



# OUR FUTURE PARTNERSHIP

JOHN LEWIS PARTNERSHIP PLC  
ANNUAL REPORT AND ACCOUNTS 2020



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## 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](http://www.johnlewispartnership.co.uk/csr)

More detailed, non-financial performance information can also be found at [www.johnlewispartnership.co.uk](http://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 &amp; 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.*



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.

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.




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

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.



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.



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.



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.



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.




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.

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.



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%.



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.*

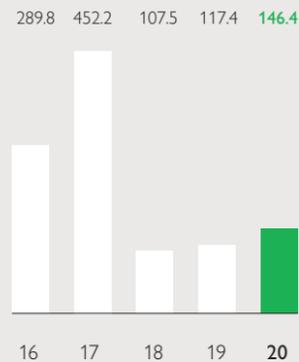


Our Annual Report and Accounts includes alternative performance measures (APMs) which we believe provide readers with important additional information on the Partnership. A glossary of terms is included on pages 158 to 163.

## PROFIT BEFORE TAX £m

### £146.4m

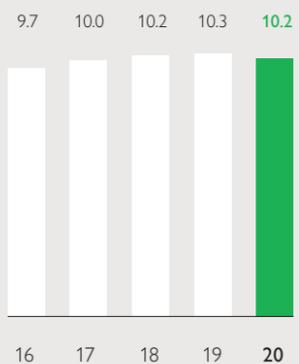
Our overall profit before tax has increased to £146.4m. This is due to an increase in exceptional profits driven by the reduction in pension obligations following the decision to close the defined benefit section of the pension scheme.



## REVENUE £bn

### £10.2bn

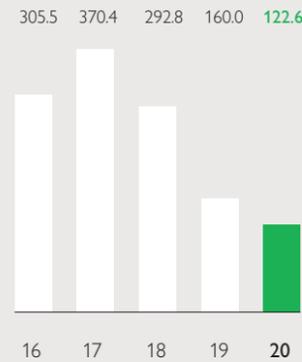
Due to the challenging retail environment, we have seen a slight drop in revenue. This drop was more pronounced in John Lewis, which experienced a decline in like-for-like sales of 1.8%, compared to 0.2% in Waitrose.



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

### £122.6m

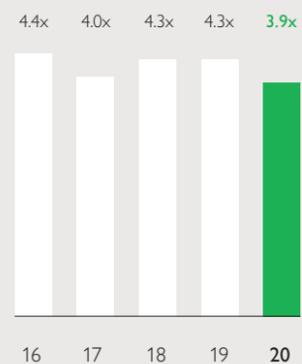
Our Partnership profit before Bonus, tax, exceptional items and IFRS 16 was £122.6m, a weaker performance than we had hoped for, driven by significant operating profit decline in John Lewis, which was partly offset by operating profit growth in Waitrose, and lower Group costs.



## DEBT RATIO

### 3.9x

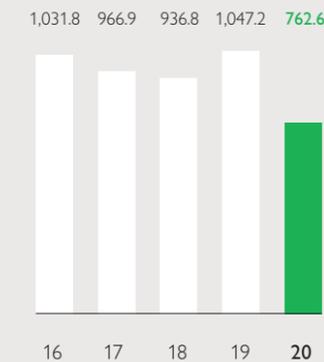
Our Debt Ratio improved to 3.9 times, the lowest level since January 2014, and we continue to review our plans to reduce it to around three times cash flow within four years.



## BORROWINGS £m

### £762.6m

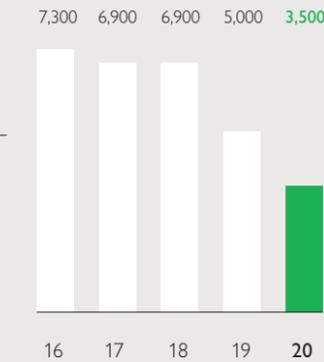
We have reduced our borrowings by over £200m in the year, which allowed us to improve our Debt Ratio to 3.9 times.



## 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.



## LIQUIDITY £bn

### £1.4bn

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



## EXCEPTIONAL ITEMS £m

### £107.4m

#### NET INCOME

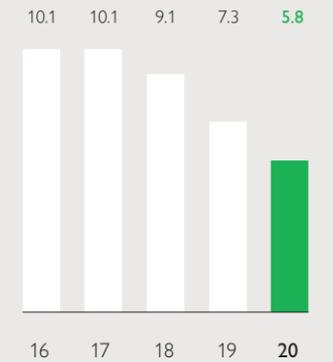
Exceptional income totalled £107.4m with £30.6m charge in Waitrose, £101.0m charge in John Lewis and £239.0m income in Group. Read more about our exceptional items on pages 104 to 106.



## 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.



## 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.

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**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

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

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 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.

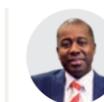
**8/10**  
of our most loyal customers shop in both John Lewis and Waitrose.

**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](http://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:

<p><b>DIALOGUE</b> Regular dialogue with their People Manager.</p> <p><b>7,840</b> People Managers across the Partnership.</p>	<p><b>PARTNERSHIP INTRANET AND WEBSITE</b> In 2019, both <a href="http://www.johnlewispartnership.co.uk">www.johnlewispartnership.co.uk</a> and the Partner Intranet were refreshed to make them simpler to use and compatible to view on mobile phones and tablets.</p>
<p><b>PARTNERSHIP COUNCIL</b> Partnership Councillors.</p> <p><b>58</b></p>	<p><b>GAZETTE</b> 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.</p>
<p><b>PARTNERVOICE REPRESENTATIVES</b> 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.</p>	

## 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 &amp; 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.](#)



## 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.



## 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.

## 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



## 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.

SHOP WITH  
YOUR DNA

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.



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](http://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.*

## 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](http://www.johnlewispartnership.co.uk/csr)



## 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.

## 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](http://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.

# 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](http://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](http://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 <a href="http://www.johnlewispartnership.co.uk/csr">www.johnlewispartnership.co.uk/csr</a>
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 <a href="http://www.johnlewispartnership.co.uk/csr">www.johnlewispartnership.co.uk/csr</a>
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 <a href="http://www.johnlewispartnership.co.uk/csr">www.johnlewispartnership.co.uk/csr</a>
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 <a href="http://www.johnlewispartnership.co.uk/csr">www.johnlewispartnership.co.uk/csr</a>

Our progress

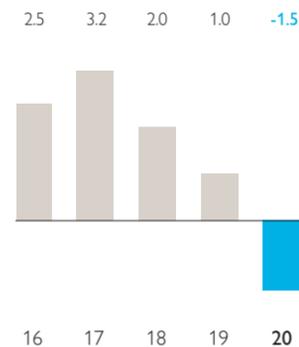
# DELIVERING MORE FOR OUR CUSTOMERS

*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.

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.

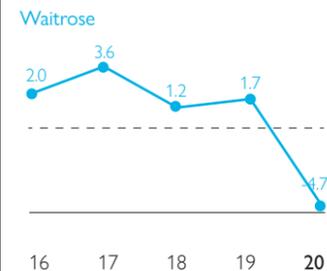
Like-for-like sales growth %



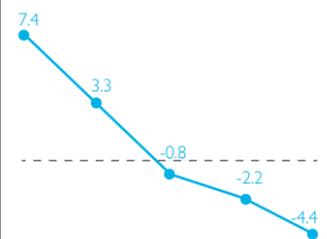
Waitrose —  
John Lewis —

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 %



John Lewis



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.



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



## 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.*

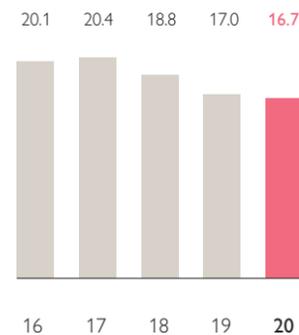
## KPI COMMENTARY

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.



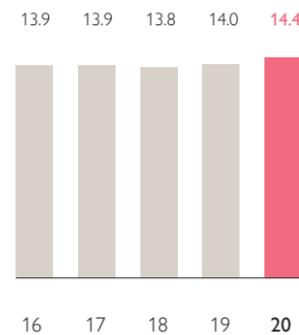
Definitions, and where applicable, reconciliations, of our KPIs can be found in the glossary on pages 158 to 163.

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.

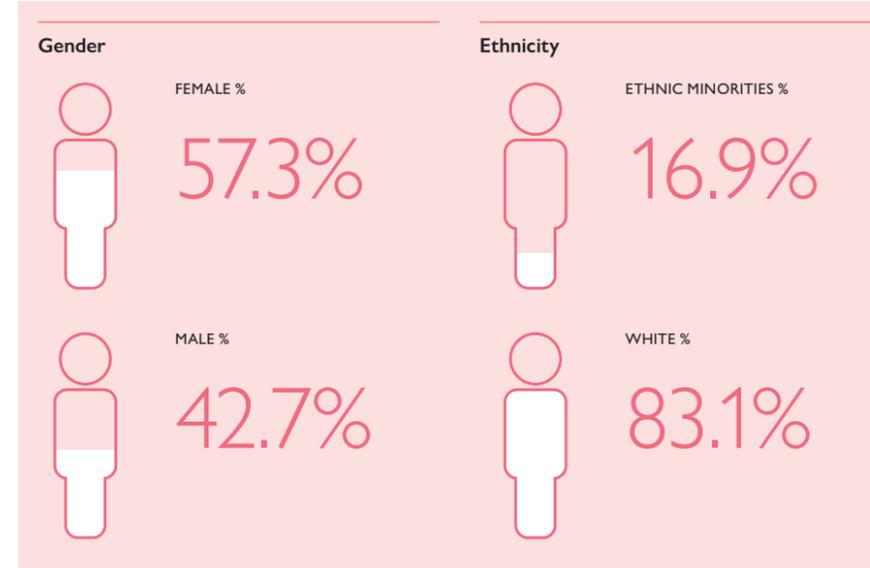


BE YOURSELF. ALWAYS

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](http://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.



DIVERSITY

Gender diversity of the Partnership<sup>1</sup>

	2020		2019	
	FEMALE %	MALE %	FEMALE %	MALE %
Partnership Board <sup>2</sup>	38	62	38	62
Directors & Management Board	34	66	28	72
Senior Managers	49	51	50	50
All other Partners	58	42	58	42

<sup>1</sup> As at the year-end date.  
<sup>2</sup> 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<sup>1,2</sup>

	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

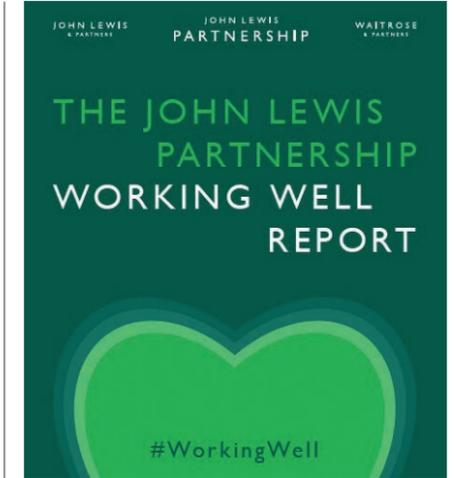
<sup>1</sup> As at the year-end date.  
<sup>2</sup> Based on Partners who self-declared ethnicity.

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](http://www.johnlewispartnership.co.uk/workingwell)

**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

## 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.

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.



**£4m**

This year £4 million was donated via Community Matters.

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.

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.

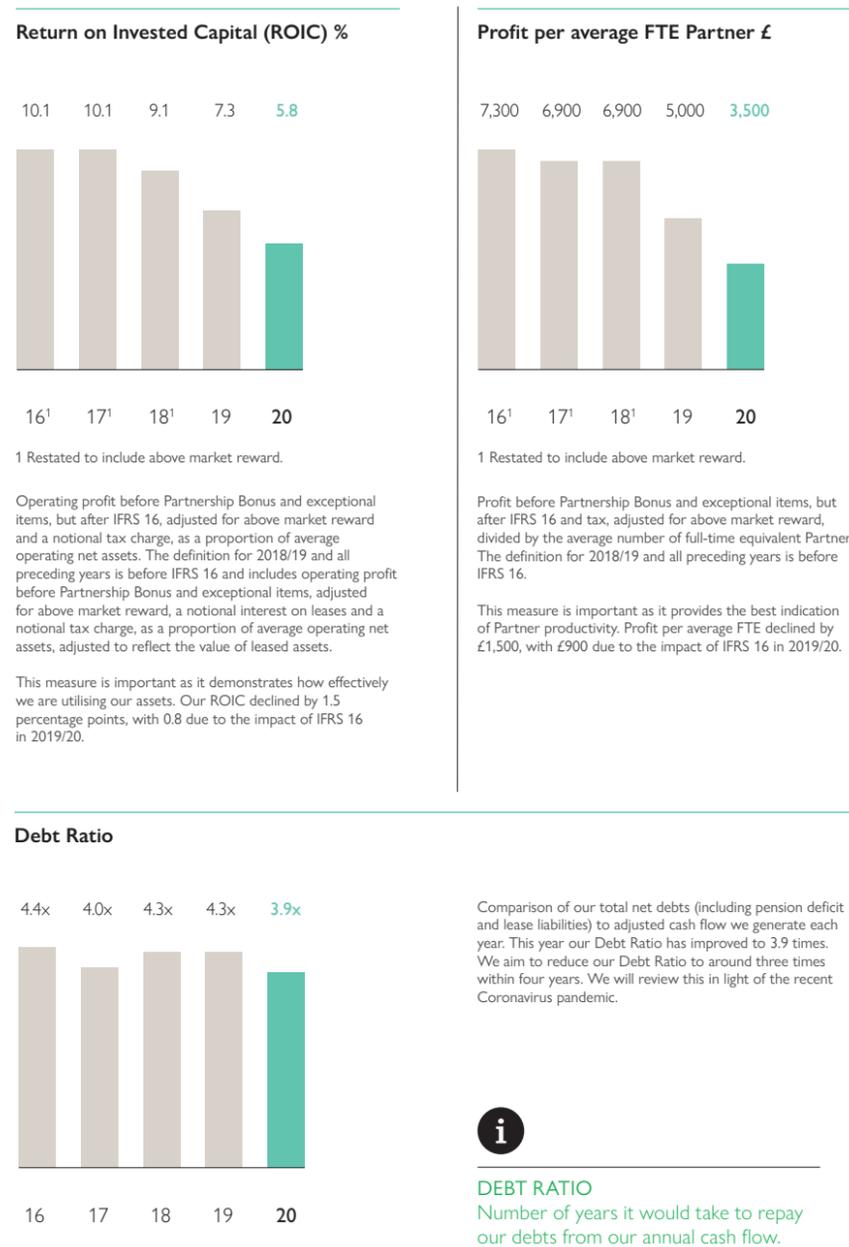
### WHAT IS IFRS 16?

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.



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



“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.

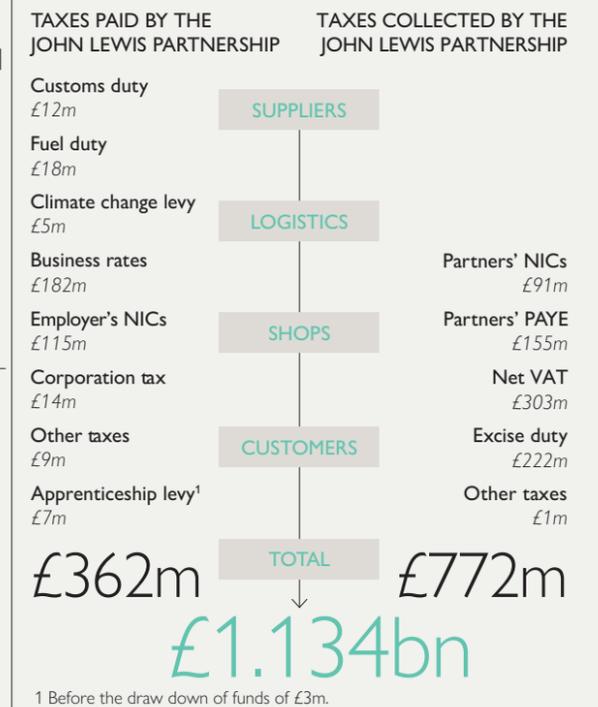
Our current scenario, which takes into account the temporary closure of our John Lewis department stores and models a significant net cash outflow in the year, shows that we have sufficient liquidity. However, we are not complacent; the scale of the societal and business impact of Coronavirus is like 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](http://www.johnlewispartnership.co.uk/financials/financial-results.html)



## 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<sub>2</sub> 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.

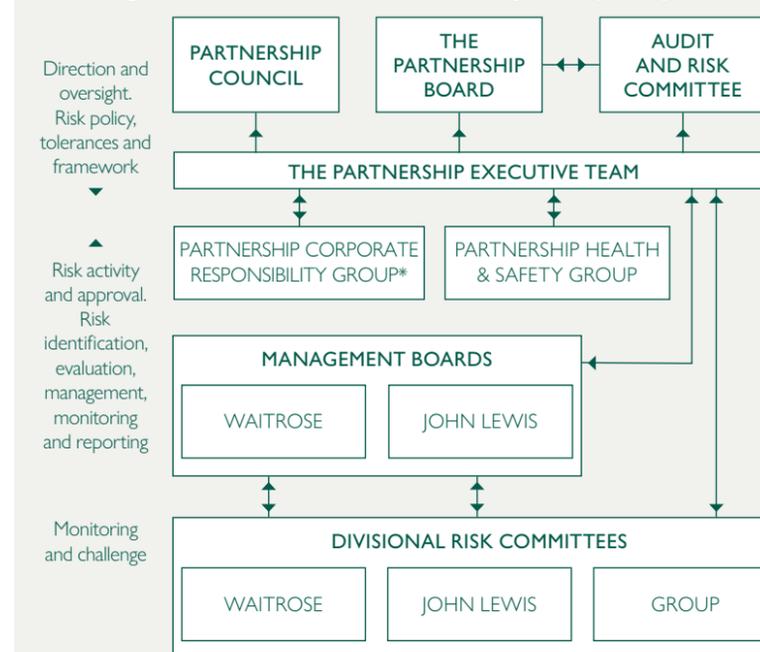
Coronavirus is being actively managed in response to the impact on our customers, Partners and business, most significantly across our supply chain, stores and online operations. A crisis response team was formed in February 2020 and meets on a daily basis to plan, adapt and respond to the latest developments 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.

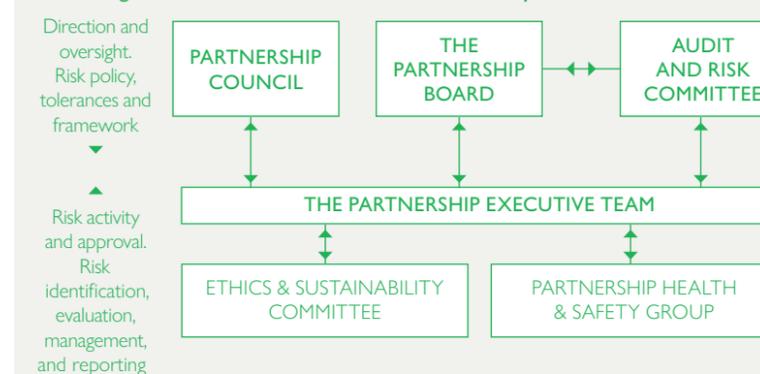
A scale of one to five illustrates the range of our risk appetite for each type of risk. For example, we will take more risk in pursuit of our strategic objectives to drive our business forward and less risk in the delivery of our day-to-day operations. If too much risk is being taken for the expected 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**



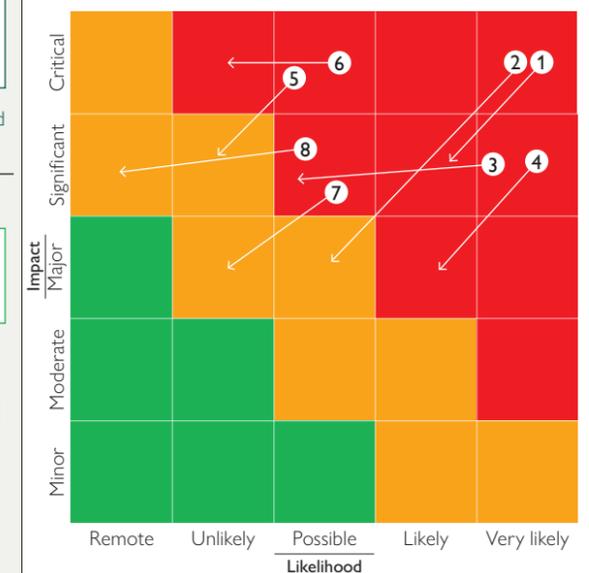
**PRINCIPAL RISKS**

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.



○ 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
<h3>1. COMPETITIVE CUSTOMER PROPOSITION</h3> <p>Failure to deliver our customer promise and not maintain our competitive advantage due to:</p> <ul style="list-style-type: none"> <li>– Competitor actions putting pressure on market value, our margin and threatening our volumes in grocery; and</li> <li>– The growth of online business models in the general merchandise sector means customers focus more on value for money and are less loyal.</li> </ul> <p>This could negatively impact customer proposition and service, which may result in losing customers, impairing our ability to grow long-term profitability.</p>	<ul style="list-style-type: none"> <li>– Continuing to secure value for all of our customers through our price matching commitments.</li> <li>– Regular strategic risk review and monitoring by the Executive Team.</li> <li>– Regular horizon scanning to inform strategic reviews to continually enhance our customer offer.</li> <li>– Regular strategy implementation, customer and performance metrics evaluation.</li> </ul>	<ul style="list-style-type: none"> <li>– Successful launch of our first joint Partnership Christmas advert.</li> <li>– 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.</li> <li>– Continued differentiation on products – Waitrose No.1 launched and new exclusive brands and products launched in John Lewis this year.</li> <li>– Development of online offering and expansion of Waitrose online capacity.</li> <li>– Unlocking further value between our brands.</li> <li>– Further increasing focus on customer service excellence.</li> </ul>
<h3>2. EXTERNAL ENVIRONMENT</h3> <p>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.</p>	<ul style="list-style-type: none"> <li>– Monthly monitoring of business performance by the Executive Team.</li> <li>– Horizon scanning.</li> <li>– The Brexit Team regularly review the potential impacts and opportunities to influence outcomes.</li> </ul>	<ul style="list-style-type: none"> <li>– External economic factors have been incorporated into the business plan.</li> <li>– Ongoing monitoring, analysis and actions implementation to mitigate the potential impacts of Brexit (see page 50).</li> <li>– Crisis response team actively managing the response to the rapidly changing Coronavirus situation (see page 50).</li> </ul>
<h3>3. OPERATING MODEL STRAIN</h3> <p>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.</p>	<ul style="list-style-type: none"> <li>– Annual business plan process robustly reviewed.</li> <li>– Monthly Executive Team business performance review and action taken.</li> <li>– Regular review of programmes to reprioritise to support the ongoing development of our operating model.</li> </ul>	<ul style="list-style-type: none"> <li>– Implementation of Future Partnership to bring together the two brands and create a more effective and efficient operating model.</li> <li>– Further development of Waitrose online ahead of our deal with Ocado ending in September 2020.</li> <li>– Savings achieved through improved management of the property portfolio.</li> <li>– Implementation of further phases of our Technology &amp; Change transformation programme.</li> </ul>

RISK	CONTROLS IN PLACE	MITIGATIONS
<h3>4. CHANGE DELIVERY</h3> <p>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.</p>	<ul style="list-style-type: none"> <li>– 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.</li> </ul>	<ul style="list-style-type: none"> <li>– Change team operating model centralised, to support delivery of the Partnership change portfolio.</li> <li>– Implementation of the new change governance structure to align to Future Partnership.</li> <li>– Embedding and maturing Partnership tools, framework and reporting to support decision-making.</li> </ul>
<h3>5. INFORMATION SECURITY</h3> <p>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.</p>	<ul style="list-style-type: none"> <li>– Robust network security and regular testing to provide early identification of network or system vulnerabilities.</li> <li>– Continuous security monitoring.</li> <li>– Security impact assessments undertaken for projects to ensure compliance with security standards.</li> <li>– Partner training.</li> </ul>	<ul style="list-style-type: none"> <li>– 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.</li> <li>– Improvements to prevent, detect and respond to external cyber attacks.</li> <li>– Continuous Awareness campaign.</li> <li>– Simplifying the IT estate.</li> <li>– Implementation of operating model change for IT Security as part of Future Partnership transformation.</li> </ul>
<h3>6. PENSION OBLIGATIONS</h3> <p>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.</p>	<ul style="list-style-type: none"> <li>– Regular review of valuation assumptions through internal and external monitoring.</li> <li>– Regular monitoring of external factors to inform hedging strategy.</li> <li>– Pension risk and funding strategy reviewed regularly.</li> </ul>	<ul style="list-style-type: none"> <li>– Triennial valuation under way.</li> <li>– 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.</li> </ul>
<h3>7. OWNERSHIP MODEL STRAIN</h3> <p>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.</p>	<ul style="list-style-type: none"> <li>– Leadership engagement through change.</li> <li>– Annual Your Voice Partner survey to assess Partner sentiment.</li> <li>– Oversight of Partnership Board, Executive Team and our democratic bodies.</li> </ul>	<ul style="list-style-type: none"> <li>– Continued focus on initiatives to empower Partners. All leadership attended an Empowered Leadership event to support their leadership development.</li> <li>– A review of democratic engagement under way to align to the new Future Partnership structure. Partnership Council to agree and implement changes.</li> <li>– Continue to lead on wellbeing in the workplace.</li> <li>– Increased communication in response to Partner feedback.</li> </ul>
<h3>8. REGULATORY NON-COMPLIANCE</h3> <p>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.</p>	<ul style="list-style-type: none"> <li>– Policies and Partner training in place.</li> <li>– Clear accountability for personal data security and privacy across the Partnership.</li> </ul>	<ul style="list-style-type: none"> <li>– Data owners continue to work with Information Security teams to develop and deliver data protection priorities.</li> <li>– Implement a new HR system to support improved functionality for HR compliance.</li> <li>– Embed new supplier assurance process and system.</li> <li>– Development and implementation of the Partnership's regulatory framework.</li> <li>– Ongoing horizon scanning of new regulation and potential Partnership impact and response.</li> </ul>

## 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:

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AREA OF RISK	MITIGATIONS
<b>A. ACCESS TO EU LABOUR</b> ●●●	
Potential for rising costs and recruitment challenges throughout our supply chain.	<ul style="list-style-type: none"> <li>– Continued support to non-UK EU Partners in obtaining settled status should they wish to apply.</li> <li>– Several initiatives to improve recruitment, flexibility and provide better pay continue to be introduced.</li> </ul>
<b>B. CURRENCY EXPOSURE</b> ●	
A depreciation of Sterling may lead to a rise in the costs of goods both for resale and not for resale.	<ul style="list-style-type: none"> <li>– The Partnership has a hedging programme in place and has previously invested in currency options in the event of a significant Sterling devaluation.</li> </ul>
<b>C. TARIFFS</b> ●●	
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.	<ul style="list-style-type: none"> <li>– Tariff impact analysis has been undertaken to understand the impact that the government's tariff regime could have on our imports.</li> <li>– To provide short-term tariff relief, both brands assessed and built additional stock-holding requirements ahead of the potential no-deal Brexit dates.</li> </ul>
<b>D. CLEARING CUSTOMS</b> ●●	
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.	<ul style="list-style-type: none"> <li>– Both brands built additional stock holdings on key products ahead of the potential no-deal Brexit dates to protect against potential delays.</li> <li>– Additional resource to process a potential increase in the volume of customs declarations was secured.</li> <li>– Alternative sourcing has been assessed.</li> </ul>

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).

Scenario	Coronavirus severe downside			Partnership risks								Brexit risks			Coronavirus risks
	Year 1	Year 2	Year 3	1	2	3	4	5	6	7	8	Currency exposure	Tariffs	Clearing customs	
<b>A</b> Sales under-performance	(15.4)% vs Plan	*(5.5)% vs Plan	*(7.0)% vs Plan	●	●	●	●							●	●
<b>B</b> Sales under-performance	(26.2)% vs Plan	*(5.5)% vs Plan	*(7.0)% vs Plan	●	●	●	●							●	●
<b>A</b> Gross margin rate	(4)bps vs Plan	*(150)bps vs Plan	*(200)bps vs Plan	●	●	●	●						●	●	●
<b>B</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.