JOHN LEWIS PARTNERSHIP PLC
ANNUAL REPORT AND ACCOUNTS 2018

Company number:
238937

NOW & THE FUTURE

Image removed

FRIDAY
A7ALA83S
A08 20/07/2018 #258
COMPANIES HOUSE

CONTENTS

STRATEGIC REPORT

Yesterday, today and tomorrow	01
Chairman's statement	02
Our year in review	06
Why and where we exist	10
Our Partnership business model	12
Understanding our markets	14
Our strategy	16
– Stronger brands and new growth	18
– Betters jobs, better performing Partners, better pay	24
– Financial sustainability	30
– Democratic vitality	35
Partnership Council report	38
Our responsibilities	40
Managing our Partnership risks	42

GOVERNANCE REPORT

How we are governed	46
How we behave	48
How we share power	50
– The Partnership Council	51
– The Partnership Board and Chairman	52
Audit and Risk Committee report	60
Corporate Responsibility Committee report	68
Chairman's Nominations Committee report	71
Remuneration Committee report	74
Other disclosures	78

FINANCIAL STATEMENTS

Consolidated primary statements	84
Notes to the consolidated financial statements	88
Company primary statements and notes	136
Statement of Directors' responsibilities	140
Independent auditor's report	141
Five year financial record	146
Glossary	147
General information	Inside back cover

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

Image removed

"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 intertwined 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

Image removed

Yesterday, today and tomorrow

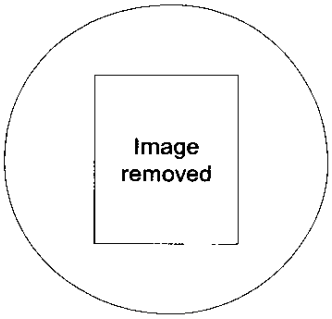
The John Lewis Partnership is a successfully different way of doing business. As the UK's largest example of an employee-owned business, we put the happiness of our Partners first, at the heart of everything we do, through worthwhile and satisfying employment.

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.

CHAIRMAN'S STATEMENT



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.

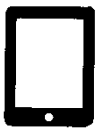
These predictions for 2017/18 turned out to be largely accurate. This year, profit before Partnership Bonus, tax and exceptional items was down 21.9 per cent to £289.2 million, largely due to lower gross margins in Waitrose, driven by the weaker exchange rate and our commitment to competitive pricing. 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.

CHAIRMAN'S STATEMENT

Inspirational products will play a greater role across Waitrose and John Lewis

127
PROJECTS IN WAITROSE SHOPS

91
ENHANCEMENT PROJECTS AND REFURBISHMENTS IN JOHN LEWIS



ROLLING OUT TECHNOLOGY TO IMPROVE PROCESSES AND SUPPORT PARTNERS

350+
APPRENTICES IN 2017/18

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.

Image removed

Image removed

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.

Image removed

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?

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.

KPI

Read more about like-for-like sales growth on page 18

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.

PROFIT BEFORE PARTNERSHIP BONUS, TAX AND EXCEPTIONAL ITEMS

£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%)

KPI KPI

Read more about Profit per average FTE and ROIC on pages 30-31

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.

KPI

Read more about the Debt Ratio on pages 30-31

What material and one-off items affected our profit this year?

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.

Image removed

127
PROJECTS COMPLETED IN WAITROSE SHOPS

WAITROSE ONLINE SALES
+10.9%

91
PROJECTS COMPLETED IN JOHN LEWIS SHOPS

JOHN LEWIS ONLINE SALES
+9.9%

We focused on price

Image removed

Image removed

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.

Image removed

OUR YEAR IN REVIEW

Image removed

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".

Image removed

WE ENHANCED OUR CUSTOMER EXPERIENCE

We launched self-service check-in iPads for John Lewis Click & collect orders in 140 Waitrose shops in time for Black Friday.

We continued our plans to reinvent the department store, launching Experience Desks in five shops providing customers with 'concierge style' services to help them make the most of John Lewis.

John Lewis also launched two hour delivery slots and online order tracking.

Image removed

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.

THROUGH OUR GOLDEN JUBILEE TRUST VOLUNTEERING PROGRAMME WE AWARDED

21,000

HOURS TO 40 CHARITIES IN 2017/18[1]

Image removed

1 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?

Image removed

Image removed

GROSS SALES PER AVERAGE FTE

£191,300

+6.5%

PARTNER PAY AS A PERCENTAGE OF SALES (2016/17: 13.9%)

13.8%

KPI Read more about Partner pay as a percentage of sales on page 24

PARTNER JOB SATISFACTION (2016/17: 68%)

70%

KPI Read more about Partner job satisfaction on page 24

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.

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.

Image removed

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

Image removed

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.

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.

Image removed

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.

Image removed

Colin Tushingham

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.

1864
John Lewis opens a small draper's shop in Oxford Street, London

Image removed

1905
Image removed
John Lewis buys control of Peter Jones

1914
John Lewis hands control of Peter Jones to his son John Spedan Lewis

Image removed

1919
John Spedan Lewis sets up a staff council, the forerunner of today's Partnership and Divisional Councils and Forums

1928
The first Constitution is published and the following year the John Lewis Partnership is incorporated as a limited company

1937
Image removed
The Partnership buys Waitrose – a chain of ten shops

1940
The Partnership doubles its size by buying the Selfridge Provincial Stores Group

1950
The second Trust Settlement is created where John Spedan Lewis transfers his remaining shares and ultimate control to the Trustees. Today's Trustees are Johnny Aisher, Cathy Houchin and Karen Crisford

Image removed

Image removed

SEVEN JOHN LEWIS AND SIX WAITROSE DISTRIBUTION CENTRES

Image removed

THREE WAITROSE COOKERY SCHOOLS

Image removed

SEVEN CUSTOMER CONTACT CENTRES

Image removed

ONE SOFT FURNISHINGS FACTORY

5,149
VISITORS TO OUR HERITAGE CENTRE IN COOKHAM

OUR LOCATIONS

353
WAITROSE SHOPS

50
JOHN LEWIS SHOPS[1]

2
SOURCING LOCATIONS IN INDIA AND HONG KONG

9
WAITROSE FRANCHISE SHOPS ACROSS THE U.A.E.

22
JOHN LEWIS SHOP-IN-SHOPS OVERSEAS

Key
- John Lewis shops
- Waitrose shops
- International sourcing location
- Distribution centre
- Herbert Parkinson soft furnishings factory
- Heritage centre
- Leckford Estate
- Customer contact centre
- Waitrose cookery school
- Content production hub

JOHNLEWIS.COM EXPORTS TO
38
COUNTRIES

WAITROSE EXPORTS TO
53
COUNTRIES

1 We opened our 50th John Lewis shop at White City Westfield in March 2018. Excludes the John Lewis Swindon outlet.

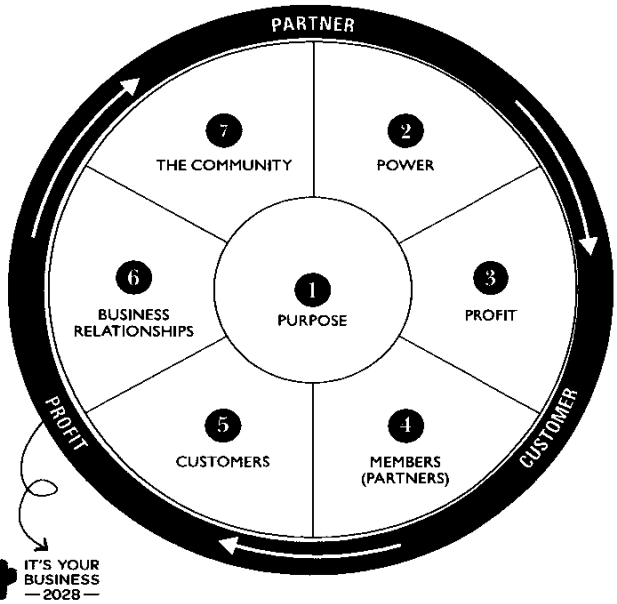
OUR PARTNERSHIP BUSINESS MODEL

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.

OUR PARTNERSHIP MODEL



IT'S YOUR BUSINESS — 2028 —

Enhanced through our It's Your Business 2028 strategy.
See pages 16-37

PARTNER

Unlocking the potential of Partners is key to providing the worthwhile and satisfying employment that underpins the Partnership's ultimate purpose – the happiness of all its members. We believe that our co-ownership model equips Partners with the knowledge and power to make the right judgements and decisions in the interest of the Partnership, and allows Partners to deliver the highest levels of quality and service to our customers.

CUSTOMER

We want our customers to feel a greater sense of connection to our business through relationships based on fairness and trust. We also apply this approach to our suppliers and the communities in which we trade, so our customers can always feel confident that they have bought well. We aim to offer a unique experience in Waitrose and John Lewis that is more authentic and inspiring for our customers. This strength within our brands means that customers choose to shop with us again and again.

PROFIT

We make profit through the trading operations of Waitrose and John Lewis. and the lifelong relationships we enjoy with our customers allow us to grow sales and profit more sustainably. In this way, we aim to ensure that profit remains sufficient to sustain the Partnership's commercial vitality, fund continued development and distribute a share each year to Partners. Through reinvesting the financial rewards of our success in both Partners and the long-term future of the business, the Partnership ensures that it continues to fulfil Principle 1.

OUR PRINCIPLES

① PURPOSE

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

② POWER

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

③ PROFIT

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

HOW WE CREATE VALUE

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.

Image removed

THE PARTNERSHIP DIFFERENCE

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[1] to local causes during the year.
See pages 40-41

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.
See pages 18-23

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.
See pages 30-33

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.
See pages 40-41

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.
See pages 35-37

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.
See pages 24-29

Productivity
We are investing in skills, knowledge and technology to grow productivity to strengthen the Partnership's long-term financial sustainability.
See page 34

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.johnlewispartnership.co.uk**

1 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[1]. 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)[2]. 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[3], compared to 1.9 per cent in 2016[4].

Inflation, which measures price increases in products and services, averaged three per cent since August 2017[5], one per cent above the Bank of England's target of two per cent[6]. 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.

Image removed

ESTIMATED
1.4%
AVERAGE UK GDP GROWTH PER YEAR OVER THE NEXT FIVE YEARS

18%
OF THE UK POPULATION IS AGED 65 AND OVER

SOCIETY

In 2016, the UK population was 65.6 million[7], its largest ever, and is projected to continue growing, reaching over 72.9 million by 2041[8]. 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[9]. 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.

Image removed

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.

Image removed

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 there has been this fall in January[10].

The percentage of all UK retail online sales via mobile devices is now 54.6 per cent[11]. 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[11]. Britons spent an estimated £16 billion shopping online during December 2017[12]. Black Friday has also established itself as a key event in the retail calendar with 2017 notching up record sales[13].

As a nation of bargain hunters, discount supermarkets are growing and in 2017 both Lidl and Aldi's market share grew[14].

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.

See pages 18-23

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.

Image removed

1 Philip Hammond (Chancellor of the Exchequer), 2017 Autumn Statement. www.gov.uk/government/speeches/autumn-budget-2017-philip-hammonds-speech
2 Philip Hammond (Chancellor of the Exchequer), 2017 Autumn Statement. www.gov.uk/government/speeches/autumn-budget-2017-philip-hammonds-speech
3 Office for Budget Responsibility – Economic and fiscal outlook, November 2017, obr.uk/efo/economic-fiscal-outlook-november-2017
4 Office for Budget Responsibility - Economic and fiscal outlook, November 2016, obr.uk/efo/economic-and-fiscal-outlook-november-2016
5 ONS Consumer price inflation tables, Dataset | Released on 20 March 2018, www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation
6 Bank of England | Monetary Policy, https://www.bankofengland.co.uk/monetary-policy
7 Office for National Statistics – Overview of the UK population, 21 July 2017 www.ons.gov.uk/releases/overviewoftheukpopulationjuly2017
8 Office for National Statistics – National Population Projections – 2016 based statistical bulletin, 26 October 2017, www.ons.gov.uk/releases/nationalpopulationprojections2016basedstatisticalbulletin
9 Office for National Statistirs – Overview of the UK population, 21 July 2017 www.ons.gov.uk/releases/overviewoftheukpopulationjuly2017
10 Visa - Consumer Spending Index, February 2018, www.visa.co.uk/newsroom/january-sales-dip-for-the-first-time-since-2013-75367
11 IMRG, Quarterly Benchmarking report, Q3 (2017-18), 29 November 2017, www.imrg.org/data-and-reports/imrg-capgemini-quarterly-benchmarking-reports/quarterly-benchmarking-q3-2017
12 IMRG Capgemini Sales Index – January 2018 – Reporting December 2017 Performance, www.imrg.org/data-and-reports/imrg-capgemini-sales-indexes/sales-index-january-2018
13 BRC Quarterly Trends Analysis, 2017 / Q4, 18 Jan 2018
14 Kantar Worldpanel – Grocery Market Share, www.kantarworldpanel.com/en/grocery-market-share/great-britain

OUR STRATEGY

What is our **It's Your Business 2028** strategy?

It's Your Business 2028 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 24-29 & 33

3 FINANCIAL SUSTAINABILITY PAGES 30-32 & 44

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.

Image removed

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.

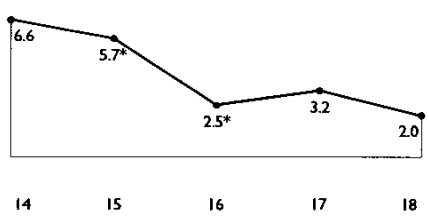
Footnotes to KPIs

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 %

2018: **2.0%**

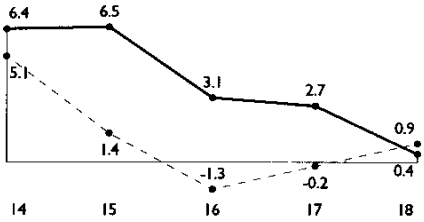
*52 week basis



Percentage increase in gross sales during the reporting period. Gross sales is defined on page 91.

LIKE-FOR-LIKE SALES GROWTH %

2018 WAITROSE: **0.9%** 2018 JOHN LEWIS: **0.4%**



A measure of the year-on-year shop and online gross sales growth, removing the impact of shop openings and closures. This measure indicates the underlying sales performance on a consistent basis.

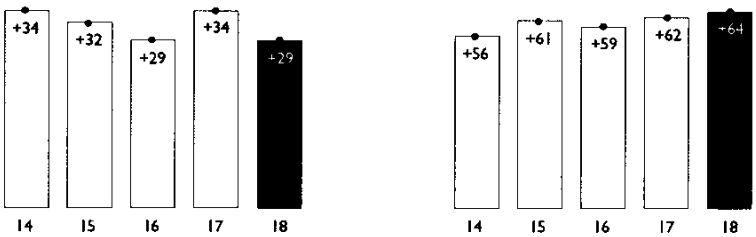
INCREASE IN 'BEST' CUSTOMERS %[1]

2018 WAITROSE: **0.5%** 2018 JOHN LEWIS: **-0.7%**

Percentage increase in 'Best' customers during the reporting period. 'Best' customers are those customers who exceed particular spend and purchase frequency thresholds over a given time frame.

NET PROMOTER SCORE (NPS)

2018 WAITROSE: **+29** 2018 JOHN LEWIS: **+64**



Net Promoter Score is a measure between -100 and +100, that shows the willingness of customers to recommend our products and services to others. A larger positive figure represents a higher level of customer satisfaction and loyalty to our brand.

PRODUCT DIFFERENTIATION

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.

Image removed

Image removed

Great food every day

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.

Rob Collins,
Waitrose Managing Director

"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."

Image removed

Image removed

OUR STRATEGY

PRODUCT DIFFERENTIATION

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.

NEARLY
10,000
PEOPLE ATTENDED COURSES AT OUR THREE WAITROSE COOKERY SCHOOLS

Image removed

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.

Image removed

Offering real value

Waitrose has been investing in ranges offering real value by lowering prices on hundreds of essential Waitrose products.

Image removed

Image removed

Image removed

Image removed

1

Investing in own-brand and exclusives

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 womenswear – 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 womenswear 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.

AMBITION TO BUILD A
£500m
OWN-BRAND FASHION

CURRENCY SALES UP
61%
THROUGH OUR BUREAU DE CHANGE DESKS

79
NEW PARTNER ROLES IN BUYING AND DESIGN

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-shop 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."

Image removed

Image removed

Image removed

OUR STRATEGY

CUSTOMER EXPERIENCE

1

INSPIRING OUR CUSTOMERS

"At John Lewis Leeds, we've developed our own ways to provide unique experiences to delight and inspire our customers. For example, we held a Sleeptember event with Harrison Spinks – our Yorkshire-based mattress makers – where we showcased the heritage and feel of our mattresses in the shopping centre where we are situated. We've also worked with innovative illustration duo Buttercrumble, where they toured John Lewis shops in Scotland and in the North, illustrating customers alongside Moz the Monster from our Christmas advert. Personalised gifts have been popular this year and we've captured this through embossing initials on leather goods and inspirational hand lettering on glassware."

Anne Wyman, John Lewis Leeds

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.

Image removed

1st
FULLY FURNISHED IN-STORE APARTMENT

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.

Image removed

Image removed

Image removed

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*.

ENHANCING LIVES

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.

Image removed

Image removed

Image removed

HUMAN + DIGITAL

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. Digital my John Lewis vouchers were also launched, which customers can access via the app and redeem offers by scanning their phones.

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.

Image removed

CUSTOMER SELF-SERVICE CHECK-IN IPADS FOR CLICK & COLLECT ORDERS IN 140 WAITROSE SHOPS

PARTNER DEVICES WERE INTRODUCED INTO JOHN LEWIS SHOPS AND TRIALLED IN 21 WAITROSE SHOPS

Image removed

SOURCE AND SELL WITH INTEGRITY

1

We strive to build customer confidence in the products and services we sell and the way we sell them.

We want to help customers make positive choices and know where and how products have been grown, sourced or made and who made them.

Waitrose extended its commitment to Fairtrade, making 100 per cent of own-label tea Fairtrade certified.

Waitrose committed that all own-label packaging will be widely recyclable, reusable or home compostable by 2025. Waitrose has also committed to removing all black plastics from own-label packaging in every product by the end of 2019.

Compassion in World Farming awarded Waitrose a Best Retailer Award for having the highest welfare standards in Europe. Waitrose also chose to proactively publish antibiotics usage data for farming supply chains, supporting a global aim to reduce antimicrobial resistance.

John Lewis increased the proportion of sustainably grown cotton in its supply chain to 12 per cent[1], by focusing on key homeware suppliers.

Both Waitrose and John Lewis are making progress in addressing the key human rights risks in our supply chains and are increasing transparency. In 2017/18, John Lewis released a list of Home, Fashion and Accessories suppliers as part of the Clean Clothes Campaign Transparency Pledge.

You can read more about our progress under Source and Sell with Integrity in our separate Corporate Responsibility report on **www.johnlewispartnership.co.uk/csr**

Image removed

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

Image removed

WAITROSE HAS COMMITTED TO REMOVING ALL BLACK PLASTICS FROM OWN-LABEL PACKAGING BY 2019

Image removed

100% OF OWN-LABEL WAITROSE TEA FAIRTRADE CERTIFIED

OUR STRATEGY

Partners are our difference

2 BETTER JOBS, BETTER PERFORMING PARTNERS, BETTER PAY

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

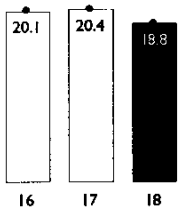
1 Reporting of this KPI was implemented within the Partnership in 2015/16, therefore KPI data has only been reported from 2015/16 onwards. 2015/16 is the increment above the National Minimum Wage at the time of £6.70. 2016/17 is the increment above the National Minimum Wage at the time of £7.20.

Year	NMW	JLP Pay	Differential %
2015/16	£6.70	£8.05	20.1%
2016/17	£7.20	£8.67	20.4%
2017/18	£7.50	£8.91	18.8%

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.

AVERAGE NON-MANAGEMENT PARTNER HOURLY PAY ABOVE NATIONAL LIVING WAGE %[1]

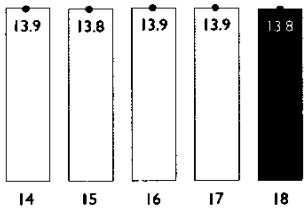
2018: **18.8%**



Average non-management Partner hourly pay, for Partners on permanent contracts and aged 18 years old and over, as a percentage above the 2017/18 National Living Wage of £7.50. Non-management Partners are Level 9 and Level 10 Partners, excluding Assistant Section Managers.

PARTNER PAY AS A PERCENTAGE OF SALES %

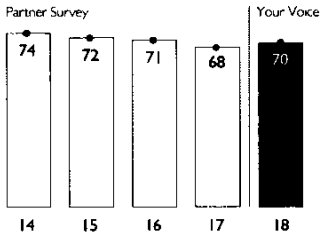
2018: **13.8%**



Partner pay divided by sales. The pay measure is total wages and salaries. The sales measure is gross sales excluding VAT.

PARTNER JOB SATISFACTION %[2]

2018: **70%**



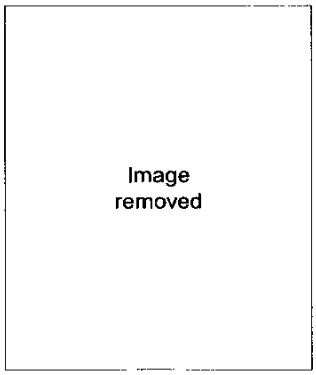
The percentage of Partners who are satisfied with their job, as scored in our annual Partner survey, now Your Voice.

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."



BETTER JOBS

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.

Image removed

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

Image removed

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

OUR STRATEGY

BETTER PERFORMING PARTNERS

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.

Image removed

Image removed

Diversity & inclusion

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).

Image removed

"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

Image removed

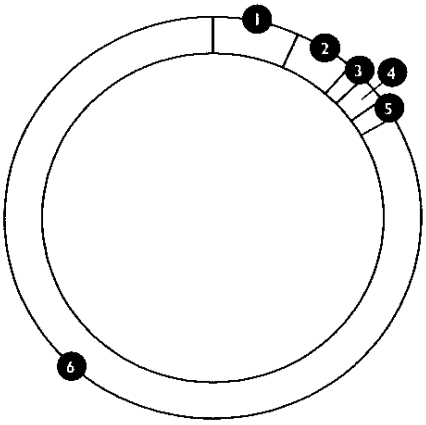
Bring Yourself to Work week

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.

Image removed

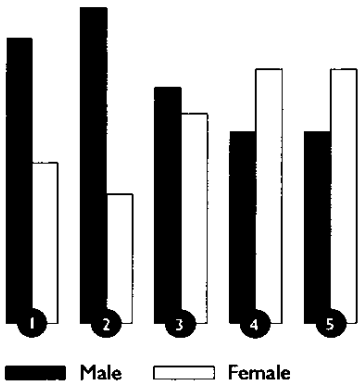
2

ETHNICITY SPLIT OF THE PARTNERSHIP 2018



	2018 %	2017 %
1 Asian or Asian British	**6.77**	6.53
2 Black or Black British	**4.85**	4.95
3 Chinese or Other ethnic group	**1.34**	1.32
4 Mixed origin	**2.29**	2.19
5 Not given	**1.58**	1.63
6 White	**83.17**	83.38

GENDER DIVERSITY OF THE PARTNERSHIP 2017/18



	2017/18		2016/17	
	Male %	Female %	Male %	Female %
1 Partnership Board	**64**	**36**	60	40
2 Directors & Management Board	**71**	**29**	71	29
3 Senior Managers	**53**	**47**	54	46
4 All other Partners	**43**	**57**	42	58
5 Total Partners	**43**	**57**	42	58

Working with disability

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.

Image removed

The Partnership was named one of the UK's Best Employers for Race, in the Business in the Community Race Equality Awards 2017.

OUR STRATEGY

BETTER PERFORMING PARTNERS

2

Image removed

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.

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.

88%
PARTNERS USING THE MENTAL HEALTH SERVICE WHO WERE OFF SICK AT REFERRAL RETURNED TO WORK

Image removed

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

Image removed

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 boosted this year's awarded hours by 6,000, taking the overall annual total to just over 21,000 hours[1].

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.

13.9%
MEAN AVERAGE HOURLY GENDER PAY RATE GAP

7.8%
MEDIAN AVERAGE HOURLY GENDER PAY RATE GAP

20
PARTNER SECONDMENTS WITH THE SAMARITANS[1]

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**

Image removed

OUR STRATEGY

Financial performance

3 FINANCIAL SUSTAINABILITY

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.

Footnotes to KPIs

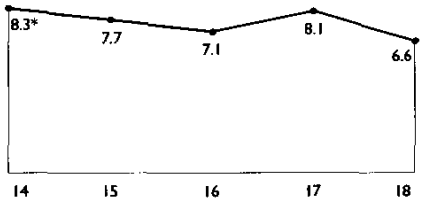
1 During 2017/18, we have refined our methodology for the estimate of non-liquid cash used in calculating the Debt Ratio to more accurately reflect non-liquid cash. If in 2017/18 the same methodology as 2016/17 was used, it would have had an impact of increasing the Debt Ratio by 0.1x. During the year, the methodology for the calculation of the pension discount rate has changed as set out on page 121.

2 The present value of future rentals payable under operating leases has been calculated using a discount rate of 5% in 2017/18. See page 90.

RETURN ON INVESTED CAPITAL (ROIC) %

2018: **6.6%**

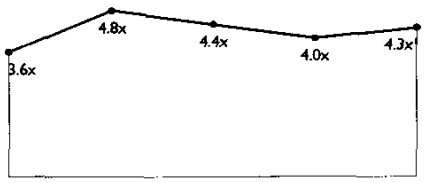
*Not restated for change in accounting of certain cash in transit balances



Post tax profit, adjusted for non-operating and exceptional items, as a proportion of average operating net assets, adjusted to reflect a deemed capital value for property lease rentals.

DEBT RATIO – TOTAL NET DEBTS AS A MULTIPLE OF CASH FLOW

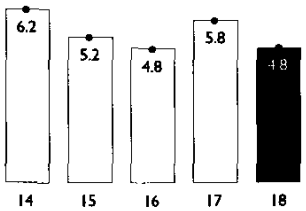
2018: **4.3x**



Total net debts as a multiple of cash flow. Total net debts represents the total borrowings of the Partnership including net debt (defined on page 91) adjusted for an estimate of non-liquid cash, the IAS 19 pension deficit net of deferred tax, and the present value of future rentals payable under operating leases[2]. Cash flow used in the Debt Ratio is cash generated from operations before exceptional items and Partnership Bonus less spend on tax and total finance costs, which includes implied interest on operating leases.

PARTNERSHIP PROFIT PER AVERAGE FTE £000

2018: **£4,800**



Profit before Partnership Bonus, tax and exceptional items divided by the average number of full time equivalent Partners.

"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 £762 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

Image removed

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.

£216.5m
LEVEL OF NET DEBT WHICH WAS 13.6% LOWER THAN IN JANUARY 2017

£90m
PENSION DEFICIT REPAIR PAYMENTS MADE

£1.26bn
TOTAL LIQUIDITY AT JANUARY 2018

RETURN ON INVESTED CAPITAL (ROIC)

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.

Image removed

OUR STRATEGY

3

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%[1], 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**

Image removed

35
NEW WAITROSE BIOMETHANE TRUCKS WERE ROLLED OUT

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

Accounting pension deficit

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."

£731m
ACCOUNTING PENSION DEFICIT AT JANUARY 2018

£211m
ESTIMATED ACTUARIAL PENSION VALUATION AT JANUARY 2018

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."

Image removed

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

2 BETTER JOBS, BETTER PERFORMING PARTNERS, BETTER PAY

3 FINANCIAL SUSTAINABILITY

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.

Image removed

"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.

Image removed

"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.

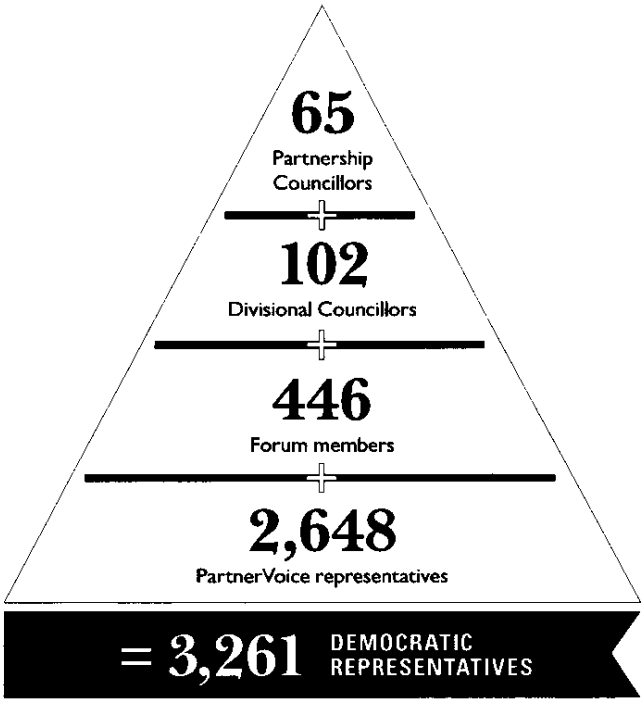
ELECTIONS

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.

PYRAMID OF DEMOCRATIC REPRESENTATIVES



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.

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.

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.

OUR STRATEGY

DEMOCRATIC 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 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.

Image removed

"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 get a better understanding of different business areas. The role allows me a clear way to put my passion for co-ownership into action, shaping the future of the business, making it a worthwhile and satisfying place to work."

Flo Glasser, Commercial Insight Manager, Store Design & Development, John Lewis

1,762
LETTERS TO THE GAZETTE COMPARED TO 900 IN 2016/17

100th
YEAR ANNIVERSARY OF THE GAZETTE

EVOLVING JOURNALISM

September 2017 saw the end of all the local Waitrose, John Lewis and Group *Chronicles* with the *Gazette* becoming the single, in-house source of printed and online journalism for Partners. This move created a simplified, aligned 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* 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.

Image removed

Image removed

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.

Image removed

130
NOMINATIONS FOR THE CHAIRMAN'S AWARD FOR EXCELLENCE

Inspiring Ownership course

740
PARTNERS ATTENDED THE INSPIRING OWNERSHIP COURSE TO LEARN WHAT IT MEANS TO BE A CO-OWNER

Image removed

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."

Image removed

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.

PARTNERSHIP COUNCIL REPORT

Sharing responsibility for the health of the Partnership

The Partnership Council is the democratically elected body that represents all Partners and reflects their opinion. It is the voice for ensuring that the business is run for and on behalf of Partners.

Image removed

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.

LEADERSHIP AND HOLDING THE CHAIRMAN TO ACCOUNT

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:

'THIS COUNCIL WELCOMES THE CHAIRMAN'S REPORT FOR THE YEAR ENDED 28 JANUARY 2017 AND SUPPORTS HIS LEADERSHIP AND THE CONTINUING PROGRESS OF THE PARTNERSHIP TOWARDS ACHIEVING PRINCIPLE 1.'

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 1 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 £529,584 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.

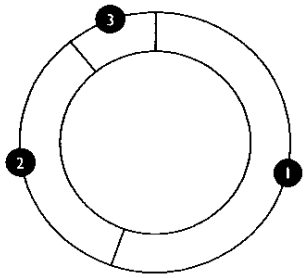
ATTENDANCE:

95% February	95% July
97% May	97% October

WE HAVE

65

PARTNERSHIP COUNCILLORS



We have 65 Partnership Councillors made up of 36 from Waitrose, 22 from John Lewis and 7 from Group.

1 Waitrose	36
2 John Lewis	22
3 Group	7

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

Image removed

"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

OUR RESPONSIBILITIES

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

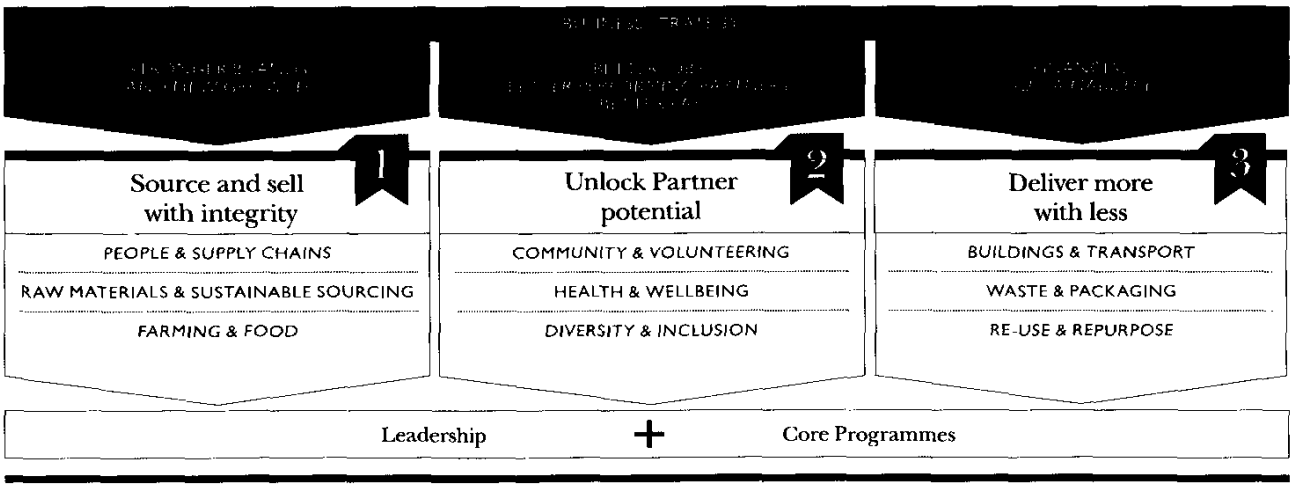
The Corporate Responsibility Committee is responsible to the Board for the oversight of the Partnership's Corporate Responsibility Policy and corporate responsibility objectives. You can read more about the Committee on page 68.

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.

CORPORATE RESPONSIBILITY FRAMEWORK

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

LAUNCHED THE WAITROSE FOUNDATION IN COSTA RICA

Image removed

28

JOHN LEWIS FACTORIES JOIN FAST FORWARD LABOUR STANDARDS PROGRAMME

Image removed

90% OF WAITROSE OWN-BRAND FISH AND SHELLFISH FROM THIRD PARTY VERIFIED RESPONSIBLE SOURCES[1]

12%

PROPORTION OF SUSTAINABLY SOURCED COTTON IN JOHN LEWIS INCREASED TO 12%[1]

Unlock Partner potential

Image removed

HEALTH KIOSKS TRIALLED FOR PARTNERS TO BETTER UNDERSTAND THEIR HEALTH

Image removed

PLEDGED TO RAISE AWARENESS OF MENTAL HEALTH THROUGH THE TIME TO CHANGE PROGRAMME

and...

JOHN LEWIS AND REHABWORKS JOINT WINNERS OF EMPLOYER CATEGORY AT THE 2017 REHAB FIRST AWARDS

21,000

HOURS OF PARTNER VOLUNTEERING AWARDED THROUGH GOLDEN JUBILEE TRUST SECONDMENTS[1]

Image removed

£3.9m

DONATED TO LOCAL COMMUNITIES THROUGH WAITROSE COMMUNITY MATTERS[1]

£0.5m

DONATED TO LOCAL COMMUNITIES THROUGH JOHN LEWIS COMMUNITY MATTERS[1]

Deliver more with less

Image removed

CARBON EMISSIONS REDUCED SINCE 2010 (PER £M SALES)[1]

-69.6%

£2.1m

OVER £2.1M WORTH OF FOOD REDISTRIBUTED TO CHARITIES DURING 2017/18

35

NEW BIOMETHANE, LOWER-EMISSION TRUCKS

Image removed

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.

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.

Working on reducing the use of unnecessary plastic and avoiding plastic leakage into the environment has been a priority of ours for some time. This year the plastic waste problem has risen in prominence and customers are rightly concerned.

Waitrose has committed that all own-label packaging will be widely recycled, reusable or home compostable by 2025 and have plans to help us get there. For example, we recently announced a commitment to remove all black plastic, which is particularly hard to recycle, from our packaging by the end of next year.

We are also supporting beach and river clean ups with the Marine Conservation Society through a donation of £500,000 from our carrier bag fund.

Image removed

1 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.

"Effective risk management provides valuable insight and challenge to our decision-making. It helps us to be bold in pursuing opportunities, while protecting our Partners, customers and reputation."

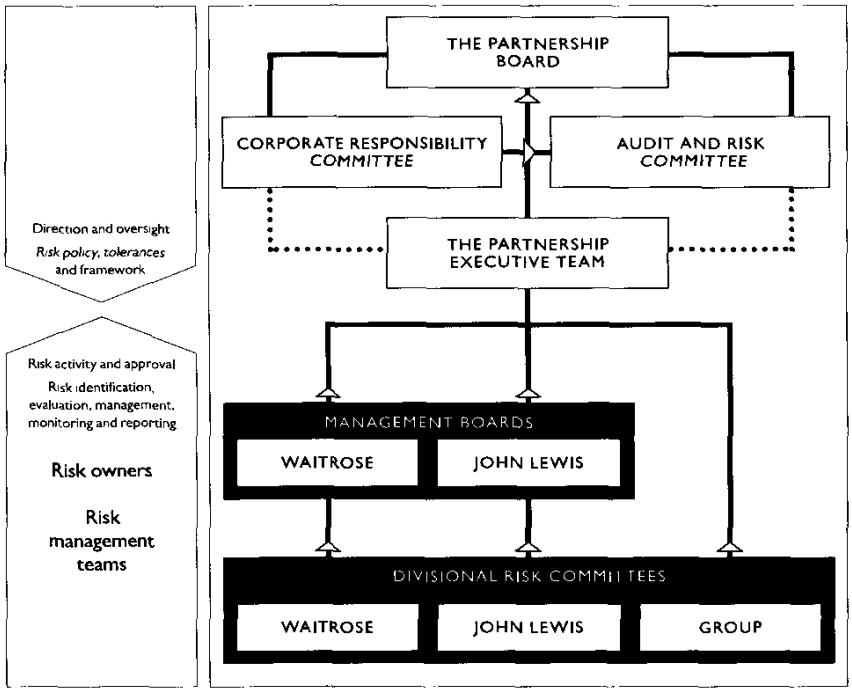
Image removed

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



RISK APPETITE

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 strategic, operational, financial and regulatory risks faced by the Partnership.

Our appetite provides direction and boundaries for consistent, measured, risk-aware decision-making throughout the Partnership, and guides us to take the right level and type of risk.

A scale of one to five illustrates the range of our risk appetite for each type of risk. For example, we will take more risk in pursuit of our strategic objectives to drive our business forward, 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 OR OPPORTUNITIES?

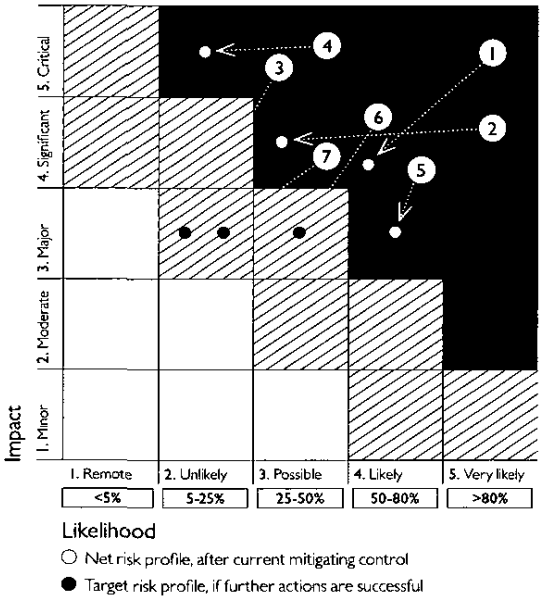
Risks arise in different forms, from the external environment in which we compete, such as those arising as a result of Brexit and changing customer needs; to those that arise internally from changes to how we operate our business model. Risks also involve opportunities we might forego for further growth 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:

- Competitive customer proposition
- Operating model strain
- Information security
- Pension obligations
- Change delivery
- External environment
- 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

LINK TO STRATEGY

1 STRONGER BRANDS AND NEW GROWTH

2 BETTER JOBS, BETTER PERFORMING PARTNERS AND BETTER PAY

3 FINANCIAL SUSTAINABILITY

4 PENSION OBLIGATIONS

3

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

1 2 3

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

1 2 3

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. These 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

1 2 3

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

HOW WE ARE GOVERNED

Industrial democracy

Our governance structure is set out in our Constitution. On the following pages we explain the roles and responsibilities of our governing bodies and how they support and maintain our Founder's vision of an industrial democracy where employees share profit, knowledge and power.

DIRECTORS' REPORT

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

The Directors' report for the year ended 27 January 2018 comprises pages 46 to 82 of this Annual Report and Accounts, together with the sections of the Annual Report and Accounts incorporated by reference.
Please see page 78 for further details.

How we are governed	46
How we behave	48
How we share power	50
– The Partnership Council	51
– The Partnership Board and Chairman	52
Audit and Risk Committee report	60
Corporate Responsibility Committee report	68
Chairman's Nominations Committee report	71
Remuneration Committee report	74
Other disclosures	78

THE PARTNERSHIP IS DIFFERENT

IT OPERATES ON DEMOCRATIC PRINCIPLES SET OUT IN OUR CONSTITUTION AND THE TWO TRUST SETTLEMENTS.

Our governance structure is designed to protect the fundamental principle of our co-ownership model:

1 **Principle 1:** The Partnership's ultimate purpose is the happiness of all its members, through their worthwhile and satisfying employment in a successful business. Because the Partnership is owned in trust for its members, they share the responsibilities of ownership as well as its rewards – profit, knowledge and power.

Fulfilling Principle 1 is central to our strategic direction. Pages 1 to 45 make up the Partnership's Group Strategic Report where you will find information on the Partnership's strategy, 'It's Your Business 2028'.

In this Governance section we will talk further about how our co-ownership model is governed and how Partners share the responsibilities as well as the rewards of ownership (see pages 46 to 49), and more about the three Governing Authorities; the Partnership Council, the Partnership Board and the Chairman (see pages 50 to 59).

HOW OUR GOVERNANCE MODEL IS DIFFERENT

The original Constitution was written well before the advent of modern standards of corporate governance and the development of the framework of legislation, regulation and best practice standards in place today.

Although the Partnership is not required to adhere to the UK Corporate Governance Code (the Code) as it does not have a Premium listing of equity capital on the London Stock Exchange, the Partnership Board has voluntarily adopted the Code on a comply or explain basis. This helps ensure that the differences in our governance model are transparent and gives us a benchmark against which to measure the continued relevance of our Constitution.

The Code recognises that alternative governance arrangements may be justified, if good governance can be achieved by other means. As the Partnership's co-ownership model established its own unique governance structure, there are a number of areas where the Partnership's governance arrangements are distinctly different and do not comply with the Code. Although these differences exist, the Partnership's governance model is broadly consistent with each of the Code's Principles and offers the appropriate level of protection to Partners and other stakeholders. These differences are set out on pages 81 to 82, and where relevant, explanations have been provided as if the provisions applying to a FTSE 350 company applied to the Partnership.

The Partnership is also governed by the Companies Act 2006 and its Articles of Association.

THE CONSTITUTION

The Constitution has been refreshed over the years to reflect the changing societal, business and economic environment facing a business operating today, yet retains a direct connection with the fundamental principles established in 1928. The Constitution is available to all Partners on the Partner intranet and to other interested parties at www.johnlewispartnership.co.uk.
The Introduction, Principles and Rules of the Constitution may be amended or cancelled by agreement between two thirds of the voting membership of the Partnership Council and the Chairman.

"The Founder of the John Lewis Partnership, John Spedan Lewis, believed that there was a better way of managing a business. His lasting legacy, our written Constitution, governs how we run our business in a different way. We do this through our commitment to working together for the success of the Partnership and by constantly challenging ourselves to ensure our co-ownership model remains as vital and relevant in today's competitive conditions as it did when it was written."

Image removed

Sir Charlie Mayfield
Chairman, John Lewis Partnership

THE CODE

The Code, published by the Financial Reporting Council (FRC), is available to view at www.frc.org.uk. The Code was last updated in April 2016. The revised provisions apply to accounting periods beginning on or after 17 June 2016 and are therefore reported against in this Annual Report and Accounts.

As part of the Government's package of corporate governance reforms, the FRC conducted a consultation on further revisions to the Code during late 2017 and early 2018. The final version of the new Code is expected to be published in the summer and will apply to accounting periods beginning on or after 1 January 2019.

HOW WE BEHAVE

£5,400
MAXIMUM SAVINGS INTO BONUSSAVE IN ANY ONE YEAR FROM PARTNERSHIP BONUS

CO-OWNERSHIP

Under the Trust Settlements of 1929 and 1950, John Spedan Lewis, the Founder of the Partnership, transferred his shareholding and the ownership of the Partnership into a trust to be held for the benefit of all Partners. John Lewis Partnership Trust Limited (the Trust Company) is the Trustee of the Settlements. In addition to the Chairman and the Deputy Chairman, three Directors are elected every three years by the Partnership Council. These are currently Johnny Aisher, Karen Crisford and Cathy Houchin and they are also known as the 'Trustees of the Constitution'. The next elections will take place in May 2018.

The main role of the Trust Company, under the Constitution, is to uphold the Constitution and promote in every possible way the wellbeing of the Partnership.

The Trustees of the Constitution are responsible for, amongst other things, deciding the constituencies of, and overseeing elections to, the Partnership's democratic bodies and as Directors, approving the successor of the Chairman should a 'Resolution upon the Constitution' be passed by the Partnership Council.

THE RESPONSIBILITIES OF OWNERSHIP

The Constitution governs how the Partnership behaves both in relation to Partners' rights and responsibilities and in relation to our responsibilities to others. Under the Constitution every Partner is responsible for knowing, complying with and upholding the Partnership's Principles and those Rules which concern them. Partners are expected to take responsibility for our business success, build relationships powered by our Principles and create real influence over our working lives.

THE REWARDS OF OWNERSHIP

PROFIT

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

The Partnership operates BonusSave, a Share Incentive Plan (the Plan), which is available to all eligible Partners in the UK and has been approved by HMRC. On the announcement of the annual results, eligible Partners are invited to enter into a savings contract under the Plan to save up to a maximum of £5,400 in any one year from Partnership Bonus. The Plan allows for the investment made by a Partner to be held in shares in the Partnership, in a class created specifically for this purpose known as SIP shares. It enables participating Partners to save Income Tax and NICs when the funds are invested for five years. Also, participating Partners are paid a cash dividend for every full year the investment remains in the plan. Details of SIP shares can be found in note 5.5 to the consolidated financial statements.

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

KNOWLEDGE

The Partnership Board is committed to regular dialogue with Partners through many different channels. This keeps Partners informed about the important decisions taken to deliver the strategic direction and ensure the long-term health of the business.

During Council and Forum meetings and through the Gazette, Executive Directors and senior management are able to share the Partnership's objectives and discuss performance against those objectives. Directors are members of Partnership Council and regularly attend meetings. These information sharing opportunities enable Directors to develop an understanding of Partners' views and to act upon them. In turn, Partners are able to influence decision-making.

Through our website, we share information with Partners and financial stakeholders (primarily the Partnership's relationship banks and holders of John Lewis plc bonds) on the financial performance of the Partnership and, where practical to do so, we invite representatives of the investor community to attend our trading updates in person. This gives an opportunity for the investor community to hear from, and engage with, the Partnership's senior management.

POWER

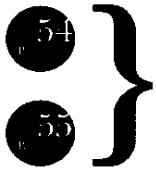
There are a number of ways that Partner views can be voiced and taken into account in decision-making in all levels of the Partnership.

Partners can express their opinions on any topic through the open system of journalism in the weekly *Gazette*. Any Partner may write, anonymously if preferred, without fear of repercussions. This is safeguarded in the Constitution. A letter to the *Gazette* must be published, with any comment from the appropriate member of management, within 21 days of acknowledgement. See page 36 for more information on Evolving Journalism.

"As a Partnership Councillor and Chair of the Partner group, having information available to me is invaluable. Not only when calling out Partner opinion in Council, or asking for clarity around a policy in Partner group, but for when I'm talking to Partners who have questions or who want clarity on things they have heard or read. In the last three years of my term I have seen a huge move by our Directors and Executive to make communication more transparent and more available than it has ever been. This is definitely leading to better conversations and therefore, in my opinion, better outcomes."

Image removed

Claire Barry,
Team Manager
Waitrose Welwyn Garden City,
Partnership Counsellor and
Chair of the Partner Group



21
DAYS FOR A RESPONSE TO ALL LETTERS SENT TO THE GAZETTE

Partners are able to influence business decisions at all levels of the Partnership through the democratic structure and representative bodies that are set out in our Constitution. See the 'Democratic vitality' section on page 35 and the Partnership Council report on page 38 for more information.

The Partnership also conducts an annual survey, known as Your Voice and a number of Pulse surveys in which Partners are asked their opinion on a wide range of topics. See page 36 for further information.

EQUAL OPPORTUNITIES, DIVERSITY AND INCLUSION

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

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

> The Partnership takes no account of age, sex, marital status, sexual orientation, ethnic origin, social position or religious or political views.

> The Partnership employs disabled people in suitable vacancies and offers them appropriate training and careers.

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

For further information please see pages 26 to 27, and the Chairman's Nominations Committee report on page 73 for more information on the Diversity and Inclusion Policy and the Board Diversity Statement in respect of diversity on the Partnership Board.

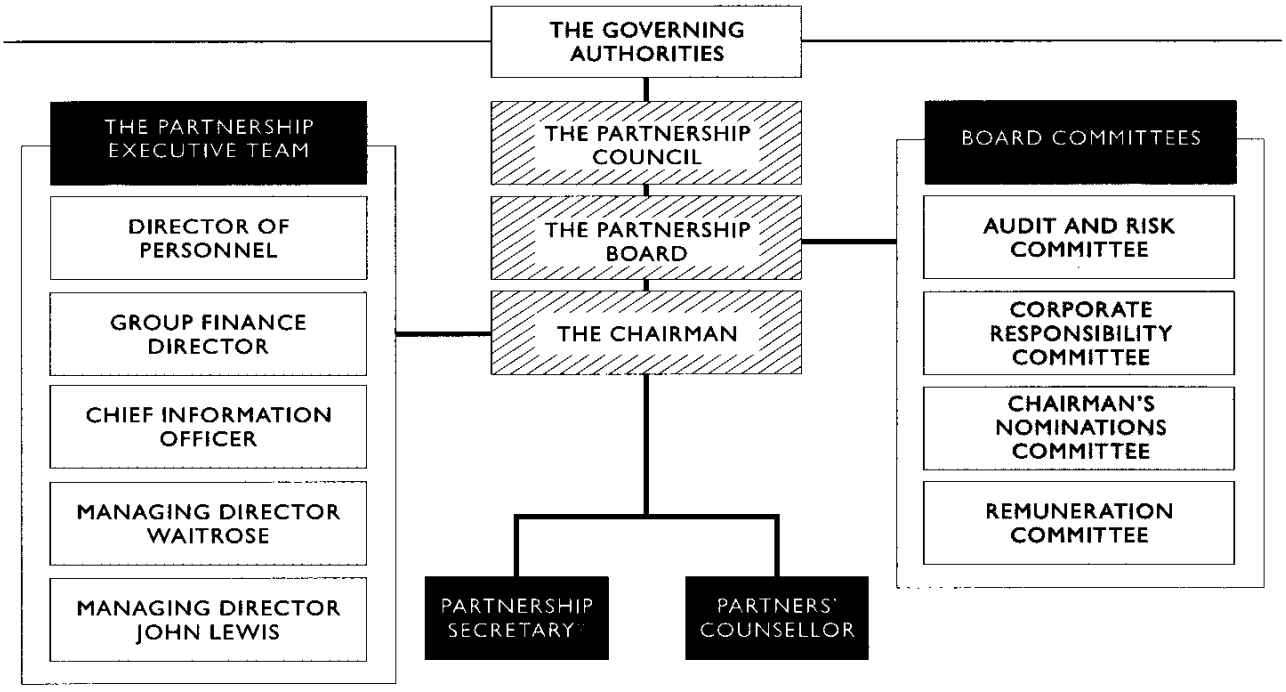
RESPONSIBILITIES TO OTHERS

The Constitution also sets out the role of the Partnership in society, defining our responsibilities to customers, suppliers and to the environment. This includes being honest in our business dealings, showing respect and courtesy to all stakeholders and contributing to the wellbeing of the communities where we operate. See pages 40 to 41 and the Corporate Responsibility Committee report on pages 68 to 70 for more information.

HOW WE SHARE POWER

Three Governing Authorities

The Partnership operates on democratic principles and as much sharing of power among its members and representative bodies as is consistent with efficiency. The three Governing Authorities of the Partnership are the Partnership Council, the Partnership Board and the Chairman.



Key

The Governing Authorities	
Supporting the Governing Authorities	
Executive	

*The Partnership Secretary will be a member of the Partnership Executive Team

THE PARTNERSHIP COUNCIL

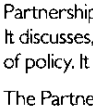
The Partnership Council is one of the three Governing Authorities. It is the most senior level of democracy in the Partnership and is run by Partners on behalf of Partners.

Rule 3 of the Constitution sets out that the Partnership Council, as the representative body of the members of the Partnership, entrusts management of the business to the Partnership Board, which delegates its management authority to the Chairman.

The Partnership Council represents Partners as a whole and reflects their opinion. In sharing responsibility for the Partnership's health with the Partnership Board and the Chairman, it holds the Chairman to account. It discusses, influences and makes recommendations on the development of policy. It shares in making decisions about governance of the Partnership.

The Partnership Council may ask the Partnership Board or the Chairman anything it wishes, and they must answer unless doing so would in their opinion damage the Partnership's interests (Rule 7).

Through its Specialist Groups, the Partnership Council is able to focus on key areas of the Partnership's strategy and influence policy. The work of the Council and that of its Specialist Groups is co-ordinated by the Steering Committee.



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

The Council has three vital decision-making powers:

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

Partners are able to influence what happens in their area of the Partnership, or the Partnership as a whole, through their local PartnerVoice and the other democratic bodies within the Partnership. PartnerVoice representatives collect Partner views and represent them through regular meetings with their senior leaders. These representatives ensure that, where possible, Partner views are reflected in local decisions and business plans.

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

The 'Democratic vitality' section on pages 35 to 37 provides more information on how our democracy is embedded in everything that we do. See the Partnership Council report on page 38 for more information about the democratic structure and work of the Partnership Council during the year.

Image removed

HOW WE SHARE POWER

THE PARTNERSHIP BOARD

The Partnership Board is one of the three Governing Authorities of the Partnership. Its composition is different from most other UK company boards. Its members bring a range of skills and experience to the Boardroom through a mix of appointed and democratically elected Partners and Non-Executive Directors who provide external, independent and objective challenge.

THE CHAIRMAN

The Chairman is one of the three Governing Authorities of the Partnership. Sir Charlie Mayfield, the Partnership's fifth Chairman, is based at the Group offices at Partnership House in Victoria, London. He is the Chairman of the Partnership Board by virtue of his appointment as Chairman of the Trust Company. The Chairman's role and responsibilities are defined in the Constitution under Rules 41 to 45.

The Chairman must ensure that the Partnership develops its distinctive character and democratic vitality. The Chairman is responsible for the leadership of the Partnership Board and for ensuring its effectiveness in all aspects of its role. The Partnership Board delegates management authority to the Chairman. As the senior executive in the Partnership he is ultimately responsible for the Partnership's commercial performance.

The Chairman is accountable to the Partnership Council, in accordance with the Partnership's Constitution. If the Partnership Council judges that the Chairman has failed to fulfil (or is no longer a suitable person to fulfil) the responsibilities of office, it may propose a resolution upon the Constitution to dismiss the Chairman.

The Chairman has a duty to actively seek to share power with other Partners, delegating as much responsibility and encouraging as much initiative as possible. The Chairman delegates responsibility for day-to-day management to the other Executive Directors and senior management as appropriate.

Image removed

Sir Charlie Mayfield

CHAIRMAN AND CHAIR OF THE CHAIRMAN'S NOMINATIONS COMMITTEE

Started current role: March 2007

Joined the Partnership Board: 2001

Length of time with Partnership: 18 years

Experience: Joined the Partnership in 2000 as Head of Business Development and the Partnership Board as Development Director in 2001. He was appointed Managing Director of John Lewis in 2005 and Chairman of the Partnership in 2007. He was knighted in 2013 for services to business.

Previously: Sir Charlie began his career as an officer in the army before holding management roles at SmithKline Beecham and McKinsey & Co.

Other appointments: Chairman of John Lewis Partnership Trust Limited, Non-Executive Chairman of the Productivity Leadership Group (charity), Non-Executive Chairman of QA and President of the Employee Ownership Association. He is also a member of the Blueprint Trust Advisory Council, Director of Central Surrey Health Trustee Limited, Director of Fabindia Overseas Private Limited, Trustee of Place2Be the children's charity and a Governor of Radley College. He was Chair of the British Retail Consortium from 2014 to 2016, Chair of the UK Commission for Employment and Skills from 2010 to 2016 and a member of The Commission on Economic Justice until 2017.

THE DEPUTY CHAIRMAN

Keith Williams holds the position of Deputy Chairman of the Partnership Board by virtue of his position as Deputy Chairman of the Trust Company. He is a Non-Executive Director.

The Deputy Chairman acts as a sounding board for the Chairman and the other Directors and is available to Partners if they have concerns.

Image removed

Keith Williams ACA

DEPUTY CHAIRMAN OF THE JOHN LEWIS PARTNERSHIP, NON-EXECUTIVE DIRECTOR, CHAIR OF THE CORPORATE RESPONSIBILITY COMMITTEE, CHAIR OF THE REMUNERATION COMMITTEE AND DEPUTY CHAIR OF THE CHAIRMAN'S NOMINATIONS COMMITTEE

Joined the Partnership Board: 2014 and his current term is due to expire on 28 February 2019

Experience: Chairman and Chief Executive of British Airways until he retired in March 2016.

Previously: Non-Executive Director of Transport for London and held senior roles at Reckitt and Coleman, Apple Computer Inc and Boots.

Other appointments: Deputy Chairman of John Lewis Partnership Trust Limited, Independent Non-Executive Director of Aviva plc and Royal Mail plc, and a member of the Board of Trustees of the British Museum as a member of the Audit Committee.

THE PARTNERSHIP EXECUTIVE TEAM

N Member of Chairman's Nominations Committee
A Member of Audit and Risk Committee
R Member of Remuneration Committee
C Member of Corporate Responsibility Committee

The Chairman is supported in his executive role by the Partnership's Executive Team. In addition to the Chairman, the Executive Directors at the date of this report are Tom Athron, Group Development Director, Rob Collins, Managing Director, Waitrose, Tracey Killen, Director of Personnel, Patrick Lewis, Group Finance Director and Paula Nickolds, Managing Director, John Lewis. Tom Athron has announced his intention to leave the Partnership and will step down as a Director on 27 April 2018.

Andrew Murphy, the Chief Information Officer, is a member of the Executive Team but is not an Executive Director. Michael Herlihy will also be a member of the Executive Team when he joins the Partnership as Partnership Secretary on 16 April 2018.

The Executive Team is responsible for developing and recommending Partnership strategy to the Board and setting the direction for the Partnership in the execution of that strategy. It is also responsible for prioritising the allocation of capital and resources. It is not a formal sub-committee of the Partnership Board and is not one of the Governing Authorities of the Partnership. The Executive Team meets formally on a monthly basis as well as holding shorter trading update meetings each week.

The main focus of the Executive Team during the year has been to develop the propositions and business plans to deliver the 'It's Your Business 2028' objectives. As well as providing the Partnership Board with regular updates on progress, the Executive Team reviewed and recommended the 2017 three-year base financial plan and 2018/19 budget to the Partnership Board for approval.

The Executive Team reviews and recommends all major business proposals before their submission to the Partnership Board for approval.

The Executive Team has also overseen the implementation of the Partnership's productivity programme which included the centralisation of IT Personnel, Property and Finance as single Partnership functions within the Group structure, providing greater operational and cost efficiencies. The Executive Team receive regular updates on: the progress of the major Partnership change programmes; IT and cyber security; Internal Audit and Risk Management; and Corporate Responsibility.

The Executive Team was established towards the end of 2016 and is the successor to the Chairman's Committee which acted as an advisory group to the Chairman. The Executive Team has therefore also spent time during the year developing its ways of working and clarifying roles and responsibilities to reflect its new executive authority. This also formed part of the Board Effectiveness and Governance review (see page 58 for more information).

Image removed

Patrick Lewis
GROUP FINANCE DIRECTOR

Started current role: September 2015
Joined the Partnership Board: 2009
Length of time with Partnership: 23 years
Experience: Patrick joined the Partnership in 1994 and held a variety of roles before joining the Partnership Board as Partners' Counsellor in 2009. He became Managing Director, Partnership Services in 2012, before being appointed Group Finance Director in 2015.
Previously: Roles at Bain & Company and Procter & Gamble.
Other appointments: Non-Executive Chair of Trustees for 3BM, Director of Girls Education Company Limited (Wycombe Abbey School).

Image removed

Tracey Killen
DIRECTOR OF PERSONNEL

Started current role: April 2007
Joined the Partnership Board: 2007
Length of time with Partnership: 35 years
Experience: Tracey joined the Partnership in 1982 as an A-Level Trainee and held a variety of roles at John Lewis becoming Personnel Director for John Lewis in 2002. She joined the Partnership Board as Director of Personnel in 2007.
Other appointments: Chair of The John Lewis Partnership Golden Jubilee Trust (charity). Non-Executive Director of Morgan Sindall Group plc and a member of their Remuneration, Nominations and Audit Committees. Formerly a Director and Trustee of Roffey Park Institute Limited.

Image removed

Tom Athron
GROUP DEVELOPMENT DIRECTOR

Started current role: October 2015
Joined the Partnership Board: 2015
Length of time with Partnership: 12 years
Experience: Joined the Partnership in 2005 as Head of Group Financial Strategy and then became Buying Director at John Lewis, responsible for Electricals and Home Technology. He joined the Waitrose Board as Finance Director in 2009, and the Partnership Board as Group Development Director in 2015.
Previously: Roles at Hambros Bank plc and Javelin Group.
Other appointments: Non-Executive Director, Åhléns AB.

"The mix of experience around the Board table has been especially helpful over the last year. Having an experienced external view and the powerful internal view of our Elected Directors creates a vital balance to the Executive. That is helping us navigate the significant changes affecting the retail industry and set ourselves up to make the most of our brands and the Partnership."

Patrick Lewis,
Group Finance Director

Image removed

Rob Collins
MANAGING DIRECTOR, WAITROSE

Started current role: April 2016
Joined the Partnership Board: 2016
Length of time with Partnership: 24 years
Experience: Joined the Partnership in 1993 as a Graduate Trainee in John Lewis, Oxford Street, moving to Waitrose in 2007 to establish its e-commerce business. He was appointed to the Waitrose Management Board as Personnel Director in 2010 and Retail Director in 2012. He joined the Partnership Board as Managing Director of Waitrose in 2016.
Other appointments: Trustee of The Prince's Countryside Fund.

Image removed

Paula Nickolds
MANAGING DIRECTOR, JOHN LEWIS

Started current role: January 2017
Joined the Partnership Board: 2017
Length of time with Partnership: 23 years
Experience: Joined the Partnership in 1994 as a Graduate Trainee in John Lewis, Oxford Street. Paula held various roles in the John Lewis buying teams before joining the John Lewis Management Board in 2013 as Buying and Brand Director and latterly Commercial Director. She joined the Partnership Board as Managing Director of John Lewis in January 2017.

HOW WE SHARE POWER

THE NON-EXECUTIVE DIRECTORS

The Non-Executive Directors at the date of this report are Baroness Hogg, Laura Wade-Gery and Keith Williams (see page 52 for biographical information about Keith Williams).
Denis Hennequin's term as a Non-Executive Director expired on 31 May 2017. Together, the Non-Executive Directors bring external, independent and objective judgement to the Partnership Board.

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

The Partnership Board does not appoint a Senior Independent Director (see page 81 for more information).

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

The letters of appointment of the Non-Executive Directors are available on request from the Company Secretary.

Image removed

Baroness Hogg N A R
NON-EXECUTIVE DIRECTOR AND CHAIR OF THE AUDIT AND RISK COMMITTEE

Joined the Partnership Board: 2011 (current term of office is due to expire on 31 May 2018)

Experience: Chairman of the Financial Reporting Council until 2014, Chairman of 3i Group until 2010 and Head of Prime Minister's Policy Unit 1990-1995. Created a Life Peer in 1995.

Other appointments: Senior Non-Executive Director of the Financial Conduct Authority, member of the Takeover Panel and Independent National Director of Times Newspapers.

Image removed

Laura Wade-Gery S C
NON-EXECUTIVE DIRECTOR

Joined the Partnership Board: 1 September 2017 for an initial term of three years

Experience: Executive Director of Marks and Spencer Group plc heading up multi-channel and e-commerce from 2011 to 2016, including from 2014 responsibility for UK stores. Before this, Laura held various senior roles at Tesco plc, most latterly Chief Executive of its online businesses. Prior to this she held roles at Gemini Consulting and Kleinwort Benson.

Other appointments: Non-Executive Director of British Land Company plc, Non-Executive Director of Immunocore Limited and a member of the Government Digital Service Advisory Board. Also a Director of two charitable organisations: The Royal Opera House and Snape Maltings.

PARTNERSHIP SECRETARY

Keith Hubber, General Counsel and Company Secretary, left the Partnership on 31 January 2018. He will be succeeded by Michael Herlihy who will join the Partnership as Partnership Secretary on 16 April 2018. Peter Simpson, Deputy Company Secretary, was appointed Acting Company Secretary for the intervening period.

PARTNERS' COUNSELLOR

The Partners' Counsellor is appointed by the Chairman and is a member of the Partnership Council and a Director of the Partnership Board in accordance with Rule 82 of the Constitution. Jane Burgess, Partners' Counsellor, stepped down from the Board on 27 September 2017, after 37 years' service, taking long leave prior to retiring from the Partnership in May 2018. Helen Hyde, Partnership Registrar for Group, was appointed Acting Partners' Counsellor. Helen attends each Board meeting but is not a member of the Partnership Board.

The Partners' Counsellor seeks to ensure that the Partnership is true to its principles and compassionate to individual Partners. The Partners' Counsellor has responsibility for the independence, health and effectiveness of the Partnership's elected representative bodies, and for developing detailed guidelines for them.

"I was delighted to be invited to join the Board, to help evolve – at pace – our strategy, customer experience and operating model. As an independent Non-Executive Director, my role is to help challenge Executive leadership to ensure that the Partnership is doing the right things fast enough to adapt at a time of unprecedented change in customer behaviour, the retailing industry and wider society."

Laura Wade-Gery,
Non-Executive Director

N Member of Chairman's Nominations Committee
A Member of Audit and Risk Committee
R Member of Remuneration Committee
C Member of Corporate Responsibility Committee

THE ELECTED DIRECTORS

Image removed

Chris Coburn C

COMMUNICATIONS BUSINESS PARTNER, INTERNAL AND DIGITAL COMMUNICATIONS

Joined the Partnership Board: 2015
Length of time with Partnership: 16 years
Experience: Joined the Partnership in 2001 as a Selling Partner in Peter Jones and went on to join the management training programme. He was elected to represent Peter Jones Partners on the Partnership Council in 2012. Chair of the Partner Group since 2013.
Previously: Lillywhites.

Image removed

Steve Gardiner N R

BRANCH MANAGER, WAITROSE CIRENCESTER

Joined the Partnership Board: 2012 (re-elected 2015)
Length of time with Partnership: 22 years
Experience: Joined the Partnership in 1996 as a Management Trainee for Waitrose. Steve managed shops in Coulsdon and Weybridge before being appointed as Branch Manager at Waitrose Cirencester. He was elected as one of the Partnership Councillors for Waitrose Group G in 2009.
Previously: Roles at Safeway, Marks & Spencer Group plc.

Image removed

Kim Lowe A C R

HEAD OF BRANCH, JOHN LEWIS BLUEWATER

Joined the Partnership Board: 2007 (re-elected 2009, 2012 and 2015)
Length of time with Partnership: 35 years
Experience: Joined the Partnership in 1982 as a Selling Assistant. Moved to John Lewis Aberdeen in 1989 and promoted to General Manager in 2007. Subsequently Kim held the role of Managing Director, John Lewis Glasgow and was appointed Head of Branch, John Lewis Bluewater in 2014. First became a Partnership Councillor in 2005.
Other appointments: Non-Executive Board Member of Central Surrey Health Ltd (CSH Surrey) from April 2018

Image removed

Baiju Naik C

BRANCH MANAGER, WAITROSE KINGS ROAD

Joined the Partnership Board: 2015
Length of time with Partnership: 21 years
Experience: Joined the Partnership in 1997 on the Waitrose Graduate Trainee programme. He became Department Manager at Holloway Road in 1999 and was promoted to Branch Manager in 2005. Baiju held the role of Manager at various shops, before moving to manage Waitrose Kings Road in 2013. Elected to Partnership Council in 2009 and re-elected in 2012.

Image removed

Ollie Killinger

CHANGE MANAGER, BUSINESS TRANSFORMATION HUB, WAITROSE

Joined the Partnership Board: 2017
Length of time with Partnership: 9 years
Experience: Joined the Partnership as a weekend worker on the Meat and Fish counter in Waitrose Leighton Buzzard in 2008. Maintained service through a student transfer whilst studying at University and returned after graduating to be a Section Manager in Waitrose Oakgrove before progressing through a variety of roles in management at various shops. Moved to the Operational Strategy team in 2016 and is now a Change Manager. Elected to Partnership Council in 2017.

"It is a truly amazing and unique opportunity to influence discussions with Partner perspective. Gaining insight into strategic decision-making has transformed me as a Partner and challenged me to think differently."

Ollie Killinger, Elected Director

As set out in the Constitution, five Partners are elected to the Partnership Board. The Elected Directors at the date of this report are Chris Coburn, Steve Gardiner, Ollie Killinger, Kim Lowe and Baiju Naik. Lucy Parks left the Partnership and resigned as a Director of the Partnership Board on 30 September 2017. A by-election was then held in November 2017 and as a result Ollie Killinger joined the Partnership Board on 16 November 2017.

Following the end of each three-year term of the Partnership Council, Elected Directors are appointed through a democratic voting process. The next elections will take place in May 2018.

While Elected Directors must act in accordance with their statutory duties, through their constitutional role they must remain mindful of Partners' best interests and have an important role in strengthening Partner voice at Board level.

The Elected Directors are Partners, but they have no executive responsibilities on the Board.

INDUCTION AND TRAINING

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

During the year under review, induction programmes were devised for the two new Directors who joined the Partnership Board, Laura Wade-Gery (Non-Executive Director) and Ollie Killinger (Elected Director). This included one-to-one meetings with the Chairman and each of the existing Directors and General Counsel and Company Secretary and other members of senior management. They also met members of the operational teams at Waitrose and John Lewis.

Not having held the role of Director previously, information and training was provided to Ollie Killinger on Directors' duties and the role of an Elected Director, both prior to selection by Partnership Council and as part of his induction.

The Elected Directors also met separately for an Elected Director development session facilitated by the General Counsel and Company Secretary and external advisor, Board Intelligence.

External briefings are provided to the Partnership Board as appropriate; KPMG attended the Partnership Board meeting in November 2017 to provide a view on both Brexit and retail trends. McKinsey & Company attended the Board meeting in January 2018 to provide an overview of evolving customer trends.

HOW WE SHARE POWER

THE PARTNERSHIP BOARD

WHAT ARE THE RESPONSIBILITIES OF THE PARTNERSHIP BOARD?

The role and responsibilities of the Partnership Board are set out in the Constitution under Rules 38 and 39. Although the Partnership Board delegates management authority to the Chairman (supported by the Executive Team), there are certain matters which are reserved for its decision. For more information on the role and responsibilities of the Chairman and the Executive Team see pages 52 to 53.

The Partnership Board has ultimate responsibility for approving major policy and strategy decisions and allocating the financial and other resources of the business. In these pages (pages 56 to 58) we describe the key areas discussed during the course of the year under review and also the major business proposals that were approved.

Supported by its Audit and Risk Committee, the Partnership Board is also responsible for reviewing the effectiveness of the Partnership's internal controls, including financial, operational, compliance and risk management systems, and for determining appropriate risk levels to achieve strategic objectives. It receives and reviews regular reports for these areas as follows:

- Minutes and updates from the meetings of Partnership Board Committees, the Executive Team and the Divisional Management Boards
- Quarterly risk update reports identifying any changes to principal risks and the progress of mitigating actions
- Monthly reports from the Group Finance Director and the General Counsel and Company Secretary (the Partnership Secretary going forward)
- An annual report presented by the Chair of the Pension Trustee

WHAT OTHER COMMITTEES ASSIST THE PARTNERSHIP BOARD?

The Partnership Board is assisted in carrying out its oversight and assurance responsibilities by its Committees: the Audit and Risk Committee; the Corporate Responsibility Committee; the Chairman's Nominations Committee; and the Remuneration Committee. The responsibilities of these Committees are set out in each Committee's report, and their respective Terms of Reference are available at www.johnlewispartnership.co.uk

The Audit and Risk Committee report can be found on page 60, the Corporate Responsibility Committee report on page 68, the Chairman's Nominations Committee report on page 71, and the Remuneration Committee report on page 74. Committee membership is detailed in each Committee's report.

From time to time, the Partnership Board also delegates authority to ad hoc sub-committees to help finalise matters within agreed parameters set by the Partnership Board.

WHAT DID THE PARTNERSHIP BOARD DISCUSS?

STRATEGY

February 2017

The Executive Team set out the direction of the Partnership under 'It's Your Business 2028' (IYB 2028) at a Leadership Summit on 7 February 2017 and at a meeting of the Partnership Council on 8 February 2017. The direction recognised the speed of change in society, retail and the workplace and how the Partnership would need to respond and adapt. The direction has three goals which are: a focus on the customer through 'Stronger Brands and New Growth'; placing Partners at the heart of what makes the Partnership different through 'Better Jobs, Better Performing Partners, Better Pay'; and a drive to strengthen the Partnership's 'Financial Sustainability'.

May 2017

In May 2017, the Partnership Board spent two days at the distribution campus in Magna Park discussing priorities to develop the next phase of the direction. The visit provided the opportunity to see the Waitrose and John Lewis distribution operations and to talk to the teams from both Divisions on how they were working together to develop their distribution strategies.

Image removed

July 2017

In July 2017, the Partnership Board considered and agreed a three-year base financial plan based on a forward view of the market and trading performance and associated risks at that time. The Partnership Board noted the steps which would be taken by the Executive Team to develop the propositions for the three objectives of the Partnership direction, to enable it to sustain its commercial vitality.

December 2017

In December 2017, the Partnership Board considered and approved the budget proposals for 2018/19 which reflected the intensified pressures on margin and profit. The Partnership Board considered various risk scenarios attached to achieving the budget performance in 2018/19 including the potential impact of continuing uncertainties with regard to Brexit and the need to have contingencies and plans in place to mitigate those risks.

PERFORMANCE

PERFORMANCE AND PROFIT

One of the first major items of the financial year for the Partnership Board to consider is the amount of the previous year's profits which should be retained for the maintenance and development of the Partnership's business and the amount which can be distributed to Partners as Partnership Bonus. In March 2017 the Partnership Board considered and decided that Partnership Bonus for 2016/17 be distributed to Partners at the rate of 6% of their pay (10% for 2015/16). At the same time the Partnership Board reviewed and approved the announcement of the 2016/17 year-end results.

In March 2018, the Partnership Board considered and decided that Partnership Bonus for 2017/18 be distributed to Partners at the rate of 5% of their pay.

The Partnership Board monitors the performance of the business at every meeting through the monthly financial performance report and an overview provided by the Group Finance Director supported by trading updates from the Divisional Managing Directors.

BUSINESS PROPOSALS

During the course of the year and in accordance with its reserved matters, the Partnership Board reviewed and approved significant business proposals. During 2017/18 these included:

March 2017

- Further funding releases for the John Lewis programmes, OCCO and Pioneer to introduce new systems and processes to provide a single view of stock and manage IT accordingly

July 2017

- Funding for the high level design stage of the Waitrose Merchandise Operations programme to introduce new shop ordering for stock management

December 2017

- Approval to proceed with a new core Human Resources and Payroll system
- Authority for the Partnership's Treasury function to review current funding arrangements and future requirements and to make recommendations accordingly to a sub-committee of the Partnership Board

January 2018

- Further funding releases for the John Lewis OCCO Programme and the Waitrose Merchandise Programme

ANNUAL REPORT AND ACCOUNTS

In April 2017, the Partnership Board approved the Partnership's 2017 Annual Report and Accounts and in September 2017 approved the release of Interim Results for 2017/18.

The Audit and Risk Committee recommended to the Partnership Board that KPMG LLP be re-appointed as statutory auditor of the Partnership and all of its subsidiaries for the 2017/18 financial year, which the Partnership Board approved in April 2017.

Image removed

GOVERNANCE

BOARD COMPOSITION

The Partnership Board approves changes to its structure, size and composition, following recommendations from the Chairman's Nominations Committee. Please see pages 52 to 55 and the table on page 59 for details of Board appointments approved by the Partnership Board during the year under review.

BUSINESS PROPOSALS THAT MAY RESULT IN REDUNDANCIES

Under Rule 39 (ix) of the Constitution, the Partnership Board is required to consider any proposal that places 12 or more Partners at potential risk of redundancy, either as part of the business plan or on a case by case basis. A number of such cases were submitted to the Partnership Board for approval during the course of the year.

PRESUMPTION OF MEMBERSHIP

Under the Partnership's Who is a Member (WIAM) Policy, the aim is to protect the co-ownership model by the presumption of membership and allowing for judgement to be applied where membership is not in the Partnership's best interests. Under the WIAM Policy, any business case to either move away from a presumption of membership or to renew an existing arrangement, which involves 100 or more people, requires the approval of the Partnership Board. A number of such cases were submitted to the Partnership Board for approval during the course of the year.

POLICY APPROVAL

In 2016/17, the Partnership Board approved a Partnership Policy framework founded on the statements of general policy in the Rules of the Constitution. The purpose of the Policy Framework is to supplement the Rules with a structured hierarchy of Policies and supporting Standards that are easy for Partners to navigate and with content that is both clear and concise. During the year the Partnership Board approved an update to the Partnership's Anti-Bribery and Corruption Policy and a new Corporate Responsibility Policy, as well as approving the Partnership's annual Modern Slavery Act Statement and the Partnership's Tax Strategy.

HOW WE SHARE POWER

THE PARTNERSHIP BOARD

WHAT DID THE PARTNERSHIP BOARD DISCUSS?

REVIEW OF BOARD EFFECTIVENESS AND GOVERNANCE

Progress against the 2016/17 Board and Committee Evaluation
As reported in last year's Annual Report and Accounts, further progress was made to improve the governance around risk management including the oversight of data and cyber risks with the widening of the remit of the Group Risk Committee reporting into the Executive Team following the move to functional working. Clarifying roles and accountabilities of members of the Executive Team formed part of the externally facilitated evaluation during 2017/18, the key points from which are set out below.

2017/18 Formal Externally Facilitated Evaluation
Following the establishment in late 2016 of the Executive Team in succession to the Chairman's Committee, and as reported in last years' Annual Report and Accounts, the decision was taken to carry out a formal externally facilitated review of the Partnership Board and its governance during 2017. This concerned the Partnership Board and its Committees and built on the areas identified for further examination from the internal evaluation during 2016/17. The review focused on the roles and relationships of the three Governing Authorities as well as the role of the Executive Team and its relationship with the Partnership Board and the Divisional Management Boards.

The intention of the report was to provide a forward looking view and a long-term roadmap (one to three years) for the Partnership Board's development. The review was carried out by Dr Tracy Long of Boardroom Review Limited and her report was presented to the Partnership Board in July 2017. Boardroom Review Limited has no other connection with the Partnership.

The review confirmed that the Partnership Board was functioning well and effective in many ways, including having a positive Board culture and an increasingly effective use of formal Partnership Board and Committee time to focus on the risk and control framework.

The recommendations centred on governance within the Partnership. In September 2017 the Partnership Board agreed the next steps to be taken to act on the recommendations in the report. In the context of the current general focus on the approach to good corporate governance (and the planned changes to the UK Corporate Governance Code) and changes within the business, the Partnership Board decided that this was a timely opportunity to carry out a review of the Partnership's governance frameworks to ensure they remained fit for purpose and to respond to the challenges recognised within 'IYB 2028'.

KEY POINTS FROM THE REVIEW AND NEXT STEPS

- **Clarify roles and responsibilities**: The Chairman would lead the development of a clearer roadmap for the emerging strategy which would include defining and clarifying the roles and relationships between the Executive Team, the Divisional Management Boards and the Group functions to achieve the goals described in 'IYB 2028'.
- **Review the governance model**: A working group led by the Deputy Chairman would carry out a holistic review of the constitutional governance model to ensure it continued to provide the necessary framework to meet the challenging economic and business environment for the next decade. In particular, consideration would be given to the composition of the Partnership Board, the roles of the Chairman and the Deputy Chairman and to succession.
- **Critical review**: A separate review had also been commissioned by the Chairman to look at the broader landscape of checks and balances on the 'critical' side of the Partnership led by Bérangère Michel, Finance Director, John Lewis.

  The background to this review is that as the Partnership grew, our Founder, Spedan Lewis recognised that the role of Chairman needed the assistance of five specialists referred to as 'the five Heads of the Critical Side'. These were the General Inspector, the Chief Registrar, the Internal Auditor, the Financial Adviser and the Partners' Counsellor. As Spedan Lewis explained: "The function of the Critical Side is to safeguard the Executive Side from inadvertence. The Critical Side provides the Executive Side with the salutary if not always pleasant services of a candid friend…"

  The nature of these roles and how they are performed has changed over time. The Chairman decided to commission a separate review to look at the broader landscape of checks and balances on the 'critical side' of the Partnership to ensure that the right balance of constructive challenge continues to exist within the modern Partnership's co-owned business model.
- **Continue to understand and learn from external perspectives:** This will continue through regular briefings provided at Board meetings.

MEETING ATTENDANCE

The members of the Partnership Board and their attendance at meetings of the Partnership Board and its Committees of which they were members during 2017/18, are as follows:

Director	Partnership Board	Audit and Risk Committee[1]	Corporate Responsibility Committee[2]	Chairman's Nominations Committee	Remuneration Committee[3]
	Meetings attended/eligible to attend				
Executive Directors					
Sir Charlie Mayfield (Chairman)	10/10			5/5	
Tom Athron	10/10				
Rob Collins	9/10				
Tracey Killen	10/10				
Patrick Lewis	10/10				
Paula Nickolds	8/10				
Partners' Counsellor[4]					
Jane Burgess resigned 27 September 2017	6/6	5/5	2/3		
Elected Directors					
Chris Coburn	8/10		5/5		
Steve Gardiner	10/10			6/6	5/5
Oliver Killinger appointed 16 November 2017	2/3				
Kim Lowe	10/10	6/6		6/6	1/1
Baiju Naik	10/10		5/5		
Lucy Parks resigned 30 September 2017	6/6				2/2
Non-Executive Directors					
Denis Hennequin resigned 31 May 2017	4/4		2/2	2/2	1/1
Baroness Hogg	10/10	6/6		4/4	4/4
Laura Wade-Gery appointed 1 September 2017	4/5		2/2		3/3
Keith Williams (Deputy Chairman)	9/10	5/6	5/5	6/6	3/3

1 The two external independent members of the Audit and Risk Committee, Zarin Patel and Sharon Rolston, attended each of the six Committee meetings held during the year.
2 The external independent member of the Corporate Responsibility Committee, Dame Fiona Reynolds, attended each of the five Committee meetings held during the year.
3 In accordance with the Terms of Reference of the Remuneration Committee, when approving the remuneration of Non-Executive Directors, the Quorum is two Elected Directors.
4 The Acting Partners' Counsellor, Helen Hyde, attends Partnership Board meetings but is not a Director.

It is the practice of the Partnership Board and the Board Committees for Directors to either not attend a meeting, or to absent themselves from relevant agenda items, where they have a conflict or potential conflict of interest in what is being discussed.

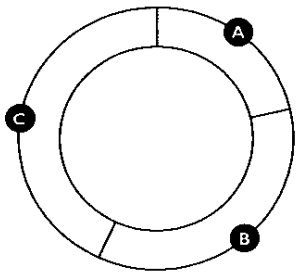
In addition to the 10 full Partnership Board meetings above, the Partnership Board also met on a quorate basis on two further occasions. These quorate meetings were constituted by the Partnership Board from those members available at that time, to approve the final form of the announcements for the full and half year results.

Senior executives attend Partnership Board and Committee meetings as appropriate to support business proposals, investments and report on material matters in relation to the business. Partnership Board and Committee members are given relevant and timely documentation in advance of each Partnership Board and Committee meeting.

In addition to attending Partnership Board meetings, the Non-Executive Directors and the Elected Directors met together without the Executive Directors twice during the year. These meetings were facilitated by both the Deputy Chairman and General Counsel and Company Secretary.

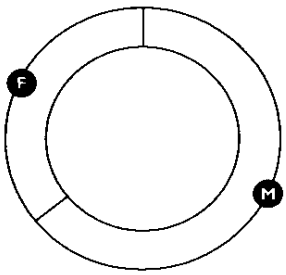
BOARD COMPOSITION

BY POSITION



A Non-Executive Directors 3
B Elected Directors 5
C Executive Directors 6

BY GENDER



M Male 9
F Female 5

AUDIT AND RISK COMMITTEE REPORT

Accuracy and integrity of the control environment and risk management

The Audit and Risk Committee focuses on the accuracy, integrity and communication of financial reporting, the control environment and risk management.

Image removed

"During a time of significant change for the Partnership, the Committee has continued to oversee and provide appropriate challenge in relation to accounting treatment, risk management and the control environment."

Baroness Hogg, Non-Executive Director and Chair of the Audit and Risk Committee

MEMBERSHIP AND COMPOSITION

The members of the Committee at the date of this report are:
Baroness Hogg (Chair)
Kim Lowe
Zarin Patel
Sharon Rolston
Keith Williams

Jane Burgess retired as Partners' Counsellor and stood down as a member of the Committee on 27 September 2017.

There were six Committee meetings held during the year under review. Attendance at those meetings is shown in the table on page 59.

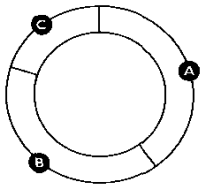
The two independent external members of the Committee, Zarin Patel and Sharon Rolston, attended each of the six meetings held during the year.

There have been no changes in Committee membership since year-end.

The Committee meets with the external auditor and the Head of Internal Audit and Risk Management, without Executive Directors being present, before each regularly scheduled meeting.

Quorum: *three members of the Committee to* include at least one member who is independent.

COMMITTEE COMPOSITION



A Independent External Members	2
B Non-Executive Directors	2
C Elected Director	1

IN THIS SECTION

- External financial reporting
- External audit activities
- Systems of risk management and internal control
- The Partnership approach to Internal Audit
- Groceries (Supply Chain Practices) Market Investigation Order 2009 and the *Groceries Supply Code of Practice*
- Whistleblowing
- Relevant qualifications of Audit and Risk Committee members and competence relevant to the sector
- Committee evaluation

KEY ACTIVITIES DURING THE YEAR UNDER REVIEW

- Monitored the financial reporting process, and preparation of the 2016/17 Results Announcement and Annual Report and Accounts and the 2017/18 Interim Results Announcement, ensuring that the reporting is fair, balanced and understandable
- Monitored the effectiveness of the Partnership's internal controls framework
- Monitored the scope and planning of the external audit, including meeting separately from management with the external auditor and evaluating the effectiveness of the external auditor
- Oversaw the scope and planning of the internal audit workplan, including meeting separately from management with the Head of Internal Audit and Risk Management
- Reviewed quarterly reports and updates from Internal Audit and Risk Management as well as regular reports from the Divisional Risk Committees
- Received reports on the management and mitigation of specific key risks
- Continued to review the level and nature of whistleblowing reports on a six-monthly basis

ROLE OF THE COMMITTEE

The Committee is responsible to the Partnership Board for the oversight of:

- The integrity of the Partnership's Annual Report and Accounts, and other formal announcements relating to the Partnership's financial performance
- External audit activities
- Internal audit activities
- The Partnership's systems of risk management and internal control, including an annual review of the effectiveness of their processes

The Chairman of the Corporate Responsibility Committee, Keith Williams, is a member of the Committee and at each meeting provides a summary of the key risk areas overseen by the Corporate Responsibility Committee, such as Health and Safety, Product and Food Safety, and Responsible Sourcing.

The Committee operates in accordance with its Terms of Reference, which are available at **www.johnlewispartnership.co.uk**

INDEPENDENT EXTERNAL MEMBERS

Zarin Patel

Zarin is a member of the HM Treasury Group Audit and Risk Committee. She was formerly Chief Operating Officer of The Grass Roots Group PLC, Chief Financial Officer, BBC and held other senior positions. She was also Non-Executive Director, BBC Worldwide where she chaired both Audit and Remuneration Committees. Zarin is a Fellow of the Institute of Chartered Accountants in England and Wales.

Sharon Rolston

Sharon is Head of Investor Relations at Diageo PLC, having previously held the position of Group Treasurer and other senior positions in Diageo PLC and Nortel Networks Corporation. Sharon is a Fellow of the Institute of Chartered Accountants in Ireland.

EXTERNAL FINANCIAL REPORTING

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

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

The Committee is responsible for the appointment, scope and fees of the external auditor, KPMG LLP.

REGULATORS AND FINANCIAL REPORTING

During the 2017/18 financial year, the Partnership was notified by the FRC that its 2016/17 Annual Report and Accounts had been selected to be included in the FRC's corporate reporting thematic review of pension disclosures. No substantive issues were raised in relation to this review, and feedback from the process has been used to further improve the quality of the Partnership's pension disclosures, in particular note 6.1.4.

ANNUAL REPORT AND ACCOUNTS

Since the year-end the Committee reviewed the draft Annual Report and Accounts 2017/18 and recommended their approval to the Partnership Board.

As part of its review, the Committee assessed whether the Annual Report and Accounts provided a fair, balanced and understandable assessment of the Partnership's position, performance, business model and strategy, as stipulated by the UK Corporate Governance Code (the Code).

In assessing whether the Annual Report and Accounts are fair, balanced and understandable, the Committee received a broad overview of the design and content of the report in December 2017, early in the planning process. The Committee received a full draft of the Annual Report and Accounts for review and comment two weeks ahead of the meeting in which it was asked to give final opinion on the report. The Committee's assessment included consideration of the following:

Are the Annual Report and Accounts fair and balanced?

- Does the Annual Report and Accounts provide a balanced view of the Partnership's performance and prospects, appropriately weighting setbacks and challenges?
- Is the report reflective of internal reporting and discussions, or have any items been omitted which should have been included?
- Is the description of the business model and strategy appropriate?
- Are key issues and judgements referred to in the narrative reporting consistent with the financial reporting issues referred to in the Audit and Risk Committee report and critical accounting estimates and judgements referred to in the financial statements?
- Are the KPIs presented appropriate, with clear linkage from strategy to KPIs and a clear track record of performance against KPIs?
- Are financial measures not defined under IFRS clearly explained with appropriate prominence and used consistently throughout the Annual Report and Accounts?
- Is the narrative reporting in the front of the report consistent with the financial reporting?

Are the Annual Report and Accounts understandable?

- Are important messages, policies, transactions and significant changes from prior periods highlighted and supported, and not obscured by unnecessary detail?
- Does the report include a simple explanation of the business model, strategy and accounting policies?
- Does the governance section clearly explain how decisions are made?
- Are financial measures not defined under IFRS clearly explained and reconciled to measures defined by IFRS?
- Are there clear and concise explanations of KPIs, including how they are measured?
- Is the language used in the report clear and precise, avoiding generic wording that is not specific to the Partnership?
- Is the layout of the Annual Report and Accounts clear, with good linkage throughout the report?

The Committee was satisfied that, taken as a whole, and having regard to the amendments made by the Committee, the John Lewis Partnership plc's Annual Report and Accounts 2017/18 are fair, balanced and understandable.

VIABILITY AND GOING CONCERN

The Committee also considered what statements the Partnership should make giving assurance as to its going concern and its viability. These disclosures are on pages 79 to 80 of the Directors' report.

AUDIT AND RISK COMMITTEE REPORT

OUR SIGNIFICANT FINANCIAL REPORTING ISSUES, AND OUR RESPONSE

As part of the preparation of the Annual Report and Accounts, the Committee considered the following significant financial reporting issues.

Impairment

NOTES 3.1, 3.2

Issue: The Partnership has significant non-current assets, both tangible and intangible. Judgement is exercised in reviewing their carrying value in respect of possible impairment. Initial trigger tests, such as whether performance was in line with expectations, provided indicators of some assets with a potential impairment. For each of these assets, management prepared a value in use model or obtained valuations to assess the asset's carrying value and calculated an impairment charge where appropriate.

Response: The Committee reviewed and challenged the methodology and assumptions applied to test impairment and the results of the trigger tests, including the assumptions used in cash flow projections as part of the value in use calculations. The Committee considered the sensitivity of the proposed impairment charge to movements in key assumptions such as the discount rate, long-term growth rate and performance. The Committee considered programmes where a significant intangible assets have been capitalised or are work in progress, to ensure it is comfortable that future economic benefit will be generated.

The Committee satisfied itself that the assumptions used and the resulting impairment charge were reasonable.

Exceptional items

NOTE 2.3

Issue: The Partnership recorded an exceptional loss of £111.3m principally relating to restructuring and redundancy and branch impairment. The branch impairment charge for Waitrose shops rose sharply, becoming material this year. Management therefore proposed to change the accounting treatment, including this under 'exceptional items', arguing that this would improve the clarity of the results for Partners.

Response: The Committee considered the items presented as exceptional, in respect of the Partnership's policy to present separately items that are material and non-recurring, to better explain the Partnership's underlying business performance.

In particular, in respect of the change to exceptional treatment in branch impairment, the Committee challenged management and the auditors as to whether this was in line with John Lewis Partnership's accounting policies. The Committee required greater prominence to be given to the charge in the results, and a fuller explanation to be given in the financial statements as to the significance of the shift in methodology and assumptions made when assessing impairment this year, before accepting the proposed treatment of the charge.

Depreciation and useful economic lives

NOTE 3.2

Issue: The Partnership has significant non-current tangible assets in the form of freehold land and buildings and long leasehold buildings. Depreciation is recorded to write down non-current assets to their residual value over their estimated useful lives. Determining an asset's residual value and estimated useful life involves significant judgement.

Response: The Committee received a memorandum from management detailing the review of residual values and useful economic lives. The Committee satisfied itself that the residual values and useful economic lives were appropriate, considering the sensitivity of changes in residual value on depreciation.

Supplier income

NOTE 4.2

Issue: The Partnership receives supplier income mainly in the form of volume and marketing rebates. Judgement is exercised in estimating the value of rebates to accrue, ensuring they are appropriately calculated and the level of disclosure. Care has been taken to ensure that rebates are recognised in the accounting period to which they relate.

Supplier income balances accrued at the year-end were not material. However, given the industry specific focus on supplier rebates, this is kept under review.

Response: The Committee reviewed the paper prepared by management detailing supplier rebates. earned during the year and accrued at the year-end. The Committee considered that the supplier rebate balance was appropriate.

Employee benefits

NOTE 6.1

Issue: The Partnership operates a defined benefit pension scheme, open to all Partners, subject to length of service. The pension scheme liability is calculated using an actuarial model with a number of key assumptions, notably the discount rate and inflation rate. Significant judgement is exercised in determining these actuarial assumptions, and the overall pension scheme liability is very sensitive to small movements in the discount rate and inflation rate.

During the year, management reviewed and proposed to change the methodology used in calculating the discount rate, as set out in note 6.1.

Response: The Committee reviewed the papers prepared by management, including the advice obtained by management from independent actuarial specialists on the appropriateness of the assumptions used. As part of this, the Committee considered these assumptions as compared with previous years and those used by our peer companies.

The Committee considered and challenged the proposed change in discount rate methodology, including its compliance with IAS 19, relative benchmarking, the rationale for change in methodology and the detailed disclosure in the Results Announcement and Annual Report and Accounts.

The Committee satisfied itself as to the acceptability of the key assumptions, particularly the discount rate, and concluded that the overall pension scheme liability is appropriate.

Provisions

in relation to long leave, service guarantee costs, customer refunds, insurance claims, reorganisation costs, property related costs and pay.

NOTE 4.4

Issue: The Partnership has significant provisions in relation to its long leave scheme, which provides six months' paid leave after 25 years of service. It also makes provisions for expected future customer refunds, service guarantees, insurance claims and other items such as reorganisation, property related costs and pay. Judgement is exercised in making the assumptions that form the basis of the provision calculations.

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

In relation to the specific pay provision for potential costs of complying with the National Minimum Wage Regulations, the Committee reviewed a memorandum from management detailing the status of discussions with HMRC, the legal basis and advice from independent National Minimum Wage specialists. The Committee reviewed the conclusions reached by management and key assumptions in calculating the provision and their relative sensitivities. The judgements made by management were challenged and the detailed disclosure within the Results Announcement and Annual Report and Accounts was reviewed.

The Committee concluded that the amount recorded in respect of provisions was appropriate and represented the best estimate of the liability and the disclosure in respect of provisions was appropriate.

Liability

for unredeemed gift vouchers and gift cards

NOTE 4.3

Issue: The Partnership issues gift vouchers and gift cards and records a liability on the balance sheet for unredeemed vouchers and cards. Judgement is exercised in estimating the value of this liability, based on redemption patterns.

Response: The Committee reviewed the paper prepared by management detailing the methodology, actual experience and key assumptions used in calculating the liability for unredeemed gift vouchers and gift cards. These showed that there was no significant change in the overall trend of redemption patterns for gift vouchers or gift cards. The Committee considered that the estimates were reasonable.

AUDIT AND RISK COMMITTEE REPORT

EXTERNAL AUDIT ACTIVITIES

EVALUATION AND RE-APPOINTMENT OF AUDITOR

KPMG LLP were the Partnership's external auditor for 2017/18. They provided the Committee with relevant reports, reviews, information and advice throughout the year, as set out in their engagement letter.

The Committee is responsible for making a recommendation to the Partnership Board relating to the appointment, re-appointment or removal of the external auditor.

In March 2018, the Committee conducted an evaluation of the external auditor's performance. Members of the Committee and senior finance management within the Partnership were provided with an opportunity, through an evaluation questionnaire, to comment on the effectiveness of the external auditor and the audit process.

In concluding on the effectiveness of the external auditor, the Committee considered:

- The terms and the scope of the work of the external auditor, as set out in the engagement letter
- The experience and expertise of the audit team
- The audit work plan for the financial year 2017/18
- The detailed findings of the interim review and year-end audit, including how the auditor assessed key accounting and audit judgements and discussion of any issues that arose
- The constructive challenge and professional scepticism applied by the audit team in dealing with management

The outcome of the evaluation was considered by the Committee, which concluded that the effectiveness of the external auditor and the audit process was satisfactory and recommended the re-appointment of KPMG LLP to the Partnership Board.

During the year, the 2016/17 audit of John Lewis Partnership plc by KPMG LLP was reviewed by the FRC's Audit Quality Review team (AQR). The AQR routinely monitors the quality of audit work of certain UK audit firms through inspections of sample audits and related procedures at individual audit firms. Certain matters for improvement were identified along with good practice observations. The Committee and KPMG LLP have discussed the review findings and the identified improvement areas, and the actions taken to incorporate these into the 2017/18 audit work. KPMG LLP have also discussed more generally the firm's process for enhancing audit quality which includes internal quality reviews. KPMG LLP reported to the Audit and Risk Committee as part of their April 2018 report on these matters, with the Audit and Risk Committee concluding that the findings were being addressed.

AUDIT FIRM TENDERING

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

Following the audit tender process in 2015/16, the year ended 27 January 2018 was the second year of audit by KPMG LLP and the second year of the audit engagement partner, Mike Maloney's, appointment.

AUDITOR'S INDEPENDENCE AND OBJECTIVITY AND NON-AUDIT SERVICES

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

The Committee recognises that the independence of the external auditor is a fundamental safeguard for the interests of the Partnership's co-owners. The Partnership has a non-audit services policy that allows the external auditor to be appointed to provide non-audit services in exceptional circumstances. The policy was reviewed in light of EU Regulations, which became effective in June 2016, with no significant changes. The Partnership's non-audit services policy is summarised below.

Details of the amounts paid to the external auditor are given in note 2.4 to the consolidated financial statements. The ratio of non-audit services fees to audit and audit-related services fees was 22% (2017: 22%).

Having undertaken a review of the non-audit services provided during the year, at both the half year and year-end, the Committee is satisfied that these services did not prejudice the external auditor's independence.

SUMMARY OF NON-AUDIT SERVICES POLICY

- In line with the Code, the Partnership's auditor is prohibited from supplying most categories of non-audit services
- Prohibited services include bookkeeping or other services related to the accounting records or financial statements; internal audit services; taxation services; and any other work that could compromise the independence of the external auditor or is prohibited by UK regulator's ethical guidance
- There is a specific approval process for any non-audit work to be undertaken by the external auditor. Any proposal to engage the external auditor to perform non-audit services must be referred to the Group Finance Director for approval. Where fees exceed £100,000, the proposal must be approved by the Chair of the Committee, and where fees exceed £250,000, the proposal must be approved by the whole Committee

SYSTEMS OF RISK MANAGEMENT AND INTERNAL CONTROL

RESPONSIBILITIES

Partnership Board

Has overall responsibility for the risk management framework and key risk decisions. Reviews principal risks and mitigating actions regularly with the support of the Executive Team; and seeks to comply with the UK Corporate Governance Code (2016).

Audit and Risk Committee

Provides assurance to the Board on internal controls and the risk management process. Monitors the effectiveness of internal control and risk management processes and challenges decision-making.

Executive Team

Identifies, evaluates and monitors the principal business risks. Implements and maintains risk management systems in an efficient and effective manner.

MONITORING DURING THE YEAR

Through the Committee, the Partnership Board has evaluated the Partnership's risk management and internal control systems. The Executive Team, the Committee and the Partnership Board receive quarterly risk management reports. On a quarterly basis the Partnership Board has stress-tested the business plan in relation to the relevant principal risks, how our risk profile may be affected by Brexit and monitored the Partnership's performance towards target risk.

Ongoing monitoring takes place by the Committee through the regular allocation of specific time to understand and assess risk management and internal control weaknesses across strategic, operational, financial and compliance areas at meetings; and discussion with executive management. senior management present on risks and mitigating activities in order to support their ongoing assessment in areas such as cyber security, IT infrastructure, change, data protection and Brexit related risks.

The Head of Internal Audit and Risk Management presents on the effectiveness of internal controls assessed as part of the audit plan.

A consistent theme in the conclusions of the Audit and Risk Committee was a request to management to continue to clarify lines of responsibility, to ensure that ownership was taken of any outstanding control issues and the management and mitigation of risks right across the Partnership, at the senior operational level. Progress had been made in the monitoring of major projects but there were still issues of accountability with respect to ongoing business risks. With major new regulatory regimes coming into force, responsibility for embedding a compliance culture needed to be accepted at all levels.

The Partnership Board has set an overall risk appetite for the business to operate within. With the support of the Executive Team, it has reviewed Divisional and Partnership proposed changes to the Partnership's appetite for risk, and taken decisions to further reduce or tolerate risk if appropriate. During the year, the Partnership has implemented and embedded its upgraded risk management software to improve the quality, efficiency and consistency of risk reporting, such that risks are now managed and reported in one consistent way across the Partnership.

Improvements in internal controls are underway to improve Partner and customer experiences and protect profit, cash, data and other assets to support the overall sustainability of our business.

THE PARTNERSHIP'S SYSTEMS OF RISK MANAGEMENT AND INTERNAL CONTROL

Risk management

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

To enable this, the Partnership has a risk management framework, including a process for how we identify, evaluate, manage and monitor the principal risks faced by the Partnership, supported by tools, dedicated Partners and a risk governance structure with defined accountability. Further details on this can be found on pages 42 to 45 along with details of our principal risks and how we mitigate them.

Internal control

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

The Partnership Board receives updates through the Chair of the Committee and copies of its minutes on the operation of the systems of internal control for risk management. Reporting is through presentations from senior management, the chairs of Divisional Risk Committees and financial control as well as the work of Internal Audit, which provides objective assurance on the effectiveness of controls through the delivery of a risk-based work plan. The Head of Internal Audit and Risk Management reports functionally to the Chair of the Committee and operationally to the Group Finance Director.

At the end of the year, the Committee conducted an annual review of the effectiveness of the risk management framework, supported by a self-certification exercise by management.

During the year:

- The risk management governance structure was further developed to accommodate the changes to the structure of the Partnership. As a result, the composition and role of the Group Risk Committee was enhanced to reflect the centralisation of operations and risk ownership. Revised ownership, accountability and reporting of risks under the new governance structure was agreed
- The Committee has continued to focus on the challenges in meeting the upcoming complex GDPR requirements, as well as plans to improve our IT resilience and Data Privacy compliance in response to the ongoing external threat of an information security breach or cyber attack
- The Committee supported the Partnership's approach to identifying and managing risks exacerbated by Brexit and focused challenge on proposed options to mitigate the Partnership's key Brexit related risk areas
- Risk reporting has become significantly more efficient and consistent across the Partnership and risk indicator reporting for our principal risks has improved to support management's decision-making
- Key controls over material financial risks have also been tested

The focus for the year ahead is to continue to develop the quality of our risk reporting to provide improved insight and challenge for decision-making, proactively manage our response to the Partnership's Brexit related risks and oversee the implementation of these plans.

The Partnership's approach to risk management is detailed on pages 42 to 45.

AUDIT AND RISK COMMITTEE REPORT

THE PARTNERSHIP APPROACH TO INTERNAL AUDIT

Partnership Internal Audit is an independent and objective assurance and advisory function, operating to add value to the business through challenging, improving and assuring systems of risk management and control.

The purpose of Internal Audit is to support the Committee in fulfilling the parts of its remit laid down by the Partnership Board that require it to oversee:

1. The integrity of the Partnership's Annual Report and Accounts, and other formal announcements relating to the Partnership's financial performance
2. The Partnership's systems of risk management and internal control

Internal Audit brings a systematic and disciplined approach to evaluating and improving the effectiveness of the Partnership's risk management, control, and governance processes.

The Audit and Risk Committee reviews and approves the scope of the Internal Audit work programme on an annual basis, which covers both advisory and assurance related reviews of operational, financial and IT processes as well as key change projects and programmes across the Partnership. The annual audit plan this year has included reviews of:

Programme	
– Master Data Management	– Personnel Functional Transformation
– Merchandise Operations	

Finance	
– Internal Controls Framework	– Pensions

Regulatory/Other	
– GDPR Readiness	– Specific independent reviews

IT	
– User Access	– Cyber Security
– Cyber Operating Model	

Operations	
– Buying	– Hong Kong Sourcing Office
– Inventory Management	– GSCoP

At each meeting with the Audit and Risk Committee, the Head of Internal Audit and Risk Management reports on the current status against the agreed audit plan, control weaknesses identified and management's progress in developing the control environment.

KPIs measuring the efficiency and effectiveness of the Internal Audit function were introduced during 2015/16. These continue to be used to benchmark performance against prior years and to demonstrate the continuous improvements made in maturing the function and the quality of service provided to the Partnership. The Head of Internal Audit and Risk Management reports on these KPIs at every Committee meeting as well as providing a status update of progress against the agreed development plan.

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

The review outlined the level of conformance with the IIA's Code of Ethics and International Standards and offered specific recommendations which are on track to support the continuous improvement of the Internal Audit function. Progress against recommendations raised by the EQA is presented by the Head of Internal Audit and Risk Management at each Audit and Risk Committee meeting.

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

Waitrose is subject to the Groceries (Supply Chain Practices) Market Investigation Order 2009 and the Groceries Supply Code of Practice (Code). As required by the Order and the GSCoP, Waitrose's Code Compliance Officer (CCO) is obliged to present a report detailing the business' compliance to GSCoP to the Partnership's Audit and Risk Committee, for onwards submission to the Competition and Markets Authority (CMA).

The CCO presented the report to the Committee at its meeting on 10 April 2018 and reported an increase in the number of suppliers raising GSCoP queries. They cover a range of areas across Commercial, Supply Chain and Finance, including one formal dispute raised during the period which has subsequently been resolved.

The Committee reviewed and approved the report, noting the increase in queries from previous years and requested that management consider further options to mitigate queries and to simplify.

See page 79 of the Directors' report for further information.

WHISTLEBLOWING

The Partnership whistleblowing procedures allow Partners to raise, in confidence, any concerns about possible improprieties including matters of financial reporting, risk, fraud, internal controls and auditing issues. Whistleblowing is managed by Registry who engage Internal Audit as appropriate for investigations throughout the year. The Committee receives bi-annual reports on the level and nature of issues raised and on the actions taken as a result.

RELEVANT QUALIFICATIONS OF AUDIT AND RISK COMMITTEE MEMBERS AND COMPETENCE RELEVANT TO THE SECTOR

Keith Williams, Zarin Patel and Sharon Rolston have recent and relevant financial experience. Each is a qualified accountant and has held senior finance roles.

Baroness Hogg has significant experience, notably from her time as Chair of the Financial Reporting Council, that supports her leadership of the Committee.

Kim Lowe has 35 years' experience in the retail sector having joined the Partnership in 1982 as Selling Assistant and is now Head of Branch at John Lewis Bluewater.

The former Partners' Counsellor, Jane Burgess, who was a member of the Committee until 27 September 2017, joined the Partnership in 1975 and held a variety of roles within the business before becoming Partners' Counsellor in 2012.

Added to this retail sector experience within the Partnership Keith Williams previously held senior roles at Apple Computers Inc and Boots and Sharon Rolston is Head of Investor Relations at Diageo plc, a multinational beverages company and supplier to the retail industry.

Viewed as a whole, the Committee possesses competence relevant to the retail sector in which the Company operates.

COMMITTEE EVALUATION

Please see page 58 for a summary of the evaluation of the effectiveness of the Partnership Board and its Committees during the year.

On behalf of the Audit and Risk Committee.

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

CORPORATE RESPONSIBILITY COMMITTEE REPORT

Being a responsible business

The Corporate Responsibility Committee is responsible to the Board for the oversight of the Partnership's Corporate Responsibility Policy and Corporate Responsibility objectives.

Image removed

"This year, the Committee has explored some of the most acute challenges facing the Partnership and overseen how the Partnership is responding to meet the expectations of our Partners, customers and wider society to fulfil our obligations under the Constitution."

Keith Williams, Deputy Chairman of the John Lewis Partnership, Non-Executive Director and Chair of the Corporate Responsibility Committee

IN THIS SECTION

– Corporate Responsibility in the Partnership
– Key activities
– Greenhouse Gas Emissions
– Outlook

COMMITTEE EVALUATION

Please see page 58 for a summary of the evaluation of the effectiveness of the Partnership Board and its Committees during the year. Since the year-end, the Committee also undertook an internally facilitated review of its own effectiveness. The main themes arising from the review were discussed by the Committee at its meeting in April 2018 and will be considered as part of the continuing development of the Committee's ways of working and agenda going forward.

MEMBERSHIP AND COMPOSITION

The members of the Committee at the date of this report are:
Keith Williams (Chair)
Chris Coburn
Baiju Naik
Dame Fiona Reynolds
Laura Wade-Gery

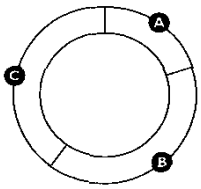
Denis Hennequin (former Non-Executive Director) and Jane Burgess (former Partners' Counsellor) stood down as members of the Committee on 31 May 2017 and 27 September 2017 respectively, and Laura Wade-Gery joined the Committee on 1 September 2017.

There were five meetings held during the year under review and attendance at those meetings is shown in the table on page 59.

There have been no changes in Committee membership since year-end.

Quorum: three members to include at least one Non-Executive Director and one Elected Director.

COMMITTEE COMPOSITION



A Independent External Member	1
B Non-Executive Directors	2
C Elected Directors	2

"This year, the Committee has further challenged the Partnership to integrate and clarify its approach to Corporate Responsibility and ensure our commitments fit squarely within the Partnership's overall strategy. We have made good progress in both tasks though, as always, there is more to do."

Dame Fiona Reynolds,
External Independent member of the *Corporate Responsibility Committee*

ROLE OF THE COMMITTEE

The role of the Committee is to:
- *Oversee and make recommendations to the* Board in respect of the Partnership's Corporate Responsibility (CR) Policy and objectives
- Monitor performance against the Partnership's *CR Policy*
- Monitor the effectiveness of the management of the Partnership's CR obligations and risks
- Review the effectiveness of the Partnership's *procedures for maintaining and safeguarding* the Partnership's corporate reputation
- Review and endorse the Partnership's CR report available at **www.johnlewispartnership/co.uk/csr**

The Committee has responsibility for providing oversight in a number of areas previously under the remit of the Audit and Risk Committee including Health and Safety, Food Safety, Product Safety and *Responsible Sourcing and receives regular updates* from the Partnership Health and Safety Management Committee, the John Lewis Corporate Social Responsibility Committee and the Waitrose *Corporate Social Responsibility Committee.*

The Corporate Responsibility Committee was established by the Partnership Board in September 2015. It operates in accordance *with its Terms of Reference that are available at* **www.johnlewispartnership.co.uk**

INDEPENDENT EXTERNAL MEMBER

Dame Fiona Reynolds
Dame Fiona is Master of Emmanuel College, Cambridge. She is a Non-Executive Director of Wessex Water and Chair of their Futures Panel, and a trustee of the Grosvenor Estate. In a voluntary capacity she also Chairs the Cathedrals Fabric Commission for England, the Cambridge University Botanic Garden Syndicate, the environmental charity Green Alliance and the International National Trusts Organisation. She was Director-General of the National Trust from 2001-2012 and previously Senior Independent Director of the BBC's Executive Board. Until her appointment as a member of the Committee, Dame Fiona was a member of the Waitrose Corporate Social Responsibility Advisory Board.

CORPORATE RESPONSIBILITY IN THE PARTNERSHIP

The Partnership has a different way of doing business. Our Partnership model was, and still is, an experiment in industrial democracy, showing that long-term commercial success can come from co-ownership. We have a written Constitution, based on seven clear and enduring Principles, which set out Partners' rights and responsibilities, how power is shared and our collective responsibilities to others. Specifically, our responsibilities are outlined in:

- Members under Principle 4
- Customers under Principle 5
- Those with whom it has a business relationship under Principle 6
- The communities in which we operate under Principle 7
- Section 3 of the Rules outlines clearly our 'responsibilities to others' in respect of our dealings with suppliers and competitors and our impact on the environment

Our approach to CR continues to be underpinned by these values as we navigate a radically changing retail and societal climate. We endeavour to make decisions that stay true to these principles and ensure our customers continue to trust the products and services we provide.

Our CR Framework describes our corporate responsibility priorities and how they support the Partnership's business priorities. We use this framework to manage our most material issues and make a positive contribution in those areas where we can have the greatest impact. These commitments unite Waitrose and John Lewis towards shared goals whilst giving flexibility to respond in ways that are right for each brand. Within each area, we are looking to innovate and create genuine impact, building on our core programme of activities which manage our day-to-day operations and key risks.

For more information on corporate responsibility issues please see 'Our Responsibilities' on pages 40 to 41 and the John Lewis Partnership Corporate Responsibility report 2017/18 at **www.johnlewispartnership.co.uk/csr**.

KEY ACTIVITIES

Over the course of the year under review, the Committee held five meetings. Through updates on the CR Framework and Divisional strategies, the Committee received updates on all areas of the CR agenda and reviewed the progress across a number of issues.

Particular focus was given to the following key areas:

Corporate responsibility framework

Throughout the year, the Committee received updates on progress against the CR Framework. During the course of the year Waitrose and John Lewis presented the development of their CR strategies in support of the CR Framework. The Divisions presented both their ongoing risk management programmes and the areas where they would lead on the CR agenda. The Committee reviewed plans and provided feedback on progress made.

Health and wellbeing

In December 2017, the Committee undertook a review of the Partnership's approach to Partner health and wellbeing, one of the strategic focus areas of the CR Framework in support of providing 'Better Jobs' for Partners. The Committee considered detailed analysis of the issues, the overall Partnership ambition and the progress made so far and provided guidance on the developing strategy. The Committee will continue to challenge the business as the Partner proposition on health and wellbeing is developed.

Health and safety

Our physical estate is large and complex, comprising offices, warehouses and shops and the Partnership is committed to ensuring the safety of its Partners, customers and visitors. Therefore, it is imperative the Committee has a solid understanding of the Health and Safety challenges facing the business. This year, the Committee received regular updates from the Group Health and Safety function outlining the key priorities facing the Partnership and reviewed and made recommendations on the Partnership's safety management system.

Community

In October 2017, the Committee commented on the review of the Partnership's community investment strategy and considered the external insights delivered by an expert consultancy. The Committee agreed that community investment is a central part of the Partnership's CR strategy and will continue to receive updates as we review our approach.

Narrative reporting

Since the year-end, the Committee reviewed and endorsed the Partnership's Corporate Responsibility report 2017/18. This includes the John Lewis Partnership's Modern Slavery Statement.

Training

In August 2017, the Committee visited the Waitrose Farm at Leckford Estate, a 4,000-acre estate near Stockbridge, Hampshire which is owned and run by the John Lewis Partnership. The Estate is a diverse commercial operation spanning property, food production, farming and retail. The Waitrose Farm produces apples, flour and mushrooms, which are stocked in some Waitrose shops. The visit offered an opportunity for the Committee to understand critical farming sustainability and sourcing challenges relevant to the Partnership.

Briefings and workshops are provided to the Committee in relation to specialist and developing areas as deemed necessary.

Image removed

CORPORATE RESPONSIBILITY COMMITTEE REPORT

GREENHOUSE GAS EMISSIONS

The Partnership's environmental strategy includes reducing the carbon emissions and energy consumption associated with our buildings, and finding more efficient ways to distribute our goods. By innovating and investing in our buildings, and through procuring renewable electricity, we have seen our Greenhouse Gas emissions fall. As a result we have already achieved our target of a 65% reduction in carbon intensity (tonnes per £m of revenue) against a 2010 baseline. We are encouraged by the progress we have made, however there is still more to do to reduce our energy consumption in shops and on the roads.

The table below provides more detail on our emissions and a description of what each 'Scope' means as well as the methodology behind the figures.

METHODOLOGY

The Partnership has reported on all of the Greenhouse Gas (GHG) emission sources as required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. 2017 data is reported on an approximate calendar year basis, which comprises the period from 25 December 2016 to 23 December 2017.

The methodology used to calculate our GHG emissions is the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), using the operational control approach on reporting boundaries. This covers the properties where the Partnership has operational control and is financially responsible for the utility supply. Data has been calculated using Defra 2017 emission factors, with the exception of certain refrigerants, and emission sources associated with our Leckford Farm, which are taken from industrial and academic sources. Further detail on the methodology is set out within the John Lewis Partnership Basis of Reporting available at **https://www.johnlewispartnership.co.uk/csr**

The Partnership engaged KPMG LLP to undertake an independent limited assurance engagement over selected information included in our Corporate Responsibility report. Selected data has been extracted from that report and included in this document, as identified by a footnote on the relevant pages. The level of assurance provided for a limited assurance engagement is substantially lower than a reasonable assurance engagement. KPMG's full assurance statement is available on our website at ***https://www.johnlewispartnership.co.uk/csr***

GLOBAL GHG EMISSIONS DATA*

	2017	2016
Scope 1 (tonnes CO_2e)[1]		
Combustion of fuel and operation of facilities, refrigeration	**176,611**	193,796
Scope 2 (tonnes CO_2e)[2]		
Electricity purchased and heat and steam generated for own use		
– Location-based	**227,334**	269,986
– Market-based	**6,425**	7,401
Scope 3 (tonnes CO_2e)[3]		
Water, business travel, waste to landfill and transmission and distribution losses from purchased electricity	**50,510**	55,901
Intensity measurement (tonnes CO_2e per £m sales)		
– Location-based	**39.3**	45.7
– Market-based	**19.9**	22.6

* Figures presented are for each approximate calendar year

1 **Scope 1 emissions**: These are the GHG emissions associated with our direct activities – *such as heating our shops and offices and running our fleet of trucks and company cars.*
2 **Scope 2 emissions**: These are the GHG emissions associated with the electricity we purchase to run our buildings. Location-based represents the GHG intensity of the grids where we have sites and market-based reflects the emission for the electricity we have purchased as a business and is lower because of our renewable energy sourcing.
3 **Scope 3 emissions**: These are the GHG emissions associated with our indirect activities such as business travel that isn't in company-owned cars, our water use or unrecycled waste disposal.

DIVERSITY AND INCLUSION POLICY ASSURANCE

Since year-end, the Committee reviewed an assurance update on progress the Partnership is making against our Diversity and Inclusion policy.

OUTLOOK

In 2017/18, the Committee was focused on overseeing the implementation of the CR Framework and reviewing in detail priority areas that have been identified. In 2018/19 the Committee will review updates on CR across the Partnership to ensure the risks we have identified are being managed and that we are meeting the objectives of our CR Framework.

On behalf of the Corporate Responsibility Committee.

Keith Williams
Non-Executive Director and
Chair of the Corporate Responsibility Committee

CHAIRMAN'S NOMINATIONS COMMITTEE REPORT

Leadership and effectiveness

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

Image removed

"The Committee's main focus for the year has been oversight of the changes to the Partnership Board as well as ensuring that the right balance of senior management skills, knowledge and experience are in place to deliver the IYB 2028 objectives."

Sir Charlie Mayfield, Chairman and Chair of the Chairman's Nominations Committee

IN THIS SECTION

- Appointments
- Succession planning and talent management
- Induction, training and development
- Review of Board Effectiveness
- Diversity and Inclusion Policy

MEMBERSHIP AND COMPOSITION

The members of the Committee at the date of this report are:
Sir Charlie Mayfield (Chair)
Keith Williams (Deputy Chair)
Steve Gardiner
Baroness Hogg
Kim Lowe

Baroness Hogg joined the Committee on 20 July 2017 in succession to Denis Hennequin who stepped down as a member of the Committee on 31 May 2017 on the expiration of his term of office as a Non-Executive Director.

There were six Committee meetings held during the year under review and Directors' attendance at those meetings is shown in the table on page 59.

There have been no changes in Committee membership since year-end.

Quorum: three members to include the Chair of the Committee (or his appointed deputy) and at least one Non-Executive Director and one Elected Director.

ROLE OF THE COMMITTEE

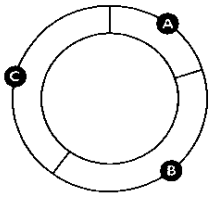
The Committee's responsibilities are to support the Chairman in ensuring that:

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

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

The Committee is supported by the Director of Personnel and assisted by independent consultants, as required.

COMMITTEE COMPOSITION



A Chairman	1
B Non-Executive Directors	2
C Elected Directors	2

CHAIRMAN'S NOMINATIONS COMMITTEE REPORT

APPOINTMENTS

The Chairman's Nominations Committee oversees the process for selecting and recommending candidates for appointments to the Partnership Board. This includes working with the Chairman and the Director of Personnel to establish the experience and characteristics required on the Board going forward to enable a profile to be developed to be used in the search, conducted by an external search consultant where relevant, and then the assessment of suitable candidates. The Committee receives regular updates on progress and members participate in the selection process, as appropriate.

CHAIRMAN

Following the Partnership Board's agreement that there was advantage in the Chairman continuing in office beyond the end of his term in 2017, the Committee authorised a new contract to be agreed with the Chairman.

The Committee considered the outcome of the Deputy Chairman's review of the Chairman's contribution.

NON-EXECUTIVE DIRECTOR RECRUITMENT

The Committee oversaw the recruitment and selection process for a new Non-Executive Director to succeed Denis Hennequin, who stepped down from the Board on 31 May 2017, assisted by Egon Zehnder, an external search consultant. Egon Zehnder have assisted with three other pieces of work for the Partnership outside the remit of the Committee.

The Committee recommended the appointment of Laura Wade-Gery, which was agreed by the Partnership Board and she became a Non-Executive Director and member of the Corporate Responsibility and Remuneration Committees, effective 1 September 2017.

The Committee also initiated the search process for a successor to Baroness Hogg whose term of office as a Non-Executive Director and Chair of the Audit and Risk Committee will expire on 31 May 2018.

SELECTION OF A NEW ELECTED DIRECTOR

The Committee had no role in the selection of a new Elected Director to succeed Lucy Parks who left the Partnership on 30 September 2017. The Partnership Council initiated a selection process which resulted in Oliver Killinger being elected at the Partnership Council meeting on 7 November 2017 and appointed as a Director with effect from 16 November 2017.

PARTNERS' COUNSELLOR

The Committee supported the Chairman's decision at a period of significant change in the business to take time in appointing a successor to Jane Burgess, who stepped down as Partners' Counsellor and from the Board on 27 September 2017 on taking long leave, prior to retiring from the Partnership. Helen Hyde was appointed Acting Partners' Counsellor and attends meetings of the Partnership Board although she is not a member.

PARTNERSHIP SECRETARY

During the year Keith Hubber informed the Chairman of his decision to leave the Partnership and the Committee oversaw the recruitment and selection process for his successor assisted by Hedley May, an external search consultant. Hedley May has no other connection with the Partnership. Following a recommendation from the Committee, the Partnership Board appointed Michael Herlihy as Partnership Secretary who will join the Partnership on 16 April 2018.

CHIEF INFORMATION OFFICER

The Committee oversaw the selection process for the appointment of Andrew Murphy as Chief Information Officer, an Executive Team member appointment. The Committee was assisted by Spencer Stuart, an external search consultant. Spencer Stuart has no other connection with the Partnership.

MEMBERSHIP OF BOARD COMMITTEES

Following changes on the Partnership Board the Committee accordingly considered and made recommendations on changes to the membership of the Board Committees, which were approved by the Partnership Board.

SUCCESSION PLANNING AND TALENT MANAGEMENT

During the year, the Committee continued to oversee how the Partnership was developing its succession planning and talent management programmes to ensure that the right balance of senior management skills, knowledge and experience were in place to deliver the fYB 2028 objectives. This included monitoring the development of the role of the new Executive Team and individual responsibilities of its members, particularly taking into account the move to establish IT, Personnel, Property and Finance as central Partnership functions. The creation of a centralised Personnel function had enabled greater alignment in the approach to be taken to succession planning, overseen now by the Executive Team.

During the year, the Committee started to consider the planning for the Chairman's succession. The role of the Committee and the Partnership Board in respect of the Chairman's succession forms part of the scope of the governance review being led by the Deputy Chairman following the Board Effectiveness Review. *See page 58 for further information.*

INDUCTION, TRAINING AND DEVELOPMENT

During the year, tailored induction programmes were arranged for Laura Wade-Gery and Ollie Killinger on their appointments to the Board. Further details can be found on page 55.

REVIEW OF BOARD EFFECTIVENESS

Please see page 58 for a summary of the evaluation of the effectiveness of the Partnership Board and its Committees during the year.

DIVERSITY AND INCLUSION POLICY

The Partnership Board has adopted a Diversity Statement, as set out on this page, regarding the composition of the Partnership Board, the aims of which are supported by the Diversity and Inclusion Policy.

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

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

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

Further information on Diversity and Inclusion in the Partnership can be found on pages 26 to 27 and on page 49.

DIVERSITY STATEMENT

We are an inclusive business which stems from our ownership model and our Constitution. Being an inclusive business goes to the heart of our ultimate purpose: the happiness of our members through their worthwhile and satisfying employment in a successful business.

The Partnership has a Diversity and Inclusion Policy which applies to all Partners and we have a clear action plan which aims to encourage an inclusive and vibrant community of Partners. Our Partnership Board Diversity policy reflects that Policy.

The Board policy has the following objectives:

- The composition of the Partnership Board should reflect the diverse population of the Partnership
- All Board appointments are based on merit against objective criteria in order to enhance the Board's overall effectiveness
- Maintain a healthy balance of female Directors on the Partnership Board.
- Candidates for appointment as Non-Executive Directors will be drawn from diverse sources and 'long lists' will always include female and minority candidates
- We will only use search firms who have signed up to the voluntary code of conduct on gender diversity and best practice
- Successful Non-Executive Director candidates will be committed to the Partnership's values, principles and ethos and have a strong practical and common sense approach
- Our pipeline of internal Board talent will have opportunities to gain experience and an understanding of working inclusively, and not just within our own business
- Measurement against these objectives and assurance on broader Partnership diversity is reported annually to the Board

The Chairman's Nominations Committee monitors the structure, size and composition of the Board to ensure due regard is given to diversity.

On behalf of the Chairman's Nominations Committee.

Sir Charlie Mayfield
Chairman and Chair of the Chairman's Nominations Committee

REMUNERATION COMMITTEE REPORT

Overseeing how the pay policy is applied

The Remuneration Committee oversees how the pay policy is applied to the Chairman, Executive Directors and senior management who report to the Chairman, as well as setting the fees for Non-Executive Directors.

Image removed

"During the year, the Committee undertook the Annual Pay Review for the Executive Team and the Elected Director members of the Committee approved the new fee structure for Non-Executive Directors. Other areas of focus for the Committee were overseeing the Partnership's Gender Pay Gap Report and considering the Government s response to the Business, Energy and Industrial Strategy (BEIS) Committee inquiry on executive pay."

Keith Williams, Deputy Chairman and Chair of the Remuneration Committee

MEMBERSHIP AND COMPOSITION

The members of the Committee at the date of this report are:
Keith Williams (Chair)
Steve Gardiner
Kim Lowe
Laura Wade-Gery
Baroness Hogg

There were five Committee meetings held during the year under review and Directors' attendance at those meetings is shown in the table on page 59.

Keith Williams was appointed Chair of the Committee on 20 July 2017, succeeding Denis Hennequin who stepped down from this position and left the Partnership Board on 31 May 2017 having completed his term of office as a Non-Executive Director. Laura Wade-Gery joined the Committee on 1 September 2017.

Lucy Parks stepped down as a Member of the Committee on leaving the Partnership Board on 30 September 2017. Kim Lowe was appointed a Member of the Committee on 14 December 2017.

At the date of this report the Remuneration Committee comprises three independent Non-Executive Directors and two Elected Directors. This provides a broad mix of members who are independent of executive management and mindful of Partners interests.

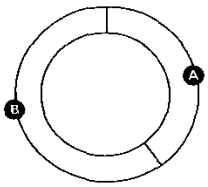
Quorum: two members, including one Non-Executive Director and one Elected Director. When approving the remuneration of Non-Executive Directors, the Quorum is two Elected Directors.

ROLE OF THE COMMITTEE

- The Committee is responsible for ensuring that there is a formal and transparent procedure for the development and application of policy on executive remuneration which is able to attract, retain and motivate executive management of the quality required to run the Partnership successfully without paying more than is necessary with reference to the market.
- It makes recommendations to the Partnership Board in respect of the Chairman's pay and determines the pay of individual Executive Directors and senior management who report to the Chairman.
- The Elected Director members of the Committee fix the fees for the Non-Executive Directors of the Partnership Board.

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

COMMITTEE COMPOSITION



A Elected Directors 2
B Non-Executive Directors 3

IN THIS SECTION

– Key activities
– Remuneration report
– Reporting requirements

ADVISORS

The Committee has retained Willis Towers Watson as independent remuneration consultant to advise the Remuneration Committee on executive remuneration and provide assessments of the market. Willis Towers Watson also provides talent and reward consulting services, including advice in relation to the Partnership's job evaluation system along with providing general market compensation data. Additionally, Willis Towers Watson provides actuarial services in relation to pensions and, until 31 December 2017, acted as actuary to the John Lewis Partnership Trust for Pensions.

The Committee was also advised during the year by the Director of Personnel and the Head of Total Reward.

KEY ACTIVITIES

APPLICATION OF PAY POLICY

The Partnership's pay policy is set out in Rules 61, 62 and 63 of the Constitution. It is supported by a Pay Standard which sets out what we do to apply the Pay Policy and provides a clear definition of how pay rates and ranges are set across the Partnership, as well as details of other pay elements (premium payments, bonuses and allowances), pay review and holiday pay.

Rule 61 — **Rule 61**: The Partnership sets pay ranges which are informed by the market and which are sufficient to attract and retain high calibre people. Each Partner is paid a competitive rate for good performance and as much above that as can be justified by better performance. Partnership Bonus is not taken into account when fixing pay rates.

Rule 62 — **Rule 62**: Pay rates must be decided with such care that if they were made public each would pass the closest scrutiny. Managers are responsible for ensuring that Partners are paid fairly in comparison with others who make a similar contribution.

Rule 63 — **Rule 63**: The pay of the highest paid Partner will be no more than 75 times the average basic pay of non-management Partners, calculated on an hourly basis.

Each job in the Partnership has a pay range that is informed by the market for comparable roles in comparable organisations. The rate of pay for each Partner is reviewed on an annual basis with reference to the pay range set for the year and the Partner's performance. All Partners have the opportunity to increase pay through their pay range as their performance develops. The same pay policy applies to setting pay for the Executive Team and senior management in the Partnership.

The Partnership does not operate annual incentive plans as would generally apply in comparable organisations. However, Partners who make a special contribution to the Partnership outside of their normal responsibilities or deliver exceptional performance in their role may be recognised with a special contribution bonus award of up to 10% of salary.

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

DETERMINING PAY

The Remuneration Committee makes a recommendation to the Partnership Board in respect of the Chairman's pay, determines the pay of the Executive Directors and senior management who report to the Chairman taking into account the recommendations of the Chairman, and monitors the pay recommendations for other Directors reporting to members of the Executive Team, to ensure that proposals are in accordance with the Partnership's pay policy.

The Deputy Chairman and Chair of the Remuneration Committee carries out an annual review of the Chairman's contribution, which is conducted through an assessment against the Chairman's objectives, with input from members of the Partnership Board in order to attain a '360 degree' view. A summary is prepared for the Remuneration Committee to consider when it makes its recommendation to the Partnership Board in respect of the Chairman's pay. The Committee also takes account of a market assessment provided by Willis Towers Watson.

When considering rates of pay for the Executive Directors and senior management who report to the Chairman, the Remuneration Committee takes into account:

- Individual performance assessments undertaken by the Chairman, including the achievement of specific role related objectives;
- The performance of the Partnership overall, reflecting the collective responsibility of the Executive Directors, as well as the performance of the function or Division for which they are responsible;
- The market context as advised by Willis Towers Watson, the Committee's independent remuneration consultant; and
- The level of pay increases awarded to all Partners.

The Partnership's performance appraisal process was simplified for the 2017/18 year for all Partners and the same principles were applied to executive roles. Executive Directors and senior management who report to the Chairman have an annual performance discussion with the Chairman and future objectives are agreed.

For the 2018 pay review a summary of the performance discussion, including evidence of progress against objectives and targets, was provided to the Remuneration Committee to support pay proposals.

In determining individual basic pay rates, the Remuneration Committee takes account of the amounts paid to executives in similar organisations, performing comparable roles by comparing the mid-point of the comparable market range for pay and target annual bonus. The comparison excludes the value of long-term incentives and share schemes which the Partnership does not offer, despite them being widely available in the market at senior executive level.

GENDER PAY GAP REPORTING

During the year under review, the Committee reviewed the contents of the Partnership's first Gender Pay Gap report and agreed to recommend it to the Board for publication. Further details on the report and the results for the Partnership can be found on page 29.

CORPORATE GOVERNANCE REFORMS

The Committee has kept a watching brief on the Government's response to the BEIS Committee inquiry focusing on executive pay, directors' duties and the composition of boardrooms and specific actions set out in the Government's report that relate to executive pay. Further consideration of this area will be on the Committee's agenda for 2018/19 as and when details are confirmed which define the requirements for businesses going forward.

COMMITTEE INDEPENDENCE

The Remuneration Committee comprises five members, including three Non-Executive Directors and two Elected Directors. No decisions can be made by the Remuneration Committee without at least one Non-Executive Director and one Elected Director present, apart from when considering Non-Executive Directors' remuneration, in which case two Elected Directors are required.

No member of the Committee takes part in any deliberations affecting their own remuneration.

COMMITTEE EVALUATION

Please see page 58 for a summary of the evaluation of the effectiveness of the Partnership Board and its Committees during the year.

OUTLOOK

During 2018/19, the Committee will continue to focus on ensuring remuneration arrangements for the Chairman and the Executive Directors and senior management who report to the Chairman remain relevant and appropriate for a co-owned business today. Particular focus will continue on considering the impact of any corporate governance reforms, once confirmed, including how they apply to the Partnership, and overseeing any changes to policies or their application in response.

The Committee will also continue to oversee the Partnership's Gender Pay Gap reporting and monitor the progress of the actions that are being taken to address any gaps identified.

REMUNERATION COMMITTEE REPORT

REMUNERATION REPORT

RELATIVE SPEND ON PAY

In 2017/18, the Partnership spent £1,846.9m on employment and related costs (2016/17: £1,817.2m). This represented 18.1% (2016/17: 18.1%) of the Partnership's revenue. £1,441.3m (2016/17: £1,423.7m) was spent on basic pay and every eligible Partner received 5% of their 2017/18 gross pay as a Partnership Bonus, at a total cost of £74.0m (2016/17: £89.4m).

WHAT IS THE CHAIRMAN PAID? (AUDITED)

In the year under review, the value of the Chairman's total reward decreased by 0.1 per cent to £1,411,000. As noted in the 2017 report, for the April 2017 pay review, the Chairman indicated to the Remuneration Committee that his rate of pay should remain unchanged. The Committee therefore decided not to conduct a review of the Chairman's pay and as a result his annual basic rate of pay remained held at £1,108,800 in April 2017. In this reporting period the Chairman's basic rate of pay increased by 0.55 per cent compared to the prior year, reflecting that the 2016/17 reporting year included two months prior to an increase being awarded at the April 2016 pay review and 10 months at the basic rate of pay after the April 2016 pay review.

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

	2017/18 £	2016/17 £
Pay	**1,109,000**	1,103,000
Partnership Bonus (see below)	–	–
Pension supplement in lieu of further defined pension accrual	**288,000**	296,000
Cash value of benefits	**14,000**	14,000
Total reward	**1,411,000**	1,413,000

For the 2017/18 trading year, the Partnership Board agreed, at the Chairman's request, that his Partnership Bonus would be nil. Last year the Chairman also received no Partnership Bonus having made the same request to the Partnership Board to which they agreed.

WHAT WILL THE CHAIRMAN BE PAID IN 2018/19?

For the 2018 Pay Review the Chairman informed the Remuneration Committee that his rate of pay should remain unchanged. The Remuneration Committee therefore did not make a recommendation to the Partnership Board in respect of the Chairman's pay for 2018 and the Board determined that the Chairman's annual basic rate of pay would remain unchanged at £1,108,800.

WHAT ABOUT RULE 63

At the end of the reporting period, the pay of the highest paid Partner, the Chairman, was 68 times the average basic pay of non-management Partners calculated on an hourly basis. Although Rule 63 itself applies only to basic pay, the Remuneration Committee also considers each year the relationship between total reward, including pension benefit and other benefits, as well as pay, of the highest paid Partner and the average total reward of non-management Partners with three or more years' service. At the end of the reporting period, the total reward excluding Partnership Bonus of the Chairman who was the highest paid Partner in the year ended 27 January 2018 was 56 times the average total reward, excluding Partnership Bonus, of non-management Partners with three or more years' service.

	2018	2017	2016	2015	2014
Rule 63: Basic Pay Only	**68**	70	73	66	66
Rule 63: Total Reward excluding Partnership Bonus	**56**	58	59	60	69

WHAT ARE THE PENSION ARRANGEMENTS FOR MEMBERS OF THE BOARD? (AUDITED)

At the end of the reporting period the Chairman and Executive Directors had all ceased to accrue further benefits in the Partnership's pension scheme (2017: one). During the year one Executive Director opted out of the Partnership's pension scheme. The aggregate value of the Partnership's contributions to the scheme until the date of them opting out was £13,000 (2017: £95,000). In lieu of pension accrual for current service, each Director receives a monthly pension supplement. These supplements are cash payments that are broadly equivalent in value to the defined benefit pension that the individual would previously have accrued in the Partnership's pension scheme.

HOW MUCH IS THE PENSION SUPPLEMENT? (AUDITED)

During the year ended 27 January 2018, the total pension supplement paid to the Chairman, Executive Directors and former Partners' Counsellor was £1,130,000 (2017: £1,086,000).

WHAT IS THE VALUE OF THE DEFINED BENEFIT PENSION FOR THE EXECUTIVE DIRECTORS? (AUDITED)

The aggregate annual defined benefit pension entitlement from the age of 60, accrued at the end of the year, for the Chairman, Executive Directors and former Partners' Counsellor who have accrued pension, and who served on the Partnership Board during any part of the year, were as follows:

	2017/18	2016/17
£50,001 – £100,000	**4**	4
£100,001 – £150,000	**1**	1
£150,001 – £200,000	**1**	2
£200,001 – £250,000	**–**	1
£300,001 – £350,000	**1**	1
Total	**7**	9

For the Chairman, Executive Directors and former Partners' Counsellor who served on the Partnership Board during any part of the year, the aggregate defined benefit pension entitlement accrued at the end of the year was £894,000 per annum for seven individuals (2017: £1,276,000 per annum for nine individuals).

The accrued pension for the Chairman, Executive Directors and former Partners' Counsellor increases in line with either price inflation or future pay increases, depending on their individual arrangements. Where there are any accrued defined benefit pensions remaining on an unfunded basis, the Partnership has made provision for the associated liability. In addition, most of the Directors are entitled to temporary pensions, until their state pension starts. The aggregate entitlement to temporary pensions was £29,000 per annum for four individuals (2017: £44,000 per annum for six individuals). For those Directors where there was an increase, the transfer value of the aggregate increase in total accrued pension entitlement above consumer price inflation during the year was £nil (2017: £452,000 including temporary pensions).

WHAT PENSION WILL THE CHAIRMAN RECEIVE? (AUDITED)

The Chairman's aggregate defined benefit pension entitlement from the age of 60 accrued at the end of the year was £300,000 per annum (2017: £300,000 per annum).

WHAT ARE THE CHAIRMAN, THE EXECUTIVE DIRECTORS, THE NON-EXECUTIVE DIRECTORS AND FORMER PARTNERS' COUNSELLOR PAID? (AUDITED)

The table below shows the number of Directors and their total remuneration for the year, including both Partnership Bonus and the pension benefit, for all Directors on the Partnership Board excluding the Elected Directors:

	2017/18 Number of Directors	2016/17 Number of Directors
£1 – £50,000	**2**	–
£50,001 – £100,000	**1**	3
£100,001 – £150,000	**1**	1
£200,001 – £250,000	**1**	–
£300,001 – £350,000	**–**	1
£500,001 – £550,000	**–**	1
£550,001 – £600,000	**1**	–
£700,001 – £750,000	**1**	–
£750,001 – £800,000	**–**	2
£800,001 – £850,000	**–**	2
£900,001 – £950,000	**1**	–
£950,001 – £1,000,000	**2**	1
£1,400,001 – £1,450,000	**1**	1
Total	**11**	12

The aggregate amount of remuneration paid to or receivable by Directors in respect of qualifying services for the year under review was £6,060,000 (2017: £6,722,000).

The Chairman, Executive Directors, Elected Directors and former Partners' Counsellor are also entitled to the same benefits as all other Partners, including long leave, Partnership discount and other subsidies.

The table above for 2016/17 includes payments made to former Directors Lord Price and Andy Street in respect of their qualifying services, including pro-rated Partnership Bonus paid in March 2017, until they ceased to be Directors on the Partnership Board on 18 March 2016 and 28 October 2016 respectively. As reported last year, for Lord Price this also included payment of Partnership Bonus on his long leave entitlement paid in March 2017.

HOW DO WE COMPENSATE THE ELECTED AND NON-EXECUTIVE DIRECTORS FOR THEIR CONTRIBUTIONS TO THE BOARD?

Elected Directors receive no additional pay or benefits for their service on the Partnership Board, as their pay is determined by their respective roles and responsibilities in the Partnership. Their pay is therefore not considered by the Committee or the Partnership Board.

Non-Executive Directors receive fixed annual fees, which are reviewed periodically and set at levels that reflect the Directors' responsibilities. Non-Executive Directors' fees are determined by the Elected Directors on behalf of the Committee who receive a recommendation from the Director of Personnel, while also considering the Chairman's views and relevant market data provided by the independent external remuneration consultant.

Non-Executive Directors are not entitled to Partnership Bonus, or to any other pay or benefits from the Partnership.

WHAT ARE THE CONTRACTUAL NOTICE PERIODS FOR EXECUTIVE DIRECTORS?

Contracts of employment for the Chairman and the Executive Directors provide for a notice period of between six months and one year. No contract contains a provision regarding early termination compensation.

PAYMENTS FOR LOSS OF OFFICE

No compensation for loss of office was paid to departing Directors of the Partnership Board during the period or to the date of this report.

PAYMENTS TO PAST DIRECTORS

Other than the payments relating to 2016/17 noted earlier on this page, no reportable payments to past Directors of the Partnership Board were paid during the period under review or to the date of this report.

WHAT ABOUT EXTERNAL APPOINTMENTS?

An Executive Director with an external appointment may not retain any earnings from such appointment unless it dates from before they joined the Partnership. Details of external appointments for Executive Directors are included on page 53 of the Annual Report and Accounts.

REPORTING REQUIREMENTS

This report forms part of the Directors' report and has been prepared in accordance with the disclosure requirements applying to the Partnership, which are set out in Schedule 5 of the Large and Medium-sized Companies and Groups (Accounts and Report) Regulations 2008 (the Regulations).

Since the Partnership is not quoted, and has no share-based incentive schemes or other long-term incentive plans, the Partnership Board has decided not to adopt the full disclosure provisions applicable to quoted companies. However, in the interests of transparency, certain disclosures within this report go beyond the requirements of Schedule 5 of the Regulations.

The Directors' earnings section on pages 76 and 77 is cross-referenced from note 2.6 of the financial statements and forms part of the audited financial statements.

On behalf of the Remuneration Committee.

Keith Williams
Non-Executive Director and
Chair of the Remuneration Committee

12 April 2018

OTHER DISCLOSURES

Compliance

DIRECTORS' REPORT

The Directors' report for the year ended 27 January 2018 comprises pages 46 to 82 of this Annual Report and Accounts, together with the sections of the Annual Report and Accounts incorporated by reference. The Company has chosen, as permitted under section 414 C(11) of the Companies Act 2006, to include certain matters in its Group Strategic report that would otherwise be required to be disclosed in the Directors' report as the Partnership Board considers them to be of strategic importance. Specifically, these are:

- Future business developments on pages 4 to 5, and pages 17 to 23
- Risk management on pages 42 to 45
- Employee involvement on pages 24 to 29, pages 35 to 39 as well as pages 48 to 49
- Equal opportunities, diversity and inclusion on pages 26 to 27, as well as page 49
- Research and development on pages 18 to 34

The Partnership's statements on corporate governance can be found in the Governance section of this Annual Report and Accounts on pages 46 to 82. This includes the Audit and Risk Committee report, the Corporate Responsibility Committee report, the Chairman's Nominations Committee report and the Remuneration Committee report.

PRINCIPAL ACTIVITY

The Partnership's principal activity is retailing, with the main trading operations being the Waitrose and John Lewis businesses: John Lewis operates in a number of different formats including John Lewis department stores, John Lewis at home stores, online (johnlewis.com), a John Lewis liaison office in Gurgaon, India and a sourcing office in Kwun Tong, Hong Kong; Waitrose operates supermarkets and convenience shops, including shops which operate under licence in the Middle East, online (waitrose.com) and the Leckford Estate (the Waitrose Farm); there are also business to business contracts in the UK and abroad and ancillary manufacturing activities (together the Partnership). The Company's subsidiaries and related undertakings are listed in note 16.

DIRECTORS' INTERESTS

Under the Constitution of the Partnership, the Executive Directors, Elected Directors and Partners' Counsellor (until her resignation as a Director in September 2017), as employees of John Lewis plc, are necessarily interested in the 612,000 Deferred Ordinary Shares in John Lewis Partnership plc, which are held in trust for the benefit of employees of John Lewis plc and certain other subsidiaries.

Any conflicts of interest are disclosed on this page and details of the Directors' service agreements and notice periods are given on page 77.

CAPITAL STRUCTURE

At 27 January 2018, the Partnership had in issue 612,000 Deferred Ordinary Shares of £1 each and 104,169,594 SIP shares of £1 each. Under the Constitution, the 612,000 Deferred Ordinary Shares in John Lewis Partnership plc are held in trust for the benefit of employees of John Lewis plc and certain other subsidiaries within the Partnership. The total issued share capital of the Partnership was £104,781,594 at the year-end (2017: £104,781,594).

DIVIDENDS

No dividends were paid on the Deferred Ordinary Shares (2017: nil). John Lewis Partnership Trust Limited (the Trust Company) holds 612,000 Deferred Ordinary Shares in trust for the benefit of employees of John Lewis plc and certain other subsidiaries. Each year, the Partnership resolves not to recommend or declare a dividend upon the Deferred Ordinary Shares, but to recommend the payment of Partnership Bonus to their eligible employees.

Dividends on SIP shares (issued in connection with BonusSave) during the year under review were £428,000 (2017: £922,000).

CONFLICTS OF INTEREST AND BOARD INDEPENDENCE

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

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

The Partnership Board has looked closely at the other appointments held by Directors, details of which are contained in their biographies on pages 52 to 55. The Partnership Board considers that the Chairman and each of the Directors are able to devote sufficient time to fulfil the duties required of them under the terms of their contracts or letters of appointment.

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

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Partnership has purchased and maintained throughout the year Directors' and Officers' liability insurance in respect of itself and its Directors.

The Directors' and Officers' liability insurance provides cover for claims made, subject to certain limitations and exclusions, against Directors and key managers (Officers).

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

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

Waitrose is subject to the Groceries (Supply Chain Practices) Market Investigation Order 2009 and the Groceries Supply Code of Practice (Code). Both regulate our trading relationships with grocery suppliers, including training requirements for buyers and the content of supplier contracts. Our approach to Code compliance reflects our long-term commitment to treating our suppliers fairly, as set out in the Constitution (Principle 6 and Rule 96). See page 66 for information on the report from the Waitrose Code Compliance Officer (CCO) to the Audit and Risk Committee required by the Order and the GSCoP.

We have a positive working relationship with the Groceries Code Adjudicator (GCA) and her team and welcome discussions and advice on how to enhance supplier relationships. Meetings are constructive and cover discussions on a range of topics. The feedback from both the GCA annual survey and the mini survey on the GCA's top five issues were helpful in identifying suppliers' concerns and resulted in a number of changes to our processes.

We work collaboratively with our suppliers and internally adopt an approach of continuous review and improvement. This year we developed and launched a new e-learning package for buyers and support teams. It covers a number of modules and allows topics to be explained in depth.

Day-to-day advice, online guidance and support is available to buyers with more specialist advice offered by the CCO team and the John Lewis Partnership's Legal Department. We have an online site for Commercial Partners (employees) which includes advice, templates and details of where to get further support.

For suppliers we provide information about the Code on Waitrose Connect – an online resource for all of our suppliers – and in the Autumn we launched Waitrose Engage – a new supplier facing portal which also offers Code related content.

Each query is taken extremely seriously to understand the concern, seek resolution and identify whether further guidance or changes to our processes are required. We have also proactively carried out internal reviews and identified areas we need to strengthen through clear action plans.

POLITICAL DONATIONS

It is not the Partnership's policy to make donations to political groups. No political donations were made in respect of the year under review.

USE OF FINANCIAL INSTRUMENTS

The notes to the financial statements, including note 7 from page 128 onwards, include further information on our use of financial instruments.

GOING CONCERN

The Directors, after reviewing the Partnership's operating budgets, investment plans and financing arrangements, consider that the Company and Partnership have sufficient financing available over a period of at least 12 months from the date of approval of this report. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the Annual Report and Accounts.

A full description of the Partnership's business activities, financial position, cash flows, liquidity position, committed facilities and borrowing position, together with the factors likely to affect its future development and performance, are set out in the Group Strategic report on pages 1 to 45.

VIABILITY STATEMENT

The UK Corporate Governance Code requires the Directors to make a statement in the Annual Report and Accounts with regards to the longer term viability of the Partnership, taking into account the Partnership's current position; current strategy (as described on pages 16 to 34); and principal risks and uncertainties (as described on pages 42 to 45).

The Directors have assessed the Partnership's viability over the three-year period to January 2021. Although consideration has been given to a longer assessment period and the Partnership has set out its long-term strategy in IYB2028, a three-year period is considered the most appropriate time-frame. This is because, a three-year period matches our business planning cycle, which allows financial modelling to be supported by the base financial plan approved by the Partnership Board. Additionally, given the pace of change in the retail industry, we don't have reasonable clarity beyond this period with which to assess our principal risks.

In assessing the viability of the Partnership, the Directors considered the Partnership's revenue, profit, net assets and cash position under the most recent budget and base financial plan, which have been prepared in the context of a challenging retail sector and taking account of factors such as increased competition and sustained cost pressures that impact sales and margin. The Directors have assumed that the Divisional strategies in the latest budget and base financial plan are followed, which includes the ability of the Partnership to raise finance in the future.

Challenging but plausible downside scenarios were then applied as additional sensitivities overlaid to the budget and three-year base financial plan. These scenarios are based on the potential financial impacts of the Partnership's seven principal risks. These risks are deemed the most relevant when assessing the Partnership's viability, as they have scored highest on the combined scale of impact and likelihood during ongoing assessment performed as part the Partnership's risk management process (see pages 42 to 45). These risks take account of significant, expected events such as Brexit, but one-off 'black-swan' events that cannot reasonably be anticipated have not been included in the modelling.

The seven principal risks and corresponding downside scenarios used in the modelling are shown in the table below:

Principal risk	Downside scenario
Competitive customer proposition (see page 44)	The potential consequences of this risk have been modelled through decreased sales and increased margin pressures.
Operating model strain (see page 44)	The potential consequences of this risk have been modelled through margin deflation and failure to reach targeted efficiencies.
Information security (see page 44)	The potential consequences of this risk have been modelled through decreased sales and increased operating costs impacting the Partnership's ability to achieve targeted efficiencies.
Pension obligations (see page 45)	The potential consequences of this risk have been modelled through significant movement in the real discount rate resulting in a corresponding increase in the pension liability.
Change delivery (see page 45)	The potential consequences of this risk have been modelled through decreased sales, margin deflation and failure to reach targeted efficiencies.
External environment (see page 45)	The potential consequences of this risk have been modelled through sales decreases, increased margin pressure, adverse movements in currency exchange rates and the potential cost impact of Brexit.
Ownership model strain* (see page 45)	The potential consequences of this risk have been modelled through decreased sales, increased margin pressures and failure to reach targeted efficiencies.

*Newly classified as a principal risk for 2017/18.

OTHER DISCLOSURES

The downside scenarios detailed above have been assumed to all occur simultaneously in order to assess the Partnership's ability to withstand multiple challenges at once. The impact of these scenarios when applied in combination results in the following adjustments to the budget and base financial plan:

- A compound 2.0% annual shortfall in like-for-like sales;
- A reduction in gross margin rate of 50bps in each year;
- Efficiency savings achieved are only 50% of annual target across all three years;
- A fall in the real discount rate in Year 1, resulting in an increase in the pension deficit of £450m with no further movement in the discount rate assumed over the three-year assessment period;
- A one-off cost in Year 1 as a result of Brexit

The impact of the adjustments above have been reviewed against the Partnership's projected cash position and the Partnership's financial covenants over the three-year viability period. Under these conditions the Partnership would retain sufficient available cash across all three years of the assessment period and no financial covenants would be breached.

Reverse stress testing was also performed to identify what it would take to 'break' the Partnership's financial model, being a situation in which the Partnership was no longer liquid or could not meet the requirements of our financial covenants. Based on this analysis the Directors are satisfied that no material uncertainties exist related to events or conditions assumed in the viability modelling that may cast doubt on the Partnership's ability to remain commercially viable over the assessment period of three years.

In addition to the downside modelling, mitigating actions have been identified which could be used to alleviate the impact of an extreme downside scenario or catastrophic event should this occur. These measures, which include but are not limited to asset sales and significant reductions in planned capital expenditure, would not be required to absorb the effects of the challenging but plausible scenario considered in the viability assessment. The continuous monitoring of the Partnership's principal risks and financial position should also allow management to respond quickly and take preventative action should conditions deteriorate.

Based on the assessment performed and the Partnership's current position, the Directors have a reasonable expectation that the Partnership will be able to continue in operation and meet its liabilities as they fall due over the three-year period of assessment. An overview of the process undertaken was provided to, and reviewed by, the Audit and Risk Committee.

EVENTS AFTER THE BALANCE SHEET DATE

Since 27 January 2018, there have been subsequent events which require disclosure in the financial statements. See note 8.3 for further information.

AUDITOR AND DISCLOSURE OF INFORMATION TO AUDITOR

The auditor, KPMG LLP have indicated their willingness to continue in office, and a resolution that they will be re-appointed will be proposed to the Annual General Meeting, together with a resolution to authorise the Directors to determine the auditor's remuneration.

The Directors of the Partnership Board have taken all the necessary steps to make themselves aware of any information needed by the Partnership's auditor in connection with preparing their report and to establish that the auditor is aware of that information. As far as the Directors are aware, there is no such information of which the Partnership's auditor has not been apprised.

UK CORPORATE GOVERNANCE CODE (CODE)

As referenced on page 47, pages 81 to 82 provide more details on how our governance model differs from the provisions contained in the Code and an explanation of the alternative governance arrangements which we believe provide an appropriate level of protection to Partners and other stakeholders.

BOARD AND COMMITTEE EVALUATION

Please see page 58 for a description of the formal externally facilitated review of the effectiveness of the Partnership Board and its governance undertaken during the year under review, and the next steps to be taken to act on the recommendations of the review. The Partnership intends to undertake an internal evaluation of the effectiveness of the Board and its Committees during 2018/19.

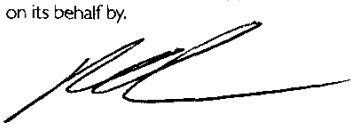
RETIREMENT BY ROTATION

The Partnership does not operate a system of retirement by rotation or annual election by shareholders (see page 81 for more information).

ANNUAL GENERAL MEETING (AGM)

The Partnership's AGM will be held at 2.00pm on 19 July 2018 at Partnership House, Carlisle Place, London, SW1P 1BX. The AGM is held and conducted in accordance with the Companies Act and the Company's Articles of Association. Representatives of the Trust Company and the Directors of the Partnership are entitled to attend the AGM. Voting is conducted by way of a show of hands, unless a poll is demanded.

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



Peter Simpson
Acting Company Secretary
12 April 2018

UK CORPORATE GOVERNANCE CODE

The Code	The Partnership's governance arrangements
Code Ref. A.2 **Code provisions** There should be a clear division of responsibilities at the head of the company between the running of the board (the role of the chairman) and the executive responsibility for the running of the company's business (the role of the chief executive) and Code Provision A.2.1 states that these roles should not be exercised by the same individual. This supports the Code Principle that no one individual should have unfettered powers of decision.	**We do not have a separate Chairman and Chief Executive** • The Chairman and his role and responsibilities are set out on page 52. • The Chairman is one of the three Governing Authorities as set out in the Constitution. The Constitution applies Code Principle A.2 by means of a number of checks and balances on the powers of the Chairman. He is accountable to the Partnership Council and delegates part of his management authority to the Executive Directors. • Additionally, the Partners' Counsellor/Acting Partners' Counsellor from 28 September 2018 and Elected Directors, whose roles are detailed on pages 54 and 55, are able to monitor first hand how the business is being run, with the particular perspective of Partners and the Constitution.
Code Ref. A.1.2, A.4.1, A.4.2 and B.6.3 **Code provisions** One of the non-executive directors should be appointed as the SID to provide a sounding board for the chairman, and to serve as an intermediary for the other directors, lead the non-executive directors in the performance evaluation process for the chairman and be identified in the Annual Report and Accounts.	**We do not have a Senior Independent Director (SID)** • The Partnership Board does not appoint a SID. The functions contemplated by this Code Provision are split across the responsibilities of Keith Williams as Deputy Chairman and Helen Hyde as Acting Partners' Counsellor (and Jane Burgess as Partners' Counsellor before her). • For more information on the role of the Deputy Chairman and Partners' Counsellor see pages 52 and 54. • The Deputy Chairman, as Chair of the Remuneration Committee, who is a Non-Executive Director, oversees the performance appraisal process for the Chairman. The appraisal process takes a number of factors and feedback from various senior Partners into account. For further details see page 75.
Code Ref. B.1.2 **Code provisions** At least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent. This supports the Code Principle that the board should have the appropriate balance of skills, experience, independence and knowledge.	**A majority of the Partnership Board are not Non-Executive Directors** • For more details on Board independence please see page 78. • The Partnership Board reflects the stakeholders of the Partnership and has the appropriate balance of skills, experience, independence and knowledge. As at 27 January 2018, the Partnership Board included three Non-Executive Directors. The Partners' Counsellor (when appointed and a Board member) and the five Elected Directors are neither Executive Directors nor Non-Executive Directors. However, they are not part of the Executive, as they do not hold executive responsibilities, nor do they hold a Director's service contract. As Partners, they are co-owners of the Partnership. • While they are not independent (as defined by Code Provision B.1.1), they approach Partnership Board decisions and proposals by the Executive from their perspective as Partners and co owners. While they must act in accordance with their statutory duties as Directors, through their constitutional position they are also mindful of Partners' best interests as a whole.
Code Ref. B.7.1 **Code provisions** All directors of FTSE 350 companies should be subject to annual election by shareholders and all other directors should be subject to election by shareholders at their first annual general meeting, followed by re-election at intervals of no more than three years.	**Our Directors do not retire by rotation** • In accordance with the Articles of Association, all Directors appointed by the Partnership Board are subject to re-election by shareholders at the first Annual General Meeting following appointment. However, the Partnership does not operate a system whereby all Directors are subject to annual election or re-election at three-year intervals. • As detailed on pages 51 and 52, if the Council judges that the Chairman has failed to fulfil (or is no longer a suitable person to fulfil) the responsibilities of his office, it may propose a resolution upon the Constitution to dismiss the Chairman. • The Elected Directors are appointed or re-appointed in accordance with the democratic process, by a vote of the Partnership Council during each three-year term of the Council as detailed on page 55. • The Chairman, as the senior executive in the Partnership, is ultimately responsible for its commercial performance, including being responsible for the performance of the Directors, and is accountable to the Partnership Council twice a year, rather than annually at an AGM. These meetings are also attended by Partnership Board Directors. In addition, the Divisions operate Councils which enable Partners to review Divisional performance, future strategy and the direction of the Division and to hold the Directors responsible.

OTHER DISCLOSURES

UK CORPORATE GOVERNANCE CODE (CONTINUED)

The Code	The Partnership's governance arrangements
Code Ref. C.3.1 **Code provisions** The board should establish an audit committee of at least three independent non-executive directors. *This provision supports the Code Principle that* the committee should be independent of executive management.	**The composition of our Audit and Risk Committee is different** • The full Audit and Risk Committee report can be found on pages 60 to 67. • At 27 January 2018 the Partnership Board's Audit and Risk Committee comprised two Non-Executive Directors, one Elected Director and two external independent members. This composition enables assurance and critical analysis of the business systems, operations and financial probity to be conducted with appropriate objective and independent scrutiny. • The inclusion of the two external independent members has enhanced the Committee's composition, both having recent and relevant financial experience (see page 61).
Code Ref. B.2.1 **Code provisions** A *company's nominations committee should be* chaired by an independent non-executive director, comprise a majority of independent non-executive directors and lead the process for board appointments. This provision supports the Code Principle that the process for nominating people to the board is subject to independent review and not dominated by the executive.	***Our Nominations Committee is different*** • Please see pages 71 to 73 for the full Chairman's Nominations Committee report. • Under the Constitution, the Chairman is responsible for the appointment of the Executive Directors and co-ordinates their responsibilities. He therefore chairs the Chairman's Nominations Committee. The Committee also comprises two Non-Executive Directors and two Elected Directors. This provides a broad mix of members, including those mindful of Partners' interests. • In accordance with the Constitution, the Chairman is the Chairman of the Partnership Board, by virtue of his appointment *as Chairman of the Trust Company. He nominates his successor in accordance with the* Articles of Association of the Trust Company. The Partnership Board approves the Chairman's nominee to succeed him on retirement. • The Chairman's Nominations Committee oversees the process of nominating and appointing the Chairman. The Committee will, following consultation with the Chairman, inform the Board concerning the plans and the process for the Chairman's succession. • The Chairman's Nominations Committee oversees the process for Partnership Board appointments and *makes recommendations to the Partnership Board. The Chairman's Nominations Committee takes no* part in the appointment of the Elected Directors, which is overseen by the Partnership Council.
Code Ref. D.2.1 **Code provisions** The board should establish a remuneration *committee of at least three independent* non-executive directors. This provision supports the Code Principle that the committee should be independent of executive management. **Code Ref.** D.2.2 **Code provisions** The remuneration committee should have delegated responsibility for setting remuneration for all executive directors and the chairman, including pension rights and any compensation payments. *This provision* supports the Code Principle that remuneration should be set in a formal and transparent manner.	**Our Remuneration Committee is different** • The full Remuneration Committee report can be found on page 74. • The Committee comprises at least four members, including two Non-Executive Directors and two Elected Directors. Due to changes on the Board, Committee membership fluctuated and changes in Committee membership during the year under review are set out in the Remuneration Committee report. At the year-end and the date of this report, the Committee comprises three independent Non-Executive Directors and two Elected Directors. This provides a broad mix of members who are independent of executive management and mindful of Partners' interests. • *The Remuneration Committee does not have delegated responsibility for setting the Chairman's remuneration,* but instead recommends to the Partnership Board the remuneration package for the Chairman. • Under the terms of Rule 63 of the Constitution, the highest paid Partner's pay is subject to a cap by reference to a formula related to the pay of other Partners (see page 76).

FINANCIAL STATEMENTS

Results matter

Our results matter to all of us.
In this section, we look at everything we need to know about our 2017/18 financials, from key figures to consolidated statements.

FINANCIAL STATEMENTS

Consolidated primary statements	84
Notes to the consolidated financial statements	88
1 Accounting information	88
2 Partnership performance	92
3 Operating assets and liabilities	103
4 Working capital and provisions	109
5 Financing	113
6 Pensions	119
7 Financial risk management	128
8 Other notes	134
Company primary statements and notes	136
Statement of Directors' responsibilities	140
Independent auditor's report	141

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 27 JANUARY 2018

Notes		2018 £m	2017 £m
1.2, 2.1	**Gross sales**	**11,597.7**	11,374.2
2.1	**Revenue**	**10,204.0**	10,026.2
	Cost of sales	**(6,839.5)**	(6,633.1)
	Gross profit	**3,364.5**	3,393.1
	Other operating income	**111.3**	92.6
2.2	Operating expenses before exceptional items and Partnership Bonus	**(3,114.0)**	(3,007.8)
3.3	Share of (loss)/profit of joint venture (net of tax)	**(1.0)**	0.3
2.1	**Operating profit before exceptional items and Partnership Bonus**	**360.8**	478.2
2.3	Exceptional items	**(111.3)**	171.2
2.1	**Operating profit before Partnership Bonus**	**249.5**	649.4
5.1	Finance costs	**(85.7)**	(109.7)
5.1	Finance income	**14.1**	1.9
	Profit before Partnership Bonus and tax	**177.9**	541.6
	Partnership Bonus	**(74.0)**	(89.4)
2.4	**Profit before tax**	**103.9**	452.2
2.7	Taxation	**(29.8)**	(98.7)
	Profit for the year	**74.1**	353.5
2.1	**Profit before Partnership Bonus, tax and exceptional items**	**289.2**	370.4

OUR EARNED REVENUE MINUS OUR INCURRED EXPENSES SHOWING THE PARTNERSHIP'S OVERALL PROFIT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(EXPENSE)

FOR THE YEAR ENDED 27 JANUARY 2018

Notes		2018 £m	2017 £m
	Profit for the year	**74.1**	353.5
	Other comprehensive income/(expense):		
	Items that will not be reclassified to profit or loss:		
6.1	Remeasurement of defined benefit pension scheme	**247.5**	(432.6)
2.7	Movement in deferred tax on pension scheme	**(57.4)**	46.1
2.7	Movement in current tax on pension scheme	**17.2**	24.7
	Items that may be reclassified subsequently to profit or loss:		
	Net loss on cash flow hedges	**(30.9)**	(1.1)
2.7	Movement in deferred tax on cash flow hedges	**5.9**	0.3
	Gain/(loss) on currency translations	**0.4**	(0.6)
	Other comprehensive income/(expense) for the year	**182.7**	(363.2)
	Total comprehensive income/(expense) for the year	**256.8**	(9.7)

REALISED PROFIT AS SHOWN IN THE INCOME STATEMENT PLUS OTHER INCOME AND EXPENSES NOT YET REALISED, GIVING TOTAL COMPREHENSIVE INCOME FOR THE YEAR

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

AS AT 27 JANUARY 2018

A FINANCIAL SNAPSHOT OF THE PARTNERSHIP, SHOWING OUR ASSETS AND HOW THEY ARE FINANCED

Notes		2018 £m	2017 £m
	Non-current assets		
3.1	Intangible assets	**495.7**	432.7
3.2	Property, plant and equipment	**3,971.2**	4,112.4
4.2	Trade and other receivables	**65.3**	61.2
7.2	Derivative financial instruments	**–**	0.1
3.3	Investment in and loans to joint venture	**2.9**	3.9
2.7	Deferred tax asset	**25.5**	48.2
		4,560.6	4,658.5
	Current assets		
4.1	Inventories	**661.5**	627.8
4.2	Trade and other receivables	**261.7**	242.7
7.2	Derivative financial instruments	**5.2**	15.3
3.4	Assets held for sale	**–**	8.1
5.3	Short-term investments	**120.0**	60.0
5.4	Cash and cash equivalents	**642.2**	673.7
		1,690.6	1,627.6
	Total assets	**6,251.2**	6,286.1
	Current liabilities		
5.5	Borrowings and overdrafts	**(0.1)**	–
4.3	Trade and other payables	**(1,637.9)**	(1,638.5)
	Current tax payable	**(10.7)**	(19.6)
5.6	Finance lease liabilities	**(0.7)**	(1.2)
4.4	Provisions	**(187.8)**	(167.7)
7.2	Derivative financial instruments	**(19.8)**	(7.2)
		(1,857.0)	(1,834.2)
	Non-current liabilities		
5.5	Borrowings	**(936.7)**	(966.9)
4.3	Trade and other payables	**(223.4)**	(219.7)
5.6	Finance lease liabilities	**(22.6)**	(23.3)
4.4	Provisions	**(157.9)**	(171.8)
7.2	Derivative financial instruments	**(4.0)**	(1.1)
6.1	Retirement benefit obligations	**(731.3)**	(1,013.7)
2.7	Deferred tax liability	**(6.1)**	–
		(2,082.0)	(2,396.5)
	Total liabilities	**(3,939.0)**	(4,230.7)
	Net assets	**2,312.2**	2,055.4
	Equity		
8.1	Share capital	**0.6**	0.6
	Other reserves	**(10.6)**	14.0
	Retained earnings	**2,322.2**	2,040.8
	Total equity	**2,312.2**	2,055.4

The financial statements on pages 84 to 135 were approved by the Board of Directors on 12 April 2018 and signed on its behalf by

Sir Charlie Mayfield and Patrick Lewis – Directors, John Lewis Partnership plc.
Registered number 00238937

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 27 JANUARY 2018

Notes		Share capital £m	Capital redemption reserve £m	Capital reserve £m	Hedging reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Total equity £m
	Balance at 30 January 2016	0.6	5.0	1.4	8.9	0.1	2,049.1	2,065.1
	Profit for the year	–	–	–	–	–	353.5	353.5
6.1	Remeasurement of defined benefit pension scheme	–	–	–	–	–	(432.6)	(432.6)
	Fair value losses on cash flow hedges	–	–	–	(30.3)	–	–	(30.3)
	– transfers to inventories[1]	–	–	–	28.2	–	–	28.2
	– transfers to property, plant and equipment[1]	–	–	–	1.0	–	–	1.0
2.7	Tax on above items recognised in equity	–	–	–	0.3	–	70.8	71.1
	Loss on currency translations	–	–	–	–	(0.6)	–	(0.6)
	Balance at 28 January 2017	0.6	5.0	1.4	8.1	(0.5)	2,040.8	2,055.4
	Profit for the year	–	–	–	–	–	74.1	74.1
6.1	Remeasurement of defined benefit pension scheme	–	–	–	–	–	247.5	247.5
	Fair value losses on cash flow hedges	–	–	–	(22.8)	–	–	(22.8)
	– transfers to inventories	–	–	–	(8.1)	–	–	(8.1)
2.7	Tax on above items recognised in equity	–	–	–	5.9	–	(40.2)	(34.3)
	Gain on currency translations	–	–	–	–	0.4	–	0.4
	Balance at 27 January 2018	**0.6**	**5.0**	**1.4**	**(16.9)**	**(0.1)**	**2,322.2**	**2,312.2**

1 For the year ended 28 January 2017, transfers to inventories, previously reported as £1.0m, and transfers to property, plant and equipment, previously reported as £28.2m, have been corrected to be £28.2m and £1.0m respectively.

A RECONCILIATION BETWEEN THE BEGINNING AND THE END OF THE YEAR WHICH DISCLOSES PROFIT OR LOSS, ITEMS OF COMPREHENSIVE INCOME/(EXPENSE) AND ANY CHANGES IN OWNERSHIP INTERESTS

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 27 JANUARY 2018

Notes		2018 £m	2017 £m
2.5	**Cash generated from operations before Partnership Bonus**	**638.2**	912.1
	Net taxation paid	**(44.1)**	(49.8)
	Pension deficit reduction payments	**(89.8)**	(124.8)
	Finance costs paid	**(2.5)**	(2.7)
	Net cash generated from operating activities before Partnership Bonus	**501.8**	734.8
	Partnership Bonus paid	**(89.2)**	(144.8)
	Net cash generated from operating activities after Partnership Bonus	**412.6**	590.0
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(228.5)**	(265.6)
	Purchase of intangible assets	**(169.8)**	(153.7)
	Proceeds from sale of property, plant and equipment and intangible assets	**68.0**	13.7
	Finance income received	**1.7**	1.7
3.3	Cash outflow from investment in and loans to joint venture	**–**	(3.6)
	Cash outflow from short-term investments	**(60.0)**	(50.0)
	Net cash used in investing activities	**(388.6)**	(457.5)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	**(54.2)**	(56.0)
	Finance income received in respect of interest rate swaps	**0.7**	–
5.2	Payment of capital element of finance leases	**(1.2)**	(2.8)
	Payments to preference shareholders	**–**	(0.5)
	Payments to Share Incentive Plan shareholders	**(0.9)**	(1.2)
	Cash outflow from borrowings	**–**	(65.7)
	Net cash used in financing activities	**(55.6)**	(126.2)
	(Decrease)/increase in net cash and cash equivalents	**(31.6)**	6.3
	Net cash and cash equivalents at beginning of the year	**673.7**	667.3
	Effects of exchange rate changes on cash and cash equivalents	**–**	0.1
	Net cash and cash equivalents at end of the year	**642.1**	673.7
5.4	**Net cash and cash equivalents comprise:**		
	Cash at bank and in hand	**128.4**	115.2
	Short-term deposits	**513.8**	558.5
	Bank overdrafts	**(0.1)**	–
		642.1	673.7

THE PARTNERSHIP'S CASH INFLOWS AND OUTFLOWS ANALYSED BY VARIOUS KEY ACTIVITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1	Accounting information	88
2	Partnership performance	92
3	Operating assets and liabilities	103
4	Working capital and provisions	109
5	Financing	113
6	Pensions	119
7	Financial risk management	128
8	Other notes	134

Reading the notes

IN ORDER TO MAKE OUR NOTES MORE USER-FRIENDLY AND UNDERSTANDABLE, WE HAVE GROUPED THEM UNDER EIGHT HEADINGS AND PROVIDED ADDITIONAL EXPLANATIONS

PURPOSE

Boxes explain the purpose of each note

ACCOUNTING POLICIES

Boxes contain information about our accounting policies

THE NOTES PROVIDE A MORE IN-DEPTH LOOK AT THE DETAIL BEHIND OUR PRIMARY STATEMENTS ALONGSIDE SOME ADDITIONAL INFORMATION NOT CAPTURED ELSEWHERE

1 ACCOUNTING INFORMATION

IN THIS SECTION

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

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

1.1 ACCOUNTING PRINCIPLES AND POLICIES

PURPOSE

We prepare our financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. We have set out our significant accounting policies in these notes. These have been applied in the current reporting period and apply to the financial statements as a whole. All of the Partnership's accounting policies are set in line with the requirements of IFRS. There have been no changes in accounting policies in the year.

1.1.1 BASIS OF PREPARATION

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

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

The financial year is the 52 weeks ended 27 January 2018 (prior year: 52 weeks ended 28 January 2017).

Going concern

The Directors, after reviewing the Partnership's operating budgets, investment plans and financing arrangements, consider that the Company and Partnership have sufficient financing available over a period of at least 12 months from the date of approval of this report. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the Annual Report and Accounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING INFORMATION
1.1 ACCOUNTING PRINCIPLES AND POLICIES CONTINUED

1.1.2 BASIS OF CONSOLIDATION

The consolidated Partnership financial statements incorporate the results for the Company and all entities controlled by the Company including its subsidiaries and the Partnership's share of its interest in joint ventures made up to the year-end date.

1.1.3 SUBSIDIARIES AND RELATED UNDERTAKINGS

Subsidiary undertakings are all entities over which the Partnership has control. Control exists when the Partnership has the power to direct the relevant activities of an entity so as to affect the return on investment. Joint ventures are investments for which the Partnership shares joint control with a third party.

All intercompany balances, transactions and unrealised gains are eliminated upon consolidation.

1.1.4 AMENDMENTS TO ACCOUNTING STANDARDS

The following policies have been consistently applied to all the years presented, unless otherwise stated.

The following standards, amendments and interpretations were adopted by the Partnership for the year ended 27 January 2018 and have not had a significant impact on the Partnership's profit for the year, equity or disclosures:

- **Annual Improvements to IFRSs 2014-2016 Cycle – various standards** (issued on 8 December 2016)
- **Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses** (issued on 19 January 2016)
- **Amendments to IAS 7: Disclosure Initiative** (issued on 29 January 2016)

The following are new accounting standards and amendments to existing standards that have been published and are applicable for the Partnership's accounting periods beginning 28 January 2018 onwards, which the Partnership has not adopted early:

- **IFRS 9 'Financial Instruments'** (applicable for the period beginning 28 January 2018)

  IFRS 9 'Financial Instruments' sets out the requirements for recognising, classifying and measuring financial assets and financial liabilities and includes guidance in respect of general hedge accounting. This standard replaces IAS 39 and sets out two key criteria for determining the classification and measurement of financial assets including the entity's business model for managing financial assets and the contractual cash flow characteristics. IFRS 9 also sets out a single impairment model to ensure expected credit losses on financial instruments are always recognised as soon as they are forecast. In relation to hedge accounting, IFRS 9 adopts a principles-based approach for testing hedge effectiveness instead of setting specific numerical thresholds.

  The adoption of IFRS 9 is not expected to have a material impact to the Partnership's consolidated income statement or consolidated balance sheet however it will result in increased disclosures within the notes to the accounts.

  For 27 January 2018, had IFRS 9 been applied, there would not have been any changes to the Partnership's consolidated financial statements. Financial assets would continue to be classified as 'amortised cost' and derivative financial assets would continue to be classified as 'fair value through profit or loss'. Applying the IFRS 9 impairment model to the Partnership's financial assets would not result in any material adjustments. Hedge effectiveness testing performed in accordance with IFRS 9 would not change the conclusions on effectiveness or the amounts recognised in the consolidated income statement or consolidated statement of comprehensive income/(expense).

- **IFRS 15 'Revenue from Contracts with Customers'** (applicable for the period beginning 28 January 2018)

  IFRS 15 'Revenue from Contracts with Customers' sets out the principles for the measurement and recognition of revenue and will replace IAS 18. The standard provides a five step model to determine when an entity should recognise revenue and at what amount, by allocation of the transaction price to separate performance obligations.

  An exercise to review the quantitative impact of IFRS 15 for the Partnership has been completed and a full retrospective approach will be adopted on transition from IAS 18 to IFRS 15.

  The main impact for the Partnership will be in respect of the timing of revenue recognition of warranties and extended warranties. Currently, under IAS 18, the full sale value of the warranty is recognised in the income statement at the time of sale and a provision recorded on the balance sheet. Under IFRS 15, the value of the warranty including the associated profit margin will be deferred on the balance sheet and released to revenue over the period of the warranty. However, there will be no material impact to the Partnership's income statement and no net material impact to the Partnership's balance sheet. There will be a material reclassification of balances from Provisions to Trade and other payables on the face of the balance sheet.

  For the year ended 27 January 2018, had IFRS 15 been applied on a full retrospective basis, the current and non-current Provisions balance of £345.7m would have decreased to £293.4m, and the current and non-current Trade and other payables balance of £1,861.3m would have increased to £1,929.2m. The impact on net assets would be a decrease of £15.6m. Additionally, there would have been a decrease of £14.1m to brought forward retained earnings as a result of the full retrospective approach. There would have been a net impact on the income statement of £1.5m, reducing profit before tax.

- **Clarifications to IFRS 15 'Revenue from Contracts with Customers'** (issued on 12 April 2016)
- **Amendments to IAS 40: Transfers of Investment Property** (issued on 8 December 2016)
- **IFRIC 22: Foreign Currency Transactions and Advance Consideration** (issued on 8 December 2016)

The Partnership is currently assessing the impact of the following new standards, which have been published and are applicable for the Partnership's accounting period beginning 27 January 2019 onwards:

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

  IFRS 16 'Leases' specifies how to recognise, measure, present and disclose leases. The adoption of IFRS 16 is expected to have a very significant impact to the Partnership's consolidated income statement and consolidated balance sheet.

  The main impact for the Partnership will be the recognition of right-of-use assets and lease liabilities on the balance sheet for all applicable leases. Depending on the chosen transition option, this may lead to a material reduction in net assets and equity at the date of transition. The operating lease expense recognised in the income statement under IAS 17, will be replaced with separate interest and depreciation expenses, with front-loading of the interest in the earlier periods of a lease as the interest element unwinds. This is likely to result in a reduction in profit before tax, the magnitude of which will depend on the chosen transition option. The effect of these changes will also be reflected in the Partnership's KPIs including the Debt Ratio, Return on Invested Capital and Partnership profit per average Full Time Equivalent (FTE).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING INFORMATION
1.1 ACCOUNTING PRINCIPLES AND POLICIES CONTINUED
1.1.4 AMENDMENTS TO ACCOUNTING STANDARDS CONTINUED

The Partnership is currently performing a thorough assessment of the impact of IFRS 16. A modelling exercise has been undertaken to inform the choice of transition option and an approach to key accounting judgements is under review. Representatives from the wider business have been engaged as part of the IFRS 16 working group to develop a methodology for data collection and validation. Work is also underway to identify an appropriate system solution which will capture all lease data and calculate the required IFRS 16 adjustments. During 2018/19, the gathering of data points will be completed and a decision on both the chosen transition option and system solution will have been finalised. Until that time, it remains impractical to provide a reliable quantitative estimate of the impact to the consolidated financial statements.

Included within the KPIs disclosed on page 30, is a measure of total net debts as a multiple of cash flow. Total net debts represents the total borrowings of the Partnership including net debt (defined on page 91), adjusted for an estimate of non-liquid cash, the IAS 19 pension deficit net of deferred tax, and the present value of future rentals payable under operating leases. The present value of future rentals payable under operating leases has been calculated using a discount rate of 5%. This is not an estimate of the impact of IFRS 16.

- **Amendments to IFRS 9: Prepayment Features with Negative Compensation** *(issued on 12 October 2017)*

The Partnership is also currently assessing the impact of the following new and amended standards, which have been issued and are awaiting endorsement by the EU:

- **IFRIC 23: Uncertainty over Income Tax Treatments** (issued on 7 June 2017)
- **Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures** (issued on 12 October 2017)
- **Annual Improvements to IFRSs 2015-17 Cycle – various standards** (issued on 12 December 2017)
- **Amendments to IAS 19: Plan Amendment, Curtailment or Settlement** (issued on 7 February 2018)

1.1.5 SIGNIFICANT ACCOUNTING POLICIES

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

Other operating income
Other operating income is income that does not satisfy the definition of revenue in that it is not related to the main trading operations of the Partnership. Other operating income includes commission income, backhauling income and income from other services.

Financial instruments
The Partnership uses derivative financial instruments to manage its exposure to fluctuations in financial markets, including foreign exchange rates, interest rates and certain commodity prices. Derivative financial instruments used by the Partnership include forward currency and commodity contracts, interest rate swaps and foreign exchange options. Hedge accounting has been adopted for derivative financial instruments where possible. Such derivative financial instruments are measured at fair value. The fair value of a derivative financial instrument represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the forward rates of exchange and interest rates prevailing at the balance sheet date.

In order to qualify for hedge accounting, the relationship between the item being hedged and the hedging instrument is documented in advance of entering into the hedge, and assessed to show that the hedge will be highly effective on an ongoing basis. This effectiveness testing is also then performed at the end of each financial reporting period to ensure that the hedge remains highly effective.

Hedge accounting is discontinued when the hedging instrument matures, is terminated or exercised, the designation is revoked or it no longer qualifies for hedge accounting. For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

A cash flow hedge is a hedge of the exposure to variability of cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction. The effective portion of changes in the intrinsic fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. All other changes in fair value are recognised immediately in the income statement within other gains or losses. Amounts accumulated in equity are recycled to the income statement in the periods when the hedged item affects profit or loss. Derivative financial instruments qualifying for cash flow hedge accounting are principally forward currency contracts.

A fair value hedge is a hedge of the exposure to changes in the fair value of a recognised asset or liability. Derivative financial instruments qualifying for fair value hedge accounting are principally interest rate swaps and foreign exchange options.

The table below sets out the Partnership's accounting classification of each class of its financial assets and liabilities:

	Note	Classification	Measurement
Financial assets:			
Trade receivables	4.2	Loans and receivables	Amortised cost
Other receivables	4.2	Loans and receivables	Amortised cost
Short-term investments	5.3	Loans and receivables	Amortised cost
Cash and cash equivalents	5.4	Loans and receivables	Amortised cost
Derivative financial instruments	7.2	Financial assets at fair value through profit or loss*	Fair value*
Financial liabilities:			
Borrowings and overdrafts	5.5	Financial liabilities	Amortised cost
Trade payables	4.3	Financial liabilities	Amortised cost
Other payables	4.3	Financial liabilities	Amortised cost
Accruals	4.3	Financial liabilities	Amortised cost
Partnership Bonus	4.3	Financial liabilities	Amortised cost
Finance lease liabilities	5.6	Financial liabilities	Amortised cost
Derivative financial instruments	7.2	Financial liabilities at fair value through profit or loss*	Fair value*

* Cash flow hedges designated as being in a hedged relationship upon initial recognition are measured at fair value with the effective portion of any changes in the intrinsic value recognised in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING INFORMATION
1.1 ACCOUNTING PRINCIPLES AND POLICIES CONTINUED
1.1.5 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

1.1.6 KEY JUDGEMENTS AND CRITICAL ACCOUNTING ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other relevant factors, including management's reasonable expectations of future events.

The preparation of the financial statements requires management to make estimates and judgements concerning the future. The resulting accounting estimates will, by definition, be likely to differ from the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- **Retirement benefits:** Details of critical accounting estimates and assumptions are given in note 6.1
- **Provisions and liabilities:** Details of critical accounting estimates and assumptions are given in notes 4.3 and 4.4
- **Impairment:** Details of critical accounting estimates and assumptions are given in notes 3.1 and 3.2
- **Depreciation and amortisation:** Details of critical accounting estimates and assumptions are given in notes 3.1 and 3.2
- **Value of intangible work in progress:** Details of key judgements are given in note 3.1
- **Application of residual values:** Details of key judgements are given in note 3.2

1.1.7 CHANGE IN ACCOUNTING ESTIMATE – RETIREMENT BENEFITS

During the period, the Directors reviewed the methodology for deriving the nominal discount rate assumption in valuing the Partnership's pension obligation under IAS 19 Employee Benefits. Further details of this change and its impact in the period are disclosed in note 6.1.

1.2 NON-GAAP MEASURES

PURPOSE

Our financial statements disclose financial measures which are required under IFRS. We also report additional financial measures that we believe enhance the relevance and usefulness of the financial statements. These are important for understanding underlying business performance, and they are described as non-GAAP measures. In this note, we have explained what the non-GAAP financial measures are and why we use them.

1.2.1 GROSS SALES

Gross sales represents the amount receivable by the Partnership for goods and services supplied to customers, including the sale of stock purchased on a sale or return basis. Gross sales includes VAT but is net of any discount offered. This measure shows the headline sales trend.

1.2.2 EXCEPTIONAL ITEMS

Items which are both material and non-recurring are presented as exceptional items within their relevant consolidated income statement category. The separate reporting of exceptional items helps provide an indication of the Partnership's underlying business performance.

1.2.3 PROFIT BEFORE PARTNERSHIP BONUS AND TAX

Profit before Partnership Bonus and tax is presented as a separate financial statement caption within the consolidated income statement. This measure provides further information on the Partnership's underlying profitability, and is a core measure of performance for Partners.

1.2.4 NET DEBT

Net debt incorporates the Partnership's consolidated borrowings, bank overdrafts, fair value of derivative financial instruments and obligations under finance leases, less cash and cash equivalents, short-term investments and unamortised bond transaction costs. This measure indicates the Partnership's debt position, excluding the pension deficit and operating leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE

IN THIS SECTION

This section focuses on our performance during the year ended 27 January 2018. Information is provided on segmental performance, exceptional items, operating expenses, Partner-related costs and taxation. This section also includes a reconciliation of our profit before tax to the cash generated from operations before Partnership Bonus, which shows how our performance translates into cash.

2.1 SEGMENTAL REPORTING

PURPOSE

We analyse our performance between our three reporting segments. These are Waitrose, John Lewis and Group. This analysis is consistent with how our Partnership Board reviews performance throughout the year.

Group includes operating costs for our Group offices and shared services, as well as certain pension operating costs. The operating profit of each segment is reported after charging relevant Group costs based on the business segments' usage of these facilities and services, and after exceptional items.

Some of the Group activities described above were previously carried out by the former Partnership Services Division. From 29 January 2017, Partnership Services ceased to exist as a separate division and its activities became part of the responsibility of the Group Division.

The prior year's comparators include Partnership Services within Group's figures.

ACCOUNTING POLICIES

Revenue: Sales of goods and services, including warranties and extended warranties, are recognised as revenue when the goods have been delivered or the services rendered. Revenue in respect of 'sale or return sales' which represents concession income is stated at the value of the margin that the Partnership receives on the transaction. Revenue is also net of Partner discounts and VAT. Revenue is recognised in respect of sales under bill and hold arrangements when the goods are segregated for the customer's benefit at their request, and made available for delivery.

Sales of gift vouchers and gift cards are treated as liabilities, and revenue is recognised when the gift vouchers or cards are redeemed against a later transaction. Certain entities within the Partnership sell products with a right of return, and experience is used to estimate and provide for the value of such returns at the time of sale.

Business is predominantly carried out in the United Kingdom and gross sales and revenue derive almost entirely from that source.

Partnership Bonus: The Partnership Bonus is announced and paid to Partners each March and is determined in relation to the performance for the previous financial year. No liability is recorded for Partnership Bonus at the half-year as the majority of the Partnership's profit and cash flows are earned in the second half of the year. Consequently, it is not possible to make a reliable estimate of the liability until the annual profit is known.

A liability for the Partnership Bonus is included in the year-end accounts, with the amount confirmed by the Partnership Board shortly after the year-end.

It is recorded in the year it relates to rather than the year it was declared because there is a constructive obligation to pay a Partnership Bonus and the amount can be reliably estimated once the results for the year are known and prior to the approval of the Partnership's financial statements.

Segmental reporting: The Partnership's reporting segments are determined based on business activities for which operating results are reviewed by the chief operating decision maker (CODM). The Partnership's CODM is the Partnership Board and the reporting segments reflect the management structure of the Partnership. The Partnership's reporting segments for the year ended 28 January 2017 were: Waitrose, John Lewis and Partnership Services and Group. In the year ended 27 January 2018, these reporting segments are: Waitrose, John Lewis and Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE
2.1 SEGMENTAL REPORTING CONTINUED

2018	Waitrose £m	John Lewis £m	Group[1] £m	Total £m
Gross sales	6,753.7	4,844.0	–	11,597.7
Adjustment for sale or return sales	–	(254.6)	–	(254.6)
Value added tax	(399.0)	(740.1)	–	(1,139.1)
Revenue	6,354.7	3,849.3	–	10,204.0
Operating profit before exceptional items, Partnership Bonus and net profit on sale of property[2]	169.1	243.7	(65.4)	347.4
Net profit on sale of property[3]	2.9	10.5	–	13.4
Operating profit before exceptional items and Partnership Bonus	172.0	254.2	(65.4)	360.8
Exceptional items	(52.2)	(21.3)	(37.8)	(111.3)
Operating profit before Partnership Bonus	119.8	232.9	(103.2)	249.5
Finance costs				(85.7)
Finance income				14.1
Partnership Bonus				(74.0)
Profit before tax				103.9
Taxation				(29.8)
Profit for the year				74.1
Reconciliation of Profit before Partnership Bonus, tax and exceptional items to Profit before tax:				
Profit before Partnership Bonus, tax and exceptional items				289.2
Partnership Bonus				(74.0)
Exceptional items				(111.3)
Profit before tax				103.9
Segment assets	2,890.1	2,150.8	1,210.3	6,251.2
Segment liabilities	(784.9)	(889.0)	(2,265.1)	(3,939.0)
Net assets	2,105.2	1,261.8	(1,054.8)	2,312.2
Other segment items:				
– Depreciation[4]	(196.2)	(110.2)	(16.9)	(323.3)
– Amortisation[4]	(38.2)	(54.3)	(21.6)	(114.1)
– Capital expenditure – property, plant and equipment	109.0	72.8	45.0	226.8
– Capital expenditure – intangible assets	52.7	107.0	22.8	182.5
– (Decrease)/increase in provisions	(2.0)	0.8	7.4	6.2

1 In the year to 28 January 2017, this reporting segment was Partnership Services and Group. From 29 January 2017, this reporting segment is Group, as the activities of Partnership Services have become the responsibility of the Group Division.
2 Included within operating profit before exceptional items, Partnership Bonus and net profit on sale of property is a £1.0m loss (2017: £0.3m profit) share of loss/(profits) of a joint venture in the John Lewis Division (see note 3.3) and an impairment charge of £52.3m (2017: £38.0m) of which £42.7m (2017: £37.7m) is in the Waitrose Division, £7.2m (2017: £0.3m) is in the John Lewis Division, and £2.4m (2017: £nil) is in the Group Division (see notes 3.1 and 3.2).
3 Net profit on sale of property includes losses of £2.1m in the Waitrose Division (2017: £nil).
4 Includes charges for impairment. See notes 3.1 and 3.2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE
2.1 SEGMENTAL REPORTING CONTINUED

2017	Waitrose £m	John Lewis £m	Group[1] £m	Total £m
Gross sales	6,633.2	4,741.0	–	11,374.2
Adjustment for sale or return sales	–	(229.2)	–	(229.2)
Value added tax	(387.7)	(731.1)	–	(1,118.8)
Revenue	6,245.5	3,780.7	–	10,026.2
Operating profit before exceptional items, Partnership Bonus and net profit on sale of property[2]	252.7	241.5	(18.5)	475.7
Net profit on sale of property	0.8	1.7	–	2.5
Operating profit before exceptional items and Partnership Bonus	253.5	243.2	(18.5)	478.2
Exceptional items	(47.3)	(11.8)	230.3	171.2
Operating profit before Partnership Bonus	206.2	231.4	211.8	649.4
Finance costs				(109.7)
Finance income				1.9
Partnership Bonus				(89.4)
Profit before tax				452.2
Taxation				(98.7)
Profit for the year				353.5
Reconciliation of Profit before Partnership Bonus, tax and exceptional items to Profit before tax:				
Profit before Partnership Bonus, tax and exceptional items				370.4
Partnership Bonus				(89.4)
Exceptional items				171.2
Profit before tax				452.2
Segment assets[3]	2,946.1	2,136.9	1,203.1	6,286.1
Segment liabilities	(789.5)	(908.7)	(2,532.5)	(4,230.7)
Net assets	2,156.6	1,228.2	(1,329.4)	2,055.4
Other segment items:				
– Depreciation[4]	(191.0)	(112.1)	(16.6)	(319.7)
– Amortisation[4]	(45.1)	(44.8)	(18.9)	(108.8)
– Capital expenditure – property, plant and equipment	113.5	143.0	8.9	265.4
– Capital expenditure – intangible assets	52.4	83.8	21.0	157.2
– *Increase in provisions*	2.0	0.4	47.3	49.7

1 In the year to 28 January 2017, this reporting segment was Partnership Services and Group. From 29 January 2017, this reporting segment is Group, as the activities of Partnership Services have become the responsibility of the Group Division.
2 Included within operating profit before exceptional items, Partnership Bonus and net profit on sale of property is a £0.3m share of profits of a joint venture in the John Lewis Division (see note 3.3) and an impairment charge of £38.0m of which £37.7m is in the Waitrose Division and £0.3m is in the John Lewis Division (see notes 3.1 and 3.2).
3 Included within segment assets at 28 January 2017 is one property asset in the John Lewis Division which was recorded as held for sale totalling £8.1m.
4 *Includes charges for impairment. See notes 3.1 and 3.2.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE

2.2 OPERATING EXPENSES BEFORE EXCEPTIONAL ITEMS AND PARTNERSHIP BONUS

PURPOSE

We analyse operating expenses into branch operating expenses and administrative expenses. Branch operating expenses are directly associated with the sale of goods and services. Administrative expenses are those which are not directly related to the sale of goods and services.

Operating expenses before exceptional items and Partnership Bonus	**2018 £m**	2017 £m
Branch operating expenses	**(2,158.4)**	(2,310.8)
Administrative expenses	**(955.6)**	(697.0)
	(3,114.0)	(3,007.8)

During the year, the Directors reviewed and amended the allocation of certain costs between branch operating expenses and administrative expenses. The comparative balances have not been restated.

2.3 EXCEPTIONAL ITEMS

PURPOSE

Exceptional items are items of income and/or expense that are both material and non-recurring. We believe these exceptional items are relevant for an understanding of our underlying financial performance, and are highlighted separately on the face of the income statement. This note provides detail of the exceptional items reported in both the current and prior year.

Exceptional items	**2018 Operating (expense)/ income £m**	**2018 Taxation credit £m**	2017 Operating (expense)/ income £m	2017 Taxation credit / (charge) £m
Restructuring and redundancy (a)	**(72.8)**	**13.7**	(20.7)	3.9
Branch impairments (b)	**(38.9)**	**4.5**	–	–
Profit on disposal of items previously recognised as exceptional (c)	**2.7**	–	0.8	(0.1)
Strategic review (d)	**(2.3)**	**0.4**	(42.9)	5.1
Reduction in pension obligation (e)	–	–	270.0	(48.6)
Pay provision (f)	–	–	(36.0)	7.1
	(111.3)	**18.6**	171.2	(32.6)

In the year to 27 January 2018, a net exceptional charge of £111.3m (2017: £171.2m net exceptional income) was recognised, as follows:

(a) Charge of £72.8m for restructuring and redundancy costs, principally in relation to branch, distribution and retail operations as well as functional restructurings in Finance, Personnel and IT, in line with the move from divisional to Partnership functions. In 2017, the restructuring and redundancy charge of £20.7m was principally in relation to distribution and contact centres and head office operations.

(b) Continuing uncertainty with respect to Brexit outcomes and changes to the grocery market have led us to review our approach and assumptions with respect to the possible impairment of Waitrose stores, where margins have trended significantly lower. This has resulted in an impairment charge of £38.9m in 2018, which given the nature of the exercise this year and the size of the charge, has been included within exceptional items. The 2017 exercise, conducted on a less pessimistic basis, resulted in a charge of £4.9m, which was not material and was charged against operating expenses.

(c) Income of £2.7m was recognised upon finalisation of a property disposal which was previously recorded as exceptional (2017: £0.8m income).

(d) Net charge of £2.3m in Waitrose relating to the further write-downs of property, other assets and related costs that were no longer intended to be developed or were being exited, following the strategic review carried out in the prior year. In the prior year, an exceptional charge of £42.9m was recognised in Waitrose.

(e) In the prior year, income of £270.0m was recognised in relation to an exceptional past service credit following the change to annual discretionary increases for pension in retirement built up before 6 April 1997.

(f) In the prior year, a £36.0m provision was recorded 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, which remains our best estimate. The ultimate resolution of the liability may result in an amount that is different from that provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE

2.4 PROFIT BEFORE TAX

PURPOSE

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

	2018 £m	2017 £m
Staff costs (note 2.6.2)	**(1,846.9)**	(1,817.2)
Depreciation – owned assets[1]	**(322.6)**	(317.8)
Depreciation – assets held under finance leases	**(0.7)**	(1.9)
Amortisation of intangible assets[2]	**(114.1)**	(108.8)
Net profit on sale of property (including exceptional items)	**16.1**	3.3
Loss on disposal of other plant and equipment and intangible assets	**(0.3)**	–
Inventory – cost of inventory recognised as an expense	**(6,839.5)**	(6,633.1)
Operating lease rentals:		
– land and buildings	**(186.9)**	(177.7)
– plant and machinery	**(0.5)**	(0.5)
Sub-lease income:		
– land and buildings	**5.8**	5.9

1 Included within depreciation – owned assets is an impairment charge of £40.7m (2017: £34.7m) of which £40.7m (2017: £34.4m) is in the Waitrose Division and £nil (2017: £0.3m) is in the John Lewis Division.
2 Included within amortisation of intangible assets is an impairment charge of £11.6m (2017: £3.3m) of which £2.0m (2017: £3.3m) is in the Waitrose Division, £7.2m (2017: £nil) is in the John Lewis Division and £2.4m (2017: £nil) is in the Group Division.

Contingency rents expensed during the year were £0.8m (2017: £1.0m). Contingency rents are determined based on store revenues.

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

Auditor's remuneration	2018 £m	2017 £m
Audit and audit-related services:		
– *Audit of the parent Company and consolidated financial statements*	**(0.3)**	(0.3)
– Audit of the Company's subsidiaries	**(0.6)**	(0.6)
	(0.9)	(0.9)
Non-audit services:		
– *Other assurance services*	**(0.2)**	(0.2)
	(0.2)	(0.2)
Total fees	**(1.1)**	(1.1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE

2.5 RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS BEFORE PARTNERSHIP BONUS

PURPOSE

We have analysed how our profit before tax reconciles to the cash generated from our operating activities before Partnership Bonus. Items added back to/deducted from profit before tax are non-cash items that are adjusted to arrive at cash generated from operations before Partnership Bonus which is shown in the cash flow statement.

	2018 £m	2017 £m
Profit before tax	**103.9**	452.2
Amortisation of intangible assets	**114.1**	108.8
Depreciation	**323.3**	319.7
Share of loss/(profit) of joint venture (net of tax)	**1.0**	(0.3)
Net finance costs	**71.6**	107.8
Partnership Bonus	**74.0**	89.4
Fair value losses/(gains) on derivative financial instruments	**0.2**	(1.9)
Profit on disposal of property, plant and equipment and intangible assets	**(15.8)**	(0.3)
Increase in inventories	**(33.7)**	(5.9)
Increase in receivables	**(21.8)**	(15.3)
Increase in payables	**19.9**	90.9
Increase/(decrease) in retirement benefit obligations	**29.5**	(265.3)
Decrease in non-cash borrowings	**(30.3)**	–
Increase in provisions	**2.3**	32.3
Cash generated from operations before Partnership Bonus	**638.2**	912.1

2.6 PARTNERS

PURPOSE

The average number of Partners employed during the year, together with details of the area of the Partnership in which they work, and total employment related costs are shown in the tables below. At the end of the year, our total number of Partners was 85,500. This note also covers Partner benefits, including pay for senior Partners and the Partnership Board.

2.6.1 PARTNER NUMBERS

During the year the average number of Partners in the Partnership was as follows:

	2018	2017
John Lewis	**28,500**	29,300
Waitrose	**53,000**	57,000
Group[1,2]	**3,000**	1,700
	84,500	88,000

1 In the year to 28 January 2017, this reporting segment was Partnership Services and Group. From 29 January 2017, this reporting segment is Group, as the activities of Partnership Services have become the responsibility of the Group Division.
2 As a result of the move from divisional to pan-Partnership functions in Finance, Personnel and IT, in the year to 27 January 2018, the number of Partners within the Group Division has increased.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE
2.6 PARTNERS CONTINUED

2.6.2 PARTNER PAY AND BENEFITS

Employment and related costs were as follows:

	2018 £m	2017 £m
Staff costs (excluding exceptional items):		
Wages and salaries	**(1,441.3)**	(1,423.7)
Social security costs	**(111.6)**	(107.6)
Partnership Bonus	**(65.7)**	(79.0)
Employers' national insurance on Partnership Bonus	**(8.3)**	(10.4)
Other pension expenses (note 6.1.2)	**(215.6)**	(187.9)
Long leave cost	**(4.4)**	(8.6)
Total before Partner discounts	**(1,846.9)**	(1,817.2)
Partner discounts (excluded from revenue)	**(69.3)**	(73.4)
	(1,916.2)	(1,890.6)
Included above are the following amounts in respect of key management compensation:		
Salaries and short-term benefits	**(12.5)**	(17.0)
Post-employment benefits[1]	**(2.0)**	(2.5)
	(14.5)	(19.5)

1 Includes cash supplements in lieu of future pension accrual.

Key management includes the Directors of the Company, members of the Partnership's Divisional Management Boards and other officers of the Partnership. Key management compensation includes salaries, Partnership Bonus, national insurance costs, pension costs and the cost of other employment benefits, such as company cars, private medical insurance and termination payments where applicable.

Key management participate in the Partnership's long leave scheme, which is open to all Partners and provides up to six months' paid leave after 25 years' service. There is no proportional entitlement for shorter periods of service. It is not practical to allocate the cost of accruing entitlement to this benefit to individuals, and therefore no allowance has been made for this benefit in the amounts disclosed.

2.6.3 DIRECTORS' EMOLUMENTS

Directors' emoluments have been summarised below. Further details of the remuneration of Directors is given in the parts of the Remuneration Committee report noted as audited on pages 76 to 77.

	2018 £m	2017 £m
Aggregate emoluments	**(6.1)**	(6.7)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE

2.7 TAXATION

PURPOSE

Our tax charge for the year is shown below. This includes an explanation of how each item is calculated, a reconciliation of our effective tax rate to the UK standard tax rate, and an update on any tax rate changes. We have placed explanatory boxes within the note to explain each table.

Our Tax Strategy aligns to the Principles of our Constitution and, as a responsible leading retailer, we recognise that paying taxes arising from our activities is an important part of how our business contributes to the societies in which we operate. The Tax Strategy adopted by the Partnership Board is available on the Partnership's website.

ACCOUNTING POLICY

Taxation: Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income/(expense), in which case it is recognised directly in other comprehensive income/(expense).

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax arising from the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, is not recognised. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are enacted or substantively enacted at the balance sheet date that are expected to apply to the period when the asset is realised or the liability is settled.

2.7.1 ANALYSIS OF TAX CHARGE FOR THE YEAR

PURPOSE

The components of our tax charge are below. The tax charge is made up of current and deferred tax. Current tax is the amount payable on the taxable income for the year, and any adjustments to tax payable in previous years. Current tax is charged through the consolidated income statement and consolidated statement of comprehensive income/(expense). Deferred tax is explained in note 2.7.3.

Recognised in the income statement	2018 £m	2017 £m
Current tax – current year	**(52.1)**	(72.7)
Current tax – adjustment in respect of prior years	**(0.4)**	5.8
Total current tax charge	**(52.5)**	(66.9)
Deferred tax – current year	**22.4**	(38.3)
Deferred tax – rate change	**(7.3)**	9.3
Deferred tax – adjustment in respect of prior years	**7.6**	(2.8)
	(29.8)	(98.7)

Tax (charged)/credited to other comprehensive income	2018 £m	2017 £m
Current tax on pension scheme[1]	**17.2**	24.7
Deferred tax on pension scheme	**(57.4)**	46.1
Deferred tax on cash flow hedges	**5.9**	0.3
	(34.3)	71.1

1 An additional deficit funding contribution of £89.8m has been paid by the Partnership during the year (2017: £124.8m) in relation to the defined benefit pension scheme, resulting in a tax credit of £17.2m (2017: £24.7m) to the statement of other comprehensive income/(expense) and a corresponding reduction in our current tax liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE
2.7 TAXATION CONTINUED

2.7.2 FACTORS AFFECTING TAX CHARGE FOR THE YEAR

PURPOSE

Taxable profit differs from profits as reported in the income statement because some items of income or expense may never be taxable or deductible. The table below shows the reconciliation between the tax charge on profits at the standard UK tax rate and the actual tax charge recorded in the income statement ignoring the effects of temporary differences. The effective tax rate is the tax charge as a percentage of Partnership profit before tax.

The tax charge for the year is higher (2017: higher) than the standard corporation tax rate of 19.2%[1] (2017: 20.0%). The differences are explained below:

	2018 £m	2017 £m
Profit before tax	**103.9**	452.2
Profit before tax multiplied by standard rate of corporation tax in the UK of 19.2% (2017: 20.0%)	**(19.9)**	(90.4)
Effects of:		
Changes in tax rate	**(7.3)**	9.3
Adjustment in respect of prior years	**7.2**	3.0
Depreciation on assets not qualifying for tax relief	**(14.0)**	(12.3)
Difference between accounting and tax base for land and buildings	**4.9**	(5.1)
Differences in overseas tax rates	**(0.1)**	2.0
Sundry disallowables	**0.2**	(5.1)
Other permanent differences on sale of property	**(0.8)**	(0.1)
Total tax charge	**(29.8)**	(98.7)
Effective tax rate (%)	**28.7**	21.8

1 Based on a blended corporation tax rate comprised of two months at 20.0% relating to the 2016/17 fiscal year and ten months at 19.0% relating to the 2017/18 fiscal year.

2.7.3 DEFERRED TAX

PURPOSE

Deferred tax is the tax expected to be payable or recoverable in the future due to temporary differences that arise when the carrying value of assets and liabilities differ between accounting and tax treatments. Deferred tax assets represent the amounts of income taxes recoverable in the future in respect of these differences, while deferred tax liabilities represent the amounts of income taxes payable in the future in respect of these differences. Here we show the movements in deferred tax assets and liabilities during the year.

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% for deferred tax assets and liabilities expected to reverse before 1 April 2020, and 17% for those assets or liabilities expected to reverse after 1 April 2020. In the year to 28 January 2017, a tax rate of 20% was used for deferred tax assets or liabilities expected to reverse before 1 April 2017, 19% for those assets or liabilities expected to reverse before 1 April 2020, and 17% for those assets or liabilities expected to reverse after 1 April 2020.

The movement on the deferred tax account is shown below:

Deferred tax	**2018 £m**	2017 £m
Opening net asset	**48.2**	33.6
Credited/(charged) to income statement	**22.7**	(31.8)
(Charged)/credited to other comprehensive income/(expense)	**(51.5)**	46.4
Closing net asset	**19.4**	48.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE
2.7 TAXATION CONTINUED
2.7.3 DEFERRED TAX CONTINUED

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

Deferred tax liabilities	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Rollover gains £m	Total £m
At 30 January 2016	(109.6)	(2.3)	(40.3)	(152.2)
Credited/(charged) to income statement	8.1	(6.5)	1.6	3.2
At 28 January 2017	(101.5)	(8.8)	(38.7)	(149.0)
Credited to income statement	2.6	0.5	0.4	3.5
At 27 January 2018	**(98.9)**	**(8.3)**	**(38.3)**	**(145.5)**

Deferred tax assets	Capital gains tax on land and buildings £m	Pensions and provisions £m	Other £m	Total £m
At 30 January 2016	6.5	178.1	1.2	185.8
Credited/(charged) to income statement	6.3	(43.0)	1.7	(35.0)
Credited to other comprehensive income/(expense)	–	46.1	0.3	46.4
At 28 January 2017	12.8	181.2	3.2	197.2
Credited to income statement	1.4	17.2	0.6	19.2
(Charged)/credited to other comprehensive income/(expense)	–	(57.4)	5.9	(51.5)
At 27 January 2018	**14.2**	**141.0**	**9.7**	**164.9**

The deferred tax asset in relation to the defined benefit pension scheme is £109.9m (2017: £157.9m).

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset):

Deferred tax	2018 £m	2017 £m
Deferred tax assets	**25.5**	48.2
Deferred tax liabilities	**(6.1)**	–
Deferred tax net	**19.4**	48.2

The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned.

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future profits is probable. There were no unrecognised deferred tax assets in respect of losses for the year ended 27 January 2018 (2017: £nil).

The deferred tax balance associated with the pension deficit has been adjusted to reflect the current tax benefit obtained in the financial year ended 30 January 2010, following the contribution of the limited partnership interest in JLP Scottish Limited Partnership to the pension scheme (see note 6.1).

The deferred tax assets and liabilities are recoverable after more than one year.

No deferred tax liability is recognised on temporary differences of £31.9m (2017: £24.3m) relating to the unremitted earnings of overseas subsidiaries of the Partnership. UK tax legislation relating to company distributions provides for exemption from tax for most UK and overseas distributed profits, subject to certain exceptions and no dividend withholding tax is levied in the Partnership's overseas entity jurisdictions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 PARTNERSHIP PERFORMANCE
2.7 TAXATION CONTINUED

2.7.4 FACTORS AFFECTING TAX CHARGES IN CURRENT AND FUTURE YEARS

PURPOSE

Here we explain any changes to the current or future tax rates that have been announced or substantively enacted. It also explains the impact on the Partnership of any rate changes that are already effective.

Legislation has been enacted to reduce the UK corporation tax rate from 20% to 19% with effect from 1 April 2017 with a further reduction to 17% from 1 April 2020. The 17% rate was substantively enacted in September 2016. The effect of these rate changes this year was to increase the deferred tax asset by £5.9m, with a £1.6m charge to the income statement and a £7.5m credit to other comprehensive income/(expense).

The State of Jersey increased the main rate of corporation tax for large corporate retailers from 0% to 20% for the 2018 accounting period. The effect of this rate change this year was to increase the deferred tax liability by £5.8m, with a charge being taken to the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 OPERATING ASSETS AND LIABILITIES

IN THIS SECTION

This section shows the assets used in generating the Partnership's performance and related future commitments. This includes intangible assets and property, plant and equipment, investment in and loans to our joint venture, as well as commitments for future expenditure which will be used to help generate our performance in future years. Assets held for sale are included within this section as they relate to current assets which have previously been used in delivering our results.

3.1 INTANGIBLE ASSETS

PURPOSE

Our balance sheet contains non-physical assets in relation to computer software which are used to support our business and the generation of our profits.

This note shows the cost of the assets, which is the amount we initially paid for them, and details any additions and disposals during the year. Additionally, the note shows amortisation, which is an expense in the income statement to reflect the usage of these assets. Amortisation is calculated by estimating how many years we expect to use the assets, which is also known as the useful economic life (UEL). The amortisation charge reduces the initial value of the assets over time spread evenly over their useful economic lives. The value after deducting accumulated amortisation is known as the amortised value.

Each year we review the value of our assets to ensure that their expected future value in use in the business has not fallen below their amortised value. This might occur where there has been a system replacement in the year. If an asset's expected value in use falls below its amortised value, this is reflected through an additional impairment expense, which reduces profits.

ACCOUNTING POLICIES

Intangible assets: Intangible assets, comprising both purchased and internally developed computer software, are carried at cost less accumulated amortisation and impairments. The cost of internally developed software, including all directly attributable costs necessary to create, produce and prepare the software for use, is capitalised where the development meets the criteria for capitalisation required by IAS 38. This may include capitalised borrowing costs. Internally developed software assets that are not yet in use are reviewed at each reporting date to ensure that the development still meets the criteria for capitalisation, and is not expected to become impaired or abortive.

Amortisation: Once available for use, the purchased or internally developed software is amortised on a straight-line basis over its useful economic life, which is deemed to be between three and ten years. The assets' useful economic lives are reviewed and adjusted if appropriate at each balance sheet date.

Impairment: Assets are reviewed for impairment at least annually or whenever events or circumstances indicate that the amortised value may not be recoverable. An impairment loss is recognised for the amount by which the asset's amortised cost exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to dispose and value in use. The reversal of an impairment loss is recognised immediately as a credit to the income statement.

KEY JUDGEMENTS

Value of intangible work in progress: The Partnership has incurred a significant amount of development expenditure relating to intangible assets, particularly IT systems and software. These development costs are recorded within Work in Progress (WIP) on the balance sheet until the assets that they relate to are available for use. If management believe that a development project is no longer likely to result in the creation of a useful intangible asset, the related development expenditure should be reclassified from WIP and expensed as an abortive cost through profit and loss. Management's judgement over the likely outcome of these development projects can therefore affect the level of abortive costs in any one year and the amount capitalised as intangible assets in the future.

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

CRITICAL ACCOUNTING ESTIMATES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 OPERATING ASSETS AND LIABILITIES
3.1 INTANGIBLE ASSETS CONTINUED

			Computer software	
Intangible assets	Purchased £m	Internally developed £m	Work in progress £m	Total £m
Cost				
At 30 January 2016	195.5	394.7	137.2	727.4
Additions	–	–	157.2	157.2
Transfers	24.8	108.6	(133.4)	–
Disposals and write-offs	(3.7)	(12.0)	(3.6)	(19.3)
At 28 January 2017	216.6	491.3	157.4	865.3
Additions	–	–	182.5	182.5
Transfers	23.4	72.0	(95.4)	–
Disposals and write-offs	(26.6)	(60.6)	(5.4)	(92.6)
At 27 January 2018	**213.4**	**502.7**	**239.1**	**955.2**
Accumulated amortisation				
At 30 January 2016	(106.5)	(232.5)	–	(339.0)
Charge for the year*	(36.3)	(72.5)	–	(108.8)
Disposals and write-offs	3.7	11.5	–	15.2
At 28 January 2017	(139.1)	(293.5)	–	(432.6)
Charge for the year*	(30.5)	(83.6)	–	(114.1)
Disposals and write-offs	27.2	60.0	–	87.2
At 27 January 2018	**(142.4)**	**(317.1)**	**–**	**(459.5)**
Net book value at January 2016	89.0	162.2	137.2	388.4
Net book value at January 2017	77.5	197.8	157.4	432.7
Net book value at January 2018	**71.0**	**185.6**	**239.1**	**495.7**

* For the year ended 27 January 2018, this includes an impairment charge of £11.6m (2017: £3.3m) to intangible assets of which £2.0m (2017: £3.3m) is in the Waitrose Division, £7.2m (2017: £nil) is in the John Lewis Division and £2.4m (2017: £nil) is in the Group Division.

Intangible assets principally relate to customer and distribution projects with useful economic lives of up to 10 years.

There are four individually significant assets within the total carrying amount of intangible assets as at 27 January 2018: two are customer projects (£126.8m, 2017: £100.9m) and two relate to distribution projects (£126.2m, 2017: £53.4m).

During the year to 27 January 2018, computer systems valued at £95.4m (2017: £133.4m) were brought into use. This covered a range of selling, support, supply chain, administration and information technology infrastructure applications, with asset lives ranging from three to ten years.

Amortisation of intangible assets is charged within operating expenses.

3.2 PROPERTY, PLANT AND EQUIPMENT

PURPOSE

Our balance sheet contains significant property, plant and equipment, primarily made up of branches, distribution centres, offices and vehicles.

This note shows the cost of the assets, which is the amount we initially paid for them, or deemed cost if the assets were purchased before January 2004 when the Partnership transitioned to report under IFRS. It also details any additions and disposals during the year. Additionally, the note shows depreciation, which is an expense in the income statement to reflect the usage of these assets. Depreciation is calculated by estimating how many years we expect to use the assets, which is also known as the useful life. The depreciation charge reduces the initial value of the assets over time spread evenly over their useful lives. The value after deducting accumulated depreciation is known as the net book value.

Each year we review the value of our assets to ensure that the value in use or resale value has not fallen below their net book value. This might occur where there is a decline in forecast performance. If an asset value falls below its net book value, this is reflected through an additional impairment expense, which reduces profit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 OPERATING ASSETS AND LIABILITIES
3.2 PROPERTY, PLANT AND EQUIPMENT CONTINUED

ACCOUNTING POLICIES

Property, plant and equipment: The cost of property, plant and equipment includes the purchase price and directly attributable costs of bringing the asset in to working condition ready for its intended use. This may include capitalised borrowing costs.

The Partnership's freehold and long leasehold properties were last revalued to fair value by the Directors, after consultation with CB Richard Ellis, Chartered Surveyors, at 31 January 2004. These values have been incorporated as deemed cost, subject to the requirement to test for impairment in accordance with IAS 36. The Partnership has decided not to adopt a policy of revaluation since 31 January 2004.

Other assets are held at cost.

Depreciation: No depreciation is charged on freehold land or assets in the course of construction. Depreciation is calculated for all other assets to write off the cost or valuation, less residual value, on a straight-line basis over the following expected useful economic lives (UELs):

Freehold and long leasehold buildings – 25-50 years
Other leaseholds – over the shorter of the useful economic life and the remaining period of the lease
Building fixtures – 10-40 years
Fixtures, fittings and equipment (including vehicles and information technology equipment) – 3-10 years

Property residual values are assessed as the price in current terms that a property would be expected to realise, if the buildings were at the end of their useful economic life. The assets' residual values and useful lives are reviewed and adjusted if appropriate at least at each balance sheet date.

Impairment: Assets are reviewed for impairment at least annually or whenever events or circumstances indicate that the net book value may not be recoverable. Impairment testing is performed on cash generating units (CGUs) which are branches including an allocation of online, being the lowest level of separately identifiable cash flows. An impairment loss is recognised for the amount by which the asset's net book value exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to dispose and value in use. Value in use calculations are performed using cash flow projections, discounted at a pre-tax rate, which reflects the asset specific risks and the time value of money.

Where an impairment loss subsequently reverses, the carrying amount of the CGU is increased to the revised estimate of the recoverable amount, but ensuring the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised for the CGU in prior years. A reversal of an impairment loss is recognised immediately as a credit to the income statement.

KEY JUDGEMENTS

Application of residual values: The application of residual values to shell assets on freehold and long leasehold properties is a key accounting judgement that impacts the depreciation charge recognised in respect of these assets. Management have assessed that it is appropriate to apply residual values to these assets as the buildings will retain significant value both during and at the end of their useful economic life. This residual value could be realised through a sale of the property or a subletting arrangement. Management has therefore concluded that the application of residual values is consistent with the definition set out in IAS 16.

CRITICAL ACCOUNTING ESTIMATES

Depreciation: Depreciation is recorded to write down non-current assets to their residual values over their useful economic lives (UELs). Management must therefore estimate the appropriate UELs to apply to each class of asset as set out in the accounting policy above. Changes in the estimated UELs would alter the amount of depreciation charged each year, which could materially impact the carrying value of the assets in question over the long term. UELs are therefore reviewed on an annual basis to ensure that they are in line with policy and that those policies remain appropriate.

Impairment: In line with the Partnership's accounting policy, management must assess the value in use of each CGU when testing for impairment. This requires estimation of the present value of future cash flows expected to arise from the continuing operation of the CGU. These estimates require assumptions over future sales performance; future costs; and long-term growth rates, as well as the application of an appropriate discount rate. Were there to be significant changes in these assumptions, it could materially impact the amount charged as impairment during the year, or lead to the reversal of impairment charges recognised in previous years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 OPERATING ASSETS AND LIABILITIES
3.2 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Property, plant and equipment	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in course of construction £m	Total £m
Cost				
At 30 January 2016	4,465.5	1,877.6	135.3	6,478.4
Additions	–	–	265.4	265.4
Transfers	145.2	168.1	(313.3)	–
Disposals and write-offs	(26.7)	(88.5)	(1.5)	(116.7)
Transfers to assets held for sale	*(14.5)*	–	–	*(14.5)*
At 28 January 2017	4,569.5	1,957.2	85.9	6,612.6
Additions	–	–	226.8	226.8
Transfers	136.0	95.3	(231.3)	–
Disposals and write-offs	(62.2)	(133.3)	(0.4)	(195.9)
At 27 January 2018	**4,643.3**	**1,919.2**	**81.0**	**6,643.5**
Accumulated depreciation				
At 30 January 2016	(1,024.8)	(1,264.3)	–	(2,289.1)
Charge for the year*	(159.5)	(160.2)	–	(319.7)
Disposals and write-offs	16.7	85.5	–	102.2
Transfers to assets held for sale	6.4	–	–	6.4
At 28 January 2017	(1,161.2)	(1,339.0)	–	(2,500.2)
Charge for the year*	(172.9)	(150.4)	–	(323.3)
Disposals and write-offs	18.0	133.2	–	151.2
At 27 January 2018	**(1,316.1)**	**(1,356.2)**	**–**	**(2,672.3)**
Net book value at January 2016	3,440.7	613.3	135.3	4,189.3
Net book value at January 2017	3,408.3	618.2	85.9	4,112.4
Net book value at January 2018	**3,327.2**	**563.0**	**81.0**	**3,971.2**

* For the year ended 27 January 2018, this includes an impairment charge of £40.7m to land and buildings (2017: £34.7m).

Included above are land and building assets held under finance leases with a net book value of £15.8m (2017: £16.5m).

In accordance with IAS 36, the Partnership reviews its property, plant and equipment for impairment at least annually or whenever events or circumstances indicate that the value on the balance sheet may not be recoverable.

The impairment review compares the recoverable amount for each CGU to the carrying value on the balance sheet. The key assumptions used in the calculations are the discount rate, long-term growth rate, expected sales performance and costs.

The value in use calculation is based on three year cash flow projections using the latest budget and forecast data. Any changes in sales performance and costs are based on past experience and expectations of future changes in the market. The forecasts are then extrapolated beyond the three year period using a long-term growth rate. The discount rate is derived from the Partnership's pre-tax weighted average cost of capital of 8% (2017: 7% to 9%).

The impairment review performed considers the value in use calculation based on the above methodology and assumptions, as well as other potential impairment triggers such as strategy changes. Following the impairment review, the Partnership recognised an impairment charge to land and buildings in the year of £40.7m in the Waitrose Division (2017: £34.4m) and £nil in the John Lewis Division (2017: £0.3m). The impairment charge reflects the revision of the long-term forecast cash flows as a result of continued uncertainty with respect to Brexit outcomes and changes in the grocery market. This has led to a review of the approach and assumptions with respect to the possible impairment of Waitrose stores, where margins have trended significantly lower.

A reduction of 0.5% in the long-term growth rate would result in an additional impairment charge of £9.3m (2017: £2.4m). An increase in the discount rate of 0.5% *would result in an additional impairment charge of £4.6m (2017: £1.5m).*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 OPERATING ASSETS AND LIABILITIES

3.3 INVESTMENT IN AND LOANS TO JOINT VENTURE

PURPOSE

Our balance sheet includes an investment in a joint venture, Clicklink Logistics Limited, which is used to support our business and the generation of our profits.

This note shows the cost of the investment in, and loans made to, the joint venture. It also includes details of the share of profit/loss and any dividends received from the joint venture during the year.

ACCOUNTING POLICY

Joint arrangements: The Partnership applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Partnership has assessed the nature of its joint arrangements and determined them to be joint ventures.

Interests in joint ventures are accounted for using the equity method after initially being recognised at cost in the consolidated balance sheet.

The consolidated financial statements include the Partnership's share of the profit or loss and other comprehensive income of the equity accounted investees, from the date that joint control commences until the date that joint control ceases.

John Lewis plc and Clipper Logistics plc are both investors in Clicklink Logistics Limited. Each party owns 50.0% of the equity of Clicklink Logistics Limited and decisions regarding Clicklink Logistics Limited require the unanimous consent of both parties.

Joint venture	Investment £m	Loan £m	Total £m
Cost			
At 28 January 2017	2.1	1.5	3.6
Additions	–	–	–
At 27 January 2018	**2.1**	**1.5**	**3.6**
Share of profit/(loss)			
At 28 January 2017	0.3	–	0.3
Share of loss	(1.0)	–	(1.0)
At 27 January 2018	**(0.7)**	**–**	**(0.7)**
At 28 January 2017	2.4	1.5	3.9
At 27 January 2018	**1.4**	**1.5**	**2.9**

3.4 ASSETS HELD FOR SALE

PURPOSE

Assets held for sale are non-current assets which are expected to be sold rather than held for continuing use in the Partnership. They have not been sold at the balance sheet date but are being actively marketed for sale, with a high probability of completion within 12 months.

At 27 January 2018, there were no assets recorded as held for sale. At 28 January 2017, one property asset was recorded as held for sale totalling £8.1m, in the John Lewis Division.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 OPERATING ASSETS AND LIABILITIES

3.5 COMMITMENTS AND CONTINGENCIES

PURPOSE

A commitment represents a contractual obligation to make a payment in the future. We have commitments for capital expenditure and operating leases. Contingent liabilities are potential future cash outflows where the likelihood of payment is more than remote but is not considered probable or cannot be measured reliably. We have contingencies in the form of lease guarantees arising from our former associate company, Ocado Limited.

In line with accounting standards, commitments and contingencies are not included within the balance sheet, but are detailed in the note below. The amounts below represent the maximum amounts that we are obliged to pay, with the exception of commitments under operating leases, where the future minimum payments under non-cancellable operating leases are disclosed. See note 5.6 for the leases accounting policy.

3.5.1 CAPITAL COMMITMENTS

At 27 January 2018, contracts had been entered into for future capital expenditure of £36.0m (2017: £19.5m) of which £29.3m (2017: £18.7m) relates to property, plant and equipment and £6.7m (2017: £0.8m) relates to intangible assets.

3.5.2 LEASE GUARANTEES

John Lewis plc continues to provide lease guarantees in favour of the Partnership's former associate company, Ocado Limited, in respect of leased land and buildings. The maximum liability due from the Partnership as the guarantor is £6.8m (2017: £6.8m) which will become payable if Ocado Limited defaults on rental payments. The likely timing of this cash flow is therefore uncertain.

3.5.3 COMMITMENTS UNDER OPERATING LEASES

The Partnership's operating leases relate to supermarkets, department stores, offices and distribution centres. Leases may include break clauses or options to renew (options to renew are not included in the commitments table). The majority of our lease payments are subject to market review, usually every five years, to reflect market rentals, but because of the uncertainty over the amount of any future changes, such changes have not been reflected in the table below. Some of our lease agreements include rental payments contingent on turnover or economic indices, these contingent rents are also excluded from the table below.

Future aggregate minimum lease payments under non-cancellable operating leases, payable:	**2018 Land and buildings £m**	2017 Land and buildings £m
Within one year	**(188.9)**	(183.3)
Later than one year and less than five years	**(738.2)**	(711.4)
After five years	**(3,148.5)**	(2,954.6)

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years:	**2018 Land and buildings £m**	2017 Land and buildings £m
Later than five years and less than 10 years	**(847.6)**	(833.7)
Later than 10 years and less than 20 years	**(1,152.0)**	(1,116.9)
Later than 20 years and less than 40 years	**(598.0)**	(488.3)
Later than 40 years and less than 80 years	**(271.1)**	(205.1)
After 80 years	**(279.8)**	(310.6)
	(3,148.5)	(2,954.6)

Total future sub-lease payments receivable relating to the above operating leases amounted to £10.9m (2017: £10.4m).

Amounts recognised in the income statement	**2018 £m**	2017 £m
Operating lease rentals:		
– land and buildings	**(186.9)**	(177.7)
– plant and machinery	**(0.5)**	(0.5)
Sub-lease income:		
– land and buildings	**5.8**	5.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 WORKING CAPITAL AND PROVISIONS

IN THIS SECTION

Working capital represents the assets and liabilities that the Partnership generates through its day-to-day trading activities. This section shows the elements of working capital, including inventories, trade and other receivables and trade and other payables. Provisions are also included in this section as they represent operating liabilities.

4.1 INVENTORIES

PURPOSE

Our inventory is the stock available for sale or for manufacturing our products. This note sets out the make-up of our inventories between raw materials, work in progress and finished goods and goods for resale. Our raw materials and work in progress are primarily related to Herbert Parkinson and Leckford Farm. Slow moving and obsolete inventory is assessed each reporting period and an appropriate provision is made against the inventory balance. The value of inventory is shown net of provisions. Once the inventory is sold, it is charged to cost of sales in the consolidated income statement.

ACCOUNTING POLICY

Inventory valuation: Inventory is stated at the lower of cost, which is computed on the basis of average unit cost, and net realisable value. Inventory excludes merchandise purchased by the Partnership on a sale or return basis, where the Partnership does not have the risks and rewards of ownership. Slow moving and obsolete inventory is assessed for impairment at each reporting period based on past experience and an appropriate provision is made.

Inventory	**2018 £m**	2017 £m
Raw materials	**4.2**	5.2
Work in progress	**0.1**	0.2
Finished goods and goods for resale	**657.2**	622.4
	661.5	627.8

Provisions against inventories of £10.7m were charged (2017: £11.8m charged) in branch operating expenses.

4.2 TRADE AND OTHER RECEIVABLES

PURPOSE

Our receivables are amounts owed to the Partnership. This note provides a split of receivables into trade receivables, other receivables and prepayments and accrued income.

Trade receivables are amounts owed to us from customers and from suppliers if we are owed rebates. Other receivables include interest receivable from third parties and amounts due from our Partners in respect of the Partnership's car finance scheme. Prepayments are payments made in advance of the delivery of goods or rendering of services. Accrued income is income earned by the Partnership for providing a product or service which has not yet been invoiced.

Other receivables and prepayments are split into current and non-current to show those amounts due within a year and those which will be recovered over a longer period. Trade receivables are shown net of an allowance for debts which we do not consider to be recoverable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 WORKING CAPITAL AND PROVISIONS
4.2 TRADE AND OTHER RECEIVABLES CONTINUED

ACCOUNTING POLICIES

Trade receivables: Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less allowances for situations where recovery is doubtful. Such allowances are based on an individual assessment of each receivable.

Supplier income: The price that the Partnership pays suppliers for goods is determined through negotiations with suppliers regarding both the list price and a variety of rebates and discounts. The principal categories of rebate income are in the form of volume and marketing rebates. Supplier income is broadly split evenly between the two categories as follows:

Volume rebates: Volume rebates are earned based on sales or purchase triggers set over specific periods, such as the number of units sold to customers or purchased from the supplier. Volume rebates are recognised over the period set out in the supplier agreement.

Marketing rebates: Marketing rebates include promotions, mark downs or marketing support provided by suppliers. Marketing rebates are agreed with suppliers for specific periods and products.

Rebate income is recognised when the Partnership has contractual entitlement to the income, it can be estimated reliably and it is probable that it will be received.

Rebate income recognised is recorded against cost of sales and inventory, which is adjusted to reflect the lower purchase cost for the goods on which a rebate has been earned. Depending on the agreement with suppliers, rebates invoiced are either received in cash from the supplier or netted off against payments made to suppliers.

For promotions which are confirmed after the balance sheet date, the Partnership is sometimes required to estimate the amounts due from suppliers at the year-end. Estimates of supplier income are accrued within accrued income, and are based on a review of the supplier agreements in place and of relevant sales and purchase data.

The majority of rebates are confirmed before the year-end, therefore the level of estimate and judgement required in determining the year-end receivable is limited.

Trade and other receivables	2018 £m	2017 £m
Current:		
Trade receivables	**84.5**	67.8
Other receivables	**39.8**	59.7
Prepayments	**101.5**	81.4
Accrued income	**35.9**	33.8
	261.7	242.7
Non-current:		
Other receivables	**18.3**	17.1
Prepayments	**47.0**	44.1
	65.3	61.2

Trade receivables are non-interest bearing and generally on credit terms of less than 90 days. Concentrations of credit risk are considered to be very limited. The carrying amount of trade and other receivables approximates to fair value and is denominated in Sterling. Within trade receivables is accrued rebate income of £9.7m (2017: £9.8m). Supplier income that has been invoiced but not paid is included in trade receivables and supplier income that has been invoiced but not yet settled against future trade payable balances is included in trade payables. As at 27 January 2018, trade and other receivables of £2.9m (2017: £1.2m) were fully impaired.

The creation and release of the allowance for impaired receivables has been included in branch operating expenses in the income statement. As at 27 January 2018, trade and other receivables of £26.2m (2017: £17.1m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

Ageing analysis	2018 £m	2017 £m
Up to 3 months past due	**24.5**	15.0
3 to 12 months past due	**1.1**	0.9
Over 12 months past due	**0.6**	1.2
	26.2	17.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 WORKING CAPITAL AND PROVISIONS

4.3 TRADE AND OTHER PAYABLES

PURPOSE

Trade and other payables include amounts owed by the Partnership. We owe payments to suppliers for goods or services that have been invoiced or accrued, and to HMRC in the form of taxes and social security. Amounts are payable to our Partners, through salaries and our annual profit share, the Partnership Bonus. Deferred income includes amounts owed to customers through goods to be delivered and incentives on property leases spread over the duration of the lease. Non-current trade and other payables and non-current deferred income balances are not expected to be settled within the next financial year.

ACCOUNTING POLICY

Trade payables: Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

CRITICAL ACCOUNTING ESTIMATES

Liabilities: Liabilities recognised in this note at the reporting date include amounts for unredeemed gift vouchers and gift cards. In order to estimate these liabilities, management must make assumptions around likely redemption rates. Management must therefore exercise a degree of estimation when predicting redemption patterns based on actual experience.

Trade and other payables	2018 £m	2017 £m
Current:		
Trade payables	**(943.3)**	(961.7)
Other payables	**(184.7)**	(169.1)
Other taxation and social security	**(178.8)**	(176.9)
Accruals	**(192.1)**	(170.6)
Deferred income	**(72.5)**	(78.4)
Partnership Bonus	**(66.5)**	(81.8)
	(1,637.9)	(1,638.5)
Non-current:		
Other payables	**(0.3)**	(0.3)
Deferred income	**(223.1)**	(219.4)
	(223.4)	(219.7)

The carrying amount of trade and other payables approximates to fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 WORKING CAPITAL AND PROVISIONS

4.4 PROVISIONS

PURPOSE

We incur liabilities which have some uncertainty regarding the timing or the future cost required to settle them. These are termed provisions and have been estimated and provided for at the year-end. Our provisions primarily relate to the expected cost of long leave, service guarantees provided to customers, expected customer refunds, insurance claims, reorganisation costs, property related costs and pay provisions.

ACCOUNTING POLICIES

Provisions: *Provisions are recognised when the Partnership has an obligation in respect of a past event, it is more likely than not that payment (or a non-cash* settlement) will be required to settle the obligation and where the amount can be reliably estimated. Provisions are discounted when the time value of money is considered material.

Employee benefits: The Partnership has a scheme to provide up to six months paid leave after 25 years' service (long leave). The cost of providing the benefits under the scheme is determined using the projected unit credit actuarial valuation method. The current service cost is included within operating profit in the consolidated income statement. The financing elements of long leave are included in finance costs in the consolidated income statement. Actuarial gains or losses are taken directly to the consolidated income statement.

CRITICAL ACCOUNTING ESTIMATES

Provisions: As the provision for liabilities under the long leave scheme is assessed on an actuarial basis, estimates are required for the appropriate discount rate, staff turnover, salary increases and inflation. Significant movements in these assumptions could cause a material adjustment to the carrying amount of the provision.

The provisions balance recognised in this note at the reporting date also includes the estimated cost of complying with the National Minimum Wage Regulations. The Partnership is in discussions with HMRC with regards to our pay arrangements and compliance with the Regulations, which are complex in nature. As these discussions with HMRC are ongoing we continue to hold a provision. The ultimate resolution of the liability may result in an amount that is different from that provided.

Provisions	Long leave £m	Service guarantee £m	Customer refunds £m	Insurance claims £m	Reorganisation £m	Other £m	Total £m
At 28 January 2017	(140.1)	(64.8)	(35.1)	(26.3)	(16.3)	(56.9)	(339.5)
Charged to income statement	(12.5)	(17.4)	(38.1)	(8.0)	(58.5)	(17.2)	(151.7)
Released to income statement	4.1	7.6	–	4.7	6.2	4.5	27.1
Utilised	8.9	19.5	33.8	4.6	38.4	13.2	118.4
At 27 January 2018	**(139.6)**	**(55.1)**	**(39.4)**	**(25.0)**	**(30.2)**	**(56.4)**	**(345.7)**
Of which:							
Current	(31.0)	(19.7)	(39.4)	(16.6)	(29.7)	(51.4)	(187.8)
Non-current	(108.6)	(35.4)	–	(8.4)	(0.5)	(5.0)	(157.9)

The Partnership has a long leave scheme, open to all Partners, which provides up to six months paid leave after 25 years' service. There is no proportional entitlement for shorter periods of service. The provision for the liabilities under the scheme is assessed on an actuarial basis, reflecting Partners' expected service profiles, and using economic assumptions consistent with those used for the Partnership's retirement benefits (note 6.1), with the exception of the real discount rate, where a rate appropriate to the shorter duration of the long leave liability is used, so as to accrue the cost over Partners' service periods.

Provisions for service guarantee costs reflect the Partnership's expected liability for future repair costs for warranties and extended warranties based on estimated failure rates and unit repair costs for the classes of goods sold.

Provisions for customer refunds reflect the Partnership's expected liability for returns of goods sold based on experience of rates of return.

Provisions for insurance claims are in respect of the Partnership's employer's, public and vehicle third-party liability insurances and extended warranty products.

Provisions for insurance claims are based on reserves held in the Partnership's captive insurance company, JLP Insurance Limited. These reserves are established using independent actuarial assessments wherever possible, or a reasonable assessment based on past claims experience.

Provisions for reorganisation reflect restructuring and redundancy costs, principally in relation to our branch, distribution and retail operations as well as functional restructurings in Finance, Personnel and IT.

Other provisions include property related costs and pay provisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 FINANCING

IN THIS SECTION

This section sets out what makes up our net finance costs, which are costs to service our financial and pension debt and income generated on our cash and investment balances. We also include revaluation movements on certain financial assets and liabilities. Information on the significant components of net debt is given in this section, including cash and cash equivalents, borrowings and overdrafts and finance leases.

5.1 NET FINANCE COSTS

PURPOSE

Net finance costs include our costs in respect of interest payable on borrowings, our defined benefit pension and other employee benefit schemes. Finance income includes interest received from short-term deposits, short-term investments and fair value movements.

	2018 £m	2017 £m
Finance costs		
Net interest payable on:		
Commitment fees and bank overdrafts	**(1.3)**	(1.1)
Other loans repayable within five years	**(18.3)**	(23.6)
Other loans repayable in more than five years[1]	**(32.2)**	(31.0)
Finance lease interest payable	**(0.9)**	(1.0)
Amortisation of issue costs of bonds and credit facilities	**(1.5)**	(2.0)
Preference Share dividends	**–**	(0.2)
Share Incentive Plan dividends	**(0.4)**	(1.0)
Finance costs in respect of borrowings	**(54.6)**	(59.9)
Fair value measurements and other	**(1.9)**	(2.8)
Net finance costs arising on defined benefit and other employee benefit schemes	**(29.2)**	(47.0)
Total finance costs	**(85.7)**	(109.7)
Finance income		
Finance income in respect of cash and short-term investments[2]	**6.8**	1.7
Fair value measurements and other	**7.3**	0.2
Total finance income	**14.1**	1.9
Net finance costs	**(71.6)**	(107.8)

1 Other loans repayable in more than five years includes interest payable on interest rate swaps of £4.7m (2017: £nil).
2 Finance income in respect of cash and short-term investments includes interest receivable on interest rate swaps of £5.4m (2017: £nil).

	2018 £m	2017 £m
Total finance costs in respect of borrowings, excluding interest rate swaps	**(49.9)**	(59.9)
Net interest receivable in respect of interest rate swaps	**0.7**	–
Finance income in respect of cash and short-term investments, excluding interest rate swaps	**1.4**	1.7
Net finance costs in respect of borrowings and short-term investments	**(47.8)**	(58.2)
Fair value measurements and other	**5.4**	(2.6)
Net finance costs arising on defined benefit retirement scheme	**(25.3)**	(29.6)
Net finance costs arising on other employee benefit schemes	**(3.9)**	(17.4)
Net finance costs	**(71.6)**	(107.8)

Borrowing costs totalling £8.4m have been capitalised within Intangible assets (£7.2m) and Property, plant and equipment (£1.2m) in the year to 27 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 FINANCING

5.2 ANALYSIS OF NET DEBT

PURPOSE

Net debt summarises our debt position as at the year-end, excluding the pension deficit and operating leases. Net debt incorporates the Partnership's borrowings, bank overdrafts, fair value of derivative financial instruments and obligations under finance leases. These liabilities are offset by cash and cash equivalents, short-term investments and a portion of bond transaction costs that relate to the remaining duration of the bond. This note shows how our *net debt position has moved from the prior year-end, split out between cash movements and non-cash movements.*

	2017 £m	Cash movements £m	Other non-cash movements £m	**2018 £m**
Non-current assets				
Derivative financial instruments	0.1	–	(0.1)	–
	0.1	–	(0.1)	–
Current assets				
Cash and cash equivalents	673.7	(31.5)	–	**642.2**
Short-term investments	60.0	60.0	–	**120.0**
Derivative financial instruments	15.3	14.9	(25.0)	**5.2**
	749.0	43.4	(25.0)	**767.4**
Current liabilities				
Borrowings and overdrafts	–	(0.1)	–	**(0.1)**
Finance leases	(1.2)	1.2	(0.7)	**(0.7)**
Derivative financial instruments	(7.2)	(6.8)	(5.8)	**(19.8)**
	(8.4)	(5.7)	(6.5)	**(20.6)**
Non-current liabilities				
Borrowings	(979.2)	–	30.3	**(948.9)**
Unamortised bond transaction costs	12.3	–	(1.2)	**11.1**
Fair value adjustment for hedged element on bonds	–	–	1.1	**1.1**
Finance leases	(23.3)	–	0.7	**(22.6)**
Derivative financial instruments	(1.1)	–	(2.9)	**(4.0)**
	(991.3)	–	28.0	**(963.3)**
Total net debt	(250.6)	37.7	(3.6)	**(216.5)**

Reconciliation of net cash flow to net debt	**2018 £m**	2017 £m
(Decrease)/increase in net cash and cash equivalents in the year	**(31.6)**	6.3
Cash outflow from movement in short-term investments	**60.0**	50.0
Cash outflow from movement in other net debt items	**9.3**	97.7
Cash movement in net debt for the year	**37.7**	154.0
Opening net debt	**(250.6)**	(372.5)
Non-cash movement in net debt for the year	**(3.6)**	(32.1)
Closing net debt	**(216.5)**	(250.6)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 FINANCING
5.2 ANALYSIS OF NET DEBT CONTINUED

Our total borrowings and finance lease liabilities are summarised below.

	Borrowings £m	Finance lease liabilities £m	**Total £m**
At 30 January 2016	(1,041.6)	(27.3)	**(1,068.9)**
Movements arising from financing cash flows	62.5	2.8	**65.3**
Other non-cash movements	(0.1)	–	**(0.1)**
At 28 January 2017	(979.2)	(24.5)	**(1,003.7)**
Movements arising from financing cash flows	(0.1)	1.2	**1.1**
Other non-cash movements	30.3	–	**30.3**
At 27 January 2018	**(949.0)**	**(23.3)**	**(972.3)**

Other non-cash changes in 2018 relate to the reduction in the value of allocated SIP shares as explained in more detail in note 5.5.

Borrowings exclude unamortised bond transaction costs of £11.1m (2017: £12.3m) and the fair value adjustment for hedged element on bonds of £1.1m (2017: £nil).

5.3 SHORT-TERM INVESTMENTS

PURPOSE

Our short-term investments represent amounts on short-term deposits. They are deposited for a period of greater than 90 days but less than one year with financial institutions.

ACCOUNTING POLICY

Short-term investments: Short-term investments comprise tradable securities and deposits with original maturities of greater than 90 days but less than one year.

Short-term investments	**2018 £m**	2017 £m
Short-term investments	**120.0**	60.0

For the year ended 27 January 2018, the effective interest rate on short-term investments was 0.5% (2017: 0.5%) and these investments had an average maturity of 106 days (2017: 93 days).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 FINANCING

5.4 CASH AND CASH EQUIVALENTS

PURPOSE

Our cash and cash equivalents include cash in hand and cash placed on short-term deposits of less than 90 days with financial institutions and money market funds.

ACCOUNTING POLICY

Cash and cash equivalents: Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with original maturities of less than 90 days. In the consolidated statement of cash flows, net cash and cash equivalents comprise cash and cash equivalents, as defined above, net of bank overdrafts.

Cash and cash equivalents	2018 £m	2017 £m
Cash at bank and in hand	**128.4**	115.2
Short-term deposits	**513.8**	558.5
	642.2	673.7

For the year ended 27 January 2018, the effective interest rate on short-term deposits was 0.3% (2017: 0.4%) and these deposits had an average maturity of 1 day (2017: 1 day).

At 27 January 2018, £20.5m (2017: £33.4m) of the Partnership's cash balance and £nil (2017: £0.1m) of the Partnership's accrued interest balance was pledged as collateral. This is part of the Partnership's insurance arrangements and the release of these funds is subject to approval from third parties.

In the consolidated statement of cash flows, net cash and cash equivalents are shown after deducting bank overdrafts, as follows:

	2018 £m	2017 £m
Cash and cash equivalents, as above	**642.2**	673.7
Less bank overdrafts	**(0.1)**	–
Net cash and cash equivalents	**642.1**	673.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 FINANCING

5.5 BORROWINGS AND OVERDRAFTS

PURPOSE

Our borrowings comprise bonds, bank overdrafts and Share Incentive Plan shares, which are held in trust for the benefit of Partners.

ACCOUNTING POLICIES

Borrowings: Borrowings are initially recognised at fair value net of transaction costs and subsequently measured at amortised cost. Where there is an effective related fair value hedge, the movement in the fair value attributable to the hedged risk is separately disclosed.

Arrangement costs for bonds and loan facilities in respect of debt are capitalised and amortised over the life of the debt at a constant rate. Finance costs are charged to the income statement, based on the effective interest rate of the associated borrowings.

Borrowing costs attributable to the acquisition or construction of a qualifying asset are capitalised. Qualifying assets are those that take a substantial period of time to get ready for their intended use. Capitalisation commences when both expenditure on the asset and borrowing costs are being incurred. Capitalisation ceases when the asset is ready for its intended use. The capitalisation rate used to determine the borrowing costs eligible for capitalisation is 6.5%.

Share Incentive Plan: The Share Incentive Plan (SIP or BonusSave) is initially measured at fair value and the liability is subsequently measured at amortised cost. It is de-recognised once the liability has been settled.

Borrowings and overdrafts	2018 £m	2017 £m
Current:		
Bank overdraft	**(0.1)**	–
	(0.1)	–
Non-current:		
8⅜% Bonds, 2019	**(275.0)**	(275.0)
6⅛% Bonds, 2025	**(300.0)**	(300.0)
4¼% Bonds, 2034	**(300.0)**	(300.0)
Unamortised bond transaction costs	**11.1**	12.3
Fair value adjustment for hedged element on bonds	**1.1**	–
Share Incentive Plan shares (SIP)	**(73.9)**	(104.2)
	(936.7)	(966.9)

All borrowings are unsecured, denominated in Sterling and are repayable on the dates shown, at par.

SIP shares are issued as part of the BonusSave scheme. The SIP shares that are allocated to Partners are entitled to a dividend, the amount of which is determined from year to year by the Partnership Board. The amounts receivable in a winding up would be limited to the amounts that have been paid on the SIP shares. The amounts in respect of SIP shares are classified as debt as the Partnership has a clear obligation to repay the amounts.

The BonusSave scheme is operated by John Lewis Partnership Trust Limited which purchases SIP shares on behalf of Partners who have chosen to invest a portion of their bonus for this purpose. At 27 January 2018, the value of SIP shares purchased by John Lewis Partnership Trust Limited on behalf of Partners was £73.9m, £30.3m lower than the value of SIP shares issued of £104.2m.

In previous years, the Annual Report and Accounts would display the £104.2m of SIP shares issued and a receivable from John Lewis Partnership Trust Limited to John Lewis plc. On 25 January 2018, the Directors of John Lewis plc, John Lewis Partnership plc and John Lewis Partnership Trust Limited signed a tripartite net settlement agreement in relation to any potential future settlement of SIP balances. The net settlement agreement sets out that at the time of settlement, the parties (John Lewis plc, John Lewis Partnership plc, and John Lewis Partnership Trust Limited) will settle net (i.e. offset to the greatest extent possible). Hence the value of SIP shares is shown net as a balance of £73.9m, being the £104.2m (2017: £104.2m) SIP shares issued, offset by a receivable from John Lewis Partnership Trust Limited of £30.3m (2017: £18.7m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 FINANCING

5.6 FINANCE LEASE LIABILITIES

PURPOSE

We enter into leases for property, plant and equipment. Finance leases arise when the terms of the lease agreement substantially transfer all the risks and rewards of ownership of an asset to the Partnership. This note details the schedule of payments due over the life of the finance leases, together with the present value of the finance leases recorded in the consolidated balance sheet.

ACCOUNTING POLICY

Leased assets: Assets used by the Partnership which have been funded through finance leases on terms that transfer to the Partnership substantially all the risks and rewards of ownership are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The interest element of finance lease rentals is charged to the income statement. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the Partnership does not retain substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease rental payments, other than contingent rentals, are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rentals are recognised as an expense in the income statement when incurred.

Operating lease premiums and inducements are recognised in current and non-current assets or liabilities as appropriate, and amortised or released on a straight-line basis over the lease term.

Sub-lease income is recognised as other operating income on a straight-line basis over the sub-lease term, less allowances for situations where recovery is doubtful.

Finance lease liabilities	**2018 £m**	2017 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	**(1.6)**	(2.0)
Later than one year but not more than five	**(5.5)**	(5.9)
More than five years	**(35.2)**	(36.4)
	(42.3)	(44.3)
Future finance charge on finance leases	**19.0**	19.8
Present value of finance lease liabilities	**(23.3)**	(24.5)
Of which:		
Not later than one year	**(0.7)**	(1.2)
Later than one year but not more than five	**(2.6)**	(2.8)
More than five years	**(20.0)**	(20.5)

The Partnership's finance lease liabilities relate to property, plant and equipment that have been classified as finance leases in accordance with IAS 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 PENSIONS

IN THIS SECTION

This section sets out our net pension liability, which is the current cost of meeting future defined pension payments, offset by assets held by the scheme to meet these liabilities.

6.1 RETIREMENT BENEFITS

PURPOSE

The Partnership's pension scheme is made up of two parts: the defined benefit section and the defined contribution section. The defined benefit section provides a non-contributory pension in retirement based on Partners' pensionable pay and pensionable service. The defined contribution section is where contributions made by Partners and the Partnership are invested in a choice of funds and then the contributions and investment returns are used to buy benefits on retirement.

The consolidated balance sheet includes a retirement benefit liability which is the expected future cash flows to be paid out by the defined benefit section of the pension scheme, offset by assets held by the scheme to meet these liabilities. The expected liabilities are calculated by an actuary using a number of financial and demographic assumptions whilst the assets are held at fair value. Changes arising from the Pension Benefit Review, which principally reduced the rate of defined benefit pension build up, were effective from 1 April 2016.

The defined contribution section of the scheme is available to all Partners. Once Partners complete five years' service with the Partnership (three years' service for those who joined the Partnership before 1 April 2015), they will automatically join the defined benefit section of the scheme.

The defined contribution section of the pension scheme pays fixed contributions into individual investment funds on Partners' behalf. There is therefore no liability on the Partnership balance sheet relating to the defined contribution section of the pension scheme.

This note details the financial and demographic assumptions made in estimating the defined benefit obligation, together with an analysis of the components of the pension liability. It also explains where these amounts have been recorded in the consolidated balance sheet and the consolidated income statement.

ACCOUNTING POLICY

Employee benefits: The defined benefit section of the scheme's assets is held separately from the Partnership. The cost of providing benefits under the defined benefit section of the scheme is determined using the projected unit credit actuarial valuation method, which measures the liability based on service completed and allowing for projected future salary increases.

The current service cost is the increase in the present value of the retirement benefit obligation resulting from employees' service in the current year. The current service cost is included within operating profit in the consolidated income statement.

The past service cost represents the change in the present value of the retirement benefit obligation in relation to employees' service in prior years. This may arise as a result of amendments made to the defined benefit scheme during the year, or a reduction in the number of employees covered by the scheme. Past service costs are also included within operating profit, along with any gains or losses on settlement.

Remeasurements of defined benefit pension schemes due to experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income during the period in which they arise.

There are a number of unfunded pension liabilities, where the actuarially assessed costs of providing the benefit are charged to the consolidated income statement. There are no assets supporting these arrangements.

Contributions to the Partnership's defined contribution section are charged to the income statement as they fall due. The Partnership has no further obligations once the contributions have been made.

The Partnership also has a scheme to provide up to six months paid leave after 25 years' service (long leave). Long leave is included within Provisions in note 4.4.

CRITICAL ACCOUNTING ESTIMATES

Retirement benefits: This section details the assumptions used to calculate the total defined benefit pension obligation. This is the estimate of the current cost of meeting future benefits to be paid out by the pension scheme. The calculation requires the application of a discount rate to estimate the present day fair value of the pension payments, as well as assumptions on mortality rates, salary increases and inflation. Given the size of the Partnership's defined benefit obligation, relatively small movements in these assumptions could cause a material adjustment to the carrying amount of the obligation. Sensitivity analysis on the discount rate and other key assumptions is provided in note 6.1.5. During the year, management revised the methodology for deriving the nominal discount rate assumption used in valuing the pension obligation (please see page 121 for further information on this change in estimate).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 PENSIONS
6.1 RETIREMENT BENEFITS CONTINUED

Retirement benefits

The pension scheme operated by the Partnership is the John Lewis Partnership Trust for Pensions. The scheme includes a funded final salary defined benefit section, providing pensions and death benefits to members, and is open to new members. All contributions to the defined benefit section of the pension scheme are funded by the Partnership. The scheme also includes a defined contribution section. Contributions to the defined contribution section of the scheme are made by both Partners and the Partnership.

The scheme is governed by a corporate Trustee which is independent of the Partnership. The Trustee is responsible for the operation and governance of the scheme, including making decisions regarding the scheme's investment strategy. During 2014/15, the Chairman, Partnership Board and Partnership Council of John Lewis Partnership plc approved changes to the level and form of future provision of pension benefits to Partners. This was the output of the Pension Benefit Review which commenced in 2013. The changes took place in two stages. From 1 April 2015 the waiting period to join the defined benefit section of the scheme was increased from three to five years. Then from 1 April 2016, the principal changes were to reduce the annual defined benefit accrual rate from 1/60th to 1/120th of final salary, and to provide an enhanced level of defined contribution pension for those Partners who have completed the waiting period. Other changes, applying only to any pension built up after 1 April 2016, included linking the Partnership normal retirement age to the State Pension Age, and a change in the rate of pension increases in payment.

On 20 January 2017, the Partnership announced changes in the way that the annual discretionary increase for pension in retirement built up before 6 April 1997 would be applied. Prior to January 2017, increases in pension in retirement for pensionable service built up before 6 April 1997 had been granted in line with RPI inflation (up to a maximum of 5%). From January 2017, this increase is expected to be granted in line with CPI inflation (up to a maximum of 2.5%).

Funding valuation

The pension scheme is subject to a full actuarial valuation every three years using assumptions agreed between the Trustee and the Partnership. The purpose of this valuation is to design a funding plan to ensure that the pension scheme has sufficient funds available to meet future benefit payments. The most recent valuation was carried out by an independent professionally qualified actuary as at 31 March 2016 and resulted in a funding deficit of £479.0m (31 March 2013: £840.0m). The market value of the assets of the scheme as at 31 March 2016 was £4,377.0m (31 March 2013: £3,169.0m). The actuarial valuation showed that these assets were sufficient to cover 90% (31 March 2013: 79%) of the benefits which had accrued to members.

The valuation calculated under the funding valuation basis of £479.0m is different from the accounting valuation which is presented on the balance sheet in the Partnership's financial statements of £731.3m. Differences arise between the funding valuation and accounting valuation, mainly due to the use of different assumptions to value the liabilities and changes in market conditions between the two valuation dates, of 31 March 2016 and 27 January 2018.

For funding valuation purposes the liabilities are determined based on assumptions set by the Trustee following consultation with the Partnership and scheme actuaries. The discount rate used for the most recent funding valuation is based on index linked gilt yields plus 1.6%.

In the financial statements the liabilities are determined in accordance with IAS 19. The discount rate used for the accounting valuation is based on high quality (AA) corporate bond yields of an appropriate term.

As a result of the funding valuation, the Partnership and the Trustee agreed to put in place a plan to eliminate the deficit of £479.0m over a 10-year period. Contributions agreed as part of this plan are as follows:

- A reduction in the contribution rate from 16.4% to 10.4% of eligible monthly payroll.
- Deficit reducing contributions from 1 April 2016 to 31 March 2019 of £33m per annum to be paid in equal monthly instalments, increasing by 3% at 31 March 2017 and 31 March 2018.
- Deficit reducing contributions from 1 April 2019 to 31 March 2026 of £6.6m per annum to be paid in equal monthly instalments, increasing on 31 March each year by 3%.
- One-off contributions of £100m and £50m due by 31 January 2017 and 31 March 2017 respectively, of which the £100m was paid on 18 January 2017 and £50m was paid on 24 February 2017.

The balance of the deficit is expected to be met by investment returns on the scheme assets. Total contributions to the scheme in 2018/19, under this agreement are expected to be £146.9m.

Subsequent to the funding valuation being agreed, it was identified that certain pension scheme members were omitted from the calculation of the pension liabilities. Including these additional members increased the estimated pension liabilities by £31m (0.6%), from £4,856m to £4,887m. As a result, the Partnership has agreed to payments, in addition to the contributions described above, of £6.1m made in December 2017 and a further £3.2m per annum payable in equal monthly instalments from 1 April 2018 to 31 March 2026, increasing on 31 March each year by 3%.

The next triennial actuarial valuation of the scheme will take place as at 31 March 2019.

Pension commitments recognised in these accounts have been calculated based on the most recent actuarial valuation, as at 31 March 2016, which has been updated by actuaries to reflect the assets and liabilities of the scheme as at 27 January 2018, calculated on assumptions that are appropriate for accounting under IAS 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 PENSIONS
6.1 RETIREMENT BENEFITS CONTINUED

Risk management
The cost of the scheme to the Partnership depends upon a number of assumptions about future events. Future contributions may be higher or lower than those currently agreed if these assumptions are not borne out in practice or if different assumptions are agreed in the future.

Specific risks include:

- Changes in future expectations of price inflation: The majority of the scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities. Hence, an increase in inflation will increase the deficit. This is offset in part by the Trustee's liability matching scheme as detailed in 6.1.4.
- Changes in the discount rate used to value pension liabilities: A lower discount rate will lead to a higher present value being placed on future pension payments. Hence, a reduction in discount rate will increase the deficit. This is offset in part by the Trustee's liability matching scheme as detailed in 6.1.4.
- The return on assets being lower than assumed: If the rate of growth in assets falls below the discount rate used to value the liabilities then the pension deficit will increase. This is offset in part by the Trustee's investment strategy of holding a highly diversified portfolio of return seeking assets as detailed in 6.1.4.
- Falls in asset values not being matched by similar falls in the value of liabilities: As the majority of assets held by the scheme are not matched to the liabilities of the scheme, a fall in plan assets will lead to an increase in the deficit. This is offset in part by the Trustee's investment strategy of holding a highly diversified portfolio of return seeking assets as detailed in 6.1.4.
- Unanticipated increase in life expectancy leading to an increase in the scheme's liabilities: An increase in life expectancy would mean pensions are expected to be paid for a longer period, so increasing the liability and the scheme's deficit. This is offset in part by the scheme applying a Life Expectancy Adjustment Factor, whereby future pensions coming into payment are adjusted to allow for increases in life expectancy.

Change in accounting estimate – discount rate
During the year, the Directors have reviewed the methodology for deriving the nominal discount rate assumption in valuing the Partnership's pension obligation under IAS 19 Employee Benefits.]IAS 19 Employee Benefits requires that the nominal discount rate is set by reference to market yields on high quality corporate bonds of a suitable term consistent with the scheme cash flows. Where there are no high quality corporate bonds of appropriate duration to reference, an extrapolation from other bond yields is required.

The Partnership's pension scheme has cash flows spanning out over 50 years and an average duration of 22 years. At long durations there are few suitable high quality corporate bonds to reference in setting the nominal discount rate assumption. The Partnership's previous methodology was to take the yield on the iBoxx over 15 year AA corporate bond index plus an adjustment to reflect the duration of the Partnership's pension scheme. This adjustment was informed by reference to both observable corporate bond yields and government bond yields. The model now adopted by the Partnership is a yield curve approach, based on corporate bonds within the iBoxx AA corporate bond index. At very long durations, where there are no high quality corporate bonds of appropriate duration to reference, the yield curve is extrapolated based on observable corporate bond yields of mid to long durations. The Directors believe this more appropriately reflects expected yields on high quality corporate bonds over the duration of the Partnership's pension scheme.

The change in estimation methodology of the nominal discount rate model has resulted in a £210m gain from changes in financial assumptions recognised in equity, and a corresponding reduction in the retirement benefit obligations. The estimated impact of the change in methodology on the income statement for the year ended 26 January 2019 is a reduction in current service costs within operating expenses of £6.5m and a reduction in net interest on the net defined benefit liability included in finance costs of £4.4m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 PENSIONS
6.1 RETIREMENT BENEFITS CONTINUED

6.1.1 ASSUMPTIONS

PURPOSE

This section details the assumptions used to calculate the total defined benefit pension obligation. This is the estimate of the current cost of meeting future benefits to be paid out by the pension scheme. The calculation includes applying a discount rate to estimate the present day fair value of the pension payments, allowing for future expected increases in earnings and pension payments and the life expectancy of the members of the pension scheme.

Financial assumptions
Scheme assets are stated at market values at 27 January 2018.

The following financial assumptions have been used to value the obligation:

	2018	2017
Discount rate	**2.75%**	2.90%
Future retail price inflation (RPI)	**3.25%**	3.40%
Future consumer price inflation (CPI)	**2.25%**	2.40%
Increase in earnings	**3.45%**	3.50%
Increase in pensions – in payment		
Pre-April 1997	**1.70%**	1.75%
April 1997-April 2016	**3.00%**	3.10%
Post-April 2016	**1.70%**	1.75%
Increase in pensions – deferred	**2.25%**	2.40%

Increases in earnings are projected to be at 3.6% until 2021 and then at a long-term rate of 1.0% above consumer price inflation (2017: 1.0% above consumer price inflation). Increases in pensions in payment are projected to be 0.55% below consumer price inflation (2017: 0.65% below consumer price inflation) for pensionable service built up before April 1997, 0.25% (2017: 0.30%) below retail price inflation for pensionable service built up between April 1997 and April 2016, and 0.55% (2017: 0.65%) below consumer price inflation for pensionable service built up after April 2016, reflecting the impact of a cap on the level of pension increases. Increases in deferred pensions are projected to be in line with consumer price inflation.

Demographic assumptions
The post-retirement mortality assumptions used in valuing the pension liabilities were based on the S2 Light (2017: S2 Light) series standard tables. Based on scheme experience, the probability of death at each age was multiplied by 127% for males and 106% for females. Future improvements in life expectancy have been allowed for in line with the standard CMI 2016 (2017: CMI 2015) model projections subject to a long-term trend of 1.25%.

The average life expectancies assumed were as follows:

	2018		2017	
	Men	**Women**	Men	Women
Average life expectancy for a 65 year old (in years)	**21.5**	**23.8**	21.6	24.1
Average life expectancy at age 65, for a 50 year old (in years)	**22.5**	**25.0**	22.8	25.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 PENSIONS
6.1 RETIREMENT BENEFITS CONTINUED

6.1.2 AMOUNTS RECOGNISED IN THE FINANCIAL STATEMENTS

PURPOSE

This section details the amounts recognised in our consolidated financial statements in relation to our pension scheme. This consists of the net pension liability, recognised on our balance sheet, the cost of providing the pension benefit over the year, recognised in the income statement, and actuarial gains and losses (being changes in assumptions, or assumptions not being borne out in practice) which are recognised in the statement of comprehensive income/(expense). The movements are broken down into the key components that impact on the pension scheme.

Amounts recognised in the balance sheet	2018 £m	2017 £m
Defined benefit obligation for funded arrangements	**(6,200.0)**	(6,035.0)
Defined benefit obligation for unfunded arrangements	**(24.0)**	(24.0)
Total defined benefit obligation	**(6,224.0)**	(6,059.0)
Total value of scheme assets	**5,492.7**	5,045.3
Defined benefit liability at year-end	**(731.3)**	(1,013.7)

PURPOSE

The cost of providing the pension scheme over the year, recognised in the consolidated income statement, is broken down as follows:

Service cost is the cost to the Partnership of future benefits earned by members which are attributable to members' service in the current or past periods. The past service cost represents the change in the present value of the retirement benefit obligation in relation to employees' service in prior years.

Contribution expense is in respect of the Partnership's contributions to the defined contribution section of the pension scheme and cash supplements in respect of certain Partners in lieu of future pension accrual.

Administration expenses are in relation to the pension scheme.

Net interest on the net defined benefit liability is made up of the interest cost on pension liabilities and interest income on pension assets.

Amounts recognised in the income statement	2018 £m	2017 £m
Current service cost	**(138.7)**	(124.2)
Past service credit	**–**	270.0
Contribution expense*	**(66.9)**	(53.7)
Administrative expenses – funded by the pension scheme	**(5.3)**	(4.9)
Administrative expenses – funded by the employer	**(4.7)**	(5.1)
Total operating (expenses)/income	**(215.6)**	82.1
Net interest on net defined benefit liability	**(25.3)**	(29.6)
Total pension (charge)/income	**(240.9)**	52.5

* Includes Partnership contributions to the defined contribution section of the pension scheme of £62.5m (2017: £49.0m), together with cash supplements in respect of certain Partners in lieu of future pension accrual of £4.4m (2017: £4.7m).

In the year to 28 January 2017, the past service credit of £270.0m related to a reduction in pension liabilities arising from the changes to the annual discretionary increase for pension in retirement built up before 6 April 1997. See note 2.3.

Amounts recognised in equity	2018 £m	2017 £m
Return on plan assets greater than the discount rate	**243.2**	581.7
Remeasurements:		
– loss from changes in financial assumptions	**(97.7)**	(1,164.1)
– gain from changes in demographic assumptions	**124.5**	150.4
– experience losses	**(22.5)**	(0.6)
Total gains/(losses) recognised in equity	**247.5**	(432.6)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 PENSIONS
6.1 RETIREMENT BENEFITS CONTINUED

6.1.3 RECONCILIATION OF RETIREMENT BENEFITS

PURPOSE

The net defined benefit pension liability is the difference between the total pension liability (being the expected cost of making future defined benefit pension payments) and scheme assets. The table below details movements in the net defined benefit pension liability since the year-end. Movements in scheme assets are explained further in 6.1.4.

Movements in the net defined benefit liability are as follows:

Pension income/expense, which is the income/cost associated with providing defined benefit pension benefits over the year. This is equal to the pension operating income/expense set out above in 6.1.2, but excluding contribution expense and administrative expenses met directly by the employer.

Contributions paid into the scheme will reduce the value of the net pension liability.

Gains or losses recognised in equity relating to returns on plan assets being different to the discount rate and remeasurements (explained further below).

Reconciliation of net defined benefit liability	2018 £m	2017 £m
Net defined benefit liability at beginning of year	**(1,013.7)**	(941.6)
Pension (expense)/income	**(169.3)**	111.3
Contributions	**204.2**	249.2
Total gains/(losses) recognised in equity	**247.5**	(432.6)
Net defined benefit liability at end of year	**(731.3)**	(1,013.7)

PURPOSE

The total pension liability (or defined benefit obligation) represents the current cost of meeting the future benefits to be paid out by the scheme. The movements in the defined benefit obligation are broken down into key areas that impact the obligation as follows:

Service cost is the cost to the Partnership of future benefits earned by members which are attributable to members' service in the current or past periods. Current service costs relate to benefits accrued by Partners during the current year, and past service credits/costs are changes in the present value of the defined benefit obligation relating to members' service in prior years, which may arise as a result of changes made to the scheme during the year. Both current and past service costs are charged to the income statement, along with any gains or losses on settlement.

Future pension obligations are stated at present value. A discount rate is used to calculate the current value of the future liability. The interest on pensions liabilities is the unwinding of this discount rate and is charged to the income statement within net finance costs.

Remeasurements arise from the uncertainty in making assumptions about future events in calculating the liability. These may arise from changes in assumptions, for example movements in the discount rate, or experience adjustments which result from differences between the assumptions made and what actually occurred over the period. Remeasurements are recognised in equity and shown in the statement of comprehensive income/(expense).

Any cash benefits paid out by the scheme will reduce the defined benefit obligation.

Reconciliation of defined benefit obligation	2018 £m	2017 £m
Defined benefit obligation at beginning of year	**(6,059.0)**	(5,140.0)
Current service cost	**(138.7)**	(124.2)
Past service credit	**–**	270.0
Interest on pension liabilities	**(173.7)**	(187.9)
Remeasurements		
– loss from changes in financial assumptions	**(97.7)**	(1,164.1)
– gain from changes in demographic assumptions	**124.5**	150.4
– experience losses	**(22.5)**	(0.6)
Benefits paid	**143.1**	137.4
Defined benefit obligation at end of year	**(6,224.0)**	(6,059.0)

The scheme liabilities are 45.4% in respect of active scheme participants, 32.9% in respect of deferred scheme participants and 21.7% in respect of retirees.

The weighted average duration of the scheme liabilities at the end of the year is 22 years (2017: 22 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 PENSIONS
6.1 RETIREMENT BENEFITS CONTINUED
6.1.3 RECONCILIATION OF RETIREMENT BENEFITS CONTINUED

PURPOSE

The pension scheme holds a number of investments to meet future pension payments, referred to as the assets of the scheme. This note details movements in the value of pension assets since the prior year-end. The movements are broken down into key areas that impact the pension assets as follows:

Interest income on assets represents the expected return on investments if it is in line with the discount rate. It is calculated as the discount rate at the beginning of the year multiplied by the value of the assets at the beginning of the year. This is recognised in net finance costs in the income statement.

Return on plan assets greater/(less) than the discount rate represents how much greater or less the actual return is than the interest income. This is recognised in equity and shown in the statement of comprehensive income/(expense).

Any cash benefits paid out or expenses paid by the scheme will reduce the value of the scheme's assets.

Contributions paid into the scheme will increase the value of the scheme's assets.

Reconciliation of value of assets	2018 £m	2017 £m
Value of assets at the beginning of year	**5,045.3**	4,198.4
Interest income on assets	**148.4**	158.3
Return on plan assets greater than discount rate	**243.2**	581.7
Benefits paid	**(143.1)**	(137.4)
Administrative expenses paid	**(5.3)**	(4.9)
Contributions	**204.2**	249.2
Value of assets at the end of year	**5,492.7**	5,045.3

6.1.4 ANALYSIS OF ASSETS

				2018				2017
	Quoted £m	Unquoted £m	Total £m	Total %	Quoted £m	Unquoted £m	Total £m	Total %
Equities								
UK	**55.4**	**39.8**	**95.2**	**1.7%**	50.2	33.1	83.3	1.7%
Rest of the world	**623.0**	**1,058.4**	**1,681.4**	**30.6%**	510.8	867.9	1,378.7	27.3%
Bonds								
Government – Rest of the world	**76.7**	**5.3**	**82.0**	**1.5%**	49.2	–	49.2	1.0%
Corporates – UK	**2.9**	**2.1**	**5.0**	**0.1%**	5.3	–	5.3	0.1%
Corporates – Rest of the world	**52.2**	**124.4**	**176.6**	**3.2%**	80.7	131.1	211.8	4.2%
Property								
UK	**–**	**515.4**	**515.4**	**9.4%**	–	468.4	468.4	9.3%
Rest of the world	**–**	**0.9**	**0.9**	**<0.1%**	–	1.7	1.7	<0.1%
Alternative assets								
Liability driven investments	**–**	**848.7**	**848.7**	**15.5%**	–	837.9	837.9	16.6%
Hedge funds	**–**	**957.8**	**957.8**	**17.4%**	–	942.5	942.5	18.7%
Private equity	**–**	**294.0**	**294.0**	**5.4%**	–	332.0	332.0	6.6%
Other alternative assets	**–**	**671.6**	**671.6**	**12.2%**	–	611.9	611.9	12.1%
Cash and other	**164.1**	**–**	**164.1**	**3.0%**	122.6	–	122.6	2.4%
Total market value of assets	**974.3**	**4,518.4**	**5,492.7**	**100.0%**	818.8	4,226.5	5,045.3	100.0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 PENSIONS
6.1 RETIREMENT BENEFITS CONTINUED
6.1.4 ANALYSIS OF ASSETS CONTINUED

The Trustee's investment strategy as set out in their Statement of Investment Principles dated 28 July 2017 is to hold 80% of assets in a return-seeking portfolio that aims to reduce concentrations of risk by diversifying across a range of asset classes and geographies. The remaining assets are used to provide a liability matching portfolio with the intention of matching movements in the assessed values of the pension liabilities due to movements in interest rates and inflation. In 2016 the Trustee initiated a three to five year interest rate and inflation hedging programme which will increase the level of liability matching to 60% over this time period (the current level is 36%). This will be achieved using derivatives, and therefore the allocation to return seeking assets is not intended to reduce.

Equities, bonds and certain alternative assets which are traded on active markets are included at the quoted price, which is normally the bid price. Properties are valued by independent valuers who have recent experience of the locations and type of properties held. Equities and alternative assets that are neither quoted nor traded on an active market are stated at fair value estimates provided by the manager of the investment or fund.

Liability driven investments include UK government bond and cash equivalent assets valued at £1,561.7m (2017: £1,201.7m) and associated repurchase agreements and swaps valued at £(713.0)m (2017: £(363.8)m). This is part of the Trustee's interest rate and inflation hedging strategy.

Other alternative assets include investments in infrastructure funds of £236.6m (2017: £205.7m), insurance linked funds £201.6m (2017: £115.4m) and private debt £233.4m (2017: £290.8m).

Cash and other includes cash deposits of £118.3m (2017: £129.4m), forward foreign exchange contracts valued at £40.3m (2017: (£4.4)m) and other items valued at £5.5m (2017: (£2.4)m).

Actual return on assets	2018 £m	2017 £m
Interest income on assets	**148.4**	158.3
Return on plan assets greater than discount rate	**243.2**	581.7
Actual return on assets	**391.6**	740.0

6.1.5 SENSITIVITY ANALYSIS

PURPOSE

The net defined benefit obligation is volatile given that it is based on a number of long-term assumptions, which are likely to change over time. Illustrated below is the sensitivity of the balance sheet position to changes in key assumptions.

The sensitivities have been derived using approximate methods which are consistent with the rest of the disclosure:

	£m	% change
Liability as at 27 January 2018	**(731.3)**	
Sensitivity of 0.1% increase to:		
– Discount rate*	**120.0**	**16.4**
– Retail price inflation	**(65.0)**	**(8.9)**
– Consumer price inflation	**(55.0)**	**(7.5)**
– Salary increases	**(35.0)**	**(4.8)**
Sensitivity of one-year increase in life expectancy	**(230.0)**	**(31.5)**

* The discount rate sensitivity does not allow for the impact of the Trustee's investment strategy. As set out in note 6.1.4 this is designed to offset movements in the discount rate and their impact on the liabilities. At 27 January 2018, an increase of 0.1% to the discount rate would have also resulted in an increase in assets of 0.7%. The increase in the assets would have reduced the impact on the net liability by £39.7m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 PENSIONS
6.1 RETIREMENT BENEFITS CONTINUED

6.1.6 OTHER ARRANGEMENTS

JLP Scottish Limited Partnership
On 30 January 2010, the Partnership entered into an arrangement with the Pension Scheme Trustee to address an element of the scheme deficit that existed at that time.

The Partnership established two partnerships, JLP Scottish Limited Partnership and JLP Scottish Partnership, which are both consolidated within these Partnership financial statements.

Together with another Partnership company, JLP Scottish Limited Partnership provided sufficient capital to JLP Scottish Partnership to enable it to procure property assets with a market value of £150.9m from other Partnership companies. The Partnership retains control over these properties, including the flexibility to substitute alternative properties. The properties held in JLP Scottish Partnership have been leased back to John Lewis plc and Waitrose Limited.

As a partner in JLP Scottish Limited Partnership, the pension scheme is entitled to an annual share of the profits of the JLP Scottish Limited Partnership each year over 21 years. At the end of this period, the partnership capital allocated to the pension scheme will be reassessed, depending on the funding position of the pension scheme at that time, with a potential value in the range of £0.5m to £99.5m. At that point, the Partnership may be required to transfer this amount in cash to the scheme.

Under IAS 19, the investment held by the pension scheme in JLP Scottish Limited Partnership, a consolidated entity, does not represent a plan asset for the purpose of the Partnership's consolidated financial statements. Accordingly, the pension deficit position presented in these consolidated accounts does not reflect the £80.8m (2017: £82.8m) investment in JLP Scottish Limited Partnership held by the pension scheme. The distribution of JLP Scottish Limited Partnership profits to the pension scheme is reflected as pension contributions in these consolidated financial statements on a cash basis.

John Lewis Properties plc guarantee
As part of agreeing the funding valuation in 2017, John Lewis Properties plc provided a corporate guarantee to the pension scheme. This guarantee means that if John Lewis plc fails to make any payments due to the scheme for any reason, then the pension scheme can claim against John Lewis Properties plc for those payments. As part of the guarantee, John Lewis Properties plc is required to maintain at least £800.0m of net assets. The guarantee has improved the recovery to the pension scheme in the event of insolvency of the Partnership.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 FINANCIAL RISK MANAGEMENT

IN THIS SECTION

This section sets out the policies and procedures applied to manage the financial risks to which the Partnership is exposed. A breakdown of our derivative financial instruments is given here as they are used by the Partnership to manage financial volatility. An analysis of our financial assets and liabilities is also given.

7.1 MANAGEMENT OF FINANCIAL RISKS

PURPOSE

The principal financial risks that we are exposed to relate to the capital structure and long-term funding of the Partnership and also to the markets and counterparties we are exposed to in our operations. These risks can be summarised as: capital and long-term funding risk, liquidity risk, interest rate risk, foreign currency risk, credit risk and energy risk. This note details how each of these risks is managed.

7.1.1 CAPITAL AND LONG-TERM FUNDING RISK

The Partnership's objectives when managing capital are to safeguard its ability to continue as a going concern, provide returns for its Partners and to maintain a prudent level of funding. The Partnership is a long-term business, held in trust for the benefit of its Partners. The co-ownership model means that it is not able to raise equity externally.

The Partnership's capital management strategy is to maintain a prudent capital structure, seeking to ensure the long-term financial sustainability of the Partnership by maintaining a financial risk profile consistent with an investment grade credit rating. Although the Partnership does not have an external credit rating, it routinely monitors its capital and liquidity requirements, primarily through the Debt Ratio (see page 30), whilst maintaining an appropriate level of cash and committed debt headroom and a managed debt maturity profile to reduce refinancing risk and ensure continuity of funding. Forms of borrowing include bond issues, assets acquired via finance leases, assets obtained for use via operating leases, the pension deficit and Share Incentive Plan shares as part of the BonusSave scheme.

7.1.2 LIQUIDITY RISK

In line with the Partnership Board approved Treasury Standard, the Partnership is required to hold a minimum amount of liquidity, made up of a mixture of cash and undrawn committed credit facilities. Liquidity requirements are managed in line with short and long-term cash flow forecasts and reviewed against the Partnership's debt portfolio and maturity profile. Surplus cash is invested in interest bearing accounts, short-term deposits and other short-term investments with sufficient, prudent liquidity determined by the above mentioned cash flow forecasts. The Partnership actively reviews and manages its cash holdings, sources of debt and committed credit facilities. Greater emphasis has been placed on cash balances providing a material portion of the Partnership's overall liquidity, with undrawn committed credit facilities complementing these balances. The Partnership has a £450m committed credit facility, maturing November 2021 and a £50m committed credit facility maturing in March 2021. At the year-end, the Partnership had total undrawn committed credit facilities of £500m (2017: £450m). In addition to these facilities, the Partnership has listed bonds totalling £875m (2017: £875m) of which £275m mature in 2019, £300m in 2025 and £300m in 2034. The bonds have fixed coupons, and their maturity profiles are set out in note 7.3.

The Partnership's listed bonds and committed credit facilities contain financial covenants. Throughout the year the Partnership maintained comfortable headroom against its covenants and is expected to do so into the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 FINANCIAL RISK MANAGEMENT
7.1 MANAGEMENT OF FINANCIAL RISKS CONTINUED
7.1.2 LIQUIDITY RISK CONTINUED

The following analysis shows the contractual undiscounted cash flows payable under financial liabilities and derivative financial liabilities at the balance sheet date:

	Due within 1 year £m	**Due between 1 and 2 years £m**	**Due 2 years and beyond £m**
Non-derivative financial liabilities			
Borrowings and overdrafts	**(0.1)**	**(275.0)**	**(673.9)**
Interest payments on borrowings	**(54.2)**	**(54.2)**	**(283.1)**
Finance lease liabilities	**(1.5)**	**(1.4)**	**(39.4)**
Trade and other payables	**(1,386.6)**	**(0.3)**	**–**
Derivative financial liabilities			
Derivative contracts – receipts	**342.2**	**106.5**	**30.7**
Derivative contracts – payments	**(356.4)**	**(108.3)**	**(31.8)**
At 27 January 2018	**(1,456.6)**	**(332.7)**	**(997.5)**

	Due within 1 year £m	Due between 1 and 2 years £m	Due 2 years and beyond £m
Non-derivative financial liabilities			
Borrowings and overdrafts	–	–	(979.2)
Interest payments on borrowings	(54.2)	(54.2)	(337.3)
Finance lease liabilities	(2.1)	(1.5)	(40.7)
Trade and other payables	(1,383.2)	(0.3)	–
Derivative financial liabilities			
Derivative contracts – receipts	288.6	62.1	–
Derivative contracts – payments	(275.5)	(62.6)	–
At 28 January 2017	(1,426.4)	(56.5)	(1,357.2)

For the purposes of this note, the foreign currency element of forward foreign currency contracts is translated at spot rates prevailing at the year-end.

7.1.3 INTEREST RATE RISK

In order to manage the risk of interest rate fluctuations on the Partnership's financial debt and cash, the Partnership targets a range of fixed and floating rate debt in line with the Partnership Board approved Treasury Standard. An analysis of the Partnership's financial liabilities is detailed in note 7.3. Exposures to interest rate fluctuations are managed, when required, using interest rate derivatives. During the year, the Partnership converted £100.0m of fixed rate debt to floating rate debt using interest rate swap contracts. The interest rate swap contracts were designated as fair value hedges and fair value movements have been recognised within the income statement. Derivative financial instruments recognised as fair value hedges during the year were effective.

7.1.4 FOREIGN CURRENCY RISK

The Partnership uses derivative financial instruments to manage exposures to movements in exchange rates arising from transactions with overseas based suppliers and other organisations. Foreign exchange management committees exist for each of the Waitrose and John Lewis Divisions and they meet regularly to oversee the foreign exchange purchasing activities for each Division. Foreign currency exposures are hedged primarily using forward foreign exchange contracts covering up to 100% of forecast direct exposures on a rolling basis. Forward foreign exchange contracts used to hedge forecast currency requirements are designated as cash flow hedges with fair value movements recognised in equity. Derivative financial instruments that were designated as cash flow hedges during the year were effective. At the balance sheet date, the notional value of open forward foreign currency contracts of £453.1m (2017: £349.5m) had been entered into, to hedge purchases in foreign currencies which will mature over the next 24 months.

In addition, the Partnership has purchased $200m (£142m) of Sterling/US Dollar options, which expire in October 2018, in order to help manage its indirect currency risk. Fair value movements in the option contracts will be recognised within the income statement. The indirect risk being hedged is defined as the Partnership's economic exposure to the change in price of goods and services which have foreign currency input costs but which are predominantly paid for in Sterling.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 FINANCIAL RISK MANAGEMENT
7.1 MANAGEMENT OF FINANCIAL RISKS CONTINUED

7.1.5 CREDIT RISK

The Partnership has no significant exposure to an individual customer's credit risk due to transactions being principally of a high volume, low value and short maturity. Cash deposits and other financial instruments give rise to credit risk on the amounts due from counterparties. These risks are managed by restricting such transactions to an approved list of counterparties, who have an investment grade credit rating by at least two of the three primary rating agencies. Appropriate credit limits are designated to each counterparty.

The Partnership considers its maximum exposure to credit risk is as follows:

	2018 £m	2017 £m
Trade and other receivables	**142.6**	144.6
Short-term investments	**120.0**	60.0
Cash and cash equivalents	**642.2**	673.7
Derivative financial instruments	**5.2**	15.4
	910.0	893.7

7.1.6 ENERGY RISK

The Partnership operates risk management processes for the Partnership's energy costs associated with its activities. The Partnership's energy policy is reviewed by an energy committee, which meets regularly to review pricing exposure to diesel, electricity and gas consumption and determines strategy for forward purchasing and hedging of energy costs using flexible purchase contracts and by entering into over-the-counter diesel swap contracts.

7.1.7 SENSITIVITY ANALYSIS

The following analysis illustrates the sensitivity of the Partnership's financial instruments to changes in market variables, namely UK interest rates and the US Dollar and Euro to Sterling exchange rates. The level of sensitivities chosen, being 1% movement in Sterling interest rates and a 10% movement in Sterling when compared to the US Dollar and Euro, provide a reasonable basis to measure sensitivity whilst not being the Partnership's view of what is likely to happen in the future.

The analysis excludes the impact of movements in market variables on the carrying value of pension and other post-retirement obligations and provisions, which is addressed in note 6.1.5.

The analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating rate borrowings and the proportion of financial instruments in foreign currencies are constant throughout the year, based on positions as at the year-end.

The following assumptions have been made in calculating the sensitivity analysis:

- The sensitivity of interest costs to movements in interest rates is calculated using floating rate debt and investment balances prevailing at the year-end
- Changes in the carrying value of derivative financial instruments not in hedging relationships are assumed only to affect the income statement
- All derivative financial instruments designated as hedges are assumed to be fully effective

	2018		2017	
	Income statement +/- £m	Equity +/- £m	Income statement +/- £m	Equity +/- £m
UK interest rates +/- 1% (2017: +/- 1%)	**4.9**	–	7.5	–
US Dollar exchange rate (GBP/USD) +/- 10% (2017: +/- 10%)	**12.2**	**21.9**	0.9	19.2
Euro exchange rate (GBP/EUR) +/- 10% (2017: +/- 10%)	**0.7**	**15.7**	0.8	10.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 FINANCIAL RISK MANAGEMENT

7.2 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES

PURPOSE

We use cash flow hedges to manage the risk of adverse currency movements.

This note details the fair value of these financial instruments and financial liabilities, together with the valuation techniques and key assumptions made in determining the fair value, as required by IFRS. The fair value represents the amount that would be received from the sale of an asset or the amount that would be paid to pass on a liability.

7.2.1 BASIS OF FAIR VALUE

Fair value estimation
The different levels per the IFRS 13 fair value hierarchy have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

During the year ended 27 January 2018, there have been no transfers between any levels of the IFRS 13 fair value hierarchy and there were no reclassifications of financial assets as a result of a change in the purpose or use of those assets.

7.2.2 FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is as follows:

	2018		2017	
Fair value of derivative financial instruments	**Assets £m**	**Liabilities £m**	Assets £m	Liabilities £m
Non-current				
Currency derivatives – cash flow hedge	–	**(2.9)**	0.1	(1.1)
Other derivatives	–	**(1.1)**	–	–
	–	**(4.0)**	0.1	(1.1)
Current				
Currency derivatives – cash flow hedge	**1.5**	**(19.8)**	14.1	(3.3)
Other derivatives	**3.7**	–	1.2	(3.9)
	5.2	**(19.8)**	15.3	(7.2)

The fair value of a derivative financial instrument represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the forward rates of exchange and interest rates prevailing at the balance sheet date.

The fair value of the derivative financial instruments held by the Partnership are classified as level 2 under the IFRS 13 fair value hierarchy, as all significant inputs to the valuation model used are based on observable market data and are not traded in an active market.

Specific valuation techniques used to value the financial instruments include quoted market prices. There have been no changes in valuation techniques from the prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 FINANCIAL RISK MANAGEMENT
7.2 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES CONTINUED

7.2.3 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES HELD AT AMORTISED COST

The following table compares the Partnership's liabilities held at amortised cost, where there is a difference between carrying value (CV) and fair value (FV):

	2018 £m		2017 £m	
	CV	**FV**	CV	FV
Financial liabilities				
Listed bonds	**(863.9)**	**(982.6)**	(862.7)	(997.3)

The fair values of the Partnership's listed bonds have been determined by reference to market price quotations and are classified as level 1 under the IFRS 13 fair value hierarchy.

For other financial assets and liabilities, there are no material differences between carrying value and fair value.

7.3 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

PURPOSE

This note sets out the currency exposure of our financial assets and liabilities. The currency analysis details the amount of financial assets, primarily cash and cash equivalents, and financial liabilities, held in Sterling or other currencies, together with the amounts at floating or fixed interest rates. The maturity analysis provides an indication of repayment phasing for the financial liabilities.

7.3.1 ANALYSIS OF FINANCIAL ASSETS

Short-term trade and other receivables and derivative financial assets are excluded from this analysis, on the basis that they are primarily non-interest bearing and denominated in Sterling.

Currency analysis	Floating rate £m	Non-interest bearing £m	Total £m
Sterling financial assets	663.1	98.4	761.5
Other financial assets	0.7	–	0.7
At 27 January 2018	**663.8**	**98.4**	**762.2**
Sterling financial assets	617.6	115.2	732.8
Other financial assets	0.9	–	0.9
At 28 January 2017	618.5	115.2	733.7

Floating rate assets are short-term deposits and investments at market rates or the base rate of the relevant currency. Non-interest bearing balances include cash in stores and cash in transit, primarily made up of credit and debit card transactions not yet settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 FINANCIAL RISK MANAGEMENT
7.3 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES CONTINUED

7.3.2 ANALYSIS OF FINANCIAL LIABILITIES

Short-term trade payables are excluded from this analysis on the basis that they are all non-interest bearing.

Currency analysis	Fixed rate £m	Floating rate £m	Total £m
All Sterling			
At 27 January 2018	**(787.2)**	**(174.0)**	**(961.2)**
At 28 January 2017	(887.2)	(104.2)	(991.4)

Maturity of financial liabilities	2018 £m	2017 £m
Repayable within one year		
Bank overdrafts	**(0.1)**	–
Property finance leases	**(0.7)**	(1.2)
	(0.8)	(1.2)
Repayable between one and two years		
Property finance leases	**(0.6)**	(0.7)
Bonds	**(275.0)**	–
Unamortised bond transaction costs	**0.4**	–
	(275.2)	(0.7)
Repayable between two and five years		
Property finance leases	**(2.0)**	(2.1)
Bonds	–	(275.0)
Unamortised bond transaction costs	–	0.8
	(2.0)	(276.3)
Repayable in more than five years		
Property finance leases	**(20.0)**	(20.5)
Bonds	**(600.0)**	(600.0)
Unamortised bond transaction costs	**10.7**	11.5
Share Incentive Plan shares	**(73.9)**	(104.2)
	(683.2)	(713.2)
	(961.2)	(991.4)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8 OTHER NOTES

IN THIS SECTION

This section includes other financial information that is required by accounting standards.

8.1 SHARE CAPITAL

PURPOSE

Share capital consists of Ordinary Shares. It is measured as the number of shares issued and fully paid, multiplied by their nominal value.

	2018		2017	
Share capital	**Authorised £m**	**Issued and fully paid £m**	Authorised £m	Issued and fully paid £m
Equity				
Deferred Ordinary Shares				
612,000 of £1 each	**0.6**	**0.6**	0.6	0.6

The Deferred Ordinary Shares rank in all respects as equity shares except that each share has 1,000 votes in a vote taken on a poll.

The Deferred Ordinary Shares are held by John Lewis Partnership Trust Limited in trust for the benefit of Partners. Ultimate control rests with John Lewis Partnership Trust Limited.

8.2 RELATED PARTY TRANSACTIONS

PURPOSE

Two or more parties are considered to be related if one party has direct or indirect control or significant influence over financial or operating policies of the other party. We have a number of related parties with whom we transact, including the Pension Scheme Trustee, John Lewis Partnership Trust Limited, key management personnel and certain related charities. We are required by IFRS to detail the transactions made in the year with related parties to draw attention to the possibility that our financial position and results may have been affected by them. This disclosure allows us to demonstrate that we are transacting fairly with all our related parties.

8.2.1 SUBSIDIARIES AND RELATED UNDERTAKINGS

All transactions between the Partnership and its subsidiaries and related undertakings are eliminated upon consolidation, and therefore do not need to be disclosed separately. A list of subsidiaries and related undertakings within the Partnership is included within note 16. Loans to joint ventures are disclosed in note 3.3.

8.2.2 ARRANGEMENTS WITH PENSION SCHEME TRUSTEE

The Partnership entered into an arrangement with the Pension Scheme Trustee on 30 January 2010 to address an element of the scheme deficit that existed at that time.

In December 2011 the Partnership sold a property to the main pension scheme for £10.6m and entered into an operating lease in respect of the property. These transactions were at market values. In the year to 28 January 2017, the pension scheme disposed of the property, therefore no payments were made in respect of the operating lease (2017: £0.8m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8 OTHER NOTES
8.2 RELATED PARTY TRANSACTIONS CONTINUED

8.2.3 ARRANGEMENTS WITH JOHN LEWIS PARTNERSHIP TRUST LIMITED

John Lewis Partnership Trust Limited is a related party and holds the Deferred Ordinary Shares in the Partnership on behalf of the Partners. John Lewis Partnership Trust Limited facilitates the approval and payment of the Partnership Bonus and BonusSave. At the year-end, the value of Share Incentive Plan shares purchased by John Lewis Partnership Trust Limited on behalf of Partners was £73.9m, £30.3m lower than the value of SIP shares issued of £104.2m. The £104.2m of SIP shares issued are recorded in the Company's balance sheet within borrowings, offset by a receivable from the John Lewis Partnership Trust Limited of £30.3m (2017: £18.7m). See note 5.5.

8.2.4 OTHER TRANSACTIONS

Key management compensation has been disclosed in note 2.6.

During the year the Partnership provided administrative support services to charities related to the Partnership. The estimated value of these support services is £81,000 (2017: £116,000). The Partnership also made donations totalling £0.6m (2017: £1.1m) to the John Lewis Foundation.

8.3 SUBSEQUENT EVENTS

PURPOSE

Events that take place after the balance sheet date of 27 January 2018 and before the date the financial statements are signed are recorded in this note. In order to be disclosed, these events must be sufficiently material to warrant disclosure.

8.3.1 PENSION CONTRIBUTIONS

On 22 February 2018, the Partnership made a contribution to the pension fund of £90.5m. This is an early payment of 10 months of normal contributions due between March 2018 and December 2018. No accounting was recorded for the year ended 27 January 2018 in respect of these payments.

COMPANY FINANCIAL STATEMENTS

COMPANY BALANCE SHEET

AS AT 27 JANUARY 2018

Notes		2018 £m	2017 £m
	Non-current assets		
11	Investments	**121.1**	121.2
	Total assets	**121.1**	121.2
	Current liabilities		
13	Trade and other payables	**(1.4)**	(2.5)
	Non-current liabilities		
12	Borrowings	**(104.2)**	(104.2)
	Total liabilities	**(105.6)**	(106.7)
	Net assets	**15.5**	14.5
	Equity		
14	Share capital	**0.6**	0.6
	Capital redemption reserve	**5.0**	5.0
	Retained earnings	**9.9**	8.9
	Total equity	**15.5**	14.5

WE SEPARATELY DISCLOSE THE FINANCIAL STATEMENTS OF THE PARENT COMPANY, JOHN LEWIS PARTNERSHIP PLC, AS REQUIRED BY ACCOUNTING STANDARDS.

The financial statements on pages 136 to 139 were approved by the Board of Directors on 12 April 2018 and signed on its behalf by

Sir Charlie Mayfield and **Patrick Lewis**
Directors, John Lewis Partnership plc
Registered number 00238937

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 27 JANUARY 2018

Notes		Share capital £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
	Balance at 30 January 2016	0.6	5.0	8.1	13.7
10	Profit for the year and total comprehensive income	–	–	0.8	0.8
	Balance at 28 January 2017	0.6	5.0	8.9	14.5
10	Profit for the year and total comprehensive income	–	–	1.0	1.0
	Balance at 27 January 2018	**0.6**	**5.0**	**9.9**	**15.5**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

9 ACCOUNTING POLICIES

PURPOSE

John Lewis Partnership plc (the Company) prepares its accounts under International Financial Reporting Standards (IFRS) as adopted by the European Union. Below we set out significant accounting policies applied by the Company in the current reporting period where they are different, or additional, to those used by the Partnership. The accounting policies are set in line with the requirements of IFRS and there have been no changes in accounting policies during the year other than those set out under 'Amendments to accounting standards' in note 1 to the Partnership's consolidated financial statements.

Basis of preparation

The separate financial statements of the Company are drawn up in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and with the Companies Act 2006.

The Company's accounting policies are aligned with the Partnership's accounting policies as described in note 1 to the Partnership's consolidated financial statements. Additional accounting policies are noted below.

The Directors, after reviewing the Company's operating budgets, investment plans and financing arrangements, consider that the Company has sufficient financing available over a period of at least 12 months from the date of approval of this report. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the Company financial statements.

John Lewis plc settles transactions on behalf of John Lewis Partnership plc for administrative convenience, including amounts in respect of subscription for BonusSave, dividend payments and amounts owed to tax authorities. The settlement of these transactions are reflected in the intercompany loan. As a result, no cash flows through John Lewis Partnership plc and no cash is generated from its operations, so a Company cash flow statement is not required.

Investment in subsidiary undertakings

The Partnership has a number of investments in subsidiary companies. Investments are valued at cost, less allowances for impairment. Impairment reviews are performed annually.

10 PROFIT AND LOSS OF THE COMPANY FOR THE YEAR

PURPOSE

The Company is exempt from disclosing a full income statement as allowed by the Companies Act 2006, therefore the profit for the Company for the year is disclosed within this note.

As permitted by Section 408 of the Companies Act 2006, John Lewis Partnership plc has not presented its own income statement or statement of comprehensive income/(expense).

The result dealt with in the accounts of the Company amounted to £1.0m profit (2017: £0.8m profit).

Details of auditor's remuneration are provided in note 2.4 to the Partnership's consolidated financial statements.

11 INVESTMENTS

PURPOSE

This note sets out the value of the shares owned or amounts loaned to subsidiary companies directly invested in by the Company, which, together with their own subsidiaries, consolidate to form the Partnership.

The Company has the following investments at 27 January 2018.

	Subsidiary		Other	
	Shares in John Lewis plc	Loan to John Lewis plc	Shares in John Lewis Partnership Trust Limited	Total
Investments	£m	£m	£m	£m
At 28 January 2017	11.3	109.8	0.1	121.2
Movements	–	(0.1)	–	(0.1)
At 27 January 2018	**11.3**	**109.7**	**0.1**	**121.1**

The intercompany loan from the Company to John Lewis plc is non-interest bearing with no specific repayment terms.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

12 BORROWINGS

PURPOSE

Borrowings consist of Share Incentive Plan shares, which are allocated to Partners who are entitled to a dividend.

Borrowings	2018 £m	2017 £m
Non-current:		
Share Incentive Plan shares	**(104.2)**	(104.2)
	(104.2)	(104.2)

13 TRADE AND OTHER PAYABLES

PURPOSE

Trade and other payables include amounts we owe in respect of BonusSave dividends, and to HMRC in the form of taxes.

Trade and other payables	2018 £m	2017 £m
Other payables	**(1.4)**	(2.5)

All of the Company's trade and other payables are current. The carrying amount of trade and other payables approximates to fair value.

14 SHARE CAPITAL

PURPOSE

Share capital consists of Ordinary Shares and is measured as the number of shares issued and fully paid multiplied by their nominal value.

	2018		2017	
Share capital	Authorised £m	Issued and fully paid £m	Authorised £m	Issued and fully paid £m
Equity				
Deferred Ordinary Shares				
612,000 of £1 each	**0.6**	**0.6**	0.6	0.6

The Deferred Ordinary Shares rank in all respects as equity shares except that each share has 1,000 votes in a vote taken on a poll. The Deferred Ordinary Shares are held by John Lewis Partnership Trust Limited in trust for the benefit of Partners. Ultimate control rests with John Lewis Partnership Trust Limited.

15 RELATED PARTY TRANSACTIONS

PURPOSE

Two or more parties are considered to be related if one party has direct or indirect control or significant influence over financial or operating policies of the other party. We have a number of related parties with whom we transact, including the Pension Scheme Trustee and John Lewis Partnership Trust Limited. We are required by IFRS to detail the transactions made in the year with related parties to draw attention to the possibility that our financial position and results may have been affected by them. This disclosure allows us to demonstrate that we are transacting fairly with all our related parties.

15.1 LOAN TO JOHN LEWIS PLC

The loan to John Lewis plc has been disclosed in note 11.

15.2 OTHER TRANSACTIONS

Arrangements with Pension Scheme Trustee and John Lewis Partnership Trust Limited are disclosed within note 8.2 to the Partnership's consolidated financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

16 SUBSIDIARIES AND RELATED UNDERTAKINGS

The Company has a number of subsidiaries which contribute to the overall profitability of the Partnership.

The Company's only direct 100% owned subsidiary as at 27 January 2018 was:

Name	Principal activity	Country of incorporation	Class of share	Percentage shareholdings
John Lewis plc	Department store retailing, corporate and shared services	England & Wales[1]	Ordinary	100%

1 The address of the registered office is 171 Victoria Street, London SW1E 5NN.

Subsidiary and related undertakings of John Lewis plc:

Name	Principal activity	Country of incorporation	Class of share	Percentage shareholdings
Admiral Park Retail Management Limited	Property holding company	Guernsey[2]	Ordinary	54%
Buy.Com Limited	Dormant	England & Wales[1]	Ordinary	100%
Herbert Parkinson Limited*	Manufacturing and making up	England & Wales[1]	Ordinary	100%
JLP Insurance Limited*	Insurance	Guernsey[7]	Ordinary	100%
JLP Scotland Limited	Non-trading	Scotland[5]	Ordinary	100%
JLP Scottish Limited Partnership*(i)	Investment holding undertaking	Scotland[6]	Partnership interest	100%
JLP Scottish Partnership*(ii)	Investment holding undertaking	Scotland[6]	Partnership interest	100%
John Lewis Car Finance Limited*	Car finance	England & Wales[1]	Ordinary	100%
John Lewis Delivery Limited	Dormant	England & Wales[1]	Ordinary	100%
John Lewis Hong Kong Limited	Sourcing company	Hong Kong[4]	Ordinary	100%
John Lewis Properties plc*	Property holding company	England & Wales[1]	Ordinary	100%
John Lewis PT Holdings Limited	Holding company	England & Wales[1]	Ordinary	100%
John Lewis Partnership Pensions Trust	Non-trading	England & Wales[1]	Ordinary	100%
John Lewis International Limited*	International retail	England & Wales[1]	Ordinary	100%
Jonelle Jewellery Limited	Dormant	England & Wales[1]	Ordinary	100%
Jonelle Limited	Dormant	England & Wales[1]	Ordinary	100%
Leckford Estate Limited	Dormant	England & Wales[1]	Ordinary	100%
Park One Management Limited	Provision of management services	England & Wales[1]	Ordinary	37%
Peter Jones Limited	Dormant	England & Wales[1]	Ordinary	100%
The Odney Estate Limited	Dormant	England & Wales[1]	Ordinary	100%
Waitrose (Jersey) Limited*	Food retailing	Jersey[3]	Ordinary	100%
Waitrose (Guernsey) Limited*	Food retailing	Guernsey[2]	Ordinary	100%
Waitrose Limited*	Food retailing	England & Wales[1]	Ordinary	100%
Clicklink Logistics Limited	Joint venture	England & Wales[8]	Ordinary	50%

* Principal subsidiary undertaking as at 27 January 2018.

1 The address of the registered office is 171 Victoria Street, London SW1E 5NN.
2 The address of the registered office is Martello Court, Admiral Park, St Peter Port, Guernsey GY1 3HB.
3 The address of the registered office is 44 Esplanade, St Helier, Jersey JE4 9WG.
4 The address of the registered office is Suite 3201, Jardine House, 1 Connaught Place, Central, Hong Kong.
5 The address of the registered office is John Lewis Aberdeen, George Street, Aberdeen AB25 1BW.
6 The address of the registered office is John Lewis, 69 St James Centre, Edinburgh EH1 3SP.
7 The address of the registered office is St. Martins House Le Bordage, St Peter Port, Guernsey GY1 4AU.
8 The address of the registered office is Clipper Logistics Group, Gelderd Road, Leeds, West Yorkshire LS12 6LT.
(i) John Lewis Partnership Pensions Trust and JLP Scotland Limited are the Limited Partners. John Lewis plc is the General Partner.
(ii) JLP Scottish Limited Partnership and John Lewis Properties plc are the General Partners.

The whole of the Ordinary share capital of the subsidiary undertakings of John Lewis plc as shown above is held within the Partnership. Except as noted above, all of these subsidiary undertakings operate wholly or mainly in the United Kingdom.

The Partnership has taken advantage of the exemption conferred by regulation 7 of the Partnerships (Accounts) Regulations 2008 and has therefore not appended the accounts of JLP Scottish Partnership and JLP Scottish Limited Partnership to these accounts. Separate accounts for these partnerships are not required to be filed with the Registrar of Companies.

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE ANNUAL REPORT AND ACCOUNTS

THE DIRECTORS ARE RESPONSIBLE FOR PREPARING THE ANNUAL REPORT AND ACCOUNTS IN ACCORDANCE WITH APPLICABLE LAW AND REGULATIONS

Company law requires the Directors to prepare Partnership and parent Company financial statements for each financial year. Under that law they have elected to prepare the Partnership and the parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Partnership and parent Company and of their profit or loss for that period. In preparing each of the Partnership and parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable, relevant and reliable
- State whether they have been prepared in accordance with IFRSs as adopted by the EU
- Assess the Partnership and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- Use the going concern basis of accounting unless they either intend to liquidate the Partnership or the parent Company or to cease operations, or have no realistic alternative but to do so

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Partnership and to prevent and detect fraud and other irregularities.

The Directors have decided to prepare voluntarily a Corporate Governance Statement as if the Company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report and a Directors' report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Partnership's and the parent Company's position and performance, business model and strategy.

On behalf of the Board

Sir Charlie Mayfield and Patrick Lewis
Directors, John Lewis Partnership plc

12 April 2018

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC

1. OUR OPINION IS UNMODIFIED

We have audited the financial statements of John Lewis Partnership plc ("the Company") for the year ended 27 January 2018 which comprise the consolidated income statement, consolidated statement of comprehensive income/(expense), consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows, Company balance sheet, Company statement of changes in equity, Company statement of cash flows and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Partnership's and of the parent Company's affairs as at 27 January 2018 and of the Partnership's profit for the year then ended;
- the Partnership's financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Partnership in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview		
Materiality Partnership financial statements as a whole	£14.5m (2017: £16.0m) 5.0% (2017: 4.3%) of Partnership profit before tax, Partnership Bonus and exceptional items	
Coverage	97% (2017: 99.0%) of Partnership profit before tax	
Risks of material misstatement		**vs 2017**
Recurring risks	Carrying amount of Property, Plant and Equipment	◀▶
	Pensions defined benefit obligation	◀▶
	Rebates/supplier income	▼
	Provisions – long leave, service guarantee and customer returns	◀▶
	Carrying amount of Intangibles	◀▶
Event driven	Provisions – pay provision in respect of National Minimum Wage	◀▶

2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon and we do not provide a separate opinion on these matters. In arriving at our audit opinion, the key audit matters in decreasing order of audit significance, were as follows:

CARRYING AMOUNT OF PROPERTY, PLANT AND EQUIPMENT £3,971.2M (2017: £4,112.4M)

Refer to page 62 (Audit and Risk Committee Report), page 105 (accounting policy) and page 106 (financial disclosures).

The risk

Forecast-based valuation

Impairment considerations:

The Partnership has significant Property, Plant and Equipment (PPE) assets held on its consolidated balance sheet. The impairment risk relates to the Waitrose Division. The Directors perform trigger testing annually to identify any assets which may require impairment. The recoverable amount is calculated for those assets which fail the trigger tests to determine any impairment. The trigger tests take into account recent performance of the individual branches and any changes made to the business plan. If the trigger tests do not include suitable assumptions, or are incorrectly performed, branches possibly requiring impairment may not be identified. In the current year 73 branches at Waitrose failed these initial trigger tests. For all such branches, an impairment is recorded against the carrying value of the assets within that related cash generating unit to the extent that the carrying value would otherwise exceed its recoverable amount.

In relation to the Waitrose branches, an impairment charge of £38.9m has been recognised.

The key assumptions used in the value in use (ViU) calculations for estimating the recoverable amounts are short-term cash-flow forecasts, the long-term (LT) growth rate and the discount rate. These assumptions are based on forecasts which give risk to estimation uncertainty within the impairment test.

Subjective judgement

Residual values and useful economic lives:

The judgement around allocating residual values and useful economic lives (UELs) drives the depreciation charged to the income statement. In particular the valuation of the allocated residual value requires specific expertise and knowledge of the market. Given the magnitude of the PPE balance, movements in these judgements could result in a material misstatement. The Directors engage third party specialists to review a sample of the property portfolio to assist them determine the value of the residual values.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

Our response

Our procedures included:

- Assessing principles: We challenged whether the assumptions used in the trigger tests were suitable, through discussions with divisional management, our own knowledge of the business and market, inspection of Board minutes and other management information.
- Re-performance: We re-performed the calculations that management performed for the initial trigger testing and ViU, checking the source of the information was reasonable.
- Our business knowledge: For the cash flows that drive the ViU calculation forecasts, we considered the risks built into the Board approved short-term (three year) forecasts and challenged the Directors as to the achievability of the plan, taking into account the historical accuracy of previous forecasts and wider market factors (such as performance of competitors).
- Benchmarking assumptions: Evaluating assumptions used, in particular those relating to i) LT growth rate, ii) the discount rate and iii) the margin rate applied, comparing these with externally derived data.
- Sensitivity analysis: For all of the above key assumptions we performed sensitivity analysis to stress-test the assumptions.
- Our property valuation expertise: With the assistance of our property valuation specialist we examined the third party valuation reports produced for a sample of the assets to establish residual values. Our specialist critically assessed the methodology and assumptions behind the valuations, using their own expertise and market understanding.
- Assessing application: We compared the UELs on each of the categories of assets to industry averages. We also examined the Fixed Asset Register to identify any assets fully depreciated but still in use or disposals of assets which still had a Net Book Value. For those assets identified we considered whether this indicated the UEL was incorrect.
- Assessing disclosures: We considered the appropriateness of the disclosure of Waitrose impairment as an exceptional item.
- We also assessed whether the Partnership's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the carrying amount of PPE.

Our results:

- We found the resulting estimate of the recoverable amount of PPE and the Partnership's treatment of residual values and UELs as adopted policy to be acceptable (2017 result: acceptable).

PENSIONS DEFINED BENEFIT OBLIGATION £6,224.0M (2017: £6,059.0M)

Refer to page 63 (Audit and Risk Committee Report), page 119 (accounting policy) and pages 120 to 127 (financial disclosures).

The risk

Subjective valuation

A significant level of estimation is required in order to determine the valuation of the gross liability. Small changes in the key assumptions (in particular, discount rates, inflation, mortality rates and salary increases) can have a material impact on the gross liability. During the year management changed the methodology used to calculate the discount rate, please see page 121 for further detail.

Due to the volume of members both joining and moving categories (i.e. between active, deferred and pensioner) errors in the membership records could result in a material misstatement if not complete and accurately included in the calculation of the gross liability.

Our response

Our procedures included:

- Benchmarking assumptions: We used our actuarial specialists to challenge the key assumptions and the new discount rate methodology. This involved comparing the assumptions to available market data, our expectations and other similar UK pension schemes' assumptions.
- Assessing base data: We performed trend analysis comparing current year movement in members to historical movements. We also confirmed that there have been no changes to membership terms in the current year. We used our actuarial specialists to challenge the methodology used to roll-forward the results of the triennial valuation as at 31 March 2016.
- Assessing disclosures: We also considered the adequacy of the Partnership's disclosures in respect of the sensitivity of the deficit to these assumptions.

Our results:

- We found the valuation of the pensions defined benefit obligation to be acceptable (2017 result: acceptable).

PROVISIONS LONG LEAVE £139.6M (2017: £140.1M), SERVICE GUARANTEE £55.1M (2017: £64.8M), CUSTOMER RETURNS £39.4M (2017: £35.1M), PAY PROVISION IN RESPECT OF NATIONAL MINIMUM WAGE £34.6M (2017: £36.0M)

Refer to page 63 (Audit and Risk Committee Report), page 112 (accounting policy) and page 112 (financial disclosures).

The risk

Subjective estimate

The financial statements contain a number of provisions which when considered in aggregate are significant and involve estimation. The key assumptions are:

- Long leave: Assumptions relating to salary increases, staff turnover rates and discount rate.
- Service guarantee costs: Assumptions around frequency and value of the expected future service costs and use of appropriate historical data to form the assumptions.
- Customer returns: Assumptions around the expected customer returns from the sales made in the period.
- Pay provision in respect of National Minimum Wage: The use of appropriate data to form the calculation and the assumptions around the scope and associated costs of the probable settlement amount.

Our response

Our procedures included:

Long leave:

- Benchmarking assumptions: We used our own actuarial specialists to consider the key assumptions used. This involved comparing the assumptions to available market data and our expected range.
- Sensitivity analysis: We also performed sensitivity analysis over these assumptions.

Service guarantee costs:

- Assessing base data: We considered the underlying data inputs into the management's calculations, checking the source of the historical data was accurate based on our understanding of the industry and business and performing trend analysis in respect of historical costs per unit.
- Sensitivity analysis: We performed sensitivity analysis over the assumptions made, including the product repair and replacement frequency rates.
- Independent re-performance: We have re-performed the calculation using the underlying data inputs.

Customer returns:
- **Historical comparisons and assessed base data:** We have considered the appropriateness of the base data used in the calculation by checking the data inputs to historical data and performing a trend analysis.
- **Sensitivity analysis:** We have performed sensitivity analysis around the year end period over which the customer return liability is calculated.

Pay provision in respect of National Minimum Wage:
- **Assessing application:** We examined the legal advice from the Partnership's external legal advisers and the correspondence with HMRC.
- **Our expertise:** We used our own specialists to challenge the assumptions based on their experience of similar scenarios.
- **Test of detail:** We also re-calculated the liability, including sampling the relevant information used in the calculation back to source data.
- **Assessing disclosures:** We considered the disclosure of the fact that the ultimate settlement amount may change.

Assessing disclosures: We also considered the adequacy of the Partnership's disclosures in respect of these provisions.

Our results:
- From the evidence obtained, we considered the level of provisioning to be acceptable (2017 result: acceptable).

CARRYING AMOUNT OF INTANGIBLES £495.7M (2017: £432.7M)

Refer to page 62 (Audit and Risk Committee Report), page 103 (accounting policy) and page 104 (financial disclosures).

Forecast-based valuation
In order to continually improve its operating systems the Partnership develops a significant amount of software, which is capitalised on the balance sheet. For the year-ended January 2018, there were £182.5m (2017: £157.2m) of additions to computer software. When developing software the Directors have regularly to judge whether the projects are still expected to bring sufficient economic value to the Partnership. Work in progress of £239.1m (2017: £157.4m) is made up of a number of projects being undertaken in the Partnership, the most significant of which are:
- New supply chain systems;
- Enhancements to the customer-facing websites; and
- New ordering systems.

We continue to focus on the material work in progress amounts as judgement is required to assess the economic benefits that would flow from each project and whether any elements of the projects need to be impaired.

Our response
Our procedures included:
- **Our business knowledge:** We challenged the Directors' assessment of the economic benefits that would flow from a sample of projects, comparing this to our understanding of the business and the future strategy to confirm it was aligned.
- **Personnel interviews:** At a more granular level, we also met with the project managers to understand the work being undertaken and the expected benefits of the projects. Through our understanding of the business, discussions with divisional management and inspection of management information and Board minutes we challenged any changes in scope or any work performed which did not yield a successful output.
- **Assessing recognition:** We considered the ageing profile of work in progress to challenge whether any elements of the project previously capitalised needed to be impaired.

Our results:
- The results of our testing were satisfactory and we considered the carrying amount of intangibles recognised to be acceptable (2017 result: acceptable).

PARENT COMPANY FINANCIAL STATEMENTS – VALUATION OF INVESTMENTS £121.1M (2017: £121.2M)

Refer to page 137 (financial disclosures).

The risk
Low risk, high value
The carrying amount of the Company's investments in subsidiaries are valued at cost, less allowances for impairment. We do not consider the valuation of these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement.

However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.

Our response
Our procedures included:
- **Test of details:** Comparing the investment carrying values to the net assets of the investment to identify whether the net asset values of the subsidiaries, being an approximation of their minimum recoverable amount, were in excess of their carrying amount.
- **Assessing subsidiary audits:** Assessing the work performed by the audit team on the subsidiaries and considering the results of the work on those subsidiaries' profits and net assets.

Our results:
- We found the assessment of the carrying value of investments to be acceptable (2017 result: acceptable).

REBATES AND SUPPLIER INCOME

We continue to perform procedures over rebates/supplier income across Waitrose and John Lewis. However, following our assessment of the processes in place across the two divisions around supplier income and examining the contracts in place, we consider there to be limited estimation. We have not assessed this as one of the risks that has the greatest effect on our audit and, therefore, it is not separately identified in our report this year.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

3. OUR APPLICATION OF PARTNERSHIP MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Materiality for the consolidated financial statements as a whole was set at £14.5m, determined with reference to a benchmark of £289.2m which is Partnership profit before tax, normalised to exclude this year's Partnership Bonus as disclosed in note 2.6.2 'Partner pay and benefits', of £74.0m, and exceptional items as disclosed in note 2.3 'Exceptional items', of £111.3m. Materiality on this basis represents 5.0%. Audit work was performed over the exceptional items and Partnership Bonus separately.

Materiality for the parent Company financial statements was set at £3.6m, determined with reference to a benchmark of £121.1m which is total assets. Materiality on this basis represents 3.0%.

We reported to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £0.7m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Partnership has 16 reporting components each representing a statutory entity based in the UK or Channel Islands.

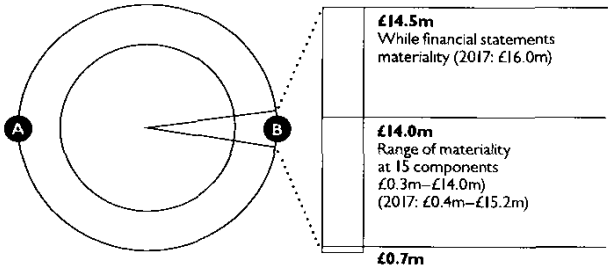
Of the Partnership's 16 reporting components, we subjected 11 to audits for group reporting purposes, including the audit of the parent Company, and one to specified risk-focused audit procedures over an account balance. The latter was not individually financially significant enough to require an audit for group reporting purposes, but did present specific individual risks that needed to be addressed. We conducted reviews of financial information (including enquiry) at the remaining four non-significant components.

The Partnership operates a shared service centre, the outputs of which are included in the financial information of the reporting components it services and therefore it is not a separate reporting component. The service centre is subject to specified risk-focused audit procedures, predominantly the testing of transaction processing and review controls. Additional procedures are performed at certain reporting components to address the audit risks not covered by the work performed over the shared service centre. The components within the scope of our work accounted for the percentages of the Partnership's results noted in the chart opposite. We have performed specific risk-focused audit procedures over a liability balance which is not totalled in the chart opposite.

The senior statutory auditor is also responsible for all of the reporting components including setting the component materialities, which ranged from £0.3m to £14.0m, having regard to the mix of size and risk profile of the Partnership across the components.

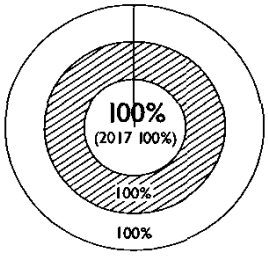
PARTNERSHIP PROFIT BEFORE TAX, PARTNERSHIP BONUS AND EXCEPTIONAL ITEMS £289.2M

MATERIALITY £14.5M



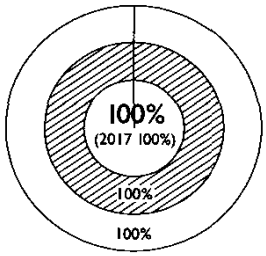
A Partnership Profit before tax, Partnership Bonus and exceptional items
B Partnership materiality

PARTNERSHIP REVENUE



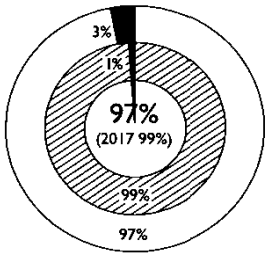
2018	100%
2017	100%

PARTNERSHIP TOTAL ASSETS



2018	100%
2017	100%

PARTNERSHIP PROFIT BEFORE TAX



2018	97%
2017	99%

4. WE HAVE NOTHING TO REPORT ON GOING CONCERN

We are required to report to you if we have anything material to add or draw attention to in relation to the Directors' statement in note 1.1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Partnership and Company's use of that basis for a period of at least 12 months from the date of approval of the financial statements. We have nothing to report in these respects.

5. WE HAVE NOTHING TO REPORT ON THE OTHER INFORMATION IN THE ANNUAL REPORT

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report
Based solely on our work on the other information:
- We have not identified material misstatements in the Strategic report and the Directors' report;
- In our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- In our opinion those reports have been prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer term viability
Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:
- The Directors' confirmation within the viability statement on pages 79 to 80 that they have carried out a robust assessment of the principal risks facing the Partnership, including those that would threaten its business model, future performance, solvency and liquidity;
- The principal risks and disclosures describing these risks and explaining how they are being managed and mitigated; and
- The Directors' explanation in the viability statement of how they have assessed the prospects of the Partnership, over what period they have done so, why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Partnership will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Corporate governance disclosures
We are required to report to you if:
- We have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the Annual Report and Accounts taken as a whole are fair, balanced and understandable and provides the information necessary for members to assess the Partnership's position and performance, business model and strategy; or
- The section of the Annual Report describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We have nothing to report in these respects.

6. WE HAVE NOTHING TO REPORT ON THE OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under the Companies Act 2006, we are required to report to you if, in our opinion:
- Adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent Company financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. RESPECTIVE RESPONSIBILITIES

Directors' responsibilities
As explained more fully in their statement set out on page 140, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Partnership and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Partnership or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities**

8. THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

M Maloney

Michael Maloney (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square, London, E14 5GL
12 April 2018

FIVE YEAR FINANCIAL RECORD

FOR THE YEAR ENDED JANUARY

Income statement	**2018 £m**	2017 £m	2016 £m	2015[1] £m	2014 £m
Gross sales					
Waitrose	**6,753.7**	6,633.2	6,461.4	6,508.9	6,111.9
John Lewis	**4,844.0**	4,741.0	4,557.4	4,433.7	4,059.6
	11,597.7	11,374.2	11,018.8	10,942.6	10,171.5
Revenue					
Waitrose	**6,354.7**	6,245.5	6,086.0	6,135.3	5,753.7
John Lewis	**3,849.3**	3,780.7	3,662.8	3,565.7	3,274.1
	10,204.0	10,026.2	9,748.8	9,701.0	9,027.8
Operating profit before exceptional items and Partnership Bonus					
Waitrose	**172.0**	253.5	232.6	237.4	310.1
John Lewis	**254.2**	243.2	250.2	250.5	226.1
Group and other	**(65.4)**	(18.5)	(80.7)	(45.6)	(65.3)
	360.8	478.2	402.1	442.3	470.9
Net finance costs	**(71.6)**	(107.8)	(96.6)	(99.6)	(94.5)
Exceptional items	**(111.3)**	171.2	129.3	7.9	(47.3)
Profit before Partnership Bonus, tax and exceptional items	**289.2**	370.4	305.5	342.7	376.4
Partnership Bonus	**(74.0)**	(89.4)	(145.0)	(156.2)	(202.5)
As a percentage of eligible pay	***5%***	*6%*	*10%*	*11%*	*15%*
Taxation	**(29.8)**	(98.7)	(66.6)	(50.9)	(25.0)
Profit for the year	**74.1**	353.5	223.2	143.5	101.6
Number of employees at year-end	**85,500**	86,700	91,500	93,800	91,000
Average number of full time equivalent employees[2]	**60,600**	63,300	63,900	64,500	60,600

1 53-week year.
2 As we have fully transitioned the It's Your Business 2028 strategy, the Partnership has reviewed and reassessed the FTE measure and its basis. As a result, the Directors have decided that a measurement of FTEs that reflects Partners' total hours, rather than just contractual hours, gives a more appropriate measure, and have therefore restated comparatives accordingly. Figures are stated on a 52-week basis.

Balance sheet	**2018 £m**	2017 £m	2016 £m	2015[1] £m	2014 £m
Non-current assets	**4,560.6**	4,658.5	4,677.0	4,682.1	4,384.5
Current assets	**1,690.6**	1,627.6	1,534.7	1,170.4	1,139.5
Total assets	**6,251.2**	6,286.1	6,211.7	5,852.5	5,524.0
Current liabilities	**(1,857.0)**	(1,834.2)	(1,848.7)	(1,692.0)	(1,705.6)
Non-current liabilities	**(2,082.0)**	(2,396.5)	(2,297.9)	(2,641.7)	(2,036.7)
Total liabilities	**(3,939.0)**	(4,230.7)	(4,146.6)	(4,333.7)	(3,742.3)
Net assets	**2,312.2**	2,055.4	2,065.1	1,518.8	1,781.7
Borrowings	**(936.7)**	(966.9)	(1,031.8)	(1,030.2)	(728.2)
Net debt	**(216.5)**	(250.6)	(372.5)	(721.7)	(485.8)

1 Restated to reflect changes made in 2016 to classify cash in transit balances as payables rather than to recognise an overdraft. 2014 has not been restated.

GLOSSARY

FINANCIAL TERMS

Amortised cost – the value of an intangible asset after accounting for amortisation and impairment. Sometimes referred to as carrying value or net book value

Amortisation – an expense recorded to write down intangible assets to their residual values over their useful economic lives (UELs)

Assets – something of value that the Partnership owns, benefits from, or has use of, in generating income or cash

Average hourly pay – the pay received per hour, calculated from pay received divided by hours worked

Balance sheet – a financial statement that shows assets, liabilities, and capital/equity at a particular point in time, giving a summary of what the company owns and what it owes

Capital investment/expenditure – additions to tangible fixed assets (property, plant, and equipment), and intangible assets (IT software)

Cash equivalents – short-term deposits which the Partnership can quickly and easily convert into cash

Cash flow (statement of) – a financial statement that shows how changes in balance sheet accounts, income, and expenses affect cash and cash equivalents. It breaks the analysis down to operating, investing and financing activities. It is a measure of cash generation, working capital efficiency and capital discipline of the business

Committed credit facilities – similar to a personal overdraft, this is an agreement with banks to provide the Partnership with additional funds as and when we might require

Cost of sales – the cost to the business of producing and purchasing goods sold over a specific period of time

Cost price inflation – increases in the costs paid by the Partnership for the raw materials and products which will then be sold to customers

Debt – money the Partnership has borrowed which it is required to repay

Debt Ratio – comparison of the Partnership's total net debts (including pension deficit and operating leases) to the cash flow we generate each year

Depreciation – an expense recorded to write down non-current assets to their residual values over their useful economic lives (UELs)

Exceptional items – one-off and material items of significant value relating to events or transactions which do not occur every year, such as redundancy and restructuring

Financial year – the period of 364 days, or 52 weeks, running from 29 January 2017 to 27 January 2018

Foreign exchange (FX) exposure – the risk that Partnership faces when a financial transaction is denominated in a currency other than GBP (pound sterling). This will primarily be for products the Partnership sells which we buy from suppliers in another currency

GAAP – Generally Accepted Accounting Practice. Non-GAAP measures are those which are not required under IFRS, but are included to enhance the relevance and usefulness of the financial statements

Gross domestic product (GDP) – a measure of a country's economy, the total value of goods produced and services provided by a country during one year

Gross sales – total sales of goods and services including VAT, net of Partnership discount, reported for a particular time period

IAS – International Accounting Standards

IFRS – International Financial Reporting Standards

Impairment – a reduction in the value of an asset due to a fall in the expected future economic benefits generated by the asset

Lease – a contract in which one party lends land, property, or services to another for a specified period of time, usually in return for payment

Liabilities – a present obligation arising from past events, the settlement of which is expected to result in an outflow of resources

Like-for-like (LFL) sales – comparison of sales between two periods in time (e.g. this year to last year), removing the impact of branch openings and closures

(Total) liquidity – the money and committed credit facilities we have available to us, which we can use to settle liabilities as they fall due

Margin (gross) – the difference between a product or service's selling price and its cost of purchase/production

Margin (operating) – the difference between a product or service's selling price and all costs, including purchase/production, distribution and other operating costs

Material items – items in the financial statements are material if their omission or misstatement could influence the economic decisions of users. Items may be material by size or by nature

Materiality concept – the universally accepted accounting principle that all material matters should be disclosed in the accounts

Net debt – the Partnership's outstanding borrowings and overdraft balances at a particular point in time (excluding pension deficit and operating leases), less any cash and short-term investments

Net book value – the value of an asset after accounting for amortisation/depreciation and impairment. Sometimes referred to as carrying value

Net finance costs – interest payable on our borrowings, our defined benefit pension scheme and long leave scheme, offset by interest received from investments

Operating profit before exceptional items – profit earned by the Partnership over a specific period of time, before accounting for exceptional items, net finance costs and tax

Operating profit – profit earned by the Partnership over a specific period of time, before accounting for net finance costs and tax

Pension deficit (accounting) – the accounting deficit is the pension deficit presented in the balance sheet. It is presented in accordance with the requirements of IAS 19, which requires all companies to assume their pension fund grows at a standard rate reflecting a relatively low level of risk

Pension deficit (actuarial/funding) – the actuarial or funding deficit is a measure that is used to judge the money that the Partnership needs to contribute to the pension scheme based on predicted growth rates and risks specific to the Partnership's scheme

Profit before tax (PBT) before exceptional items – profit the Partnership earned earned over a specific period of time, before accounting for tax and exceptional items

Profit before tax (PBT) – profit generated by the Partnership over a specific period of time, before accounting for tax

Profit per average FTE – total profit over a specific period of time, divided by the average number of FTEs across the same period

Residual value – property residual values are assessed as the price in current terms that a property would be expected to realise, if the buildings were at the end of their useful economic life

Return on Invested Capital (ROIC) – post tax profit, adjusted for non-operating and exceptional items, as a proportion of average operating net assets, adjusted to reflect a deemed capital value for property lease rentals

GLOSSARY

Revenue – sales of goods and services, including warranties, extended warranties, commission income and margin in respect of sale or return transactions, net of Partner discounts and VAT

Segments (reporting) – the three segments through which we analyse our reporting are Waitrose, John Lewis and Group. This is consistent with how the Partnership Board review performance throughout the year

Short-term investments – cash placed with financial institutions (such as banks) for a period of between 3 months and a year. The Partnership receives more interest on these short-term investments compared to immediately accessible cash kept in bank accounts

Solvency – ability of the Partnership to *meet its long-term financial obligations* (e.g. repayment of its debts)

Total net debts – all the borrowings and overdrafts (including pension deficit and operating leases) the Partnership has outstanding, less any liquid cash and short-term investments, at a particular point in time

Value added tax (VAT) – a tax on the sales value of a product or service which is collected by the HMRC

Working capital – the cash the Partnership utilises as part of its day-to-day trading operations. This includes aspects such as the money tied up in stock, the money we owe to suppliers for goods we haven't yet paid for, and any money we may be owed from customers and suppliers

NON-FINANCIAL TERMS

Audit – a detailed review and inspection of accounts, disclosures and procedures, checking for consistency, accuracy, and adherence to accounting and reporting standards. The objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement.

Auditor – an individual or body who undertakes the work required for an audit. The Partnership's auditors are KPMG LLP.

Biomethane – an alternative to fossil fuels, similar to natural gas, which is produced from organic waste, and is suitable for use as vehicle fuel

BREEAM (Building Research Establishment Environmental Assessment Method) – a sustainability assessment method for assets, which takes into account an asset's environmental, social and economic sustainability performance

Click & collect – a service offered through johnlewis.com to enable customers to buy or order goods and collect from a local Waitrose or John Lewis

Executive Team – responsible for developing and recommending Partnership strategy to the Partnership Board and setting the direction for the Partnership in the execution of that strategy; and responsible for prioritising the allocation of capital and resources

Freehold – outright ownership of land and buildings and the right to control usage for an unlimited period without any future obligation to transfer ownership to another party

Full Time Equivalent (FTE) – the hours worked by one Partner on a full time basis. The concept converts the hours worked by several part time Partners into the hours worked by full time Partners to enable like-for-like comparisons of resource

General Data Protection Regulation (GDPR) – an EU directive, approved on 14 April 2016 and enforced from 25 May 2018, which governs the way personal data is handled by organisations

Her Majesty's Revenue and Customs (HMRC) – the UK Government department that administers and collects taxes, including corporation tax and value added tax (VAT)

KPI – a Key Performance Indicator is a type of performance measurement used by businesses to check progress towards their goals

Leasehold – ownership of land and buildings and the right to control usage for a fixed period of time after which ownership reverts back to the freeholder

Net Promoter Score (NPS) – an external benchmark which calculates a measure between -100 and +100, that shows the willingness of customers to recommend products and services to others. A larger positive figure represents a *higher level of customer satisfaction and loyalty* to a brand

Never Knowingly Undersold (NKU) – John Lewis' price promise to customers to match the prices of high street competitors and monitor the prices of branded products on a daily basis

Non-management Partners – Level 9 and Level 10 Partners, excluding Assistant Section Managers in Waitrose

OCCO – Omni Channel Customer Ordering

Partners (members) – the name given to all employees of the John Lewis Partnership

Partnership Board – the Partnership Board is one of the three Governing Authorities of the Partnership. As stated by Rule 38 of the Constitution, the Board has ultimate responsibility for issues of major policy and for allocating the financial and other resources of the business to keep the Partnership true to its principles – both in terms of the vitality of its commercial progress and its distinctive co-ownership objectives

Restructuring – a change to internal organisational structures, designed to streamline processes and create more efficient and cost effective ways of working

GENERAL INFORMATION

Independent auditor
KPMG LLP

Registered office
John Lewis Partnership plc
171 Victoria Street, London SW1E 5NN

Incorporated and registered in England & Wales,
under Company no. 00238937

Preference Shares
Any remaining queries relating to the Preference Shares previously in issue (which were cancelled in November 2016) should be directed to Company Secretary, John Lewis Partnership plc,
Partnership House, Carlisle Place,
London SW1P 1BX

For more information about the John Lewis Partnership please visit our Partnership website and social media channels:

www.johnlewispartnership.co.uk
twitter.com/JLPartnership
linkedin.com/company/john-lewis-partnership

Designed by Radley Yeldar
Photography: Darren Bell, James McKenzie, Jeff Hopkins,
John Robertson, Mark McKenzie, Neil Cooper

For more information about Waitrose or John Lewis shops please visit our websites and social media channels

www.waitrose.com
facebook.com/Waitrose
twitter.com/waitrose
pinterest.com/waitrose
youtube.com/Waitrose
instagram.com/Waitrose
linkedin.com/company/waitrose

www.johnlewis.com
facebook.com/johnlewisretail
twitter.com/johnlewisretail
twitter.com/jlcustserv
youtube.com/johnlewisretail
plus.google.com/+johnlewis
pinterest.com/johnlewisretail
instagram.com/johnlewisretail
linkedin.com/company/john-lewis

Contact information
You are invited to contact us with your enquiry or comments. To enable us to respond to your enquiry as quickly as possible, please use the 'Contact us' section on the Partnership website.

Image removed