the right, regarding the composition of the Partnership Board, the aims of which are supported by the Partnership's Diversity and Inclusion Policy.

The Partnership Board recognises and embraces the benefits of having a diverse Partnership Board and the principles of the Diversity and Inclusion Policy apply equally to the Partnership Board.

Through the Nominations Committee, the structure, size, composition and balance of the Partnership Board (including skills, knowledge, experience and backgrounds) are monitored, to ensure that when considering Partnership Board candidates, due regard is given to the benefits of diversity, including gender, ethnicity and other characteristics protected by the provisions of the Equality Act 2010. However, it should be noted that under the Constitution, up to five members of the Partnership Board are elected by Partnership Council and their appointments are not subject to oversight by the Nominations Committee or the Partnership Board.

All other Partnership Board appointments are made on merit against objective criteria in the context of the skills and experience required for them to be effective. It is not the Partnership Board's policy to set specific targets by legally protected characteristics such as gender or ethnicity.

Further information on diversity and inclusion in the Partnership can be found on pages 36 to 37, 83 and 88.

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.

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

The Partnership Board: Remuneration Committee report

OVERSEEING HOW THE PAY POLICY IS APPLIED

KEITH WILLIAMS
Deputy Chairman and Chair of the Remuneration Committee

During the year, the Committee reviewed pay arrangements for the Executive Team, including the new Chairman, and new appointments as part of Future Partnership. Other areas of focus for the Committee included pension arrangements for senior Partners.

The Committee oversees how the Partnership's pay policy is applied to the Chairman, Executive Directors and senior managers who report to the Chairman. As an employee-owned business with 80,800 Partners, it is also important that we consider the broader approach to pay across the Partnership.

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

During the year, the Committee undertook the annual pay review for the Chairman and Executive Team. The Committee placed particular focus on ensuring that remuneration arrangements for the new Chairman and new appointments to the Executive Team were appropriate and reflected the Partnership's pay policy. The Committee also approved payments for members of the Executive Team leaving the Partnership.

In addition, the Committee noted the outcomes of the Partnership's Pension Review and agreed changes to pension arrangements for senior Partners in line with emerging market practice. It also noted the Partnership's intent to consider senior reward arrangements as part of a broader reward review.

The Committee took note of the publication of the 'Be Yourself. Always' report which included the Partnership's statutory gender pay gap reporting as part of a broader diversity report.

The Committee took a close interest in the legislative and best practice developments around senior remuneration. 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. The Committee will also review its Terms of Reference to ensure they reflect best practice.

KEY INFORMATION

CHAIRMAN'S REMUNERATION

As Chairman in the 2019/20 year, Charlie Mayfield's total reward package was made up of the following:

	2019	2020
Pay Base pay received in the financial year	£1,109,000	£1,109,000
Partnership Bonus Bonus amount received in respect of the 2019/20 trading year	£33,000	£22,000
Pension benefit Cash supplement in lieu of further defined pension accrual	£288,000	£288,000
Benefits Cash value of benefits	£14,000	£14,000
Total reward	£1,444,000	£1,433,000

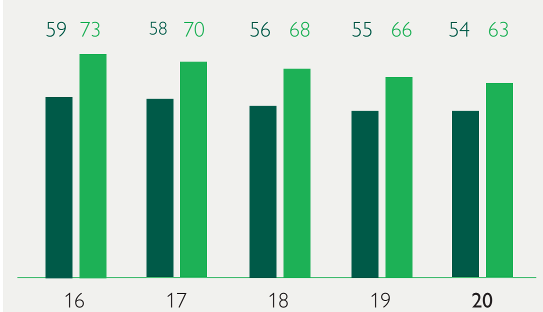
• 2019 • 2020

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.

In the 2019/20 year, the Chairman's:

- Pay was 63 times the average basic pay of non-management Partners, calculated on an hourly basis; and
- Total reward, excluding Partnership Bonus, was 54 times the average total reward, excluding Partnership Bonus, of non-management Partners with three or more years' service.



The Partnership Board: Remuneration Committee report

Committee composition

Elected Directors	2
Non-Executive Directors	2

APPROACH

MEMBERSHIP AND COMPOSITION

The members of the Committee at year-end were:

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

Steve Gardiner stepped down as a member of the Committee on leaving the Partnership Board on 23 January 2020. Becky Wollam was appointed a member of the Committee on 23 January 2020.

The Committee met on ten occasions during the year under review. All meetings were attended by all members who were eligible to attend, with the exception of Steve Gardiner, Nicky Spurgeon and Laura Wade-Gery who each sent their apologies to one meeting.

CHANGES SINCE THE YEAR-END

Andy Martin joined the Committee on 25 March 2020. Keith Williams will step down as Chair of the Committee on stepping down as Deputy Chairman and Non-Executive Director on 15 April 2020, and the search has commenced for his successor. In the meantime, the Committee will be chaired by Laura Wade-Gery.

COMMITTEE INDEPENDENCE

The Remuneration Committee 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.

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 and compensation data. In addition, in 2019/20 Willis Towers Watson also provided insurance broking services.

The Committee was also supported during the year by the Executive Director, People and the Head of Total Reward. 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

PAY POLICY

Under Rule 44 of the Constitution, the Chairman is ultimately responsible for ensuring that the system for deciding the pay and benefits of individual Partners is fair.

The Partnership's pay policy is set out in Rules 61, 62 and 63 of the Constitution.

Rule 61	The Partnership sets pay ranges which are informed by the market and which are sufficient to attract and retain high calibre people. Each Partner is paid a competitive rate for good performance and as much above that as can be justified by better performance. Partnership Bonus is not taken into account when fixing pay rates.
Rule 62	Pay rates must be decided with such care that if they were made public each would pass the closest scrutiny. Managers are responsible for ensuring that Partners are paid fairly in comparison with others who make a similar contribution.
Rule 63	The pay of the highest paid Partner will be no more than 75 times the average basic pay of non-management Partners, calculated on an hourly basis.

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

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

KEY ACTIVITIES

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 made a recommendation for the 2019 pay review in respect of Charlie Mayfield.

The Committee also made a recommendation in respect of Sharon White, following her appointment as the Partnership's new Chairman.

EXECUTIVE TEAM PAY

The Remuneration Committee also approves the pay of other Executive Directors and senior managers who report to the Chairman.

The Committee considers the Chairman's pay recommendations also taking into account external market assessments provided by Willis Towers Watson for these roles.

In the reporting year, the Committee approved the 2019 pay review recommendations for the Executive Team. It also approved pay arrangements for Executive Team members appointed to new roles as part of Future Partnership.

PARTNERSHIP PAY

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

During the year, the Remuneration Committee was provided with information and context on pay across the Partnership. This included the approach and outcomes by Partnership level for the 2019 pay review.

> "I am excited to have recently joined the Remuneration Committee as an Elected Director. The Elected Directors play an essential role on the Committee. We provide a Partner perspective, independent of management, when considering pay arrangements for our senior leadership and in shaping discussions and influencing decisions about broader reward across the Partnership.
>
> **BECKY WOLLAM**
> Elected Director, Partner & Regional Manager

The Partnership Board: Remuneration Committee report

PENSION CHANGES

The Remuneration Committee noted the outcomes of the Partnership Pension Review. From 1 April 2020 the Partnership will match Partners' pension contributions up to 8% of pay. After three years of service, Partners will receive an additional Partnership contribution of 4%.

The Committee agreed to the 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 will reduce to 12%, from 1 April 2020. This change has already been implemented for senior external hires during the year, including the new Chairman, Sharon White.

A small number of senior Partners are currently in receipt of an enhanced pension supplement meaning their total pension value will remain above 12%. Since the year-end, in line with corporate governance guidance and emerging market practice, the Committee further agreed that these enhanced supplements will be eroded by December 2022.

The Committee also agreed that from 1 April 2020, pension value for senior external hires will reduce to 8% when they join the Partnership, increasing to 12% after three years' service in line with the arrangements for all new Partners.

CEO PAY RATIO REPORTING

From this reporting year, UK-quoted companies are required to publish their CEO pay ratio figure in their annual reports. Whilst this requirement does not extend to the Partnership, the Committee considered the inclusion of the new CEO pay ratio reporting requirements as part of this report.

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 noted that the Rule 63 calculation will differ next year as a result of the changes to the Partnership's pension scheme and the pay arrangements of the new Chairman.

The Committee therefore agreed to retain the existing Rule 63 disclosure this year and make no additional CEO pay ratio disclosure at this stage. It is the Committee's intention to include an appropriate CEO pay ratio based on one of the permitted methodologies in the 2021 Annual Report and Accounts.

GENDER PAY GAP REPORTING

The Committee reviewed the contents of the Partnership's 'Be Yourself. Always' report. This included the Partnership's statutory gender pay gap reporting as part of a broader report including ethnicity, age, health and wellbeing.

The Committee noted the new approaches set out in the report to reduce the Partnership's gender pay gap and the targeted interventions to increase representation of Partners from ethnic minority backgrounds. Further details on the report can be found on pages 36 to 37.

OUTLOOK

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

The Committee will also provide input as necessary to any review of senior reward arrangements whilst being mindful of broader Partnership reward.

The Committee will consider the most appropriate and practical method of calculation in order to meet the CEO pay ratio reporting requirements. It will also continue to review the Partnership's diversity reporting and observe further legislative changes.

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 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

As this Remuneration Report covers the reporting period 2019/20, all references to the Chairman relate to arrangements for Charlie Mayfield unless otherwise stated.

PAY

HOW MUCH DO WE SPEND ON PAY?

In 2019/20, the Partnership spent £1,614.0m on employment and related costs (2018/19: £1,863.2m). This represented 15.9% (2018/19: 18.1%) of the Partnership's revenue.

£1,506.0m (2018/19: £1,480.0m) was spent on basic pay and every eligible Partner received 2% of their 2019/20 gross pay as a Partnership Bonus, at a total cost of £30.9m (2018/19: £44.7m).

WHAT WAS CHARLIE MAYFIELD PAID IN 2019/20?

In the year under review, the value of Charlie Mayfield's total reward decreased by 0.8% to £1,433,000 as a result of receiving a lower Partnership Bonus for this year.

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

For 2019/20, Charlie Mayfield received a Partnership Bonus of 2% of pay in line with that awarded to all eligible Partners and a pension supplement of 26% of pay.

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

	2020 £	2019 £
Pay	1,109,000	1,109,000
Partnership Bonus	22,000	33,000
Pension supplement in lieu of further defined pension accrual	288,000	288,000
Cash value of benefits	14,000	14,000
Total reward	1,433,000	1,444,000

WHAT WILL SHARON WHITE BE PAID IN 2020/21?

The Committee recommended to the Partnership Board that Sharon White, the new Chairman, be appointed on a base salary of £990,000. No pay increase was awarded for April 2020. As previously noted, the pension cash value for the new Chairman is 12% in line with the new arrangements for all senior external hires from July 2019.

WHAT ABOUT RULE 63?

The Rule 63 calculation is based on basic pay earned during the reporting period. For the 2019/20 year, the highest paid Partner was the Chairman, Charlie Mayfield.

At the end of the reporting period, the Chairman's pay was 63 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 54 times the average total reward, based on the criteria set out above.

	2016	2017	2018	2019	**2020**
Rule 63: Basic Pay Only	73	70	68	66	63
Rule 63: Total Reward excluding Partnership Bonus	59	58	56	55	54

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

The table to the right 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 £5,362,000 (2018/19: £5,505,000).

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.

WHAT ARE THE ELECTED AND NON-EXECUTIVE DIRECTORS PAID?

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

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

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

Chairman's, Executive Directors' & Non-Executive Directors' pay

2019/20		2018/19
0	£1 – £50,000	1
2	£50,001 – £100,000	2
1	£100,001 – £150,000	2
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
1	£750,001 – £800,000	1
0	£800,001 – £850,000	0
0	£850,001 – £900,000	0
1	£900,001 – £950,000	1
2	£950,001 – £1,000,000	2
0	£1,000,001 – £1,050,000	0
0	£1,050,001 – £1,100,000	0
0	£1,100,001 – £1,150,000	0
0	£1,150,001 – £1,200,000	0
0	£1,200,001 – £1,250,000	0
0	£1,250,001 – £1,300,000	0
0	£1,300,001 – £1,350,000	0
0	£1,350,001 – £1,400,000	0
1	£1,400,001 – £1,450,000	1
8	**TOTAL**	**10**

Chairman's and Executive Directors' defined benefit pension entitlement

2019/20		2018/19
0	£1 – £50,000	0
2	£50,001 – £100,000	3
1	£100,001 – £150,000	1
1	£150,001 – £200,000	1
0	£200,001 – £250,000	0
0	£250,001 – £300,000	0
1	£300,001 – £350,000	1
5	**TOTAL**	**6**

The Partnership Board: Remuneration Committee report

PENSION ARRANGEMENTS

WHAT ARE THE PENSION ARRANGEMENTS FOR EXECUTIVE DIRECTORS?

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 broadly equivalent in value to the defined benefit pension that the individual would previously have accrued in the Partnership's pension scheme. As noted previously, the cash value of these supplements will decrease in the 2020/21 year.

WHAT IS THE PENSION SUPPLEMENT FOR EXECUTIVE DIRECTORS?

For 2019/20, the total pension supplement paid to the Chairman and Executive Directors was £1,021,000 (2019: £1,041,000).

WHAT IS THE DEFINED BENEFIT PENSION VALUE FOR EXECUTIVE DIRECTORS?

The table on the previous page shows the aggregate annual defined benefit pension entitlement from the age of 60 accrued at the end of the year, for the Chairman and Executive Directors who served on the Partnership Board during any part of the year.

The aggregate defined benefit pension entitlement accrued at the end of the year was £763,000 per annum for five individuals (2019: £838,000 per annum for six individuals).

The accrued pension for the Chairman and Executive Directors increases in line with either price inflation or future pay increases, depending on their individual arrangements.

Where there are any accrued defined benefit pensions remaining on an unfunded basis, the Partnership has made provision for the associated liability. In addition, three of the Directors are entitled to temporary pensions, until their state pension starts.

The aggregate entitlement to temporary pensions was £18,000 per annum for three individuals (2019: £18,000 per annum for three individuals). For those Directors where there was an increase, the transfer value of the aggregate increase in total accrued pension entitlement above consumer price inflation during the year was £nil (2019: £nil).

WHAT PENSION WILL THE CHAIRMAN RECEIVE?

Charlie Mayfield's aggregate defined benefit pension entitlement from the age of 60 accrued at the end of the year was £300,000 per annum (2019: £300,000 per annum).

APPOINTMENTS AND LEAVERS

PAYMENTS TO FORMER DIRECTORS

Rob Collins ceased to be a Director of the Partnership Board and Managing Director, Waitrose on 23 January 2020 and will leave the Partnership on 31 July 2020 after a period of long leave. In connection with leaving the Partnership, he will be paid £892,362 in respect of the balance of his notice period, redundancy pay and contributions towards his legal fees.

Paula Nickolds ceased to be a Director of the Partnership Board and Managing Director, John Lewis on 23 January 2020 and will leave the Partnership on 31 July 2020 after a period of long leave. In connection with leaving the Partnership, she will be paid £939,773 in respect of her notice period, estimated contributions towards her legal fees and the provision of outplacement support.

CONTRACTUAL NOTICE PERIODS FOR EXECUTIVE DIRECTORS

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

EXTERNAL APPOINTMENTS

An Executive Director with an external appointment may not retain any earnings from the appointment unless it dates from before they joined the Partnership. Details of external appointments for Executive Directors are included on page 62.

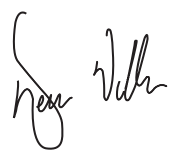
REPORTING REQUIREMENTS

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 78 and 79 is cross-referenced with note 2.8.3 of the financial statements and forms part of the audited financial statements.

On behalf of the Remuneration Committee.



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

PARTNERSHIP COUNCIL

> When you speak in our business you will be heard, what you say in this business carries power. Speak honestly, speak frequently and use the power of conversation to make a difference.

BÉRANGÈRE MICHEL
Partner & Executive Director, Customer Service

In 2019 we implemented those outcomes of the three governance reviews which aimed to ensure that the Independent Side of the Partnership, set up by Spedan Lewis, was effective in delivering its purpose.

One of the governance reviews, the Democracy Commission, made a number of recommendations for the development of Partnership Council. These included a new job description for Partnership Councillors and improvements in ways of working and access to information. Central to this reinvigoration is enhanced training and a more formal recognition of the time required for the role, with an appropriate budget set aside to cover the cost of absences from operational units.

The most significant upshot of the Commission's work was the Council's decision – in its 100th year – to select and appoint a full-time Partnership Council President for the first time, with the goal of reinvigorating democracy throughout the business and to ensure its relevance for decades to come. Chris Earnshaw took up the role in October 2019.

Further information on these changes is on pages 44 to 45.

NEW PARTNERSHIP COUNCIL PRESIDENT

Chris Earnshaw joined the John Lewis Partnership in 1998, on the management development programme. He has worked in various roles in John Lewis, including Head of Branch in Cardiff and Liverpool. For the last four years Chris has worked in Waitrose, most recently as Head of Shop Trade for the North and Channel Islands. Now, as President of Partnership Council, he will be responsible for both the running of the Council and also the democratic structures and formal expression of Partner opinion throughout the Partnership.

CHRIS EARNSHAW
Partnership Council President

As we mark 100 years of Council and democracy we must make the yesterday shape our today and tomorrow. We are a unique and special business – we are a better way of doing business. In an ever-changing world and society we must remain relevant for our Partners and our customers. This creates opportunities and we must always put the Partnership first, collectively and as individuals.

Even now, surrounded by uncertainty created by Coronavirus, we must be bold and ambitious. We need to use our model – democracy and voice – to work together for our business. What is the next new idea and how can it be created together? That is the gift we have and we must nurture it.

My ambition as your President is that we have a vibrant, responsive and adaptable approach that fits with our business. The power of conversation can unlock so much and we must continue to listen to each other. This will ensure the Partnership creates the conditions necessary for our distinctive co-ownership model to thrive – because it is a better way of doing business.

We are different: we give knowledge and power to our Partners. This is a core and valuable strength. This will further enable us to become a business that is thriving in a world of uncertainty. Democracy also plays a significant role in remaining relevant for our customers. Councillors and our democratic structures can help us understand what our customers need now and in the future. This excites me and fills me with real optimism and it should define our Purpose as a Partnership.

The move to the Future Partnership structure provides a once in a generation opportunity to reshape our democratic arrangements, including at Forum and at PartnerVoice levels. We envisage the Forums taking an even more central role in the way we hear Partner opinion in our operations and retail landscape whilst at a very local level we experiment with making PartnerVoice engagement more accessible, informal and more influential.

Partnership Council succeeds most when fully supported by the Chairman and the Partnership Board. This is crucial as we look ahead in what will continue to be a turbulent trading climate. We have all the responsibility to ensure that we pass on our Partnership to the next generation of Partners. We all want a thriving, healthy and sustainable Partnership. This should and must always be at the centre of our conversations. The Partnership can be and is a force for good. A force for good for our Partners, our customers and the communities that we trade within.

Our Governance

Partnership Council has had six meetings during 2019/20, rather than the usual four, as well as a briefing day in August and its conference in November. This additional time has been necessary to enable Councillors to deal effectively with two major pieces of business: the Pension Benefit Review, concluded with unanimous approval at the meeting in May; and the outcomes of the governance reviews, further work on which will be carried forward in 2020 through the Future Democracy programme.

As well as these major change initiatives, the Council has made significant recommendations in a number of areas where Partner opinion had been represented up through PartnerVoice and Forums, most noticeably around Partner personal safety and diversity and inclusion. The Council also agreed the necessary changes to the Constitution to effect the closure of Registry and the creation of the new Independent Side. At the same time, the Council has moved to establish the Presidency as a full-time role, with responsibility for both the Council itself and the supporting Democratic Engagement team. A further major change to the Constitution was a move to gender neutral language.

The most anticipated sessions of Council are usually when it holds the Chairman to account. As was the case in the previous two years, the key vote on the Chairman's leadership was held in May so that the Annual Report and Accounts, as well as the results of the Your Voice Principle One Survey, could be taken into account by Councillors when debating the proposal: "This Council welcomes the Chairman's Report for the year ended 26 January 2019 and supports his leadership and the continuing progress of the Partnership towards achieving Principle 1". This was the first year-end Holding to Account vote for this cohort of Councillors after their election in June 2018 and, unlike in the previous Council in 2017 and 2018, there was no call for a secret ballot. However, the number of Councillors voting against the proposal rose to 18 (2018: 15) even though the Council had reduced in size to 58 seats (2018: 65).

Council agreed that the second Holding to Account session of the year, following the half year results in September, would not include a formal vote given its proximity to Charlie Mayfield's departure. In 2018, the then new Council had given almost unanimous support to the Chairman, with just one abstention.

Directors are members of Partnership Council and regularly attend meetings. These information sharing opportunities enable Directors to develop an understanding of Partners' views and to act upon them.

During the year there have been 10 Partnership Council by-elections, with voting turnout ranging from 17% – 65%.

FOCUS GROUPS

Through its Focus Groups, Partnership Council is able to work in more detail on key areas of the Partnership's strategy and influence policy. The work of the Council and the Focus Groups is coordinated by a Steering Committee. The Focus Groups at the date of this report are: Finance Focus Group; Partner Focus Group; and Wellbeing & Financial Assistance Focus Group.

COUNCIL SIZE

58	**Elected Councillors**
8	**Automatic members – Directors of the Partnership Board**
1	**Appointed member – Partnership Secretary**
67	**Total**

Gender balance of Elected Councillors*

● Male	34
● Female	23

* As at year-end, excludes one vacant seat.

DIVISIONAL COUNCILS

The Divisional Councils closed in January 2020 after nearly two decades. Their final meetings celebrated all they had done to bring Partner opinion to bear on the shaping of their Divisions and they formally handed to Partnership Council responsibility for pursuing a number of live issues, including:

- Recognition, in particular recording the work of democratic representatives in their year-end performance conversations;
- The Partnership-wide digital strategy;
- Resourcing, including for the expansion of waitrose.com, at a time of high employment;
- Pay review policy and its application;
- Improvements in management behaviours and the expectations of an empowered leadership group;
- How the Partnership's two brands can work more closely together to enhance the customer proposition; and
- Partner diversity and inclusion.

PARTNER PERSONAL SAFETY

Following concerns raised by Councillors at their meeting in April, and further discussed in May, a full review of violence and aggression in Partnership shops was commissioned for the Council by the Chairman. The Council unanimously endorsed its recommendations in October. They covered three areas:

- Tone from the top – overarching sponsorship from the Executive and a zero tolerance approach;
- A proactive approach – to physical security risk assessments, capital investments, training, engagement with internal support services, physical controls and accident and near-miss reporting; and
- External leadership – local engagement to ensure a clear approach for supporting branch engagement with local crime reduction initiatives, Business Improvement Districts and local police forces; and national engagement at a senior level with retail industry initiatives.

DIVERSITY & INCLUSION

In 2019 some Councillors formed a sub-group to focus on Diversity & Inclusion and proposed a new vision statement which was accepted by the Chairman in November 2019. The Partnership aims to "Become the UK's most inclusive business – for our Partners and for our customers, reflecting and connecting with the diverse communities that we serve. We want people from all walks of life to feel valued for their individuality, thrive in our business and share a sense of belonging."

SHARING FINANCIAL INFORMATION

The Finance Focus Group continued to work with Patrick Lewis, Executive Director, Finance, and his team on how best to increase transparency within the business around our financial performance, and saw this work reflected in improved communication to Council and the wider Partner community on this, particularly in the half year and full year announcements. Councillors have also been developing relationships with areas of the business that provide insight into, and context for, our financial performance, including Strategy and Audit & Risk; and contributed to discussions on the content and format of this Annual Report and Accounts.

> Our work on Partner personal safety was a great demonstration of how Councillors can filter Partners' opinions and ask the Executive to commit to extra expenditure on an issue, to the benefit of every Partner.
>
> **LAUREN ANDERSON**
> Partnership Councillor, Partner & Team Manager

> I wish every Partner could see the influence that this small group of 'ordinary' Elected Councillors has on some of the most senior policy makers in the Partnership, helping to ensure that we truly are a social enterprise that puts people first. As a sounding board, we're good at making the right noises!
>
> **JULES RUSHWORTH**
> Partnership Councillor, Partner & Branch Manager

Our Governance

FINANCIAL ASSISTANCE AND WELLBEING

The Wellbeing & 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 following the closure of Registry now sits within the People profession, also assists with advice or signposting on budgeting and similar matters. Nevertheless, in 2019/20 the Focus Group agreed provision of support to 1,177 claims: 448 cases related to support for loss of income through illness (£296,340 awarded, of which £1,855 was offered in the form of a recoverable loan); 706 cases related to hardship (£585,597 awarded, of which £403,824 was offered in the form of a recoverable loan); and 23 cases were from Partners seeking assistance with long leave plans (£70,027 awarded, of which £63,027 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 also used to pay leaving gifts (to Partners with more than 10 years' service) and wedding gifts. These amounted to £572,105 in 2019/20.

Within its Wellbeing remit, the Focus Group identified three areas which it believes warrant further examination and action:

- The lack of recognition felt by Partners, and high levels of stress and pressure, concentrated particularly in retail managers at levels 7 to 9;
- Partners' financial concerns in general and the Benefits in Retirement policy; and
- The Partnership's management of long-term sickness absence, where Councillors will explore whether a more consistent and integrated approach can be achieved.

COUNCIL'S POWERS

The Council has three vital decision-making powers:

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

PARTNERVOICE

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

Partners are able to influence business decisions at all levels of the Partnership through the democratic structure and representative bodies that are set out in our Constitution. PartnerVoice representatives collect Partner views and represent them through regular meetings with their senior leaders. These representatives ensure that, where possible, Partner views are reflected in local decisions and business plans.

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

DEMOCRATIC VITALITY

KNOWLEDGE

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

JOURNALISM

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

PARTNER IDEAS

Partner Ideas is an online platform available to all Partners through which they can submit and share ideas, as well as vote and comment on other Partners' ideas. Many ideas are submitted by Partners based on their experience of Partnership systems or processes, but any Partner can submit an idea on any open subject. The platform allows Partners to have conversations with and ask questions directly of decision makers, and find out what is happening in our business.

Any idea is welcomed, and since the platform was first introduced in 2015 Partners have submitted nearly 5,000 ideas. The platform can be accessed from both work and personal devices through a website or via an app. All ideas are reviewed over five weeks and feedback, and a decision on whether the idea merits further development, is given to the idea creator. Successful ideas are awarded a bonus, paid directly into the Partner's pay.

In February 2020, the Partner Ideas platform won the Technology for Employee Engagement category in the 2020 Peer Award for Excellence in People and Performance.

FUTURE DEMOCRACY

To support the changes to the business introduced by Future Partnership, a distinct programme of work called Future Democracy has been established.

It aims to ensure that Partners feel able to speak honestly, speak frequently and use the power of conversation to make a difference. Underpinning this is an intent that the Partnership creates the conditions necessary for our distinctive co-ownership model to thrive, with a specific focus on enabling a vibrant democratic voice.

The programme is sponsored by Chris Earnshaw, President of the Partnership Council, and is focusing on:
- Operational democracy and how we run the formal elements of democracy;
- Supporting our leaders to bring democratic vitality to their teams; and
- The education of all Partners on the importance of acting as a co-owner and how they can do this as part of the Partner lifecycle.

During the past year, the Programme has been seeking Partner input via workshops as well as through conversations at Forums and Partnership Council, and it will continue with this during 2020. Our future industrial democracy, and its citizens, will be central to our continuing success.

> "We know that the Partnership was established as an experiment by John Spedan Lewis. Any democracy places responsibilities upon its citizens, as well as bestowing them with rights, and our industrial democracy is no different. And in the Partnership as in broader society, changes over time – increasingly relating to technology but also affecting trust and social values – have driven new expectations of us all, and especially our leaders.

CHRIS EARNSHAW
Partner & President of Partnership Council

Our Governance

DIRECTORS' REPORT

PETER SIMPSON
Partner & Company Secretary
John Lewis Partnership

The Directors' report for John Lewis Partnership plc ('the Partnership' or 'the Company') for the year ended 25 January 2020 comprises pages 52 to 89 of this Annual Report and Accounts, together with the sections of the Annual Report and Accounts incorporated by reference. The Company has chosen, as permitted under section 414C(11) of the Companies Act 2006, to include certain matters in its Group Strategic Report that would otherwise be required to be disclosed in the Directors' report as the Partnership Board considers them to be of strategic importance.

Specifically, these are:

FUTURE BUSINESS DEVELOPMENTS	PAGES 8 TO 9 AND 28 TO 29
RISK MANAGEMENT	PAGES 46 TO 51
EMPLOYEE ENGAGEMENT	PAGES 12 TO 13 AND 34 TO 39, AS WELL AS PAGES 81 TO 85
ENGAGEMENT WITH SUPPLIERS, CUSTOMERS AND OTHERS	PAGES 18 TO 25 AND 30 TO 33
EQUAL OPPORTUNITIES, DIVERSITY AND INCLUSION	PAGES 36 TO 37, AS WELL AS PAGES 74 AND 88
RESEARCH AND DEVELOPMENT	PAGES 28 TO 45

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 Strategic Report on pages 14 to 17.

The Partnership's statements on corporate governance can be found in the Governance section of this Annual Report and Accounts on pages 52 to 89. This includes the Audit and Risk Committee report, the Nominations Committee report and the Remuneration Committee report.

For more detail on the progress the Partnership is making with its ethics and sustainability aims and for the latest Modern Slavery Statement, please visit www.johnlewispartnership.co.uk/csr

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

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IN THIS SECTION
Directors' report
The Directors' report is a document produced by the Board of Directors under the requirements of UK company law. It details the state of the company and its compliance with applicable financial, accounting and corporate social responsibility regulations.

THE 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 52 to 89. 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 our model.

Our 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 our Founder, John Spedan Lewis put at the core of our model over 100 years ago.

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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). A new edition of the Code was published in July 2018 and became mandatory for accounting periods starting on or after 1 January 2019. 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 Waitrose and John Lewis businesses: John Lewis operates in a number of different formats including John Lewis department stores, John Lewis at home stores, online (johnlewis.com), home and other 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 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, 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 certain other subsidiaries.

Any conflicts of interest are disclosed in this report and details of the Directors' service agreements and notice periods are given on pages 62 and 80.

CAPITAL STRUCTURE

At 25 January 2020, the Partnership had in issue 612,000 deferred ordinary shares of £1 each and 104,169,594 SIP shares of £1 each. Under the Constitution, the 612,000 deferred ordinary shares in John Lewis Partnership plc are held in Trust for the benefit of employees of John Lewis plc and certain other subsidiaries within the Partnership. The total issued share capital of the Partnership was £104,781,594 at the year-end (2019: £104,781,594).

DIVIDENDS

No dividends were paid on the deferred ordinary shares (2019: £nil). John Lewis Partnership Trust Limited (the Trust Company) holds 612,000 deferred ordinary shares in Trust for the benefit of employees of John Lewis plc and certain other subsidiaries. Each year, the Partnership resolves not to recommend or declare a dividend upon the deferred ordinary shares, but to recommend the payment of Partnership Bonus to their eligible employees.

Dividends on SIP shares (issued in connection with BonusSave) during the year under review were £299,000 (2019: £344,000).

BONUSSAVE

Our success depends on the collaboration and contribution of our Partners who, in return, receive a share of profits in the form of Partnership Bonus. Partners benefit from Employee Ownership tax relief, which allows them to receive the first £3,600 of their Partnership Bonus free of Income Tax. National Insurance Contributions (NICs) however are still due.

The Partnership operates BonusSave, a Share Incentive Plan (the Plan), which is available to all eligible Partners in the UK and has been approved by HMRC. On the announcement of the annual results, eligible Partners are invited to enter into a savings contract under the Plan to save up to a maximum of £5,400 in any one year from Partnership Bonus. The Plan allows for the investment made by a Partner to be held in shares in the Partnership, in a class created specifically for this purpose known as SIP shares. It enables participating Partners to save Income Tax and NICs when the funds are invested for five years.

Also, participating Partners are paid a cash dividend for every full year the investment remains in the plan. Details of SIP shares can be found in note 5.5 to the consolidated financial statements.

The SIP shares do not carry voting rights, cannot be sold or transferred out of the Partnership and are, at all times, held in Trust for the benefit of the respective Partners in the name of the Trust Company.

CONFLICTS OF INTEREST AND BOARD INDEPENDENCE

The Partnership Board has determined that the composition of the Board provides a balanced leadership, appropriate for an employee-owned business. Elected Directors and Non-Executive Directors together form a majority of the Partnership Board.

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

The Partnership Board has looked closely at the other appointments held by Directors, details of which are contained in their biographies on page 62. The Partnership Board considers that the Chairman and each of the Directors are able to devote sufficient time to fulfil the duties required of them under the terms of their contracts or letters of appointment.

During the year no Director declared a material interest in any contract of significance with the Partnership or any of its subsidiary undertakings, other than any third party indemnity between each Director and the Company, as granted in accordance with the Company's Articles of Association and service contracts between each Executive Director and the Company.

STREAMLINED ENERGY AND CARBON REPORTING

The Partnership is committed to reducing the energy consumption and the carbon impact of our operations. This requires significant investment in new technologies and behaviour change. Last year we announced our target of net zero operational carbon emissions across the organisation by 2050. We are doing this by moving to renewable energy sources across our organisation. Where we cannot remove the use of carbon from our operations, for example our livestock, we will generate additional renewable energy and/or capture carbon to bring us to net zero. In support of this, we have also committed to reducing our absolute energy use by 25% in 10 years from a 2018 baseline.

We recognise that a large amount of emissions are produced by associated companies that work with us as part of our value chain, such as suppliers, and downstream activity including customer travel to our branches and the use of purchased products. We measure these emissions across a number of categories and are looking to increase the level of data we collect and analyse in 2020. This will focus our attention on where we have a significant impact and enable us to put a strategy and targets in place to reduce emissions.

Our Governance

BE YOURSELF. ALWAYS

Further information, including the Partnership gender and ethnicity pay gaps, as well as data on age, health and wellbeing, is available in the Be Yourself. Always report published in January 2020.

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, i.e. where the Partnership operates the facility or asset. Data has been calculated using BEIS 2019 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.

KPMG LLP has issued an unqualified opinion over the selected data highlighted in this table with an asterisk (*) using the assurance standards ISAE 3000 and ISAE 3410. KPMG'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

Global GHG emissions data[1]	2019	2018
Scope 1 (tonnes CO_2e)[2]		
Combustion of fuel and operation of facilities, refrigeration	*156,755	168,029
Scope 2 (tonnes CO_2e)[3]		
Electricity purchased and heat and steam generated for own use		
– Location-based	*160,018	182,978
– Market-based	*8,121	7,352
Scope 3 (tonnes CO_2e)[4]		
Water, business travel, waste to landfill and transmission and distribution losses from purchased electricity	40,478	44,373
Intensity measurement (tonnes CO_2e per £m sales)		
– Location-based	30.9	34.2
– Market-based	17.7	19.0

Energy usage	2019	2018
Partnership energy consumption		
Total energy consumed (gas and electricity) (kWh)	905,831	935,059
Partnership electricity renewable %		
Total electricity which is renewable %	97.3%	97.8%

1 Figures presented are for each approximate calendar year.
2 Scope 1: Emissions associated with our direct activities, such as heating our shops and offices and running our fleet of trucks, our agricultural emissions and company cars.
3 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.
4 Scope 3: Emissions from our indirect activities under our operational control or operational influences, e.g. business travel that isn't in company-owned cars.

ENERGY EFFICIENCY

This year the Partnership has significantly invested in energy efficiency measures within our estate which have delivered significant savings against our energy target. Major projects include:

- An LED upgrade programme in 8 John Lewis shops and 50 Waitrose shops;
- Shelf edge EcoBlade™ rollout across 273 Waitrose shops which has already improved overall refrigeration efficiency by reducing cold air spillage and is expected to save 11,000 MWh of electricity;
- Pioneering of a new concept called 'Air Door' which lessens hot and cold air infiltration into a building, which reduces refrigeration, heating and cooling energy consumption;
- New Water-Cooled Next Generation Refrigeration has been installed in 12 branches which has improved associated energy consumption on average by 20%; and
- Building Energy Management Systems, sub-metering and remote control capacity has been installed into 40 John Lewis branches. We are also investing in our Heating, Ventilation and Air Cooling system efficiency which has provided significant savings.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Partnership has purchased and maintained throughout the year Directors' and Officers' liability insurance in respect of itself and its Directors. The Directors' and Officers' liability insurance provides cover for claims made, subject to certain limitations and exclusions, against Directors and key managers (Officers).

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

EQUAL OPPORTUNITIES, DIVERSITY AND INCLUSION

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

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

Rule 54	The Partnership takes no account of age, sex, marital status, sexual orientation, ethnic origin, social position or religious or political views.
Rule 55	The Partnership employs disabled people in suitable vacancies and offers them appropriate training and careers.

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

For further information please see page 37 in the Strategic Report and the Nominations Committee report on pages 72 to 74 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 70 to 71 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 135 onwards, include further information on our use of financial instruments.

RETIREMENT BY ROTATION

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

If Partnership Council judges that the Chairman has failed to fulfil, or is no longer a suitable person to fulfil, the responsibilities of 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.

The Chairman, as the senior executive in the Partnership, is ultimately responsible for its commercial performance, including being responsible for the performance of the Directors, and is accountable to Partnership Council (see pages 52 to 62). These meetings are also attended by Partnership Board Directors.

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 94 to 95 for further detail, in particular the assessment by the Directors of the impact on the Partnership of the Coronavirus 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 51.

VIABILITY STATEMENT

The Directors have assessed the prospects of the Company over a three-year period to January 2023. This has taken into account the business model, strategic aims, risk appetite, and principal risks and uncertainties, along with the Company's current financial position. Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period under review. See page 51 for the Partnership's full viability statement.

EVENTS AFTER THE BALANCE SHEET DATE

Since 25 January 2020, 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)

It is anticipated that the Partnership's AGM will be held on 16 July 2020 at 171 Victoria Street, London, SW1E 5NN. The AGM is held and conducted in accordance with the Companies Act and the Company's Articles of Association. Representatives of the Trust Company and the Directors of the Partnership are entitled to attend the AGM. Voting is conducted by way of a show of hands, unless a poll is demanded.

The Directors' report was approved by the Partnership Board and signed on its behalf by.

PETER SIMPSON
Partner & Company Secretary
John Lewis Partnership plc
15 April 2020

Consolidated income statement

For the year ended 25 January 2020

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

Notes		2020[1] £m	2019 £m
1.2, 2.1	**Gross sales**	11,544.8	11,724.1
2.1, 2.2	**Revenue**	10,151.3	10,316.7
	Cost of sales	(6,789.2)	(6,931.0)
	Gross profit	3,362.1	3,385.7
2.3	Other operating income	125.1	112.1
2.4	Operating expenses before exceptional items and Partnership Bonus	(3,255.5)	(3,270.1)
3.3	Share of loss of joint venture (net of tax)	(0.2)	(0.7)
2.1	**Operating profit before exceptional items and Partnership Bonus**	231.5	227.0
2.5	Exceptional items	107.4	2.1
2.1	**Operating profit before Partnership Bonus**	338.9	229.1
5.1	Finance costs	(175.3)	(80.6)
5.1	Finance income	13.7	13.6
	Profit before Partnership Bonus and tax	177.3	162.1
	Partnership Bonus	(30.9)	(44.7)
2.6	**Profit before tax**	146.4	117.4
2.9	Taxation	(38.0)	(40.1)
	Profit for the year	108.4	77.3
2.1	**Profit before Partnership Bonus, tax, exceptional items and IFRS 16**	122.6	160.0

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 (see note 1.1.4).

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

Consolidated statement of comprehensive income

For the year ended 25 January 2020

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

Notes		2020 £m	2019 £m
	Profit for the year	108.4	77.3
	Other comprehensive (expense)/income:		
	Items that will not be reclassified to profit or loss:		
6.1	Remeasurement of defined benefit pension scheme	(193.6)	272.7
2.9	Movement in deferred tax on pension scheme	30.4	(55.3)
2.9	Movement in current tax on pension scheme	2.5	7.1
	Items that may be reclassified subsequently to profit or loss:		
	Fair value (loss)/gain on cash flow hedges	(8.7)	21.8
2.9	Movement in deferred tax on cash flow hedges	3.2	(4.1)
	Gain on foreign currency translations	0.3	0.2
	Other comprehensive (expense)/income for the year	(165.9)	242.4
	Total comprehensive (expense)/income for the year	(57.5)	319.7

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

Consolidated balance sheet

As at 25 January 2020

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

Notes		2020[1] £m	2019 £m
	Non-current assets		
3.1	Intangible assets and goodwill	495.5	512.1
3.2	Property, plant and equipment	3,535.4	3,809.7
3.2	Right-of-use-assets	1,854.9	–
4.2	Trade and other receivables	16.5	58.4
7.2	Derivative financial instruments	0.1	0.2
3.3	Investment in and loans to joint venture	2.5	2.7
2.9	Deferred tax asset	0.2	–
		5,905.1	4,383.1
	Current assets		
4.1	Inventories	612.9	657.6
4.2	Trade and other receivables	260.9	259.3
7.2	Derivative financial instruments	4.8	6.8
3.4	Assets held for sale	1.5	23.1
5.3	Short-term investments	317.2	265.4
5.4	Cash and cash equivalents	598.3	716.8
		1,795.6	1,929.0
	Total assets	7,700.7	6,312.1
	Current liabilities		
5.5	Borrowings and overdrafts	(43.1)	(331.2)
4.3	Trade and other payables	(1,513.9)	(1,595.7)
	Current tax payable	(9.8)	(8.7)
5.2, 5.6	Lease liabilities	(95.4)	(0.5)
4.4	Provisions	(108.6)	(112.3)
7.2	Derivative financial instruments	(18.7)	(7.5)
		(1,789.5)	(2,055.9)
	Non-current liabilities		
5.5	Borrowings	(719.5)	(716.0)
4.3	Trade and other payables	(46.8)	(258.6)
5.2, 5.6	Lease liabilities	(1,999.5)	(20.6)
4.4	Provisions	(144.9)	(134.7)
7.2	Derivative financial instruments	(3.9)	(2.0)
6.1	Retirement benefit obligations	(417.4)	(468.1)
2.9	Deferred tax liability	(20.4)	(36.2)
		(3,352.4)	(1,636.2)
	Total liabilities	(5,141.9)	(3,692.1)
	Net assets	2,558.8	2,620.0
	Equity		
8.1	Share capital	0.6	0.6
	Other reserves	(7.8)	5.9
	Retained earnings	2,566.0	2,613.5
	Total equity	2,558.8	2,620.0

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 (see note 1.1.4).

The financial statements on pages 90 to 141 were approved by the Board of Directors on 15 April 2020 and signed on its behalf by Sharon White and Patrick Lewis, Directors, John Lewis Partnership plc.

SHARON WHITE AND PATRICK LEWIS
Directors, John Lewis Partnership plc
Registered number 00238937

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

Consolidated statement of changes in equity

For the year ended 25 January 2020

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 27 January 2018	0.6	5.0	1.4	(16.9)	(0.1)	2,311.7	2,301.7
	Profit for the year	–	–	–	–	–	77.3	77.3
6.1	Remeasurement of defined benefit pension scheme	–	–	–	–	–	272.7	272.7
	Fair value gains on cash flow hedges	–	–	–	21.8	–	–	21.8
2.9	Tax on above items recognised in equity	–	–	–	(4.1)	–	(48.2)	(52.3)
	Gain on foreign currency translations	–	–	–	–	0.2	–	0.2
	Total comprehensive income for the year	–	–	–	17.7	0.2	301.8	319.7
	Hedging gains transferred to cost of inventory	–	–	–	(1.4)	–	–	(1.4)
	Balance at 26 January 2019	0.6	5.0	1.4	(0.6)	0.1	2,613.5	2,620.0
	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

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 (see note 1.1.4).

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

Consolidated statement of cash flows

For the year ended 25 January 2020

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

Notes		2020[1] £m	2019 £m
2.7	**Cash generated from operations before Partnership Bonus**	713.4	610.8
	Net taxation paid	(17.2)	(33.9)
	Pension deficit reduction payments	(12.8)	(37.1)
	Finance costs paid	(109.0)	(1.8)
	Net cash generated from operating activities before Partnership Bonus	574.4	538.0
	Partnership Bonus paid	(45.8)	(74.9)
5.5	Net cash flow in relation to Share Incentive Plan shares	(14.4)	(15.4)
	Net cash generated from operating activities after Partnership Bonus	514.2	447.7
	Cash flows from investing activities		
	Purchase of property, plant and equipment	(191.5)	(143.9)
	Purchase of intangible assets	(146.7)	(166.2)
	Proceeds from sale of property, plant and equipment and intangible assets	174.9	13.6
	Finance income received	4.9	2.4
3.3	Cash outflow from investment in and loans to joint venture	–	(0.5)
5.2	Cash outflow from short-term investments	(51.4)	(99.0)
	Cash outflow from acquisition of trade and assets	–	(1.0)
	Net cash used in investing activities	(209.8)	(394.6)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	(54.2)	(54.2)
	Finance costs paid in respect of financial instruments	(0.7)	(0.5)
	Payment of capital element of leases	(92.7)	(1.7)
5.5	Payments to Share Incentive Plan shareholders	(0.3)	(0.4)
	Cash (outflow)/inflow from borrowings	(275.0)	124.4
	Net cash (used in)/generated from financing activities	(422.9)	67.6
	(Decrease)/increase in net cash and cash equivalents	(118.5)	120.7
5.2	Net cash and cash equivalents at beginning of the year	716.8	596.1
	Net cash and cash equivalents at end of the year	598.3	716.8
5.4	**Net cash and cash equivalents comprise:**		
	Cash at bank and in hand	151.2	128.2
	Short-term deposits	447.1	588.6
		598.3	716.8

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 (see note 1.1.4).

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

Notes to the consolidated financial statements

READING THE NOTES
In order to make our notes more user-friendly and understandable, we have grouped them under eight headings and provided additional explanations.

PURPOSE
These boxes explain the purpose of each note.

ACCOUNTING POLICIES
These boxes contain information about our accounting policies.

1 ACCOUNTING INFORMATION

IN THIS SECTION

In this section, we explain the basis of preparation of the Partnership's consolidated financial statements and accounting policies which relate to the financial statements as a whole. Where an accounting policy or critical accounting estimate and judgement is specific to a particular note, it is described within that note.

This section also details new or amended accounting standards and when they are effective. We also give an explanation of the impact these accounting standards have had, or the current view of the impact they will have, on the Partnership's consolidated financial statements.

1.1 ACCOUNTING PRINCIPLES AND POLICIES

PURPOSE

We prepare our financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. We have set out our significant accounting policies in these notes. These have been applied in the current reporting period and apply to the financial statements as a whole. All of the Partnership's accounting policies are set in line with the requirements of IFRS.

This is the first set of the Partnership's consolidated financial statements in which IFRS 16 'Leases' has been adopted. The modified retrospective approach was applied on transition and therefore comparative information is not restated. The cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application, 27 January 2019.

Changes to significant accounting policies are described in note 1.1.4.

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

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

The financial year is the 52 weeks ended 25 January 2020 (prior year: 52 weeks ended 26 January 2019).

Going concern
In determining the appropriate basis of preparation of the financial statements for the year ended 25 January 2020, the Directors are required to consider whether the Partnership can continue in operational existence for the foreseeable future. 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 Coronavirus pandemic in the UK, for the reasons set out below.

As at 25 January 2020, the Partnership had total assets less current liabilities of £5,911m and net assets of £2,559m. Liquidity as at that date was £1.4bn, made up of cash and cash equivalents, short-term investments and undrawn committed credit facilities of £500m. Despite the Partnership's position at the end of the financial year, it is now clear that the increasing effects of Coronavirus will result in a material reduction in our expectations for revenue and profit for the next financial period ending 30 January 2021. In particular, across John Lewis, mainly due to the decrease in footfall in February and March 2020 followed by the closure of our branches from 24 March 2020, given the government's existing advice in respect of the requirement of the UK population to self-isolate.

Waitrose, on the other hand, has seen no adverse impact with an increase in sales above our budget and business plan ('Plan') as a result of increased grocery spend. Both Waitrose stores and its online activities continue to operate given that they have been designated by the UK government as part of an 'essential industry'. Nevertheless, the full impact of the Coronavirus outbreak is unknown at this time and is unpredictable, and our key priority is the health and wellbeing of our Partners and customers, while we maintain our high standards of service.

Accordingly, the Directors have reviewed the rapidly evolving situation relating to Coronavirus and have modelled a series of 'downside case' scenarios that cover the period to 29 January 2022. These downside cases represent increasingly severe but plausible scenarios and include assumptions relating to the estimates of the impact of:
- the closure of John Lewis stores for a period of 12 weeks with continuing online activities, followed by reduced store and online trading of 33% against Plan for the remainder of the year; and
- the closure of John Lewis stores and cessation of online activities for a period of 24 weeks in the event that government advice in respect of self-isolation and social distancing was extended for a further period of time, followed by reduced store and online trading of up to 45% against Plan for the remainder of the year.

Under both scenarios, it is assumed that:
- Waitrose remains operational in stores and online to a level of activity consistent with prior years notwithstanding that current levels of activity both in store and online are significantly ahead of last year. This is to ensure that the wider economic challenges of the virus over this period and beyond have been taken into consideration in the downside case modelling; and
- there is a £200m cash outflow in respect of working capital and other risks in the business.

These downside cases, whilst being considered by the Directors to be extremely prudent, have a significant adverse impact on sales, margin and cash flow. In response, the Directors have taken immediate and significant actions, all within management's control, to reduce costs and optimise the Partnership's cash flow and liquidity. Amongst these are the following mitigating actions: reducing capital and investment expenditure through postponing or pausing projects and change activity; deferring or cancelling discretionary spend; freezing non-essential recruitment and reducing marketing spend; and reducing the supply pipeline in general merchandise to reflect the impact of our temporary shop closures. In the most severe downside, Scenario B, this includes mitigations within the control of the Partnership covering the period to 29 January 2022 totalling £1.7bn.

The Partnership has £1.5bn in total liquidity available, at the date of approval of these financial statements, with £500m consisting of undrawn committed credit facilities of which £50m expires in March 2021 and the remaining £450m expires in November 2021. The Partnership has no other debt or facilities that mature prior to the £75m term loan that matures in November 2021 (see note 5.5). The Partnership's committed facilities contain one financial performance covenant, which is a profit based covenant ('Fixed Charge Cover').

The severe downside scenarios modelled by management indicate that the Fixed Charge Cover covenant relating to the undrawn committed credit facilities would breach due to the temporary reduction in profits. However, whilst the scenario indicates a breach, the same scenario indicates that post mitigating actions, the cash low point under such a scenario would be £400m and the facilities would remain undrawn. The Partnership would prefer to retain the option to utilise its facilities, therefore, covenant compliance will 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.

The Directors have assessed the Partnership's financial commitments and consider that, in the event of such a breach, in all downside cases, after taking into account cash generated from operations and existing facilities (but excluding the undrawn committed credit facilities), the business would have sufficient liquidity to continue to operate and to discharge its liabilities as they fall due.

The most severe downside, Scenario B as 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 year 1 performance as a result of Coronavirus and reduced trading performance across both brands for year 2, resulting in a pre-mitigation cash reduction against Plan in excess of £1.7bn. In order for the mitigations described above to be insufficient to maintain liquidity and covenant headroom, a further unbudgeted cost of £0.4bn would need to be incurred in 2020/21. Unprecedented uncertainty exists in respect of the potential impact of Coronavirus in 2020/21. We have made our assessment based on our best view of the severe but plausible downside scenarios 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 Scenario B) 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.

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

1.1.2 BASIS OF CONSOLIDATION
The 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 25 January 2020. 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
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 25 January 2020. 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 is liable in respect of those liabilities.

1.1.4 AMENDMENTS TO ACCOUNTING STANDARDS AND CHANGES FROM PRIOR YEAR
The following policies have been consistently applied to all the years presented unless otherwise stated.

The following policy was adopted by the Partnership for the year ended 25 January 2020, and has had a significant impact on the Partnership's profit for the year, equity and disclosures:

Notes to the consolidated financial statements — continued

1.1 ACCOUNTING PRINCIPLES AND POLICIES CONTINUED
1.1.4 AMENDMENTS TO ACCOUNTING STANDARDS AND CHANGES FROM PRIOR YEAR CONTINUED

IFRS 16 'Leases' (applicable for the period beginning 27 January 2019).

IFRS 16 'Leases' specifies how to recognise, measure, present and disclose leases and replaces IAS 17 'Leases'. The Partnership has adopted IFRS 16 from 27 January 2019 using a modified retrospective transition approach, under which the cumulative effect of initial application is recognised in retained earnings at 27 January 2019. The comparative information presented for the year ended 26 January 2019 has not been restated and therefore continues to be shown under IAS 17.

The main impact of IFRS 16 for the Partnership is the recognition of all future lease liabilities on the balance sheet. Corresponding right-of-use assets have also been recognised on the balance sheet representing the economic benefits of the Partnership's right to use the underlying leased assets. The Partnership's activities as a lessor are not material and therefore the Partnership has not recognised any changes to lessor accounting on transition to IFRS 16.

Definition of a lease

Previously the Partnership determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 'Determining Whether an Arrangement Contains a Lease'. The Partnership now assesses whether a contract is or contains a lease based on the new definition of a lease, as explained in note 5.6.

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.

Exemptions on transition to IFRS 16

On transition to IFRS 16, the Partnership has elected to apply the following practical expedients permitted by the standard:
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Excluding initial direct costs from measuring the right-of-use assets at the transition date;
- Using hindsight when determining the lease term where the contract contains options to break or renew; and
- For leases determined to be onerous before the transition date, relying on this assessment as an indicator of impairment as an alternative to performing an impairment review.

On transition to IFRS 16, the Partnership did not elect to grandfather the assessment of which contracts are leases.

IAS 17 – Operating leases

For all periods prior to 27 January 2019, the Partnership classified the majority of its property leases as operating leases under IAS 17. Operating lease rental payments were recognised as an expense in the income statement on a straight-line basis over the lease term.

On transition to IFRS 16, the lease liabilities recognised were measured at the present value of the remaining lease payments, discounted using the Partnership's incremental borrowing rate at 27 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities at 27 January 2019 was 5.1%.

IAS 17 – Finance leases

For all periods prior to 27 January 2019, the Partnership classified its vehicle and equipment leases as finance leases under IAS 17. These leases are on terms that transfer to the Partnership substantially all the risks and rewards of ownership. The accounting treatment for finance leases under IAS 17 is similar to the accounting treatment for leases under IFRS 16. Leased assets are capitalised at inception at fair value or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The interest element of the finance lease rentals is charged to the income statement and the capitalised leased assets are depreciated over the shorter of the estimated useful economic life of the asset or the lease term.

For finance leases, the carrying amounts of the right-of-use assets and the lease liabilities on transition at 27 January 2019 were equal to the carrying amounts of the finance lease assets and finance lease liabilities recognised at the 26 January 2019 year-end under IAS 17.

The Partnership also previously held finance leases in relation to the building elements of a small number of long leasehold property leases. The land elements of these leases remained classified as operating leases under IAS 17. Under IFRS 16, there is no longer a distinction between operating and finance leases. As a result, these property leases have been remeasured on transition to account for the land and building elements as part of the same lease, with future lease payments discounted at the incremental borrowing rate applicable on 27 January 2019. The existing finance lease assets and finance lease liabilities in relation to these property leases have been written off to reserves on transition. The following table presents the reconciliation of lease liabilities at 27 January 2019:

	£m
Minimum lease payments under non-cancellable operating leases at 26 January 2019	3,666.0
Minimum lease payments under non-cancellable finance leases at 26 January 2019	36.5
Discounted using the incremental borrowing rate at 27 January 2019	2,090.1
Assessment of lease term on transition	5.5
Leases recognised under IFRS 16, previously not identified as leases under IAS 17	3.5
Lease liabilities recognised at 27 January 2019	2,099.1

Transition

The opening balance sheet position as at 27 January 2019 has been restated on transition to IFRS 16. The Partnership recognised additional right-of-use assets, lease liabilities and deferred tax liabilities as well as a reduction in prepayments, deferred income, provisions and property, plant and equipment (including finance lease assets and the corresponding liabilities), recognising the difference in retained earnings. Comparative periods have not been restated.

	£m
Assets:	Increase/(decrease)
Property, plant and equipment	(10.0)
Right-of-use assets	1,943.0
Prepayments	(70.5)
Liabilities:	(Increase)/decrease
Lease liabilities – current	(87.7)
Lease liabilities – non-current	(2,011.4)
Finance lease liabilities – current	0.5
Finance lease liabilities – non-current	20.6
Deferred income – current	58.6
Deferred income – non-current	158.7
Deferred tax liabilities	(1.0)
Provisions	4.0
Equity:	(Increase)/decrease
Retained earnings	(4.8)

The following standards, amendments and interpretations were applicable for the period beginning 27 January 2019, and were adopted by the Partnership for the year ended 25 January 2020. They have not had a significant impact on the Partnership's profit for the year, equity or disclosures:
- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- IFRIC 23: Uncertainty over Income Tax Treatments
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Annual Improvements to IFRS Standards 2015-2017 Cycle

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 26 January 2020 onwards, which the Partnership has not adopted early:
- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

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

The Partnership is also currently assessing the impact of the following new standard, which has been issued and is awaiting endorsement by the European Union:
- IFRS 17: Insurance Contracts (applicable for the period beginning 31 January 2021)

1.1.5 SIGNIFICANT ACCOUNTING POLICIES

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

Financial instruments

The Partnership uses derivative financial instruments to manage its exposure to fluctuations in financial markets, including foreign exchange rates, interest rates and certain commodity prices. Derivative financial instruments used by the Partnership include forward currency and commodity contracts, interest rate swaps and foreign exchange options.

Derivative financial instruments are initially measured at fair value. The fair value of a derivative financial instrument represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the forward rates of exchange and interest rates prevailing at the balance sheet date. Subsequent to initial recognition, unless designated as hedging instruments, derivatives are measured at fair value and any gains or losses arising from changes in fair value are taken directly to the income statement.

Hedge accounting has been adopted for derivative financial instruments where possible. At inception of designated hedging relationships, the risk management objective and strategy for undertaking the hedge is documented. Additionally, the Partnership documents the economic relationship between the item being hedged and the hedging instrument, and a qualitative and forward-looking approach is taken to assessing whether the hedge will be effective on an ongoing basis. At the end of each financial reporting period, for each derivative financial instrument, prospective testing is performed to ensure that the economic relationship remains; the impact of credit risk on changes in values is reviewed; and the hedging ratio is reassessed.

Hedge accounting is discontinued when the hedging instrument matures, is terminated or exercised, the designation is revoked or it no longer qualifies for hedge accounting.

A cash flow hedge is a hedge of the exposure to variability of cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction. The effective portion of changes in the intrinsic fair value of derivatives that are designated and qualify as cash flow hedges 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.

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.

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 158 to 163.

1.2.1 GROSS SALES
Gross sales represents the amount receivable by the Partnership for goods and services supplied to customers. Gross sales includes the sale of stock purchased on a sale or return basis, VAT and adjustments for expected customer returns. Gross sales is net of any discount offered and revenue deferred in respect of free service guarantees. This measure shows the headline sales trend.

1.2.2 EXCEPTIONAL ITEMS
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.

For details of our exceptional items see note 2.5.

1.2.3 PROFIT BEFORE PARTNERSHIP BONUS AND TAX
Profit before Partnership Bonus and tax is presented as a separate financial statement caption within the consolidated income statement. This measure provides further information on the Partnership's underlying profitability, and is a core measure of performance for Partners.

1.2.4 NET DEBT
Net debt incorporates the Partnership's consolidated borrowings, bank overdrafts, fair value of derivative financial instruments and 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 25 January 2020. Information is provided on segmental performance, revenue, other operating income, operating expenses, exceptional items, Partner-related costs and taxation. This section also includes a reconciliation of our profit before tax to the cash generated from operations before Partnership Bonus, which shows how our performance translates into cash.

2.1 SEGMENTAL REPORTING

PURPOSE

During the year we analysed our performance between our three reporting segments. These are Waitrose, John Lewis and Group. This analysis is consistent with how our Partnership Board reviewed performance throughout the year.

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

ACCOUNTING POLICIES

Segmental reporting: The Partnership's reporting segments are determined based on business activities for which operating results are reviewed by the chief operating decision maker (CODM). The Partnership's CODM is the Partnership Board and the reporting segments reflect the management structure of the Partnership.

Partnership Bonus: The Partnership Bonus is announced and paid to Partners each March and is determined in relation to the performance for the previous financial year. No liability is recorded for Partnership Bonus at the half year as the majority of the Partnership's profit and cash flows are earned in the second half of the year. Consequently, it is not possible to make a reliable estimate of the liability until the annual profit is known.

A liability for the Partnership Bonus is included in the year-end accounts, with the amount confirmed by the Partnership Board shortly after the year-end.

It is recorded in the year it relates to rather than the year it was declared because there is a constructive obligation to pay a Partnership Bonus and the amount can be reliably estimated once the results for the year are known and prior to the approval of the Partnership's financial statements.

Notes to the consolidated financial statements — continued

2.1 SEGMENTAL REPORTING CONTINUED

2020[1]	Waitrose £m	John Lewis £m	Group £m	Total £m
Gross sales	6,760.1	4,784.7	–	11,544.8
Adjustment for sale or return sales	–	(275.6)	–	(275.6)
Value added tax	(390.4)	(727.5)	–	(1,117.9)
Revenue	6,369.7	3,781.6	–	10,151.3
Operating profit/(loss) before exceptional items, Partnership Bonus and net profit on sale of property[2]	226.3	63.0	(76.8)	212.5
Net profit on sale of property[3]	16.2	1.0	1.8	19.0
Operating profit/(loss) before exceptional items and Partnership Bonus	242.5	64.0	(75.0)	231.5
Exceptional items	(30.6)	(101.0)	239.0	107.4
Operating profit/(loss) before Partnership Bonus	211.9	(37.0)	164.0	338.9
Finance costs				(175.3)
Finance income				13.7
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, exceptional items and IFRS 16 to profit before tax:				
Profit before Partnership Bonus, tax, exceptional items and IFRS 16[4]				122.6
Partnership Bonus				(30.9)
IFRS 16 adjustment[4]				(52.7)
Exceptional items				107.4
Profit before tax				146.4
Segment assets	3,980.7	2,595.9	1,124.1	7,700.7
Segment liabilities	(2,126.7)	(1,539.9)	(1,475.3)	(5,141.9)
Net assets	1,854.0	1,056.0	(351.2)	2,558.8
Other segment items:				
– Depreciation[5]	(229.5)	(282.1)	(6.1)	(517.7)
– Amortisation[5]	(35.4)	(78.1)	(25.5)	(139.0)
– Capital expenditure – property, plant and equipment	51.7	89.6	48.5	189.8
– Capital expenditure – intangible assets	59.1	50.6	27.9	137.6
– (Decrease)/increase in provisions	(3.3)	(11.8)	21.6	6.5

1 The Partnership has initially applied IFRS 16 at 27 January 2019, which requires the recognition of right-of-use assets (£1.9bn on transition) in relation to the Partnership's lease liabilities (£2.1bn on transition). These assets and liabilities are included in the results of the individual reporting segments presented above as at 25 January 2020. The Partnership has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated (see note 1.1.4).
2 Included within operating profit/(loss) before exceptional items, Partnership Bonus and net profit on sale of property is £0.2m (2019: £0.7m) share of loss of a joint venture in John Lewis. See note 3.3.
3 Net profit on sale of property includes losses of £nil in Waitrose (2019: £0.9m), £nil in Group (2019: £0.5m), and £nil in John Lewis (2019: £0.1m).
4 For a detailed definition, see the glossary (pages 158 to 163).
5 Includes net charges for impairment. See notes 3.1 and 3.2.

2019	Waitrose £m	John Lewis £m	Group £m	Total £m
Gross sales	6,835.0	4,889.1	–	11,724.1
Adjustment for sale or return sales	–	(259.0)	–	(259.0)
Value added tax	(405.5)	(742.9)	–	(1,148.4)
Revenue	6,429.5	3,887.2	–	10,316.7
Operating profit/(loss) before exceptional items, Partnership Bonus and net profit on sale of property[1]	202.5	113.4	(91.8)	224.1
Net profit on sale of property[2]	0.7	1.3	0.9	2.9
Operating profit/(loss) before exceptional items and Partnership Bonus	203.2	114.7	(90.9)	227.0
Exceptional items	(4.0)	(22.1)	28.2	2.1
Operating profit/(loss) before Partnership Bonus	199.2	92.6	(62.7)	229.1
Finance costs				(80.6)
Finance income				13.6
Partnership Bonus				(44.7)
Profit before tax				117.4
Taxation				(40.1)
Profit for the year				77.3
Reconciliation of profit before Partnership Bonus, tax and exceptional items to profit before tax:				
Profit before Partnership Bonus, tax and exceptional items				160.0
Partnership Bonus				(44.7)
Exceptional items				2.1
Profit before tax				117.4
Segment assets	2,839.8	2,105.7	1,366.6	6,312.1
Segment liabilities	(793.7)	(877.3)	(2,021.1)	(3,692.1)
Net assets	2,046.1	1,228.4	(654.5)	2,620.0
Other segment items:				
– Depreciation[3]	(153.3)	(119.6)	(14.6)	(287.5)
– Amortisation[3]	(32.3)	(61.3)	(29.3)	(122.9)
– Capital expenditure – property, plant and equipment	93.0	61.3	9.8	164.1
– Capital expenditure – intangible assets	52.8	65.6	39.7	158.1
– Decrease in provisions	(3.8)	(7.9)	(31.9)	(43.6)

1 Included within operating profit/(loss) before exceptional items, Partnership Bonus and net profit on sale of property is a £0.7m share of loss of a joint venture in John Lewis. See note 3.3.
2 Net profit on sale of property includes losses of £0.9m in Waitrose, £0.5m in Group and £0.1m in John Lewis.
3 Includes net charges for impairment. See notes 3.1 and 3.2.

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 service guarantees and adjustments for expected customer returns. Revenue is recognised in respect of sales under bill and hold arrangements when the buyer takes control of the asset, even if it has not physically been transferred to the customer. Revenue under bill and hold arrangements is not recognised when there is simply an intention to acquire.

Sales of gift vouchers and gift cards are treated as liabilities, and revenue is recognised when the gift vouchers or cards are redeemed against a later transaction. Non-redemption revenue is recognised in proportion to the pattern of rights exercised by the customer 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.

2.2.1 DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

We analyse our revenue between goods and services. Goods are split into four major product lines: Grocery, Home, Fashion and Electricals and Home Technology (EHT). Services comprise free service guarantees on selected goods. This presentation is consistent with how our Partnership Board and Divisional Management Boards reviewed performance throughout the year.

Major product lines	2020 £m	2019 £m
Goods		
– Grocery	**6,369.7**	6,429.5
– Home	**1,052.7**	1,085.8
– Fashion	**1,216.5**	1,215.7
– EHT	**1,350.8**	1,393.6
Services		
– Free service guarantee	**26.8**	41.3
Other revenue	**134.8**	150.8
	10,151.3	10,316.7

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 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 stores. Where a grocery product is ordered online, it is fulfilled by a Waitrose store and customers are charged on the day of delivery. For business to business (B2B) customers, invoices are raised and are usually payable within 30 days. Waitrose 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 stores. Where a home product is ordered online, it is generally fulfilled from a centralised location. For B2B customers, invoices are raised and are payable on a variety of payment terms up to 30 days. John Lewis 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 stores. Where a fashion product is ordered online, it is generally fulfilled from a centralised location. For B2B customers, invoices are raised and are payable on a variety of payment terms up to 30 days. John Lewis 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.
Electricals and Home Technology (EHT)	EHT products are principally sold by John Lewis and include televisions, computers, tablets and other electrical items. Customers obtain control of EHT products when the goods are received by the customer. Customers pay at the point of sale in John Lewis stores. Where an EHT product is ordered online, it is generally fulfilled from a centralised location. For B2B customers, invoices are raised and are payable on a variety of payment terms up to 30 days. John Lewis accepts returns in accordance with a customer's statutory rights under consumer laws in the United Kingdom and has a discretionary goodwill policy. Under the goodwill policy, customers can return products within 35 days after receipt, if not entirely satisfied.	Revenue is recognised when the goods have been received by the customer. When EHT products are sold with a free service guarantee, an element of the sales price is allocated to the performance of that service (see below). Adjustments are recorded for returns where material, based on historic trends and recent sales patterns. The right to return goods is included under inventory, note 4.1.
Free service guarantee	The free service guarantee is provided with certain EHT products which are sold by John Lewis. Customers receive a free service guarantee of between two and five years on the purchase of specified EHT products. No separate payment is made for the free service guarantee. An element of the sales price of the EHT product is allocated to the free service guarantee on a cost plus margin basis. This amount is deducted from revenue and deferred on the balance sheet.	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 include catering, customer delivery and products from food halls 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 stores. Where other revenue products/services are ordered online, these are generally fulfilled from a centralised location.	Revenue is recognised when the products/services have been received by the customer and the performance obligations have been met. 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: Commissions are recognised when the Partnership has satisfied its performance obligation by delivering a promised service to the customer in accordance with the transaction price agreed.

Rental income: Rental income is recognised on a straight-line basis based on the length of the contract and when the performance obligation of the contract is satisfied.

Other income: Other income is recognised when the services have been rendered to the customer and performance obligations have been met.

Other operating income	2020 £m	2019 £m
Commissions	80.7	64.7
Rental income	8.6	7.6
Licence fees	2.7	2.7
Other income	33.1	37.1
	125.1	112.1

Other income mainly relates to car parking income, backhauling, concession income and compensation for loss of profit under landlord commercial agreements where development work has impacted branch sales. It is made up of items that individually are not material and no other material groups were considered to be shown.

2.4 OPERATING EXPENSES BEFORE EXCEPTIONAL ITEMS AND PARTNERSHIP BONUS

PURPOSE

We analyse operating expenses into branch operating expenses and administrative expenses. Branch operating expenses are directly associated with the sale of goods and services. Administrative expenses are those which are not directly related to the sale of goods and services.

Operating expenses before exceptional items and Partnership Bonus	2020 £m	2019 £m
Branch operating expenses	(2,190.4)	(2,198.1)
Administrative expenses	(1,065.1)	(1,072.0)
	(3,255.5)	(3,270.1)

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 1.2.2). 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	2020 Operating (expense)/ income £m	2020 Taxation credit/ (charge) £m	2019 Operating (expense)/ income £m	2019 Taxation credit/ (charge) £m
Strategic restructuring and redundancy programmes				
Head office reviews	(35.6)	6.6	(19.3)	3.7
Physical estate	(27.4)	6.2	(5.1)	1.5
Shop operations	(0.7)	0.1	(6.7)	1.3
	(63.7)	12.9	(31.1)	6.5
Branch impairments (Waitrose)	13.3	(1.7)	–	–
Branch impairments (John Lewis)	(110.3)	13.9	(12.6)	1.2
John Lewis supply chain	9.1	(0.8)	0.5	(0.1)
Pay provision	–	–	30.3	(5.6)
Legal settlement	10.0	(1.9)	15.0	(2.9)
Pension closure	249.0	(42.3)	–	–
	107.4	(19.9)	2.1	(0.9)

Strategic restructuring and redundancy programmes

The Partnership is currently undergoing an unprecedented level of internal change. Over the past three years, we have accelerated our strategic transformation programme in order to ensure the Partnership's success over the long term. We anticipated last year that as we move closer to delivering our strategic vision, transformation programmes in other areas may be required. We announced in October 2019 a bold and ambitious plan to further transform our business for the future as part of Future Partnership. With a new Leadership now in place, a Strategic Review was launched in March 2020, which will consider how we further develop our existing services and products as well as new services outside of retail. The scale of the changes to date and the programme of activity that will follow will take a number of years to deliver, with costs expected to recur across a number of financial years. Over the life of the strategic transformation programme they are significant in value and, given the level of change, they are significant in nature and therefore the Partnership considers them exceptional items. The financial impact of these for 2020 is detailed below:

Head office reviews: The transformation of pan-Partnership functions and other head office operations continues at pace. The main focus includes reviews of a number of functions which began at the end of 2017. Given the scale of the change, the delivery of these was expected to take four years, and is now well progressed, but further costs are expected over at least the next two years as we finalise the reviews of the remaining functions. These timescales are to be reassessed as a result of the ongoing uncertainty and volatility relating to Coronavirus. In 2020 we have incurred costs of £35.6m (2019: £19.3m) in relation to these reviews. The charge includes project costs, onerous contracts and, where announced, redundancy costs.

Physical estate: We have continued with our programme of optimising our existing estate, and as highlighted in the Strategic Report, this continues to be a key part of our strategy (pages 28 to 29). This includes ensuring that the size and shape of our physical estate is delivering on both our customer proposition, and financial returns. We expect this programme, which commenced in 2017, and the associated costs and incomes to take a total of approximately five years to deliver. This year we have recognised a net exceptional charge of £27.4m (2019: £5.1m). The net charge includes the impairment of assets (reflecting the shortening of the useful economic life), accelerated depreciation of buildings, fixtures and fittings and management's best estimate of closure costs including onerous leases, dilapidations and, where closure has been approved and announced, redundancy costs. Where income in relation to previously estimated costs has been realised in the year, these have been shown net, reflecting that the original expenses were shown as exceptional.

Shop operations: Alongside the assessment of our physical estate, we also identified that the way in which we run and manage our shops would require adjustment. In order to improve the customer experience and efficiencies in our stores, we have made a number of changes in our shop operating models. This has included reviewing store management structures, the centralisation of certain functions, and aligning regional offerings in order to deliver a more flexible, multi-skilled and productive model. This programme is now largely complete, with costs of £0.7m (2019: £6.7m) recognised this year. The expenses in the current year principally include redundancy costs, where announced, as specific elements of our shop operating models are restructured.

Included within operating expenses are £1.5m (2019: £12.7m) of restructuring and redundancy costs which are considered by the Partnership to be separate from our strategic programmes and part of the underlying business performance. These costs are therefore not separately reported as exceptional.

Branch impairments (Waitrose)

In 2020, a credit of £13.3m has been released as a result of improved branch performance where branch impairment had previously been charged as exceptional.

Branch impairment (John Lewis)

There is an impairment charge in John Lewis of £122.9m in the year. The charge is principally due to challenging trading conditions combined with management's reassessment of the role that shops play in driving online purchases, as a result of changing customer shopping behaviour. This has led to a reduction in the percentage of online sales allocated to branches as part of the impairment assessment. The circumstances giving rise to the charge are deemed unusual, related to factors other than trading and unlikely to recur on a similarly significant scale in the medium term. Given the nature of the exercise and the size of the charge, it has been treated as exceptional. The level of impairment was judged before the impact of Coronavirus materialised. We expect a significant event such as Coronavirus to have a material impact on the level of our impairment in the future. See note 8.3.1 for further detail.

In addition, the £12.6m impairment charge recognised in 2019 following the signing of an amended lease contract, has been released in 2020 due to a change in circumstances.

Notes to the consolidated financial statements — continued

2.5 EXCEPTIONAL ITEMS CONTINUED

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 (2019: £0.5m releases), principally in relation to property disposals.

Pay provision
In 2017, a £36.0m provision was recorded as an exceptional charge to cover the potential costs of complying with the National Minimum Wage Regulations. During 2018, the methodology for calculating the liability was clarified and the project finalised, resulting in a £30.3m release of the provision. There is no exceptional pay provision charge in the year to 25 January 2020.

Legal settlement
The Partnership reached a settlement in relation to an ongoing legal dispute, receiving income of £10.0m (2019: £15.0m). Due to the size and nature of this settlement, this income has been recognised as exceptional.

Pension closure
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 has been recognised for the reduction in the pension obligation. Following closure, members' 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 has been recognised as exceptional.

2.6 PROFIT BEFORE TAX

PURPOSE

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

	2020 £m	2019 £m
Staff costs (note 2.8.2)	(1,614.0)	(1,863.2)
Depreciation[1]	(517.7)	(287.5)
Amortisation of intangible assets[2]	(139.0)	(122.9)
Net profit on sale of property (including exceptional items)	42.7	3.9
Net loss on disposal of other plant and equipment and intangible assets	(4.2)	(3.8)
Inventory – cost of inventory recognised as an expense	(6,789.2)	(6,931.0)
Operating lease rentals:		
– Land and buildings[3]	(5.5)	(190.7)
– Plant and machinery[4]	(2.6)	(1.3)
Sub-lease income:		
– Land and buildings	5.7	5.7

1 Included within depreciation is an impairment charge of £99.4m (2019: £18.6m) of which £7.5m (2019: £6.0m) is in Waitrose and £91.9m (2019: £12.6m) is in John Lewis.
2 Included within amortisation of intangible assets is an impairment charge of £16.4m (2019: £2.0m) of which £2.9m (2019: £0.2m) is in Waitrose, £2.4m (2019: £nil) is in John Lewis and £11.1m (2019: £1.8m) is in Group.
3 Since transition to IFRS 16 on 27 January 2019, only lease rentals in relation to land and buildings that are contingent rents have been charged to the income statement. Contingent rents for 2019 were £2.2m. Contingent rents are determined based on store revenues. The equivalent IAS 17 operating lease rentals charge for 2020 would have been £190.2m.
4 Since transition to IFRS 16 on 27 January 2019, only lease rentals in relation to plant and machinery that are low value assets or have short-term leases have been charged to the income statement. The equivalent IAS 17 operating lease rentals charge for 2020 would have been £3.4m.

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

Auditor's remuneration	2020 £m	2019 £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	(0.6)	(0.6)
	(1.0)	(1.0)
Non-audit services:		
– Other assurance services	(0.1)	(0.1)
	(0.1)	(0.1)
Total fees	(1.1)	(1.1)

2.7 RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS BEFORE PARTNERSHIP BONUS

PURPOSE

We have analysed how our profit before tax reconciles to the cash generated from our operating activities before Partnership Bonus. Items added back to, or deducted from, profit before tax are non-cash items that are adjusted to arrive at cash generated from operations before Partnership Bonus which is shown in the consolidated statement of cash flows.

	2020[1] £m	2019 £m
Profit before tax	146.4	117.4
Amortisation and write-offs of intangible assets[2]	151.7	141.7
Depreciation[3]	517.7	287.5
Share of loss of joint venture (net of tax)	0.2	0.7
Net finance costs	161.6	67.0
Partnership Bonus	30.9	44.7
Fair value losses on derivative financial instruments	0.3	2.1
(Profit)/loss on disposal of property, plant and equipment and intangible assets	(37.1)	1.4
Decrease in inventories	45.8	3.9
(Increase)/decrease in receivables	(31.4)	8.3
Decrease in payables	(26.2)	(46.7)
(Decrease)/increase in retirement benefit obligations	(238.4)	29.6
Decrease in provisions	(8.1)	(46.8)
Cash generated from operations before Partnership Bonus	713.4	610.8

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. In applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Partnership recognises depreciation and interest costs, instead of an operating lease expense (see note 1.1.4). During the year, the Partnership recognised £134.7m of depreciation charges and £103.5m of additional interest costs in relation to those leases (see the glossary on pages 158 to 163).
2 Includes net impairment charges. See note 3.1.
3 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 80,800 (2019: 83,900). 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:

	2020	2019
John Lewis	27,200	28,100
Waitrose	51,300	52,400
Group	3,300	3,200
	81,800	83,700

2.8.2 PARTNER PAY AND BENEFITS

Employment and related costs were as follows:

	2020 £m	2019 £m
Staff costs:		
Wages and salaries	(1,506.0)	(1,480.0)
Social security costs	(120.8)	(110.5)
Partnership Bonus	(27.5)	(39.8)
Employers' National Insurance on Partnership Bonus	(3.4)	(4.9)
Other pension credit/(charge) (note 6.1.2)	45.0	(219.1)
Long leave cost	(1.3)	(8.9)
Total before Partner discounts	(1,614.0)	(1,863.2)
Partner discounts (excluded from revenue)	(74.3)	(76.2)
	(1,688.3)	(1,939.4)

Notes to the consolidated financial statements — continued

2.8 PARTNERS CONTINUED

2.8.3 KEY MANAGEMENT COMPENSATION

	2020 £m	2019 £m
Salaries and short-term benefits	(11.6)	(13.2)
Post-employment benefits[1]	(2.2)	(2.4)
Termination payments[2]	(4.4)	–
	(18.2)	(15.6)

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, members of the Partnership's Divisional Management Boards and other officers of the Partnership. Key management compensation includes salaries, Partnership Bonus, National Insurance costs, pension costs and the cost of other employment benefits, such as company cars, private medical insurance and termination payments where applicable. Costs of key management compensation are included within operating expenses and exceptional items as applicable.

Key management participate in the Partnership's long leave scheme, which is open to all Partners and provides up to six months' paid leave after 25 years' service. There is no proportional entitlement for shorter periods of service. It is not practical to allocate the cost of accruing entitlement to this benefit to individuals, and therefore no allowance has been made for this benefit in the amounts disclosed.

2.8.4 DIRECTORS' EMOLUMENTS

Directors' emoluments have been summarised below. Further details of the remuneration of Directors is given in the parts of the Remuneration Committee report noted as audited on pages 78 to 79.

	2020 £m	2019 £m
Aggregate emoluments	(5.4)	(5.5)

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 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 41.

ACCOUNTING POLICIES

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

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

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

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

2.9.1 ANALYSIS OF TAX CHARGE FOR THE YEAR

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 (charged)/credited to the income statement	2020 £m	2019 £m
Current tax – current year	(17.9)	(46.2)
Current tax – adjustment in respect of prior years	(3.5)	2.3
Current tax on IFRS 15 restatement	–	2.5
Total current tax charge	(21.4)	(41.4)
Deferred tax – current year	(24.1)	5.1
Deferred tax – rate change	4.5	–
Deferred tax – adjustment in respect of prior years	3.0	(1.3)
Deferred tax on IFRS 15 restatement	–	(2.5)
Total deferred tax (charge)/credit	(16.6)	1.3
	(38.0)	(40.1)

Tax credited/(charged) to other comprehensive income	2020 £m	2019 £m
Current tax on pension scheme[1]	2.5	7.1
Total current tax credit	2.5	7.1
Deferred tax on pension scheme	30.4	(55.3)
Deferred tax on cash flow hedges	3.2	(4.1)
Total deferred tax credit/(charge)	33.6	(59.4)
	36.1	(52.3)

1 An additional deficit funding contribution of £12.8m has been paid by the Partnership during the year (2019: £37.1m) in relation to the defined benefit pension scheme, resulting in a tax credit of £2.5m (2019: £7.1m) 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 higher (2019: higher) than the standard corporation tax rate of 19.0% (2019: 19.0%). The differences are explained below:

	2020 £m	2019 £m
Profit before tax	146.4	117.4
Profit before tax multiplied by standard rate of corporation tax in the UK of 19.0% (2019: 19.0%)	(27.8)	(22.3)
Effects of:		
Changes in tax rate	4.5	–
Adjustment in respect of prior years	(0.5)	1.0
Depreciation on assets not qualifying for tax relief	(23.1)	(14.4)
Difference between accounting and tax base for land and buildings	11.6	(2.0)
Differences in overseas tax rates	0.4	(0.1)
Sundry disallowables	(3.1)	(2.3)
Total tax charge	(38.0)	(40.1)
Effective tax rate (%)	26.0	34.2

Notes to the consolidated financial statements — continued

2.9 TAXATION CONTINUED

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 rate of 19.0% where assets or liabilities were expected to reverse during the accounting period to 25 January 2020, 17.33% for those expected to reverse during the accounting period to 30 January 2021 and 17.0% for those expected to reverse in later periods. The movement on the deferred tax account is shown below:

Deferred tax	2020 £m	2019 £m
Opening net (liability)/asset	(36.2)	21.9
Adjustment on initial application of IFRS 16[1]	(1.0)	–
Adjusted opening net (liability)/asset	(37.2)	21.9
(Charged)/credited to income statement	(16.6)	1.3
Credited/(charged) to other comprehensive income/(expense)	33.6	(59.4)
Closing net liability	(20.2)	(36.2)

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. As a result, the Partnership recognised a deferred tax liability of £1.0m in relation to this adjustment to retained earnings (see note 1.1.4).

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 27 January 2018	(98.9)	(8.3)	(38.3)	–	(145.5)
Credited to income statement	7.3	0.3	–	–	7.6
At 26 January 2019	(91.6)	(8.0)	(38.3)	–	(137.9)
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)

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. As a result, the Partnership recognised a deferred tax liability of £1.0m in relation to this adjustment to retained earnings (see note 1.1.4).

Deferred tax assets	Capital gains tax on land and buildings £m	Pensions and provisions £m	Other £m	Total £m
At 27 January 2018	14.2	141.0	12.2	167.4
(Charged)/credited to income statement	(3.1)	0.7	(3.9)	(6.3)
Charged to other comprehensive income/(expense)	–	(55.3)	(4.1)	(59.4)
At 26 January 2019	11.1	86.4	4.2	101.7
(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

The deferred tax asset in relation to the defined benefit pension scheme is £53.7m (2019: £63.3m).

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	2020 £m	2019 £m
Deferred tax assets	0.2	–
Deferred tax liabilities	(20.4)	(36.2)
Deferred tax net	(20.2)	(36.2)

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

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future profits is probable. There are unrecognised deferred tax assets in respect of losses for the year ended 25 January 2020 relating to losses in John Lewis Hong Kong Limited of £0.8m (2019: £0.7m).

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

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

As a result of exemptions on dividends from subsidiaries and capital gains on disposal there are no significant taxable temporary differences associated with investments in subsidiaries and interests in joint arrangements.

2.9.4 FACTORS AFFECTING TAX CHARGES IN CURRENT AND FUTURE YEARS

PURPOSE

Here we explain any changes to the current or future tax rates that have been announced or substantively enacted.

Legislation has been enacted (Finance Act 2016) to reduce the corporation tax rate from 19.0% to 17.0% from 1 April 2020. However, the government announced in the Spring Budget on 11 March 2020 that the corporation tax rate will remain at 19.0%. At the balance sheet date legislation had not yet been amended and therefore the substantively enacted rate for the purposes of determining the deferred tax recognition rate for assets and liabilities expected to reverse in periods overlapping 1 April 2020 and later remains at 17.0%.

If the corporation tax rate of 19.0% had been substantively enacted as at 25 January 2020, the deferred tax movement would have been as follows:

	2020 £m
Opening net liability	(36.2)
Adjustment on initial application of IFRS 16[1]	(1.0)
Adjusted opening net liability	(37.2)
Charged to income statement	(26.9)
Credited to other comprehensive income/(expense)	42.6
Closing net liability	(21.5)

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. As a result, the Partnership recognised a deferred tax liability of £1.0m in relation to this adjustment to retained earnings (see note 1.1.4).

Notes to the consolidated financial statements — continued

3 OPERATING ASSETS AND LIABILITIES

IN THIS SECTION

This section shows the assets used in generating the Partnership's performance and related future commitments. This includes intangible assets and goodwill, property, plant and equipment, 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 AND GOODWILL

PURPOSE

Our balance sheet contains non-physical assets in relation to computer software which are used to support our business and the generation of our profits.

This note shows the cost of the assets, which is the amount we initially paid for them, and details any additions and disposals during the year. Additionally, the note shows amortisation, which is an expense in the income statement to reflect the usage of these assets. Amortisation is calculated by estimating how many years we expect to use the assets, which is also known as the useful economic life (UEL). The amortisation charge reduces the initial value of the assets over time, spread evenly over their useful economic lives. The value after deducting accumulated amortisation is known as the amortised value.

Each year we review the value of our assets to ensure that their expected future value in use in the business has not fallen below their amortised value. This might occur where there has been a system replacement in the year. If an asset's expected value in use falls below its amortised value, this is reflected through an additional impairment expense, which reduces profit.

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 3 and 10 years. The assets' useful economic lives are reviewed and adjusted if appropriate at each balance sheet date.

Goodwill: Goodwill arises on consolidation and represents the surplus of fair value of the amount paid for a business (or company) less the fair value of the net assets acquired (assets, liabilities and contingent liabilities). Goodwill is not amortised but subject to annual impairment testing. Revisions to goodwill are accounted for in the same manner as the original goodwill.

Impairment: Assets are reviewed for impairment at least annually or whenever events or circumstances indicate that the amortised value may not be recoverable. An impairment loss is recognised for the amount by which the asset's amortised cost exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to dispose and value in use. The reversal of an impairment loss is recognised immediately as a credit to the income statement.

KEY JUDGEMENTS

Value of intangible work in progress: The Partnership has incurred a significant amount of development expenditure relating to intangible assets, particularly IT systems and software. These development costs are recorded within work in progress (WIP) on the balance sheet until the assets that they relate to are available for use. If management believe that a development project is no longer likely to result in the creation of a useful intangible asset, the related development expenditure should be reclassified from WIP and expensed as an abortive cost through 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 asset 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.

	Goodwill	Computer software			
Intangible assets and goodwill	£m	Purchased £m	Internally developed £m	Work in progress £m	Total £m
Cost					
At 27 January 2018	–	213.4	502.7	239.1	955.2
Additions[1]	1.1	–	–	157.0	158.1
Transfers	–	46.9	194.2	(241.1)	–
Disposals and write-offs	(1.1)	(8.6)	(19.5)	(17.7)	(46.9)
At 26 January 2019	–	251.7	677.4	137.3	1,066.4
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**
Accumulated amortisation					
At 27 January 2018	–	(142.4)	(317.1)	–	(459.5)
Charge for the year[2]	–	(43.4)	(79.5)	–	(122.9)
Disposals and write-offs	–	8.6	19.5	–	28.1
At 26 January 2019	–	(177.2)	(377.1)	–	(554.3)
Charge for the year[2]	–	(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)**
Net book value at January 2018	–	71.0	185.6	239.1	495.7
Net book value at January 2019	–	74.5	300.3	137.3	512.1
Net book value at January 2020	**–**	**51.1**	**323.4**	**121.0**	**495.5**

1 For the year ended 25 January 2020, additions for the year include the non-cash capital expenditure accrual on intangible assets of £1.9m (2019: £7.1m).
2 For the year ended 25 January 2020, this includes an impairment charge of £16.4m (2019: £2.0m) to intangible assets, of which £2.9m (2019: £0.2m) is in Waitrose, £2.4m (2019: £nil) is in John Lewis and £11.1m (2019: £1.8m) is in Group.

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

There are four individually significant assets within the total carrying amount of intangible assets as at 25 January 2020: two are customer projects (£134.0m, 2019: £139.0m) and two relate to distribution projects (£127.2m, 2019: £126.2m).

During the year to 25 January 2020, computer systems valued at £141.2m (2019: £241.1m) were brought into use. This covered a range of selling, support, supply chain, administration and information technology infrastructure applications, with asset lives ranging from 3 to 10 years.

Amortisation of intangible assets is charged within operating expenses.

Goodwill relates to the surplus of consideration over the assets and liabilities acquired as part of the acquisition of the trade of Opun Group Limited on 1 June 2018. This was subsequently written off in full during 2019.

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 comprised of assets relating to branches, distribution centres, offices and vehicles.

This note shows the cost of the assets, which is the amount we initially paid for them, or deemed cost if the assets were purchased before January 2004 when the Partnership transitioned to report under IFRS. For right-of-use assets, the cost is equivalent to the present value of 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, which is also known as the useful economic life (UEL). The depreciation charge reduces the initial value of the assets over time 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's recoverable amount falls below its net book value, this is reflected through an additional impairment expense, which reduces profit.

Notes to the consolidated financial statements — continued

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

ACCOUNTING POLICIES

Property, plant and equipment: The cost of property, plant and equipment includes the purchase price and directly attributable costs of bringing the asset in to working condition ready for its intended use. This may include capitalised borrowing costs.

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

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.

Other assets: Other assets are held at cost.

Depreciation: No depreciation is charged on freehold land or assets in the course of construction. Depreciation is calculated for all other assets to write off the cost or valuation, less residual value, on a straight-line basis over the following expected useful economic lives (UELs):

Freehold and long leasehold buildings – 25 to 50 years

Other leasehold buildings – over the shorter of the useful economic life or the remaining period of the lease

Building fixtures – 10 to 40 years

Fixtures, fittings and equipment (including vehicles and information technology equipment) – 3 to 10 years

Property residual values are assessed as the price in current terms that a property would be expected to realise, if the buildings were at the end of their useful economic life. The assets' residual values and useful economic lives are reviewed and adjusted if appropriate at least 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 branches including an allocation of online, being the lowest level of separately identifiable cash flows. An impairment loss is recognised for the value 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 have assessed that it is appropriate to apply residual values to these assets as the buildings will retain significant value both during and at the end of their useful economic life. This residual value could be realised through a sale of the property or a subletting arrangement. Management have 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 continued 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 store 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 stores to reflect the role that the stores play. The allocation is based on customer sales data, online shopping behaviour and physical touchpoints with a store, including Click & Collect, store assisted online purchases and customers with a history of omni-channel shopping. 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 stores to better reflect this trend. The proportion of online sales allocated to stores 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 27 January 2018	4,643.3	1,919.2	81.0	6,643.5
Additions[1]	2.9	–	161.2	164.1
Transfers	89.1	99.0	(188.1)	–
Disposals and write-offs	(31.4)	(69.8)	(1.1)	(102.3)
Transfers to assets held for sale	(77.7)	–	–	(77.7)
At 26 January 2019	4,626.2	1,948.4	53.0	6,627.6
Adjustment on initial application of IFRS 16[2]	(23.1)	–	–	(23.1)
At 27 January 2019	4,603.1	1,948.4	53.0	6,604.5
Additions[1]	–	–	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**
Accumulated depreciation				
At 27 January 2018	(1,316.1)	(1,356.2)	–	(2,672.3)
Charge for the year[4]	(142.4)	(145.1)	–	(287.5)
Disposals and write-offs	19.8	67.5	–	87.3
Transfers to assets held for sale	54.6	–	–	54.6
At 26 January 2019	(1,384.1)	(1,433.8)	–	(2,817.9)
Adjustment on initial application of IFRS 16[2]	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)**
Net book value at January 2018	3,327.2	563.0	81.0	3,971.2
Net book value at January 2019	3,242.1	514.6	53.0	3,809.7
Net book value at January 2020	**3,001.3**	**452.5**	**81.6**	**3,535.4**

1 For the year ended 25 January 2020, additions for the year include the non-cash capital expenditure accrual on property, plant and equipment of £26.6m (2019: £28.7m).
2 The Partnership has initially applied IFRS 16 at 27 January 2019, which requires the recognition of right-of-use assets in place of finance lease assets. As a result, at 27 January 2019, land and building assets held under finance leases with a net book value of £14.6m have been reallocated and recognised as right-of-use assets. A further (£4.6m) of lease inducements has also been reclassified to right-of-use assets on transition to IFRS 16. The Partnership has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated (see note 1.1.4).
3 Transfers from assets held for sale 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 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 25 January 2020, this includes an impairment charge of £85.3m to land and buildings (2019: £18.6m) and £14.1m to fixtures and fittings (2019: £nil).

Notes to the consolidated financial statements — continued

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

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**
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)**
Net book value at January 2018	–	–	–
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**

1 The Partnership has initially applied IFRS 16 at 27 January 2019, which requires the recognition of right-of-use assets in relation to the Partnership's lease liabilities. As a result, at 27 January 2019, the Partnership recognised £1,943.0m of right-of-use assets related to those lease liabilities. The Partnership has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated (see note 1.1.4).
2 For the year ended 25 January 2020, this includes an impairment charge of £18.4m (2019: £nil).

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 calculations are the discount rate, long-term growth rate, allocation of online sales (John Lewis), expected sales performance and costs.

The value in use calculation is based on three-year cash flow projections using the latest budget and forecast data. In John Lewis different growth expectations are applied to online and store 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 three-year period using a long-term growth rate of 1.5% for Waitrose and 0.5% for John Lewis; the different rates reflect the different expectations of growth in grocery and general merchandise. A pre-tax discount rate of 7% for Waitrose (2019: 8%) and 7% for John Lewis (2019: 8%) 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 impairment review performed considers the value in use calculation based on the above methodology and assumptions, as well as other potential impairment triggers such as strategy changes. Following the impairment review, the Partnership recognised a net impairment charge across property, plant and equipment and right-of-use assets of £117.8m; £7.5m in Waitrose and £110.3m in John Lewis. This includes impairment charges and releases that are recognised as exceptional.

The Waitrose charge is a net charge and includes releases of previous impairment charges following the exit of previously impaired stores and impairment reversals due to improved store performance which has been judged to be sustainable. These reversals have been offset by new impairment charges, principally relating to stores approved for closure. The John Lewis impairment charge arises from challenging trading conditions and a reassessment of the role that shops play in driving online purchases as a result of changing customer shopping behaviour. This has led to a reduction in the percentage of online sales allocated to branches as part of the impairment assessment. The resulting charge has been offset by a credit of £12.6m, originally arising in 2018/19 following the signing of a lease contract and released following a change in circumstances.

The Waitrose impairment estimation is most sensitive to a change in the long-term growth rate. Reducing the long-term growth rate to nil would reduce the impairment release to £(3.9)m. The John Lewis impairment estimation is most sensitive to margin assumptions and the judgement on the allocation of online sales to CGUs. Online sales allocation is subject to changes in customer behaviour and buying habits, and as such this assumption is also subject to significant estimation uncertainty. A change in the online sales allocated by +/-500bps would result in an impairment movement of approximately £27.8m.

Headroom outcomes are specific to each CGU and therefore vary on a store-by-store basis. Variations arise from differences in revenue and cost profiles by branch and their specific net book values. Whilst some CGUs could and do reduce to a nil headroom, other CGUs reach a headroom which represents that store's fair value less cost to dispose.

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 27 January 2018	2.1	1.5	3.6
Additions	–	0.5	0.5
At 26 January 2019	2.1	2.0	4.1
Additions	–	–	–
At 25 January 2020	**2.1**	**2.0**	**4.1**
Share of loss			
At 27 January 2018	(0.7)	–	(0.7)
Share of loss	(0.7)	–	(0.7)
At 26 January 2019	(1.4)	–	(1.4)
Share of loss	(0.2)	–	(0.2)
At 25 January 2020	**(1.6)**	**–**	**(1.6)**
At 27 January 2018	1.4	1.5	2.9
At 26 January 2019	0.7	2.0	2.7
At 25 January 2020	**0.5**	**2.0**	**2.5**

3.4 ASSETS HELD FOR SALE

PURPOSE

Assets held for sale are non-current assets which are expected to be sold rather than held for continuing use in the Partnership. These have principally arisen as part of the Partnership's review of its physical estate. Assets held for sale have not been sold at the balance sheet date but are being actively marketed for sale, with a high probability of completion within 12 months.

At 25 January 2020, three property assets in Waitrose were recorded as held for sale with a total carrying value of £1.5m. Two of these properties have been sold since the year-end and the remaining property is expected to complete within the next 12 months. At 26 January 2019, five property assets in Waitrose (£13.7m) and one in John Lewis (£9.4m) were recorded as held for sale with a total carrying value of £23.1m.

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 25 January 2020, contracts had been entered into for future capital expenditure of £20.2m (2019: £44.1m) of which £14.3m (2019: £33.0m) relates to property, plant and equipment and £5.9m (2019: £11.1m) relates to intangible assets.

Notes to the consolidated financial statements — continued

4 WORKING CAPITAL AND PROVISIONS

IN THIS SECTION

Working capital represents the assets and liabilities that the Partnership generates through its day-to-day trading activities. This section shows the elements of working capital, including inventories, trade and other receivables and trade and other payables. Provisions are also included in this section as they represent operating liabilities.

4.1 INVENTORIES

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 at 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	2020 £m	2019 £m
Raw materials	3.2	3.6
Work in progress	0.3	0.1
Finished goods and goods for resale	609.4	653.9
	612.9	657.6

Provisions against inventories of £22.8m were charged (2019: £27.7m charged) to branch cost of sales.

Finished goods and goods for resale include a 'right to return goods' asset of £16.9m (2019: £20.0m). 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	2020 £m	2019 £m
Current:		
Trade receivables	85.3	74.5
Other receivables	41.3	39.1
Prepayments[1]	88.7	110.6
Accrued income	45.6	35.1
	260.9	259.3
Non-current:		
Other receivables	16.0	16.2
Prepayments[1]	0.5	42.2
	16.5	58.4

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 (see note 1.1.4).

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 £13.4m (2019: £12.7m) in relation to supplier income which has not yet been invoiced. Additionally, accrued income includes £21.8m (2019: £20.5m) 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 disclosure 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 25 January 2020, trade and other receivables of £1.5m (2019: £4.0m) were partially or fully impaired. As at 25 January 2020, trade and other receivables of £35.2m (2019: £23.3m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

Ageing analysis	2020 £m	2019 £m
Up to 3 months past due	33.2	22.9
3 to 12 months past due	1.3	0.4
Over 12 months past due	0.7	–
	35.2	23.3

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 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 service guarantees for EHT products. The Partnership allocates a portion of the consideration received for the EHT product to the free service guarantee on a cost plus margin basis. The amount allocated to the free service guarantee is deferred and recognised as revenue over the period of the guarantee on a straight-line basis.

CRITICAL ACCOUNTING ESTIMATES

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

Deferred income: In relation to free service guarantees, deferred income is based on the expected future repair or replacement costs for all goods sold with a free service guarantee, 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	2020 £m	2019 £m
Current:		
Trade payables	(915.6)	(919.7)
Other payables	(158.8)	(179.0)
Other taxation and social security	(169.3)	(178.4)
Accruals	(159.1)	(189.9)
Deferred income[1]	(83.5)	(89.0)
Partnership Bonus	(27.6)	(39.7)
	(1,513.9)	(1,595.7)
Non-current:		
Other payables	(0.1)	(0.2)
Deferred income[1]	(46.7)	(258.4)
	(46.8)	(258.6)

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 (see note 1.1.4).

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

Deferred income primarily relates to free service guarantees. During the year an amount of £26.8m (2019: £41.3m) was released to the income statement. The deferral for the year was £19.2m (2019: £25.6m). The year-end position of free service guarantees is £42.4m (2019: £50.0m). The remaining balance in deferred income relates to goods and services sold but not yet delivered. In 2019, the balance also included lease incentives which have subsequently been reclassified to right-of-use assets on transition to IFRS 16 as at 27 January 2019 (see note 1.1.4).

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 26 January 2019	(141.8)	(34.3)	(24.9)	(24.5)	(21.5)	(247.0)
Adjustment on initial application of IFRS 16[1]	–	–	–	–	4.0	4.0
At 27 January 2019	(141.8)	(34.3)	(24.9)	(24.5)	(17.5)	(243.0)
Charged to income statement	(27.2)	(28.8)	(7.9)	(51.9)	(12.5)	(128.3)
Released to income statement	7.3	–	1.4	12.7	2.1	23.5
Utilised	8.2	34.3	6.1	41.8	3.9	94.3
At 25 January 2020	**(153.5)**	**(28.8)**	**(25.3)**	**(21.9)**	**(24.0)**	**(253.5)**
Of which:						
Current	(34.5)	(28.8)	(9.9)	(21.9)	(13.5)	(108.6)
Non-current	(119.0)	–	(15.4)	–	(10.5)	(144.9)

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. On transition, management has taken the exemption to reclassify onerous lease provisions as impairments of the right-of-use assets recognised on transition as at 27 January 2019 (see note 1.1.4).

The Partnership has a long leave scheme, open to all Partners, which provides up to six months' paid leave after 25 years' service. There is no proportional entitlement for shorter periods of service. The provision for the liabilities under the scheme is assessed on an actuarial basis, reflecting Partners' expected service profiles, 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 25 January 2020	(153.5)	
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.

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

Provisions for reorganisation reflect restructuring and redundancy costs, principally in relation to our branch, distribution and retail operations as well as head office and central function restructuring.

Other provisions include property related costs and pay provisions.

Notes to the consolidated financial statements — continued

5 FINANCING

IN THIS SECTION

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

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.

	2020 £m	2019 £m
Finance costs		
Net interest payable on:		
Commitment fees and bank overdrafts	(1.3)	(1.5)
Other loans repayable within five years[1]	(26.3)	(19.6)
Other loans repayable in more than five years	(12.7)	(33.6)
Interest payable in relation to lease liabilities[2]	(104.2)	(0.9)
Amortisation of issue costs of bonds and credit facilities	(1.5)	(1.6)
Share Incentive Plan dividends	(0.2)	(0.2)
Finance costs in respect of borrowings	(146.2)	(57.4)
Fair value measurements and other	(3.6)	(5.9)
Net finance costs arising on defined benefit retirement scheme	(6.9)	(17.0)
Net finance costs arising on other employee benefit schemes	(18.6)	(0.3)
Total finance costs	(175.3)	(80.6)
Finance income		
Finance income in respect of cash and short-term investments[3]	11.4	10.1
Fair value measurements and other	2.3	3.5
Total finance income	13.7	13.6
Net finance costs	(161.6)	(67.0)

1 Other loans repayable within five years includes interest payable on interest rate swaps of £5.8m (2019: £5.7m).
2 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 (see note 1.1.4).
3 Finance income in respect of cash and short-term investments includes interest receivable on interest rate swaps of £6.1m (2019: £6.1m).

Capitalised borrowing costs totalled £5.1m (2019: £7.4m), of which £4.6m (2019: £6.1m) were capitalised within intangible assets and £0.5m (2019: £1.3m) were capitalised within property, plant and equipment.

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.

	At 26 January 2019 £m	Adjustment on initial application of IFRS 16[1] £m	At 27 January 2019 £m	Cash movements £m	Other non-cash movements £m	2020 £m
Non-current assets						
Derivative financial instruments	0.2	–	0.2	–	(0.1)	0.1
	0.2	–	0.2	–	(0.1)	0.1
Current assets						
Cash and cash equivalents	716.8	–	716.8	(118.5)	–	598.3
Short-term investments	265.4	–	265.4	51.4	0.4	317.2
Derivative financial instruments	6.8	–	6.8	(9.6)	7.6	4.8
	989.0	–	989.0	(76.7)	8.0	920.3
Current liabilities						
Borrowings and overdrafts	(331.3)	–	(331.3)	288.2	–	(43.1)
Unamortised bond transaction costs	0.1	–	0.1	–	(0.1)	–
Lease liabilities[1]	–	(87.7)	(87.7)	196.9	(204.6)	(95.4)
Finance leases	(0.5)	0.5	–	–	–	–
Derivative financial instruments	(7.5)	–	(7.5)	(0.1)	(11.1)	(18.7)
	(339.2)	(87.2)	(426.4)	485.0	(215.8)	(157.2)
Non-current liabilities						
Borrowings	(727.2)	–	(727.2)	1.1	–	(726.1)
Unamortised bond transaction costs	10.4	–	10.4	–	(1.0)	9.4
Fair value adjustment for hedged element on bonds	0.8	–	0.8	–	(3.6)	(2.8)
Lease liabilities[1]	–	(2,011.4)	(2,011.4)	–	11.9	(1,999.5)
Finance leases	(20.6)	20.6	–	–	–	–
Derivative financial instruments	(2.0)	–	(2.0)	–	(1.9)	(3.9)
	(738.6)	(1,990.8)	(2,729.4)	1.1	5.4	(2,722.9)
Total net debt	(88.6)	(2,078.0)	(2,166.6)	409.4	(202.5)	(1,959.7)

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 has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application (see note 1.1.4).

Reconciliation of net cash flow to net debt	2020 £m	2019 £m
(Decrease)/increase in net cash and cash equivalents in the year	(118.5)	120.7
Cash outflow from movement in short-term investments	51.4	99.0
Cash outflow from SIP shares	14.4	15.4
Cash outflow/(inflow) from movement in other net debt items	462.1	(120.2)
Cash movement in net debt for the year	409.4	114.9
Opening net debt	(88.6)	(216.5)
Adjustment on initial application of IFRS 16[1]	(2,078.0)	–
Non-cash movement in net debt for the year	(202.5)	13.0
Closing net debt	(1,959.7)	(88.6)

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 has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application (see note 1.1.4).

Notes to the consolidated financial statements — continued

5.2 ANALYSIS OF NET DEBT CONTINUED

Our total borrowings and lease liabilities are summarised below.

	Borrowings £m	Lease liabilities £m	Total £m
At 27 January 2018	(949.0)	(23.3)	(972.3)
Movements arising from financing cash flows	(109.5)	1.7	(107.8)
Other non-cash movements	–	0.5	0.5
At 26 January 2019	(1,058.5)	(21.1)	(1,079.6)
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)

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 has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application (see note 1.1.4).

Borrowings exclude unamortised bond transaction costs of £9.4m (2019: £10.5m) and the fair value adjustment for hedged element on bonds of £2.8m loss (2019: £0.8m gain).

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. Given the AA VNAVs have a weighted average maturity of less than 90 days, they have been included within short-term investments due to the fact they do not bear an insignificant risk of changes in value.

Short-term investments	2020 £m	2019 £m
Short-term investments	317.2	265.4

For the year ended 25 January 2020, the effective interest rate on short-term investments was 1.1% (2019: 1.0%) and these investments had an average maturity of 62 days (2019: 116 days).

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	2020 £m	2019 £m
Cash at bank and in hand	151.2	128.2
Short-term deposits	447.1	588.6
	598.3	716.8

For the year ended 25 January 2020, the effective interest rate on short-term deposits was 0.7% (2019: 0.6%) and these deposits had an average maturity of three days (2019: three days).

At 25 January 2020, £13.4m (2019: £19.6m) of the Partnership's cash balance and £nil (2019: £0.1m) of the Partnership's accrued interest balance was pledged as collateral. This is part of the Partnership's insurance arrangements and the release of these funds is subject to approval from third parties.

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 6.1%.

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	2020 £m	2019 £m
Current:		
8⅜% bonds, 2019	–	(275.0)
Share Incentive Plan shares (SIP)	(43.1)	(56.3)
Unamortised bond transaction costs	–	0.1
	(43.1)	(331.2)
Non-current:		
Bank loans	(125.1)	(125.0)
6⅛% bonds, 2025	(300.0)	(300.0)
4¼% bonds, 2034	(300.0)	(300.0)
Unamortised bond and loan transaction costs	9.4	10.4
Fair value adjustment for hedged element on bonds	(2.8)	0.8
Share Incentive Plan shares (SIP)	(1.0)	(2.2)
	(719.5)	(716.0)

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

In April 2019, the Partnership repaid the 2019 bond amounting to £275.0m.

The Partnership operates the BonusSave scheme, a share incentive plan (SIP) which allows Partners to elect to invest part of their Partnership Bonus back into the Partnership. SIP shares are issued as part of the BonusSave scheme. Partners who wish to invest part of their Partnership Bonus in SIP shares are entitled to a dividend, the amount of which is determined from year to year by the Partnership Board. The amounts receivable in a winding up would be limited to the amounts that have been paid on the SIP shares. The amounts in respect of SIP shares are classified as debt as the Partnership has a clear obligation to repay the amounts.

The BonusSave scheme is operated by John Lewis Partnership Trust Limited which purchases SIP shares on behalf of Partners who have chosen to invest a portion of their Bonus for this purpose. At 25 January 2020, the value of SIP shares purchased by John Lewis Partnership Trust Limited on behalf of Partners was £44.1m (2019: £58.5m), £60.1m lower than the value of SIP shares issued of £104.2m (2019: £104.2m).

The SIP shares shown as current and non-current borrowings above reflect amounts owed directly to Partners in respect of the scheme. The cash flow movement as a result of the net subscriptions and redemptions of shares of £14.4m (2019: £15.4m) 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 (2019: £0.4m), are shown as cash flows used in financing operations.

Notes to the consolidated financial statements — continued

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 stores, 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.

The Partnership has applied IFRS 16 from 27 January 2019, resulting in the recognition of all future lease liabilities and related right-of-use assets on the balance sheet (except for exempt leases as detailed below). This note details the amounts included in the Partnership's consolidated financial statements in relation to lease liabilities.

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 for leases 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.

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 branches, 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);

– If any leasehold improvements are expected to have significant remaining value, the Partnership is typically reasonably certain to extend (or not 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:

	2020 £m	2019 £m
Depreciation charge for right-of-use assets (excluding impairment) (see note 3.2)	(134.7)	–
Interest expense on lease liabilities	(104.2)	–
Expense relating to short-term leases	(0.8)	–
Expense relating to leases of low value assets that are not shown above as short-term leases	(1.8)	–
Expense relating to variable lease payments not included in lease liabilities	(5.5)	–
Total cash outflow for leases comprising interest and capital payments (see note 5.2)	(196.9)	–
Additions to right-of-use assets (see note 3.2)	80.5	–
Carrying amount of right-of-use assets (see note 3.2)	1,854.9	–
Gains/(losses) arising from sale and leaseback transactions	14.8	–
Income from sub-leasing right-of-use assets	5.7	–

Prior to 27 January 2019, the Partnership recognised finance leases in line with IAS 17. Assets which were leased on terms that transferred substantially all the risks and rewards of ownership to the Partnership were treated as finance leases and capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The interest element of finance lease rentals was charged to the income statement. From 27 January 2019, the Partnership no longer recognises finance leases in line with IAS 17 and instead recognises right-of-use assets and lease liabilities in line with IFRS 16. Therefore, the future aggregate minimum lease payments payable under finance leases as at 25 January 2020 are deemed to be £nil (see note 1.1.4).

Finance lease liabilities	2020 £m	2019 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	–	(1.3)
Later than one year but not more than five	–	(4.8)
More than five years	–	(30.4)
	–	(36.5)
Future finance charge on finance leases	–	15.4
Present value of finance lease liabilities	–	(21.1)
Of which:		
Not later than one year	–	(0.5)
Later than one year but not more than five	–	(2.2)
More than five years	–	(18.4)

Prior to 27 January 2019, the Partnership recognised operating leases in line with IAS 17. Leases where the Partnership does not retain substantially all the risks and rewards of ownership of the asset were classified as operating leases. Operating lease rental payments were recognised as an expense in the income statement on a straight-line basis over the lease term. From 27 January 2019, the Partnership no longer recognises operating leases in line with IAS 17 and instead recognises right-of-use assets and lease liabilities in line with IFRS 16. Therefore, the future aggregate minimum lease payments payable under non-cancellable operating leases as at 25 January 2020 are deemed to be £nil (see note 1.1.4).

Future aggregate minimum lease payments under non-cancellable operating leases, payable:	2020 £m	2019 £m
Within one year	–	(192.5)
Later than one year and less than five years	–	(757.4)
After five years	–	(2,716.1)

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years:	2020 £m	2019 £m
Later than five years and less than 10 years	–	(825.7)
Later than 10 years and less than 20 years	–	(1,087.5)
Later than 20 years and less than 40 years	–	(517.7)
Later than 40 years and less than 80 years	–	(248.9)
After 80 years	–	(36.3)
	–	(2,716.1)

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.

Changes arising from the Pension Benefit Review, which principally reduced the rate of defined benefit pension build up, were effective from 1 April 2016. Additionally, on 15 May 2019, Partnership Council voted in favour of proposals by the Partnership Board to close the defined benefit section of the scheme to future accrual from 1 April 2020.

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's 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 salary increases.

The current service cost is the increase in the present value of the retirement benefit obligation resulting from employees' service in the current year. The current service cost is included within operating profit in the consolidated income statement.

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

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 the Consumer Price Index, CPI), which is generally lower than the previous pay growth assumption, resulting in a reduction of the defined benefit obligation. The accounting impact of the closure was a reduction in the defined benefit obligation of £156.0m. This reflects 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 is partially offset by a £93.0m actuarial loss, recognised through equity. This reflects 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. There will be no further current or past service costs from 1 April 2020. 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 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.

The most recent valuation is being carried out by an independent professionally qualified actuary as at 31 March 2019. As part of the ongoing triennial actuarial valuation of the scheme, underlying membership data has been updated as at 31 March 2019. This has resulted in an actuarial gain, recognised through equity, of £160.6m, reflecting the difference between actual experience compared to assumptions made in estimating the liability. Pension commitments recognised in these financial statements have been calculated based on that updated membership data. The 31 March 2019 triennial actuarial valuation is currently in progress.

The previous valuation as at 31 March 2016 resulted in a funding deficit of £479.0m (31 March 2013: £840.0m). The market value of the assets of the scheme as at 31 March 2016 was £4,377.0m (31 March 2013: £3,169.0m). The actuarial valuation showed that these assets were sufficient to cover 90% (31 March 2013: 79%) of the benefits which had accrued to members.

The valuation calculated under the funding valuation basis of £479.0m is different from the accounting valuation which is presented on the balance sheet in the Partnership's financial statements of £417.4m. Differences arise between the funding valuation and accounting valuation, mainly due to the use of different assumptions to value the liabilities and changes in market conditions between the two valuation dates, of 31 March 2016 and 25 January 2020.

For funding valuation purposes the liabilities are determined based on assumptions set by the Trustee following consultation with the Partnership and scheme actuaries. The discount rate used for the funding valuation as at 31 March 2016 is based on index linked gilt yields plus 1.6%.

In the financial statements the liabilities are determined in accordance with IAS 19. The discount rate used for the accounting valuation is based on high quality (AA) corporate bond yields of an appropriate term.

As a result of the funding valuation, the Partnership and the Trustee agreed to put in place a plan to eliminate the deficit of £479.0m over a 10-year period. Contributions agreed as part of this plan are as follows:
- A reduction in the contribution rate from 16.4% to 10.4% of eligible monthly payroll;
- Deficit reducing contributions from 1 April 2016 to 31 March 2019 of £33.0m per annum to be paid in equal monthly instalments, increasing by 3% at 31 March 2017 and 31 March 2018;
- Deficit reducing contributions from 1 April 2019 to 31 March 2026 of £6.6m per annum to be paid in equal monthly instalments, increasing on 31 March each year by 3%. The requirement for the deficit reducing contributions for the 12 months to 31 March 2020 was subsequently removed as an out performance clause within the Schedule of Contributions had been met; and
- One-off contributions of £100.0m and £50.0m due by 31 January 2017 and 31 March 2017 respectively, of which the £100.0m was paid on 18 January 2017 and £50.0m was paid on 24 February 2017.

The balance of the deficit is expected to be met by investment returns on the scheme assets. Total contributions to the scheme in 2020/21 under this agreement are expected to be £108.5m, subject to any changes as a result of the ongoing triennial actuarial valuation of the scheme, taking place for 31 March 2019 which is due to complete imminently.

Subsequent to the funding valuation being agreed, it was identified that certain pension scheme members were omitted from the calculation of the pension liabilities. Including these additional members increased the estimated pension liabilities by £31.0m (0.6%), from £4,856.0m to £4,887.0m. As a result, the Partnership has agreed to payments, in addition to the contributions described above, of £6.1m made in December 2017 and a further £3.2m per annum payable in equal monthly instalments from 1 April 2018 to 31 March 2026, increasing on 31 March each year by 3%.

Pension commitments recognised in these accounts have been calculated based on the actuarial valuation, as at 31 March 2016, which has been updated by actuaries to reflect the assets and liabilities of the scheme as at 25 January 2020, calculated on assumptions that are appropriate for accounting under IAS 19.

Notes to the consolidated financial statements — continued

6.1 RETIREMENT BENEFITS CONTINUED

Risk management

The cost of the scheme to the Partnership depends upon a number of assumptions about future events. Future contributions may be higher or lower than those currently agreed if these assumptions are not borne out in practice or if different assumptions are agreed in the future.

Specific risks include:

- *Changes in future expectations of price inflation:* The majority of the scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities. Hence, an increase in inflation will increase the deficit. This is offset in part by the Trustee's liability matching scheme as detailed in 6.1.4;
- *Changes in the discount rate used to value pension liabilities:* A lower discount rate will lead to a higher present value being placed on future pension payments. Hence, a reduction in discount rate will increase the deficit. This is offset in part by the Trustee's liability matching scheme as detailed in 6.1.4;
- *The return on assets being lower than assumed:* If the rate of growth in assets falls below the discount rate used to value the liabilities then the pension deficit will increase. This is offset in part by the Trustee's investment strategy of holding a highly diversified portfolio of return seeking assets as detailed in 6.1.4;
- *Falls in asset values not being matched by similar falls in the value of liabilities:* As the majority of assets held by the scheme are not matched to the liabilities of the scheme, a fall in plan assets will lead to an increase in the deficit. This is offset in part by the Trustee's investment strategy of holding a highly diversified portfolio of return seeking assets as detailed in 6.1.4; and
- *Unanticipated 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 25 January 2020. The following financial assumptions have been used to value the obligation:

	2020	2019
Discount rate	1.90%	2.80%
Future RPI inflation	2.80%	3.15%
Future CPI inflation	2.00%	2.15%
Increase in earnings	n/a	3.25%
Increase in pensions – in payment		
– Pre-April 1997	1.60%	1.65%
– April 1997-April 2016	2.70%	2.95%
– Post-April 2016	1.60%	1.65%
Increase in pensions – deferred	2.00%	2.15%

Nominal discount rate: IAS 19 Employee Benefits requires that the nominal discount rate is set by reference to market yields on high quality corporate bonds of a suitable term consistent with the scheme cash flows. Where there are no high quality corporate bonds of appropriate duration to reference, an extrapolation from other bond yields is required. The Partnership's pension scheme has cash flows spanning out over 50 years and an average duration of 22 years. At long durations there are few suitable high quality corporate bonds to reference in setting the nominal discount rate assumption. The model adopted by the Partnership is a yield curve approach, based on corporate bonds within the iBoxx AA corporate bond index. At very long durations, where there are no high quality corporate bonds of appropriate duration to reference, the yield curve is extrapolated based on observable corporate bond yields of mid to long durations reflecting expected yields on high quality corporate bonds over the duration of the Partnership's pension scheme.

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 25 January 2020, in order to reflect the impact of recent proposals by the UK Chancellor and the UK Statistics Authority (UKSA) to align the RPI with CPIH (a variant of the Consumer Prices Index that includes an estimate of housing costs), 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 0.4% beyond this date (an average margin of 0.3%). A long-term gap of 1.0% between RPI and CPI has been applied until 2030, reducing to 0.5% beyond this date (an average long-term gap of 0.8%). There exists some uncertainty over the timing of the change, however 2030 is the earliest date that the UKSA can change RPI without government consent. The impact of this change has resulted in an actuarial loss of £23.6m recognised in equity.

Increases in earnings: Increases in earnings are projected to be at 3.25% until 1 April 2020, when the scheme closed. Following closure, increase in earnings is not applicable.

Demographic assumptions

The post-retirement mortality assumptions used in valuing the pension liabilities were based on the S2 Light (2019: S2 Light) series standard tables. Based on scheme experience, the probability of death at each age was multiplied by 127% for males and 106% for females. Future improvements in life expectancy have been allowed for in line with the most recent CMI 2018 improvements model with a smoothing parameter of 7.0 (2019: CMI 2017, smoothing parameter of 7.0), subject to a long-term trend of 1.25%.

The average life expectancies assumed were as follows:

	2020		2019	
	Men	Women	Men	Women
Average life expectancy for a 65 year old (in years)	21.0	23.3	21.1	23.5
Average life expectancy at age 65, for a 50 year old (in years)	21.9	24.5	22.0	24.6

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	2020 £m	2019 £m
Defined benefit obligation for funded arrangements	(6,798.9)	(6,060.0)
Defined benefit obligation for unfunded arrangements	(22.1)	(23.0)
Total defined benefit obligation	(6,821.0)	(6,083.0)
Total value of scheme assets	6,403.6	5,614.9
Defined benefit liability at end of year	**(417.4)**	**(468.1)**

PURPOSE

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

Service cost is the cost to the Partnership of future benefits earned by members which is attributable to members' service in the current period.

Contribution expense is in respect of the Partnership's contributions to the defined contribution section of the pension scheme and cash supplements in respect of certain Partners in lieu of future pension accrual.

Administrative expenses are in relation to the pension scheme.

Net interest on the net defined benefit liability is made up of the interest cost on pension liabilities and interest income on pension assets.

Amounts recognised in the income statement	2020 £m	2019 £m
Current service cost	(109.1)	(134.6)
Past service gain as a result of closure	249.0	–
Contribution expense[1]	(82.0)	(72.5)
Administrative expenses – funded by the pension scheme	(7.0)	(6.1)
Administrative expenses – funded by the employer	(5.9)	(5.9)
Total operating income/(expense)	**45.0**	**(219.1)**
Net interest on net defined benefit liability	(6.9)	(17.0)
Total pension credit/(charge)	**38.1**	**(236.1)**

1 Includes Partnership contributions to the defined contribution section of the pension scheme of £78.0m (2019: £68.5m), together with cash supplements in respect of certain Partners in lieu of future pension accrual of £4.0m (2019: £4.0m).

Amounts recognised in equity	2020 £m	2019 £m
Return on plan assets greater/(less) than interest income	693.6	(15.0)
Remeasurements:		
– (loss)/gain from changes in financial assumptions	(1,004.3)	184.9
– (loss)/gain from changes in demographic assumptions	(43.5)	102.4
– experience gains	160.6	0.4
Total (loss)/gain recognised in equity	**(193.6)**	**272.7**

Notes to the consolidated financial statements — continued

6.1 RETIREMENT BENEFITS CONTINUED
6.1.3 RECONCILIATION OF RETIREMENT BENEFITS

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 interest income and remeasurements (explained further below).

Reconciliation of net defined benefit liability	2020 £m	2019 £m
Net defined benefit liability at beginning of year	(468.1)	(731.3)
Pension credit/(charge)	126.0	(157.7)
Contributions	118.3	148.2
Total (losses)/gains recognised in equity	(193.6)	272.7
Net defined benefit liability at end of year	(417.4)	(468.1)

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	2020 £m	2019 £m
Defined benefit obligation at beginning of year	(6,083.0)	(6,224.0)
Past service gain as a result of closure	249.0	–
Current service cost	(109.1)	(134.6)
Interest on pension liabilities	(159.3)	(169.2)
Remeasurements		
– (loss)/gain from changes in financial assumptions	(1,004.3)	184.9
– (loss)/gain from changes in demographic assumptions	(43.5)	102.4
– experience gains	160.6	0.4
Benefits paid	168.6	157.1
Defined benefit obligation at end of year	(6,821.0)	(6,083.0)

The scheme liabilities are 44.3% in respect of active scheme participants, 23.7% in respect of deferred scheme participants and 32.0% in respect of retirees.

The weighted average duration of the scheme liabilities at the end of the year is 22 years (2019: 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.

Reconciliation of value of assets	2020 £m	2019 £m
Value of assets at the beginning of year	5,614.9	5,492.7
Interest income on assets	152.4	152.2
Return on plan assets greater/(less) than interest income	693.6	(15.0)
Benefits paid	(168.6)	(157.1)
Administrative expenses paid	(7.0)	(6.1)
Contributions	118.3	148.2
Value of assets at the end of year	6,403.6	5,614.9

6.1.4 ANALYSIS OF ASSETS

	2020				2019			
	Quoted £m	Unquoted £m	Total £m	Total	Quoted £m	Unquoted £m	Total £m	Total
Equities								
UK	45.7	39.0	84.7	1.3%	33.2	34.1	67.3	1.2%
Rest of the world	887.5	1,178.2	2,065.7	32.3%	641.5	999.1	1,640.6	29.2%
Bonds								
Government – Rest of the world	113.8	0.1	113.9	1.8%	102.3	2.5	104.8	1.9%
Corporates – UK	3.6	–	3.6	<0.1%	5.2	1.8	7.0	0.1%
Corporates – Rest of the world	86.5	113.6	200.1	3.1%	95.5	80.9	176.4	3.1%
Property								
UK	–	516.9	516.9	8.1%	–	550.3	550.3	9.8%
Rest of the world	–	0.1	0.1	<0.1%	–	0.4	0.4	<0.1%
Alternative assets								
Liability driven investments	–	1,530.4	1,530.4	23.9%	–	937.7	937.7	16.7%
Hedge funds	–	642.9	642.9	10.0%	–	1,002.9	1,002.9	17.9%
Private equity	–	375.5	375.5	5.9%	–	340.9	340.9	6.1%
Other alternative assets	–	613.2	613.2	9.6%	–	670.8	670.8	11.9%
Cash and other	256.6	–	256.6	4.0%	115.8	–	115.8	2.1%
Total market value of assets	1,393.7	5,009.9	6,403.6	100.0%	993.5	4,621.4	5,614.9	100.0%

The Trustee's investment strategy, as set out in their Statement of Investment Principles dated 24 September 2019, is to hold 80% of assets in a return seeking portfolio that aims to reduce concentrations of risk by diversifying across a range of asset classes and geographies. The remaining assets are used to provide a liability matching portfolio with the intention of matching movements in the assessed values of the pension liabilities due to movements in interest rates and inflation. In 2016 the Trustee initiated a three to five-year interest rate and inflation hedging programme which increased the level of liability matching to 60% in line with its stated target. In October 2019, the Trustee agreed with the Partnership to increase the level to 80%. This is implemented using derivatives and therefore does not reduce the allocation to return seeking assets.

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.

Notes to the consolidated financial statements — continued

6.1 RETIREMENT BENEFITS CONTINUED
6.1.4 ANALYSIS OF ASSETS CONTINUED

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

Liability driven investments include UK government bond and cash equivalent assets valued at £3,221.5m (2019: £2,397.9m) and associated repurchase agreements and swaps valued at £(1,691.1)m (2019: £(1,460.2)m). This is part of the Trustee's interest rate and inflation hedging strategy.

Other alternative assets include investments in infrastructure funds of £309.0m (2019: £275.3m), insurance linked funds of £95.1m (2019: £193.6m), private debt of £239.2m (2019: £205.6m) and equity options of £(30.1)m (2019: £(3.7)m).

Cash and other includes cash deposits of £247.4m (2019: £101.7m), forward foreign exchange contracts valued at £12.6m (2019: £13.8m) and other items valued at £(3.4)m (2019: £0.3m).

Actual return on assets	2020 £m	2019 £m
Interest income on assets	152.4	152.2
Return on plan assets greater/(less) than interest income	693.6	(15.0)
Actual return on assets	846.0	137.2

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 25 January 2020	(6,821.0)	
Sensitivity of 0.1% increase to:		
– Discount rate[1]	147.5	2.2%
– Retail price inflation	(28.2)	(0.4%)
– Consumer price inflation	(52.3)	(0.8%)
Sensitivity of one-year increase in life expectancy	(233.9)	(3.4%)

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 £73.8m (2019: £71.7m) investment in JLP Scottish Limited Partnership held by the pension scheme. The distribution of JLP Scottish Limited Partnership profits to the pension scheme is reflected as pension contributions in these consolidated financial statements on a cash basis.

John Lewis Properties plc guarantee
As part of agreeing the funding valuation in 2017, John Lewis Properties plc provided a corporate guarantee to the pension scheme. This guarantee means that if John Lewis plc fails to make any payments due to the scheme for any reason, then the pension scheme can claim against John Lewis Properties plc for those payments. As part of the guarantee, John Lewis Properties plc is required to maintain at least £800.0m of net assets. The guarantee has improved the recovery to the pension scheme in the event of insolvency of the Partnership.

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, seeking to ensure the long-term financial sustainability of the Partnership by maintaining a financial risk profile consistent with an investment grade credit rating. Although the Partnership does not have an external credit rating, it routinely monitors its capital and liquidity requirements, primarily through the Debt Ratio (see pages 40 to 41), whilst maintaining an appropriate level of cash and committed debt headroom and a managed debt maturity profile to reduce refinancing risk and ensure continuity of funding. Forms of borrowing include bond issues, bank debt, assets acquired via leases, the pension deficit and Share Incentive Plan shares as part of the BonusSave scheme.

7.1.2 LIQUIDITY RISK
In line with the Partnership Board approved Treasury Standard, the Partnership is required to hold a minimum amount of liquidity, made up of a mixture of cash and undrawn committed credit facilities. Liquidity requirements are managed in line with short and long-term cash flow forecasts and reviewed against the Partnership's debt portfolio and maturity profile. Surplus cash is invested in interest-bearing accounts, short-term deposits and other short-term investments with sufficient, prudent liquidity determined by the above mentioned cash flow forecasts. The Partnership actively reviews and manages its cash holdings, sources of debt and committed credit facilities. Greater emphasis has been placed on cash balances providing a material portion of the Partnership's overall liquidity, with undrawn committed credit facilities complementing these balances. The Partnership has a £450.0m committed credit facility, maturing in November 2021, and a £50.0m committed credit facility maturing in March 2021. At the year-end, the Partnership had undrawn committed credit facilities of £500.0m (2019: £500.0m). In addition to these facilities, the Partnership had listed bonds at the year-end totalling £600.0m (2019: £875.0m), 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 £125.0m (2019: £125.0m) were agreed during 2018/19, of which £75.0m matures in 2021 and £50.0m in 2023. The loans have variable interest payments. The maturity profiles of financial debt are set out below.

The Partnership's listed bonds, bank loans and committed credit facilities contain financial covenants. Throughout the year the Partnership maintained comfortable headroom against its covenants (for further detail see page 50).

Notes to the consolidated financial statements — continued

7.1 MANAGEMENT OF FINANCIAL RISKS CONTINUED
7.1.2 LIQUIDITY RISK CONTINUED
The following analysis shows the contractual undiscounted cash flows payable under financial liabilities and derivative financial liabilities at the balance sheet date:

	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)

	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	(1,047.2)	(1,058.5)	(331.3)	–	(727.2)
Interest payments on borrowings	–	(345.6)	(57.2)	(34.2)	(254.2)
Finance lease liabilities	(21.1)	(36.5)	(1.3)	(1.3)	(33.9)
Trade and other payables	(1,854.3)	(1,328.5)	(1,328.3)	(0.2)	–
Derivative financial liabilities					
Derivative contracts – receipts	–	455.6	360.4	70.6	24.6
Derivative contracts – payments	–	(455.9)	(360.1)	(72.3)	(23.5)
At 26 January 2019	(2,922.6)	(2,769.4)	(1,717.8)	(37.4)	(1,014.2)

For the purposes of this note, the foreign currency element of forward foreign currency contracts is translated at spot rates prevailing at the year-end.

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.

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 contracts of £444.7m (2019: £418.5m) had been entered into, to hedge purchases in foreign currencies which will mature over the next 18 months.

In addition, the Partnership has purchased $200.0m of Sterling/US dollar options and €100.0m of Sterling/Euro options, which expired in February 2020, in order to help manage its indirect currency risk. Fair value movements in the option contracts will be recognised within the income statement. The indirect risk being hedged is defined as the 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.

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:

	2020 £m	2019 £m
Trade and other receivables	142.6	129.8
Short-term investments	317.2	265.4
Cash and cash equivalents	598.3	716.8
Derivative financial instruments	4.9	7.0
	1,063.0	1,119.0

7.1.6 ENERGY RISK
The Partnership operates risk management processes for the energy costs associated with the Partnership's activities. The Partnership's energy policy is reviewed by an Energy Committee, which meets regularly to review pricing exposure to diesel, electricity and gas consumption and determines strategies for forward purchasing and hedging of energy costs using flexible purchase contracts and by entering into over-the-counter diesel swap contracts.

Diesel cost exposures are hedged 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 £1.4m (2019: £1.1m) had been entered into, to hedge purchases of diesel that will mature within the next month.

7.1.7 SENSITIVITY ANALYSIS
The following analysis illustrates the sensitivity of the Partnership's financial instruments to changes in market variables, namely UK interest rates and the US Dollar and Euro to Sterling exchange rates. The level of sensitivities chosen, being a 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.

	2020		2019	
	Income statement +/- £m	**Equity +/- £m**	Income statement +/- £m	Equity +/- £m
UK interest rates +/- 1% (2019: +/- 1%)	3.5	–	5.7	–
US Dollar exchange rate (GBP/USD) +/- 10% (2019: +/- 10%)	13.3	22.7	12.4	20.1
Euro exchange rate (GBP/EUR) +/- 10% (2019: +/- 10%)	6.9	15.7	7.3	15.8

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.

Notes to the consolidated financial statements — continued

7.2 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES

PURPOSE

We use cash flow hedges to manage the risk of adverse currency movements.

This note details the fair value of these financial instruments and financial liabilities, together with the valuation techniques and key assumptions made in determining the fair value, as required by IFRS. The fair value represents the amount that would be received from the sale of an asset or the amount that would be paid to pass on a liability.

7.2.1 BASIS OF FAIR VALUE

Fair value estimation

The different levels per the IFRS 13 fair value hierarchy have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

During the year ended 25 January 2020, 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:

	2020				2019			
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	(3.0)	(2.9)	–	0.2	(1.4)	(1.2)	–
Other derivatives	–	(0.9)	–	(0.9)	–	(0.6)	–	(0.6)
	0.1	(3.9)	(2.9)	(0.9)	0.2	(2.0)	(1.2)	(0.6)
Current:								
Currency derivatives – cash flow hedge	2.0	(18.2)	(16.2)	–	6.4	(5.9)	0.5	–
Other derivatives	2.8	(0.5)	–	2.3	0.4	(1.6)	–	(1.2)
	4.8	(18.7)	(16.2)	2.3	6.8	(7.5)	0.5	(1.2)

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

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

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

7.2.3 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES HELD AT AMORTISED COST

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

	2020		2019	
	CV £m	FV £m	CV £m	FV £m
Financial liabilities				
Listed bonds	(590.6)	(645.7)	(864.5)	(858.2)

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	823.9	91.2	915.1
Other financial assets	0.4	–	0.4
At 25 January 2020	**824.3**	**91.2**	**915.5**
Sterling financial assets	883.6	98.2	981.8
Other financial assets	0.4	–	0.4
At 26 January 2019	884.0	98.2	982.2

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

7.3.2 ANALYSIS OF FINANCIAL LIABILITIES

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

Currency analysis	Fixed rate £m	Floating rate £m	Total £m
All Sterling			
At 25 January 2020	**(2,586.0)**	**(268.7)**	**(2,854.7)**
At 26 January 2019	(786.3)	(282.8)	(1,069.1)

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	2020 Authorised £m	2020 Issued and fully paid £m	2019 Authorised £m	2019 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.

8.2.3 OTHER TRANSACTIONS

Key management compensation has been disclosed in note 2.8.

During the year, the Partnership provided administrative support services to charities related to the Partnership. The estimated value of these support services is £90,000 (2019: £84,000). The Partnership also made donations totalling £nil (2019: £0.7m) to the John Lewis & Partners Foundation.

8.3 SUBSEQUENT EVENTS

PURPOSE

Events that take place after the balance sheet date of 25 January 2020 and before the date the financial statements are signed are recorded in this note. In order to be disclosed, these events must be sufficiently material to warrant disclosure.

8.3.1 CORONAVIRUS

The Coronavirus outbreak has developed rapidly in 2020 after our results were announced and with hindsight would have had a material impact if the full effect on the business being felt today was reflected in these accounts. At 25 January 2020 the emerging Coronavirus outbreak was largely restricted to China with a few contained cases reported around the world. Whilst this presented a threat to the supply chain it was not forecast to impact day-to-day operations and therefore no impact was reflected in our sales performance and cost forecasts. The situation has changed significantly and on 21 March 2020 the Partnership announced the temporary closure of all John Lewis shops from 24 March 2020. These shops will not reopen until it is safe and financially prudent to do so. This was in advance of the government's announcement on 23 March 2020 that shops selling 'non-essential goods' will be closed immediately. On 1 April 2020, as a result of the closure of all John Lewis shops, the Partnership announced that it would furlough 14,000 Partners.

Whether the impact of Coronavirus is an adjusting or non-adjusting post balance sheet event is a significant judgement which impacts its treatment in these accounts. A post balance sheet event is adjusting if it provides more information about circumstances that existed at the year-end. The Partnership has concluded that Coronavirus is a non-adjusting post balance sheet event at 25 January 2020 on the basis that at that date:

– The World Health Organisation had not declared a global health emergency;
– There was no significant spread of the virus outside of China; and
– There were no cases in the UK and no evidence that the virus was not contained in Europe at that stage.

Events such as the announcement or enactment of new measures to contain the virus or decisions taken by management are generally considered to be non-adjusting. As a non-adjusting event we have therefore made no adjustments in these financial statements to account for the impact of Coronavirus above that which was known at 25 January 2020. Given the unknown and unprecedented risk and response to the outbreak it is difficult to predict the full extent that Coronavirus will have on our retail and online sales. We have summarised below where we see material changes in our estimates and judgements impacting the balance sheet at 25 January 2020. This is based on our best estimates of the impact of the closure of John Lewis stores for a period of 12 weeks or longer and the wider economic challenges of the virus over this period and beyond.

Branch impairments (John Lewis)

Due to the current closure of all John Lewis stores, cash flows from each store will be reduced, which will decrease the recoverable amount from individual store CGUs. As a consequence, had this been taken into consideration within these financial statements, an increased impairment charge would have arisen. As discussed above this is considered to be a non-adjusting post balance sheet event.

For the purposes of appropriate disclosure, we have modelled a sensitivity aligned to the downside scenarios used for our going concern and viability assessment. This ranges from the closure of John Lewis shops for a period of 12 weeks and significant sales decline in John Lewis for both shops and online, to the closure of both John Lewis shops and online for a period of 6 months with a further significant decline in sales in both shops and online for the remainder of 2020/21. The sensitivity includes a slow recovery with reduced trading performance across both brands in 2021/22 and 2022/23. The scenario includes cost mitigations that are currently being actioned across the Partnership, specifically in respect of business rates, marketing expenditure and Partner costs. The allocation of online sales remains unchanged as the methodology for the calculation is not considered to be impacted by this short-term disruption to trade. This sensitivity modelling results in an increased impairment charge of £70-100m.

Pension deficit

The rapid spread of Coronavirus has led to significant market fluctuations and a dramatic fall in global stock markets and bond yields. Equities are particularly volatile, as are high yield bond and high risk debt markets. However, government bonds have seen strong performance, pushing yields lower, as investors seek safer assets and the effects of quantitative easing are felt. AA+ corporate bond yields, on which the Partnership's retirement benefit obligation discount rate is based have increased significantly, increasing the nominal discount rate and decreasing the pension liability. Inflation has also reduced, further decreasing the pension liability. Partially offsetting this is a reduction in assets due to a fall in underlying equities. The Partnership's asset portfolio is weighted towards growth assets which increases their exposure to market conditions. The net impact of the above, based on market conditions at the date of signing the Annual Report and Accounts, is expected to be favourable for the Partnership's IAS 19 accounting pension deficit.

Inventory

We have considered the level of inventory provision held at the 25 January 2020 and do not believe that there is further material impairment to inventory held at this point resulting from the Coronavirus outbreak. At the balance sheet date we had some new season inventory but this has largely been sold and replenished before the outbreak, whilst our holding of autumn/winter and older season stocks have been substantially reduced since year-end. The stock of perishable goods that existed at the year-end have been largely sold or are being transferred out of John Lewis stores to be sold online or through Waitrose branches.

Intangible work in progress

There was £121m of intangible work in progress on the balance sheet at 25 January 2020 (see note 3.1). If projects are delayed or stopped as investment is paused to protect cash, this could trigger an impairment of the intangible work in progress recognised to date if there is deemed to be a reduction in the expected economic benefits generated from the project. The size of the impairment will depend on the likelihood of the project restarting or being completed and the level of costs incurred to date that will no longer generate economic benefits. This is difficult to quantify at the current time and will need to be reviewed further in advance of half year. Clearly a level of uncertainty exists as the Coronavirus pandemic progresses, but this has been considered as part of our viability assessment, see page 51.

8.3.2 WAITROSE STORE CLOSURES

On 5 March 2020, Waitrose informed Partners that three shops will close later this year at Helensburgh, Four Oaks and Waterlooville. As a result of the Coronavirus pandemic in recent weeks, the closure of two of these shops is to be delayed. No accounting for potential redundancies was recorded for the year ended 25 January 2020 in respect of these shop closures on the basis that the announcement to Partners was after the year-end. All three branches are fully impaired. However, it is not anticipated that an extension of the closure period would significantly alter the impairment judgement.

Company financial statements

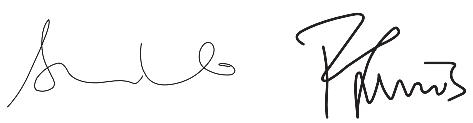
A financial snapshot of the Company, showing our assets and how they are financed.

Company balance sheet

As at 25 January 2020

Notes		2020 £m	2019 £m
	Non-current assets		
11	Investments	123.0	122.4
	Total assets	123.0	122.4
	Current liabilities		
13	Trade and other payables	(1.2)	(1.3)
	Non-current liabilities		
12	Borrowings	(104.2)	(104.2)
	Total liabilities	(105.4)	(105.5)
	Net assets	17.6	16.9
	Equity		
14	Share capital	0.6	0.6
	Capital redemption reserve	5.0	5.0
	Retained earnings	12.0	11.3
	Total equity	17.6	16.9

The financial statements on pages 142 to 145 were approved by the Board of Directors on 15 April 2020 and signed on its behalf by Sharon White and Patrick Lewis, Directors, John Lewis Partnership plc.



SHARON WHITE AND PATRICK LEWIS
Directors, John Lewis Partnership plc

Registered number 00238937

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

A reconciliation between the beginning and the end of the year which discloses profit or loss.

Company statement of changes in equity

For the year ended 25 January 2020

Notes		Share capital £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
	Balance at 27 January 2018	0.6	5.0	9.9	15.5
10	Profit for the year and total comprehensive income	–	–	1.4	1.4
	Balance at 26 January 2019	0.6	5.0	11.3	16.9
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

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 under International Financial Reporting Standards (IFRS) as adopted by the European Union. Below we set out significant accounting policies applied by the Company in the current reporting period where they are different, or additional, to those used by the Partnership. The accounting policies are set in line with the requirements of IFRS and there have been no changes in accounting policies during the year other than those set out under 'Amendments to accounting standards' in note 1 to the Partnership's consolidated financial statements.

Basis of preparation

The separate financial statements of the Company are drawn up in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and with the Companies Act 2006. The Company's accounting policies are aligned with the Partnership's accounting policies as described in note 1 to the Partnership's consolidated financial statements. Additional accounting policies are noted below.

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 25 January 2020, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future. 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 Company in the context of the current Coronavirus pandemic in the UK, for the reasons set out in note 1.1.1.

The Directors, after reviewing the Company's operating budgets, investment plans and financing arrangements, consider that the Company has sufficient financing available at the date of approval of this report. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the Company financial statements.

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 £0.7m profit (2019: £1.4m 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 25 January 2020.

	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 26 January 2019	11.3	111.0	0.1	122.4
Movements	–	0.6	–	0.6
At 25 January 2020	11.3	111.6	0.1	123.0

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	2020 £m	2019 £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	2020 £m	2019 £m
Other payables	(1.2)	(1.3)

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.

Share capital	2020 Authorised £m	2020 Issued and fully paid £m	2019 Authorised £m	2019 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.

The Company's only direct 100% owned subsidiary as at 25 January 2020 was:

Name	Principal activity	Country of incorporation	Class of share	Percentage shareholdings
John Lewis plc	Retailing, corporate and shared services	England & Wales[1]	Ordinary	100%

1 The address of the registered office is 171 Victoria Street, London, SW1E 5NN.

Subsidiary and related undertakings of John Lewis plc:

Name	Principal activity	Country of incorporation	Class of share	Percentage shareholdings
Admiral Park Retail Management Limited	Property holding company	Guernsey[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, SW1E 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.

The whole of the ordinary share capital of the subsidiary undertakings of John Lewis plc as shown above is held within the Partnership. Except as noted above, all of these subsidiary undertakings operate wholly or mainly in the United Kingdom.

The Partnership has taken advantage of the exemption conferred by regulation 7 of the Partnerships (Accounts) Regulations 2008 and has therefore not appended the accounts of JLP Scottish Partnership and JLP Scottish Limited Partnership to these accounts. Separate accounts for these partnerships are not required to be filed with the Registrar of Companies.

Statement of Directors' responsibilities in respect of the Annual Report and Accounts

The Directors are responsible for preparing the Partnership and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Partnership and parent Company financial statements for each financial year. Under that law they have elected to prepare the Group and parent Company financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU) and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Partnership and parent Company and of their profit or loss for that period. In preparing each of the Partnership and parent Company financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Partnership and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Partnership or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board.

SHARON WHITE AND PATRICK LEWIS
Directors, John Lewis Partnership plc
15 April 2020

Independent auditor's report to the members of John Lewis Partnership plc

KPMG

1. OUR OPINION IS UNMODIFIED

We have audited the financial statements of John Lewis Partnership plc ('the Company' or 'the Partnership') for the year ended 25 January 2020 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows, Company balance sheet, Company statement of changes in equity, Company statement of cash flows, and the related notes, including the accounting policies in note 1.

IN OUR OPINION:
- the financial statements give a true and fair view of the state of the Partnership's[1] and of the parent Company's affairs as at 25 January 2020 and of the Partnership's profit for the year then ended;
- the Partnership's financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Partnership's financial statements, Article 4 of the IAS Regulation.

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 four financial years ended 25 January 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Partnership in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

1 In this report, we use the term 'Partnership' to mean the Group.

OVERVIEW

Materiality Partnership financial statements as a whole	£13.7m (2019: £13.7m) 0.13% of Partnership revenue (2019: 5.0% of the 3-year average of consolidated profit before tax, Partnership Bonus and exceptional items)	
Coverage	99% (2019: 99%) of Partnership revenue	
Key audit matters	**vs 2019**	
Recurring risks	Valuation of property, plant and equipment, and right-of-use assets (including related assets in cash generating units)	▲
	Net defined benefit obligation	◀▶
	New: IFRS 16 – lease arrangements (transition)	
	Long leave provision	◀▶
	Fair value of free service warranty	◀▶
Event driven	Brexit	◀▶
	Going concern	▲
Parent Company specific risk	Valuation of investments	◀▶

Independent auditor's report to the members of John Lewis Partnership plc — continued

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 arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	THE RISK	OUR RESPONSE
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 50 (principal risks), page 51 (viability statement) and page 68 (Audit and Risk Committee report)*	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in property, plant and equipment, and right-of-use assets (including related assets in cash generating units), net defined benefit obligation, long leave provision, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements below. All of these depend on assessments of the future economic environment and the Partnership's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report and Accounts including the principal risks disclosure and the viability statement and to consider the Directors' statement that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Partnership's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: – **Our Brexit knowledge:** We considered the Directors' assessment of Brexit-related sources of risk for the Partnership and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. – **Sensitivity analysis:** When addressing carrying amount of PPE, and right-of-use assets, net defined benefit obligation and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. – **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on carrying amount of PPE, and right-of-use assets, net defined benefit obligation and other areas, we considered all of the Brexit related disclosures together, including those in the Strategic Report, comparing the overall picture against our understanding of the risks. **Our results:** – As reported under property, plant and equipment, and right-of-use assets (including related assets in cash generating units), net defined benefit obligation and long leave provision, we found the resulting estimates and related disclosures in relation to going concern to be acceptable (2019 result: acceptable). However, no audit should be expected to predict to unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

	THE RISK	OUR RESPONSE
Going concern *Refer to page 68 (Audit and Risk Committee report) and pages 94 to 95 (accounting policy)*	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Partnership and parent Company. That judgement is based on an evaluation of the inherent risks to the Partnership's and Company's business model and how those risks might affect the Partnership's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Partnership's and Company's available financial resources over this period were: – The impact of Coronavirus 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, the potential disruption to the grocery supply chain and the potential for the closure of some Waitrose stores; and – The impact of Brexit on supply chain, recruitment needs and cost base both relating to foreign exchange and import/export tariffs. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	**Our procedures included:** – **Test of details:** Evaluated the process and models the Directors used in their assessment, including use of the work of specialists. – **Test of details:** Evaluated whether the assumptions are realistic and achievable and consistent with the external and/or internal environment and other matters identified in the audit. – **Sensitivity analysis:** We considered sensitivities over the level of available financial resources indicated by the 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. – **Historical comparisons:** Considering 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. – **Our expertise:** Consultation with our restructuring specialists to assess the Directors' going concern assessment. – **Our sector expertise:** Challenged management's plans for future actions, and verified the reliability and relevance of data used including plans to refinance external debt against our own knowledge of the industry. – **Assessing transparency:** Assessing the reasonableness of the going concern disclosure. **Our results:** – We found the going concern disclosure without any material uncertainty to be acceptable (2019 result: acceptable).

Independent auditor's report to the members of John Lewis Partnership plc — continued

	THE RISK	OUR RESPONSE
Valuation of property, plant and equipment, and right-of-use assets (including related assets in cash generating units) **£5,390.3m (2019: £3,809.7m)** *Refer to page 65 (Audit and Risk Committee report), page 114 (accounting policy) and pages 115 to 116 (financial disclosures)*	**Forecast-based valuation** Impairment considerations: The Partnership has significant property, plant and equipment (PPE), and right-of-use assets held on its consolidated balance sheet. There is uncertainty associated with the outcome of Brexit and the effects of continuing market competition that could have implications on the underlying trading of the Partnership and hence impact the recoverable amount of its PPE, right-of-use assets and related assets in each cash generating unit which are each one of the Partnership's branches. In particular, the continuing decelerated sales growth and margins achieved, in John Lewis, have increased the risk this year, whereas in previous years it was specific to Waitrose. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The key assumptions used in the value in use (VIU) calculations for estimating the recoverable amount are expected sales and costs in the short-term cash flow forecasts, the long-term growth rate and the discount rate. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the VIU 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. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than that materiality.	**Our procedures included:** – **Re-performance:** We re-performed the calculations the Directors performed for determining the VIU of each cash generating unit and compared data used in the model against source information, when applicable. – **Our sector experience:** We evaluated assumptions used, in particular those relating to forecast revenue growth and profit margins for each Waitrose and John Lewis branch. We also challenged the Directors as to the achievability of their forecasts and business plan, taking into account the historical accuracy of previous forecasts and wider market factors (such as performance of competitors). – **Benchmarking assumptions:** We compared the Directors' assumptions to externally derived data in relation to key inputs such as projected economic growth, competition, cost inflation and discount rates. – **Sensitivity analysis:** We performed sensitivity analysis to stress test the assumptions noted above. – **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, right-of-use assets and related assets in its cash generating units. **Our results:** – We found the resulting estimate of the recoverable amount of PPE, right-of-use assets and related assets in each cash generating unit to be acceptable (2019 result: acceptable).

	THE RISK	OUR RESPONSE
Net defined benefit obligation **£417.4m (2019: £468.1m)** *Refer to page 128 (accounting policy) and pages 129 to 134 (financial disclosures)*	**Subjective valuation** A significant level of estimation is required in order to determine the valuation of the gross liability. Small changes in the key assumptions (in particular, discount rates, inflation, mortality rates and salary increases) can have a material impact on the gross liability. A triennial valuation for the pension scheme's year ended 31 March 2019 is currently ongoing. This required a new set of membership data be provided to the actuary which is also used by the Partnership in calculating the total defined benefit obligation, with roll forward assumptions applied to 25 January 2020 in line with accepted valuation techniques. Due to the volume of members both joining and moving categories (i.e. between active, deferred and pensioner), errors in the membership records could result in a material misstatement if not completely and accurately included in the calculation of the gross liability. In addition, within the Partnership's pension asset portfolio are a number of assets whose valuation require significant judgement as a result of quoted prices being unavailable (level 3 assets). These holdings together represented 28% (£1.8 billion) of the total pension assets held. The asset categories within this where significant audit effort and judgement was focused were investment property, special purpose investment vehicles and private equity investments. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the gross defined benefit obligation and level 3 pension assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 6.1.5) disclose the sensitivity estimated by the Partnership.	**Our procedures included:** – **Benchmarking assumptions:** We used our actuarial specialists to challenge the key assumptions (in particular, discount rates, inflation, mortality rates and salary increases). This involved comparing the assumptions to available market data, our expectation and to other similar UK pension schemes' assumptions. – **Assessing base data:** We have confirmed the data used in the current year valuation is consistent with that prepared at the triennial valuation as at 31 March 2019. We used our actuarial specialists to challenge the methodology used to roll forward the results of the triennial valuation as at 31 March 2019. – **Our valuation expertise:** For hard-to-value plan assets, we used our own property valuation specialists to assess the key inputs and assumptions used by external valuers by reference to our own market and industry benchmarks. For private equity funds we obtained direct confirmations and assessed historical accuracy of valuations to help inform whether current valuations were appropriate. – **Methodology choice:** We have assessed the pricing model methodologies used with reference to the Royal Institute of Chartered Surveyors for property and the International Private Equity and Venture Capital Valuation guidance for private equity funds included in plan assets. – **Assessing disclosures:** We also considered the adequacy of the Partnership's disclosures in respect of the sensitivity of the deficit to these assumptions. **Our results:** – We found the valuation of the net defined benefit obligation to be acceptable (2019 result: acceptable).

Independent auditor's report to the members of John Lewis Partnership plc — continued

	THE RISK	OUR RESPONSE
IFRS 16 – lease arrangements (transition) **£2,094.9m** *Refer to page 66 (Audit and Risk Committee report), pages 95 to 96 (accounting policy) and pages 126 to 127 (financial disclosures)*	**Subjective judgement** Following the adoption of IFRS 16, the recognition of future lease liabilities and corresponding assets has changed with the Partnership bringing onto its balance sheet £2.1 billion of future lease liabilities and £1.9 billion of right-of-use assets. There is a risk that existing leases subject to transition are not completely identified, that transition date recognition and measurement adjustments are not accurately recorded and transition disclosures are incomplete, inaccurate or not fairly presented. Furthermore, on transition and for new leases entered into during the year, to determine the future lease liability and base for calculating the right-of-use asset, the Partnership has made a number of assumptions about individual leases including lease term, discount rate and future rental payments when there is a variable element dependent on an index or rate. Due to it being the first year of application and the magnitude of the balance, there is a risk that inaccurate input of the key data elements or incorrect selection of assumptions such as changes in the index or rate applicable could result in a material misstatement. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the lease liability and corresponding right-of-use asset has a potential range of outcomes greater than our materiality for the financial statements as a whole.	**Our procedures included:** – **Assessing methodology and assumptions:** We have evaluated the reasonableness of management's key judgements made in preparing the transition adjustments, specifically lease term, discount rate and variable rates. This included considering the appropriateness of the selection of accounting policies based on the requirements of IFRS 16, our business understanding and industry practice. – **Assessing base data:** We have tested the completeness and accuracy of the underlying data used in preparing the adjustment through agreeing information to the original contract or most recent invoice for rental payments and reviewing the trial balance for payments which may suggest a lease contract is in place. – **Independent re-performance:** We have recalculated the lease liability using an independent lease tool and the underlying data inputs. – **Assessing disclosures:** We also considered the adequacy of the Partnership's disclosures in respect of the transition to IFRS 16. **Our results:** – We found the lease liability and right-of-use asset on transition date and for the year to be acceptable.
Long leave provision **£153.5m (2019: £141.8m)** *Refer to page 67 (Audit and Risk Committee report), page 121 (accounting policy) and page 121 (financial disclosures)*	**Subjective estimate** The Partnership has a long leave scheme, open to all Partners, which provides up to six months' paid leave after 25 years' service. The basis of the calculation of the liability is based upon a significant level of estimation and judgement. Small changes in the key assumptions, for example the discount rate, staff turnover rates and salary increases can have a material impact on the liability. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the long leave liability has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than that materiality.	**Our procedures included:** – **Benchmarking assumptions:** We used our own actuarial specialists to consider the key assumptions used. This involved comparing the assumptions to available market data and our expected range. – **Sensitivity analysis:** We also performed sensitivity analysis over these assumptions. **Our results:** – From the evidence obtained, we considered the level of provisioning to be acceptable (2019 result: acceptable).

	THE RISK	OUR RESPONSE
Fair value of free service warranty **£42.4m (2019: £50.0m** *Refer to page 67 (Audit and Risk Committee report), page 102 (accounting policy) and pages 102 to 103 (financial disclosures)*	**Subjective estimate** The free service warranty in John Lewis, principally for certain electrical products, is considered a separate performance obligation and the timing of revenue recognition is different from that of the product sale itself. Accordingly, the Partnership allocates a portion of the product's full sale value (consideration received) to providing such warranty. This allocation is based on the stand-alone selling prices of the product and the relative fair value of the warranty. The amount allocated to free warranties is then recorded as deferred income on the balance sheet and released to revenue over the period of the warranty. In order to determine the fair value of the extended free warranty, management uses a cost-plus approach, which comprises of a valuation technique that reflects the amount that would be required to replace or repair the service capacity of the good sold. Therefore, a significant level of estimation is required for the assumptions around frequency and value of the expected future costs of servicing the free warranty and use of appropriate historical data to form the assumptions. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the fair value of free service warranty has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than that materiality.	**Our procedures included:** – **Assessing methodology and assumptions:** We have considered the underlying calculations for the free service warranty calculation, including assessing the underlying data/historical data used and comparing this to source documentation, the methodology and appropriateness of assumptions used in calculating the cost to repair for items sold in the period to a margin is applied. In particular, we evaluated whether the source of the historical data was reasonable based on our understanding of the industry and business and performed trend analyses in respect of historical cost per unit. – **Sensitivity analysis:** We have performed sensitivity analysis on the assumptions made, including the product repair and replace frequency rates. – **Independent re-performance:** We have re-performed the calculation using the underlying data inputs. **Our results:** – We found the amounts of revenue deferred at 25 January 2020 to be acceptable (2019 result: acceptable).
Parent Company financial statements – valuation of investments **£123.0m (2019: £122.4m)** *Refer to page 143 (financial disclosures)*	**Low risk, high value** The carrying amount of the Company's investment in subsidiaries are valued at cost, less allowances for impairment. We do not consider the valuation of these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.	**Our procedures included:** – **Test of details:** Comparing the investment carrying values to the net assets of the investment to identify whether the net asset values of the subsidiaries, being an approximation of their minimum recoverable amount, were in excess of their carrying amount. – **Assessing subsidiary audits:** Assessing the work performed over the subsidiaries and considering the results of the work on those subsidiaries' profit and net assets. **Our results:** – We found assessment of the carrying value of investments to be acceptable (2019 result: 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 £13.7m, determined with reference to a benchmark of Partnership revenue (as disclosed in note 2.2), of £10,151.3m, of which it represents 0.13% (2019: 5.0% of the 3-year average of Partnership profit before tax, normalized to exclude Partnership Bonus and exceptional items).

We consider the Partnership revenue to be the most appropriate benchmark as it provides a more stable measure year-on-year than Partnership profit before tax, normalised to exclude Partnership Bonus and exceptional items.

Materiality for the parent Company financial statements as a whole was set at £3.7m (2019: £3.6m), determined with reference to a benchmark of Company total assets, of £123.0m, of which it represents 3.0% (2019: 3.0%).

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

Of the Partnership's 18 (2019: 17) reporting components, we subjected 6 (2019: 6) to full scope audits for Partnership purposes. In addition, 1 component (2019: 1) was subjected to specified risk-focused audit procedures. The latter was not individually financially significant enough to require a full scope audit for Partnership purposes, but did present specific individual risks that needed to be addressed over a liability balance.

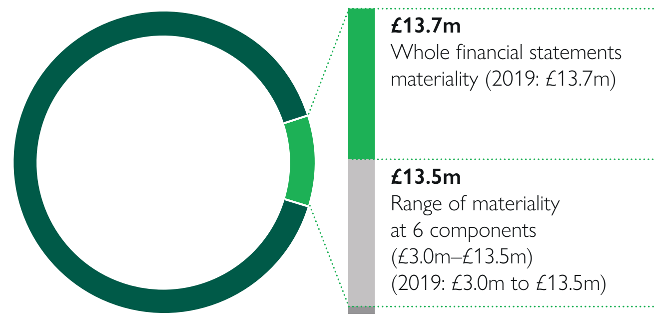
The components within scope of our work accounted for the percentages illustrated opposite.

The remaining 1% of total Partnership revenue, 21% of Partnership profit before tax and 7% of total Partnership assets is represented by 11 reporting components, none of which individually represented more than 6% of any of total Partnership revenue, Partnership profit before tax or total Partnership assets. For these residual components, we performed analysis at an aggregated Partnership level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £13.5m to £3.0m, having regard to the mix of size and risk profile of the Partnership across the components. The work on 1 of the 7 components (2019: 2 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.

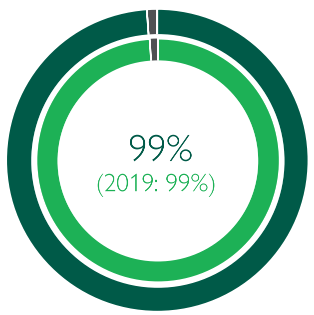
Partnership revenue
£10,151.3m (2019: £273.6 Partnership profit before tax, Partnership Bonus and exceptional items)

Materiality
£13.7m (2019: £13.7m)



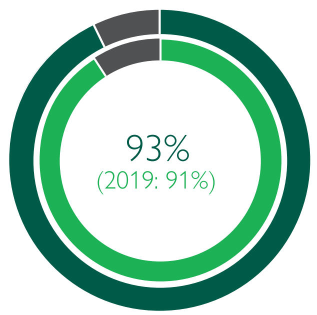
- Partnership revenue
- Partnership materiality

Total Partnership revenue



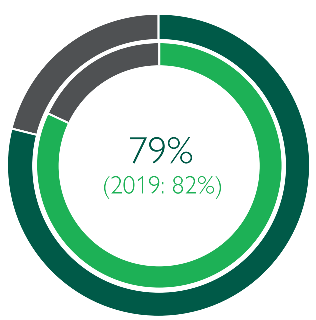
- 2020
- 2019

Partnership total assets



- 2020
- 2019

Partnership profit before tax



- 2020
- 2019

4. WE HAVE NOTHING TO REPORT ON GOING CONCERN

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Partnership or to cease their operations, and as they have concluded that the Company's and the Partnership's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period').

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Partnership or the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 on page 149 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if we have anything material to add or draw attention to in relation to the Directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Partnership and Company's use of that basis for a period of at least 12 months from the date of approval of the financial statements.

We have nothing to report in these respects.

5. WE HAVE NOTHING TO REPORT ON THE STRATEGIC REPORT AND THE DIRECTORS' REPORT

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

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

THE STRATEGIC REPORT AND THE DIRECTORS' REPORT

Based solely on our work on the other information:
- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in the those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. WE HAVE NOTHING TO REPORT ON THE OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under the Companies Act 2006, we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. RESPECTIVE RESPONSIBILITIES

DIRECTORS' RESPONSIBILITIES

As explained more fully in their statement set out on page 146, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Partnership and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Partnership or the parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES

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

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

Independent auditor's report to the members of John Lewis Partnership plc — continued

IRREGULARITIES – ABILITY TO DETECT
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Directors and other management (as required by auditing standards), and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Partnership is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), pensions legislation, distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Partnership is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Partnership's licence to operate. We identified the following areas as those most likely to have such an effect: health and safety; General Data Protection Regulation (GDPR); 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. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

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

M Maloney

MICHAEL MALONEY (SENIOR STATUTORY AUDITOR)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
15 April 2020

Five-year financial record

For the year ended January

Income statement	2020[1] £m	2019 £m	2018[2] £m	2017[2] £m	2016[2] £m
Gross sales					
Waitrose	6,760.1	6,835.0	6,753.7	6,633.2	6,461.4
John Lewis	4,784.7	4,889.1	4,855.8	4,741.0	4,557.4
	11,544.8	11,724.1	11,609.5	11,374.2	11,018.8
Revenue					
Waitrose	6,369.7	6,429.5	6,354.7	6,245.5	6,086.0
John Lewis	3,781.6	3,887.2	3,861.1	3,780.7	3,662.8
	10,151.3	10,316.7	10,215.8	10,026.2	9,748.8
Operating profit before exceptional items and Partnership Bonus					
Waitrose	242.5	203.2	172.0	253.5	232.6
John Lewis	64.0	114.7	257.8	243.2	250.2
Group and other	(75.0)	(90.9)	(65.4)	(18.5)	(80.7)
	231.5	227.0	364.4	478.2	402.1
Net finance costs	(161.6)	(67.0)	(71.6)	(107.8)	(96.6)
Profit before Partnership Bonus, tax and exceptional items[3]	122.6	160.0	292.8	370.4	305.5
Exceptional items	107.4	2.1	(111.3)	171.2	129.3
Partnership Bonus	(30.9)	(44.7)	(74.0)	(89.4)	(145.0)
As a percentage of eligible pay	2%	3%	5%	6%	10%
Taxation	(38.0)	(40.1)	(30.5)	(98.7)	(66.6)
Profit for the year	108.4	77.3	77.0	353.5	223.2
Number of employees at year-end	80,800	83,900	85,500	86,700	91,500
Average number of full-time equivalent employees	59,700	60,800	60,600	63,300	63,900

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 (see note 1.1.4).
2 IFRS 15 was adopted in 2019 on a fully retrospective basis. Figures for 2018 were therefore restated. However, figures for 2016-2017 have not been restated.
3 For 2020, this figure is also stated before IFRS 16.

Balance sheet	2020[1] £m	2019 £m	2018[2] £m	2017[2] £m	2016[2] £m
Non-current assets	5,905.1	4,383.1	4,563.1	4,661.7	4,677.0
Current assets	1,795.6	1,929.0	1,690.6	1,627.6	1,534.7
Total assets	7,700.7	6,312.1	6,253.7	6,289.3	6,211.7
Current liabilities	(1,789.5)	(2,055.9)	(1,945.1)	(1,843.3)	(1,848.7)
Non-current liabilities	(3,352.4)	(1,636.2)	(2,006.9)	(2,404.0)	(2,297.9)
Total liabilities	(5,141.9)	(3,692.1)	(3,952.0)	(4,247.3)	(4,146.6)
Net assets	2,558.8	2,620.0	2,301.7	2,042.0	2,065.1
Borrowings	(762.6)	(1,047.2)	(936.8)	(966.9)	(1,031.8)
Net debt	(1,959.7)	(88.6)	(216.5)	(250.6)	(372.5)

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 (see note 1.1.4).
2 IFRS 15 was adopted in 2019 on a fully retrospective basis. Figures for 2017-2018 were therefore restated. However, figures for 2016 have not been restated.

Glossary: Alternative performance measures

Throughout the Annual Report and Accounts, alternative performance measures (APMs) have been reported which are non-GAAP measures and are presented to provide stakeholders with additional financial information on the performance of the Partnership.

These APMs should not be viewed in isolation or as an alternative to the equivalent GAAP measure.

The measures detailed below are not defined by IFRS and therefore may not be directly comparable with other companies' APMs – this includes those in the retail industry.

APM | DEFINITION, PURPOSE AND RECONCILIATION

Adjusted cash flow

Operating profit before PB, exceptional items, depreciation and amortisation, but after IFRS 16, interest and tax. 2018/19 definition, which is before IFRS 16, is operating profit before PB, exceptional items, depreciation, amortisation and average one-year lease payments, but after lease adjusted interest and tax. This measure is important to assess our Debt Ratio.

	2019/20 £m	2018/19 £m
Operating profit before PB and exceptional items	231.5	227.0
add back:		
Depreciation, amortisation and write-offs	552.7	414.4
Average one-year lease payments	–	190.7
less:		
Lease adjusted interest	(145.1)	(175.1)
Tax	(18.1)	(39.2)
Adjusted cash flow	621.0	617.8

Average NMP hourly pay above National Living Wage

Average non-management Partner hourly pay for Partners on permanent contracts and aged 18 years old or over, as a percentage above the 2019/20 National Living Wage of £8.21. Non-management Partners are Level 9 and Level 10 Partners, excluding Assistant Section Managers.

	2019/20 £m	2018/19 £m
National Living Wage	8.21	7.83
Partnership pay	9.58	9.16
Differential	16.7%	17.0%

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.

	2019/20 £m	2018/19 £m
Total net debts	2,435.8	2,682.2
Adjusted cash flow	621.0	617.8
Debt Ratio	3.9	4.3

Gross sales

Total sales of goods and services including sale or return sales and VAT, net of Partnership discount.

	2019/20 £m	2018/19 £m
Gross sales	11,544.8	11,724.1
less:		
Sale or return sales	(275.6)	(259.0)
Value added tax	(1,117.9)	(1,148.4)
Revenue	10,151.3	10,316.7

APM | DEFINITION, PURPOSE AND RECONCILIATION

Gross sales growth

Growth or decline in the total sales of goods and services including sale or return sales and VAT, net of Partnership discount.

	2019/20 £m	2018/19 £m
Current year gross sales	11,544.8	11,724.1
Prior year gross sales	11,724.1	11,609.5
Gross sales growth	(1.5)%	1.0%

IFRS 16 adjustments

The 2019/20 year-end is the first year in which the Partnership has adopted the new accounting standard IFRS 16 – Leases. The adjustments required to reflect the pre-IFRS 16 profit measures are set out below. The Partnership adopted the modified retrospective approach on transition to IFRS 16 and therefore the 2018/19 year-end measures have not been restated. Adjusting for IFRS 16 in the current year provides an important measure allowing meaningful comparison of underlying profit performance with the prior year, which is stated before the adoption of IFRS 16.

	2019/20 £m	2018/19 £m
Add back of IAS 17 operating lease rental expenses	185.5	–
IFRS 16 depreciation expenses (excluding impairment)	(134.7)	–
IFRS 16 operating adjustment	50.8	–
IFRS 16 interest charges	(103.5)	–
IFRS 16 adjustment	(52.7)	–

Partner pay as % of sales

This APM takes the total cost of wages and salaries for the year and divides this by the gross sales for the year (excluding VAT). This APM is a guide of how much money each Partner generates for the Partnership and is an indication of Partner productivity.

	2019/20 £m	2018/19 £m
Wages and salaries (note 2.8)	1,506.0	1,480.0
Gross sales (note 2.1)	11,544.8	11,724.1
VAT	1,117.9	1,148.4
Partner pay as % of sales	14.4%	14.0%

Profit before PB, tax, exceptional items and IFRS 16

Profit before PB, tax, exceptional items and IFRS 16. Adjusting for IFRS 16 in the current year provides an important measure allowing meaningful comparison of underlying profit performance with the prior year, which is stated before the adoption of IFRS 16.

	2019/20 £m	2018/19 £m
Profit before PB, tax and exceptional items and IFRS 16	122.6	160.0
IFRS 16 adjustment	(52.7)	–
Profit before PB, tax and exceptional items	69.9	160.0
Exceptional items	107.4	2.1
Partnership Bonus	(30.9)	(44.7)
Profit before tax	146.4	117.4

Glossary: Alternative performance measures

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. 2018/19 definition is before IFRS 16. This measure is important as it provides the best indication of Partner productivity.

	2019/20 £m	2018/19 £m
Profit before PB, tax and exceptional items	69.9	160.0
Tax	(18.1)	(39.2)
Above market reward	160.0	183.3
	211.8	304.1
Average FTEs	59,700	60,800
Profit per average FTE (£k)	3.5	5.0

Return on Invested Capital (ROIC)

Operating profit before PB and exceptional items, but after IFRS 16, 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 2018/19 definition, which is before IFRS 16, is operating profit before PB and exceptionals, adjusted for above market reward, a notional interest on leases (at a 5% interest rate on lease liabilities) and a notional tax charge (at the statutory marginal tax rate for the year), as a proportion of average operating net assets, adjusted to reflect the value of leased assets. The measure is important as it demonstrates how effectively we are utilising our assets.

	2019/20 £m	2018/19 £m
Operating profit before PB and exceptional items	231.5	227.0
Above market reward	160.0	183.3
Notional interest on leases	–	105.1
Notional tax	(74.4)	(97.9)
	317.1	417.5
Net assets	2,558.8	2,620.0
add back:		
Borrowings and overdrafts	762.6	1,047.2
Finance lease liabilities	–	21.1
Pension deficit (net of deferred tax)	362.6	404.7
IFRS 16 lease liabilities	2,094.9	–
Present value of operating leases	–	2,076.4
Operational cash	489.0	479.8
less:		
Cash and short-term investments	(915.5)	(982.2)
Operating net assets	5,352.4	5,667.0
Average operating net assets	*5,512.1	5,684.5
ROIC	5.8%	7.3%

* includes increase in opening net assets of £4.8m on adoption of IFRS 16.

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. The 2018/19 figure has not been restated for IFRS 16 and instead includes the comparative figures for finance lease liabilities and the present value of future rentals payable under operating leases calculated using a 5% discount rate.

	2019/20 £m	2018/19 £m
Borrowings and overdrafts	762.6	1,047.2
Finance lease liabilities	–	21.1
Derivative financial instruments	17.7	2.5
Pension deficit (net of deferred tax)	362.6	404.7
Lease liabilities	2,094.9	–
Present value of operating leases	–	2,076.4
Liquid cash, short-term deposits and investments	(802.0)	(869.7)
Total net debts	2,435.8	2,682.2

Glossary

Above market reward – this includes Partner benefits which are higher than those typically paid by our competitors, as a result of the Partnership model. Above market reward principally includes pensions, long leave, Partner discount and costs of our democracy. This measure is important for adjusting our financial Key Performance Indicators (KPIs) to be able to assess them against our competitors.

Amortised cost – the value of an intangible asset after accounting for amortisation and impairment. Sometimes referred to as carrying value or net book value.

Amortisation – an expense recorded to write down intangible assets to their residual values over their useful economic lives (UELs).

Assets – something of value that the Partnership owns, benefits from, or has use of, in generating income or cash.

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.

BREEAM (Building Research Establishment Environmental Assessment Method) – a sustainability assessment method for assets, which takes into account an asset's environmental, social and economic sustainability performance. 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.

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.

Cost price inflation – increases in the costs paid by the Partnership for the raw materials and products which will then be sold to customers.

Debt – money the Partnership has borrowed which it is required to repay.

Depreciation – an expense recorded to write down non-current assets to their residual values over their useful economic lives (UELs).

Exceptional items – one-off and material items of significant value relating to events or transactions which do not occur every year, such as redundancy and restructuring.

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 364 days, or 52 weeks, running from 27 January 2019 to 25 January 2020.

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.

Glossary

Full-time equivalent – the hours worked by one Partner on a full-time basis. The concept converts the hours worked by several part-time Partners into the hours worked by full-time Partners to enable like-for-like comparisons of resource.

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.

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.

Leasehold – ownership of land and buildings and the right to control usage for a fixed period of time after which ownership reverts back to the freeholder.

Liabilities – a present obligation arising from past events, the settlement of which is expected to result in an outflow of resources.

Like-for-like sales – comparison of sales between two periods in time (e.g. this year to last year), removing the impact of branch openings and closures. Waitrose like-for-like sales excludes fuel.

(Total) liquidity – the cash and undrawn committed credit facilities we have available to us, which we can use to settle liabilities as they fall due.

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.

OCCO – Omni Channel Customer Ordering.

Operating profit before exceptional items – profit earned by the Partnership over a specific period of time, before accounting for exceptional items, net finance costs and tax.

Operating profit – profit earned by the Partnership over a specific period of time, before accounting for net finance costs and tax.

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.

Pension deficit (accounting) – the accounting deficit is the pension deficit presented in the balance sheet. It is presented in accordance with the requirements of IAS 19, which requires all companies to assume their pension fund grows at a standard rate reflecting a relatively low level of risk.

Pension deficit (actuarial/funding) – the actuarial or funding deficit is a measure that is used to judge the money that the Partnership needs to contribute to the pension scheme based on predicted growth rates and risks specific to the Partnership's scheme.

Profit before tax (PBT) before exceptional items – profit the Partnership earned over a specific period of time, before accounting for tax and exceptional items.

Profit before tax (PBT) – profit generated by the Partnership over a specific period of time, before accounting for tax.

Residual value – property residual values are assessed as the price in current terms that a property would be expected to realise if the buildings were at the end of their useful economic life.

Restructuring – a change to internal organisational structures, designed to streamline processes and create more efficient and cost-effective ways of working.

Revenue – sales of goods and services, including warranties, extended warranties, commission income and margin in respect of sale or return transactions, net of Partner discounts and VAT.

Revenue investment – investment spend recognised directly in the income statement.

Segments (reporting) – the three segments through which we analyse our reporting are Waitrose, John Lewis and Group. This is consistent with how the Partnership Board reviewed performance throughout the year.

Short-term investments – cash placed with financial institutions (such as banks) for a period of between three months and a year. The Partnership receives more interest on these short-term investments compared to immediately accessible cash kept in bank accounts.

Solvency – ability of the Partnership to meet its long-term financial obligations (e.g. repayment of its debts).

Total net debts – all the borrowings and overdrafts (including pension deficit and operating leases) the Partnership has outstanding, less any liquid cash and short-term investments, at a particular point in time.

Value added tax (VAT) – a tax on the sales value of a product or service which is collected by HMRC.

Variable Net Asset Value (VNAV) – fund prices change on a daily basis in relation to the net asset value of the underlying holdings included within the fund.

Working capital – the cash the Partnership utilises as part of its day-to-day trading operations. This includes aspects such as the money tied up in stock, the money we owe to suppliers for goods we haven't yet paid for, and any money we may be owed from customers and suppliers.

Notes

GENERAL INFORMATION

INDEPENDENT AUDITOR
KPMG LLP

REGISTERED OFFICE
John Lewis Partnership plc, 171 Victoria Street, London, SW1E 5NN. Incorporated and registered in England & Wales, under Company no. 00238937.

PREFERENCE SHARES
Any remaining queries relating to the Preference Shares previously in issue (which were cancelled in November 2016) should be directed to Company Secretary, John Lewis Partnership plc, Partnership House, Carlisle Place, London, SW1P 1BX.

MORE INFORMATION
For more information about the John Lewis Partnership please visit:
www.johnlewispartnership.co.uk
twitter.com/JLPartnership
linkedin.com/company/john-lewis-partnership

For more information about Waitrose or John Lewis please visit:
www.waitrose.com
facebook.com/waitroseandpartners
twitter.com/waitrose
youtube.com/waitroseandpartners
pinterest.co.uk/waitroseandpartners
instagram.com/waitroseandpartners
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pinterest.com/JohnLewisandPartners
instagram.com/JohnLewisandPartners
linkedin.com/company/johnlewisandpartners

CONTACT INFORMATION
You are invited to contact us with your enquiry or comments. To enable us to respond to your enquiry as quickly as possible, please use the 'Contact us' section on the Partnership website.

PHOTOGRAPHY
David Cotter, Paolo Cucchiara, Jeff Hopkins, Nicky Johnston, James Mackenzie, Mark Mackenzie, Angela Robertson, Amelie Skoda, BGA Photography and Stonehouse Photographic.

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