THE PARTNERSHIP DIFFERENCE

JOHN LEWIS
& PARTNERS

JOHN LEWIS
PARTNERSHIP

WAITROSE
& PARTNERS

JOHN LEWIS PARTNERSHIP PLC ANNUAL REPORT AND ACCOUNTS 2019

Welcome

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

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

SIR CHARLIE MAYFIELD
Partner & Chairman
John Lewis Partnership

Group Strategic report

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

SIR CHARLIE MAYFIELD
Partner & Chairman
John Lewis Partnership plc
11 April 2019

Tell us what you think

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

www.johnlewispartnership.co.uk/contact

What's inside

Find out more

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

www.johnlewispartnership.co.uk/csr

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

www.johnlewispartnership.co.uk

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CHAIRMAN'S STATEMENT

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FINANCIAL STATEMENTS

Read a detailed breakdown of our accounts.

At a glance

THE PARTNERSHIP TODAY

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

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

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

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

OUR LOCATIONS

349
Waitrose & Partners shops.

51
John Lewis & Partners shops.

3
head offices in London and Bracknell.

50
territories stock Waitrose & Partners products.

38
countries exported to by johnlewis.com.

12
John Lewis & Partners shop-in-shops worldwide.

21
customer delivery hubs with 20 run by John Lewis & Partners and 1 run by Waitrose & Partners.

11
distribution centres with 6 run by John Lewis & Partners and 5 run by Waitrose & Partners.

2
customer contact centres.

5
Partnership hotels.

1
Soft furnishings factory.

1
Heritage centre.

3
International offices, two in India and one in Hong Kong.

1
Waitrose & Partners farm.

1
Specialist plant nursery.

3
Waitrose & Partners cookery schools.

1
Content production hub which photographed or retouched over 200,000 Home and Fashion images for John Lewis & Partners.

HOW WE'VE BEEN DIFFERENTIATING AND CHANGING

2018 FEBRUARY

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

MARCH

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

APRIL

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

MAY

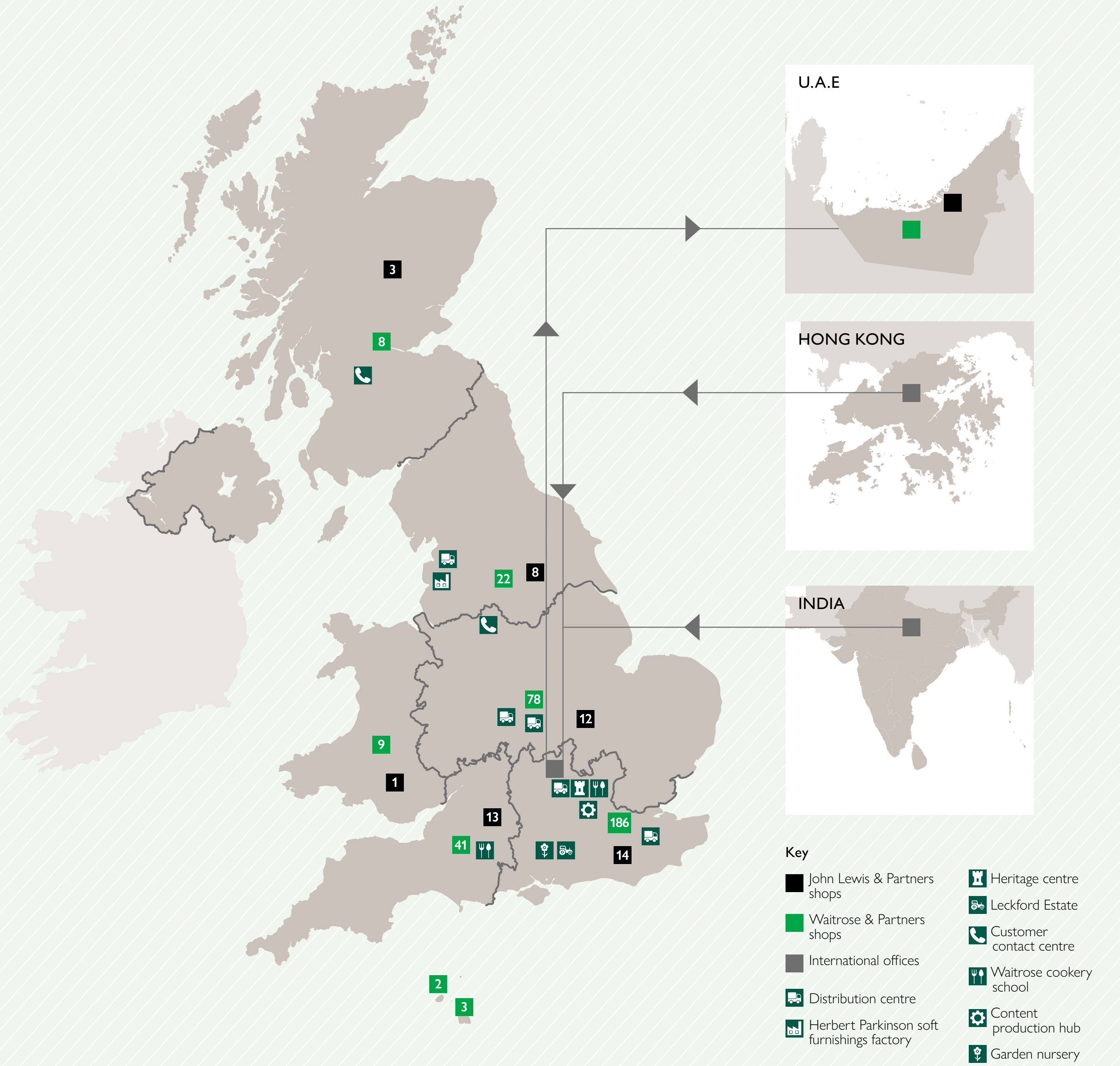
Voting for new Partnership Councillors and Elected Board Directors for three-year terms begins.

JUNE

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

JULY

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



AUGUST

Waitrose & Partners Food Innovation Studio opens.

SEPTEMBER

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

OCTOBER

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

NOVEMBER

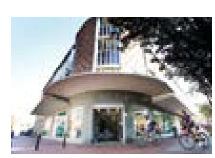
Succession plans for Chairman, Sir Charlie Mayfield, announced and redesigned and modernised *Gazette* magazine launches.

DECEMBER

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

2019 JANUARY

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



At a glance

OUR YEAR IN NUMBERS

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

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

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

PROFIT

Return on Invested Capital (ROIC)

7.3%

2017/18: 9.1%

Profit per average FTE Partner

£5,000

2017/18: £6,900

Debt Ratio

4.3x

2017/18: 4.3x

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

Profit before tax

£117.4m

2017/18: £107.5m

Revenue

£10.3bn

2017/18: £10.2bn

Total net debts

£2,682m

2017/18: £3,084m

Profit before Partnership Bonus, tax and exceptional items

£160.0m

2017/18: £292.8m

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

Liquidity

£1.5bn

2017/18: £1.3bn

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

Exceptional items

£2.1m
net income

2017/18: £111.3m
net expense

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

Partnership Bonus

3%

2017/18: 5%

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

PARTNER

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

PAULA MCKELVEY
Partner & Team Manager
Waitrose & Partners

17%

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

900+

apprentices enrolled on to our apprenticeship schemes this year.

5,000+

Partners have subscribed to a mental wellbeing app with Unmind.

POWER

413

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

See pages 78 to 80 for more details.

Over 2/3rds

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

See page 80 for more details.

CUSTOMER

300

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

5,000+

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

52m+

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

100+

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

Chairman's statement

A DIFFERENT WAY OF DOING BUSINESS

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

KEY HEADLINES

PROFIT

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

OUTLOOK

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

See pages 34 to 36 for more details.

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

£160.0m

Profit before Partnership Bonus, tax and exceptional items.

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

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

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

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

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

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

STRATEGIC PROGRESS

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

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

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

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

Chairman's statement — continued

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

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

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

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

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

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

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

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

OUR PARTNERS

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

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

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

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

LOOKING AHEAD

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

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

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

SIR CHARLIE MAYFIELD
Partner & Chairman
John Lewis Partnership

How we make a difference

OUR PARTNERSHIP BUSINESS MODEL

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

OUR RESOURCES

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

OUR STAKEHOLDERS

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

HOW IT WORKS

EMPOWERING PARTNERS

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

Profit

Knowledge

Power

INSPIRING CUSTOMERS

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

Unique products

Inspiring experiences

Personalising

Growing & creating

Designing & sourcing

OPERATIONAL EXCELLENCE

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

Suppliers

Distributing

Communities

Selling

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

IN OUR WORDS | STRATEGIC LINK | IN NUMBERS

EMPOWERING PARTNERS

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

CHRIS WHARTON
Partner & Stock Control Manager
John Lewis & Partners

PARTNERS AND POWER

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

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

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

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

INSPIRING CUSTOMERS

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

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

CUSTOMER

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

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

200,000
customers joined our new combined loyalty card scheme

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

OPERATIONAL EXCELLENCE

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

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

PROFIT

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

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

Debt Ratio
4.3x
equal to 2017/18

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

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

Who we make a difference for

Empowering our PARTNERS

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

50TH YEAR

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

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

BRIAN HAYWARD
Partner & Supermarket Assistant
Waitrose & Partners

£9.16

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

PARTNERSHIP COUNCILLORS

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

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

SUZANNE BAILEY
Partner & Manager
John Lewis Partnership

262

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

12.7%

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

GOLDEN JUBILEE TRUST

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

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

LINDSEY CROMPTON
Partner & Social Impact Manager
Waitrose & Partners

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

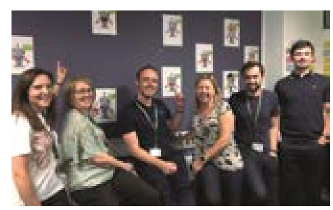
YULIA O'MAHONY
Partner & Head of Wellbeing
John Lewis Partnership

HEALTH AND WELLBEING

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

AWARD WINNERS

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



ROBOT CODING

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

5

IT Partners gained accreditation.

Who we make a difference for — continued

Inspiring our CUSTOMERS

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

HEALTHY EATING

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

2

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

1

new Waitrose & Partners shop opened in Evesham.

REWARDING CUSTOMERS

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

BARISTA OF THE YEAR

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

JLAB

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

RECORD FASHION INVESTMENT

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

RAPID DELIVERY

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

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

> Rapid Delivery ensures we give our customers even greater flexibility and convenience.
>
> **RICHARD AMBLER**
> **Partner & Head of Business Development**
> John Lewis Partnership

ONLINE INVESTMENT

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

COMBINED LOYALTY CARD

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

ERADICATING OWN-BRAND BLACK PLASTIC

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

FOOD INNOVATION STUDIO

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

Who we make a difference for — continued

Supporting our SUPPLIERS

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

FIRST-HAND EXPERIENCE

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

INTERNATIONAL OFFICES

HONG KONG

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

INDIA

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

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

PAYMENT PRACTICES

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

MAKING MORE SUSTAINABLE PRODUCTS

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

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

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

700
suppliers who have been working with us for more than 30 years.

1,290
locally and regionally sourced products from 331 suppliers across Britain are sold by Waitrose & Partners.

ANTI-BRIBERY AND CORRUPTION

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

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

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

DEDICATED SOFT FURNISHINGS

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

475,000+
cushions, cases and pads made at Herbert Parkinson in Lancashire.

SHOWCASE SMALL, INDEPENDENT BRANDS

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

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

JOSHUA TAEE
Managing Director
Huffkins

WE CHAMPION SUSTAINABILITY

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

Who we make a difference for — continued

Enriching our SOCIETY

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

WAITROSE & PARTNERS FOUNDATION

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

200

Waitrose & Partners Foundation products.

500,000 MEALS DONATED

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

CARRIER BAGS DONATION

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

SUPPORTING LOCAL CHARITIES

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

£3.7m

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

£0.6m

donated by John Lewis & Partners.

ENVIRONMENT

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

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

JUSTIN LANEY
Partner & General Manager
Central Transport
John Lewis Partnership

BRINGING SKILLS TO LIFE

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

26,000+

children reached annually.

CONTRIBUTING TO THE UK TAX SYSTEM

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

TAXES PAID BY THE JOHN LEWIS PARTNERSHIP

- Customs duty *£11m*
- Fuel duty *£18m*
- Climate change levy *£4m*
- Business rates *£179m*
- Employer's NICs *£118m*
- Corporation tax *£33m*
- Other taxes *£8m*
- Apprenticeship levy[1] *£8m*

£379m

SUPPLIERS

LOGISTICS

SHOPS

CUSTOMERS

TOTAL

TAXES COLLECTED BY THE JOHN LEWIS PARTNERSHIP

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

£768m

£1.15bn

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

Our Tax Strategy can be found at www.johnlewispartnership.co.uk/financials/financial-results.html

Market review

UNDERSTANDING OUR MARKETS

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

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

John Lewis Partnership business rates

£178.5m

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

THE ECONOMY

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

BREXIT

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

RETAIL CHANGES

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

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

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

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

SOCIAL CHANGE

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

ENVIRONMENTAL SHIFT

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

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

JOHN VARY
Partner & Futurologist
John Lewis Partnership

VIEW FROM OUR FUTUROLOGIST

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

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

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

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

Our strategy

ONE PARTNERSHIP

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

PARTNER

PAGES 26 TO 29

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

THIS YEAR WE HAVE FOCUSED ON:

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

CORPORATE RESPONSIBILITY – TRANSFORMING LIVES

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

CUSTOMER

PAGES 30 TO33

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

THIS YEAR WE HAVE FOCUSED ON:

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

CORPORATE RESPONSIBILITY – ALWAYS FAIR

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

PROFIT

PAGES 34 TO 37

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

THIS YEAR WE HAVE FOCUSED ON:

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

CORPORATE RESPONSIBILITY – NEVER WASTEFUL

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

POWER

PAGES 44 TO 85

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

THIS YEAR WE HAVE FOCUSED ON:

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

ED CONNOLLY
Partner & Director, Partnership Strategy
John Lewis Partnership

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

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

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

LINKS

Understanding our markets pages 22 to 23

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

Our Partnership business model pages 12 to 13

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

Effective risk management pages 38 to 42

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

CORPORATE RESPONSIBILITY STRATEGY

OUR APPROACH

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

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

DEVELOPMENT AND CHANGES

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

KEY PERFORMANCE INDICATORS

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

NON-FINANCIAL REPORTING STATEMENT

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

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

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

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

Our strategy progress

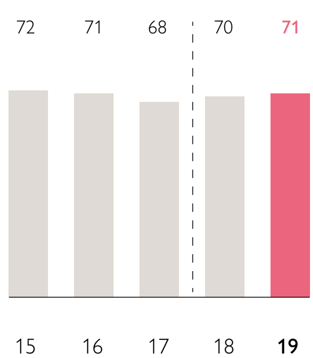
PARTNER

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

KPI COMMENTARY

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

Job satisfaction



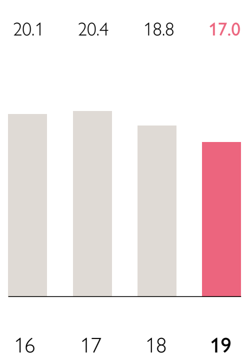
During 2018, the Partnership changed the way that it measured job satisfaction to gain a deeper understanding of Partner opinion. Prior to 2018, the annual survey calculated job satisfaction based on the response to a single statement of 'my job satisfies me'. From 2018, the Partnership created a satisfaction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

Britain's Healthiest Workplace ranking

18th

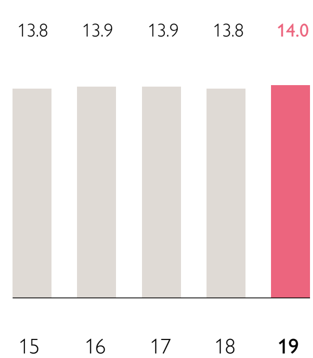
Britain's Healthiest Workplace is an external survey, which has been running since 2013 and is completed annually. Developed by VitalityHealth, the survey gathers data from over 100 small, medium and large businesses who volunteer health and wellbeing information on the provision and use of workplace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

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



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

Partner pay as a percentage of sales %



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

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

TRACEY KILLEN
Partner & Director of Personnel
John Lewis Partnership

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

900+

Apprentices enrolled.

JOBS

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

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

OUR VALUES ARE:

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

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

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

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

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

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

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

NATASHA WHITING
Partner & Bar and Restaurant Manager
John Lewis Partnership

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

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

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

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

WARREN SAXTON
Partner & Lead Technician
John Lewis & Partners

Our strategy progress — continued

PARTNER INVESTMENT

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

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

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

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

SUE BRENNAN
Partner & Support Specialist
John Lewis Partnership

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

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

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

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

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

TEJAL PISAVADIA
Partner & Resourcing Development Specialist
John Lewis Partnership

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

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

Ethnicity split of the Partnership 2019

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

Gender diversity of the Partnership 2019

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

TRANSFORMING LIVES

To help our Partners and communities thrive.

GIVE MORE

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

ACCESSIBILITY

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

THE PRINCE'S COUNTRYSIDE FUND

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

> Samaritans is a charity close to my heart as I know people who have benefited greatly by having someone to talk to.
>
> **LIAM O'CONNELL**
> Partner & Team Manager
> Waitrose & Partners

VOLUNTEERING

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

Our strategy progress — continued

CUSTOMER

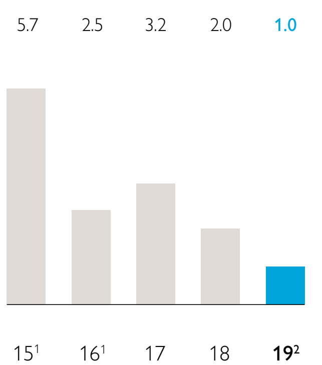
The Partnership aims to deal honestly with its customers and secure their loyalty and trust by providing outstanding choice, value and service.

KPI COMMENTARY

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

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

Gross sales growth %



1 52-week basis.
2 Based on restated 2018 figure for IFRS 15. 2019 gross sales growth is reported on an IFRS 15 basis. Prior year gross sales growth balances have not been restated.

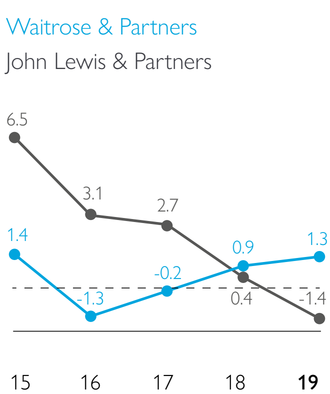
Total sales of goods and services including VAT, net of Partnership discount, reported for a particular time period. Our gross sales growth was 1.0%.

Increase in high spending customers %

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

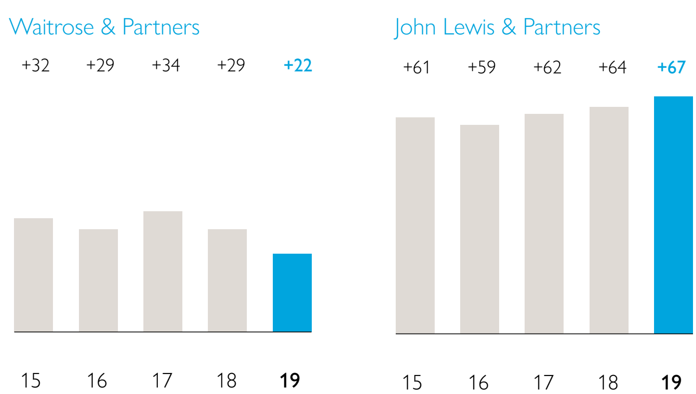
This KPI was introduced in 2015 and therefore has only been reported from 2015/16 onwards. As time passes, the level of data available relating to customer spend increases; primarily returns data and the ability to link spend to a specific customer. The prior year comparative is restated each year to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

Like-for-like sales growth %



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

Net Promoter Score



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

WAITROSE & PARTNERS

ROB COLLINS
Partner & Managing Director
Waitrose & Partners

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

DELICIOUS HIGH QUALITY PRODUCTS

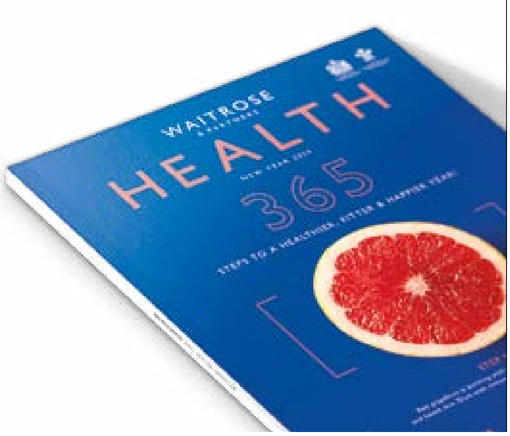
We gave our product innovation a significant boost in summer 2018 when we opened our Food Innovation Studio in Bracknell. It has more than double the space of the previous facility and the number of chefs increased from three to seven. Own-brand products now account for more than half of our total sales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

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

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

HEALTH AND WELLBEING

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



TRULY OUTSTANDING SERVICE

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

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

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

Our strategy progress — continued

JOHN LEWIS & PARTNERS

PAULA NICKOLDS
Partner & Managing Director
John Lewis & Partners

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

UNIQUE AND DESIRABLE PRODUCTS

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

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

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

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

EXCEPTIONAL CUSTOMER SERVICE

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

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

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

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

NEW AND ENHANCED SERVICES

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

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

SEAN ALLAM
Partner & Director, Services
John Lewis & Partners

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

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

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

MARTYN WHITE
Partner & Senior Sustainability Manager
John Lewis & Partners

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

ALWAYS FAIR

To source and sell our products with integrity.

SUPPLY CHAIN

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

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

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

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

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

Our strategy progress — continued

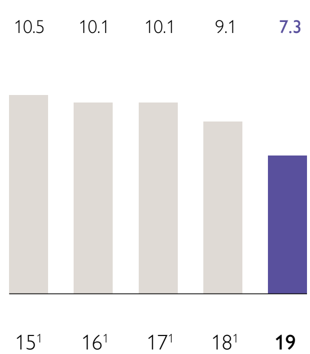
PROFIT

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

KPI COMMENTARY

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

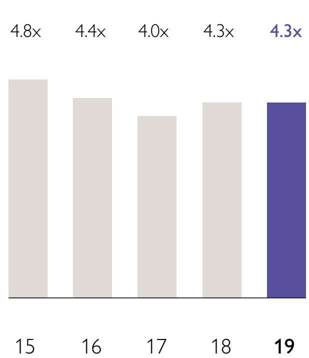
Return on Invested Capital (ROIC) %



1 Restated to include above market rewards.

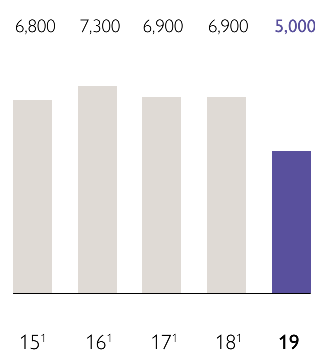
Operating profit before Partnership Bonus and exceptional items, adjusted for above market rewards, a notional interest on leases (at a 5% interest rate on lease liabilities) and a notional tax charge (at the statutory marginal tax rate for the year), as a proportion of average operating net assets,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

Debt Ratio



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

Profit per average FTE Partner



1 Restated to include above market rewards.

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

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

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

SECURE

PATRICK LEWIS
Partner & Group Finance Director
John Lewis Partnership

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

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

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

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

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

As a result of our strategy and streamlining of critical functions, 848 Partners left the business in areas such as IT, Core Home Services and shops. For example, we merged the Partnership's six IT service desks which is estimated to save £1.7m per year, but, more importantly, provides Partners with a single point of contact and consistent levels of service across the Partnership.

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

ALEX BOWLES
Partner & Head of IT Operations
John Lewis Partnership

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

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

Our strategy progress — continued

YOUR QUESTIONS ANSWERED

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

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

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

Q. So, are the results good or bad?

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

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

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

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

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

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

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

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

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

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

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

NEVER WASTEFUL

To innovate to reduce our environmental impact.

GREENER DELIVERIES

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

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

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

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

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

A total of 60 Waitrose & Partners and John Lewis & Partners trucks use biomethane made from food waste, which cuts CO_2 emissions by up to 85%, and all existing heavy trucks will be switched to biomethane by 2028.

Net zero

carbon emissions in our operations by 2050.

Principal risks and uncertainties

EFFECTIVE RISK MANAGEMENT

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

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

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

OUR APPROACH TO RISK

Risk is inherent in our operations and the decisions we make in pursuit of our Partnership strategy. The Partnership Board is responsible for the nature and extent of the principal risks that we are willing to take. It has undertaken a robust assessment of the principal risks to the Partnership in relation to achieving our strategy and our future performance, including solvency and liquidity. See pages 40 to 41 for more information.

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

RISKS OR OPPORTUNITIES?

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

GOVERNANCE

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

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

RISK MANAGEMENT PROCESS

We have a structured approach designed to identify, manage, monitor and communicate risks consistently, and take advantage of opportunities across the Partnership. This is supported by our risk management governance structure.

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

RISK APPETITE

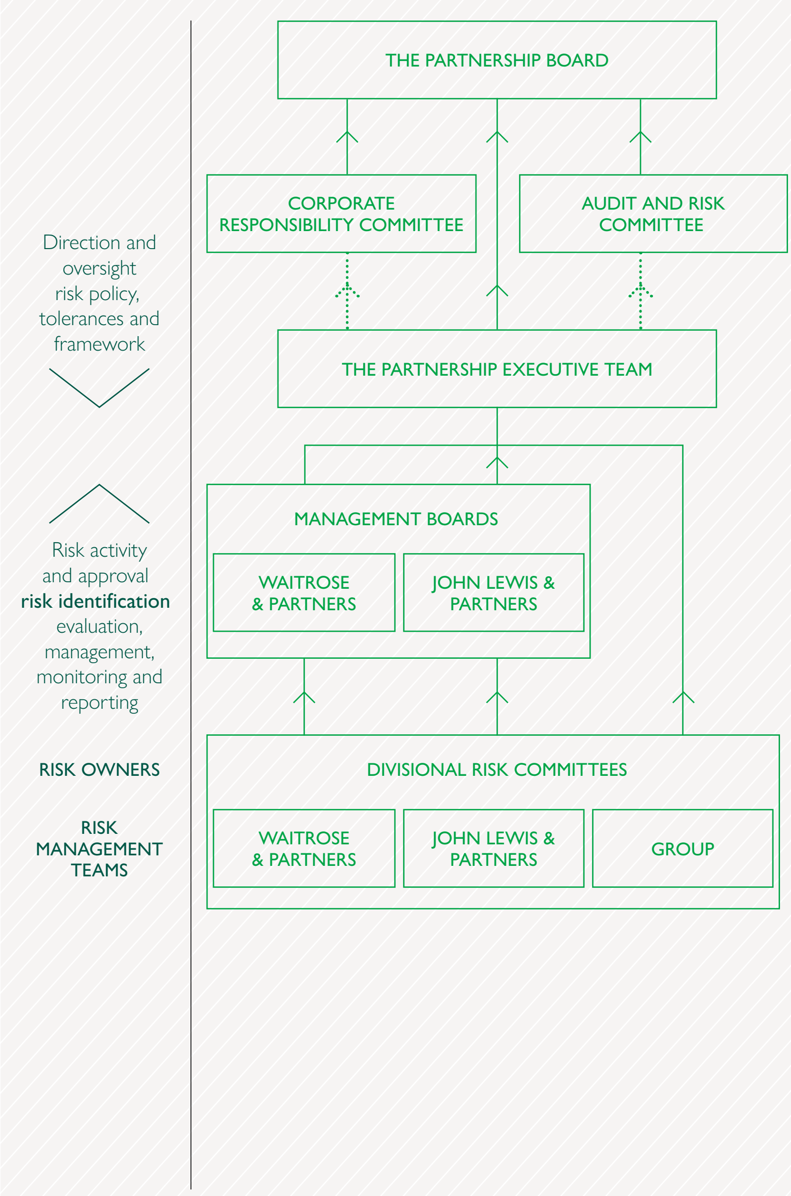
The Partnership's risk appetite is set by the Partnership Board. It governs the amount of acceptable risk within which we operate. This is derived from our Constitution and takes into consideration the acceptable level of risk across strategic, operational, financial and regulatory risks faced by the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

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

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

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

Risk management governance structure

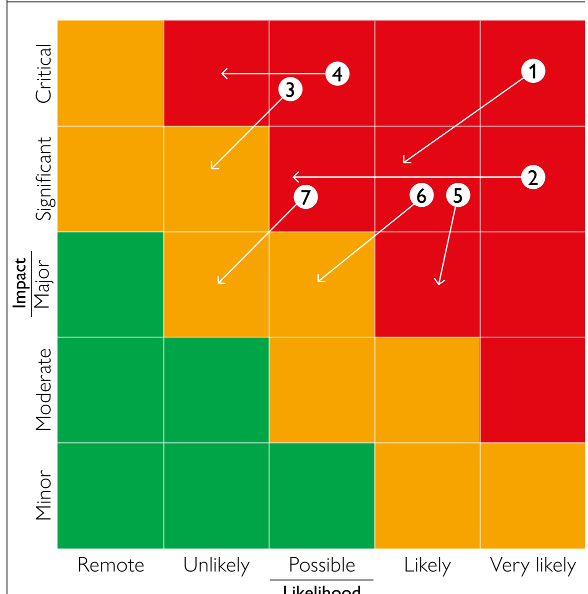


PRINCIPAL RISKS

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

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

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



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

Principal risks and uncertainties — continued

MANAGING OUR PARTNERSHIP RISKS

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

WHAT'S CHANGED SINCE LAST YEAR?

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

1. COMPETITIVE CUSTOMER PROPOSITION

DESCRIPTION	POTENTIAL CONSEQUENCES	CONTROLS IN PLACE	PROGRESS IN THE YEAR AND FURTHER ACTIONS
Failure to deliver our customer promise and not maintain our competitive advantage due to: – Competitor actions putting pressure on market value, our margin and threatening our volumes in grocery; and – The growth of online business models in the general merchandise sector means customers focus more on value for money and are less loyal.	Customer proposition and service is negatively impacted, which may result in losing customers, impairing our ability to grow long-term profitability.	– Continuing to secure value for all of our customers through our price-matching commitments. – Regular strategic risk review and monitoring by the Executive Team. – Regular horizon scanning to inform strategic reviews to continually enhance our customer offer. – Regular strategy implementation, customer and performance metrics evaluation by senior leaders and Executive Team.	– Updated Partnership strategy launched. – New Partnership-wide branding launched. – Improved online and in-store proposition in John Lewis & Partners; and continued price investment in Waitrose & Partners alongside new in-store initiatives to improve customer experience. – Product launches such as new Womenswear collection in John Lewis & Partners and a new vegan range in Waitrose & Partners. – Differentiate further on product. – Continue to develop market-leading customer service and develop service offerings through Partners. – Unlock further value between our brands. – Develop online offering. – Build greater customer insight.

2. OPERATING MODEL STRAIN

DESCRIPTION	POTENTIAL CONSEQUENCES	CONTROLS IN PLACE	PROGRESS IN THE YEAR AND FURTHER ACTIONS
Increasing external pressures, such as the ongoing move to online, and increased spend on IT create strain on our operating model.	Stresses on our operating model may result in strain on our Partners, systems and operational potential. Ultimately these could impair our ability to meet customer needs and grow profitably.	– Annual business plan process robustly reviewed. – Monthly Executive Team business performance review and action taken. – Regular review of programmes to re-prioritise and support the ongoing development of our operating model.	– Improved stock management in John Lewis & Partners and new flexible operating structure implemented in Waitrose & Partners branches. – Head office reorganisation. – Benefits being realised from the new product sourcing office in Hong Kong. – Robust business plan review. – Implementation of further change programmes across IT, supply chain and other areas of head office. – Development of proposition to increase value to our customers.

3. INFORMATION SECURITY

DESCRIPTION	POTENTIAL CONSEQUENCES	CONTROLS IN PLACE	PROGRESS IN THE YEAR AND FURTHER ACTIONS
A breach of Partner or customer data due to an external threat causing disruption or access to sensitive data.	A significant data breach and loss of either Partner or customer data could cause financial, regulatory, legal and/or reputational damage.	– Robust network security and regular testing to provide early identification of network or system vulnerabilities. – Continuous security monitoring. – Partner training.	– Significant enhancements made to the systems and controls that hold Partner and customer data to improve resilience. – Improvements to preventing, detecting and responding to external cyber attacks. – Continue to implement the IT security programme. – Continue the awareness campaign. – Simplify IT estate.

HOW OUR RISKS LINK TO STRATEGY

- Partner
- Customer
- Profit
- Power

DESCRIPTION	POTENTIAL CONSEQUENCES	CONTROLS IN PLACE	PROGRESS IN THE YEAR AND FURTHER ACTIONS
4. PENSION OBLIGATIONS			
Increases in the pension liabilities, driven by a decrease in the real discount rate for example, and a significant devaluation in the assets being held could cause a significant increase in the size of the pension deficit.	A larger pension deficit could result in additional funding required by the Partnership, diverting resources away from other investment opportunities.	– Regular review of valuation assumptions through internal and external monitoring. – Pension risk and funding strategy reviewed regularly.	– Continued cost reduction realised from the 2015 Pension Benefit Review. – A new Pension Benefit Review has commenced. – The pension deficit de-risking plan, through increased interest rate and equity hedging. – Pension Benefit Review to be approved by Partnership Council and the Board.
5. CHANGE DELIVERY			
The complex nature and scale of interdependencies of the change programmes may affect our ability to implement programmes/projects on time, to budget and quality, our ability to manage, and our ability to embed the change into the business and realise the benefits.	Failure to develop, implement and embed change effectively could result in increased costs, disruption to our trading activities impacting our customer experience, missing our growth ambitions and losing the engagement of our Partners.	– Programme and project governance in place enables early identification and remediation of issues considering the impact on Partners and interdependencies on other programmes and projects. – Quarterly review of programme status at the Executive Team level.	– Embedded new change governance and ways of working. – Partnership-wide reporting continued to be improved to provide better insight. – Continue to align the change operating model to support the delivery of the new Partnership strategy.
6. EXTERNAL ENVIRONMENT			
External economic pressures, due to the impact of government policy, Brexit, a weaker economy and lower pay increases, reduce our customers' spending power and harm our suppliers' financial resilience.	Our customers may move away from our core product offers or buy less. Key suppliers may demand higher prices or fail us. These could impair our ability to grow profitably.	– Monthly monitoring of business performance by the Executive Team. – Horizon scanning. – Brexit team regularly reviews and communicates on the potential impacts and opportunities to influence outcomes internally and externally.	– External economic factors have been incorporated into the business plan. – Analysis and activity in relation to Brexit risk since vote. – Ongoing monitoring, analysis and actions implementation to mitigate the potential impacts of Brexit (see page 42). – Continued focus on differentiating our customer service, product quality and product innovation.
7. OWNERSHIP MODEL STRAIN			
Partners and their engagement are key to the success of our employee ownership model. Commercial decisions made to secure the economic success of the business as well as external pressures on Partners could unconsciously impact Partners belief in, and commitment to, our employee ownership model.	Loss of belief in our employee ownership model could compromise individual Partner performance, collective productivity and brand advocacy (Principle 1), thus losing the competitive advantage of our employee ownership model.	– Leadership engagement through change. – Annual Your Voice Partner survey to assess and respond to Partner sentiment. – Registry function support for Partners. – Oversight of Board, Executive Team and our democratic bodies.	– Completed checks and balances review over our senior governance and controls to deliver the Constitution. – Unlocking Partner Potential initiatives introduced to provide better career opportunities for Partners, improve total reward, continue to develop the quality of leadership and increase purpose and learning across all roles. – Increased communication in response to Partner feedback. – Continue to focus on developing the effectiveness of democratic channels and leading through change. – Lead on wellbeing in the workplace. – Continued focus on initiatives to empower Partners.

Principal risks and uncertainties — continued

BREXIT

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

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

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

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

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

This is centred on the following areas of most risk:

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

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

VIABILITY STATEMENT

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

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

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

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

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

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

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

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

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

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

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

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