NOW &
THE FUTURE
Group Strategic Report

Pages 1 to 45 comprise the Group Strategic Report. The Group Strategic Report was approved by the Board of Directors on 12 April 2018.

Sir Charlie Mayfield, Chairman, John Lewis Partnership, 12 April 2018

More information
To find out more about our progress against our Corporate Responsibility aims including our Modern Slavery Statement read our annual Corporate Responsibility report at www.johnlewispartnership.co.uk/csr

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

Tell us what you think
Our Annual Report and Accounts is all about our Partners, and we’d like your feedback on it. Visit www.johnlewispartnership.co.uk/meta/contact-us.html

COVER STORY

“I’ve been a Partner for seven years so I’ve been able to learn a lot about the business. Due to the changes that have been brought in over the last year I’ve developed my team-working skills. It feels great to be able to develop and I feel proud to have learnt new skills as it’s given me a sense of achievement.

In this year’s Annual Report and Accounts I am interested in learning about the business’ profits, where they’ve come from over the last year and also where we can improve our performance.

Violeta Lerini,
Operations Team Leader,
Waitrose, New Malden

“I’ve been a Partner for 11 years and there have been an awful lot of changes this year. However, I find it inspiring to see Partners are taking ownership for those changes and their own development.

What I am most looking forward to reading in this report is getting a sense of the whole picture of the business. Everything is so interwined and I want to be able to see how the business is doing overall. If we want to continue to be a successful business in 20-30 years time we need Partners to engage with this report.

Dominic de Bruxelles,
Section Manager,
Womenswear,
John Lewis, Kingston
Yesterday, today and tomorrow

The John Lewis Partnership is a successfully different way of doing business. As the UK’s largest example of an employee-owned business, we put the happiness of our Partners first, at the heart of everything we do, through worthwhile and satisfying employment.

All of our 85,500 employees are Partners in the business. Each Partner has a say in how it is run through a democratic system which has been running for nearly a century. Partners also receive a share in the Company’s profits through an annual Partnership Bonus.

Because Partners are our difference, they make Waitrose and John Lewis two of Britain’s best-loved and most successful retail brands. Our success is built on high quality, responsibly produced products, the extraordinary service delivered by our Partners and their great relationships with our customers.

Today, we are seeing many changes in retail, together with economic, societal and political uncertainty. This has led to a continuation of tough market trading conditions in 2017/18. Against this backdrop, we have taken decisions to make a number of changes across the Partnership, some of which are difficult but necessary. This is to ensure we are always focusing on tomorrow and the Partnership’s future.
You & me
We are all in charge of the Partnership’s future

It’s safe to say 2017/18 was a year that reflected both a challenging retail landscape and our determination that the Partnership should take bold steps to prepare for the future.

As part of a routine trading update in January 2017 we said that whilst we expected to post an increase in profits for 2016/17, the following year was likely to be more challenging, and as a result, the Partnership Bonus announced in March 2017 would be significantly lower than in previous years.

We explained this was for three reasons. Firstly, we anticipated intensifying pressures on margin as a result of weaker Sterling. Secondly, we knew 2017/18 would be a year of significant change with high exceptional costs; and thirdly the Board was likely to decide to retain more cash in order to ensure we continued to invest in the future and continued to strengthen our balance sheet.

These predictions for 2017/18 turned out to be largely accurate. This year, profit before Partnership Bonus, tax and exceptional items was down 21.9 per cent to £289.2 million, largely due to lower gross margins in Waitrose, driven by the weaker exchange rate and our commitment to competitive pricing. An adverse movement in exceptional items of £282.5 million led to profit before Partnership Bonus and tax reducing by 67.2 per cent. This included an exceptional charge of £111.3 million, mainly for restructuring and redundancy costs, and Waitrose branch impairments.
Inspirational products will play a greater role across Waitrose and John Lewis

During the year, we saw a greater level of internal change than at any time in over a decade. Many roles were directly affected by organisational changes of one kind or another and sadly Partners left the business when their roles were made redundant.

Alongside these changes we pressed on with our shop investment plans, where we completed 127 projects of varying scale in Waitrose shops, and completed 91 projects in John Lewis shops. We also enhanced our ability to engage with customers directly in shops by rolling out technology to improve processes and support Partners, including handheld devices in John Lewis shops. Some of these changes caused significant disruption during the year, especially in Waitrose shops, but I am pleased to say both Waitrose and John Lewis traded well, especially over the important Christmas peak. John Lewis in particular outperformed the market with share growth in Fashion, Home, and Electronics and Home Technology.

Looking forward, I expect market conditions to remain challenging and we will accelerate the delivery of our plans for the future. These plans centre on the same three goals from our It’s Your Business 2028 strategy – further strengthening our brand appeal to customers, creating better jobs for better performing Partners on better pay, and strengthening our financial position. In support of our strategy, we embedded our Corporate Responsibility Framework which outlines our aims to source and sell with integrity, unlock Partner potential and deliver more with less.

Inspirational products will play a greater role across Waitrose and John Lewis. It supports our ambition for 50 per cent of our products to be own-brand or exclusive to John Lewis. We will be building quickly on the success in Fashion with sub-brands such as AND/OR and modern rarity, while continuing to develop our Home assortments. In Waitrose, Good Health will be a predominant driver of our range and product development, and we have announced that all own-label packaging will be recyclable, reusable or home compostable by 2025.
I would like to acknowledge the hard work of our Partners throughout the year. Their dedication and focus on delivering great service and unrivalled experiences for our customers has been hugely important. Looking ahead, Partners will play an even greater role in delivering a value added experience for customers. Examples of how we are bringing this to life include our Experience Desks in John Lewis, which have been successfully rolled out in five shops, and Waitrose Partners playing a greater role as advocates for great food. We are backing this activity with a continuing focus on training, skills and pay, with average hourly pay increasing to £9.16 for non-management Partners following the April 2018 pay review. We are also increasing our Partner training and development opportunities. As an example, we will increase the number of apprentices from more than 350 in 2017/18, adding a further 500 in 2018/19.

Financially, our Debt Ratio worsened in 2017/18 as a result of lower profits. Despite this, our strong cash flow enabled us to reduce our total net debt.

Our progress has been championed and supported by the Board. On that note, I would like to personally thank Baroness Hogg for the valuable contribution she has made as Non-Executive Director and for chairing the Audit and Risk Committee, as her term of office concludes on 31 May 2018.

Our unique blend of product and service continues to lead the market. Building more quickly on our strategy for the future will be important in the year ahead, and I am confident we will make good progress. In times of change, Principle 1, the ultimate purpose described in our Constitution, remains unchanged and at the heart of all we do. It is our culture of democratic vitality created by all Partners, acting as passionate co-owners, which will continue to set us apart from other businesses both now and in the future. While the world of 2028 may be very different to today, one thing is certain – the Partnership of 2028 will still be owned by Partners and will remain a business of people. As ever, it remains our task as the current generation to ensure we hand over a successful business to Partners of the future.

Sir Charlie Mayfield
Chairman, John Lewis Partnership
**OUR YEAR IN REVIEW**

We make **Profit** through our trading operations, through building great relationships with our **Customers**, and through unlocking the potential of our **Partners**. Read more about Our Partnership business model on page 12.

## Profit

### How did our business perform?

<table>
<thead>
<tr>
<th>Category</th>
<th>Revenue</th>
<th>Percentage Change</th>
<th>Profit Before Partnership Bonus</th>
<th>Profit Before Exceptional Items and Partnership Bonus</th>
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<tr>
<td><strong>Waitrose</strong></td>
<td>£172m</td>
<td>-32.1%</td>
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<tr>
<td><strong>John Lewis</strong></td>
<td>£254m</td>
<td>+4.5%</td>
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</table>

**Revenue**

£10.2bn

+1.8%

Like-for-like sales growth of 0.9% in Waitrose and 0.4% in John Lewis, was supported by increased customer numbers across both brands.

**Profit Before Partnership Bonus**

£289m

-21.9%

As a result, Partnership profit per average full time equivalent (FTE) was £4,800 (2016/17: £5,800) and Return on Invested Capital (ROIC) was 6.6% (2016/17: 8.1%).

**Divisional Operating Profit Before Exceptional Items and Partnership Bonus**

**Waitrose**

£172m

-32.1%

Waitrose operating profit before exceptional items and Partnership Bonus was down as we reset gross margin, taking the decision not to pass on all cost price inflation to our customers, and to invest in customer experience.

**John Lewis**

£254m

+4.5%

John Lewis operating profit before exceptional items and Partnership Bonus reflected our continued focus on customers, creation of unique products and further improvements in productivity. This figure includes £10.5m of property profits from freehold disposals.

### What did that mean for our Bonus?

**Partnership Bonus**

5%

2016/17: 6%

We expect that trading will be volatile in 2018/19 due to the economic environment and continuing competitive intensity. The Board took this into account and continued their policy of strengthening the balance sheet and maintaining investment for the future. As a result, Partnership Bonus was 5% in 2017/18.

**Profit Before Tax**

£104m

2016/17: £452m

Over two-thirds of the drop in Profit before tax was due to the swing in exceptional items, described to the right. Our Debt Ratio increased from 4.0 times in 2016/17 to 4.3 times this year, principally due to reduction in profits, partially offset by debt reduction.

### Exceptional Items

£111m net expense

2016/17: £171m net income

There were a number of exceptional items affecting our results this year. We incurred a £72.8m charge for restructuring and redundancy costs to set us up successfully for the future. Branch impairments of £38.9m were incurred in Waitrose as we reassessed the value of our estate in the current market. Given the nature of the impairment exercise this year and the size of the charge, this has been included in exceptional items. Last year, we had a £171.2m exceptional gain, principally due to the change in policy on discretionary pension increases.

Read more about exceptional items on page 95.
Customer

How did we enhance our customer relationships?

WE IMPROVED OUR SHOP AND ONLINE ESTATE

In John Lewis we opened one new shop in Oxford during 2017, ending 2017/18 with 49 shops. Our 50th shop opened in White City Westfield in March 2018 and we will be opening in Cheltenham in Autumn 2018, bringing the total number of John Lewis shops to 51.

We opened seven new Waitrose shops and closed six in the year, bringing the total to 353.

We continued to invest in our shop estate and online. In Waitrose shops, we completed 127 projects of various scales. We also completed 91 projects in John Lewis shops.

Following investment in Waitrose.com, making it easier to navigate, our online grocery operation achieved strong profitable sales growth of 10.9 per cent.

John Lewis online sales grew by 9.9 per cent year-on-year. We delivered over 17 million John Lewis customer orders across the UK from our various distribution centres.

We focused on price

We lowered the prices of hundreds of essential Waitrose products which helped to build like-for-like volumes.

Never Knowingly Undersold continues to be our John Lewis price promise to customers. Black Friday was the busiest John Lewis shopping day in history and included a record hour for online trade. It was also its biggest ever sales week.
We continued to provide inspiring and unique products for our customers

In Waitrose, innovations and top sellers included Heston from Waitrose Citrus Sherbert Lazy Gin, Prosecco Panettone, and Waitrose 1 Single Origin Dark Chocolate and Coconut Chocolate Bar. Food trends we saw for the year included turmeric, blueberries, perfectly ripe avocados, and black forest flavours at Christmas. In total more than 2,500 products were launched or redeveloped over the year.

We continued to build on our ambition for 50 per cent of John Lewis products to be own-brand or exclusive. We launched our first in-house denim lifestyle brand for women AND/OR and built on the success of our luxury own-label, modern rarity, including a collaboration with Eudon Choi. Best sellers in John Lewis were Liz Earle Cleanse & Polish™ Hot Cloth Cleanser, SIMBA Hybrid Memory Foam Pocket Spring King Size Mattress and 2017 Apple MacBook Air 13.3".

We made progress against our Corporate Responsibility aims

In Waitrose, we pledged to stop the use of black plastic in own-label packaging by the end of 2019. We have also committed to ensuring that all own-label packaging is widely recyclable, reusable or home compostable by 2025.

Waitrose won Compassion in World Farming’s Best Retailer Award for the highest welfare standards in Europe.

The Partnership released its second Human Rights and Modern Slavery report and John Lewis published its factory list in support of retailer transparency.

Data included within KPMG LLP’s independent limited assurance scope. See page 70 for more details.
Partner

What steps did we take to increase Partner productivity?

As a business we have placed a much greater focus on being ‘stronger together’, unlocking the benefits of working in a more co-ordinated way across the Partnership. This has involved major reorganisation to create single pan-Partnership functions to support both brands in IT, Personnel, Property and Finance. As a result our number of Partners at the year-end is 85,500 (2016/17: 86,700).

We embraced apprenticeships as the primary focus for Partner development. We have nine apprenticeship schemes with more than 350 apprentices currently enrolled and a further 500 expected in 2018.

To drive productivity and build on excellence in customer service, Waitrose rolled out a flexible working model to all its core shops. This is about having fewer but better trained, multi-skilled Partners doing the right tasks in the right way at the right time, supported by managers with broader accountability across the whole shop, and a greater opportunity to develop their Partners.

And all our achievements were supported by the hard work and commitment of 85,500 Partners.

**Gross Sales per Average FTE**

£191,300

+6.5%

**Partner Pay as a Percentage of Sales**

(2016/17: 13.9%)

13.8%

**Partner Job Satisfaction**

(2016/17: 68%)

70%

**WE CONTINUED TO FOCUS ON PAY**

We remain committed to increasing pay rates for non-management Partners. In October we increased pay outside the annual pay review cycle for 17,000 Partners. As at January 2018, the average hourly rate of pay for a non-management Partner was £8.91.
WHY AND WHERE WE EXIST

The Partnership today

The John Lewis Partnership exists today because of the extraordinary vision and ideals of our founder…

…John Spedan Lewis. He believed that industrial democracy — where Partners shared profit, knowledge and power — was a better way of doing business. His unique vision means the Partnership is owned in trust for its members, who share the responsibilities of ownership as well as its rewards.

Spedan Lewis also believed in experimentation and openly encouraged it. Today this ethos lives on. It is up to each and every Partner to ensure an environment for experimentation is created and for democracy to thrive.

As co-owners, this is what sets us apart from other organisations and allows us to do business differently. For more information on the Partnership’s co-ownership governance model, see the Governance report from page 46.

Our aim is to keep driving forward for future success, and to keep asking ourselves how we can do better.

We have got to be flexible, outward looking and ready to change, even if those changes can be uncomfortable. The Partnership must change constantly to fulfil its ultimate purpose. The Constitution ensures these changes remain true to our Principles and will allow us to pass on to our successors a business that they too will be proud to work in. We are continuing with our investment plans so that our two leading brands can carry on offering our customers the best range of products at the best value, supported by a market-leading service.

OUR HERITAGE

John Lewis opened a small draper’s shop in 1864 in Oxford Street, London. In 1905 John Lewis bought control of Peter Jones and in 1914 handed control of Peter Jones to his son John Spedan Lewis.

LECKFORD ESTATE

At our Leckford Estate in Hampshire, we produced 4.4 million litres of essential Waitrose milk from our dairy herd, and bottled over 5.7 million litres of organic whole milk and goat’s milk in our milk processing unit. We grew over 3,800 tonnes of cereal and oilseed crops. We made over 50,000 bottles of apple juice and cider from our fruit trees and sold over 17,000 bottles of Leckford Brut from our vines. We grew and packed over 4.7 million individual packs of Leckford chestnut mushrooms. We bottled over 60,000 litres of cold pressed rapeseed oil and reared around 60,000 rainbow and brown trout.

OUR LONGEST SERVING PARTNER

Our longest serving Partner is Colin Tushingham, who celebrates 60 years in the Partnership in April 2018. Colin works part-time as a receptionist in Business Protection at John Lewis High Wycombe, whilst also volunteering at our Heritage Centre in Cookham.

So what’s Colin’s secret?

“Good health plays a major part but you also have to have a bit of fun. I enjoy working and interacting with younger people and giving good service to Partners, customers and visitors.”

Colin Tushingham
We opened our 50th John Lewis shop at White City Westfield in March 2018. Excludes the John Lewis Swindon outlet.
How we are different

Not many companies have a written Constitution. Ours is a framework which defines the Partnership’s seven Principles and the way we should operate, with our ultimate purpose described in Principle 1.

Because the Partnership is owned in trust for its members, we share the responsibilities of ownership as well as its rewards – profit, knowledge and power. Our business model and strategy reflects how we do business differently compared to other organisations that are not employee-owned.
Quality products and services
Customers trust us to curate ethically sourced products and services that demonstrate quality, value for money and style.

Unique customer experience
Our aim is to deliver the ultimate service-led shopping experience designed around our customers’ needs – however and whenever they wish to shop. Technology gives us the opportunity to differentiate further, by knowing our customers better, and using that knowledge to equip Partners to better serve our customers.

Focused operational excellence
Behind the scenes, our focus is on delivering excellence in fulfilment, operations and service delivery, each and every time our customers choose to shop with us.

Brand trust
Our customers are at the heart of everything we do and dealing honestly with our customers is one of the core operating principles of our Partnership model. We work to build brand trust and loyalty and provide our customers with high quality, unique products and excellent service.

Financial discipline
The Partnership is not driven by the demands of outside shareholders and is instead owned by Partners who share the benefits and profits of the business. This ensures that financial decisions can be taken in the best interests of Partners and the long-term future of the business. It is the Partnership’s responsibility to make sufficient profit from its trading operations to sustain its commercial vitality, finance its continued development and distribute a share of those profits to members.

Environmental and welfare standards
We are committed to continually reducing the environmental impact of both our own retail operations and our supply chain. We take a responsible approach to sourcing and support our suppliers to ensure they safeguard human rights and promote decent working conditions.

Profit, knowledge and power
We share power through our democracy and believe that all Partners have both the right and the responsibility to hold management to account to deliver worthwhile and satisfying employment in a successful business. We believe that sharing knowledge openly within our business helps to drive excellence and commitment, and allows us all to make better decisions. We share profit by investing in our Partners and distributing a share of profit through the Partnership Bonus each year.

Learning and progression
We believe the Partnership offers some of the best opportunities for people to get into work and get on in life. As an employee-owned business, we are focused not just on bringing people into work, but also supporting our Partners to develop new skills and progress their career with us.

Productivity
We are investing in skills, knowledge and technology to grow productivity to strengthen the Partnership’s long-term financial sustainability.

Our Partners
Our 85,500 Partners are what make the Partnership unique. Unlocking Partner potential develops value by creating exceptional relationships with customers.

See pages 24-29

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 and courtesy. We work closely with a diverse range of suppliers from over 80 countries, and it is the strength of these relationships that allow us to source high quality, responsibly produced products for our customers. We have over 700 suppliers who have been working with us for more than 30 years.

See pages 23 and 40-41

Community relationships
We want the communities in which we operate to thrive. By investing locally, we are helping to tackle the issues that affect our communities, our Partners and our customers. Through Waitrose and John Lewis Community Matters schemes we donated £4.4m to local causes during the year.

See pages 40-41

THE PARTNERSHIP DIFFERENCE

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

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

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

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

For more information on our seven Principles read our Constitution on www.johnlewisp affiliation.co.uk

I Data included within KPMG LLP’s independent limited assurance scope. See page 70 for more details.
UNDERSTANDING OUR MARKETS

What is impacting the Partnership?

Changes in politics, the economy, society and retail all impact the Partnership.

With the rapid changes taking place around us, we are mindful that what has worked well for us in the past may not assure us of success in the future. The retail industry is facing significant disruption and we are operating in a fiercely competitive environment. Margins are narrowing across the sector, particularly in grocery, and we expect these pressures to intensify for some time.

THE ECONOMY

The UK is the sixth largest economy in the world. UK Gross Domestic Product (GDP), which measures the country’s economy and the total value of everything produced by all the people and companies in the UK, is expected to have lower growth than previously predicted by the Office for Budget Responsibility (OBR). The UK economy is projected to grow more slowly over the next two years due to public spending cuts and Brexit uncertainty. UK GDP growth is expected to average 1.4 per cent per year over the next five years, compared to 1.9 per cent in 2016.

Inflation, which measures price increases in products and services, averaged three per cent since August 2017, one per cent above the Bank of England’s target of two per cent. This means that the cost of living has increased and some consumers will have less to spend.

The Bank of England raised interest rates for the first time in more than a decade in November 2017, by 0.25 per cent to 0.50 per cent which meant some home mortgage payments became a little more expensive per month. Interest rates are likely to rise in 2018/19, which may further erode disposable income.

A weaker Sterling exchange rate was also one of the factors that contributed to pressure on our margin. We made the choice to maintain competitive prices, despite higher input costs.

SOCIETY

In 2016, the UK population was 65.6 million, its largest ever, and is projected to continue growing, reaching over 72.9 million by 2041. The UK has an ageing population with 18.0 per cent aged 65 and over; an increase from 15.9 per cent in 2006. 2.4 per cent were aged 85 and over in 2016. As a result, there is an increasing strain on social care and a lack of affordable housing, with younger people struggling to get on the property ladder. This may limit the demand for big ticket Home items.

POLITICS

Following the UK’s decision to leave the European Union (EU), the Government is focused on securing the best possible deal and maintaining the free flow of goods from the EU. The retail sector is the UK’s largest private sector employer and is reliant on importing goods to the UK to meet customer demand. The Partnership is no different, and it is important we maintain customer choice and limit price inflation. We also need access to an EU workforce to prevent a future skills shortage.
SHOPPING HABITS AND TECHNOLOGY

Research released by Visa in February showed household spending in January 2018 fell by 1.2 per cent, compared to 12 months ago. This is the first time in five years that there has been this fall in January.

The percentage of all UK retail online sales via mobile devices is now 54.6 per cent.

Click & collect services now account for 34.7 per cent of all multi-channel retail sales, an increase of over five per cent in the last 12 months.

Britons spent an estimated £16 billion shopping online during December 2017. Black Friday has also established itself as a key event in the retail calendar with 2017 notching up record sales.

As a nation of bargain hunters, discount supermarkets are growing and in 2017 both Lidl and Aldi’s market share grew.

We have seen more discounting in the retail market and profit margins across the entire UK grocery industry are being severely squeezed. In response, we are improving our customer propositions, across product, price, and service.

We are also seeing increased automation, not just in retail but across the wider economy. Technology of the future could see shopping deliveries carried out by drones and supermarkets operating without traditional checkouts. In 2017/18 self-service, within Waitrose, accounted for 34.5 per cent of transactions, which includes self-checkouts and Quick Check.

Shopping habits are evolving rapidly and changes in technology are fast paced. It is important that the Partnership monitors and reacts quickly in order to maintain our competitive advantage.

See pages 18-23.
Our strategy recognises the speed at which the world around us is changing and the impact this could have on our business.

Our goals are:

1. **Stronger brands and new growth** pages 18-23
2. **Better jobs, better performing partners, better pay** pages 24-30 & 34
3. **Financial sustainability** pages 30-33 & 34

This is underpinned by:

**Democratic vitality** pages 35-37
Why do we have a strategy up to 2028?
Partly it is because 2028 marks the 100 year anniversary since the creation of the Partnership’s first Constitution. More importantly, by looking ahead and trying to predict what the world might be like in 2028, we are able to make better decisions now about how we run our business for the benefit of Partners, customers and society. While the world of 2028 may be very different, there is one thing which is certain: we will remain a business of people and the Partnership will still be owned by Partners. It’s our job, as Partners of today, to ensure that the Partnership stays successful for Partners of the future. This past year has seen vast changes within the Partnership, and the way we do business has been restructured. In some cases, this has meant the loss of roles in order to create a more effective way of working and adopt a Partnership-first approach to all we do.

So where are we on the 2028 strategy?
We are now three years into our strategy and have laid some important foundations to help us prepare for the future. We have stopped purchasing space for new shops due to the large capital expenditure this requires and taken the decision to reduce debt and invest in our core business for our current customers. We also purposely reduced the level of Partnership Bonus in 2016/17 and 2017/18 in order to strengthen the balance sheet and maintain investment for the future. Over the past decade we have paid an extra £1 billion into our pension scheme above the original planned funding, which has placed additional strain on our balance sheet. We launched a new focus on productivity (see page 34) and started creating pan-Partnership functions in IT, Personnel, Property and Finance as we know we will be much stronger and more efficient working together as one. We created a new Executive Team responsible for recommending the strategic direction to the Partnership Board, and to ensure that capital and resources are allocated effectively to achieve these strategic aims (see page 53).

We need to be aware of the challenges we face...
As mentioned in the ‘understanding our markets’ section on pages 14-15, there are external factors that impact the Partnership. Primarily these are:

- Political and economic uncertainty
- Societal changes
- Disruption in retail causing increased competition

There are also changes in the workplace in relation to technology and automation (see page 34). We therefore have more to do to deliver growth and ensure the success of the Partnership in fulfilling Principle 1. Core to this is unlocking the potential of all our Partners.

We have a unique role in the Partnership, where we have a Futurologist. In line with our strategy to 2028, John Vary’s role is to influence the long-term vision for the Partnership and to look ahead to what the future of retail and life will be like in 2030. John’s team, based in Room Y, are what’s known as skunkworks, a group dedicated to radical innovation which has no creative constraints.

The Partnership ran JLAB for the fourth year – one of the UK’s largest retail tech accelerator programmes. JLAB encourages start-up businesses to enter with a business idea that could change the face of retail shopping for the future. In 2017 we received 208 applications, which is the largest number of entries since its launch. Our winners, who received £100,000 investment each, from the Partnership and our delivery partner, were WeFiFo, a social hub which connects home chefs, supper club hosts and professional chefs with paying guests, and Exaactly, an intelligent addressing system that aims to put an end to failed customer deliveries. For the first time, in 2018, we will see JLAB running throughout the year with additional activities, such as Community JLAB and Partner JLAB.
OUR STRATEGY

Customers are at the heart of what we do

1 STRONGER BRANDS AND NEW GROWTH

OUR STRATEGY

There are four aspects to stronger brands and new growth. The first is developing an increasingly distinct, great value, product proposition loved by customers known as product differentiation. Secondly, we are systematically improving the quality of the customer experience and service proposition across both Waitrose and John Lewis and enhancing lives. Thirdly, we are extending the use of technology to enhance our ability to engage customers directly in shops and across all channels with our Partners supporting our Human + Digital plans. Alongside this we strive to build customer confidence in the products and services we sell and the way we sell them by sourcing and selling with integrity.

KPI COMMENTARY

Against a challenging backdrop with subdued consumer demand, both Waitrose and John Lewis achieved positive like-for-like sales growth and Partnership gross sales increased. Our overall number of customers grew by 4.0 per cent in Waitrose and 2.5 per cent in John Lewis. The number of higher spending ‘Best’ customers grew in Waitrose and edged backwards in John Lewis. We track this because we want our new propositions to appeal most to our best customers. Our Net Promoter Score identifies how strongly a customer recommends us to a friend. This year it fell in Waitrose due to the short-term operational impacts from significant changes in our shop structures and operating models, but increased in John Lewis. In both Divisions, we continue to focus on putting customers at the heart of what we do.

Footnotes to KPIs

1 Reporting of this KPI was implemented within the Partnership alongside our transition to the It’s Your Business 2028 strategy. KPI data has therefore only been reported from 2015/16 onwards. As time passes the level of data available on customer spend increases, primarily returns data and the ability to link spend to a specific customer. The historical KPIs are therefore restated each year to reflect the most recent data available.

GROSS SALES GROWTH %

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LIKE-FOR-LIKE SALES GROWTH %

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<tr>
<td>2015</td>
<td>6.3</td>
</tr>
<tr>
<td>2016</td>
<td>1.4</td>
</tr>
<tr>
<td>2017</td>
<td>-1.3</td>
</tr>
<tr>
<td>2018</td>
<td>0.9</td>
</tr>
</tbody>
</table>

INCREASE IN ‘BEST’ CUSTOMERS %

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 WAITROSE</td>
<td>0.5%</td>
</tr>
<tr>
<td>2018 JOHN LEWIS</td>
<td>-0.7%</td>
</tr>
</tbody>
</table>

NET PROMOTER SCORE (NPS)

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 WAITROSE</td>
<td>+29</td>
</tr>
<tr>
<td>2018 JOHN LEWIS</td>
<td>+64</td>
</tr>
</tbody>
</table>
We are continuing to invest significantly in our customer offer and this year has been no different.

**FOOD SERVICE**

In September, Waitrose appointed its first Food Service Director. The creation of this role underlines our aim to meet the needs of the modern day shopper by providing convenient food and drink to take away or eat in-store.

Waitrose opened a further 49 sushi counters, meaning we now have 73. Alongside this, Waitrose opened three ‘Kitchen’ concepts in our shops, taking the total to four. Waitrose also opened two further wine bars – including our largest to date in Fulham in November 2017 – and we now have 12 bars.

Food innovation is at the heart of Waitrose. More than 2,500 products were launched over the year. This included 586 for Christmas and 128 Waitrose 1 products. In response to the rising demand for vegetarian food, we launched our biggest ever range of meat-free meals, with 31 innovative new dishes.

“"The year saw us direct our investments and energy into making the experience of shopping at Waitrose even better. We carried out 127 projects of varying scale, from updated refrigeration to new sushi counters, in Waitrose shops. We also invested in our website, making it easier to navigate, as well as introducing self-service check-in iPads for John Lewis Click & collect orders in 140 of our shops. We focused on value, lowering the prices of hundreds of essential Waitrose products. Always wishing to share a love of good food with our customers, we developed more than 2,500 new products; and to help with making healthier choices, launched our Good Health marque. Partners everywhere are dedicated to doing a great job for customers and in our shops we moved to flexible working, meaning that we have the right Partners in the right place at the right time to give the best possible service. In the year ahead we will support them with the roll out of devices that give easy access to detailed information. This summer will see the opening of an exciting food innovation centre to turbocharge product development, creating more food inspiration for customers. We will also continue to invest behind the scenes, including upgrading stock management, ordering and replenishment systems – driving efficiency and playing an important part in an even better shopping experience.""
HELPING CUSTOMERS ENJOY GREAT FOOD EVERY DAY

25 years of Duchy Originals

Waitrose celebrated 25 years of Duchy Originals, founded by HRH The Prince of Wales. In the same year, sales for Waitrose Duchy Organic surpassed £200 million for the first time and generated £3.2 million in support of charitable causes.

Bon appétit

Waitrose continued to develop an already profitable international business, exporting to more than 50 countries worldwide. Our English cheese was sold in France for the first time, and we celebrated 20 years of Waitrose food being sold in Hong Kong.

Offering real value

Waitrose has been investing in ranges offering real value by lowering prices on hundreds of essential Waitrose products.
Our ambition for John Lewis is to have 50 per cent of the products we sell as own-brand or exclusives and as part of this we have made significant investment in our own-brands. We are also focused on selling exclusive brands that customers can buy nowhere else. Fashion – particularly women’swear – is of strategic importance to us and is central to our ambition to build a £500 million own-brand Fashion business and we’re very proud of the collections we have created. In the last year we launched our first in-house denim lifestyle brand for women – AND/OR – and introduced a collaboration with Eudon Choi as part of our luxury own-label, modern rarity.

John Lewis own-brand Fashion is our top-selling brand in both men’s and women’swear and Kin, our contemporary lifestyle brand, saw a seven per cent sales uplift.

Despite challenges in Home and soft demand in big ticket items, we’re continuing to invest in our own-brand credentials. For example, we are investing in 79 new Partner roles in Buying and Design, across both Home and Fashion, which will strengthen our own-brand design capability. We are also focused on developing the Home products we offer that customers can only buy with John Lewis through the launch of exclusives and forming partnerships with industry-leading designers and brands.

For example, we rebranded our best-selling own-brand Home label, HOUSE by John Lewis, for autumn/winter 2017 to highlight its design credentials. We also formed a partnership with the V&A museum to launch an exclusive collection of 17 pieces across lighting, furniture, textiles and decorative accessories.

In Electrical & Home Technology we positioned ourselves with leading brands as the best launch partners for new-to-market products including Microsoft Surface Laptop, the HP Spectre Laptop and the Apple iPhone X and secured product exclusives with brands including Dyson, Samsung and LG.

We also hosted an in-store fan event – Force Friday II – to celebrate our partnership with Disney where customers immersed themselves in new products and unique demonstrations in-store.

And our Smart Home offering expanded, opening in Oxford and Edinburgh John Lewis shops.

Shops also play a vital role in the way our customers experience our brand and to this end we hosted a range of events this year to showcase our exclusive products.

In September 2017, we launched an autumn/winter campaign called Only Here and to bring this project to life, we opened the first ever fully-furnished in-store apartment. The Residence offered customers the ultimate try-before-you-buy experience, open daily for customers to try out, experience and shop exclusive products.

The business also saw strong foreign currency sales through our Bureau de Change desks (up 61 per cent year-on-year) and the Partnership Card is now available on ApplePay.

Paula Nickolds, John Lewis Managing Director

"John Lewis had a strong year, outperforming the market and growing market share in Fashion, Home, and Electricals & Home Technology. We also grew sales, operating profit, customer numbers and our Net Promoter Score. Our performance reflects our relentless focus on putting customers at the heart of what we do by offering them products that they cannot buy anywhere else, delivering hassle free shopping experiences and inspiring and delighting them through in-store experiences. It also reflects the productivity improvements we made across the business and a strong performance in our John Lewis Finance products, including the launch of a new personal loan offer.

Looking ahead, we aim to strengthen our design credentials and launch a number of ‘test and learn’ activities in order to harness the power of our Partners. Our 50th shop which opened in White City Westfield in March demonstrates that the modern department store is a place to shop, do and learn. We look forward to opening in Cheltenham later this year."
The new John Lewis Oxford shop embodies our philosophy of inspiring and delighting customers through experiences. With so many activities to choose from, we launched our first ever Experience Desk to help customers plan their day and where they can book a Partner for expert advice.

The first ever fully furnished in-store apartment, The Residence, was launched at John Lewis Oxford Street, Cambridge and Liverpool, giving customers the ultimate try-before-you-buy experience and featuring the latest Home, Technology and Fashion. Customers could explore every cupboard, jump on beds, host a dinner party and enjoy brunch.

John Lewis also introduced a range of shop events including Neom scent workshops, cooking demonstrations from celebrity chefs, a Wedgwood pop-up tea room and styling sessions in partnership with Vogue.

“...”

Anne Wyman, John Lewis Leeds

We are focused on helping our customers lead healthier, happier lives. JLP Ventures was specifically set up to develop new customer propositions: Cook Well from Waitrose and John Lewis Home Solutions were launched.

The Waitrose recipe box scheme delivers fresh ingredients to customers’ homes for easy-to-prepare, balanced meals developed by our chefs and nutritionists.

Waitrose launched a new Good Health label, helping customers identify nutritious food and drink. When fully rolled out it will be featured on hundreds of products, with indicators such as ‘high in fibre’ and ‘source of vitamin D’. Waitrose also lowered sugar levels in many family favourite desserts. Fifteen chilled puddings saw an average 14 per cent reduction, taking out 38 tonnes of sugar each year.

Building on Waitrose expertise in food, nutrition and the trust customers put in us, a personal nutritionist service was being trialled. The package includes a consultation, personalised diet and lifestyle plan, and starter pack of healthy food and recipes.

Currently trialled in certain locations, Home Solutions is a repair and improvement service that enables customers to use a dedicated app, website or call centre to book trades people such as plumbers, electricians, decorators, who have been selected, approved and guaranteed by John Lewis.
Partners are the driving force behind our extraordinary customer service, and technology gives us the opportunity to differentiate further.

**Online**

On Waitrose.com, the order deadline was extended until 11pm the day before delivery. The shopping journey has been optimised for mobile devices, as nearly 60 per cent of Waitrose customers now visit us on a mobile or tablet. John Lewis introduced two-hour delivery slots so customers can track their online orders more easily. Customers can also now use the John Lewis app to access more product information and shop stock availability.

**In-store**

John Lewis also worked with Waitrose to launch customer self-service check-in iPads for Click & collect orders in 140 Waitrose shops in time for Black Friday.

**Partners**

This year, Partner devices were introduced into John Lewis shops and trialled in 21 Waitrose shops. This has unlocked opportunities ranging from providing product comparison and enabling instant purchases, to checking stock availability and using translation tools.
Partners are our difference

OUR STRATEGY

Our strategy is to develop Partners who then help to support our goals. This year, we have focused on helping Partners progress through better jobs. We have enabled Partners to perform better by changing the way we manage their performance and focused on the diversity and inclusion opportunities we can provide. We have also invested in Partner health and wellbeing and better pay. We return value to Partners in the form of rewards, wellbeing, skills and opportunities. This is underpinned by the contribution we make within the communities we operate in.

KPI COMMENTARY

Average non-management Partner hourly pay continues to be significantly ahead of the National Living Wage, but the differential has been squeezed slightly. Our aim is to maintain our differential. Our drop in profit meant this productivity increase did not translate into an increase in Partnership profit per average full time equivalent (FTE), (see page 30) in line with our longer term aim. Partner pay as a percentage of sales was 13.8 per cent. The Partner survey was relaunched as ‘Your Voice’ during this year, and job satisfaction was 70 per cent. Read more about Your Voice on page 36.

Footnotes to KPIs

1 Reporting of this KPI was implemented within the Partnership in 2015/16, therefore KPI data has only been reported from 2015/16 onwards. 2015/16 is the increment above the National Minimum Wage at the time of £6.70. 2016/17 is the increment above the National Minimum Wage at the time of £7.20.

2 During the year, the Partnership changed the way that it measured job satisfaction to gain a deeper understanding of Partner opinion. Prior to 2017/18, the annual survey calculated job satisfaction based on the response to a single statement of ‘my job satisfies me’. From 2017/18, 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.

Tracey Killen, Director of Personnel

“We quickly recognised that significant societal shifts – changes that have a lasting impact on retail and how technology is disrupting the type of work people do – would require us to think about our business in a very different way to that of the past. Key to our response has been a renewed focus on designing better jobs, for better performing Partners, earning better pay. We believe this is critical to ensure we have a business that not only survives through challenging times and thrives for us all to benefit from but also lives up to our ultimate purpose of the Partnership.

The Partnership has always been able to acknowledge and adapt – our unique co-ownership model supports this agility. But it is difficult to imagine a time when we have been faced with such unrelenting pressure. Our commitment remains unwavering though: we must unlock the potential of Partners through better jobs, better performing Partners and better pay, and we must remain true to our Partnership spirit as we navigate through this next period.
Taking the next step

Our focus over the past year has been on helping Partners progress. Whether that’s into a more senior role or over to a brand new area of our business, we’ve introduced some tools that can help Partners confidently take the next step in their career.

The benefit of great coaching

We have long recognised the benefit of a great coach or mentor, especially in relation to an individual’s progression within the Partnership. We expect all line managers to be skilled in coaching but we have also invested in a bank of in-house coaches who take part in our accredited coaching programme. Any Partner can call upon one-to-one coaching from more than 80 Partners who are coaches. This can be on any topic they choose, and we have fully trained coaches across the country. We also have a smaller, but equally professional, group of Partnership mentors, who openly share their experiences and advice with any Partner who approaches them.

We have also invested in an in-house Interview Bank run by Partners who can support other Partners with one-to-one practice job interview sessions. The interviewers are familiar with our recruitment process and have been trained to support other Partners who feel they need extra help when it comes to interviews.

“I started at John Lewis as a Warehouse Assistant Partner in 2011 and was offered a permanent position in 2013. My line manager quickly saw my potential to become a Section Manager, but I didn’t feel quite ready. I joined the Magna Park Partner Academy, which is a 14-month development programme designed to up-skill Partners for management roles within a fast-paced automation environment. I found it challenging and rewarding, providing me with a great learning platform for my own development. Thanks to this process, and the encouragement and effort put in, I’ve secured a permanent Section Manager role within the Magna Park campus, and have just successfully delivered my second peak trading season.”

Aldona Skowron, Section Manager, Magna Park 2

Creating lifelong learning

Supporting Partners to develop their careers in the Partnership remains a key focus and we want to create lifelong learning for our Partners. One example is our apprenticeship programme for Partners and we have nine apprenticeship schemes covering roles such as LGV drivers, hospitality and heavy vehicle technicians. This financial year we had more than 350 apprentices enrolled and plan for another 500 apprentices in 2018.

“I joined the Partnership as an IT Infrastructure Engineer Apprentice and worked in the Network Operations team. The Partnership invested a lot of time in giving me exposure to IT systems so that I could put my formal training into real world experience. This would equip me with the relevant skills and qualifications so that I could gain a solid foundation for any IT role. I flew through the apprenticeship scheme and in May 2017 I moved over to Security Operations as a Partnership Level 8. After showing my experience, hard work and dedication, five months later I was promoted to Partnership Level 7 (ITL4) and I am now a Cyber Security Analyst.”

Edward Merrett, Network and Forensics, Waitrose head office
One of our commitments was to make it easier for managers to record performance ratings in our pay and personnel system, so they can focus on great conversations with their Partners.

We made this commitment because Partners told us the appraisal process was time-consuming, complex and put too much focus on administration. The new appraisal process introduced during the year improved completion from 52 per cent as at January 2017 to 72 per cent as at January 2018, and appraisals continue to be completed as the year progresses. We have set an aspiration for 20 per cent of Partners to be rated as ‘Outstanding’ by 2020.

We have already simplified the process for tackling underperformance, but we will continue to look more widely at the culture and the end-to-end process to ensure we are doing everything we can to deal with managing poor performance robustly and fairly.

Partners’ ideas

A Partner’s idea to launch a new financial services product for John Lewis customers earned Rakhi Bassi the accolade of John Lewis’ Ultimate Roofraiser 2017. “I work in John Lewis Finance and I secured a contract with HSBC to launch a new financial services product for customers of an unsecured personal loan. I negotiated with them over the past year, and the initiative should deliver £16 million in profit for John Lewis over the next ten years” says Rakhi.

It is vital that every Partner in our business has the opportunity to reach their potential. That is why the subject of diversity and inclusion is of such importance to us. Inclusion is fundamental to invest in, as it is enabling a culture that will help people flourish. Therefore, we are developing our ability to understand and appreciate the different backgrounds and perspectives that each of our Partners bring. From a diversity perspective, our primary concern is to ensure we are achieving a great mix of Partners in our business. Our under-representation is more prominent for some groups. Where we see that our mix of Partners isn’t good enough, we take action, which is why back in 2014 our Chairman set a Partnership goal to increase the representation of Black, Asian and minority ethnic (BAME) Partners in management positions to 10 per cent by 2020. As at January 2018, BAME Partners in management positions was nine per cent.

There are various ways we have set about improving the representation of BAME managers in the Partnership including bias training, diverse recruitment panels and our UNITY Network which is sponsored by the John Lewis Finance Director, Bérangère Michel.

We run eight networks which exist to inspire and influence Partners around the business on the topic of inclusion. Our networks are: LinkAGE, Working Parents, UNITY, GEN, Pride in the Partnership, Faith, Belief and Religion, Ability and School of Thought. Most networks have senior sponsorship, for example our Group Finance Director, Patrick Lewis sponsors our Gender Equality Network (GEN).

“For me, being part of UNITY is about giving back. People along my career saw something in me that they supported and nurtured and I feel strongly about being able to support and mentor others to achieve their personal aspirations. Our events are a great opportunity for Partners to meet others, share experiences and swap contact details, so they’re able to talk to someone who may have already been there.”

Del Adigbli, Deputy Branch Manager, Waitrose, South Woodford
We work with the Business Disability Forum to ensure our environment is disability friendly and in 2017 we achieved our aim of being a Disability Confident Employer, as recognised by the Department of Work and Pensions. We are also proud to be the retail industry representative on the Disability Confident Leaders Group, and are committed to achieving our goal of becoming a Disability Confident Leader in 2018.

Bring Yourself to Work week

Each year, we hold a Bring Yourself to Work week, organised by Partners for Partners, with events and stories shared all around the Partnership. It has the active support of senior leaders, but is a grassroots movement to encourage Partners to recognise the importance of, and engage in, conversations about diversity and inclusion at work.

The Partnership was named one of the UK’s Best Employers for Race, in the Business in the Community Race Equality Awards 2017.
Partner health and wellbeing

The Partnership has always placed the health and wellbeing of its Partners at the heart of all it does. In fact, we offered our own internal health service almost 20 years before the NHS launched. The world has changed drastically over the past few years and, with that, the pressures Partners face at home and at work might feel more intense than before. To give Partners opportunities to relax and have fun we run a Leisure Benefits programme. We also have two teams focused on health and wellbeing: Confidential Partner Support, and Partnership Health Services.

Confidential Partner Support offers a helpline for emotional and practical support as well as financial assistance and mediation. In January 2018, it received Helpline Standard accreditation from Helplines Partnership.

Partnership Health Services provide physiotherapy, counselling and other health related services, won the Employer Category at the 2017 Rehabilitation First Awards for our mental health service.

2017/18 was the first full year of our mental health service, which provides a stepped care model for Partners experiencing mild to moderate mental health conditions, by uniquely combining the work of our in-house Partnership Health Services team with our specialist psychological rehabilitation provider, Rehab Works. During the first three quarters of the year, Partners in the lower levels of severity (level 1) on average reported a 40 per cent increase in their psychological wellbeing following treatment. Partners with conditions of anxiety and depression (levels 2 and 3) on average reported significant reductions in symptoms on discharge. Following treatment, 88 per cent of Partners using the service who were off sick at referral returned to work.

Partner and customer safety

Reviewing our approach to health and safety across the Partnership has been a key focus of 2017. We have reviewed our policy and compliance processes to provide clearer delineation. We’re improving our assurance and insight to better inform the business of key performance indicators and provide the right support to operate a safe environment for our Partners, customers, visitors and contractors.

As part of The Golden Jubilee Trust volunteering programme Sally Crisp, from John Lewis, Norwich, supported the Samaritan’s Norwich shop as part of a ten-week secondment. Sally has also trained to be a Samaritans listening volunteer.

“I gave ideas on how to merchandise and shared best practice and advice on how to promote the shop to help make them more profitable. It was a lovely experience, I made new friends and everyone was so welcoming. Partners who volunteer will get a lot from the programme.”

Sally Crisp, Selling Coach at John Lewis, Norwich
Community wellbeing

Through our Partners, we aim to enhance community wellbeing in the communities where we operate and volunteering is just one of the ways we do that. The Golden Jubilee Trust is our flagship volunteering programme. It was set up in 2000 to mark the 50th anniversary of the signing of our Second Trust Settlement. The aim of the Trust is to give practical help to UK registered charities through Partner volunteering for up to six months on full pay and benefits. It also helps Partners enhance their professional skills while supporting a valuable cause.

This year, we partnered with the Samaritans for the first time, awarding 20 Partner secondments and boosting this year’s awarded hours by 6,000, taking the overall annual total to just over 21,000 hours.

Bringing Skills to Life is our flagship free education programme, aimed at equipping and inspiring children aged 3-11, with the mind-sets, skills and practices for creative thought and action. Now in its fifth year, the national curriculum resources we provide comprise of five key themes: design and make, cook and share, storytelling, technology, and innovation. This year, the scheme focused on innovation and we asked 9-11 year olds how they would transform one of our innovation hubs for the benefit of their local community and the Partnership. They were also tasked with fundraising for Marie Curie. For 5-8 year olds they were tasked with sending us a portrait of someone they see as a hero in their local community and why. We had more than 8,000 entries with a selection celebrated in our shop windows across the country.

For more details on the charities and community initiatives we support, read our Corporate Responsibility report on www.johnlewispartnership.co.uk

1 Data included within KPMG LLP’s independent limited assurance scope. See page 70 for more details.

Better pay

Each Partner should be paid a competitive rate for good performance and as much above that as can be justified by better performance. This is the basis of our pay policy, taken from Rule 61 of our Constitution. In October, we made a one-off interim pay uplift for 17,000 of our non-management Partners where the base of the pay range was less than £10 per hour.

National minimum wage regulations

In 2016/17, we made a £36.0m provision as an exceptional charge to cover the potential costs of complying with the National Minimum Wage Regulations. Since then, we have been working with HMRC regarding our pay arrangements and compliance with the Regulations, which are complex in nature. These discussions with HMRC are ongoing, and as we work through this we continue to hold a provision. The ultimate resolution of the liability may result in an amount that is different from that provided.

We want to see greater representation at all levels in our business

The difference between men and women’s average hourly pay across the Partnership was published in our first Gender Pay Gap report in January 2018, almost three months earlier than required by the new Government legislation. Using a mean average, the hourly pay rate gap is 13.9% or 7.8% using a median average calculation.

It is important to remember that we must look beyond the numbers to understand the point that it’s the over-representation of women in our lower paid jobs and under-representation in our better paid jobs that creates our gender pay gap. We want to see greater representation at all levels in our business, and that ambition goes much further than gender. Having diverse teams isn’t just a nice thing for us to do, it’s vital both to the commercial success and to the democratic vitality of our business.

Our commitments for the future include:

- Giving everyone access to new career opportunities and help with interviews
- Strengthening access to coaches and mentors
- Building internal networks
- Promoting our policies to support progression
- Developing our attitudes to flexible working
- Raising awareness and helping Partners learn
- Encouraging our Partners to lead through Bring Yourself to Work Week
- Senior leaders supporting national campaigns

For more details, read our Gender Pay Gap report on www.johnlewispartnership.co.uk

13.9% mean average hourly gender pay rate gap
7.8% median average hourly gender pay rate gap

20 partner secondments with the Samaritans

For more details, read our Gender Pay Gap report on www.johnlewispartnership.co.uk
OUR STRATEGY

We measure our performance in financial sustainability through the Return on Invested Capital (ROIC), Debt Ratio and Profit per average Full Time Equivalent (FTE). Our financial sustainability priority continues to be to strengthen our balance sheet, while also ensuring we make the right long-term investment decisions and continue to generate a sufficient level of profitability. We are also focused on delivering more with less through improved productivity and using our natural resources as efficiently as possible.

KPI COMMENTARY

We have seen a decline in Return in Invested Capital (ROIC) and Profit per average Full Time Equivalent (FTE) and our Debt Ratio increased to 4.3 times (4.3x). These are principally due to the reduction in our profits during the year.

“During the year we made positive progress in reducing our total debts, through £90 million in pension deficit repair payments and the £34 million freehold purchase of two leased shops. We also increased our cash and investments to £702 million and our committed credit facilities to £500 million, enhancing our liquidity position, which was over £1.26 billion at the year-end. However, we have seen a decline in ROIC and Profit per average FTE and our Debt Ratio increased to 4.3x. These are principally due to the reduction in our profits, which was disappointing but expected. Our priority continues to be strengthening our balance sheet, so that we remain resilient against market shocks and have the financial flexibility and capacity to invest for the future. We will do this by targeting a Debt Ratio of around 3x and holding a significant liquidity balance. The importance of this has grown given the wider economic situation and the uncertainty around Brexit, as well as the continued restructuring of retail on the back of excess retail space, growing discount formats and the growth of online.

We manage our co-owned business to make the right decisions for the long-term success of the Partnership, rather than focusing on short-term profits. We recognise we are unlikely to make much progress in improving our KPIs in 2018/19, given the continued headwinds facing the sector. However, the Partnership will see benefits from the many changes we implemented in 2017/18, and the faster delivery of key innovations. Together, these should strengthen our competitive position in 2018 and beyond, help us improve our KPIs and enable a higher Bonus distribution in the future.

Patrick Lewis,
Group Finance Director
PARTNERSHIP PROFITS AND CASH FLOW

In 2017/18, we made a profit before Partnership Bonus, tax and exceptional items of £289.2m, which was down by 21.9% compared to last year. The decline was largely due to lower gross margins in Waitrose driven by a weaker exchange rate and commitment to competitive pricing. It was also impacted by higher total pension accounting charges of £23.4m, but benefited from lower finance costs of £36.2m.

Strong cash flow from operations and a reduction in capital investment and Partnership Bonus, has resulted in a reduction in net debt by 13.6% to £216.5m.

DEBT RATIO

The Debt Ratio is a measure of our total net debts (including post-tax accounting pension deficit and a discounted measure for operating lease commitments) relative to our cash flow. The ratio tells us how many years it would take to repay all of our debt if we did not spend any money on anything else, such as capital expenditure or Partnership Bonus.

We anticipated our Debt Ratio would worsen in the year given the expected decline in profits, and it did increase to 4.3 times from 4.0 times in 2016/17. The increase was not more significant, due to both our strong net cash generation and a reduction in our pension liabilities.

In the year, we revised our methodology for valuing the pension obligation. The change in methodology more appropriately reflects the accounting requirements. This has had the impact of reducing our pension deficit by £210m.

Given the outlook for the year ahead, we recognise we are unlikely to make much progress in reducing our Debt Ratio in 2018/19, however we are committed to bringing the number down to around three times over the long-term.

PARTNERSHIP PROFIT PER AVERAGE FULL TIME EQUIVALENT (FTE)

We also refer to this as Profit per Partner, and it gives a measure of the level of pre-exceptional Partnership profit generated by a FTE Partner. This measure reduced by 17.2% in the year, from £5,800 in 2016/17 to £4,800 this year.

Given the expected profit decline, we had anticipated this measure to worsen. However, as the average number of FTE Partners reduced by 4.3% in the year, the reduction in the measure was lower than the 21.9% decline in pre-exceptional profits.

Our Partnership Bonus distribution for 2017/18 was £74.0m which equates to Bonus per average FTE Partner of around £1,200. This was 13.5% lower than in 2016/17, but reduced at a lower rate than both the pre-exceptional profit decline and the reduction in Profit per average FTE. We manage our co-owned business to make the right decisions for the long-term success of the Partnership, rather than focusing on shorter term profits, but our ambition is to improve Profit per average FTE as this will be one of the key metrics to enable a higher Bonus distribution in the future.

ROIC shows the amount of post-tax profits the Partnership has made in the year, relative to the amount of assets (such as shops, IT systems and distribution centres) we have used to generate that profit. The asset value also includes a deemed capital value for our property leases.

ROIC has reduced from 8.1% last year to 6.6% this year, meaning we have generated less profit relative to our asset base than we did last year; almost entirely driven by the fall in profits in the year.

We have continued to invest in and restructure our business. These are all intended to better equip the Partnership to deliver for customers and improve our future productivity and profitability. Although costly now, these changes should help to enhance the future returns we make on our assets.

Data

We use data to operate our business and to improve it. In 2016 we appointed a Data Protection and Information Security Officer, along with a dedicated team to improve our data disciplines. They have been leading our preparation for the General Data Protection Regulation, which comes into effect in May 2018, and impacts all organisations who hold data as part of their operations. The Data protection and Information Security Officer advises and supports the business in its management and handling of the personal data of our customers, Partners and suppliers.
Deliver more with less

Our aim is to innovate as we use natural resources as efficiently as possible and reduce our environmental impact and emissions. By delivering more with less, we’ll protect our long-term financial sustainability.

As the nature of our business changes, we have refocused on our existing buildings to make them as efficient as possible. This included installing LED lights in Waitrose shops, with more being rolled out across the estate in 2018, including in our flagship John Lewis Oxford Street shop, where we expect to achieve a 50% reduction in energy usage. For sites where we purchase energy, we remain committed to purchasing only British-sourced renewable electricity.

Our new John Lewis shop at Oxford and Waitrose shop in Banbury are both on course to achieve a minimum BREEAM rating of Very Good, and Energy Performance Certificate (EPC) ratings of A.

Reducing the impact of our refrigeration and cooling is essential, particularly, reducing emissions from leaked refrigerant. This year we have reduced the carbon emissions from our fridges by 23% by reducing our leakage rate to 6.22%, and removing the most carbon-intensive refrigerant and replacing it with a lower Global Warming Potential (GWP) refrigerant.

In 2010 we set an aim to reduce our carbon emissions by 65% by 2020. We have already surpassed our target and reduced by 69.6%¹. We will now look to reset our target to stretch us further. See page 68 for more information and also our Corporate Responsibility report on www.johnlewispartnership.co.uk

¹ Data included within KPMG LLP's independent limited assurance scope. See page 70 for more details.
Q: The accounting pension deficit has reduced significantly from January 2017, from £1,014m to £731m at January 2018. Can you explain this?

A: “A number of factors have impacted the accounting pension deficit in 2017/18. The most significant items are:
– Pension fund assets have increased by £447m to £5,493m, as a result of returns on our investments and contributions to the pension scheme of £204m.
– In addition, during the year the methodology for deriving the nominal discount rate assumption used in valuing the pension obligation has also been revised. The Directors believe the new methodology more appropriately reflects the Partnership’s pension scheme, as required by accounting standards. More detail about the change can be read on page 121. This change in the estimation methodology of the nominal discount rate model has resulted in a £210m reduction in the pension fund liabilities. Despite this, the accounting valuation of pension fund liabilities increased by £165m.”

Q: There’s a lot to take in regarding our pension scheme, particularly around the different deficit figures. Which should I be looking at – the estimated actuarial valuation (£211m) or accounting deficit (£731m) and what is the difference between the two?

A: “The estimated actuarial valuation deficit of £211m is used to judge the money we need to put into the pension scheme. It will always be different to the IAS 19 accounting deficit (£731m), which is an accounting rule concerning employee benefits and shown on the balance sheet of our financial statements. Accounting standards 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 helping to keep the overall costs lower. We are able to take this risk because of the strength of our business. Generally, because of how our fund is invested the accounting deficit will be higher than the actuarial deficit.”

Q: How does the cost of our pension scheme compare to the cost of Bonus?

A: “We agreed changes to our pension benefits in 2015 in order to reduce the long-term risk for the Partnership. At that time we expected it to cost around 10% of pay. Since then, the expected growth in the assets in the scheme has continued to decline (due to the reduction in interest rates) and that has driven up the cost to over 12% of pay. At the same time Partnership Bonus has declined from 10% to 5%. So we have moved from a position where Bonus cost as much as pensions, to a position where our pension costs almost three times as much as Bonus.”

“We have moved from a position where Bonus cost as much as pensions, to a position where our pension costs almost three times as much as Bonus.

Alan Drew,
Head of Treasury & Corporate Finance
OUR STRATEGY

Working smarter

RECOGNISING
WAYS FOR US TO
WORK SMARTER

Increasing our productivity is key to strengthening the Partnership’s long-term financial sustainability and the future of the business. It is also inherent to our commitment to our Partners around better jobs for better performing Partners with better pay. Working as productively as we can ensures that we can deliver the greatest possible value for Partners and our customers. Simply put, it is about making the best use of our resources and talents. This could be by simplifying and cutting out duplication, or by innovating with new technology to free Partners up to work in new ways. We expect the changes we are making to reduce the Partnership’s annual costs.

SIMPLIFYING
OUR HEAD OFFICE
FUNCTIONS

We have simplified our organisational structure across our head offices, moving from divisional to pan-Partnership support functions across IT, Personnel, Property and Finance. Changes like these are hard for all of our Partners and we’d like to thank Partners for their contribution and professionalism.

This has simplified ways of working across different parts of the business, with more benefit to come in 2018. It will strengthen the support each function gives, reduce our costs and improve career and capability development.

USING TECHNOLOGY
TO DRIVE PRODUCTIVITY

Robotic Process Automation (RPA) technology can remove repetitive, low value-add human activity in head offices. When coupled with redesign of roles, this can play a powerful role in creating better jobs for our Partners. This year, we’ve introduced this technology in Partnership Finance, John Lewis contact centres, merchandising and online. As well as creating better jobs for Partners, we expect this to generate benefits for the Partnership, by reducing costs, creating quicker processes and enhancing customer outcomes.

Lynsey Graham works in John Lewis Customer Services. This year, her team introduced RPA technology to deliver some of their continuous improvement projects.

“Since we introduced RPA in our customer contact centres, we’ve made significant reductions to administration tasks and we’ve adopted new ways of working. This means that our teams now spend more time interacting with customers. Generally, people in the team feel that RPA has removed some of the mundane elements of processes. As we develop new systems and processes in the Contact Centres, we will look to use RPA and artificial intelligence (AI) to maximise productivity in our teams.”

Lynsey Graham, John Lewis Customer Services

Working flexibly

Preparing our workforce to adapt to the changes in the market is vital. Our Working Flexibly model enables Waitrose Partners in shops to support each other across more areas of the shop, broaden their skills set and as a ‘one shop team’ become even more responsive to customer needs. The early signs are encouraging both in terms of customer feedback and incremental improvements to productivity.

At our dedicated soft furnishings factory, Herbert Parkinson in Lancashire, they offer a seven-day made-to-measure service. Partners have increased their production output in relation to blinds per Partner per day, achieving productivity gains. Russell Brown, Operations Manager, says: “This has been achieved through an end-to-end review of operational procedures and the team working hard together to gain every advantage available. Great teamwork and collaboration, together with Partners wanting to achieve more with less, made this productivity gain possible and this outcome should be an inspiration to all Partners as to what can be achieved.”

In the past year Herbert Parkinson made 44,000 pairs of curtains, 14,000 roman blinds and 20,000 roller blinds. 167,000 pillows, 33,000 duvets and 562,000 cushions and pads were also produced.
“Partner opinion is sovereign”

John Spedan Lewis

DEMOCRATIC VITALITY

Democratic vitality is a distinctly strong and embedded everyday culture of advocacy, trust, empowerment and engagement where leaders encourage, listen to and act upon Partner opinion to create a better business.

Partners choose representatives to hold management to account, and their free and independent voice helps influence and bring changes and improvements needed to move the Partnership closer to achieving its goals.

ELECTIONS

Once every six years, the cycle of voting for democratic bodies sees elections for Forums, Divisional Councils and PartnerVoice in the same 12-month period. In May 2017, a proposal to move PartnerVoice from selections to elections was agreed by the Partnership Council, with a 74 per cent vote in favour. The aspiration behind this was to get Partners more engaged in the democratic process.

After the decision to progress to elections, the Democratic Engagement teams worked through the make-up of constituencies which included roll out of whole shop and multi-seat constituencies of more than one representative in a constituency, timelines of PartnerVoice elections, communications and campaigning, training requirements, reporting and results schedule. The adoption of the whole shop constituency option was hugely significant for Waitrose, reducing retail constituencies from over 2,000 in 2015, to 359. In John Lewis, the constituency proposal featured the widespread, but not universal, adoption of whole shop constituencies for At Home and small full line shops, and a greater use of multi-seat constituencies.

Significantly fewer Partners cast a vote for their PartnerVoice representative than in 2015. This was in part due to a reduction in the numbers who were eligible (15.6 per cent) due to uncontested elections. Only 39 per cent of Partners who were in eligible constituencies voted. The overall voting response rates for Waitrose shops and John Lewis selling were 45.2 per cent and 56.5 per cent respectively. There is a desire to see this increase through greater engagement in Democratic vitality by leaders.

Partnership Council

The Council holds the Chairman to account for achieving Principle 1 by acting as the focus of public opinion in the Partnership. The Partnership Council has three key roles: to hold the Chairman to account, to make some key governance decisions, and to influence policy.

Divisional Councils

Elected Councillors form Divisional Councils in Waitrose and John Lewis. Four times a year, the respective Divisional Management Boards meet with their respective Councillors to discuss strategic decisions affecting their business and the Partner experience.

Forum

Where decisions can’t be made or issues resolved locally, they are escalated to Forum in areas where a Forum exists. Elected representatives take responsibility for working alongside the Responsible Managers to understand and resolve common operational and business issues.

PartnerVoice

At a local level, Partners can influence what happens in their part of the business through their local PartnerVoice. Partners and leaders are able to have a conversation and take action to help make their part of the business a better place to work and for customers to visit.
**OUR STRATEGY**

**DEMONCRATIC VITALITY**

**YOUR VOICE AND PULSE SURVEYS**

Following on from a year of experimentation in 2016 as to how best to measure Partner opinion in our business, the Partner survey was relaunched as Your Voice. The first survey to all Partners asked questions based on our ultimate purpose (Principle 1) and aimed to measure the extent to which we were achieving this purpose.

Within Your Voice, the Satisfaction Index score for the Partnership was 70 per cent – this is the aggregate of nine questions which cover employment within the Partnership, results are shown in brackets. Partners clearly understand how their work contributes to the success of the Partnership (92 per cent) and are able to make good use of their strengths in their job (84 per cent). There is more work to do to ensure that Partners feel recognised for their contribution (47 per cent) and can keep developing their skills and potential (45 per cent) and these have been discussed with both Divisional Boards via their respective Councils and activity is under way to address these concerns.

Partners were also asked to sign up to regular Pulse surveys which over 25,000 Partners did and as a result we’ve been able to ask Partner opinion on Principle 4 every quarter in 2017, which highlights the Partnership’s aim to employ and retain people of ability and integrity who are committed to employing and retaining people of ability and integrity who are committed to working together. We also asked opinion on health and safety, wellbeing and recognition. In addition, the Your Voice team have been supporting the various change programmes around the business ensuring that as these projects progress, Partner opinion is listened to and responded to by the leadership teams implementing these changes.

“I became a Councillor because I believe in the Partnership and care about people’s happiness. Having progressed through the ranks from PartnerVoice to Forum to Council, I have seen that it is possible to make a difference for Partners and I get a personal satisfaction in doing so! It was daunting at first, standing up at Council with a microphone and an audience but I have definitely become more comfortable doing it. For my personal development it has been great, as well as being able to drive democratic vitality through my engagement with Partners. I love that I have been able to meet people from around John Lewis and Group Chronicles and consistent communication, which avoids the increasing duplication we had begun to see, ensuring Partners receive the same message, whether they are based in Waitrose, John Lewis or Group. The move has enhanced Partners’ understanding of the whole business as co-owners and also meant there is one method for generating and exposing voice through journalism. Now, every Partner letter written to the Gazette can be read more easily by Partners right across our business, rather than only printed in a local Chronicle and is now published on the intranet.

Letters to the Gazette, the Satisfaction Index score for the Partnership was 70 per cent – this is the aggregate of nine questions which cover employment within the Partnership, results are shown in brackets. Partners clearly understand how their work contributes to the success of the Partnership (92 per cent) and are able to make good use of their strengths in their job (84 per cent). There is more work to do to ensure that Partners feel recognised for their contribution (47 per cent) and can keep developing their skills and potential (45 per cent) and these have been discussed with both Divisional Boards via their respective Councils and activity is under way to address these concerns.

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Letters to the Gazette rose by 96 per cent with 1,762 letters compared to 900 in 2016/17. Of these, 695 letters were published in 2016/17 and in 2017/18 1,438. The difference between numbers of letters received and published is caused by a 21-day publication cycle, withholding inappropriate letters, Partners withdrawing their letters and transfer to the Chronicles.

This year the Gazette celebrates its 100th anniversary. For any magazine to still be published, revered and enjoyed one century on is a rare and major achievement and we will be joining the ranks of The Spectator, National Geographic and Vogue. The Gazette is also the UK’s longest-standing internal publication that has not changed its name since launch.
THE CHAIRMAN’S AWARD FOR EXCELLENCE

The 2017 Chairman’s Award for Excellence took place, recognising the way Partners exemplify the spirit of democratic vitality, demonstrating real commitment to and passion for the Partnership and its democracy. From 130 nominations, 10 finalists were chosen because of their active and passionate contribution to a culture which engages, enables and enhances the experience of their colleagues, their team or the wider Partnership.

The 2018 Chairman’s Award for Excellence took place, recognising the way Partners exemplify the spirit of democratic vitality, demonstrating real commitment to and passion for the Partnership and its democracy. From 130 nominations, 10 finalists were chosen because of their active and passionate contribution to a culture which engages, enables and enhances the experience of their colleagues, their team or the wider Partnership.

130 NOMINATIONS FOR THE CHAIRMAN’S AWARD FOR EXCELLENCE

14,000+ USERS ON THE PARTNER INTRANET APP IN 2017/18

KNOWLEDGE AND ENGAGEMENT

“The importance of knowledgeable Partners recognises our Founder’s emphasis on this – “the sharing of managerial knowledge is indispensable not only if power is to be shared but also for happiness. Mere curiosity, mere inquisitiveness, mere desire for knowledge for its own sake, is a chief element in the happiness of human life” – communication plays a key role in building knowledge and generating engagement and we have made progress on improving communication across the Partnership during 2017/18.

Simon Fowler, Director of Communications

All our communications are created with the Partnership as the priority lens, before Division and function. This is to ensure that messages are aligned across the business and there is ‘one version of the truth’. Key examples are the publication of our financial results at full year and half year, the Christmas trading update and our Annual Report and Accounts and Gender Pay Gap report.

To deliver successful knowledge and engagement as an output of our Partnership communication strategy, we have identified five areas to focus on:

1. ALIGNMENT
2. TARGETING THE AUDIENCE AND MESSAGE
3. ACCESS TO COMMUNICATION CHANNELS
4. ROLE OF LINE MANAGERS FOR TRANSLATING INFORMATION
5. PARTNER EXPERIENCE

Knowledge and engagement in the Partnership is shared through three main channels – face-to-face, print and digital. We reviewed our existing channels to ensure they remained relevant and effective. As a result, we further developed our Partner intranet app, which delivers Partnership news immediately to Partners’ mobile devices. The app had more than 14,000 users in 2017/18. We have also continued to develop our online Google+ communities. The enhanced Gazette magazine and our new approach to publishing letters both on the intranet and in print has also been implemented.
The Partnership Council is one of the three Governing Authorities, sharing responsibility for the Partnership’s health with the Partnership Board and the Chairman. See pages 50 to 52 for more information on the role of Partnership Council as one of the Governing Authorities and the Partnership’s co-ownership governance model.

The following report is a summary of the main areas discussed by Partnership Council during the 2017/18 financial year.

The Partnership Council met at the beginning of the financial year, immediately after the Chairman’s Leadership Summit, to hear the newly formed Executive Team present the next phase of the It’s Your Business 2028 strategy. They were particularly enthusiastic about the joined-up approach from Rob Collins and Paula Nickolds on stronger brands and new growth, as well as welcoming more detail on financial sustainability and better jobs, for better performing Partners, on better pay. Those priorities and their delivery through a Partnership-first approach that encompassed honesty, ambition and realism, were addressed throughout the year as well as leadership and democratic vitality.

The Partnership Council holds the Chairman to account for leadership of the business. The Partnership’s ultimate purpose is the happiness of all its members through their worthwhile and satisfying employment in a successful business. The Council has the ultimate power of dismissing the Chairman if he fails to fulfil his responsibilities. The Chairman appears before the Council twice a year to report and answer questions on his running of the Partnership. After many years of meeting in March, the Council changed to meeting in May, so that full year results and Bonus, the results of the Your Voice Principle 1 survey as well as the Annual Report and Accounts 2016/17, could be available to Councillors when debating the following proposal:

For the first time in over 10 years a secret ballot was called. In a landmark vote, just under two-thirds of the Council supported the proposal, 15 voted against and eight abstained.

In the lead up to the debate and on the day itself, a number of Councillors expressed concern that the Chairman’s leadership and progress towards Principle I were combined in the same proposal. Some Councillors felt it was difficult to know how to vote if they supported the Chairman, as the majority did, but did not see progress. Accordingly, the Steering Committee agreed to experiment with different wording at the ‘holding to account’ session in October, aiming to make the vote more of a reflection of our plans going forward than our performance looking backwards. The motion was:

‘THIS COUNCIL WELCOMES THE DIRECTION SET OUT FOR THE FUTURE OF THE PARTNERSHIP AND SUPPORTS THE CHAIRMAN IN HIS CONTINUED LEADERSHIP OF THE PARTNERSHIP.’

The Council supported the proposal. It was an open vote, with 50 in favour, eight against and three abstentions.

DEMOCRATIC VITALITY

A key decision made by the Partnership Council this year was moving from selections for PartnerVoice to establishing elections. In bringing the proposal, Mark Hunt (Waitrose Group A) argued that the selection method, adopted in 2007 and with every Partner automatically on the list of candidates, did not offer sufficient opportunity to bring alive the importance and excitement of standing and playing a part in this vital aspect of our Partnership.

At the same meeting, Lauren Anderson (Waitrose Group M) brought a proposal expressing concern at the variability in democratic vitality and she asked the Chairman to report to Council on what action he was taking to ensure all leaders fulfilled their responsibilities.

Both these proposals have helped reawaken Council’s sense of its power and the responsibility it shares with the Board and the Chairman for the health of the Partnership. At its conference in November, there was further discussion on governance in light of the reviews being conducted by Deputy Chairman, Keith Williams and John Lewis Finance Director, Bérangère Michel. See page 58 for more information.

The Council agreed to form a Democracy Commission under the leadership of David Jones, Partnership Registrar, Waitrose. Their work would cover all four levels of democratic bodies, but with special emphasis on the Partnership Council and the progress made since the recommendations of the Commission on Democratic Character in 2009.

SPECIALIST GROUPS

Partnership Council has specialist groups which focus on Co-ownership, Partners and Use of Profit. Their alignment to the Partnership’s strategy was a key recommendation of the 2009 Commission and this year’s newly reformed Finance Group makes four joining groups on Partner, Customer and Steering. Between them, these three groups have met around 30 times working on the detailed development of policy and building their understanding of our strategy, including Earning Membership, the approach to the 2018 pay review, the development of talent forums, the Gender Pay Gap report, the growth of the new customer propositions unit, JLP Ventures and the Partnership’s audit and risk functions.

The Partnership Financial Assistance Committee continues to support those in exceptional need, as well as deciding the discretionary awards of Benefits in Retirement and Benefits of Long Service in Redundancy. This year’s grants included ten Partners receiving a share of £23,400 for long leave, 725 Partners receiving a hardship grant share of £529,581 and 1,719 Partners receiving a share of leaving gifts of £549,945. In total, 2,454 Partners benefited from £1,102,929.

Since the end of the financial year, the Partnership Council met in February 2018 with six new Councillors joining the meeting for the first time. Council also came together to attend a briefing on the day we announced publicly our full year results and Bonus on 8 March 2018. Looking ahead to this year, key priorities for the Council are a ‘holding to account’ session in May, debating the Commission’s recommendations, Partner wellbeing and specifically Partner dining rooms, diversity and inclusion within the Partnership, training for the newly elected Council, Partner progression and financial sustainability.

There were nine by-elections. A by-election for a new Elected Director to the Partnership Board took place in November with 10 Partners standing and a voting turnout of 98 per cent. Ollie Killinger, Waitrose Change Manager, Business Transformation Hub, was elected. In May 2018, elections for the 2018-21 new Council term and an election for all five Elected Directors to the Partnership Board and all three Trustees of the Constitution will take place.

For more information on our Partnership Council see page 51

“A great deal of information is available to us as Partners and a huge amount more finds its way to you when you become a Partnership Councillor. Some of our greatest moments as Council have been when we have connected the most significant pieces of information together, harnessed a weight of opinion and have exercised that to influence progress or establish clarity on some really important topics, such as the financial health of our business. By being courageous and transparent when sharing information across our business, we enable open and honest discussion which in turn strengthens the debate between the Governing Authorities to ensure our co-ownership model remains as vital and relevant in today’s competitive conditions as it did when it was established.

Andy Ward
Chair of the Finance Group
Managing our impact

Our Constitution sets out how the business, and individual Partners, are expected to behave towards customers, suppliers, the environment, wider community and each other. We hold true to these values today.

We have identified and prioritised the corporate responsibility issues most important to our business – taking into account Partner and external stakeholder feedback as well as emerging societal trends.

More information about the Corporate Responsibility Framework, our priorities, and the due diligence programmes we have established in relation to these priorities can be found in our 2017/18 Corporate Responsibility report at www.johnlewispartnership.co.uk/csr

**STRATEGY**

The Corporate Responsibility Framework sets out our key corporate responsibility priorities which support the three goals of the It’s Your Business 2028 strategy. The framework helps us manage our risks and focus activity in those areas where the Partnership can make the most positive impact.

The foundation of the framework is a core programme of risk management which addresses the risks associated with the products and services we provide. Waitrose and John Lewis assess and manage the risks most material to their business, for example, the Waitrose sustainable fish sourcing programme or the John Lewis process for sustainable timber sourcing.

Building on this foundation, Waitrose and John Lewis are developing forward thinking and challenging corporate responsibility initiatives which contribute to the overall business plan.

**GOVERNANCE AND ASSURANCE**

The Corporate Responsibility Committee is responsible to the Board for the oversight of the Partnership’s Corporate Responsibility Policy and corporate responsibility objectives. You can read more about the Committee on page 68.

The Waitrose and John Lewis Divisional Corporate Social Responsibility Committees have oversight of the Divisional strategies. The Environmental Steering Group focuses on our environmental strategy. It is formed of key subject matter experts from across the Partnership.

Our Corporate Responsibility Framework is delivered by specialists in corporate responsibility and subject matter experts across Waitrose, John Lewis and Group. However, the success of our programmes relies on the passion, commitment and engagement of all Partners.

The Corporate Responsibility Framework sets out our key corporate responsibility priorities. These support the three goals of the It’s Your Business 2028 strategy.
**2017/18 PROGRESS**

- **Source and sell with integrity**
- **Unlock Partner potential**
- **Deliver more with less**

**2017/18 PROGRESS**

- **LAUNCHED THE WAITROSE FOUNDATION IN COSTA RICA**
- **28 JOHN LEWIS FACTORIES JOIN FAST FORWARD LABOUR STANDARDS PROGRAMME**
- **90% OF WAITROSE OWN-BRAND FISH AND SHELLFISH FROM THIRD PARTY VERIFIED RESPONSIBLE SOURCES**
- **12% PROPORTION OF SUSTAINABLY SOURCED COTTON IN JOHN LEWIS INCREASED TO 12%**

We are committed to managing waste resources efficiently, from reducing our overall usage to working with supply chain partners to extract value from waste material.

Cotton is one of the most significant raw materials we use, both in terms of volume and the environmental and social risks associated with it.

This year, by working with our supply chain, we have increased the amount of both Better Cotton Initiative and organic cotton sourced.

Furthermore, we’re extending our due diligence programmes further into our cotton supply chains.

John Lewis has been working with Cotton Connect on an economic empowerment programme. This aims to equip disadvantaged farmers with the skills they need to support their livelihoods. The programme is now running in India and China – two of our most strategically important sourcing regions.

Data included within KPMG LLP’s independent limited assurance scope. See page 70 for more details.
MANAGING OUR PARTNERSHIP RISKS

Risk is inherent in our operations

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

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 page 44 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 strive to be aware of risks in their area of responsibility and manage those risks intelligently in their day-to-day activities.

GOVERNANCE

The risk management governance structure is illustrated opposite. During the year, Partnership Services was consolidated into Group and several functions were centralised. As a result, the remit of the Group Risk Committee has broadened. For further details about key roles and responsibilities within our governance structure, please see the Audit and Risk Committee report on page 60.

“Impactful risk management provides valuable insight and challenges our decision-making. It helps us to be bold in pursuing opportunities, while protecting our Partners, customers and reputation.”

Patrick Lewis, Group Finance Director

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.

RISK MANAGEMENT GOVERNANCE STRUCTURE

The Partnership’s risk appetite is set by the Partnership Board, which 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 strategy, 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, versus a minimal risk tolerance to compliance at the other end of the scale. 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, our risk appetite has continued to embed, particularly across our new Group structure.
Risks arise in different forms, from the external environment in which we compete, such as those arising as a result of Brexit and changing customer needs; to those that arise internally from changes to how we operate our business model. Risks also involve opportunities we might forego for further growth and a sustainable future.

**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 train, which are monitored on a quarterly basis. We measure risk in terms of its potential impact and likelihood of occurrence. We assess what the potential Partner, customer and regulatory impact could be if the risk materialises. Our principal risks are:

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.

**BREXIT**

The Partnership continues to take a proactive approach to managing the potential impacts Brexit may have on the Partnership. Following the EU referendum, a Partnership Brexit group was established to review and monitor the potential impact of Brexit on the Partnership and enable regular reporting through Risk Committees and Divisional Boards to the Executive Team and Partnership Board. The group comprises representatives from across the Partnership. Progress, findings and recommendations are reviewed quarterly and challenged by the Audit and Risk Committee, see page 65.

To date, Brexit has not presented any new principal risks for the Partnership, but places significant additional strain on our business which exacerbates our existing risk profile. The uncertainty around the implications of leaving the EU is impacting the economy and consumer confidence and increasing inflation. Our risk analysis and planning is centred on the following key risk areas:

- **Shortage of migrant labour**: This could lead to rising costs and recruitment challenges, especially relating to warehousing activities, seasonal agricultural workers and distribution.
- **Supply chain delays**: Future additional import procedures and customs declarations for EU imports could increase supply chain lead times and increase costs.
- **Currency exposure**: Even though the Partnership is UK based, many suppliers trade in other currencies, creating indirect foreign exchange exposure for the Partnership.
- **Changes to tariffs**: Potential new trade tariffs on products we import could lead to rising costs.

The Partnership will continue to proactively monitor its risk position and respond to Brexit as the future political, economic, operational and regulatory landscape becomes clearer.

**ANTI-BRIBERY AND CORRUPTION**

The Partnership does not condone bribery or tax evasion in any forms. 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 new ‘Policy’), replacing its previous Anti-Bribery and Corruption Policy. The new 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. The Policy states that the Partnership supports Partners and other personnel who report suspicions of bribery, and explains how such reports should be made.

The Policy states that where required, Partners must complete Anti-Bribery and Corruption training. Refreshed Anti-Bribery and Corruption e-learning was launched on 23 November 2017, with all head office roles required to complete the e-learning. Guidance on Anti-Bribery and Corruption has been made available via the intranet.

The Policy also covers tax evasion and the facilitation of tax evasion. The Policy includes a statement that tax evasion and the facilitation of tax evasion in all its forms is prohibited. Guidance has been provided on the new Failure to Prevent the Facilitation of Tax Evasion offence, including setting out the relevant offences, and certain issues that Partners and other personnel should be alert to in respect of the offences. The Guidance also explains to Partners the steps they should take if they are concerned that an offence may have been committed.
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.

WHAT'S CHANGED SINCE LAST YEAR?

Our principal risks evolve over time. As we progress our strategy and business plan, new risks emerge and we adjust our mitigation activities. Ownership Model Strain has become a principal risk this year, moving from an amber to a red rating, due to the level of change in our markets and business. Partners and Partner engagement is fundamental to the success of the Partnership, hence why protecting the structures, capability and information flows that facilitate engagement is so important. The effectiveness of democratic channels is continually being reviewed to ensure that Partner insight is heard and acted upon appropriately. We will also complete our review of the checks and balances in place to ensure that management lead the Partnership in line with the Constitution.

Our target level of risk has increased for two principal risks during the year, Operating Model Strain and Pensions Obligations, in response to the increasing pace of changing customer needs and the ongoing political and economic uncertainty.

1 COMPETITIVE CUSTOMER PROPOSITION

Description
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; mean customers focus more on value for money and less on loyalty.

Potential consequence
Customer proposition and service is negatively impacted, which may result in losing customers, impairing our ability to grow long-term profitability.

Controls in place
– 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

Progress in the year
– Several shop redevelopments completed and new customer initiatives such as Waitrose Cook Well, John Lewis Home Solutions and in-store experiences, launched alongside improvements in customer ‘touch points’, to improve our end-to-end customer experience
– Continued commitment to improve customer service across all offerings

Further actions
– Continue to focus on differentiating and improving our customer service, product quality and product innovation
– Continue to introduce new products and services in response to changing customer requirements
– Regular monitoring and reporting to enable us to adapt to changing and emerging competition risk

2 OPERATING MODEL STRAIN

Description
Increasing external pressures, such as the ongoing move to online, cost inflation and increased spend on IT (depreciation), create strain on our operating model.

Potential consequence
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.

Controls in place
– Annual business plan process robustly reviewed on a quarterly basis
– Monthly Executive Team business performance review and action taken
– Regular review of programmes to reprioritise to support the ongoing development of our operating model

Progress in the year
– Robust quarterly business plan review
– Significant reorganisation and simplification of head office functions to more effectively and efficiently support the Partnership
– John Lewis product sourcing company successfully opened in Hong Kong

Further actions
– Successfully implement significant change programmes

3 INFORMATION SECURITY

Description
A breach of Partner or customer data due to the external threat to cause disruption or access sensitive data.

Potential consequence
A significant data breach and loss of either Partner or customer data could cause financial, regulatory, legal and/or reputational damage.

Controls in place
– Robust network security and regular testing to provide early identification of network or system vulnerabilities
– Continuous security monitoring
– Partner training

Progress in the year
– New policy, standards and training rolled out across the Partnership
– Significant enhancements made to the systems and controls that hold Partner and customer data to improve resilience
– Crisis management training enhanced and exercised

Further actions
– Continue to implement the Data Protection and IT Security programmes across the Partnership
– Continue the Information Security and Data Privacy Awareness campaign
4 PENSION OBLIGATIONS

Description
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.

Potential consequence
A larger pension deficit could result in additional funding required by the Partnership, diverting resources away from other investment opportunities.

Controls in place
- Regular review of valuation assumptions through internal and external monitoring
- Pension risk and funding strategy reviewed annually

Progress in the year
- Continued progress made on delivering the pension deficit de-risking plan through increased interest rate hedging
- Pension risk management framework implemented and reviewed quarterly

Further actions
- Continue to deliver pension deficit de-risking plan

5 CHANGE DELIVERY

Description
The complex nature and scale of interdependencies of the change programmes may affect our ability to implement programmes/projects to time, budget and quality, ability to manage, and ability to embed the change into the business and realise the benefits.

Potential consequence
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.

Controls in place
- 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

Progress in the year
- Partnership wide reporting developed to provide better insight and decision support on our most important change programmes
- Change management teams realigned

Further actions
- Embed the redesigned organisational governance
- Continue to improve reporting and insight on the impact of change on Partners and interdependencies of programmes

6 EXTERNAL ENVIRONMENT

Description
External economic pressures, due to the impact of government policy, Brexit, a static economy and a lack of pay increases, reduce our customers’ spending power and harm our suppliers’ financial resilience.

Potential consequence
Our customers may move away from our core product offers or buy less. Key suppliers may demand higher prices or fail us. This could impair our ability to grow profitably.

Controls in place
- Monthly monitoring of business performance by the Executive Team
- Horizon scanning
- The Brexit Team regularly review the potential impacts and opportunities to influence outcomes

Progress in the year
- External economic factors and insights have been incorporated into the business plan
- Potential pressures as a result of Brexit and options to mitigate these have continued to be developed and actioned and will continue to be reviewed regularly

Further actions
- Continued focus on differentiating our customer service, product quality and product innovation
- Introduce new products and services in response to changing customer requirements
- Ongoing monitoring, analysis and actions implementation to mitigate the potential impacts of Brexit and develop our positioning

7 OWNERSHIP MODEL STRAIN

Description
Partners and their engagement are key to the success of our co-ownership model. Commercial decisions made to secure the economic success of the business as well as external pressures on Partners could unconsciously impact Partners belief in, and commitment to, our co-ownership model.

Potential consequence
Loss of belief in our co-ownership model could compromise Partner performance, productivity and brand advocacy (Principle 1), thus losing the competitive advantage of our co-ownership model.

Controls in place
- Leadership engagement through change
- Annual Your Voice Partner survey to assess Partner sentiment
- Registry function supports Partners and provides assurance that the Partnership is being run in line with the Constitution
- Democratic structures in place

Progress in the year
- Ownership Model Strategy under review and development with clear accountability agreed

Further actions
- Continue to focus on developing the effectiveness of democratic channels and leading through change
- Complete the review of the ‘checks and balances’ that ensure management, in particular senior management, lead the Partnership in line with the Constitution