John Lewis Partnership plc
Annual Report and Accounts 2017

It's Your Business

Group Strategic Report

Pages 1 to 35 comprise the Group Strategic Report. The Group Strategic Report was approved by the Board of Directors on 26 April 2017.

Sir Charlie Mayfield, Chairman, John Lewis Partnership, 26 April 2017

It's Your Voice

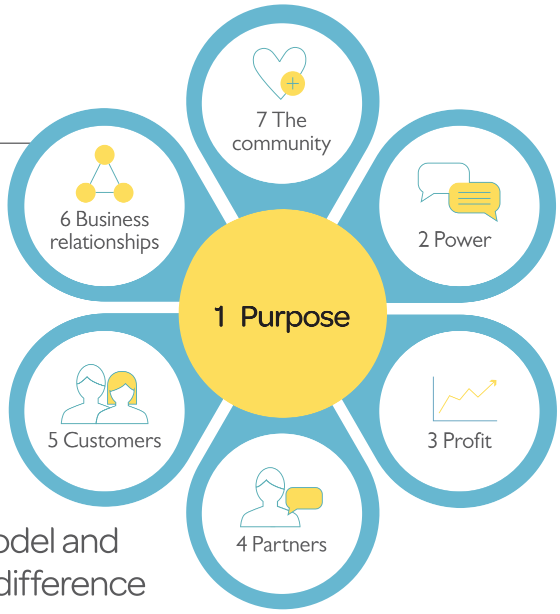
It's Your Results

Tell us what you think

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

www.johnlewispartnership.co.uk/meta/contact-us.html

The Constitution has our Principles at its core



"The customer is at the heart of everything we do. This can only be achieved by better understanding our customers' current behaviours and anticipating how their needs might change in the future."

Ian Strong
Senior Customer Insight Analyst

More information

To find out more about how we have been progressing against our corporate responsibility priorities please see www.johnlewispartnership.co.uk/csr. This includes our 2016/17 Human Rights & Modern Slavery Report.

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

The John Lewis Partnership exists today because of the extraordinary vision and ideals of its Founder, John Spedan Lewis. He believed an ‘industrial democracy’ – where Partners shared knowledge, power and profit – was a better form of business.

This ethos defines who we are and how we do business differently.

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.

In 2015, we set out the foundations for future success in our It’s Your Business 2028 strategy, which will guide us over the coming years. This report highlights the progress we have made and challenges we have faced in the past year and outlines our focus for the year ahead.

It's Your Business

Chairman's statement: Our results for 2016/17 reflect a strong performance for the Partnership and our two brands. Sales growth was good, culminating in a market beating performance at Christmas.

Our results for 2016/17 reflect a strong performance for the Partnership and our two brands. Sales growth was good, culminating in a market beating performance at Christmas. Profits were also up on last year – by over 20%[1] at a headline level, helped by lower pension accounting charges, but, after excluding these and our long leave accounting charges, profits were up 1.9%[2]. This figure is the best indicator of our trading performance. Our debt position also improved.

There are also a number of exceptional items in our results this year, which reflect the steps we are taking to adapt the Partnership for the future. Since announcing our unaudited profit before tax on 9 March 2017, a further exceptional charge of £36.0m has been recorded for the year ended 28 January 2017. We have identified that some of our pay practices, though designed to help Partners, have technically not complied with the National Minimum Wage (NMW) Regulations. This has come about in the main because our pay averaging arrangements do not meet the strict timing requirements of the NMW Regulations; although Partners will, over the course of a year, usually have received the correct pay, in some months where greater than average hours are worked they will have been paid less than the hourly rate stipulated in the NMW Regulations. The £36.0m exceptional charge principally relates to payments that are required to be made to recipient Partners and former Partners for the previous six years. We are now required to make good those amounts.

Clearly this is very disappointing, not least because the vast majority of payments to affected Partners and former Partners relate to technical underpayments rather than actual underpayments of their contractual pay. Nevertheless the NMW Regulations create a strict liability regime and these payments are therefore required to be paid even in cases where Partners have over the course of a year been paid the correct contractual amount. Arrangements have already been made to make these payments and contact former Partners.

As we said it would be in January 2017, Partnership Bonus is down. The reason for this is that the Board has decided to retain more of our profits this year than before. This is to ensure, in the context of a fast changing market, that we have the firepower to secure the future success of the Partnership.

We have accomplished a great deal over the last 10 years across Waitrose and John Lewis and we are continuing to perform well. However, over two years ago, we started looking further into the future and identified that the trends we see today are signs of much greater shifts in society, the workplace and retail, all of which have significant long-term implications. We briefed Partners on this first in November 2015. Anticipated early, these shifts can be turned into opportunities. Ignored and they will become a constant pressure. We have therefore been working on developing a different direction since then.

There are already signs of that in the last year. For example, we have cut back opening plans for new shops and reprioritised investment to our existing estate. We have invested more in pay as part of our objective to create better jobs. We have also announced that key functions such as Personnel, Finance and IT will work across the business as Partnership functions. And, in the last year, we have made changes in our senior leadership as a part of establishing a new Executive Team to lead the next phase of our strategy.

This is essential because only we can take responsibility for our future success. Partners own our business today and they will in 10 years from now. In the Partnership there's no option for one group of owners to sell out and leave it to another to look after the future. Our ownership model means that we are able to act now, from a position of relative strength, to make the changes to prepare the Partnership for the future.

In many respects the announcement of a lower Partnership Bonus in a year when profits grew is a sign of that as much as anything else.

What we also recognise, however, is that Partnership Bonus represents an important part of the incomes of our Partners. We have not taken this decision lightly. And when I say 'we', our Board includes five Directors who are elected by Partners. This was a factor in our decision to say in January 2017 that Partnership Bonus would be significantly lower.

We also said in January's trading statement that we were accelerating our strategy. By retaining more profit we are able to maintain levels of investment and absorb the costs of organisational change in the face of what we expect to be a market that carries more uncertainty than usual. That strategy has three key elements.

Our lead objective will see us upping the rate of innovation for our customers. We will **strengthen our brands and drive new growth** by making material improvements to our offer across both Waitrose and John Lewis. In the next year this will include improving the presentation and experience in existing shops. We will be investing in the majority of our Waitrose shops over the next three years, including the extension of successful food service propositions trialled during the year and the addition of a fresh sushi offer which will be in another 36 shops in 2017/18. In John Lewis we are accelerating steps to equip Partners with better technology. After a successful trial in Cambridge, we will rollout iPhones to Partners, putting more information at their fingertips to enhance service delivery, starting with 20 of our largest shops in May.

Secondly, we are committed to **creating Better jobs, for better performing Partners, on better pay.** Our approach to better jobs is developing in line with our customer strategy. We want to ensure Partners' pay remains well above the National Living Wage on average. The average hourly rate of pay for our non-management Partners is £8.90, following the April 2017 Pay Review. Simplifying our pay arrangements in the future will help to ensure that they are easy to administer in a fast changing market and reduce the risk of non-compliance. In the year ahead, we will also move towards making apprenticeships the cornerstone of progression and development across the Partnership. We will launch new apprenticeships in 2017/18 and 2018/19, ranging from hospitality to retail management. Apprenticeship numbers will rise from 80 apprentices today to approximately 500 during 2018/19, with the aim of increasing to thousands per year by 2020/21.

The third area of focus is to **strengthen our financial position**, both to increase the resilience of our balance sheet to market shocks and to build our financial firepower to invest in new growth in the future. We made good progress in the year by continuing to generate strong cash flows which contributed to a 33% reduction in net debt. We have also made significant progress in reducing our pension deficit as a result of contributions of nearly £1 billion over the last 10 years, good investment returns and changes to the accrual rate of our final salary pension scheme.

In the year ahead, we will press ahead with the consolidation of our support functions that we announced internally in October. We are also seeking significant cost reductions across our procurement spend – especially in contract labour and consultancy support. Towards the end of 2016 we began limited trials of robotic process automation and expect to see these develop into a significant productivity initiative during 2017.

1 Based on profit before Partnership Bonus, tax and exceptional items

2 Calculated as profit before Partnership Bonus, tax and exceptional items excluding pension charges of £217.5m (2016: £282.2m) and long leave charges of £26.0m (2016: £14.5m).

> Our ownership model means that we are able to act now, from a position of relative strength, to make the changes to prepare the Partnership for the future.

Sir Charlie Mayfield
Chairman, John Lewis Partnership

Outlook

All of the changes we anticipated over two years ago in society, in the workplace and in retail have accelerated in the last year. We expect the pace of change to continue at least at the same rate. We have therefore decided to accelerate our own response. Important to that is ensuring we have the leadership team and financial resources in place to do so, despite the greater level of uncertainty we expect to see this year as weaker exchange rates affect price and margin.

In addition, we expect our short-term profits to be impacted by significant one-off costs of change as we accelerate aspects of our strategy to ensure the Partnership's success. We have already announced a number of changes this year – some of which will lead to fewer Partners in the business. We understand that this may be an uncertain time for those affected Partners and we are providing them with support during this period of change. We expect that in the longer term, we will create new opportunities for Partners, supporting our ambition to create better jobs. We start from a position of strength and our plans will navigate the Partnership through the uncertainty in the year ahead.

The success of the Partnership today and its continued success tomorrow is our joint responsibility. The Constitution identifies that the 'happiness of all its members' relies on their 'worthwhile and satisfying employment in a successful business'. This report describes some of our achievements in the last year as we continue to pursue that, our ultimate purpose.

Sir Charlie Mayfield
Chairman, John Lewis Partnership

Read more about
Our Chairman and Directors
on page 44

It's Your Business

Our year in review: The Partnership performed well in 2016/17, delivering a healthy trading performance in a tough market.

So, how did we do in 2016/17?

How did our business perform?

Revenue

£10.0bn ↑2.8%

Divisional operating profit before exceptional items and Partnership Bonus

Waitrose

£253.5m ↑9.0%

John Lewis

£243.2m ↓2.8%

Both Waitrose and John Lewis gained market share. In addition, in spite of trading pressures such as the incremental costs of omnichannel retailing in John Lewis and investments in pay, operating profit performance was good.

Profit before Partnership Bonus, tax and exceptional items

£370m ↑21.2%

We made a profit before Partnership Bonus, tax and exceptional items of £370m. Compared to last year this was up by 21.2%. Our profit growth was driven primarily by a decrease in pension accounting charges. Excluding charges for pensions and long leave, our profit before Partnership Bonus, tax and exceptional items grew by 1.9%.

Were there any one-off items that impacted our profit this year?

Exceptional items

£171.2m income

2016
£129.3m income

There were a number of exceptional items in our results this year which, in part, reflect the steps we are taking to adapt the Partnership for the future. This mainly includes £270.0m income for a reduction in pension liabilities due to forecasting lower discretionary pension increases, offset by a £42.9m charge for write down of property and other assets and related costs, £36.0m in relation to payments and associated costs in connection with some of our pay practices which have technically not complied with the National Minimum Wage Regulations, and a £20.7m charge for restructuring and redundancy costs.

Read more on page 89.

What did this mean for my Bonus?

Partnership Bonus was lower in order to retain more of our annual profits to strengthen our balance sheet. This will allow us to maintain our level of investment in the face of what we expect to be an increasingly uncertain market this year, while absorbing the costs associated with adapting the Partnership for the future.

Partnership Bonus

6%

2016
10%

Profit before tax

£452.2m

2016
£289.8m

Product innovation, great Partner service and competitive pricing have grown our customer base, increasing our market share. Customer perception has remained high against a backdrop of structural change in the retail market, which has seen an accelerated migration of trade online in general merchandise.

Read more on page 10

Gross sales growth	KPI
3.2%	2016 2.5%[1]

Like-for-like sales growth	KPI
Waitrose (0.2%)	2016 (1.3%)
John Lewis 2.7%	2016 3.1%

Increase in 'Best' customers[2]	KPI
Waitrose 2.8%	2016 2.3%
John Lewis 0.7%	2016 4.6%

Net promoter score (NPS)[2]	KPI
Waitrose +34	2016 +29
John Lewis +62	2016 +59

Other measures

Growth in customers shopping across both brands	
5.0%	2016 4.7%

Non-management Partner pay has increased, driven by our performance-related pay policy. In addition, on average, these Partners will see an increase in their combined pay and Partnership Bonus from the previous year. Across the Partnership the diversity of our workforce has also increased. Our Partner job satisfaction has dropped by 3% as we navigate through significant change and adapt the Partnership for the future.

Read more on page 18

Average non-management Partner hourly pay above National Living Wage	KPI
20.4% ahead	2016 20.1%

Partner job satisfaction	KPI
68%	2016 71%

Partner pay as a percentage of sales	KPI
13.9%	2016 13.9%

Other measures

Senior management[3] Partners belonging to an ethnic minority	
4.1%	2016 3.7%

Profit before Partnership Bonus, tax and exceptional items has grown and operational cash flow is strong. Total liabilities have grown at a faster rate over the last five years, driven by an increase in our pension liability, due to lower interest rates.

Read more on page 23

Return on invested capital (ROIC)	KPI
8.1%	2016 7.1%

Partnership profit per average FTE[2]	KPI
£5,800	2016 £4,800

Debt ratio[2]	KPI
4.0x	2016 4.4x

Other measures

Energy consumption per sq ft of trading floor[4]		
80.7 kwh/ft²	2016[5]	2015[5] 81.9 kwh/ft²

1 52-week basis.
2 For definition see page 9.
3 Senior management relates to Partners at Levels 1 to 5.
4 Data is extracted from www.johnlewispartnership.co.uk/csr which was included within KPMG LLP's independent limited assurance scope. On this page you can also read their full opinion.
5 Data is reported on an approximate calendar year basis. Please see page 60 for further details.

It's Your Business

Our business model: Our business is different because it is owned in trust for our Partners. This difference is embedded in how we do business through our written Constitution, which sets out our purpose and Principles.

The Principles of the Partnership model underpin how we do business.

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.

5 Customers

The Partnership aims to deal honestly with its customers and secure their loyalty and trust.

3 Profit

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

6 Business relationships

The Partnership aims to conduct all its business relationships with integrity and courtesy.

4 Partners

The Partnership aims to employ and retain people of ability and integrity who are committed to working together and to supporting its Principles.

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.

Read more about How we are governed on page 37

Read more about Partners' rights and responsibilities on page 38

Read more about Responsibilities to others on page 39

Read more about How we share power on page 40

Resources we rely on to...

We rely on a wide range of inputs and relationships to operate our business.

86,700
Partners

950,881 MWh[1]
Energy consumed

£258m
Supply chain and IT capital expenditure

352
Waitrose shops

48
John Lewis shops

13,000
Suppliers

86m[1]
Distribution miles

[1] Data is extracted from www.johnlewispartnership.co.uk/csr which was included within KPMG LLP's independent limited assurance scope. On this page you can also read their full opinion.

help our Partners meet our customer needs...

We create value for our customers through our brands.

John Lewis Partnership

Waitrose | John Lewis

Product
We develop our own highly differentiated product range and curate and edit our selection to inspire and delight our customers.

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.

Operational excellence
Behind the scenes, we are singularly focussed on delivering excellence in fulfilment, operations and service delivery, each and every time our customers choose to shop with us.

This is enhanced through our strategy.

Read more about
Our strategy on page 8

and return value to our Partners and society.

The more value we create, the more we can reinvest, which enables us to remain sustainable in the long-term.

£370.4m
Profit before Partnership Bonus, tax and exceptional items

£520m
Payments and benefits to Partners (excluding wages and salaries)

79%
Partner advocacy

380,000
Different product lines

900
Suppliers with 30+ years relationship

£11.5m[1]
Investment in our communities (cash, in-kind, volunteer and management hours)

Returning value to our business, Partners and stakeholders.

It's Your Business

Our strategy: In last year's report, we set-out our three-strand strategy to continue to generate value: growing the strength of our brands; improving jobs and pay for Partners; and ensuring Financial sustainability.

Democratic vitality

We aim to deliver a culture of advocacy, trust, empowerment and engagement, where leaders encourage, listen to and act upon Partner opinion to create a better business. Through the implementation of our three strategic pillars, we will enhance and strengthen our Democratic vitality by giving Partners the opportunity to engage deeply in the process.

"Democratic vitality is at the heart of the Partnership. Although not a strategic objective in itself, it anchors our future aspirations, so it is important that we place focus and energy behind it."

Jane Burgess
Partners' Counsellor

How did we progress against It's Your Business 2028?

Why we have KPIs

Across the Partnership, we focus on a number of financial and non-financial Key Performance Indicators (KPIs). KPIs are key metrics which we use to help us monitor and measure the performance of our business against our objectives. Each pillar of the It's Your Business (IYB) 2028 strategy has a set of KPIs. While a KPI is not the only means of measuring performance, it provides a useful way to summarise our progress and identify areas on which to focus.

How our KPIs support It's Your Business 2028

Our KPIs are specifically chosen to monitor closely the progress of each of our strategic pillars. During the year, as we have fully transitioned the IYB 2028 strategy, we have reviewed our KPIs to ensure that they are aligned to the objectives of our strategy. This has resulted in the removal of some KPIs which are no longer the focus of our strategy and the introduction of a number of new KPIs. As we build further on our strategy, these KPIs may evolve to ensure they continue to be relevant and help us monitor performance against our strategic objectives.

Corporate responsibility

During 2016/17, we began to review our corporate responsibility strategy against the changing context of the business, feedback from stakeholders and emerging trends. The output from this exercise will allow us to ensure we are continuing to align our approach with our most critical stakeholder and business needs. For further details please see www.johnlewispartnership.co.uk/csr

Measuring our success

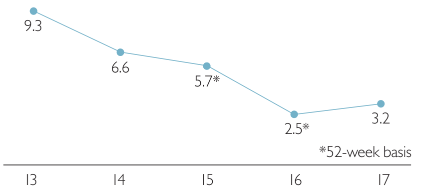
- → Improving our offer and experience for customers
- → Building new business in high growth areas
- → Continuing to grow market share

- → Improving productivity, increasing the sales and profit we can make per Partner
- → Achieving higher job satisfaction, as Partners enjoy and contribute more in their roles
- → Partners receiving above market pay, because they achieve above market performance

- → Improving profitability so that we can invest more in Partners and customers
- → Building our financial strength so we are resilient and can take advantage of commercial opportunities

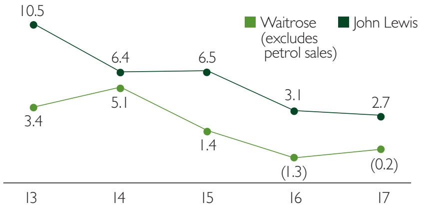
Gross sales growth % KPI

Percentage increase in gross sales during the reporting period. Gross sales is defined on page 85.



Like-for-like sales growth % KPI

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

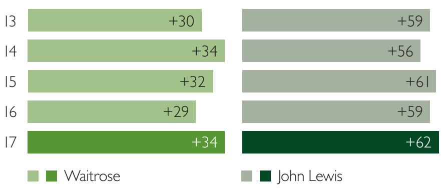


Increase in 'Best' customers %[1] KPI

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) KPI

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.



Average non-management Partner hourly pay above National Living Wage %[2] KPI

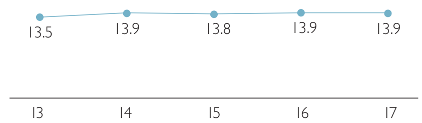
Average non-management Partner hourly pay, for Partners on permanent contracts, as a percentage above the current National Living Wage of £7.20. Non-management Partners are Level 9 and Level 10 Partners, excluding Assistant Section Managers.

Partner job satisfaction % KPI

The percentage of Partners who are satisfied with their job, as scored in our annual Partner Survey.

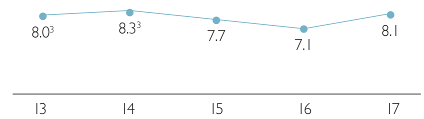
Partner pay as a percentage of sales % KPI

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



Return on invested capital (ROIC) % KPI

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.

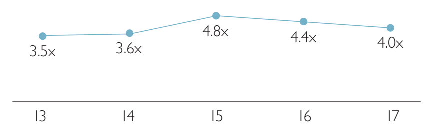


Partnership profit per average FTE £000 KPI

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

Debt ratio – Total indebtedness to Adjusted FFO KPI

Total indebtedness as a multiple of adjusted funds from operations (Adjusted FFO). Total indebtedness represents the total borrowings of the Partnership including net debt (defined on page 85) 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[5]. Adjusted FFO is cash generated from operations before Partnership Bonus less spend on tax and total finance costs, which includes implied interest on operating leases.



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.
2 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.
3 Not restated for change in accounting of certain cash in transit balances.
4 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 for the KPIs, and have therefore restated comparatives accordingly. Figures are stated on a 52-week basis.
5 The present value of future rentals payable under operating leases has been calculated using a discount rate of 5% in 2016/17. See page 84.

> We're focussed on strengthening the appeal of our two well-loved brands – this is our lead objective and is the basis for an increasing focus on innovation.

Tom Athron
Group Development Director

Chairman's statement
page 2

Our principal risks
page 32

Why this is important, the current environment and what we are doing...

We have achieved growth in sales and market share across both Waitrose and John Lewis. Our Net promoter scores (NPS) for both brands have remained stable.

However, these metrics mask the fundamental structural changes underway in our markets. In John Lewis, customers are choosing to spend more online, especially in general merchandise, due to the increased convenience, improved delivery propositions and simplicity of buying on smartphones and handheld devices. However, it is tougher to differentiate online, where the distinctive customer service advantage afforded us from our Partners is less present. This is seen in our customer insights; while growth in our 'Best' customers in Waitrose continues, it is slowing in John Lewis and there is an increase in one time, more transactional customers online.

In Waitrose, the market dynamics are different as customers are shopping more frequently for smaller baskets, eating out more and choosing to incorporate the discounters in their weekly shop. As a result of these trends, the grocery market has become more competitive.

So it is critical that we identify and pursue new sources of growth that will allow the Partnership to thrive by:

- Focussing on great retail execution to drive underlying sales performance and to grow like-for-like sales
- Providing enhanced offers and services for our most loyal customers
- Testing customer demand for new business propositions in high growth areas

We will do this by continuing to evolve and respond to changing customer behaviours. Over the last year, we have completed an extensive piece of work thinking about the customer and our journey to 2028. We have looked at future trends and themes, digital innovation and developments, and new business models. We have tested our work with Partners and customers.

As a result, we have developed insight which shows that the top 10% of customers drive 60% of revenues and the majority of them shop in both Waitrose and John Lewis. Focussing on developing propositions for our most highly engaged customers will make the most of the growth opportunities within our businesses, and will delight all customers.

There is also great potential for two of the strongest brands in the UK in food and general merchandise, with a loyal customer base, to work together more closely. Specifically, we have established a small unit to explore ideas with customers. We are working in an agile and iterative way. This allows us to move fast in understanding our customers' response to ideas and propositions, and can enhance and improve our digital concepts quickly.

What could stop us from achieving our aims?

We have to use our data to identify changing patterns in customer behaviour. Going forward we will need increasingly to use our customer data to drive personalised and actionable insights which are relevant to our customers' lives.

We must respond in fast and agile ways to those changing customer needs and behaviours, ensuring that we benefit our brands, adding support and pace to their existing initiatives.

Finally, due to the complex nature and increasing scale of our investments in technology and IT, we must manage increased levels of change.

What have we done so far?

John Lewis Partnership

Partnership Card

This year, we introduced new features to make using our Partnership Card even more convenient, including a new website and contactless payment for all new and replacement cards. Customers can also now receive a permanent chip and PIN card in-store on the same day. In 2017/18, we plan to launch new digital payments (Apple Pay and Android Pay) as well as a mobile app to help customers easily check their card balance, points and transactions while on the go.

Outlook

In the year ahead, we will make material improvements to the offer and experience in existing shops. This programme will see us investing in the majority of our Waitrose shops over the next three years, including the extension of successful food service propositions trialled during the year and the addition of a fresh sushi offer in 36 shops. In John Lewis, we are accelerating steps to equip Partners with better technology. After a successful trial in Cambridge, we will rollout iPhones to Partners, putting more information at their fingertips to enhance service delivery, starting with 20 of our largest shops in May.

Developing compelling digital propositions

We've brought together a team to test customer demand and launch new digital propositions. The team works in a fast-paced environment – similar to that of a start-up business – allowing decisions to be made quickly. Recruited in September last year, the team aims to launch several new product trials this year.

Knowing our customers to support better service

Ian Strong is a Senior Customer Insight Analyst, with responsibility for helping the Partnership better understand its customers. "That includes identifying how many customers we have, who they are, what they buy, when and where they shop," he says.

"The Partnership takes data security and privacy very seriously and has technical and organisational controls in place to help support this. The primary function of what our team does is to enhance the way we service our customers."

"One of the ways our team adds value is to help decide on product assortments," says Ian. "We use our customer lens in tandem with sales information to ensure that we do not delist slow-selling products and brands that our most loyal customers love."

"For the Partnership, where the customer is at the heart of everything we do, this can only be achieved by better understanding our customers' current behaviours and anticipating how their needs might change in the future."

See Ian talk about his own experience via the interactive Annual Report and Accounts www.johnlewispartnership.co.uk/financials/financial-reports/annual-reports.html

Meeting the needs of our most engaged customers

Did you know that 10% of our customers account for more than half our total sales? And the majority shop in both Waitrose and John Lewis. We are becoming more focussed on meeting the needs of our most engaged customers, as a way of improving our services for all. We have already started to test joint marketing for our 'my' loyalty schemes across Waitrose and John Lewis.

+5%

Increase in number of customers shopping across both brands

It's Your Business

Stronger brands and new growth

What have we done so far?

Waitrose

Waitrose now exports to 58 countries

> Our vision for Waitrose is to be the most innovative, high quality, high service food retailer, uncompromisingly good in everything we do.

Rob Collins
Managing Director, Waitrose

Seeking growth opportunities in new countries

Waitrose now exports to 58 countries. In 2016, we became the first supermarket to sell own-label products through British Corner Shop, the online store that delivers British food to customers in more than 100 countries, allowing us to enter new territories. We also began exporting to China, which is the first time we exported to a market via a website platform only.

Microbeads ban

Waitrose recognises the significant impact that plastic microbeads have on marine life and birds, so has pledged not to sell any products that contain them – whether branded or own-brand.

Differentiating our product offer

In April 2016, we launched Waitrose 1 – Waitrose's new, own-label top tier brand. This was our biggest own-brand launch since essential Waitrose in 2009, and includes more than 750 products. We have already seen a 17.5% increase in sales for top tier under the new Waitrose 1 branding.

Best selling Waitrose 1 products: perfectly ripe avocados, red choice tomatoes, speciality raspberries, babycorn, all butter mince pies, baby topped carrots, perfectly ripe conference pears, Madagascan vanilla custard, free range pork sausages, and freshly squeezed orange juice with bits.

We relaunched the Heston from Waitrose range with a new design and 10 new products. Since teaming up with the British chef in 2010, the range includes more than 50 products across the seasons, including the annual Christmas pudding showstopper and bestselling Lapsang Souchong Tea Smoked Salmon.

Investment in technology

We have been investing in technology to make shopping easier and quicker for customers. For example, in 2016 we opened the first cashless branch at Sky's Head Office, where employees can pay by card or through their mobile device. Our QuickCheck App was launched in all branches, allowing myWaitrose customers to scan barcodes on their smartphones as they place products in their basket. We are also trialling payment using an iPhone with a payment app, creating 'mobile cashiers' to process transactions and card payments anywhere in branch.

Sustainable farming

Our new grazing pledge requires cattle that supply milk and cream to us are able to graze outdoors for at least 120 days.

In November 2016, Waitrose became the first UK retailer to introduce European non-GM soy into animal feed. The first shipment of soy has been incorporated into the diets of pigs which supply Waitrose free-range pork, via our dedicated pork supplier, Dalehead Foods.

Continued development of food service and casual dining in our shops

Jared Hughes is Branch Manager at Waitrose Barbican. Jared has been at the Partnership for 22 years, working in 15 Waitrose branches along the way. He moved to Barbican to lead the team there in January 2016, just ahead of the branch undergoing Waitrose's regeneration programme.

"Waitrose has been focussing this year on investing in its core estate to make branches more conveniently compelling for customers, with features such as wine bars and sushi bars being added to branches," he says.

Waitrose Barbican re-opened in November 2016 with a new look. "As part of the branch regeneration we had many new concepts installed in the branch at the point of opening – mobile payments, multi-functional devices, along with other new concepts," says Jared. "The branch includes the first new concept called The Kitchen – a food concept that offers meal options for our customers."

Jared describes the store's new look as 'truly fantastic'. "The branch regeneration wasn't just a physical change, but actually a cultural change. Huge amounts of time was invested in the customer service offer, the way that we perceive customers and the role that every single Partner can play to ensure the customer journey is as seamless as possible."

See Jared talk about his own experience via the interactive Annual Report and Accounts www.johnlewispartnership.co.uk/financials/financial-reports/annual-reports.html

It's Your Business

Stronger brands and new growth

What have we done so far?

Waitrose

Food donations

In 2016, we donated £1,445,100 worth of surplus food to local charities and organisations. To expand our food donations further, we have launched a partnership with FareShare Foodcloud. Together, we aim to increase the proportion of surplus food that can be redistributed.

£1,445,100

Worth of surplus food donated to local charities and organisations

Supporting the British food and drink industry

We stock more than 100 English and Welsh wines from more than 50 different vineyards across 20 counties. For the fifth year running, Waitrose has been awarded the International Wine Challenge 'Specialist Merchant of the Year for England'. Sales of English and Welsh wines have continued to increase, with English sparkling wine a top seller over the festive season – sales were up more than 50% for the year overall and we have a leading market share.

-15%

Helping customers live healthier lives: we have reduced the sugar content of 22 of our own-brand cereals by an average of 15%

Outlook

Our commitment to high quality and service will see our strategic focus on our branches continue. We will be investing in the majority of existing branches over the next three years, including 36 further Sushi Daily counters in 2017/18.

Inspiration and provenance are at the heart of our brand. Our innovation sees 6,300 products developed in 2017/18 across all our ranges, including our successful Waitrose 1 brand.

To drive productivity and build on our excellence in customer service, we plan to rollout our Working Flexibly model to all core shops by the end of July.

And we continue to seek growth opportunities through business partnerships in the UK and around the world.

What have we done so far?

John Lewis

> The success of John Lewis is down to the hard work and dedication of thousands of Partners across the country, and I know that they will continue to serve our customers with distinction.

Andy Street CBE
Former Managing Director,
John Lewis

Differentiating our product offer

In 2016, we launched our first own-brand luxury label, modern rarity. We were the first high street retailer to introduce online brands Selfish Mother and Finery, which launched a curated edit collection in six of our shops.

Continued investment in distribution

We opened two world-class, national distribution centres at our campus in Milton Keynes in September 2016. The new facilities help us take a more customer-focussed approach to delivery, with fewer parcels sent to customers and a more efficient network. The site also includes specialist training facilities to upskill Partners in installing electricals, putting service at the heart of our delivery experience for customers.

New shops with new experiences

We opened two shops in 2016/17, taking our total number of shops to 48. We opened our most experiential shop to date in Leeds, creating 550 jobs and offering innovations like a beauty spa, travel agent, and Community Room where local groups can meet free of charge.

Opened two department stores.

It's Your Business

Stronger brands and new growth

What have we done so far?

John Lewis

Shops as places of inspiration

As part of our ambition to provide inspiration and experiences in our shops, our Oxford Street roof garden has been hugely successful with more than 171,000 visitors over the summer and winter seasons. The summer roof garden featured three pop-up restaurants, including foodie favourite The Dairy. In September, we switched to a winter wonderland with cosy cabins to enjoy food from Mac and Wild.

At the forefront of home technology

We launched our first dedicated smart home space in Oxford Street in 2016, followed by Leeds and Southampton, and moved into new product areas such as virtual reality with the launch of Oculus Rift.

Investing in Home Design

Holly Turnbull is a Home Design Stylist at John Lewis Newcastle. Holly's role involves consulting with customers by appointment, developing bespoke interior design schemes for their homes. John Lewis has been working to strengthen its home offer, with a number of key developments in 2016/17. Holly explains: "In Home, this year we've launched our new Design Project range; a collection of beautifully designed pieces from our in-house team. As well as our own brand collections, we've expanded our partnership with brands such as Loaf and West Elm." In addition, our exclusive collaboration on tableware with LEON went into shops in September.

At Newcastle, the "Home Design service plays a big role in strengthening the John Lewis brand," says Holly. "As designers we're able to offer one-to-one advice and inspire customers and that's what I find really satisfying about this job. It's a unique setting: you can come in and speak with your customer, you can show them fabrics and go into a lot of detail in your appointment. It is very much an experience and you build a relationship with them."

In 2016, Holly got the opportunity to complete a course with British Interior Design, developing her design skills further. "That was really fun and exciting to be a part of," she says.

See Holly talk about her own experience via the interactive Annual Report and Accounts www.johnlewispartnership.co.uk/financials/financial-reports/annual-reports.html

Outlook

This year will see us continue to build our business to support the changing needs of our customers. We are committed to providing the very best omnichannel experience, combining convenient online shopping with shops that inspire with their services and concepts.

We will open our 49th shop this autumn in Oxford, an area we have wanted to open in for some time. The shop will support our strategy by offering our customers experiences along with great products.

Providing the very best customer service remains at our heart. We are investing in mobile handsets for our shopfloor Partners, loaded with a dedicated app to enable them to help customers more quickly.

Our international expansion continues. We opened five shop-in-shops in Australia in February, and our largest shop-in-shop to date opened in Dubai in March.

Supporting sustainable cotton production

We are a member of the Better Cotton Initiative, and in 2016, became part of its CottonConnect programme, funding a two-year project in Maharashtra, India. The aim is to train more than 1,500 women farmers, equipping them with the skills and tools needed to support their livelihoods through sustainable farming.

> As a Partner with 22 years' service, I know just how special the John Lewis Partnership is. Driven by our unique business model, and with innovation in our DNA, I am immensely excited to lead John Lewis on the next stage of our journey.

Paula Nickolds
Managing Director,
John Lewis

Record-breaking Christmas ad

John Lewis' 2016 Christmas advert – which was viewed more than 64 million times, and was the most shared and liked Christmas ad in the UK – broke our previous Christmas ad records. Exclusive content available on Sky was one of their top downloads.

New Managing Director

Paula Nickolds became Managing Director of John Lewis in January. She started her career as a Graduate Trainee in 1994, when she worked in the haberdashery department of our Oxford Street shop. As Commercial Director, Paula was responsible for new, own-brand ranges like modern rarity and Design Project, and was instrumental in driving our strategy for the role of shops.

52%

Click & collect now accounts for 52% of online orders (with 72% collecting from Waitrose and 28% from John Lewis)

It's Your Business

> The only way to deliver Better jobs, for better performing Partners, on better pay is for us to have total focus on the Partnership's core values and beliefs – what makes us genuinely different from our competitors. This means making the most of the skills and capabilities of our Partners.

Tracey Killen
Director of Personnel

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The Betters are our strategic ambition and are delivered through the 4Ps which focus on Performance, Productivity, Pay and Progression.

Why this is important, the current environment and what we are doing...

We believe that the Partnership offers some of the best opportunities for people to get into work and get on in life. We are a source of jobs that return value in the form of benefits, wellbeing, skills and opportunities. This goes straight to the heart of our purpose in the Partnership and our strategic ambition of 'Better jobs, for better performing Partners, on better pay'.

In 2016/17 we focussed on 'better pay'. We want to ensure that Partners' pay remains well above what is now the National Living Wage (NLW). The National Minimum Wage (NMW) Regulations are very complex Regulations to apply in practice, as others have found, but are not helped by complexity in our rota and payroll systems as well as multiple pay elements. We have identified that some of our pay practices, though designed to help Partners, have technically not complied with the NMW Regulations. This means we will make payments to affected Partners and former Partners relating to the previous six-year period and £36.0m for payments and associated costs has been set aside as an exceptional charge in our financial statements in relation to this. This has principally been caused by our decision in 2006 to move to use pay averaging to ensure Partners are paid a consistent amount each month in respect of their basic pay, helping them with financial planning. As the Chairman has noted in the statement on page 2, although this was designed to help Partners, we now understand that our pay averaging arrangements do not comply with the very strict timing requirements under the NMW Regulations and we are therefore required to make good those technical underpayments. Simplifying our pay arrangements in the future will help to ensure that they are easy to administer in a fast changing market and reduce the risk of non-compliance.

Currently, our average non-management basic hourly pay is £8.67 per hour, £1.47 (20.4%) more than the NLW, and Partner pay as a % of sales is 13.9%. Following the April 2017 Pay Review, the average hourly rate of pay for our non-management Partners is £8.90.

By listening to Partners, we also identified the key elements of what a 'better job' should be in retail – that a Partner has the space to use individual judgement, and the skills to adapt at work so they can grow their contribution and be paid more for what they do.

In 2017/18, we are going to do four things that put all these elements into sharp focus, while focussing on customer as our lead priority. We will plan for the future shape of the Partner population through Strategic Workforce Planning (SWP), and reinvigorate our approach to performance management. We will make apprenticeships the cornerstone of progression, and introduce innovations to the value we return to Partners as co-owners.

What could stop us from achieving our aims?

External factors such as rising input costs and slow wage growth in relation to inflation could put pressure on our aspiration to increase the pay of our best performing Partners. Going forward, we need to focus on higher value activity and better jobs which will require us to make decisions about the pace at which we adopt technological solutions.

Our ambition to create a financially sustainable Partnership will require us to make some difficult decisions, not least the need to reduce the number of roles in the Partnership. Several changes have been announced with a number of our Partners already under consultation and we acknowledge the impact of this on those affected. We are committed to making every effort, with the support of our democratic engagement, to ensure Partners impacted get a resolution that is right for them. Registry's Partner support function is available to provide confidential, independent and emotional support for all working Partners. We expect to see an increased take up of this service over 2017/18 as Partners navigate through this period of change.

Better jobs

What have we done so far?

Bring Yourself to Work

In 2016/17, we launched two 'Bring Yourself to Work' (BYtW) weeks, with Partners coming together to hold question and answer sessions, webinars and activities discussing different aspects of Diversity & Inclusion. The response was overwhelmingly positive and we plan to hold 'BYtW' week annually across the Partnership.

Strategic Workforce Planning

Strategic Workforce Planning (SWP) uses business strategy to identify risks and opportunities in order for the business to remain competitive and to develop the capabilities required to succeed. We believe this will help us to plan effectively for change and will inform potential choices around how we work with third parties. Using the SWP approach, we will bring together a broad picture of what will be required of our Partners and the organisation to deliver the business strategy.

Helping Partners navigate their careers in the Partnership

Supporting Partners to develop their careers in the Partnership is a key focus. To facilitate this, we have created a Career Hub on our Partner Development Website. We are also introducing Discovery Days so Partners can gain work experience, developing entry routes into new and different areas of work, as well as continuing with our coaching and mentoring programmes.

+4

New Partnership networks in 2016/17: We now have eight Partnership networks, with almost 3,500 members. They help inform our Diversity and Inclusion strategy and provide invaluable support to their members

Continuing our focus on Reasonable Adjustment

We are proud to be a Disability Confident Employer as recognised by the Department of Work and Pensions. We have a desire and a responsibility to ensure that people with disabilities are supported in their employment with us, as outlined in the Equality Act 2010. Our recruitment process ensures we give full and fair consideration to applications for employment made by people from all backgrounds, and we offer tailored support for applications from people with disabilities. We make reasonable adjustments to make sure our Partners, and those who apply to work in the Partnership, are not disadvantaged. This may mean doing things a different way, providing equipment or tailored training. Our system for providing reasonable adjustments has been reformed to ensure that the support workers with disabilities get is consistent, appropriate and unbiased. During 2017/18, we are conducting a full audit of our recruitment process with help from the Business Disability Forum.

Partnership networks: supporting better jobs

Janice Johnson has 13 years' experience with the Partnership and is currently a Finance Systems Trainer. She is also a Partnership Councillor.

In 2016 Janice, alongside her colleague Karl Patterson, set up and launched one of the Partnership's newest networks, School of Thought. "The idea was that it could be a safe place for people to share their opinions and different perspectives. When we're talking about physical diversity characteristics like ethnicity, there's a lot more that goes into it: things like our social and cultural background, our upbringing, our economic and marital status. All of these add to the melting pot of who you are as a person and create this unique perspective you have on the world."

Since officially making its debut in September 2016, School of Thought has grown to a membership of 300 Partners.

"Partnership networks help to create better jobs for Partners by firstly introducing them to new people in the business. It's a big network full of different people from all different walks of life and levels in the business. The other thing that the networks do is influence business strategy. Having this big network of people who are all talking about these issues can only help us to have much better, stronger, conversations and make better business decisions overall about Diversity and Inclusion."

See Janice talk about her own experience via the interactive Annual Report and Accounts www.johnlewispartnership.co.uk/financials/financial-reports/annual-reports.html

It's Your Business

Better performing Partners

What have we done so far?

'Time to Change' attitudes to mental health

We have made a pledge to join the 'Time to Change' campaign as part of our commitment to supporting mental health. Time to Change aims to shift public attitudes about mental health, and we want to do the same by building on the services we already offer. This includes Partner Support in Registry, which provides confidential emotional support.

Partnership Health Services has already introduced a new approach to delivery by moving to one national provider, Rehab Works. This offers a range of counselling and cognitive behavioural therapies based on individual Partner needs. In 2017/18, we will increase mental health training and awareness, which will be informed by a recent pilot and underpinned by our approach to wellbeing.

We're supporting time to change

let's end mental health discrimination

Policy Rationalisation

Partner feedback suggested that the format and level of detail in our Personnel policies make them difficult to navigate. So we are simplifying them through Policy Rationalisation, making them more succinct and visual. So far, we have reduced personnel policies from 86 to 34, developing them into standards and operating procedures. This work will continue throughout 2017/18.

In addition, simplifying our pay arrangements in the future will help to ensure that they are easy to administer in a fast changing market and reduce the risk of non-compliance.

New policy and process for managing under-performance

Three years ago, we launched our first Managing Under-Performance Policy. In 2016/17, we reviewed this policy with a focus on helping the business deal with under-performance decisively, and embedding a robust (and simplified) three-step process.

Golden opportunity improves Partner performance

The Golden Jubilee Trust is our flagship volunteering programme. Through this, we give Partners the opportunity to volunteer full or part-time with a UK registered charity for up to six months on full pay and benefits.

Victoria Welinder, a Home Development Manager at Waitrose, was awarded a Golden Jubilee Trust secondment, giving her the opportunity to work with charity Breast Cancer Haven for six months. This was particularly poignant for Victoria, she says, as it followed her personal breast cancer recovery – Breast Cancer Haven had been her place of 'solace and serenity' during her illness. She describes 2016 as an 'amazing year'. "The project I'm most proud of during my Golden Jubilee Trust secondment was developing a bag-for-life that could be sold in all Waitrose stores during Breast Cancer Awareness month. It was a brilliant project that will overall donate about £30,000 to the charity, but crucially delivered national awareness of a small charity."

Victoria returned to her role at Waitrose in July 2016, with experience in setting direction and vision. "Working on the bag-for-life, and developing the charity's social media strategy, really gave me the opportunity to develop something from an infancy of an idea," she says. "This gave me a fresh perspective when approaching projects when I returned to work, such as the bespoke hamper service that we offered in a few stores at Christmas."

See Victoria talk about her own experience via the interactive Annual Report and Accounts www.johnlewispartnership.co.uk/financials/financial-reports/annual-reports.html

Delivering inspiring learning services

We want to deliver inspiring learning services that are easy-to-access and flexible. In 2016, we achieved:

445,401
E-learning certifications

47,540
attendees at face-to-face training sessions

370,717
online tests completed

BAME Partners in Management ahead of forecast

Our primary inclusion objective is to focus on developing the talent of our BAME (Black, Asian and Minority Ethnic) Partners, who make up 15% of our Partner population – which is on par with BAME representation in the general UK population.

Currently, 8.7% of the Partnership's management positions (Levels 1-9) are held by BAME Partners (up from 8.5% in 2015/16). At more senior levels (Levels 1-5) the proportion is 4.1% (up from 3.7%). We continue to focus on recruiting and developing BAME Partners to ensure promotion and equal opportunity. Our Facing Into Bias workshops are now available for all Partners, alongside our Diversity and Inclusion E-learning.

New Absence Management Standard provides clearer guidance

In 2016/17, we reviewed our Absence Management Policy, as outlined in the Productivity section of the 4Ps: Manifesto for change. Collaborating with Partners across the business to shape our new approach, we introduced new measures and clearer guidance on roles and responsibilities. We also relaunched it in the 'standard' format, making it easier for Partners and line managers to use.

New services and quality assurance in Personnel Policy and Advice (PPA)

- 80,000 calls supported – a 20% year-on-year increase
- Provided advice for approximately 80 projects and programmes
- Launched a new service to support Partners with learning differences and their line managers
- 80% of specialists are CIPD qualified

To ensure policies and processes are well understood, we have launched and delivered upskilling sessions for line managers, Partners and Business Partners on a number of policies. These include absence management, settlements and managing performance. PPA has also built upon quality assurance through the development of a number of new processes.

Gender diversity of the Partnership

2016/17	Male %	Female %
Partnership Board	**60**	**40**
Directors and Management Board members*	**71**	**29**
Senior Managers#	**54**	**46**
All other Partners	**42**	**58**
All Partners	**42**	**58**

2015/16	Male %	Female %
Partnership Board	67	33
Directors and Management Board members*	71	29
Senior Managers#	54	46
All other Partners	42	58
All Partners	43	57

Ethnicity of senior manager population (Levels 1-5)

	2016/17 %	2015/16 %
White	**90.9**	91.2
Asian or Asian British	**2.2**	2.1
Black or Black British	**0.5**	0.3
Chinese or other ethnic group	**0.4**	0.5
Mixed origin	**1.0**	0.8
Not given	**5.0**	5.1

* Other than Partnership Board members
\# Other than Partnership Board members, Directors and Management Board members

It's Your Business

Better pay

What have we done so far?

Pay Review 2016

We invested significantly more at the 2016 Pay Review with a total spend of 4.36% across the Partnership compared to 2.56% in 2015. Additional annualised pay costs for our non-management Partners were £36m greater (£3m of this was to fund the NLW).

5.0%

Average pay increase of 5.0% for non-management Partners

Beyond pay: exclusive benefits for all Partners

After holding a number of roles in Waitrose, Kevin Rosales joined John Lewis as a Marketing Executive in 2016. He's also the communications lead for Unity – the Partnership's Black, Asian and Minority Ethnic network – which officially launched in April 2016.

As a Partner with nine years' service, Kevin values the Partnership's exclusive benefits. "I use lots of the benefits available to me – particularly the discount!" he says. "I spend a lot of money on fashion annually and I really benefit from being able to shop brands that I love for less in John Lewis. I also visit Waitrose often and the discount is a great benefit."

Kevin also makes good use of the annual 'ticket subsidy' discount he receives as part of his Partner package: a scheme where the Partnership contributes 50% towards the cost of Partners' tickets for events and attractions up to an annual limit of £60. He also enjoys having access to the Partnership's suite at the O2 arena. "I've seen some fantastic artists from the comfort of the Partnership's suite at London's O2 arena, including Jay Z and The Weeknd. It's an amazing experience for Partners!"

See Kevin talk about his own experience via the interactive Annual Report and Accounts www.johnlewispartnership.co.uk/financials/financial-reports/annual-reports.html

Outlook

In 2017/18, we will turn the three Betters into reality.

- We will plan for the shape of the Partner population we need in the future. Looking out over five years at what the business needs from Partners and our complementary workforce, we will establish the size and type of resource we need to deliver on our customer priorities, while developing the skills and capabilities of our Partners
- We want to reinvigorate performance management, moving to a judgement-led and process-light approach. We will signal a shift by stopping the annual appraisal and talent process for one year to make room for conversations between line managers and Partners
- We will make apprenticeships the cornerstone of progression for new and existing Partners at all levels. In 2017/18, we will experiment with as many different types of apprenticeships as we can to enable us to build scale for the future. We aim to have thousands of apprenticeships in place by 2020
- In the future, we will look to simplify our pay arrangements to help ensure that they are easy to administer in a fast changing market and reduce the risk of non-compliance
- In the longer term, we will review our total reward package to give Partners more choice and control over how they take value from the Partnership. In the short-term, we will simplify our pay for performance approach. We will also return greater value through an increased focus on Partner wellbeing

Gender pay reporting

Throughout 2017/18, we will be focussing on gender pay reporting. We will collate the data we will be publishing in April 2018. We also intend on providing commentary on initiatives to address the issue of gender pay.

Competitive Benefits offer

In 2016/17, we completed a review of benefits. It showed that our offer is wide and rich, and offers us a competitive advantage. The review also identified some potential opportunities based on future needs and demographic trends. Updates include:

My Financial Choices

More than 5,300 Partners have participated in our financial education programme.

retailCURe

The Retail Trust's credit union for retail employees provides access to loans and savings products.

Special events and PartnerChoice

Including Alton Towers, Legoland and Thorpe Park takeovers, our annual singing contest PartnerSing, and many others.

We always look to the long-term in the business. Our responsibility is to strike the right balance between building our balance sheet strength, investing in the future of the business, and the level of Partnership Bonus paid to Partners.

Patrick Lewis
Group Finance Director

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Why this is important, the current environment and what we are doing...

As a co-owned business, our financial goal has never been to maximise short-term profits. It has always been to make 'sufficient' profit and to take long-term decisions for the business, so that we can support our ultimate purpose – Principle 1 (see page 6 for details). To achieve this, we need a strong enough balance sheet so that we have resilience against market shocks and have the financial flexibility and firepower to invest in new growth in the future.

The current environment has increased the imperative of maintaining a strong balance sheet. Trading pressures from the wider changes taking place in retail, alongside a significant deterioration in the sterling exchange rate are increasing our input costs. In addition, interest rates have declined substantially, increasing our accounting pension deficit. Looking ahead, we need to anticipate continued volatility.

We have made good progress in the year by continuing to generate strong cash flows and reducing capital expenditure on new shops. We have changed the annual inflation rate assumed for pensions accrued prior to 6 April 1997, and we concluded our triennial actuarial valuation to 31 March 2016, which determines our cash contributions to our defined benefit pension scheme. This deficit has nearly halved to £479m since 31 March 2013, and we have already paid more than £200m of the £303m deficit reduction cash contributions agreed with the Trustee. Despite this progress, the Board decided to retain a higher proportion of our profit and Partners received a 6% Bonus this year. Both market uncertainty and our determination to continue to make long-term decisions require a lower level of balance sheet risk.

What could stop us from achieving our aims?

We are aiming to reduce our Debt ratio, which compares our total debts to the cash flow we generate each year, to around 3.0 times from 4.0 times at 2016/17. Risks that would reduce our profitability and cash flows or those that would increase our total debts would make it more challenging for us to achieve our aims.

The uncertainty and trading pressures in the retail market pose risks to profitability and cash flows. This includes inflationary cost pressures from the weakness in the sterling exchange rate as the rate of change in selling prices is likely to be significantly slower, the continued shift from shops to online, and further intensification of competition in the market as a whole.

In addition, changes in government policies and the uncertainty around Brexit pose risks to our aims. This could be through reduced consumer confidence and spending impacting profitability and cash flows, or through increases in our pension liabilities due to a reduction in market interest rates or devaluation of our pension fund's assets.

It's Your Business

Financial sustainability

What have we done so far?

Strengthening the balance sheet and increasing our financial firepower

15.1%

Reduction in capital expenditure. We have shifted our focus away from opening new space, while maintaining a high level of investment in our current estate, including IT and distribution.

6%

Partnership Bonus down from 10% of eligible pay in 2015/16. A difficult decision but the right one given market uncertainty and our determination to accelerate our strategy.

£325m to £450m

We've re-financed our main committed credit facility, increasing it by £125m and extending its maturity to November 2021, while lowering 'cost per £'. This will help us manage through any volatility in trading.

£58m

Bond debt reduced by £58m during the year as we paid off our five year retail bond.

Productivity

Our Productivity agenda seeks to advance on three fronts: Organisation, Digitisation and Culture. In addition, we will focus on increasing the Partnership's Change capacity. Our activity in 2016/17 has primarily been focussed on Organisation and Digitisation.

We have begun the transition to single Partnership functions in Finance, Personnel and IT, with responsibility for relevant service delivery now sitting within each. This promotes clarity of accountability and greater visibility of operational improvement opportunities and risks. As a result of this change, we have dissolved the Partnership Services function.

The appointment of a Chief Information Officer and introduction of a single approach to IT strategy, architecture and infrastructure will enable significant structural and procurement synergies and cost reductions. Towards the end of 2016 we began limited trials of robotic process automation and expect to see these develop into a significant productivity initiative during 2017. We expect automation to lower our costs and create better jobs in which Partners focus more of their time and talent on higher value activity.

Using resources efficiently

In our operations, we continue to focus on reducing carbon emissions and utilities consumption from our buildings. We are finding efficient ways to distribute our goods, and managing our waste and use of resources. This year, we have reduced energy consumption per square foot of trading floor by 1.4%. See page 60 for our greenhouse gas emissions statement. 2016 data is extracted from www.johnlewispartnership.co.uk/csr which was also included within KPMG LLP's independent limited assurance scope. On this page you can also read their full opinion.

Productivity in practice in our supply chain

Jen Brown is an Assistant Section Manager at Waitrose's Dotcom Fulfilment Centre (DFC) in Coulsdon, which fulfils Waitrose's online customer orders in the London and Surrey area.

"We have our own specific assortment here at Coulsdon with around 15,000 lines," says Jen. "On an average day we pick anything between 50,000-70,000 items. We have a 24-hour workforce across the site to make sure we can do that for our customers."

The Coulsdon warehouse was designed to drive productivity, with products stored by their online popularity, adds Jen. "Productivity here at Coulsdon is definitely at the forefront of our minds. We drive efficiency on site through continuous improvement, as well as with the way we've laid out our DFC. Everything is about efficiency."

See Jen talk about her own experience via the interactive Annual Report and Accounts www.johnlewispartnership.co.uk/financials/financial-reports/annual-reports.html

Maximising sales contributes to profitability

Lois Dennis is a Selling Coach at John Lewis Leeds, having joined the Partnership on a retail apprenticeship scheme at our Sheffield branch in September 2015.

Lois works as one of five selling coaches at the new Leeds store, and she has responsibility for coaching 60 Partners across the shop's ground floor departments; Stationery & Gifts, Menswear, Women's Accessories and Beauty.

Selling coaches spend 80% of their time developing Partners and 20% supporting the branch, particularly during peak trade periods.

Lois works with Partners to strengthen their selling techniques and achieve consistency, through training, observations and feedback sessions. "It's ultimately about achieving the best from that Partner and making them the best seller that they can be," she says.

"We give them the right tools and the right knowledge that they need to achieve the best selling results. The importance of the selling coach role is to empower Partners to deliver the best sales result possible ensuring that we're maximising all sales opportunities that we can. This is why our role is key in contributing to the Financial sustainability of the Partnership."

See Lois talk about her own experience via the interactive Annual Report and Accounts www.johnlewispartnership.co.uk/financials/financial-reports/annual-reports.html

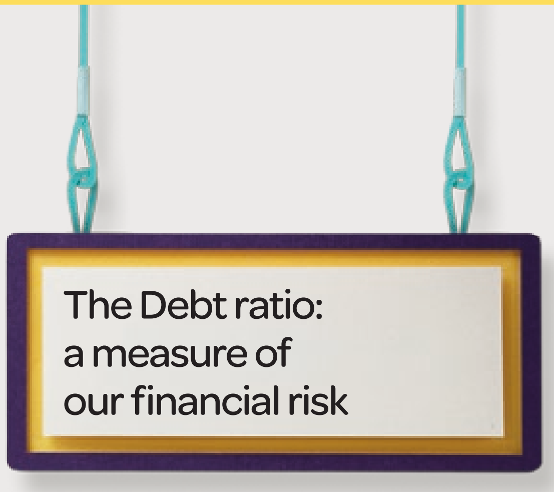
Which pension deficit should I be looking at?

The accounting deficit (£1,014m) or the actuarial valuation (£479m) – what is the difference between the two measures?

The actuarial valuation deficit of £479m 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 (£1,014m), 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.

We must also be mindful of the different dates of the valuations. The accounting deficit figure is calculated as at the balance sheet date of 28 January 2017, and the actuarial deficit was calculated as at 31 March 2016.



KPI

The Debt ratio is a measure of the Partnership's debt relative to its cash flow. It is defined on page 9.

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.

The Debt ratio can be likened to personal finance, where mortgage lending is usually limited to a certain multiple of someone's earnings. The higher the multiple, the harder it will be to service and repay the debt and therefore potentially higher risk.

It's Your Business

Financial sustainability

What have we done so far?

8.1% KPI
(2016: 7.1%)
Return on invested capital (ROIC)

£5,800 KPI
(2016: £4,800)
Profit per average FTE

Both ROIC and Profit per average FTE have improved, driven by the increase in profits. However, this increase is mainly due to lower pension accounting charges which have offset the trading pressures on profit.

Outlook

Financial sustainability is a key enabler for our plans around Stronger brands and new growth and around Better jobs, better performing Partners and better pay. In the year ahead, we will maintain our level of investment to support these longer term customer and Partner plans in the face of what we expect to be an increasingly uncertain market.

We are also accelerating aspects of our strategy to ensure the Partnership's success, and so expect our short-term profits to be impacted by one-off costs of change.

As a result, we do not expect an improvement in our Debt ratio in the coming year. However, as we work towards reducing our Debt ratio to three times, we will increase our cash flow through delivering our Partner and customer goals.

A more affordable and less volatile pension scheme

Andrew Bennett is a Pensions Finance and Strategy Manager, responsible for helping to manage the cost of the Partnership's Pension arrangement. Changes to our Pension scheme, as agreed by Partnership Council, came into effect in 2016. According to Andrew, this has resulted in the expense in our accounts in relation to Pensions being reduced this year.

The defined benefit pension changes included halving the rate of pension build up, as well as extending the waiting period to five years before Partners can join.

In addition to these changes, the Partnership introduced an interest and inflation hedging programme for pension scheme assets to reduce volatility risk. The triennial review, which gives us certainty over future cash flows into the pension scheme, was also completed this year.

In January 2017, we announced a change to the annual pension increase – pension built up before 6 April 1997 will in future be calculated using CPI inflation (capped at 2.5%) instead of RPI inflation (capped at 5%). This has reduced the pension deficit by £270m.

"The work that we've done over the past year has really reduced the risk, and means that we'll have a much more affordable pension scheme and the cost will be less volatile for us in the future," says Andrew.

"People's pension savings are important to them and it's really important that if a Partner works for the Partnership for a long period of time, they are able to build up a good retirement income for themselves."

See Andrew talk about his own experience via the interactive Annual Report and Accounts www.johnlewispartnership.co.uk/financials/financial-reports/annual-reports.html

Repaying our debts and increasing financial flexibility

We continue to reduce our debt levels with net debt (as defined on page 85) reducing by £121.9m. We have achieved this through strong cash flow and lower capital expenditure.

We also amended the covenants in our bonds maturing in 2025 and 2034 so they are better aligned to our long-term business and financial strategy.

> Democratic vitality is at the heart of the Partnership. Although not a strategic objective in itself, it anchors our future aspirations, so it is important that we place focus and energy behind it.

Jane Burgess
Partners' Counsellor

Chairman's statement
page 2

Our principal risks
page 32

Why this is important, the current environment and what we are doing...

Democratic vitality is at the heart of the Partnership. Although not a strategic objective in itself, it anchors our future aspirations, so it is important that we place focus and energy behind it.

According to Rule 1 of the Partnership Constitution: 'The Partnership operates on democratic principles and as much sharing of power among its members and representative bodies as is consistent with efficiency.'

In a landscape of extensive change and development, a culture of empowerment, engagement and entrepreneurship is an ever more essential ingredient for the spirit of our Partnership to flourish.

Our Personnel and Registry teams have together developed and delivered a suite of workshops for leaders across the Partnership to inspire ownership learning. The workshops bring the elements of our co-ownership model to life including our history, ultimate purpose and a Partner's role as a co-owner. Registry has also developed an experimental online diagnostic tool designed to support leaders to identify if, where, and how changes may be needed to drive greater co-ownership within their teams. Through analysing the results, we are able to provide insights and give an evidence-based view to leaders on where to take action, prioritise, maintain or monitor focus to enable our co-ownership culture to thrive.

The opinion of Partners as co-owners is vital and in 2016/17, our Registry team has experimented with a number of ways of gathering and measuring opinion for future years. This includes implementing different technologies, such as touch screen pulse surveys in branch and using 'always on' survey technology to test Partner interaction and develop a view on how insight can be used to influence and support decision-making.

In 2016/17, we started to raise the value of membership by introducing a 'meaningful' probationary period trial across 11 sites. The trial involved all new starters at the participating locations to demonstrate the attitudes and behaviours expected of a Partner, as well as the requirements of their role, in order to be formally endorsed as a member of the Partnership. Peer feedback is a core component of this, enabling line managers to decide on a Partner's membership with a broader range of evidence to consider.

In 2016/17, we also reviewed the way in which we approach the publication of letters in the Partnership Gazette and Chronicles. The review was based on feedback from Partners which indicated an increased concern about the quality and late publishing of some responses. As a result, respondents are now tasked with quicker responses to letters that more satisfactorily answer the questions.

What could stop us from achieving our aims?

In conversations with Partnership Council, Councillors highlighted that Leadership focus on democratic engagement was highly variable across the business. Time commitments towards Democratic vitality were undermined by pressing trading targets. These elements, as well as an extensive change agenda, could have a negative impact on the perception of the value of our democratic principles.

It's Your Business

Democratic vitality

What have we done so far?

167

167 PartnerVoice By-selections, 16 contested Forum elections in John Lewis

329

329 PartnerVoice By-selections, 44 contested Forum elections in Waitrose

4

4 PartnerVoice By-selections, no Forum elections held in Group

7

7 PartnerVoice By-selections, in Partnership Services

1,865

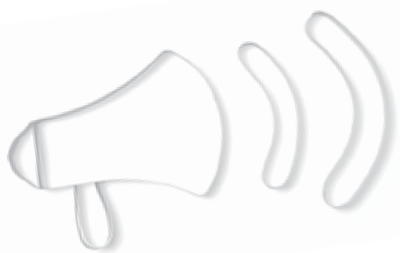
Partner letters were published across our journalism channels

Gazette & Chronicles

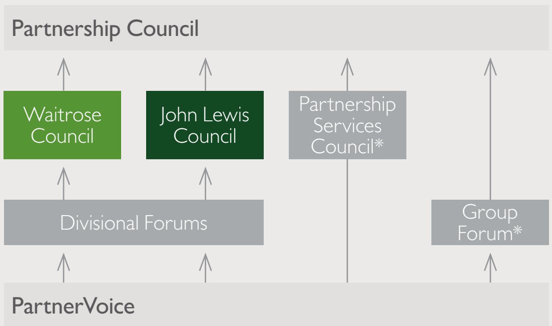
Letters from Partners to senior management in the Gazette and Chronicles provide meaningful feedback for the Partnership. We have reviewed our approach to publishing answers. The review addressed concerns that in an increasing number of cases, Partners did not believe responses fully answered the questions posed, or the letter response was published late.

Influencing the Partnership

Partners can influence what happens in their area of the Partnership or the Partnership as a whole, through their local PartnerVoice and other democratic bodies like Forum. This builds on the influence already taking place informally or at PartnerVoice level.



Our democracy



Partner Voice

The diagram shows our democratic structure for the year ended 28 January 2017.

*The move of IT, Finance and Personnel shared service operations from Partnership Services into their respective pan-Partnership functions in January 2017 resulted in changes to the democratic structure. Partnership Services Council and Group Forum was dissolved in February 2017 and Functional Forums for IT, Finance and Personnel have been established.

See The Partnership Council report on page 50 for more information about the democratic structure and work of the Partnership Council during the year under review.

3,387

Partners used an online diagnostic tool designed to identify areas for improvement to drive greater co-ownership across the Partnership

Helping leaders to evaluate co-ownership

In 2016, we launched an online tool that helps to identify areas for improvement to drive greater co-ownership across the Partnership. Through analysing the results of the tool usage, we can provide insights and give an evidence-based view to leaders on where to take action, prioritise, maintain or monitor focus to help co-ownership thrive.

Partnership Council holds leadership to account

Carl Barrett has worked at John Lewis' flagship Oxford Street shop for 11 years and is a Section Manager in the Furnishing Fabrics department. Carl has also been the branch's Partnership Councillor for the last three years, with responsibility for representing the views of Partners from the business' biggest branch at the highest level of the Partnership's democracy (see page 41 for more information on the Partnership Council).

He says: "Partnership Council is pivotal and vital in terms of where it fits into the democratic structure of our business. We are effectively the direct link in terms of really holding the executive and senior leadership to account on delivering the Partnership's ultimate purpose: Principle 1."

Carl sees the Partnership Council as an essential voice of Partners at all levels, ensuring their opinions are heard by the right people that have the potential and the power to influence.

"The four layers of our democratic structure are important for the Democratic vitality of the Partnership. It gives us as Partnership Council a really solid and informed viewpoint of the totality of what's coming through from our constituents. The role I play gives me a sense of commitment to the business and makes me want to give more, as I truly buy into and believe in our ethos. We're co-owners and we're all responsible."

See Carl talk about his own experience via the interactive Annual Report and Accounts www.johnlewispartnership.co.uk/financials/financial-reports/annual-reports.html

It's Your Business

Democratic vitality

What have we done so far?

Our Constitution is the bedrock of the Partnership

Karen Crisford has been a Partner for 36 years and works as a democracy coach in Waitrose branches. After eight years as a Partnership Councillor, Karen's career took a significant turn in spring 2015: she was elected as a Trustee of the Partnership's Constitution, for a three-year term, by the Partnership Council.

"We're one of the few companies to have a written Constitution. The reason we have one is because our Founder, John Spedan Lewis, wrote it back at the very beginning of the Partnership," she explains. "The important thing about the Constitution, though, is that it has been around for nearly 100 years but actually we've kept it relevant. Lots of times we go back and amend or change something written in the Constitution and all of those changes have to be voted on by the Partnership Council."

As one of three Trustees, Karen attends meetings with the Partnership's Chairman and Deputy Chairman periodically throughout the year to really try to make sure the Constitution fits what Partners need.

She says: "I love being a Trustee. I can have an opinion and, more than that, I can influence some of the things that are going on in the business. Democratic vitality is hugely important to the Partnership and to the future of our business."

See Karen talk about her own experience via the interactive Annual Report and Accounts www.johnlewispartnership.co.uk/financials/financial-reports/annual-reports.html

Inspiring Ownership

Our Inspiring Ownership workshops – developed by Personnel and Registry for leaders and managers – bring our co-ownership model to life, focussing on our history, purpose and Partners' roles as co-owners.

31

Senior leaders participating in Inspiring Ownership workshops, acting as co-ownership advocates

36

Partnership assurance leads and democracy coaches supporting as Registry representatives

768

Partners attending Inspiring Ownership workshops

650+

More than 650 visitors attended Divisional Council meetings during the year, with waiting lists for future meetings

Experience Council live

Attendance at Council continues to be extremely popular with Partners, many of whom have already watched online but want to experience Council live.

Waitrose

Partners have been able to access streaming sessions both as individuals and in groups, often organised by democracy coaches.

John Lewis

From 2016/17, leaders received summaries after Council meetings, allowing them to identify common themes raised at PartnerVoice, Forum and Council.

Partnership Council

More information can be found about the Partnership Council on page 41.

Outlook

In 2017/18, our focus will be on developing the three-year roadmap for measuring Partner opinion. We will support the business to move towards an 'always on' insight and learning based approach with our Partners. In the first year, we will launch Your Voice. This is our first survey based on Principle 1, and delivers greater focus on the responsibilities and rewards of ownership. It also provides a clear measure of trust in the Partnership as a better way of doing business.

We will continue Inspiring Ownership Learning and many managers have already signed up to this development opportunity. In order to ensure Partners fully understand our unique Partnership, their rights and responsibilities and what being a co-owner means, we will also continue to review how membership is earned.

A number of elections will take place in 2017/18 to select representatives across Forum, Divisional Councils and PartnerVoice. Registry will continue to review processes and procedures so that our democratic bodies remain agile and a true enabler of engagement.

Giving Partners a voice

Craig Brown has worked for the Partnership for 15 years, gaining experience at Waitrose's Cambridge and Canary Wharf branches, before joining the little Waitrose Clifton team five years ago.

Craig's commercial role is as a Supermarket Assistant, but in addition he also represents Partners' views through the Partnership's democracy. He explains: "I'm in a slightly unusual position of being a representative at three levels of Waitrose's democracy: I'm a PartnerVoice representative, a Forum representative and a Waitrose Councillor. I see my roles as important to the Partnership's vision of Democratic vitality because I can gather Partner opinion here on the shopfloor, on the front line, and escalate it up through the tiers of democracy to the Managing Director at Waitrose Council."

As a convenience store, Partners at little Waitrose Clifton work flexibly across the shop. Training is provided so Partners can work in a variety of areas, and Craig manages his workload and democratic responsibilities. "What makes democracy really successful in Clifton is the relationship between me as a representative and my store manager," he says. "My store manager treats me as a resource that he can come to to really gauge Partner opinion."

See Craig talk about his own experience via the interactive Annual Report and Accounts www.johnlewispartnership.co.uk/financials/financial-reports/annual-reports.html

It's Your Business

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

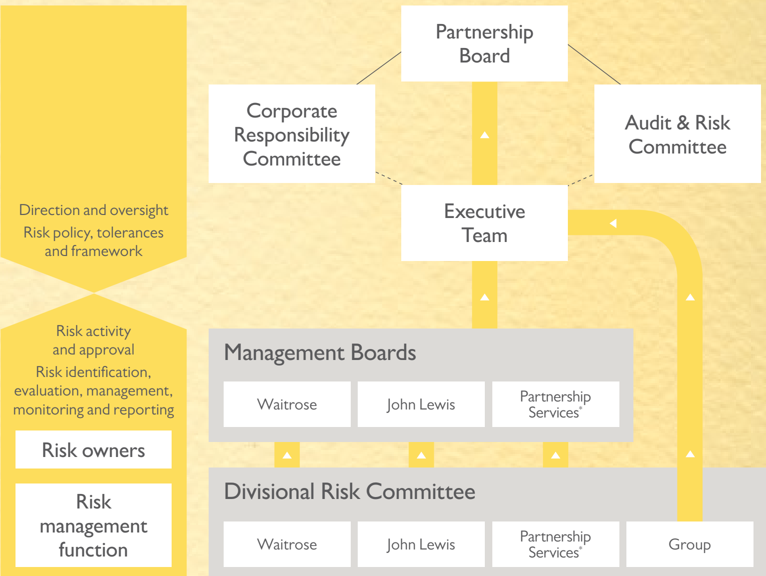
Our approach to risk

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 57). The Partnership Board is also responsible for ensuring that risk is effectively managed through our governance structure (see below) 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 below.
For further details about key roles and responsibilities within our governance structure, please see the Audit and Risk Committee report on page 57.

Risk management governance structure



* With effect from 29 January 2017, the activities of Partnership Services became part of the responsibility of the Group Division.

"Effective risk management will enable us to capitalise best on future opportunities, whilst protecting our Partners, customers and reputation."

Patrick Lewis
Group Finance Director

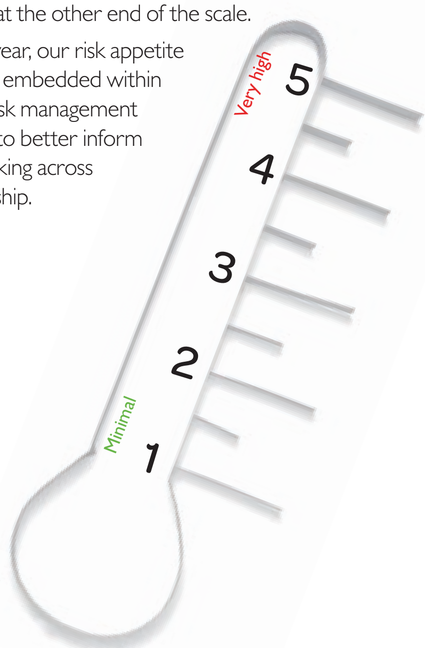
Risk appetite

The Partnership's risk appetite is set by the Partnership Board, which clearly articulates the amount of acceptable risk within which Divisions can operate. This is derived from our Constitution and takes into consideration the acceptable level of risk across strategic, operational, financial and compliance 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 the pursuit of our strategic objectives to drive our business forward, versus a minimal risk tolerance to compliance at the other end of the scale.

During the year, our risk appetite has become embedded within our wider risk management framework to better inform decision-making across the Partnership.



Risks or opportunities?

Risks come in different forms, from the external environment in which we compete, internally from uncertainties and change; to how we operate our business model. Risks also involve opportunities we might miss for further growth and a sustainable future.

Risk management process

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

We make our evaluation of impact and likelihood, considering the effectiveness of current mitigating controls in place, to give a 'net' risk profile. If this net profile is deemed to be placing us at too much risk for the return expected and is outside of our risk appetite, a response is required, reported and maintained to bring the risk back within an acceptable level, in an appropriate time period.

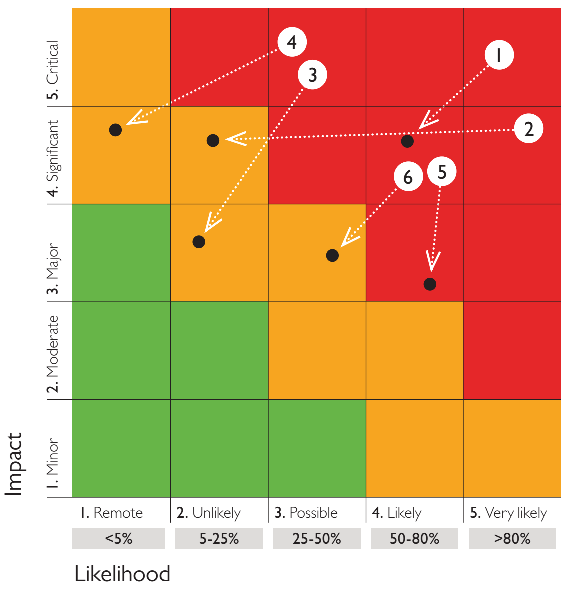
Heat map

What do we mean by impact?

This assesses what the potential Partner, customer, financial and regulatory impact could be if the risk materialises.

The top six Partnership risks

1 Competition
2 Operating model strain
3 Information security
4 Pension obligations
5 Change delivery
6 Economic environment



○ Net risk profile, after current mitigating control
● Target risk profile, if further actions are successful

Our principal risks and mitigations: In its final review of the year, the Partnership Board prioritised six principal 'red' risks:

Strategic risks	Operational risks	Financial risks	Compliance risks
Principal risks (6)			
1 Competition		4 Pension obligations	3 Information security
2 Operating model strain			
5 Change delivery			
6 Economic environment			
Top amber risks (16)			
Ownership model strain	IT business interruption	Funding and liquidity	Data privacy
Corporate reputation	Talent	Financial control, reporting and governance	Product quality and food safety
IT infrastructure capability	Business interruption	Property valuation	Health and safety breach
Political environment	Responsible sourcing		Other regulatory compliance
	Loss of key suppliers, third parties		

As a result of the assessment:

Red zone

Six principal risks are in the 'red zone'. They have been assessed as beyond our tolerance for acceptable risk taking and so require further action. We have developed plans with risk owners and agreed timelines. Progress is reviewed through our governance structure on a quarterly basis.

Amber zone

16 further risks were identified in the 'amber zone'. They have been assessed as being either lower or the risk is being mitigated more effectively. They may need to reduce further depending on the risk appetite for each specific risk.

Green zone

There are some risks currently deemed to be less material and unlikely to affect the pursuit of our Partnership strategy, i.e. in the 'green zone'.

Brexit

The Partnership has taken a proactive approach to managing the potential financial impact of the leave vote in the June 2016 EU Referendum. Following the result and on an ongoing basis, the Executive Team and Partnership Board, supported by a Brexit Team, are reviewing our position, and influencing externally where possible, in relation to potential Brexit outcomes. The Partnership will continue to proactively monitor and respond to political, economic, operational and regulatory pressures arising as a result of Brexit.

It's Your Business

Managing our Partnership risks: These are our top six risks, which 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. The following changes in our risk profile have been approved by the Partnership Board:

Increased risk profile

+3 Three principal risks have increased over the year

2 Operating model strain | 5 Change delivery | 6 Economic environment

What are we doing about these risks?
Several programmes are underway to drive efficiencies across the Partnership and enable more flexibility across our operating model to better serve our customers. A review of our implementation of pay policy has been prompted after remediation of a technical underpayment. Redesigned organisational change governance is being implemented to support and challenge the effective delivery of programmes. The Board continues to closely monitor and respond to changes in the economic environment, including the impact of Brexit, consumer confidence and changing customer needs. We monitor progress regularly through the governance structure.

Combined risk profile

-1 Two risks have been combined

Efficiency | Change delivery

Why have these been combined?
The 'Efficiency' risk has been incorporated into the 'Change delivery' risk due to the interdependencies between the two risks and mitigating actions; and to align reporting across the Partnership. Our plans continue to address the combined risk.

Risk	Controls in place	How have we managed and will mitigate the risk?

1 Competition 1 3

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
- Refreshed strategies in place, centred on responding to changing customer trends
- Continuing to secure value for all of our customers through our price matching commitments
- Regular strategic risk review and monitoring by the Executive Team

Progress in the year
- Implementing several initiatives throughout the year to improve our end-to-end customer experience and proposition, such as the launch of Waitrose 1 and grazing in Waitrose; and launching our new brand modern rarity in John Lewis
- Continued commitment to improve customer service across all offerings

Further actions
- Continue to focus on differentiating our customer service, product quality and product innovation
- 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 1 2 3

Increased risk profile ↑

Description
Increasing external pressures, such as the ongoing move to online 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
- Continued improvement of our future approach to customer fulfilment and the operations required to support this

Further actions
- Successfully implement significant change programmes

Risk	Controls in place	How have we managed and will mitigate the risk?

3 Information security 1 3

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
- Enhancements to the systems and controls that hold Partner and customer data have continued to improve resilience
- Launched Information Security and Data Privacy Awareness campaign
- Embedding and training against the crisis management framework

Further actions
- Continue to implement the Data and IT Security programmes across the Partnership
- Ongoing rollout of improved information security training to Partners

4 Pension obligations 3

Description
Increases in the pension liabilities, driven by an increase 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
- Implementation of a new defined contribution scheme
- Triennial valuation has been approved by the Partnership Board and Trustee Board

Further actions
- Implement the pension risk management framework

5 Change delivery 1 2 3

Increased risk profile ↑

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
- Monthly review of programme status at the Executive Team level

Progress in the year
- Redesigned organisational governance, accountability and reporting to support effective programme delivery, oversight and assurance

Further actions
- Embed the redesigned organisational governance
- Improve reporting and insight on the impact of change on Partners and inter-dependencies of programmes

6 Economic environment 1 2 3

Increased risk profile ↑

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 have been reviewed, and this will continue on an ongoing basis

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
- Continue to review the potential impact arising from Brexit

It's Your Voice

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.

How we are governed

"The challenge for Partners today is to prove that a business which is not driven by the demands of outside shareholders and which sets high standards of behaviour can flourish in the competitive conditions facing a modern retailing business. The Constitution provides the Principles and Rules within which we aim to demonstrate, through Partners, customers and profit, that we are a better form of business."

Sir Charlie Mayfield
Chairman, John Lewis Partnership

Pages 1 to 35 make up the Partnership's Group Strategic Report where you will find information on the Partnership's strategy, It's Your Business 2028, which is guided and supported by our unique governance framework.

How is the Partnership governed?

The Partnership operates on democratic principles and is governed by our written Constitution and the two Trust settlements. The Constitution has been refreshed over the years to reflect the changing societal, business and economic environment in which we operate, yet retains a direct connection with the fundamental principles established in 1928.

At the heart of the Constitution is Principle 1, that 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 Partners, they share the responsibilities of ownership as well as its rewards – profit, knowledge and power.

This compelling statement on the responsibility of co-ownership is what differentiates the Partnership and its governance from other corporate bodies. Our governance structure is designed to protect the fundamental principle of co-ownership and engagement of Partners, safeguard the Partnership's future, enhance its prosperity and ensure its integrity. Power in the Partnership is shared between three governing authorities, the Partnership Council, the Partnership Board and the Chairman. For more information see 'How we share power' on page 40.

The Constitution provides the Principles and Rules within which we aim to demonstrate, through Partners, customers and profit, that we are a better form of doing business.

The Constitution is available to all Partners on the Partner intranet and to other interested parties at www.johnlewispartnership.co.uk

How can the Constitution be amended?

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.

Which other governance regulations are applicable to the Partnership?

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

Following the cancellation of the Preference Shares in issue, John Lewis Partnership plc (the Company) de-listed in November 2016 and no longer has a listing on the London Stock Exchange (LSE). For more information on the cancellation please see page 71 of our Directors' report.

See 'How our governance model is different' on page 49 for information on how the Partnership voluntarily reports against the UK Corporate Governance Code on a comply or explain basis.

Who owns the Partnership

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 appointed Trustee of the Trust.

About the Trust Company

The Trust Company holds the Deferred Ordinary Shares in the capital of the Company in trust for the benefit of Partners.

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

How is the Trust Company's Board made up?

The Trust Company has five Directors: the Chairman and Deputy Chairman of the Partnership, and three Directors elected by the Partnership Council, who are known as the Trustees of the Constitution.

How are the Directors selected?

The Articles of Association of the Trust Company state that the Chairman appoints both his own successor and the Deputy Chairman. This follows the wishes of the Partnership Founder, who believed that each appointment should represent the interests of the Partnership and work to preserve its future. The Chairman's Nominations Committee oversees the appointment process of the Chairman and the Deputy Chairman. On 3 April 2016, Lord Price resigned as Deputy Chairman and Keith Williams, a Non-Executive Director of the Partnership Board was appointed to the role.

The current Trustees of the Constitution were elected by the Partnership Council in March 2015 and are Johnny Aisher, Karen Crisford and Cathy Houchin (re-elected).

How often do the Board and the Trustees meet?

In 2016/17, the Trust Board met three times. In addition, the Trustees of the Constitution met separately without the Chairman and the Deputy Chairman to discuss matters reserved for the Trustees of the Constitution as set out in the Constitution, including deciding the constituencies of, and overseeing elections to, the Partnership's democratic bodies.

During the year under review, the newly appointed Deputy Chairman received guidance on his role and responsibilities as a Trustee and a Director of the Trust Company.

It's Your Voice

How we behave: The Constitution governs how the Partnership behaves both in relation to Partners' rights and responsibilities and in relation to our responsibilities to others.

Partners' rights and responsibilities

Our Partners

Principle 4 '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.'

Under the Constitution every Partner is responsible for knowing, complying with and upholding the Partnership's Principles and those Rules which concern them.

Please see the Partnership Council report on page 50 for more information on how Partners' opinion is voiced through the Partnership Council.

What role do Partners have in how the Partnership is governed?

Our 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. The governing authorities' power to direct the Partnership's affairs depends on the consent of Partners. Partners express their opinions through:

- → Formal arrangements for sharing knowledge
- → Representative bodies, as shown on page 28
- → Personal contact between Partners, both formal and informal; for example between Partners and their line managers

Partners can also express their opinions through the open system of journalism for the Gazette and the annual Partner Survey. See page 28 for more information.

Partners' responsibilities

In return for the sharing of profit, knowledge and power, our Partners have three responsibilities:

- → Taking responsibility for our business success
- → Building relationships powered by our Principles
- → Creating real influence over the business

These commitments place on our Partners the obligation to improve our business in the knowledge that they share the rewards of its success.

How do Partners share in 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. See page 2 for more information on this year's Partnership Bonus.

The Partnership operates BonusSave, a Share Incentive Plan (the Plan), which is available to all Partners in the UK and has been approved by HMRC. In conjunction with the announcement of the annual results, 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 Partners to be held in shares in the Partnership, in a class created specifically for this purpose known as SIP shares. 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.

Employee engagement: sharing knowledge and relations with Partners

Partners are provided with the knowledge they need to fulfil their responsibilities as co-owners of the Partnership.

The Partnership Board is committed to regular dialogue with Partners, as co-owners of the Partnership and in accordance with Principle 1. 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 also attend Partnership Council meetings. These information sharing opportunities enable Directors to develop an understanding of Partners' views and to act upon them. In turn, Partners are enabled to influence decision-making.

Please see the Partnership Council report on pages 50 to 51 and Democratic vitality section on pages 27 to 31 for more information on how the Partnership shares information and engages with Partners.

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, 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.

Equal opportunities, Diversity and Inclusion

The Partnership aims to attract and retain the best people with a wide range of talents, skills and experience and is committed to investing in their development, progression and success. It is important that the Partnership has a culture in which people can be themselves and thrive – we call it 'Bring Yourself to Work'. The Partnership therefore aims to operate without discrimination and embrace diversity. We believe that every Partner should feel respected for their contribution, work to the best of their ability and feel supported to develop to their full potential.

This approach applies equally to all Partners covered by the protected characteristics of the Equality Act 2010 and we arrange reasonable adjustments required at an individual level to ensure our disabled applicants and Partners are supported. 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. Where disability occurs during the period of employment, every effort is made to continue to provide suitable employment with the provision of appropriate and bespoke training, equipment and flexibility. We work with the Business Disability Forum to help ensure the environment within the Partnership is disability friendly. This has included an audit of our recruitment website and recruitment process, plus the provision of specialist advice for our policy teams.

For more information on the Partnership's strategic objective of Better jobs, better performing Partners and better pay and equal opportunities, Diversity and Inclusion in the workplace, please see pages 18 to 22.

The Partnership Board has adopted a Diversity Statement, as set out on page 65, regarding the composition of the Partnership Board, the aims of which are supported by the Diversity and Inclusion Policy.

Responsibilities to others

Our Constitution 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.

The Constitution includes seven Principles which are the foundation of our business. They are accompanied by a set of Rules, rights and responsibilities – to each other and to those outside our business. Our approach to corporate responsibility today is centred on the following Principles and Rules:

Our purpose

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.'

Find out more about how Principle 1 underlines Better jobs, for better performing Partners, on better pay on pages 18 to 22.

Our customers

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

While outstanding value, choice and service continue to be at the heart of our customer offer, as we look towards 2028, loyalty will depend on our ability to meet customers' changing needs such as leading healthier lives and a desire for improved product provenance.

Our communities

Principle 7 '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.'

We recognise that the law enables society to function and we strive to exceed minimum standards where appropriate. This in turn creates value for our business and beyond. Sharing skills and expertise in our communities through volunteering is enabling Partners to grow and excel in the workplace.

Sourcing responsibly

Rule 96 'The Partnership's relationships with its suppliers must be based, as with its customers, on honesty, fairness, courtesy and promptness. It looks for a similar attitude throughout its supply chains. In particular, the Partnership expects its suppliers to obey the law and to respect the wellbeing of their employees, their local communities and the environment.'

Our aim is to secure long-term sustainable supply chains based on fair and transparent trade conditions.

Our environment

Rule 109 'The Partnership must take all reasonable steps to minimise any detrimental effect its operations may have on the environment, and to promote good environmental practice.'

We are striving for efficiency in our operations, a reduction in use of resources and low carbon procurement. Find out more at www.johnlewispartnership.co.uk/csr

Please see the Corporate Responsibility Committee report on pages 59 to 62 for more information on how corporate responsibility is governed in the Partnership.

Human rights

Respecting human rights is relevant across every aspect of our operations. Behind every product we sell are a large number of workers. As a retailer we source over 380,000 product lines from over 90 countries, which means we have a wide-ranging impact. As we grow our business and predict and respond to external trends we must stay true to the commitments set out in our Constitution and strive to uphold the rights of these people. Find out more, including our full Modern Slavery Statement at www.johnlewispartnership.co.uk/csr

It's Your Voice

How we share power: 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.

Power in the Partnership is shared between three governing authorities

Rule 4 of the Constitution sets out 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 Constitution and the Trust Settlement established a structure which is designed to ensure that the Partnership is run fairly and effectively, with checks and balances to ensure accountability and transparency for Partners. These mechanisms also ensure that the views of Partners are heard. Partners have a constitutional right to be heard and have their opinions considered.

The Constitution ensures representation of the co-owners on the Partnership Board through the election of Partners as Directors (Elected Directors). See page 44 for more detail on their roles.

Key
- Governing authorities
- Assurance
- Executive

The Partnership Council

Roles and responsibilities page 41

Partnership Council report page 50

The Partnership Board

Roles and responsibilities page 41

Board Committees

- Audit and Risk Committee
- Corporate Responsibility Committee
- Chairman's Nominations Committee
- Remuneration Committee

The Chairman

Roles and responsibilities page 48

Partnership Executive Team

- General Counsel and Company Secretary
- Director of Personnel
- Group Finance Director
- Group Productivity and Change Director
- Group Development Director
- Managing Director, Waitrose
- Managing Director, John Lewis

Partners' Counsellor

Roles and responsibilities page 44

The Partnership Council

The Partnership Council 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.

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 part 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 27 to 31 provides more information on how our democracy is embedded in everything that we do. See the Partnership Council report on page 50 for more information about the democratic structure and work of the Partnership Council during the year under review.

The Partnership Board

The Partnership Board is different to 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.

What are the responsibilities of the Partnership Board?

The role and responsibilities of the Partnership Board, as one of the governing authorities of the Partnership, 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 page 48.

The Partnership Board has ultimate responsibility for approving major policy and strategy decisions and allocating the financial and other resources of the business. The table on page 42 shows the key areas discussed during the course of the year under review and also the major business proposals that were approved.

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 and receives and reviews regular reports in these areas as follows:

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

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 52, the Corporate Responsibility Committee report on page 59, the Chairman's Nominations Committee report on page 63, and the Remuneration Committee report on page 66. Committee membership is detailed in each Committee's report.

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

It's Your Voice

How we share power continued

The Partnership Board continued

What does the Partnership Board discuss?

Policy approval

In April 2016 the Partnership Board approved a new Partnership Policy framework founded on the statements of general policy in the Rules of the Constitution. The purpose of the new Policy Framework is to supplement the Rules with a structured hierarchy of Policies and supporting Standards that is easy for Partners to navigate and with policy content both clear and concise. During the year the Partnership Board approved updated Policies and Standards for Competition Law, Modern Slavery Act Statement, Data Privacy and Information Security and Anti-Bribery and Corruption as well as changes to the Partnership's Contract and Spending Rules and Treasury Standards.

Strategy

Although the Partnership Board maintains a strategic overview throughout the year, during the second quarter it considers and approves the Partnership's strategic objectives which set the direction for the preparation of the Business Plan which is usually approved by the Board in October.

A significant factor in 2016 was the EU Referendum. In July the Partnership Board considered the initial implications of Brexit for the Partnership and for the Business Plan. In October 2016, due to the continuing uncertainty arising from Brexit and the need to develop further the responses required to deliver the strategic objectives, the Chairman chose not to seek approval from the Partnership Board for the draft 2017/18 five year Business Plan. The Partnership Board however agreed that the draft 2017/18 Business Plan provided a sufficient base from which to develop the 2017/18 Budget, which was considered and approved by the Partnership Board in January 2017. Subsequently, in April 2017, the Board agreed that the base financial forecast used for the Viability statement was appropriate.

In February 2017 the Executive Team agreed a new approach to business planning, designed to reduce the level of work required and provide better focus and greater agility for the business. It is intended to move to a three year plan, to include horizon scanning of longer term factors and risks, building on the previous year's draft Business Plan and the strategic direction set by the Partnership Board.

Performance and profit

The first major item 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 therefore be distributed to Partners as Partnership Bonus. In March 2016 the Partnership Board considered and decided that Partnership Bonus for 2015/16 be distributed to Partners at the rate of 10% of their pay (11% for 2014/15). At the same time the Partnership Board reviewed and approved the announcement of the 2015/16 year-end results.

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. For more information about the Partnership Bonus for 2016/17 please refer to the Chairman's statement on page 2.

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.

Annual Report and Accounts

In April 2016 the Partnership Board approved the Partnership's 2016 Annual Report and Accounts and in September 2016 approved the release of Interim Results for 2016/17.

Following an audit tender carried out in 2015, the Audit and Risk Committee had recommended to the Partnership Board that KPMG LLP be appointed as auditor of the Partnership and all of its subsidiaries for the 2016/17 financial year, which the Partnership Board approved in April 2016.

Board composition and other Board matters

In March 2016 the Partnership Board endorsed the Chairman's objectives for the year and in April 2016 approved the Chairman's Pay for 2016/17, following a performance review and recommendation by the Remuneration Committee.

The Partnership Board welcomed Rob Collins to the Partnership Board in April 2016 as successor to Lord Price as Managing Director, Waitrose. In January 2017 Paula Nickolds was appointed to the Partnership Board as Managing Director, John Lewis in succession to Andy Street.

In March 2016 the Partnership Board noted the Chairman's decision to appoint Keith Williams as Deputy Chairman and approved an extension of his appointment as a Non-Executive Director until 28 February 2019. In January 2017 the Partnership Board agreed to the extension of Baroness Hogg's tenure as a Non-Executive Director until 31 May 2018 and that she continue as Chair of the Audit and Risk Committee during that time; and Denis Hennequin's tenure as a Non-Executive Director and Chair of the Remuneration Committee be extended until 31 May 2017.

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 2016/17 these included:

→ March 2016

The approval of a joint venture between John Lewis plc and Clipper Logistics plc for a new nationwide Click & collect parcel delivery network.

→ July 2016

The approval of a proposal for John Lewis plc to seek covenant amendments across all three series of its bonds and to harmonise its bond documents to current market standards. In November 2016 the changes were supported by bondholders in respect of the 2025 and 2034 bonds. The 2019 bonds did not quite achieve the 75% voting threshold support required.

→ September 2016

The Partnership Board approved the proposal to cancel and redeem the John Lewis Partnership plc and John Lewis plc Preference Shares which was completed on 4 November 2016. As a result, John Lewis Partnership plc ceased to be a listed company although John Lewis plc continues to have a Standard Listing in respect of its three bonds.

→ October 2016

The Partnership Board approved the incorporation of a subsidiary company of John Lewis plc, to act as a sourcing office in Hong Kong.

→ November 2016

The Partnership Board considered the triennial pension valuation and approved the proposal to offer the John Lewis Partnership Pensions Scheme a guarantee from John Lewis Properties plc in the case of non-payment of any contributions due to the scheme.

→ December 2016

The Partnership Board agreed that where discretionary increases were given to pensions in payment relating to service with the Partnership before 1997 these would be linked to CPI capped at 2.5% and no longer be linked to RPI. This was announced in January 2017.

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.

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.

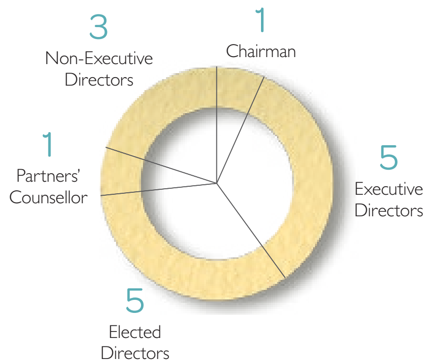
Meeting attendance

The members of the Partnership Board and their attendance at meetings of the Partnership Board and its Committees of which they were members during 2016/17, are as follows:

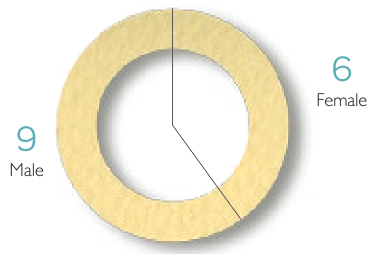
Director	Partnership Board	Audit and Risk Committee[1]	Corporate Responsibility Committee[2]	Chairman's Nominations Committee	Remuneration Committee[3]
	Meetings attended/eligible to attend				
Executive Directors					
Sir Charlie Mayfield (Chairman)	9/9			6/7	
Tom Athron	9/9				
Rob Collins appointed 4 April 2016	9/9				
Tracey Killen	9/9				
Patrick Lewis	9/9				
Paula Nickolds[4] appointed 11 January 2017	0/1				
Partners' Counsellor					
Jane Burgess	9/9	5/5	4/4		
Elected Directors					
Chris Coburn	9/9		4/4		
Steve Gardiner[5]	9/9	2/2		6/7	5/5
Kim Lowe	9/9	5/5		7/7	
Baiju Naik	9/9		4/4		
Lucy Parks	9/9				5/5
Non-Executive Directors					
Denis Hennequin	8/9		4/4	5/7	3/4
Baroness Hogg	9/9	5/5			4/4
Keith Williams (Deputy Chairman)	9/9	5/5	4/4	6/7	
Former Executive Directors					
Lord Price CVO resigned 18 March 2016	1/1				
Andy Street CBE resigned 28 October 2016	6/6				

Board composition

By position



By gender diversity



1 The two external independent members of the Audit and Risk Committee, Zarin Patel and Sharon Rolston, were appointed on 2 March 2016. Zarin Patel attended four of the five meetings held during the year. Sharon Rolston attended each of the five meetings held during the year.

2 The external independent member of the Corporate Responsibility Committee, Dame Fiona Reynolds, was appointed on 2 March 2016 and attended each of the four 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 Paula Nickolds was unable to attend the meeting of the Board held in January 2017 due to commitments as part of a tailored induction programme on joining the Partnership Board on 11 January 2017.

5 Steve Gardiner stood down as a member of the Audit and Risk Committee on 12 April 2016.

It is 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 an interest in what is being discussed.

In addition to the nine full Partnership Board meetings above, the Partnership Board also met on a quorate basis on two 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 members are given relevant and timely documentation in advance of each Partnership Board and Committee meeting.

How we share power continued

The Partnership Board continued

The Partnership Board members in more detail

Chairman

Sir Charlie Mayfield holds the position of Chairman. This is an executive role. He is Chairman of the Partnership Board by virtue of his appointment as the Chairman of the Trust Company. More information about the Chairman's role as a governing authority can be found on page 48.

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 also a Non-Executive Director, Chair of the Corporate Responsibility Committee and Deputy Chair of the Chairman's Nominations Committee.

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

Lord Price held the role of Deputy Chairman until 3 April 2016.

Executive Directors

In addition to the Chairman, the Executive Directors at the date of this report are Tom Athron, Rob Collins, Tracey Killen, Patrick Lewis and Paula Nickolds.

Lord Price ceased to be a Director of the Partnership Board on 18 March 2016 and stepped down as Managing Director of Waitrose and Deputy Chairman of the Partnership on 3 April 2016. Rob Collins, formerly Waitrose's Retail Director, was appointed to succeed Lord Price as Managing Director of Waitrose and joined the Partnership Board on 4 April 2016.

After 31 years in the Partnership, Andy Street stepped down as Managing Director, John Lewis and a Director of the Company on 28 October 2016. Paula Nickolds, formerly John Lewis Commercial Director, was appointed to succeed Andy Street as Managing Director of John Lewis and joined the Partnership Board on 11 January 2017.

The appointment of Executive Directors is subject to a recommendation by the Chairman and overseen by the Chairman's Nominations Committee, which takes into account, among other things, the make-up of the Partnership Board and its balance of skills, experience and diversity.

Partners' Counsellor

The Partners' Counsellor, Jane Burgess, 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.

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.

She is responsible for Registry, which is an independent function that reports through her to the Chairman and assures the application of the Partnership's Principles within the business, whose purpose is to provide support to Partners and to ensure Partners' views and opinions are heard through democratic engagement and assurance.

The relationship between the Partners' Counsellor, Elected Directors and Partnership Council enables Partners' views to be communicated to the Partnership Board as a whole, allowing the Partnership Board to maintain a balanced understanding of the experiences and opinions of Partners.

Elected Directors

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, Kim Lowe, Baiju Naik and Lucy Parks.

At 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 2018. While Elected Directors must act in accordance with their statutory duties, through their constitutional role they must remain mindful of Partners' best interests. The Elected Directors are Partners, but they have no executive responsibilities on the Board.

Non-Executive Directors

The Non-Executive Directors at the date of this report are Denis Hennequin, Baroness Hogg and Keith Williams.

Baroness Hogg's current term of office was extended during the year under review and is due to expire on 31 May 2018. Denis Hennequin and Keith Williams were appointed as Non-Executive Directors on 1 March 2014 for an initial term of three years. Denis Hennequin's term as a Non-Executive Director was extended during the year under review and is due to expire on 31 May 2017. Recruitment is ongoing for a Non-Executive Director to succeed him. Keith Williams' term as a Non-Executive Director was extended for a further two years to 28 February 2019 on his appointment as Deputy Chairman of the Partnership.

Together, they 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.

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 General Counsel and Company Secretary.

Senior Independent Director

The Partnership Board does not appoint a Senior Independent Director (see page 49 for more information).

Meetings without the Executive Directors

In addition to attending Partnership Board meetings, the Non-Executive Directors and the Elected Directors met together without the Executive Directors three times during the year. These meetings were facilitated jointly by the Partners' Counsellor and General Counsel and Company Secretary.

Retirement by rotation

The Partnership does not operate a system of retirement by rotation or annual election by shareholders (see page 49 for more information).

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 General Counsel and Company Secretary and reconfirmed every six months for the whole Board.

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.

The Partnership Board has looked closely at the other appointments held by Directors, details of which are contained in their biographies on pages 46 to 47. 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.

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.

General Counsel and Company Secretary

Keith Hubber is the General Counsel and Company Secretary. As Company Secretary, he is responsible for advising the Partnership Board on all corporate governance matters, ensuring that Board procedures are followed, that there is a good flow of information, facilitating induction programmes for new Directors, and assisting with Directors' continuing professional development.

Annual General Meeting (AGM)

The Partnership's 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.

Effectiveness of the Partnership Board
2016/17 Board and Committee evaluation

An internally facilitated performance evaluation of the Partnership Board and its Committees was undertaken during the year using the 'Thinking Board' online self-assessment tool provided by Independent Audit Limited. The evaluation was based around a number of key areas: strategy, risks, roles and responsibilities, reporting and controls, the Partnership Board's relationship with Partners, composition, meetings and support, and Committee performance. The questions posed were designed with two aims in mind: (i) to test progress against the issues that were highlighted in the previous year's evaluation; and (ii) to identify issues for further examination in a full externally facilitated evaluation, planned for later this year (see below).

The preliminary results were presented to the Partnership Board in January 2017, and each of the Committees at their meetings in early 2017. The responses showed that while progress has been made, most notably around process (the timeliness and quality of board papers, for example), the conduct of meetings, support for the Board, and on risk, continuing focus was required in areas such as further developing the Partnership Board's strategic focus, its relationship with both Partnership Council and the Executive Team, the roles and accountabilities of the Executive Team, and in turn the accountabilities of the Divisional Management Boards.

In the meantime, work already underway will continue to (i) improve the governance around risk management, both in terms of the way risks are reported and ensuring that project risk is clearly highlighted in Partnership Board papers and that the Executive Team maintains an appropriate degree of oversight to ensure effective risk mitigation; (ii) clarify roles and accountabilities of members of the Executive Team; and (iii) develop the Executive Team's oversight of data and cyber risks. The General Counsel and Company Secretary is working with the Chairman and the Chair of each of the Committees to follow up on issues raised in preparation for the full external evaluation.

2017/18 full externally facilitated evaluation

A formal externally facilitated review of the Partnership Board and its governance will take place over the period May to June 2017. This review will seek to identify requirements and options for the Partnership as we look towards 2020. In particular, it will focus on the role of the Executive Team and its relationship with the Partnership Board and the Divisional Management Boards.

It's Your Voice

How we share power continued

The Partnership Board continued

The Partnership Board comprises the following 15 members:

Chairman and Executive Directors

Sir Charlie Mayfield N

Chairman and Chair of the Chairman's Nominations Committee

Started current role: March 2007

Joined the Partnership Board: 2001

Length of time with Partnership: 17 years

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

Previously: Army officer, SmithKline Beecham, McKinsey & Co.

Other appointments: Chairman of John Lewis Partnership Trust Limited, Chairman of the Productivity Leadership Group, President of the Employee Ownership Association, a member of the Blueprint Trust Advisory Council, a member of The Commission on Economic Justice, Director of Central Surrey Health Trust Limited and Fabindia Overseas Private Limited, Trustee of Place2Be.

Tom Athron

Group Development Director

Started current role: October 2015

Joined the Partnership Board: 2015

Length of time with Partnership: 11 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. Joined the Waitrose Board as Finance Director in 2009, and joined the Partnership Board as Group Development Director in 2015.

Previously: Hambros Bank plc, Javelin Group.

Rob Collins

Managing Director, Waitrose

Started current role: April 2016

Joined the Partnership Board: 2016

Length of time with Partnership: 23 years

Experience: Joined the Partnership in John Lewis in 1993, moving to Waitrose in 2007 to establish its e-commerce business. Appointed to the Waitrose Management Board as Personnel Director in 2010 and Retail Director in 2012. Joined the Partnership Board as Managing Director of Waitrose in 2016.

Other appointments: Trustee of The Prince's Countryside Fund.

Tracey Killen

Director of Personnel

Started current role: April 2007

Joined the Partnership Board: 2007

Length of time with Partnership: 34 years

Experience: 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. Joined the Partnership Board as Director of Personnel in 2007.

Other appointments: Director and Trustee of Roffey Park Institute Limited, Chair of the John Lewis Partnership Golden Jubilee Trust.

Patrick Lewis

Group Finance Director

Started current role: September 2015

Joined the Partnership Board: 2009

Length of time with Partnership: 22 years

Experience: Joined the Partnership in 1994 and held a variety of roles before joining the Partnership Board as Partners' Counsellor in 2009. Became Managing Director, Partnership Services in 2012, and became Group Finance Director in 2015.

Previously: Bain & Company, Proctor and Gamble.

Other appointments: Non-Executive Chair of Trustees for 3BM, Director of Girls Education Company Limited (Wycombe Abbey School).

Paula Nickolds

Managing Director, John Lewis

Started current role: January 2017

Joined the Partnership Board: 2017

Length of time with Partnership: 22 years

Experience: Joined the Partnership in 1994 as a Graduate Trainee in John Lewis, Oxford Street. 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. Joined the Partnership Board as Managing Director of John Lewis in January 2017.

Non-Executive Directors

Keith Williams ACA N A C

Deputy Chairman of the John Lewis Partnership, Non-Executive Director, Chair of the Corporate Responsibility Committee and Deputy Chair of the Chairman's Nominations Committee

Joined the Partnership Board: 2014

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

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

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

Denis Hennequin N R C

Non-Executive Director and Chair of the Remuneration Committee

Joined the Partnership Board: 2014

Experience: President of McDonald's Europe from 2005 to 2010. Chairman and CEO of Accor SA until 2013.

Other appointments: Non-Executive Director of Eurostar, Bakkavor Group Limited, SSP Group plc and "1001fontaines".

Baroness Hogg A R

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

Joined the Partnership Board: 2011

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: Lead independent Director of HM Treasury, member of the Takeover Panel, Independent National Director of Times Newspapers, Non-Executive Director of the Financial Conduct Authority.

Key
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

Elected Directors

Chris Coburn C

Communication and Engagement Lead – Director of Communication's Office, Waitrose

Joined the Partnership Board: 2015

Length of time with Partnership: 15 years

Experience: Joined the Partnership in 2001 as a Selling Partner in Peter Jones and went on to join the management training programme. Elected to represent Peter Jones Partners on the Partnership Council in 2012. Joined the Partner Group in 2013 and became its Chair later that year.

Previously: Lillywhites.

Steve Gardiner N R

Branch Manager, Waitrose Cirencester

Joined the Partnership Board: 2012 (re-elected 2015)

Length of time with Partnership: 21 years

Experience: Joined the Partnership in 1996 as a Management Trainee for Waitrose. Managed branches in Coulsdon and Weybridge before being appointed as Branch Manager at Waitrose Cirencester. Elected as one of the Partnership Councillors for Waitrose Group G in 2009.

Previously: Safeway, Marks & Spencer.

Kim Lowe N A

Head of Branch, John Lewis Bluewater

Joined the Partnership Board: 2007 (re-elected 2009, 2012 and 2015)

Length of time with Partnership: 34 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 Managing Director, John Lewis Glasgow and has been Head of Branch, John Lewis Bluewater since 2014. First became a Partnership Councillor in 2005.

Baiju Naik C

Branch Manager, Waitrose Kings Road

Joined the Partnership Board: 2015

Length of time with Partnership: 20 years

Experience: Joined the Partnership in 1997 on the Waitrose Graduate Trainee programme. Appointed Department Manager, Holloway Road in 1999 and promoted to Branch Manager in 2005. Manager at various branches, moving to Kings Road in 2013. Elected to Partnership Council in 2009 and re-elected in 2012.

Lucy Parks R

Editor, John Lewis Chronicles, Group

Joined the Partnership Board: 2015

Length of time with Partnership: 15 years

Experience: Joined the Partnership in 2002 as Editor of the John Lewis Oxford Street Chronicle. Became Editor, Chronicles in 2006 and subsequently Editor, John Lewis Chronicles. Elected to Partnership Council for Group Offices in 2009 and re-elected in 2012.

Previously: 20-year career in local and national newspapers.

Partners' Counsellor

Jane Burgess A C

Joined the Partnership Board: 2012

Length of time with Partnership: 37 years

Experience: Joined the Partnership in 1975 as an A-Level Trainee. After holding a variety of roles became Divisional Registrar and a member of the Waitrose Management Board in 2002. In 2009 became Deputy Partners' Counsellor and took up her role as Partners' Counsellor in 2012.

Other appointments: Member of the Business Advisory Board of the Surrey Business School and a Lay Member of the House of Commons Committee on Standards.

General Counsel and Company Secretary

Keith Hubber

Started current role: February 2015

Length of time with Partnership: Two years

Experience: Qualified solicitor. Prior to joining the Partnership he held a number of roles within BG Group plc, including Company Secretary and Deputy General Counsel.

Previously: A lawyer in private practice and an officer in the Royal Navy.

Former Executive Directors

Lord Price CVO

Former Managing Director, Waitrose and Deputy Chairman of John Lewis Partnership

Started role: April 2007

Joined the Partnership Board: 2005

Left the Partnership Board: 18 March 2016

Length of time with Partnership: 33 years

Experience: Joined the Partnership in 1982 and held a number of posts before becoming Managing Director of Waitrose in April 2007, having joined the Partnership Board in 2005 as Development Director. In 2013, he was also appointed Deputy Chairman of the Partnership. Formerly a Non-Executive Director on the Cabinet Office Board and a Non-Executive member and Deputy Chairman of Channel Four Television Corporation.

Currently: Minister of State at the Department for International Trade.

Andy Street CBE

Former Managing Director, John Lewis

Started role: February 2007

Joined the Partnership Board: 2002

Left the Partnership Board: 28 October 2016

Length of time with Partnership: 31 years

Experience: Joined the Partnership in 1985 and held a variety of roles at John Lewis. Joined the Partnership Board as Director of Personnel in 2002, and appointed Managing Director of John Lewis in 2007. Awarded CBE in 2015 for services to the economy. Formerly Lead Non-Executive Director at the Department for Communities and Local Government and Chair of the Greater Birmingham and Solihull Local Enterprise Partnership (LEP).

Currently: Standing for Mayor of the West Midlands. Trustee of Performances Birmingham Limited.

It's Your Voice

How we share power continued

The Chairman

As the senior executive in the Partnership, the Chairman is ultimately responsible for the Partnership's commercial performance.

The Chairman, currently Sir Charlie Mayfield (the Partnership's fifth Chairman), is based at the Group offices at Partnership House in Victoria, London.

The Chairman must ensure that the Partnership develops its distinctive character and Democratic vitality. The Partnership Board delegates management of the Partnership's business to the Chairman and he is ultimately responsible for the Partnership's commercial performance. He is the Chairman of the Partnership Board, by virtue of his appointment as Chairman of the Trust Company.

The Chairman is responsible for the leadership of the Partnership Board and ensuring its effectiveness in all aspects of its role. Upon taking office, the Chairman makes a written undertaking to the Partnership Council, that he will uphold the Constitution and work to the utmost of his energy and ability for the fulfilment of the Partnership's Principles. The Chairman's role and responsibilities are defined in the Constitution under Rules 41 to 45.

How is the Chairman accountable within the Partnership?

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.

How does the Chairman delegate his management authority?

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 his management authority for the day-to-day management and development of the core businesses to the other Executive Directors and senior management as appropriate.

What is the purpose of the Partnership's Executive Team?

The Chairman is supported in his executive role by the Executive Team. The Executive Team is the successor to the Chairman's Committee which acted as an advisory group to the Chairman, co-ordinating executive responsibilities and providing a forum for executive debate within the Partnership's senior management.

The Partnership has historically delegated responsibility for the management and development of its core businesses to the Divisional Managing Directors of Waitrose and John Lewis and their Divisional Management Boards. The need to establish an executive committee stemmed from the requirement for clearer direction, prioritisation and decision-making at a Partnership level to develop and deliver the response to the challenges and realise the opportunities for both businesses presented by the changes in society, the workplace and retail.

The purpose of the Partnership's Executive Team is to ensure the future success of the Partnership, consistent with the Constitution. It is responsible for developing and recommending Partnership strategy to the Board and setting the direction for the Partnership in the execution of that strategy and prioritising the allocation of capital and resources. It is not a formal sub-committee of the Partnership Board.

The Executive Team meets formally on a monthly basis as well as holding shorter trading update meetings each week. It comprises the Chairman and the executive members of the Partnership Board (Group Finance Director, the Managing Directors of Waitrose and John Lewis, Group Development Director and Director of Personnel) as well as the Group Productivity and Change Director and the General Counsel and Company Secretary. The Partners' Counsellor attends, but is not a formal member of the Executive Team.

The Executive Team held its first meeting in November 2016 and its initial focus has been to develop the propositions to deliver the It's Your Business 2028 objectives.

How our governance model is different: The Constitution provides the Principles and Rules within which we aim to demonstrate, through Partners, customers and profit, that we are a better form of business.

The 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, but it has stood the test of time and has been updated on a periodic basis.

Although the Partnership is exempt from compliance with the UK Corporate Governance Code (the Code) as it has no tradable equity capital listed on the London Stock Exchange, the Partnership Board has voluntarily adopted the Code on a comply or explain basis; where relevant, explanations have been provided as if those provisions applying to a FTSE 350 company applied to the Partnership. 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 Constitution and co-ownership model established its own unique governance structure, there are certain areas where the Partnership's governance arrangements are distinctly different and do not comply with the Code. These areas are summarised in the table below and more detailed explanations can be found on pages 74 to 76.

While being different, 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. The Partnership acknowledges these differences as being part of the governance model that works for this business and has done so since 1928.

The Code

Areas of difference	Partnership approach
→ We do not have a separate Chairman and Chief Executive	The Chairman is one of the three governing authorities as set out in the Constitution, which contains a number of checks and balances on the powers of the Chairman.
→ We do not have a Senior Independent Director (SID)	Keith Williams as Deputy Chairman and Jane Burgess as Partners' Counsellor perform the functions contemplated by the role of the SID. For more information on the role of the Deputy Chairman and Partners' Counsellor see page 44.
→ The SID does not lead the performance evaluation process for the Chairman	The Deputy Chair of the Chairman's Nominations Committee, who is the Deputy Chairman of the Partnership and a Non-Executive Director, oversees the performance appraisal process for the Chairman.
→ A majority of the Partnership Board are not independent Non-Executive Directors	The Partnership Board includes three independent Non-Executive Directors. The Partners' Counsellor and the five Elected Directors are neither Executive Directors nor Non-Executive Directors. However, they are not part of the Executive and through their constitutional roles they must remain mindful of Partners' best interests. Together, they represent a majority of the Partnership Board.
→ Our Directors do not retire by rotation	The Chairman is ultimately responsible for the Partnership's 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. 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. The Divisional Councils also enable Partners to review Divisional performance, future strategy and the direction of the Division and to hold the Directors responsible.
→ The composition of our Audit and Risk Committee is different in that it does not comprise at least three independent Non-Executive Directors	Since 12 April 2016, the Audit and Risk Committee comprised two Non-Executive Directors, one Elected Director, two external independent members and the Partners' Counsellor. This composition enables assurance and critical analysis of the business systems, operations and financial probity to be conducted with appropriate objective and independent scrutiny, while also mindful of Partners' interests.
→ The role and composition of our Nominations Committee is different in that it is not chaired by an independent Non-Executive Director, it does not comprise a majority of independent Non-Executive Directors and oversees, rather than leads, the process of nominating and appointing the Chairman and other Partnership Board appointments	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 as co-owners of the business. 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 Chairman's Nominations Committee oversees the process of nominating and appointing the Chairman and informs the Board concerning the plans and the process for the Chairman's succession. It also oversees the process for Partnership Board appointments and makes recommendations to the Partnership Board. However, it takes no part in the appointment of the Elected Directors, which is overseen by the Partnership Council.
→ The role and constitution of our Remuneration Committee is different in that it does not consist of at least three independent Non-Executive Directors and does not have responsibility for setting the remuneration for the Chairman	The Remuneration Committee comprises two, rather than 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 recommends the remuneration package for the Chairman to the Partnership Board for approval.
→ We have not undertaken an externally facilitated Board evaluation at least every three years	The last externally facilitated Board evaluation took place in 2013/14 and internally facilitated evaluations have been undertaken in the intervening years. The Partnership Board decided to delay conducting a full externally facilitated evaluation until after the Executive Team, which was established in November 2016, had time to become established in its ways of working. An externally facilitated review of the Partnership Board and its governance will be conducted between May and June this year. See page 45 for further details.

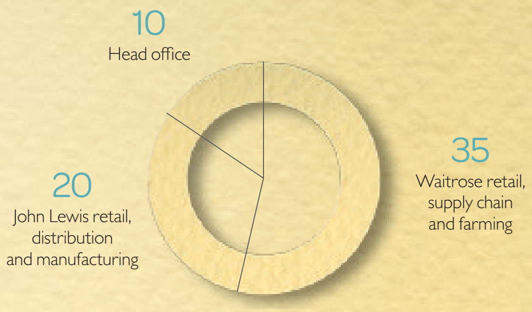
The Code

The Code, published by the Financial Reporting Council, 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 will therefore be reported against in next year's Annual Report and Accounts.

It's Your Voice

Partnership Council report: The Partnership Council currently consists of 65 elected members, three members appointed by the Chairman and the 15 members of the Board who are automatically members, and the President.

Partnership Council breakdown of members



"After the launch of It's Your Business 2028 in 2015, the Council's year has been dominated by discussions on the Partnership's long-term strategy, the impact on Partners, and the need for clear communication to all Partners of their responsibility in the tougher times ahead."

Jane Burgess
Partners' Counsellor

Dialogue

This year has seen the Partnership Council entering into a more overt dialogue with the Chairman about what is important from a Council perspective. This culminated in an experimental letter from the Steering Committee which provided clarity on the topics Council, as a body, want the Chairman to give attention. This was published in the Gazette, for all Partners to see, after the Council's vote on the Chairman's leadership in September. This sought to reflect that although there was broad support for the formal proposal (passed with only two voting against and one abstention), nevertheless there was a sense of 'yes, but…', particularly around Partner trust being eroded by the perceived lack of pace, prioritisation and shared knowledge to deliver change well. There was also concern about Partners' understanding of our business's profitability, including the prospects for Partnership Bonus, and an ongoing anxiety about our pension deficit and pressures on the pension office. Underlying that letter and evident in much of the feedback from constituents throughout the year was a desire to better understand, and thereby begin to close, the gap between ambition and reality. Alongside the Chairman's response published in the Gazette in October, Councillors received replies from both Managing Directors to the specific concerns that had been expressed about falling Partner numbers.

Other examples of this more measured dialogue have included a memo to the Chairman from the Use of Profit Group about Partner discount, a written question about leadership talent at director level, and the summarising of themes at the end of July's debate on the Partner Survey, where the Chairman chose to reflect over a longer period and respond after the summer. Whilst the cut and thrust of the live Council debates remains an important element of our accountability arrangements, responding over a longer timeframe allows the Chairman to involve the Partnership Board, since it is ultimately to them that the Council entrusts the management of the business.

Accountability

Improving accountability was at the heart of this year's decision to experiment with a different date for the debate on the annual results in Spring 2017. The Council recognised that the information included in the Annual Report and Accounts would enable a more thorough discussion on the Partnership's performance and the Chairman's leadership, so that meeting is now scheduled for mid-May rather than mid-March. It will also allow high level results from the redesigned Partner Survey to be taken into account. The information on the strategic objectives in this report will form a good basis for Council to debate with the Chairman.

Influence

A key element of the Council's work is, as ever, its power to influence the development of policy, not only in Council meetings but also in its Committees. This year the Council gave the Steering Committee delegated authority to agree minor changes to the Pension Scheme, which it used to permit a three-month delay to the introduction of auto-enrolment and to enable the introduction of a salary sacrifice scheme for pension contributions. It considered a report from the President after his first year in office and experimented with a joint meeting of the Steering Committees of all the 'senior councils', to share best practice and continue improving linkages. Representatives of the senior councils were also invited to present their Divisions' opinion directly to Partnership Councillors and informal sessions with the Elected Directors have continued to prove popular with Councillors.

The Partner Group have long played a specific role in assuring the application of our pay policy (Rules 61-63) and the reasons why Partners leave the Partnership (Rule 72), as well as the wider implications for talent management. This year they have also critiqued the approach to the career climbing frame and the emerging policy on apprenticeships, with an additional meeting to provide much valued input into our pay arrangements and its communication to Partners.

In their first full year, the Use of Profit Group have worked closely with Personnel on their review of benefits policy. Partners' concerns about discount fraud and potential unfairness in the rules on eligibility led to useful correspondence with the Chairman (as mentioned above) but without a sufficiently pressing mandate to suggest a reprioritisation of more urgent and strategic business priorities at this stage. After ten meetings, they agreed to conclude their work in order to allow members to move to the new Finance Group (see below). Their discussions on Partner wellbeing, with a particular emphasis on dining room subsidy, have been picked up by the Partner Group.

After a lull of four years, the Customer Group was reformed to work particularly with the Group Development Director, and their initial meetings have given them an insight into ways in which we are increasingly focussed on meeting our best customers' needs.

Lastly the Partnership Financial Assistance Committee have continued to provide assistance to Partners and retired Partners in exceptional need (as per Rule 64) as well as agreeing exclusions from Partnership Bonus and administering the discretionary award of benefits in retirement and leaving and wedding gifts.

Hardship grants

Formal facts and figures

In the year since the last report the Council has met formally three times, held its annual two-day conference and had two informal briefing sessions coinciding with the publication of half and full year results, with attendance of the elected Councillors at the formal sessions being 92%. There have been five by-elections, with turnout ranging from 34%-60%.

Since the end of the year

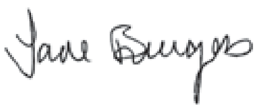
Council met in February, immediately following the Leadership Summit, and welcomed the increasing focus on Financial sustainability and on Better jobs, for better performing Partners, on better pay, but were most enthusiastic about the joined up approach for Stronger brands and new growth. Councillors were keen for the leadership to realise how tough it is for Partners on a daily basis and to hear more detail on how we can make the necessary cultural shift to help secure the Partnership's future. Also at the February meeting Council gave its formal consent to the Pension Trustee's proposed increase of 1.6% (in line with CPI inflation) granted in April 2017 to pensions earned prior to 1997.

In a new development, Councillors met in London on 'Bonus day' to hear directly from the Chairman and senior leaders on the background to our results and the increased reinvestment in the business. Key questions raised, and answered in writing by the Finance Director, included: What is our return on capital? How are we spending the money saved by taking a lower Partnership Bonus? Will we get a good return on that investment? How has the total cost of pay, Partnership Bonus and pensions developed as a percentage of sales?

Councillors have also agreed to align their specialist groups more closely to the Executive Team's three strategic aims by electing a Finance Group to work with Patrick Lewis and Andrew Murphy on Financial sustainability, including IT, productivity and change.

Attendance and engagement

92%	34-60%
Annual conference and formal sessions	By-election voting



Jane Burgess
Partners' Counsellor

> What it means to be a Partner, delivering day-to-day, feels like it's being eroded.

Sara Grimwood
Councillor

> The gap balance between ambition and reality is quite large.

Rachel Retallick
Councillor

> Are you confident that we have the ability to deliver this change with greater pace?

Christopher Wright
Councillor

It's Your Voice

Audit and Risk Committee report

"We have continued to focus on the financial reporting and control environment including the accounting for significant items, risk and control, and completed the transition to new auditors."

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

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 that are available at www.johnlewispartnership.co.uk

Membership

The members of the Committee at the date of this report are Baroness Hogg (Chair), Jane Burgess, Kim Lowe, Zarin Patel, Sharon Rolston and Keith Williams.

There were five Committee meetings held during the year under review and attendance at those meetings is shown in the table on page 43.

The two independent external members of the Committee, Zarin Patel and Sharon Rolston, joined the Committee on 2 March 2016. Zarin attended four of the five Committee meetings held since her appointment and Sharon attended all five Committee meetings held since her appointment. Steve Gardiner stood down as a member of the Committee on 12 April 2016.

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

At each meeting the Committee meets with the external auditor and the Head of Internal Audit and Risk Management, without any Executive Director or other executives being present.

Independent external members of the Committee

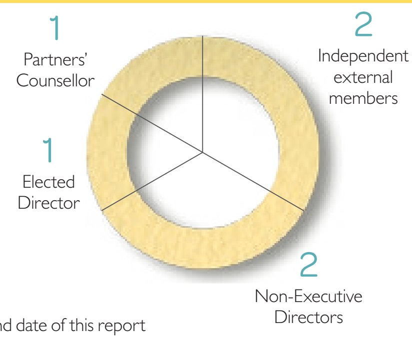
Zarin Patel

Zarin 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 and is shortly to be appointed as a member of the HM Treasury Group Audit and Risk Committee. 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 and Nortel Networks Corporation. Sharon is a Fellow of the Institute of Chartered Accountants Ireland.

Committee composition*



*at the year-end and date of this report

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

Key activities during the year under review:

- Monitored the preparation and reporting of the 2015/16 Results and Annual Report and Accounts and the 2016/17 Interim Results
- Monitored the effectiveness of the Partnership's internal controls framework
- Oversaw the scope and planning of the external audit and internal audit workplan including meeting separately from management with the external auditor and Head of Internal Audit and Risk Management
- Received 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
- Reviewed the level and nature of whistleblowing reports on a six monthly basis

In this section

Overview of 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. In the 2015/16 financial year, the Committee conducted an audit tender process, and KPMG LLP was appointed as the Partnership's external auditor for the 2016/17 financial year.

Annual Report and Accounts

The Committee reviewed the draft Annual Report and Accounts 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 and performance, business model and strategy, as stipulated by the UK Corporate Governance Code (the Code).

The Committee's assessment of whether the Annual Report and Accounts was fair, balanced and understandable included an analysis of the following:

Fair and balanced

- Balanced reporting of performance and prospects
- Reflection of internal reporting and discussions
- Appropriate weighting given to setbacks and challenges
- The description of the business model and risk strategy
- Key audit and accounting issues
- How the KPIs are presented
- Financial measures not defined under IFRS, ensuring that these are not given undue prominence and are used consistently throughout the Annual Report and Accounts
- Consistency of the narrative reporting at the front of the report with the financial information at the back

Understandable

- A simple explanation of business model, strategy and accounting policies
- Important messages, policies, transactions and significant changes from prior periods ensuring these are highlighted and supported, and not obscured by immaterial detail
- Clear and concise explanations of KPIs, including how they are measured
- The governance section, ensuring it clearly details how decisions are made
- Financial measures, ensuring that those which are not defined under IFRS are explained and reconciled to IFRS measures
- Avoidance of generic, non-specific 'boiler plate' wording, e.g. for risks
- Language used aiming for clarity and precision

It's Your Voice

Audit and Risk Committee report continued

Our significant financial reporting issues, and our response
As part of the Annual Report and Accounts, the Committee considered the following significant financial reporting issues. Below is a summary of those issues and our responses.

1. 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 to ensure that they are not impaired. 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 applied to test impairment and the results of the trigger tests, including the way the methodology had been applied across the two trading Divisions. 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 changes to the calculation of the discount rate, comparing it externally with peer companies. The Committee has considered programmes where a significant intangible has been capitalised or is 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.

2. 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.

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 satisfied itself as to the acceptability of the key assumptions, particularly the discount rate and inflation rate, the overall scheme liability and reviewed the sensitivities.

3. Exceptional items

Note 2.3

Issue: The Partnership recorded exceptional income of £171.2m principally relating to £270.0m income for a reduction in pension liabilities due to forecasting lower discretionary pension increases, offset by a charge of £42.9m for write down of property and other assets and related costs, £36.0m in relation to payments and associated costs in connection with some of our pay practices which have technically not complied with the National Minimum Wage Regulations, and a £20.7m charge for restructuring and redundancy costs.

Response: The Committee considered the Partnership's definition of exceptional and concluded that it remained appropriate and consistent with the Partnership's policy to present separately items that are material and non-recurring. The Committee concluded that the items do meet the criteria of exceptional items and that they are appropriately calculated and disclosed.

4. 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 the asset's residual value and estimated useful life involves significant judgement. In the year, management performed a review of the methodology of calculating residual value and useful economic lives.

Response: The Committee considered the appropriateness of the methodology of calculating residual value and useful economic lives. The Committee satisfied itself that the approach taken was reasonable and that residual values and useful economic lives were appropriate, considering the sensitivity of changes in residual value on depreciation.

5. 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, 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.

Response: The Committee considered the process used to calculate the accrual, the level of disclosure and judgements made with respect to estimated items. The Committee decided to maintain the same level of disclosure in relation to supplier income as last year, including quantifying the estimated supplier income accrued at year-end, even though these balances were not material. No issues were identified during the year.

6. 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 card. The Committee considered that the estimates were reasonable.

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

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 has to make provisions for expected future customer refunds, service guarantees, insurance claims and other items such as reorganisation, property related costs and pay provisions. Judgement is exercised in making the assumptions that form the basis of the provision calculation.

Response: The Committee reviewed the methodology and key assumptions used in determining significant provisions. 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, which was arrived at after the announcement of the unaudited profit before tax on 9 March 2017, in relation to a technical non-compliance with the National Minimum Wage Regulations, the Committee reviewed a number of memorandums from management detailing the legal position and basis of the provision once the nature and quantum of the liability had been established. The Committee reviewed the conclusions reached by management and key assumptions in calculating the provision and their sensitivities. The Committee held an additional meeting where the judgements made and the basis for the provision proposed by management were challenged and the detailed disclosure within the Annual Report and Accounts was evaluated. The Committee concluded that the amount recorded was appropriate and represented the best estimate of the liability and the disclosure in relation to the item was appropriate.

Audit and Risk Committee report continued

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 72 to 73 of the Directors' report.

External audit activities

Following an audit tender process in 2015/16, KPMG LLP were selected as the Partnership's auditor for 2016/17.

The decision to appoint KPMG LLP as auditor was communicated in June 2015, and as part of preparing for a smooth handover process from PricewaterhouseCoopers LLP, the previous external auditor, KPMG shadowed key meetings of the 2015/16 year-end process.

In the early part of the 2016/17 year, KPMG LLP participated in an induction process to enhance their understanding of the business, which included transition workshops, meetings with management and detailed walkthroughs of key processes. KPMG LLP provided the Committee with relevant reports, reviews, information and advice throughout the year, as set out in their engagement letter.

Evaluation and re-appointment of auditor

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 2017, 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 year ended 2016/17
- The detailed findings of the interim review and year-end audit, including discussion of any issues that arose

The outcome of the evaluation was reviewed by the Committee which concluded that the effectiveness of the external auditor and the audit process was satisfactory.

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 in line with the Code, relating to tendering the external audit contract at least every ten years.

Following the audit tender process in 2015/16, the year ended 28 January 2017 was the first year of audit of KPMG LLP and the first year of the audit engagement partner'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 them, 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 is summarised below.

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. Details of the amounts paid to the external auditor are given in note 2.4 to the consolidated financial statements.

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

Risk management and internal audit activities

The Partnership's approach to risk management, our framework, risk appetite and governance structure are detailed on pages 32 to 35.

Key roles and responsibilities are included below.

Responsibilities
Partnership Board
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 (2014).
Audit and Risk Committee
Provides assurance to the Board on internal controls and the risk management process. Monitors internal control and risk management processes.
Executive management
Identifies and evaluates the principal business risks. Implements and maintains systems for managing those risks in an efficient and effective manner, through support from Divisional Risk Committees.

The Audit and Risk Committee seeks assurance from the work of the Internal Audit and Risk Management teams, which provide objective assurance on the effectiveness of those arrangements through the delivery of a risk-based work plan and risk management activities. The Head of Internal Audit and Risk Management reports functionally to the Chair of the Committee and operationally to the Group Finance Director.

Monitoring during the year

The Partnership Board has evaluated the Partnership's risk management and internal control systems with the support of the Executive Team and the Audit and Risk Committee, on a quarterly basis. It has stress-tested the Business Plan in relation to the relevant principal risks and monitored the Partnership's performance on a quarterly basis.

Ongoing monitoring has been implemented by the Partnership Board 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 Board meetings; and discussion with executive management. The Board and Executive Team have also invited executive management to present on risks and mitigating activities this year in order to support their ongoing assessment in areas such as cyber security and IT infrastructure, change and pensions.

The Partnership Board has an overall risk appetite for the business to operate within. With the support of the Executive Team, it has continued to review Divisional Board mapping of risk profiles against the Partnership's appetite for risk, and taken decisions to further reduce or tolerate risk if appropriate, working closely with Divisional Management. During the year, the Partnership has upgraded its risk management software to improve the efficiency, clarity and consistency of risk reporting.

The Partnership Board has reviewed control weaknesses identified. Improvements in internal controls in these processes are underway to improve Partner and customer experiences and protect profit, cash 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. Further details on this can be found on pages 32 to 35 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 objectives. As a consequence, our internal controls can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Audit and Risk Committee monitors the development of our policies and systems for identifying, evaluating and managing the principal risks throughout the Partnership. The Committee has reviewed the principal risks identified by the Partnership Board and progress of mitigating activities on a quarterly basis.

The Committee has reported quarterly to the Partnership Board, which seeks assurance that the systems of internal control for risk management are operating effectively. Reporting is through the work of Internal Audit, presentations from executive management and the minutes of the Divisional Risk Committees.

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.

KPIs measuring the efficiency and effectiveness of the Internal Audit function were introduced during 2015/16. These have continued for 2016/17 to assess the function. Performance against KPIs has been benchmarked against 2015/16 to measure improvements made in the ongoing maturity of the function and the quality of outputs. The Head of Internal Audit and Risk Management reports to the Committee on these KPIs at every meeting as well as reporting on the progress of agreed actions from the previous years EQA to develop broader Internal Audit function capability.

During the year:

- → An assurance mapping exercise took place, to assess key controls over our wider principal risks. The conclusions from this exercise alongside Internal Audit programme assurance reviews, resulted in the Committee providing additional focus on the change delivery risk
- → In response to the ongoing external threat of an information security breach or cyber attack, the Committee has continued to focus on plans to improve our resilience and our IT controls development; and a Data Privacy and Information Security Officer is now in role
- → Key controls over material financial risks have also been tested
- → The Committee continued to focus on reviewing controls to support an improved customer and Partner experience

The focus for the year ahead is to continue to develop reporting against our risk indicators for our principal risks to support management's proactive decision-making, and improve the efficiency, clarity and consistency of risk-reporting throughout the Partnership.

Audit and Risk Committee report continued

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:

- The integrity of the Partnership's Annual Report and Accounts, and other formal announcements relating to the Partnership's financial performance
- 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 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:

- Buying operations
- End to end inventory management
- Internal control framework
- Treasury operations
- IT user access
- Business change programme (Pioneer)
- Programme portfolio management and governance

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

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. Internal Audit have input as appropriate to investigations throughout the year.

External quality assessment (EQA)

Partnership Internal Audit was subject to independent external quality assessment 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). These 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).

We have a positive working relationship with the Groceries Code Adjudicator (GCA) and incorporate the best practices issued by the GCA into our guidance for buyers. We continue to make improvements in the development of processes and implementation of good practice in addition to routine training for new buyers and annual refresher training for all relevant employees. Day-to-day advice is provided to buyers by our finance and compliance team and we also provide news about the Code on our extranet – an online resource for all of our suppliers.

As required by the Order and the GSCoP, the Code Compliance Officer is obliged to present a report detailing Waitrose's compliance to GSCoP to the Partnership's Audit and Risk Committee. The Committee met on 4 April 2017 and approved the Code Compliance Officer's report, noting that no formal disputes had arisen and that there had been six alleged breaches. Two of these alleged breaches were deemed to be outside the scope of the Code, and the remaining four were satisfactorily resolved during 2016/17. The Committee also noted that Waitrose's approach to GSCoP compliance reflects the Partnership's overall commitment to fair dealing with its suppliers.

Relevant qualifications of Audit and Risk Committee members

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

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

Induction and training

An induction programme was arranged for the two external independent Committee members who joined the Committee during the year under review in March 2016.

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

Committee evaluation

Please see page 45 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.

Sarah Hogg

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

Corporate Responsibility Committee report

"All Partners are responsible for the long-term sustainability of the Partnership. Our business needs to adapt to take account of the big changes in society, the workplace and retail and our approach to corporate responsibility needs to be aligned to our response to meet these challenges."

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

Role of the Committee

The role of the Committee on behalf of the Partnership Board 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, including its crisis response procedures
- Review and endorse the Partnership's CR report at www.johnlewispartnership.co.uk/csr

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

The Committee has responsibility for providing oversight in a number of areas previously under the remit of the Audit and Risk Committee including oversight of 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.

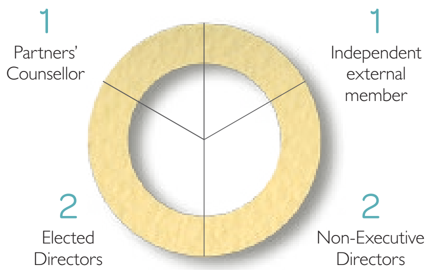
Membership

The members of the Committee at the date of this report are Keith Williams (Chair), Jane Burgess, Chris Coburn, Denis Hennequin, Baiju Naik and Dame Fiona Reynolds (independent external member). Dame Fiona joined the Committee on 2 March 2016. There were four meetings held during the year under review and attendance at those meetings is shown in the table on page 43.

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

The Committee is supported by the Director of Personnel, General Counsel and Company Secretary, and Director, Corporate Responsibility who attend meetings on a regular basis.

Committee composition*



*at the year-end and date of this report

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

External independent member

Dame Fiona Reynolds

Other appointments and relevant experience:

Dame Fiona is Master of Emmanuel College, Cambridge and a Non-Executive Director of Wessex Water. She also Chairs the Cathedrals Fabric Commission for England, the Cambridge University Botanic Garden Syndicate, the environmental charity The Green Alliance and The International National Trusts Organisation. She was Director-General of the National Trust from 2001-2012 and previously Director of the Women's Unit in the Cabinet Office, Director of the Council for the Protection of Rural England, and Secretary to the Council for National Parks. Until her appointment as a member of the Committee, Dame Fiona was a member of the Waitrose Corporate Social Responsibility Advisory Board and recently stepped down as Senior Independent Director of the BBC's Executive Board.

In this section

It's Your Voice

Corporate Responsibility Committee report continued

Corporate responsibility in the Partnership

The Corporate Responsibility Committee was established in late 2015/16 to continue to strengthen our governance structure to ensure appropriate management of the Partnership's CR related material issues. The Committee provides a focal point for monitoring the management of CR related material issues so that this is consistent with the CR values defined in the Constitution.

Technology is altering the way customers shop, the choices they make and the way retail businesses work. The UK population is getting older, yet diseases associated with unhealthy lifestyles are becoming more prevalent. Economic and political uncertainty is putting even greater pressures on global supply chains and the people that work in them. To remain successful we need to adapt and respond to these trends.

In the face of these challenges, our business takes a long-term view and our strategy continues to be underpinned by the values that our Founder expressed through the Constitution:

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

The Role of Group CR

Divisional Management Boards, supported by steering groups and committees, are responsible for ensuring our CR Policy is implemented within each Division. The Partnership's dedicated CR team is responsible for developing our CR strategy, policies and objectives. With its technical knowledge and expertise, this team supports the Divisional teams and the wider business by providing guidance and support to deliver a wide range of projects and initiatives. It supports the Committee in its oversight role by developing and presenting papers for consideration and coordinating key representatives across the business to contribute, as well as shaping the agenda. As a Group function, it provides assurance to the Committee that plans and policies are being addressed effectively.

Key activities

During the year under review, the Committee held four meetings and was engaged in the following activities:

Organising Framework

Much of the Committee's energy this year has been focussed on oversight of the development of a single Partnership CR Organising Framework, which will help the business to develop its CR strategy to support the Partnership's Business Plan.

Our materiality process, which began in 2014, has enabled us to prioritise the issues that are most important to our business and to plan and invest accordingly. In 2016/17 we began to review these issues and our approach to corporate responsibility against the new business strategy, feedback from stakeholders and emerging trends. This has helped us to develop an Organising Framework which defines our ambitions. Over the coming year, with the oversight of the Committee, we will establish our long-term plans against these ambitions.

Greenhouse gas emissions – methodology

The Partnership has reported on all of the emission sources as required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. 2016 data is reported on an approximate calendar year basis which comprises the period from 27 December 2015 to 24 December 2016. Data from 2010 to 2014 is reported by financial year, with 2015 as an approximate calendar year. The methodology used to calculate our CO_2e 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 2016 emissions factors, with the exception of certain refrigerants, and some emissions sources associated with our Leckford Farm which are taken from industrial and academic sources. 2015 has been restated for Scope 1 and Scope 3. Scope 1 has been restated due to an improvement in calculation methodology with water and water treatment. Scope 3 has been restated due to 2016 agriculture emissions factor changes resulting in restating the historic data to allow for comparisons.

2016 data is extracted from www.johnlewispartnership.co.uk/csr which was included in KPMG LLP's independent limited assurance scope. On this page you can also read their full opinion.

Global GHG emissions data

	2016	2015*
Scope 1 (tonnes CO_2e)		
Combustion of fuel and operation of facilities, refrigeration	**193,796**	202,094
Scope 2 (tonnes CO_2e)		
Electricity purchased and heat and steam generated for own use		
Location-based	**269,986**	294,927
Market-based	**7,401**	43,594
Scope 3 (tonnes CO_2e)		
Water, business travel, waste to landfill and transmission and distribution losses from purchased electricity	**55,901**	60,778
Intensity measurement (tonnes CO_2e per £m sales)		
Location-based	**45.7**	49.6
Market-based	**22.6**	27.3

* 2015 has been restated for Scope 1 and Scope 3 as discussed in the methodology opposite.

> We've worked hard this year to establish an integrated approach and clear vision for corporate responsibility across the whole Partnership, and we are now working towards its implementation.

Dame Fiona Reynolds
Independent external member of the Committee

Corporate Responsibility Organising Framework

Business strategy

Our aims

Source and sell with integrity

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 about their health. We want to know where and how products have been grown, sourced or made and who made them.

Enhance community wellbeing

Together with Partners, we want to build the skills of future generations and create better places for people to live, work in and enjoy. We aim to improve accessibility and inclusion – both in our shops and in the day-to-day lives of people struggling with social isolation.

Be the happiest healthiest retailer

We will support the happiness of Partners by promoting financial, physical, mental and social wellbeing. We aim to help Partners find meaning in their work.

Deliver more with less

We will reduce our reliance on natural resources, using them as efficiently as possible for as long as possible, then recovering and regenerating products and materials at the end of life so that they can continue to add value.

How our Constitution guides our aims

Principle 5

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

Rule 96

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

Principle 7

'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.'

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.'

Principle 4

'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.'

Rule 109

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

It's Your Voice

Corporate Responsibility Committee report continued

Corporate responsibility updates

The Committee received updates from the Divisions providing oversight of material corporate responsibility matters. These included:

→ Environment

The Committee received a report on potential environmental impacts resulting from the Partnership's operations which provided oversight of operational emissions and operational waste, including Divisional performance against Key Performance Indicators

→ Human rights

The Committee formally reviewed and endorsed the Partnership's Modern Slavery Act Statement which formed part of the John Lewis Partnership Human Rights & Modern Slavery Report 2015/16

→ Responsible sourcing

The Committee received and reviewed updates from Waitrose and John Lewis on responsible sourcing within the Divisions including oversight of key risk indicators and emerging risks

The Committee reviewed and endorsed the update to the Partnership's Responsible Sourcing Labour Standard including the Responsible Sourcing Code of Practice

→ Health and safety

The Committee received an annual health and safety update and maintained oversight of the Partnership Health & Safety Management Committee. During the year, the Committee received regular updates on the review and implementation of a new health and safety operating model, to ensure we continue to manage this policy area effectively, given our size and complexity

→ Product and food safety

The Committee received and reviewed risk assurance updates from Waitrose and John Lewis on product and food safety within the Divisions including oversight of key risk indicators and emerging risks

Updates from Waitrose and John Lewis also included oversight of sustainable agriculture, food waste, health and healthy products, operational emissions, timber (deforestation and habitat loss) and raw materials

Narrative reporting

Since the year-end, the Committee reviewed and endorsed the Partnership's Corporate Responsibility Report 2016/17 at www.johnlewispartnership.co.uk/csr. This includes the John Lewis Partnership Human Rights & Modern Slavery Report 2016/17 incorporating the Partnership's Modern Slavery Act Statement.

Outlook

In 2016/17 the CR team began to review the Partnership CR strategy against the changing context of the business, feedback from stakeholders and emerging trends. In 2017/18 the Committee will review updates to ensure the Partnership is continuing to align its approach with its most critical stakeholder and business needs. During the current year, the Committee will continue to undertake more in depth reviews into priority areas, and receive updates on progress against our objectives identified from the Corporate Responsibility Organising Framework.

For further detail please see www.johnlewispartnership.co.uk/csr

Induction and training

An induction programme was arranged for the external independent Committee member who joined the Committee in March 2016.

A Human Rights workshop was held in February 2016 covering the legislative landscape, broader expectations on business, best practice in human rights management and business case studies. This was attended by an external expert in modern slavery and the challenges workers face in the UK and international supply chains.

In 2017/18, the Committee will carry out a site visit to the Leckford Estate, to support its understanding of the diversity of the Estate and the challenges it faces.

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

Committee evaluation

Please see page 45 for a summary of the evaluation of the effectiveness of the Partnership Board and its Committees during the year.

On behalf of the Corporate Responsibility Committee.

Keith Williams

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

Chairman's Nominations Committee report

> The Committee's main focus for the year was the oversight of the Partnership's succession planning and talent management, as well as overseeing appointments to, and the composition of, the Partnership Board.

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

Role of the Committee

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

– There are strong succession plans in place for the Partnership Board
– There is the necessary breadth of talent within the Partnership to provide the skills and expertise needed on the Partnership Board in the future
– There is a robust process for making appointments to the Partnership 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.

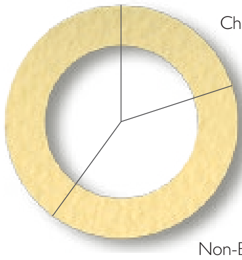
Membership

The members of the Committee at the date of this report are Sir Charlie Mayfield (Chair), Keith Williams (Deputy Chair), Steve Gardiner, Denis Hennequin and Kim Lowe.

There were seven Committee meetings held during the year under review and Directors' attendance at those meetings is shown in the table on page 43.

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

Committee composition*



*at the year-end and date of this report

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

In this section

Chairman's Nominations Committee report continued

Succession planning and talent management

During the year, the Committee considered how the Partnership was developing its succession planning and talent management programmes to meet the requirements of the Partnership's strategic objectives. This included a review of the health of the talent pipeline and the investments being made in developing the most senior cohort within the Partnership. An accelerated development programme had been established in 2015 for a small group of senior leaders who had been identified with the potential to operate at Partnership Board level and three have subsequently joined the Partnership Board. The Committee discussed a new programme which was being designed to succeed this programme and support the continued development of senior leaders to Partnership Board level as well as the steps being taken to identify and develop individuals below this group. It also considered how the new programme should take account of the changing shape of the organisation as well as the consequent changes in responsibilities within the new Executive Team and Partnership Functions.

Appointments

The Chairman's Nominations Committee oversees the process for selecting and recommending candidates for appointments to the Partnership Board.

Managing Director, Waitrose

In 2015/16 the Committee oversaw the selection process for the appointment of Rob Collins as Managing Director of Waitrose, who joined the Partnership Board with effect from 4 April 2016.

Managing Director, John Lewis

Andy Street stepped down from the Partnership Board and his position as Managing Director, John Lewis in October 2016. The selection process to identify his successor focussed on internal candidates identified through the Partnership's senior leadership talent pipeline.

Spencer Stuart, an external search consultant, led the internal assessment process and also carried out for assurance purposes an external calibration assessment. Spencer Stuart conducted other search work for the Partnership for two appointments outside the remit of the Committee.

The assessments were followed by interviews with the Chairman, Group Finance Director and Deputy Chairman. The Committee was satisfied with the selection process and endorsed the proposed appointment of Paula Nickolds, Commercial Director, John Lewis to succeed Andy Street which was approved by the Partnership Board. Paula Nickolds joined the Partnership Board on 11 January 2017.

Non-Executive Directors

Oversight of the process of appointing the Deputy Chairman of John Lewis Partnership Trust Limited, who is Deputy Chairman of the Partnership, is delegated to the Committee by the Board of John Lewis Partnership Trust Limited. The Committee was satisfied with the process which had been undertaken to review the role and supported the decision to appoint Keith Williams as the new Deputy Chairman with effect from 4 April 2016 in addition to his role as Non-Executive Director and the extension to his appointment as a Non-Executive Director of the Partnership Board until 28 February 2019.

In January 2017, the Committee confirmed its support for a recommendation from the Chairman to extend Baroness Hogg's appointment until 31 May 2018, both as a Non-Executive Director of the Partnership Board and as Chair of the Audit and Risk Committee which was approved by the Partnership Board.

The Committee also supported the Chairman's recommendation to extend Denis Hennequin's appointment until 31 May 2017, both as a Non-Executive Director of the Partnership Board and as Chair of the Remuneration Committee which was also approved by the Partnership Board. The Committee also reviewed the role profile, process and timetable to recruit a new Non-Executive Director, working with the executive search company Egon Zehnder. Egon Zehnder are undertaking one other piece of search work for the Partnership outside the remit of the Committee.

Induction, training and development

During the year, tailored induction programmes were arranged in relation to the Managing Director, Waitrose, Rob Collins, who joined the Partnership Board in April 2016, and in relation to the Managing Director, John Lewis, Paula Nickolds, who joined the Partnership Board in January 2017.

Board and Committee evaluation

Please see page 45 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 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. As at the date of this report, six of the 15 members of the Partnership Board are female.

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.

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. Our current ratio is 40% women
- → 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 Chairman of the
Chairman's Nominations Committee

It's Your Voice

Remuneration Committee report

"During the year, the Committee focussed on the annual Pay Review for the Chairman and Executive Directors, new appointments to the Partnership Board and, for the first time, agreed to publish the outcome of the Chairman's annual Pay Review for the current year as part of our aim for greater transparency on senior pay."

Denis Hennequin
Non-Executive Director and
Chair of the Remuneration Committee

Role of the Committee

- The Remuneration Committee has oversight of the application of the pay policy, including Rule 61 and Rule 62, to executive remuneration for the Chairman, Executive Directors, Senior Managers who report to the Chairman, Non-Executive Directors and the Partners' Counsellor
- The policy aims to attract, retain and motivate executive management of the quality required to run the Partnership successfully without paying more than is necessary, and informed by market rate information

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

Who advises the Remuneration Committee?

The Committee has retained Willis Towers Watson as independent remuneration consultant who advises the Remuneration Committee on the Partnership's pay policy and its application to Senior Reward. Willis Towers Watson also provides consulting advice on the Partnership's job evaluation system and pension, and is actuary to the John Lewis Partnership Trust for Pensions. The Committee was also advised during the year by Tracey Killen, Director of Personnel and Andrew Bridges, Head of Reward and Policy.

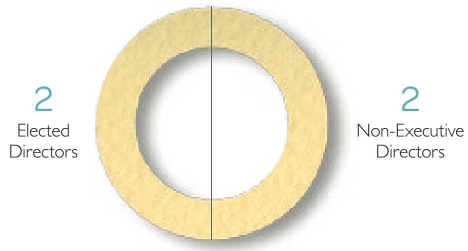
Membership

The members of the Committee at the date of this report are Denis Hennequin (Chair), Steve Gardiner, Baroness Hogg and Lucy Parks. There were five Committee meetings held during the year under review and Directors' attendance at those meetings is shown in the table on page 43.

The Remuneration Committee comprises two 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.

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

Committee composition*



*at the year-end and date of this report

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.

The agenda for each meeting is approved by the Committee Chairman and each Committee member has the right to request reports on matters of interest.

Key activities during the period under review:

→ Submitted a recommendation on the Chairman's pay to the Partnership Board

→ Set the pay of the Partnership's Executive Directors and Senior Managers who report to the Chairman

→ Approved the remuneration for appointments to the Partnership Board and for Non-Executive Directors, where required: Managing Director, John Lewis and Deputy Chairman

→ Agreed proposal to publish the Chairman's Pay Review and new pay rate for the forthcoming year

In this section

Policy report

What is the Partnership's pay policy?

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 Directors and Senior Partners, defined as Partners at Partnership Levels 4 and above, as for all Partners.

This approach is underpinned by Rule 61 and Rule 62 of the Constitution:

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

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

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

The Partnership does not operate annual incentive plans in the same way as 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.

How does the Remuneration Committee determine pay?

The Remuneration Committee oversees how the pay policy is applied to the Chairman, Executive Directors, Senior Managers who report to the Chairman, Non-Executive Directors and the Partners' Counsellor.

When considering rates of pay, the Remuneration Committee takes into account:

- → Individual performance, including the achievement of specific role related objectives and the Partnership Leadership Behaviours demonstrated in achieving those 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 the Partner is responsible, as appropriate
- → The market context as advised by Willis Towers Watson, who is the Committee's independent remuneration consultant
- → The employment conditions and salary increases awarded to Partners across the workforce
- → Rule 63 of the Constitution in the case of the highest paid Partner

The review of pay for Executive Directors and Senior Managers who report to the Chairman takes account of not only what has been achieved, but also how it has been achieved. This enables an holistic assessment of performance, reflecting the same principles as those contained in 'My Performance' appraisal framework used to assess the performance of all Partners. For Executive Directors and Senior Managers this does not result in a formal performance rating being assigned due to the breadth and complexity of roles at this level, where a greater element of judgement is required.

The Remuneration Committee considers and reviews basic pay each year for Senior Partners within its remit. Basic pay is compared with amounts paid to executives in similar organisations, performing comparable roles. When looking at the reward packages of other organisations, the Remuneration Committee focusses on the market median value of cash compensation, including salary and target annual Partnership Bonus as a benchmark for setting competitive pay ranges. The comparison excludes the value of pension benefit, long-term incentives and share schemes, which are widely available in the market at senior executive level. This approach is consistent with the benchmarking methodology for all Senior Partners at Partnership Levels 4 and above.

How do we ensure Committee independence?

The Remuneration Committee comprises four members, including two 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.

It's Your Voice

Remuneration Committee report continued

Remuneration report

Relative spend on pay

In 2016/17, the Partnership spent £1,817.2m on employment and related costs. This represented 18.1% of the Partnership's revenue. £1,423.7m was spent on basic pay and every eligible Partner received 6% of their 2016/17 gross pay as a Partnership Bonus, at a total cost of £89.4m.

What is the Chairman paid? (Audited)

In the year under review, the value of the Chairman's total reward decreased by 7.4% to £1,413,000. In this reporting period the Chairman's basic pay was 4.9% higher than in the previous year, which takes into account an increase to his basic rate of pay to £1,108,800 from April 2016 as part of the April 2016 annual Pay Review, that took into consideration business performance in 2015/16 and market movement for the role over that period. The total reward package for the reporting period is made up of the following elements:

	2016/17 £	2015/16 £
Pay*	**1,103,000**	1,051,000
Partnership Bonus (see below)	**–**	105,000
Pension supplement in lieu of further defined pension accrual	**296,000**	356,000
Cash value of benefits	**14,000**	14,000
Total reward	**1,413,000**	1,526,000

* For 2016/17, this includes two months at the basic rate of pay prior to the April 2016 Pay Review and 10 months at the basic rate of pay after the April 2016 Pay Review.

For the 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 remains at £1,108,800 as set at the April 2016 Pay Review.

Additionally, for the 2016/17 trading year, the Partnership Board agreed, at the Chairman's request, that his Partnership Bonus for 2016/17 would be nil.

What about 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.'

At the end of the reporting period, the pay of the highest paid Partner, the Chairman, was 70 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 28 January 2017 was 58 times the average total reward, excluding Partnership Bonus, of non-management Partners with three or more years' service.

What are the pension arrangements for members of the Board? (Audited)

At the end of the reporting period, one (2016: one) Executive Director continues to accrue benefits in the Partnership's pension scheme. The aggregate value of the Company's contributions to this scheme in respect of that Director was £95,000 (2016: £88,000). The Chairman, the remaining Executive Directors and Partners' Counsellor have all ceased to accrue further pension benefits in the Partnership's pension scheme. In lieu of pension accrual for current service, each of these Directors received a monthly pension supplement. These supplements are cash payments that are broadly equivalent in value to the defined benefit pension that the individual would previously have accrued in the Partnership's pension scheme. These Partners received a reduction in the value of their pension benefit in proportion to the Pension Benefit Review proposals with effect from April 2016.

How much is the pension supplement? (Audited)

During the year ended 28 January 2017, the total pension supplement paid to the Chairman, Executive Directors and Partners' Counsellor was £1,086,000 (2016: £1,348,000).

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 Partners' Counsellor who have accrued pension, and who served on the Partnership Board during any part of the year, were as follows:

	2016/17	2015/16
£50,001 – £100,000	4	2
£100,001 – £150,000	1	1
£150,001 – £200,000	2	2
£200,001 – £250,000	1	1
£250,001 – £300,000	–	1
£300,001 – £350,000	1	–
Total	9	7

For the Chairman, Executive Directors and 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 £1,276,000 per annum for nine individuals (2016 restated[1]: £1,082,000 for seven individuals).

The accrued pension for the Chairman, Executive Directors and 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 £44,000 per annum for six individuals (2016: £35,000 for four 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 £452,000 including temporary pensions (2016: £272,000).

1 The aggregate comparison for 2016 has been restated from £1,052,000 as previously disclosed to £1,082,000 due to the restatement of the Chairman's aggregate defined benefit pension entitlement for 2016 from £256,000 as previously disclosed to £286,000.

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 (2016 restated[2]: £286,000 per annum).

2 On review of the Chairman's aggregate defined benefit pension entitlement, it was identified that a restatement was required of the 2016 figure from £256,000 as previously disclosed to £286,000.

What are the Chairman, the Executive Directors, the Non-Executive Directors and 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:

	2016/17 Number of Directors	2015/16 Number of Directors
£50,001 – £100,000	3	3
£100,001 – £150,000	1	1
£300,001 – £350,000	1	1
£350,001 – £400,000	–	1
£500,001 – £550,000	1	–
£750,001 – £800,000	2	1
£800,001 – £850,000	2	1
£950,001 – £1,000,000	1	–
£1,100,001 – £1,150,000	–	1
£1,250,001 – £1,300,000	–	1
£1,400,001 – £1,450,000	1	–
£1,500,001 – £1,550,000	–	1
Total	12	11

The table above includes payments to Lord Price for qualifying services as a Director for the year up until his cessation as a Director of the Partnership Board on 18 March 2016. Included in this is payment of £642,541 in lieu of his accrued long leave entitlement. Also included are payments made in March 2017 in respect of his Partnership Bonus prorated to 18 March 2016 and Partnership Bonus on his long leave entitlement. These payments were disclosed in last year's Remuneration Committee report.

The table above also includes payments to Andy Street for qualifying services including prorated Partnership Bonus as a Director for the year up until his cessation as a Director of the Partnership Board on 28 October 2016.

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

The aggregate amount of remuneration paid to or receivable by Directors in respect of qualifying services for the year under review was £6,722,000 (2016: £6,590,000).

Remuneration Committee report continued

How do we compensate the Elected and Non-Executive Directors for their contributions to the Board?

Elected Directors are not paid 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 Director's 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

Lord Price ceased to be a Director of the Partnership Board on 18 March 2016 and Managing Director of Waitrose and Deputy Chairman of the Partnership on 3 April 2016. As disclosed in last year's report, in connection with his leaving the Partnership he was paid £988,523 in lieu of salary, car, pension and other benefits for the remainder of his contractual notice period and £237,132 as compensation for loss of office.

No other 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 noted above, 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 46 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 68 and 69 is cross-referenced from note 2.6 of the financial statements and forms part of the audited financial statements.

Committee evaluation

Please see page 45 for a summary of the evaluation of the effectiveness of the Partnership Board and its Committees during the year.

On behalf of the Remuneration Committee.

Denis Hennequin
Chairman of the Remuneration Committee
26 April 2017

Directors' report

Our governance model is a fundamental part of what makes the Partnership different. At its heart is our written Constitution which still reflects our Founder's vision, and provides the Principles and Rules through which we aim to demonstrate that we are a better form of business. And as the Partnership evolves and responds to the changing needs of our customers, and challenges facing our business and our Partners, the Constitution will help ensure that we remain true to our Principles.

Keith Hubber
General Counsel and Company Secretary

The Directors present their report and the audited financial statements for the year ended 28 January 2017.

The Directors are required to make a statement on key events during the Partnership's year, confirming the state of the business and certifying that it is being run responsibly.

Principal activity and future developments

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 an additional office in Chennai, India and a sourcing office in Hong Kong; Waitrose operates supermarkets and convenience stores, online (waitrose.com) and Leckford 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. An indication of likely future developments in the Partnership can be found on page 3.

Corporate governance

The Partnership's statements on corporate governance can be found in the Governance section of these financial statements on pages 36 to 76. These also include the Audit and Risk Committee report, the Corporate Responsibility Committee report, the Chairman's Nominations Committee report and the Remuneration Committee report. The Governance section forms part of this Directors' report.

The Company has chosen, in accordance with section 414 C(11) of the Companies Act 2006, and as noted in this Directors' Report, to include certain matters in its Group Strategic Report that would otherwise be required to be disclosed in this Directors' report. The Group Strategic Report can be found on pages 1 to 35 of the Annual Report and Accounts 2017. Other information that is relevant to the Directors' report, and which is incorporated by reference into this report, can be located as follows:

- Employee involvement: sharing information and relations with Partners on page 38
- Equal opportunities, Diversity and Inclusion on pages 38 and 65
- Greenhouse gas emissions data and methodology on page 60

Groceries (Supply Chain Practices) Market Investigation Order 2009 (the Order) and the Groceries Supply Code of Practice (GSCoP)

Waitrose is subject to the Order and the GSCoP. Please see page 58 of the Audit and Risk Committee report for more information on compliance with GSCoP and the Order.

Political donations

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

Directors' interests

Under the Constitution of the Partnership, the Executive Directors, Elected Directors and Partners' Counsellor, 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 page 45 and details of the Directors' service agreements and notice periods are given on page 70.

Capital structure and cancellation and repayment of Preference Shares

At 28 January 2017, 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.

On 4 November 2016, the Partnership cancelled and repaid 3,696,995 5% Cumulative Preference Stock and 500,000 7.5% Cumulative Preference Stock (together 'the Preference Shares'). As a result, the issued share capital of the Partnership was reduced from £108,978,589 to £104,781,594.

Directors' report continued

De-listing on the London Stock Exchange (LSE)

As a result of the cancellation and repayment of the Preference Shares of the Partnership and its immediate subsidiary, John Lewis plc, both companies ceased to have Standard Listings on the LSE in respect of the Preference Shares. John Lewis plc remained a Standard Listed company in respect of three corporate bonds listed on the LSE. The Preference Shares were treated in the balance sheet as a long-term liability of the business and not as equity share capital. Further details are provided in note 5.5 to the consolidated financial statements.

Dividends

No dividends were paid on the Deferred Ordinary Shares (2016: 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 to declare a dividend upon the Deferred Ordinary Shares but to recommend to the Employing Companies to pay to their eligible employees Partnership Bonus.

Dividends on the Preference Shares up to the cancellation date of the Preference Shares on 4 November 2016 were £169,000 (2016: £222,000). Dividends on SIP shares (issued in connection with BonusSave) were £922,000 (2016: £1,165,000).

Going concern

The Directors, after reviewing the Partnership's operating budgets, investment plans and financing arrangements, consider that the Company and Partnership have sufficient financing available at the date of 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 35.

Viability statement

The UK Corporate Governance Code requires 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 10 to 26), principal risks and uncertainties (as described on pages 32 to 35).

The Directors have assessed the Partnership's viability over the three-year period to January 2020. Whilst the Partnership has set out its long-term strategy in IYB 2028, the detailed business planning does not extend this far. The three-year period is considered an appropriate assessment period as a much higher degree of judgement is required beyond three years, given the pace of development of the retail industry and its inherent risks.

In assessing the viability of the Partnership, the Directors considered the Partnership's revenue, profit, net assets and cash position in the context of the most recent Budget and Business Plan and modelled plausible downside scenarios over and above these. The scenarios were based on the potential financial impacts of the Partnership's six principal risks:

Competition (see page 34)	The potential consequences of this risk have been modelled through decreased sales and increased margin pressures.
Operating model strain (see page 34)	The potential consequences of this risk have been modelled through margin deflation and failure to reach targeted efficiencies.
Information security (see page 35)	The potential consequences of this risk have been modelled through placing severe strain on the Partnership's financial model through decreased sales and margin pressure.
Pension obligations (see page 35)	The potential consequences of this risk have been modelled through further significant falls in the real discount rate, and therefore a corresponding increase in the pension liability.
Change delivery (see page 35)	The potential consequences of this risk have been modelled through sales decreases, margin deflation and failure to reach targeted efficiencies.
Economic environment (see page 35)	The potential consequences of this risk have been modelled through decreased sales and increased margin pressures, including the potential impact of a hard Brexit.

The impact of these downside scenarios were reviewed against the Partnership's projected cash position and the Partnership's financial covenants over the three-year viability period.

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.

An overview of the process undertaken was provided to and reviewed by the Audit and Risk Committee.

In forming the viability assessment, the Directors have assumed that the Divisional strategies in the latest Budget and Business Plan are followed, which includes the ability of the Partnership to raise future finance. Directors have assessed challenging but plausible scenarios, but have not modelled the impact of significant one-off 'black-swan' events.

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.

Events after the balance sheet date

Since 28 January 2017, there have been subsequent events which require disclosure in the financial statements. See note 8.3.

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 49 the following pages 74 to 76 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.

Annual General Meeting

The Annual General Meeting will be held at 2pm on Thursday 22 June 2017 at Partnership House, Carlisle Place, London, SW1P 1BX.

Approved by the Directors and signed on behalf of the Partnership Board.

Keith Hubber

General Counsel and Company Secretary
26 April 2017

Directors' report continued

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 pages 44 and 48. – 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 separately to the Partnership Council and to the Partnership Board, and delegates part of his management authority to the Executive Directors. – Additionally, the Partners' Counsellor and Elected Directors, whose roles are detailed on page 44, 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 Jane Burgess as Partners' Counsellor. – For more information on the role of the Deputy Chairman and Partners' Counsellor see page 44. – The Deputy Chair of the Chairman's Nominations Committee, who is a Non-Executive Director, oversees the performance appraisal process for the Chairman. The appraisal process takes a number of factors into account, such as his performance as Chairman of the Partnership Board, as 'guardian' of the Constitution, and as leader of the Partnership's Executive. The process therefore draws on the views of other members of the Board both through the Board Evaluation and separate meetings between the Deputy Chairman and other members of the Partnership Board, the Partnership Council through the 'holding to account sessions', and the Partnership's senior executives. In addition, the Chairman also provides the Committee with his own assessment of his performance.
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 45. – The Partnership Board reflects the stakeholders of the Partnership and has the appropriate balance of skills, experience, independence and knowledge. As at 28 January 2017, the Partnership Board included three Non-Executive Directors. The Partners' Counsellor 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.

The Code	The Partnership's governance arrangements
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 41 and 48, 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 44). – 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.
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 52 to 58. – Prior to 12 April 2016, the Partnership Board's Audit and Risk Committee comprised two Non-Executive Directors, two Elected Directors, two external independent members (appointed 2 March 2016) and the Partners' Counsellor. Since 12 April 2016, the Partnership Board's Audit and Risk Committee comprised two Non-Executive Directors, one Elected Director, two external independent members and the Partners' Counsellor. This composition enables assurance and critical analysis of the business systems, operations and financial probity to be conducted with appropriate objective and independent scrutiny, while also mindful of Partners' interests. – The appointment of the two external independent members in March 2016 enhanced the Committee's composition, both having recent and relevant financial experience (see page 52).

Directors' report continued

UK Corporate Governance Code continued

The Code	The Partnership's governance arrangements
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 63 to 65 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 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.	**Our Remuneration Committee is different** – The full Remuneration Committee report can be found on page 66. – The Remuneration Committee comprises two, rather than 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.
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.	– 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 68).
Code Ref. B.6.2 **Code provisions** Evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years.	**We have not undertaken an externally facilitated Board evaluation at least every three years** – The last externally facilitated Board evaluation took place in 2013/14 and internally facilitated evaluations have been undertaken in the intervening years. The Partnership Board decided to delay conducting a full externally facilitated evaluation until after the Executive Team, which was established in November 2016, had time to become established in its ways of working. An externally facilitated review of the Partnership Board and its governance will be conducted between May and June this year. See page 45 for further details.

Our results matter to all of us. In this section, we look at everything we need to know about our 2016/17 financials, from key figures to consolidated statements.

It's Your Results

Consolidated income statement

for the year ended 28 January 2017

In a nutshell

Our earned revenue minus our incurred expenses to show the Partnership's overall profit.

Notes		2017 £m	2016 £m
1.2, 2.1	**Gross sales**	**11,374.2**	11,018.8
2.1	**Revenue**	**10,026.2**	9,748.8
	Cost of sales	**(6,633.1)**	(6,442.1)
	Gross profit	**3,393.1**	3,306.7
	Other operating income	**92.6**	85.2
2.2	Operating expenses before exceptional items and Partnership Bonus	**(3,007.8)**	(2,989.8)
3.3	Share of profit of joint venture (net of tax)	**0.3**	–
2.1	**Operating profit before exceptional items and Partnership Bonus**	**478.2**	402.1
2.3	Exceptional items	**171.2**	129.3
2.1	**Operating profit before Partnership Bonus**	**649.4**	531.4
5.1	Finance costs	**(109.7)**	(100.8)
5.1	Finance income	**1.9**	4.2
	Profit before Partnership Bonus and tax	**541.6**	434.8
	Partnership Bonus	**(89.4)**	(145.0)
2.4	**Profit before tax**	**452.2**	289.8
2.7	Taxation	**(98.7)**	(66.6)
	Profit for the year	**353.5**	223.2
2.1	**Profit before Partnership Bonus, tax and exceptional items**	**370.4**	305.5

Consolidated statement of comprehensive income/(expense)

for the year ended 28 January 2017

In a nutshell

The net sum of other income or expenses not included in the income statement above. These items have not yet been realised.

Notes		2017 £m	2016 £m
	Profit for the year	**353.5**	223.2
	Other comprehensive (expense)/income:		
	Items that will not be reclassified to profit or loss:		
6.1	Remeasurement of defined benefit pension scheme	**(432.6)**	411.1
2.7	Movement in deferred tax on pension scheme	**46.1**	(94.6)
2.7	Movement in current tax on pension scheme	**24.7**	–
	Items that may be reclassified subsequently to profit or loss:		
	Net (loss)/gain on cash flow hedges	**(1.1)**	7.9
2.7	Movement in deferred tax on cash flow hedges	**0.3**	(1.4)
	(Loss)/gain on currency translations	**(0.6)**	0.1
	Other comprehensive (expense)/income for the year	**(363.2)**	323.1
	Total comprehensive (expense)/income for the year	**(9.7)**	546.3

Consolidated balance sheet

as at 28 January 2017

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

Notes		2017 £m	2016 £m
	Non-current assets		
3.1	Intangible assets	**432.7**	388.4
3.2	Property, plant and equipment	**4,112.4**	4,189.3
4.2	Trade and other receivables	**61.2**	65.7
7.2	Derivative financial instruments	**0.1**	–
3.3	Investment in and loans to joint venture	**3.9**	–
2.7	Deferred tax asset	**48.2**	33.6
		4,658.5	4,677.0
	Current assets		
4.1	Inventories	**627.8**	621.9
4.2	Trade and other receivables	**242.7**	223.9
7.2	Derivative financial instruments	**15.3**	11.5
3.4	Assets held for sale	**8.1**	–
5.3	Short-term investments	**60.0**	10.0
5.4	Cash and cash equivalents	**673.7**	667.4
		1,627.6	1,534.7
	Total assets	**6,286.1**	6,211.7
	Current liabilities		
5.5	Borrowings and overdrafts	**–**	(57.7)
4.3	Trade and other payables	**(1,638.5)**	(1,617.4)
	Current tax payable	**(19.6)**	(27.1)
5.6	Finance lease liabilities	**(1.2)**	(2.6)
4.4	Provisions	**(167.7)**	(141.6)
7.2	Derivative financial instruments	**(7.2)**	(2.3)
		(1,834.2)	(1,848.7)
	Non-current liabilities		
5.5	Borrowings	**(966.9)**	(974.1)
4.3	Trade and other payables	**(219.7)**	(209.3)
5.6	Finance lease liabilities	**(23.3)**	(24.7)
4.4	Provisions	**(171.8)**	(148.2)
7.2	Derivative financial instruments	**(1.1)**	–
6.1	Retirement benefit obligations	**(1,013.7)**	(941.6)
		(2,396.5)	(2,297.9)
	Total liabilities	**(4,230.7)**	(4,146.6)
	Net assets	**2,055.4**	2,065.1
	Equity		
8.1	Share capital	**0.6**	0.6
	Other reserves	**14.0**	15.4
	Retained earnings	**2,040.8**	2,049.1
	Total equity	**2,055.4**	2,065.1

The financial statements on pages 78 to 126 were approved by the Board of Directors on 26 April 2017 and signed on its behalf by

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

It's Your Results

Consolidated statement of changes in equity

for the year ended 28 January 2017

In a nutshell

A reconciliation between the beginning and the end of the year which discloses profit or loss, items of comprehensive income/(expense) and any changes in ownership interests.

Notes		Share capital £m	Capital redemption reserve £m	Capital reserve £m	Hedging reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Total equity £m
	Balance at 31 January 2015	0.6	5.0	1.4	2.4	–	1,509.4	1,518.8
	Profit for the year	–	–	–	–	–	223.2	223.2
6.1	Remeasurement of defined benefit pension scheme	–	–	–	–	–	411.1	411.1
	Fair value gains on cash flow hedges	–	–	–	9.7	–	–	9.7
	– transfers to inventories	–	–	–	(0.2)	–	–	(0.2)
	– transfers to property, plant and equipment	–	–	–	(1.6)	–	–	(1.6)
2.7	Tax on above items recognised in equity	–	–	–	(1.4)	–	(94.6)	(96.0)
	Gain on currency translations	–	–	–	–	0.1	–	0.1
	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	–	–	–	1.0	–	–	1.0
	– transfers to property, plant and equipment	–	–	–	28.2	–	–	28.2
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**

Consolidated statement of cash flows

for the year ended 28 January 2017

In a nutshell
The Partnership's cash income and expenditure analysed by various key activities.

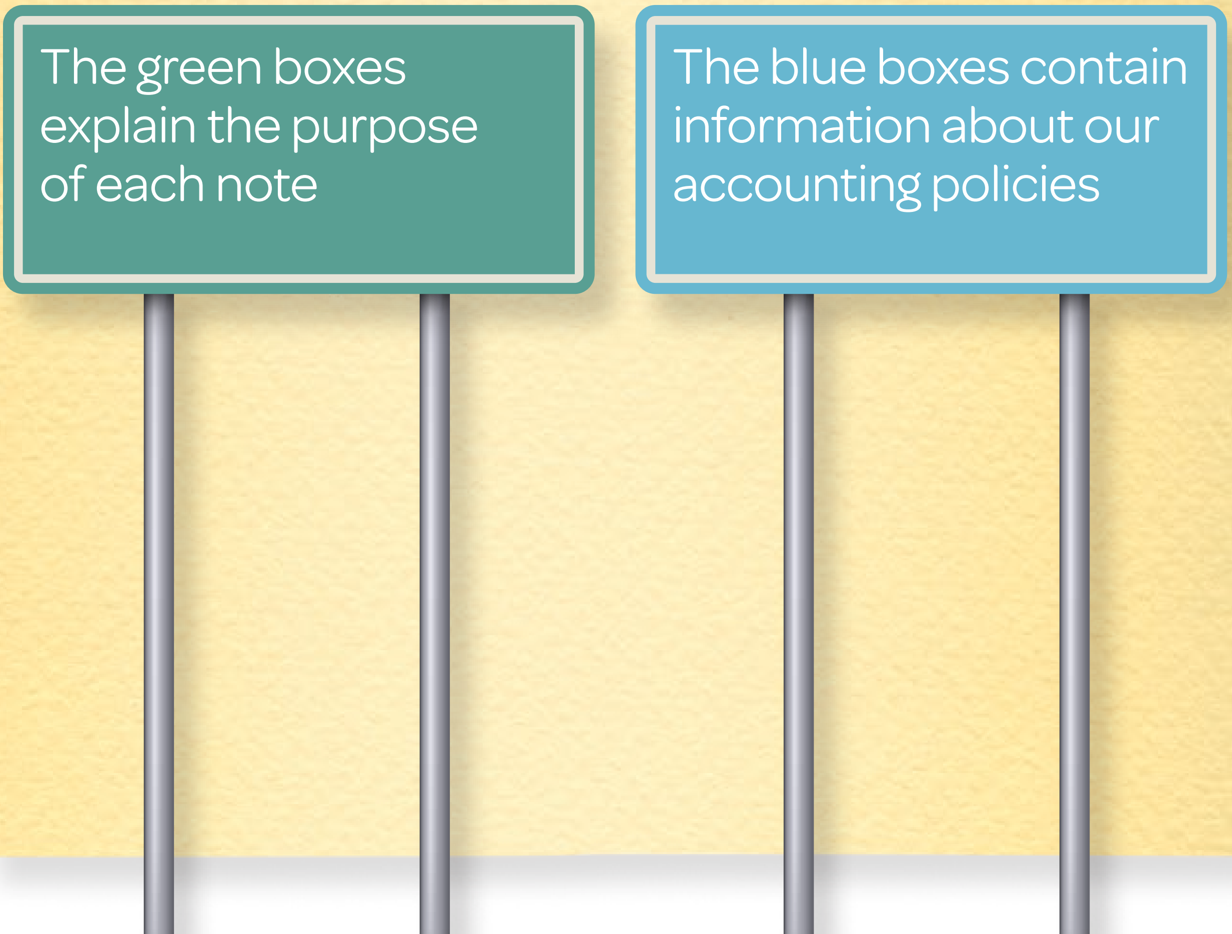
Notes		2017 £m	2016 £m
2.5	**Cash generated from operations before Partnership Bonus**	**912.1**	917.1
	Net taxation paid	**(49.8)**	(26.4)
	Pension deficit reduction payments	**(124.8)**	–
	Finance costs paid	**(2.7)**	(2.9)
	Net cash generated from operating activities before Partnership Bonus	**734.8**	887.8
	Partnership Bonus paid	**(144.8)**	(156.1)
	Net cash generated from operating activities after Partnership Bonus	**590.0**	731.7
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(265.6)**	(347.4)
	Purchase of intangible assets	**(153.7)**	(146.4)
	Proceeds from sale of property, plant and equipment and intangible assets	**13.7**	163.8
	Finance income received	**1.7**	1.4
3.3	Cash outflow from investment in and loans to joint venture	**(3.6)**	–
	Cash outflow from short-term investments	**(50.0)**	(10.0)
	Net cash used in investing activities	**(457.5)**	(338.6)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	**(56.0)**	(57.2)
	Payment of capital element of finance leases	**(2.8)**	(4.0)
	Payments to preference shareholders	**(0.5)**	(0.2)
	Payments to Share Incentive Plan shareholders	**(1.2)**	(1.3)
	Cash outflow from borrowings	**(65.7)**	–
	Net cash used in financing activities	**(126.2)**	(62.7)
	Increase in net cash and cash equivalents	**6.3**	330.4
	Net cash and cash equivalents at beginning of the year	**667.3**	336.9
	Effects of exchange rate changes on cash and cash equivalents	**0.1**	–
	Net cash and cash equivalents at end of the year	**673.7**	667.3
5.4	**Net cash and cash equivalents comprise:**		
	Cash at bank and in hand	**115.2**	89.1
	Short-term deposits	**558.5**	578.3
	Bank overdrafts	**–**	(0.1)
		673.7	667.3

It's Your Results

Notes to the consolidated financial statements

Reading the notes to the accounts

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



In a nutshell

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

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 estimates and assumptions 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 judgements made by management are disclosed in section 1.1.6.

The financial year is the 52 weeks ended 28 January 2017 (prior year: 52 weeks ended 30 January 2016).

Going concern

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

1.1.2 Basis of consolidation

The 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 28 January 2017 and have not had a significant impact on the Partnership's profit for the year, equity or disclosures:

- Annual Improvements to IFRSs 2010-2012 Cycle – various standards
- Annual Improvements to IFRSs 2011-2013 Cycle – various standards
- Annual Improvements to IFRSs 2012-2014 Cycle – various standards
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exception
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 1: Disclosure Initiative

Notes to the consolidated financial statements (continued)

1 Accounting information (continued)

1.1 Accounting principles and policies (continued)

1.1.4 Amendments to accounting standards (continued)

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 on the Partnership's consolidated income statement or consolidated balance sheet however it will result in increased disclosures within the notes to the accounts.

– 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. The main impact for the Partnership will be in respect of the timing of revenue recognition of warranties and extended warranties, of which a quantitative impact is currently under review.

  The adoption of IFRS 15 is not expected to have a material impact on the Partnership's consolidated income statement or consolidated balance sheet but will result in increased disclosures within the notes to the accounts.

The Partnership is currently assessing the impact of the following standards, which have been issued but not yet endorsed by the EU:

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

  IFRS 16 'Leases' specifies how to recognise, measure, present and disclose leases. The standard provides a single lease accounting model and requires lessees to recognise right of use assets and lease liabilities on the balance sheet for all applicable leases.

  The adoption of IFRS 16 is expected to have a very significant impact on the Partnership's consolidated income statement and consolidated balance sheet, of which a quantitative impact is currently under review.

  Included within the KPIs disclosed on page 9 of the Annual Report is a measure of Total indebtedness to adjusted funds from operations (Adjusted FFO). Total indebtedness represents the total borrowings of the Partnership including net debt (defined on page 85), 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% in 2016/17. This is not an estimate of the impact of IFRS 16.

– 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)

– Annual Improvements to IFRSs 2014-2016 Cycle – various standards (issued on 8 December 2016)

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. 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 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.

1 Accounting information (continued)

1.1 Accounting principles and policies (continued)

1.1.5 Significant accounting policies (continued)

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.

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 Critical accounting estimates and judgements

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 assumptions concerning the future. The resulting accounting estimates will, by definition, be likely to differ from the related actual results. The estimates and assumptions 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 estimates, judgements and assumptions are given in note 6.1

→ **Provisions and liabilities:** Details of estimates, judgements and assumptions are given in notes 4.3 and 4.4

→ **Impairment:** Details of estimates, judgements and assumptions are given in notes 3.1 and 3.2

→ **Depreciation and amortisation:** Details of estimates, judgements and assumptions are given in notes 3.1 and 3.2

1.2 Non-GAAP measures

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 amounts receivable by the Partnership for goods and services supplied to customers, net of discounts but including sale or return sales and VAT. 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 focusses on our performance during the year ended 28 January 2017. 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

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

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

From 29 January 2017, the activities of Partnership Services became part of the responsibility of the Group Division. Going forwards, this operating segment will be known as Group.

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 companies 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.

The 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; it 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 it 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 are: John Lewis, Waitrose and Partnership Services and Group. In the year ended 27 January 2018, these reporting segments will be John Lewis, Waitrose and Group.

2 Partnership performance (continued)

2.1 Segmental reporting (continued)

2017	Waitrose £m	John Lewis £m	Partnership Services and Group £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 profit on sale of property[1]	252.7	241.5	(18.5)	475.7
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[2]	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	(191.0)	(112.1)	(16.6)	(319.7)
– Amortisation	(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
– Movement in provisions – increase	2.0	0.4	47.3	49.7

1 Included within operating profit before exceptional items, Partnership Bonus and profit on sale of property is a £0.3m (2016: £nil) share of profits of a joint venture in the John Lewis Division (see note 3.3) and an impairment charge of £38.0m (2016: £5.7m) of which £37.7m (2016: £5.7m) is in the Waitrose Division and £0.3m (2016: £nil) is in the John Lewis Division (see notes 3.1 and 3.2).

2 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 (2016: £nil).

It's Your Results

Notes to the consolidated financial statements (continued)

2 Partnership performance (continued)

2.1 Segmental reporting (continued)

2016	Waitrose £m	John Lewis £m	Partnership Services and Group £m	Total £m
Gross sales	6,461.4	4,557.4	–	11,018.8
Adjustment for sale or return sales	–	(181.9)	–	(181.9)
Value added tax	(375.4)	(712.7)	–	(1,088.1)
Revenue	6,086.0	3,662.8	–	9,748.8
Operating profit before exceptional items, Partnership Bonus and profit on sale of property[1]	232.6	248.7	(80.7)	400.6
Profit on sale of property	–	1.5	–	1.5
Operating profit before exceptional items and Partnership Bonus	232.6	250.2	(80.7)	402.1
Exceptional items	–	–	129.3	129.3
Operating profit before Partnership Bonus	232.6	250.2	48.6	531.4
Finance costs				(100.8)
Finance income				4.2
Partnership Bonus				(145.0)
Profit before tax				289.8
Taxation				(66.6)
Profit for the year				223.2
Reconciliation of Profit before Partnership Bonus, tax and exceptional items to Profit before tax:				
Profit before Partnership Bonus, tax and exceptional items				305.5
Partnership Bonus				(145.0)
Exceptional items				129.3
Profit before tax				289.8
Segment assets	2,998.8	2,049.1	1,163.8	6,211.7
Segment liabilities	(742.6)	(876.8)	(2,527.2)	(4,146.6)
Net assets	2,256.2	1,172.3	(1,363.4)	2,065.1
Other segment items:				
– Depreciation	(166.1)	(103.8)	(16.1)	(286.0)
– Amortisation	(37.2)	(35.5)	(18.5)	(91.2)
– Capital expenditure – property, plant and equipment	174.4	136.9	24.9	336.2
– Capital expenditure – intangible assets	41.9	88.9	15.6	146.4
– Movement in provisions – increase	2.4	11.9	7.4	21.7

1 Included within operating profit before exceptional items, Partnership Bonus and profit on sale of property is an impairment charge of £5.7m in the Waitrose Division (see notes 3.1 and 3.2).

2.2 Operating expenses before exceptional items and Partnership Bonus

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	2017 £m	2016 £m
Branch operating expenses	**(2,310.8)**	(2,235.6)
Administrative expenses	**(697.0)**	(754.2)
	(3,007.8)	(2,989.8)

2 Partnership performance (continued)

2.3 Exceptional items

Exceptional items are material, non-recurring items of income and/or expense arising from events or transactions that fall within the activities of the Partnership. 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	2017 Operating income/ (expenses) £m	2017 Taxation £m	2016 Operating income £m	2016 Taxation £m
Reduction in pension obligation (a)	270.0	(48.6)	–	–
Strategic review (b)	(42.9)	5.1	–	–
Pay provision (c)	(36.0)	7.1	–	–
Restructuring and redundancy (d)	(20.7)	3.9	–	–
Profit on disposal of items previously recognised as exceptional (e)	0.8	(0.1)	129.3	(25.1)
	171.2	(32.6)	129.3	(25.1)

Exceptional items in the year to 28 January 2017 are as follows:

(a) On 20 January 2017, the Partnership announced that the annual discretionary increase for pension in retirement built up before 6 April 1997 will be expected to increase in line with CPI inflation (up to a maximum of 2.5%), instead of RPI inflation (up to a maximum of 5%). As a result, an exceptional past service credit has been recorded in operating income in the year to 28 January 2017 of £270.0m. This reflects a reduction in the pension obligation as a result of a change in the constructive obligation in relation to discretionary pension increases built up before 6 April 1997.

(b) Following a strategic review, the Partnership has recognised an exceptional charge of £42.9m in Waitrose. This is in relation to the write down of property, other assets and related costs that are no longer intended to be developed or are now being exited. £27.5m relates to strategic land holdings, £13.9m relates to stores, and abortive property project costs and £1.5m relates to other assets.

(c) An exceptional charge of £36.0m was recorded in relation to payments and associated costs in connection with some of our pay practices which have technically not complied with the National Minimum Wage (NMW) Regulations. This charge principally relates to payments that are required to be made to recipient Partners and former Partners for the previous six years. This has come about in the main because our pay averaging arrangements do not meet the strict timing requirements of the NMW Regulations; although Partners will, over the course of a year, usually have received the correct pay, in some months where greater than average hours are worked they will have been paid less than the hourly rate stipulated in the NMW Regulations. We are now required to make good those amounts.

The complexity involved in applying the NMW Regulations to our pay arrangements means that the ultimate resolution of the liability may result in an amount that is different from our best estimate and any difference will be reflected in the period in which new information becomes available.

(d) Given the significant changes that are taking place across the retail sector and aligned to the It's Your Business 2028 strategy, the Partnership is reviewing all of its operations, focussing on improving productivity and restructuring to ensure we are well positioned for the future. This will involve a period of significant change, investment and innovation across the Partnership. As a result, for the year ended 28 January 2017, exceptional restructuring and redundancy costs of £20.7m have been recognised principally in relation to distribution and contact centres and head office operations.

(e) Exceptional operating income of £0.8m was recognised on finalisation of a prior year property disposal, which was previously recorded as exceptional. On 16 April 2015, the Partnership disposed of a property which was previously held for sale. The profit on disposal of £129.3m was recorded as exceptional operating income in the year to 30 January 2016. A tax charge of £25.1m was recognised on the exceptional items in the year to 30 January 2016.

In assessing whether income and expense items meet the Partnership's criteria as exceptional, items totalling £0.7m in Waitrose, £3.8m in John Lewis and £0.6m in Partnership Services and Group which were reflected as a non-exceptional operating expenses in the first half of the year, have subsequently been reclassified to exceptional.

It's Your Results

Notes to the consolidated financial statements (continued)

2 Partnership performance (continued)

2.4 Profit before tax

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

	2017 £m	2016 £m
Staff costs (note 2.6.2)	**(1,817.2)**	(1,889.3)
Depreciation – owned assets[1]	**(317.8)**	(283.2)
Depreciation – assets held under finance leases	**(1.9)**	(2.8)
Amortisation of intangible assets[2]	**(108.8)**	(91.2)
Net profit on sale of property (including exceptional items)	**3.3**	127.7
Loss on disposal of other plant and equipment and intangible assets	**–**	(2.9)
Inventory – cost of inventory recognised as an expense	**(6,633.1)**	(6,442.1)
Operating lease rentals:		
– land and buildings	**(177.7)**	(168.4)
– plant and machinery	**(0.5)**	(0.5)
Sub-lease income:		
– land and buildings	**5.9**	6.1

1 Included within depreciation – owned assets is an impairment charge of £34.7m (2016: £5.7m) of which £34.4m (2016: £5.7m) is in the Waitrose Division and £0.3m (2016: £nil) is in the John Lewis Division.

2 Included within amortisation of intangible assets is an impairment charge of £3.3m (2016: £nil) in the Waitrose Division.

Contingency rents expensed during the year were £1.0m (2016: £2.5m). 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 (2016: PricewaterhouseCoopers LLP), as analysed below:

Auditor's remuneration	2017 £m	2016*# £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)**	(0.5)
	(0.9)	(0.8)
Non-audit services:		
– Other assurance services	**(0.2)**	(0.1)
	(0.2)	(0.1)
Total fees	**(1.1)**	(0.9)

* The Partnership's auditor in 2016 was PricewaterhouseCoopers LLP.
\# The auditor of the Partnership's pension scheme is PricewaterhouseCoopers LLP. The aggregate fee for audit services to the pension scheme during the year ended 30 January 2016 was £57,900.

2 Partnership performance (continued)

2.5 Reconciliation of profit before tax to cash generated from operations before Partnership Bonus

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.

	2017 £m	2016 £m
Profit before tax	**452.2**	289.8
Amortisation of intangible assets	**108.8**	91.2
Depreciation	**319.7**	286.0
Share of profit of joint venture (net of tax)	**(0.3)**	–
Net finance costs	**107.8**	96.6
Partnership Bonus	**89.4**	145.0
Fair value (gains)/losses on derivative financial instruments	**(1.9)**	0.7
Profit on disposal of property, plant and equipment and intangible assets	**(0.3)**	(124.8)
Increase in inventories	**(5.9)**	(41.2)
Increase in receivables	**(15.3)**	(18.9)
Increase in payables	**90.9**	102.2
(Decrease)/increase in retirement benefit obligations	**(265.3)**	66.6
Increase in provisions	**32.3**	23.9
Cash generated from operations before Partnership Bonus	**912.1**	917.1

2.6 Partners

The average number of Partners employed by us in the year, together with details of the area of the Partnership in which they work, and total employment related costs is shown in the table below. At the end of the year, our total number of Partners was 86,700. This note also covers Partner benefits, including pay and 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:

	2017	2016
John Lewis	**29,300**	29,700
Waitrose	**57,000**	59,000
Partnership Services and Group	**1,700**	2,000
	88,000	90,700

Notes to the consolidated financial statements (continued)

2 Partnership performance (continued)

2.6 Partners (continued)

2.6.2 Partner pay and benefits

Employment and related costs were as follows:

	2017 £m	2016 £m
Staff costs (excluding exceptional items):		
Wages and salaries	**(1,423.7)**	(1,380.3)
Social security costs	**(107.6)**	(101.9)
Partnership Bonus	**(79.0)**	(128.6)
Employers' national insurance on Partnership Bonus	**(10.4)**	(16.4)
Other pension expenses (note 6.1.2)	**(187.9)**	(245.3)
Long leave cost	**(8.6)**	(16.8)
Total before Partner discounts	**(1,817.2)**	(1,889.3)
Partner discounts (excluded from revenue)	**(73.4)**	(74.7)
	(1,890.6)	(1,964.0)
Included above are the following amounts in respect of key management compensation:		
Salaries and short-term benefits	**(17.0)**	(16.4)
Post-employment benefits[1]	**(2.5)**	(3.6)
Termination benefits[2]	**–**	(2.3)
	(19.5)	(22.3)

1 Includes cash supplements in lieu of future pension accrual.
2 Includes contractual payments and compensation for loss of office.

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

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 so 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 68 to 69.

	2017 £m	2016 £m
Aggregate emoluments	**(6.7)**	(6.6)

2 Partnership performance (continued)

2.7 Taxation

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.

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

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 2.7.3.

Recognised in the income statement	2017 £m	2016 £m
Current tax – current year	**(72.7)**	(74.5)
Current tax – adjustment in respect of prior years	**5.8**	2.1
Total current tax charge	**(66.9)**	(72.4)
Deferred tax – current year	**(38.3)**	(0.3)
Deferred tax – rate change	**9.3**	6.2
Deferred tax – adjustment in respect of prior years	**(2.8)**	(0.1)
	(98.7)	(66.6)

Tax credited/(charged) to other comprehensive income	2017 £m	2016 £m
Current tax on pension scheme	**24.7**	–
Deferred tax on pension scheme	**46.1**	(94.6)
Deferred tax on cash flow hedges	**0.3**	(1.4)
	71.1	(96.0)

Notes to the consolidated financial statements (continued)

2 Partnership performance (continued)

2.7 Taxation (continued)

2.7.2 Factors affecting tax charge for the year

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 (2016: higher) than the standard corporation tax rate of 20.0% (2016: 20.17%). The differences are explained below:

	2017 £m	2016 £m
Profit before tax	**452.2**	289.8
Profit before tax multiplied by standard rate of corporation tax in the UK of 20.0% (2016: 20.17%)	**(90.4)**	(58.5)
Effects of:		
Changes in tax rate	**9.3**	6.2
Adjustment to current tax in respect of prior years	**5.8**	2.1
Adjustment to deferred tax in respect of prior years	**(2.8)**	(0.1)
Depreciation on assets not qualifying for tax relief	**(12.3)**	(13.4)
Difference between accounting and tax base for land and buildings	**(5.1)**	(1.8)
Differences in overseas tax rates	**2.0**	2.0
Sundry disallowables	**(5.1)**	(1.0)
Other permanent differences on sale of property	**(0.1)**	(2.1)
Total tax charge	**(98.7)**	(66.6)
Effective tax rate (%)	**21.8**	23.0

2.7.3 Deferred tax

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 20% for deferred tax assets or liabilities expected to reverse before 1 April 2017, 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 30 January 2016, a tax rate of 20% was used for deferred tax assets or liabilities expected to reverse before 1 April 2017, 19% for those assets expected to reverse before 1 April 2020, and 18% for those assets or liabilities expected to reverse after 1 April 2020.

The movement on the deferred tax account is shown below:

Deferred tax	2017 £m	2016 £m
Opening net asset	**33.6**	123.8
(Charged)/credited to income statement	**(31.8)**	5.8
Credited/(charged) to other comprehensive income/(expense)	**46.4**	(96.0)
Closing net asset	**48.2**	33.6

2 Partnership performance (continued)

2.7 Taxation (continued)

2.7.3 Deferred tax (continued)

The movements in deferred tax assets and liabilities during the year (prior to the offsetting of balances within the same jurisdiction, as permitted by IAS 12) are shown below.

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.

Deferred tax liabilities	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Rollover gains £m	Total £m
At 31 January 2015	(122.4)	(2.8)	(16.2)	(141.4)
Credited/(charged) to income statement	12.8	0.5	(24.1)	(10.8)
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)**

Deferred tax assets	Capital gains tax on land and buildings £m	Pensions and provisions £m	Other £m	Total £m
At 31 January 2015	6.8	257.6	0.8	265.2
(Charged)/credited to income statement	(0.3)	15.1	1.8	16.6
Charged to other comprehensive income/(expense)	–	(94.6)	(1.4)	(96.0)
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**

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 28 January 2017 (2016: £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).

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax asset at 28 January 2017 was £48.2m (2016: £33.6m asset). The net deferred tax asset is recoverable after more than one year.

No deferred tax liability is recognised on temporary differences of £24.3m (2016: £16.3m) 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 repatriated profits, subject to certain exceptions and no dividend withholding tax is levied in the Partnership's overseas entity jurisdictions.

2.7.4 Factors affecting tax charges in current and future years

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.

The Finance Act 2015 reduced the main rate of corporation tax from 21% to 20% from 1 April 2015. Further reductions to reduce the main rate of corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020 have also been enacted. In the March 2016 Budget a further reduction to 17% applicable from 1 April 2020 was also announced. The 17% rate was substantively enacted in September 2016.

The effect of these rate changes was to decrease the deferred tax asset by £6.0m, with a £15.3m charge being taken to other comprehensive income and a £9.3m tax credit 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

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 life. The amortisation charge reduces the initial value of the assets over time spread evenly over their useful lives.

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 policy

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. 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. 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 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 net book value may not be recoverable. 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.

Where an impairment loss subsequently reverses, a reversal of an impairment loss is recognised immediately as a credit to the income statement.

Critical accounting estimates and judgements

Impairment: The Partnership is required to test whether assets in use in operations have suffered any impairment. Given the degree of subjectivity involved, actual outcomes could vary significantly from these estimates.

Amortisation: Amortisation is recorded to write down non-current assets to their residual values over their estimated useful lives. The selection and review of these residual values and estimated useful lives requires the exercise of management judgement.

3 Operating assets and liabilities (continued)

3.1 Intangible assets (continued)

	Computer software			
Intangible assets	Purchased £m	Internally developed £m	Work in progress £m	Total £m
Cost				
At 31 January 2015	168.2	331.5	99.9	599.6
Additions	–	–	146.4	146.4
Transfers	34.7	74.4	(109.1)	–
Disposals and write-offs	(7.4)	(11.2)	–	(18.6)
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**
Accumulated amortisation				
At 31 January 2015	(78.8)	(185.3)	–	(264.1)
Charge for the year	(34.2)	(57.0)	–	(91.2)
Disposals and write-offs	6.5	9.8	–	16.3
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)**
Net book value at January 2015	89.4	146.2	99.9	335.5
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**

* For the year ended 28 January 2017, this includes an impairment charge of £3.3m to intangible assets (2016: £nil) in the Waitrose Division.

For the year to 28 January 2017, computer systems valued at £133.4m (2016: £109.1m) were brought into use. This covered a range of selling, support, supply chain, administration and information technology infrastructure applications, with asset lives ranging from three to ten years.

Amortisation of intangible assets is charged within operating expenses.

Notes to the consolidated financial statements (continued)

3 Operating assets and liabilities (continued)

3.2 Property, plant and equipment

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. It also details any additions and disposals during the year. Additionally, the note shows depreciation, which is an expense in the income statement representing 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 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 forecasted performance. If an asset value falls below its net book value, this is reflected through an additional one off impairment expense, which reduces profit.

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 to its working condition for its intended use.

The Partnership's freehold and long leasehold properties were last valued by the Directors, after consultation with CB Richard Ellis, Chartered Surveyors, at 31 January 2004, at fair value. These values have been incorporated as deemed cost, subject to the requirement to test for impairment in accordance with IAS 36. The Partnership 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 and 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 their expected useful lives, at the following rates:

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 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.

Critical accounting estimates and judgements

Impairment: The Partnership is required to test whether assets in use in operations have suffered any impairment. The recoverable amounts of CGUs have been determined based on the higher of fair value less costs to sell and value in use. The calculation of value in use requires the estimation of future cash flows expected to arise from the continuing operation of the CGU, and the selection of a suitable discount rate in order to calculate the present value. Given the degree of subjectivity involved, actual outcomes could vary significantly from these estimates.

Depreciation: Depreciation is recorded to write down non-current assets to their residual values over their estimated useful lives. The selection and review of these residual values and estimated useful lives requires the exercise of management judgement.

3 Operating assets and liabilities (continued)

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 31 January 2015	4,287.7	1,814.9	157.4	6,260.0
Additions	–	0.6	335.6	336.2
Transfers	220.5	137.2	(357.7)	–
Disposals and write-offs	(42.7)	(75.1)	–	(117.8)
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**
Accumulated depreciation				
At 31 January 2015	(924.7)	(1,175.2)	–	(2,099.9)
Charge for the year*	(123.5)	(162.5)	–	(286.0)
Disposals and write-offs	23.4	73.4	–	96.8
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)**
Net book value at January 2015	3,363.0	639.7	157.4	4,160.1
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**

* For the year ended 28 January 2017, this includes an impairment charge of £34.7m to land and buildings (2016: £5.7m).

Included above are land and building assets held under finance leases with a net book value of £16.5m (2016: £20.7m).

In accordance with IAS 36, the Partnership tests 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 test 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 five 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 five-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 7% to 9% (2016: 9% to 10%).

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 £34.4m in the Waitrose Division and £0.3m in the John Lewis Division (2016: £5.7m in the Waitrose Division). The impairment charge reflects the revision of the long-term forecast cash flows as a result of trading in a highly competitive and deflationary market coupled with the write down of property, other assets and related costs as part of the strategic review.

A reduction of 0.5% in the long-term growth rate would result in an additional impairment charge of £2.4m (2016: £3.3m). An increase in the discount rate of 0.5% would result in an additional impairment charge of £1.5m (2016: £3.3m).

Notes to the consolidated financial statements (continued)

3 Operating assets and liabilities (continued)

3.3 Investment in and loans to joint venture

Our balance sheet includes an investment in a joint venture 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 profits 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 unanimous consent of both parties.

Joint venture	Investment £m	Loan £m	Total £m
Cost			
At 30 January 2016	–	–	–
Additions	2.1	1.5	3.6
At 28 January 2017	**2.1**	**1.5**	**3.6**
Share of profit			
At 30 January 2016	–	–	–
Share of profit	0.3	–	0.3
At 28 January 2017	**0.3**	**–**	**0.3**
At 30 January 2016	–	–	–
At 28 January 2017	**2.4**	**1.5**	**3.9**

3.4 Assets held for sale

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 28 January 2017, one property asset was recorded as held for sale totalling £8.1m (2016: £nil), in the John Lewis Division.

3 Operating assets and liabilities (continued)

3.5 Commitments and contingencies

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 minimum amounts we are obliged to pay. See note 5.6 for leases accounting policy.

3.5.1 Capital commitments

At 28 January 2017, contracts had been entered into for future capital expenditure of £19.5m (2016: £30.3m) of which £18.7m (2016: £26.5m) relates to property, plant and equipment and £0.8m (2016: £3.8m) 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 (2016: £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:	2017 Land and buildings £m	2016 Land and buildings £m
Within one year	**(183.3)**	(176.9)
Later than one year and less than five years	**(711.4)**	(676.6)
After five years	**(2,954.6)**	(2,709.5)

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years comprise the following:	2017 Land and buildings £m	2016 Land and buildings £m
Later than five years and less than 10 years	**(833.7)**	(763.5)
Later than 10 years and less than 20 years	**(1,116.9)**	(990.8)
Later than 20 years and less than 40 years	**(488.3)**	(466.0)
Later than 40 years and less than 80 years	**(205.1)**	(207.9)
After 80 years	**(310.6)**	(281.3)
	(2,954.6)	(2,709.5)

Total future sub-lease payments receivable relating to the above operating leases amounted to £10.4m (2016: £11.0m).

Amounts recognised in the income statement	2017 £m	2016 £m
Operating lease rentals:		
– land and buildings	**(177.7)**	(168.4)
– plant and machinery	**(0.5)**	(0.5)
Sub-lease income:		
– land and buildings	**5.9**	6.1

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

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 appropriate provision made against the inventory balance, and so 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 appropriate provision made.

Inventory	2017 £m	2016 £m
Raw materials	5.2	4.7
Work in progress	0.2	1.4
Finished goods and goods for resale	622.4	615.8
	627.8	621.9

Provisions against inventories of £11.8m were charged (2016: £7.1m charged) in branch operating expenses.

4.2 Trade and other receivables

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, prepayments and accrued income 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.

4 Working capital and provisions (continued)

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 prepayments and 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	2017 £m	2016 £m
Current:		
Trade receivables	**67.8**	61.0
Other receivables	**59.7**	61.3
Prepayments and accrued income	**115.2**	101.6
	242.7	223.9
Non-current:		
Other receivables	**17.1**	20.6
Prepayments and accrued income	**44.1**	45.1
	61.2	65.7

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 £9.8m (2016: £7.8m). 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 28 January 2017, trade and other receivables of £1.2m (2016: £1.4m) 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 28 January 2017, trade and other receivables of £17.1m (2016: £17.6m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

Ageing analysis	2017 £m	2016 £m
Up to 3 months past due	**15.0**	15.3
3 to 12 months past due	**0.9**	1.0
Over 12 months past due	**1.2**	1.3
	17.1	17.6

Notes to the consolidated financial statements (continued)

4 Working capital and provisions (continued)

4.3 Trade and other payables

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, and to customers, through goods to be delivered. Non-current trade and other payables include incentives on property leases spread over the duration of the lease.

Accounting policy

Trade payables: Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

Critical accounting estimates and judgements

Liabilities: Liabilities recognised in this note at the balance sheet date include amounts for unredeemed gift vouchers and gift cards. Although liabilities are reviewed on a regular basis and adjusted to reflect management's best current estimates, the judgemental nature of these items means that future amounts settled may be different from those provided.

Trade and other payables	2017 £m	2016 £m
Current:		
Trade payables	**(961.7)**	(924.6)
Other payables	**(169.1)**	(158.4)
Other taxation and social security	**(176.9)**	(157.6)
Accruals	**(170.6)**	(179.0)
Deferred income	**(78.4)**	(66.6)
Partnership Bonus	**(81.8)**	(131.2)
	(1,638.5)	(1,617.4)
Non-current:		
Other payables	**(0.3)**	(2.4)
Deferred income	**(219.4)**	(206.9)
	(219.7)	(209.3)

The carrying amount of trade and other payables approximates to fair value.

4 Working capital and provisions (continued)

4.4 Provisions

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 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 policy

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 projects 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 and judgements

Provisions: Provisions recognised in this note at the balance sheet date include amounts for long leave, service guarantee costs, customer refunds, insurance claims, reorganisation costs, property related costs and pay provisions.

Although provisions are reviewed on a regular basis and adjusted to reflect management's best current estimates, the judgemental nature of these items means that future amounts settled may be different from those provided.

Provisions	Long leave £m	Service guarantee £m	Customer refunds £m	Insurance claims £m	Other £m	Total £m
At 30 January 2016	(124.2)	(67.4)	(31.5)	(28.9)	(37.8)	(289.8)
Charged to income statement	(26.0)	(19.4)	(60.6)	(8.0)	(70.2)	(184.2)
Released to income statement	–	4.1	–	4.9	2.9	11.9
Utilised	10.1	17.9	57.0	5.7	31.9	122.6
At 28 January 2017	**(140.1)**	**(64.8)**	**(35.1)**	**(26.3)**	**(73.2)**	**(339.5)**
Of which:						
Current	(31.9)	(22.0)	(35.1)	(14.3)	(64.4)	(167.7)
Non-current	(108.2)	(42.8)	–	(12.0)	(8.8)	(171.8)

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 (section 6), 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 reflects 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.

Other provisions include reorganisation costs, property related costs and pay provisions.

The exact timing of utilisation of these provisions will vary according to the individual circumstances. However, the Partnership's best estimate of utilisation is provided above.

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

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 investments and fair value movements.

	2017 £m	2016 £m
Finance costs		
Interest payable on:		
Bank overdrafts	**(1.1)**	(1.4)
Other loans repayable within five years	**(23.6)**	(26.1)
Other loans repayable in more than five years	**(31.0)**	(31.0)
Finance lease interest payable	**(1.0)**	(1.3)
Amortisation of issue costs of bonds and credit facilities	**(2.0)**	(1.6)
Preference Share dividends	**(0.2)**	(0.2)
Share Incentive Plan dividends	**(1.0)**	(1.2)
Finance costs in respect of borrowings	**(59.9)**	(62.8)
Fair value measurements and other	**(2.8)**	(1.1)
Net finance costs arising on defined benefit and other employee benefit schemes	**(47.0)**	(36.9)
Total finance costs	**(109.7)**	(100.8)
Finance income		
Finance income in respect of cash and short-term investments	**1.7**	1.5
Fair value measurements and other	**0.2**	0.4
Net finance income arising on other employee benefit schemes	**–**	2.3
Total finance income	**1.9**	4.2
Net finance costs	**(107.8)**	(96.6)

	2017 £m	2016 £m
Total finance costs in respect of borrowings	**(59.9)**	(62.8)
Total finance income in respect of cash and short-term investments	**1.7**	1.5
Net finance costs in respect of borrowings and short-term investments	**(58.2)**	(61.3)
Fair value measurements and other	**(2.6)**	(0.7)
Net finance costs arising on defined benefit retirement scheme	**(29.6)**	(36.9)
Net finance (costs)/income arising on other employee benefit schemes	**(17.4)**	2.3
Net finance costs	**(107.8)**	(96.6)

5 Financing (continued)

5.2 Analysis of net debt

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.

	2016 £m	Cash flow £m	Other non-cash movements £m	2017 £m
Non-current assets				
Derivative financial instruments	–	–	0.1	**0.1**
	–	–	0.1	**0.1**
Current assets				
Cash and cash equivalents	667.4	6.2	0.1	**673.7**
Short-term investments	10.0	50.0	–	**60.0**
Derivative financial instruments	11.5	31.7	(27.9)	**15.3**
	688.9	87.9	(27.8)	**749.0**
Current liabilities				
Borrowings and overdrafts	(57.8)	57.9	(0.1)	**–**
Unamortised bond transaction costs	0.1	–	(0.1)	**–**
Finance leases	(2.6)	2.8	(1.4)	**(1.2)**
Derivative financial instruments	(2.3)	(2.5)	(2.4)	**(7.2)**
	(62.6)	58.2	(4.0)	**(8.4)**
Non-current liabilities				
Borrowings	(983.8)	4.6	–	**(979.2)**
Unamortised bond transaction costs	9.7	3.3	(0.7)	**12.3**
Finance leases	(24.7)	–	1.4	**(23.3)**
Derivative financial instruments	–	–	(1.1)	**(1.1)**
	(998.8)	7.9	(0.4)	**(991.3)**
Total net debt	(372.5)	154.0	(32.1)	**(250.6)**

Reconciliation of net cash flow to net debt

	2017 £m	2016 £m
Increase in net cash and cash equivalents in the year	**6.3**	330.4
Cash outflow from movement in debt, lease financing and derivative financial instruments	**97.7**	4.0
Cash outflow from short-term investments	**50.0**	10.0
Movement in net debt for the year	**154.0**	344.4
Opening net debt	**(372.5)**	(721.7)
Non-cash movements	**(32.1)**	4.8
Closing net debt	**(250.6)**	(372.5)

Notes to the consolidated financial statements (continued)

5 Financing (continued)

5.3 Short-term investments

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	2017 £m	2016 £m
Short-term investments	**60.0**	10.0

For the year ended 28 January 2017, the effective interest rate on short-term investments was 0.5% (2016: 0.6%) and these investments had an average maturity of 93 days (2016: 91 days).

5.4 Cash and cash equivalents

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	2017 £m	2016 £m
Cash at bank and in hand	**115.2**	89.1
Short-term deposits	**558.5**	578.3
	673.7	667.4

For the year ended 28 January 2017, the effective interest rate on short-term deposits was 0.4% (2016: 0.5%) and these deposits had an average maturity of 1 day (2016: 1 day).

At 28 January 2017, £33.4m (2016: £35.5m) of the Partnership's cash balance and £0.1m (2016: £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:

	2017 £m	2016 £m
Cash and cash equivalents, as above	**673.7**	667.4
Less bank overdrafts	**–**	(0.1)
Net cash and cash equivalents	**673.7**	667.3

5 Financing (continued)

5.5 Borrowings and overdrafts

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.

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	2017 £m	2016 £m
Current:		
Bank overdraft	–	(0.1)
Partnership Bond, 2016	–	(57.7)
Unamortised bond transaction costs	–	0.1
	–	(57.7)
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	**12.3**	9.7
5% Cumulative Preference Stock	–	(3.7)
7½% Cumulative Preference Stock	–	(0.5)
Cumulative Preference Stock of subsidiary undertakings	–	(0.4)
Share Incentive Plan shares (SIP)	**(104.2)**	(104.2)
	(966.9)	(974.1)

All borrowings are unsecured, denominated in sterling and are repayable on the dates shown, at par.

In April 2016 the Partnership repaid the Partnership Bond amounting to £57.8m.

In November 2016 the Partnership cancelled and repaid its 5% and 7½% Cumulative Preference Stock. Subsidiary Preference Stock was also cancelled and repaid.

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.

Notes to the consolidated financial statements (continued)

5 Financing (continued)

5.6 Finance lease liabilities

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.

Lease premia 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	2017 £m	2016 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	**(2.0)**	(3.6)
Later than one year but not more than five	**(5.9)**	(7.1)
More than five years	**(36.4)**	(37.5)
	(44.3)	(48.2)
Future finance charge on finance leases	**19.8**	20.9
Present value of finance lease liabilities	**(24.5)**	(27.3)
Of which:		
Not later than one year	**(1.2)**	(2.6)
Later than one year but not more than five	**(2.8)**	(3.8)
More than five years	**(20.5)**	(20.9)

The Partnership's finance lease liabilities relate to property, plant and equipment that have been classified as finance leases in accordance with IAS 17.

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

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 further 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 income statement.

Accounting policy

Employee benefits: The defined benefit section of the scheme's assets are held separately from the Partnership. The cost of providing benefits under the defined benefit section of the scheme is determined using the projected unit credit actuarial valuation method, which measures the liability based on service completed and allowing for projected future salary increases.

The current service cost, which is the increase in the present value of the retirement benefit obligation resulting from employee service in the current year, and gains and losses on settlements and curtailments, which arise on transactions that eliminate part or all of the benefits provided or when there are amendments to terms such that a significant element of future service will no longer qualify for benefits or will qualify only for reduced benefits, are included within operating profit in the consolidated income statement. Past service credits/costs are those credits/costs in relation to prior years' service costs as a result of changes to future benefits earned by members. Past service credits/costs are recognised immediately in the consolidated income statement.

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 in 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 and judgements

Retirement benefits: Pension accounting requires certain assumptions to be made in order to value our obligations and to determine the charges to be made to the income statement. These figures are particularly sensitive to assumptions for discount rates, mortality and inflation rates.

Notes to the consolidated financial statements (continued)

6 Pensions (continued)

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 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 £1,013.7m. 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 28 January 2017.

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.

6 Pensions (continued)

6.1 Retirement benefits (continued)

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 £100m was over and above the £25m paid during the year

The balance of the deficit is expected to be met by investment returns on the scheme assets. Total contributions to the scheme in 2017/18, under this agreement are expected to be £191.9m.

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 28 January 2017, calculated on assumptions that are appropriate for accounting under IAS 19.

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

Notes to the consolidated financial statements (continued)

6 Pensions (continued)

6.1 Retirement benefits (continued)

6.1.1 Assumptions

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 28 January 2017.

The following financial assumptions have been used to value the obligation:

	2017	2016
Discount rate	2.90%	3.70%
Future retail price inflation (RPI)	3.40%	3.00%
Future consumer price inflation (CPI)	2.40%	2.00%
Increase in earnings	3.50%	3.54%
Increase in pensions – in payment		
Pre-April 1997	1.75%	2.85%
April 1997-April 2016	3.10%	2.85%
Post-April 2016	1.75%	1.60%
Increase in pensions – deferred	2.40%	2.00%

Increases in earnings are projected to be at 3.40% until 2020 and then at a long-term rate of 1.00% above consumer price inflation (2016: 1.00% above consumer price inflation). Increases in pensions in payment are projected to be 0.65% below consumer price inflation (2016: 0.15% below retail price inflation) for pensionable service built up before April 1997, 0.30% (2016: 0.15%) below retail price inflation for pensionable service built up between April 1997 and April 2016 and 0.65% (2016: 0.40%) 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' (2016: S1 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 model projections subject to a long-term trend of 1.25%.

The average life expectancies assumed were as follows:

	2017		2016	
	Men	Women	Men	Women
Average life expectancy for a 65 year old (in years)	21.6	24.1	22.3	24.4
Average life expectancy at age 65, for a 50 year old (in years)	22.8	25.5	23.6	25.8

6 Pensions (continued)

6.1 Retirement benefits (continued)

6.1.2 Amounts recognised in the financial statements

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	2017 £m	2016 £m
Defined benefit obligation for funded arrangements	**(6,035.0)**	(5,120.0)
Defined benefit obligation for unfunded arrangements	**(24.0)**	(20.0)
Total defined benefit obligation	**(6,059.0)**	(5,140.0)
Total value of scheme assets	**5,045.3**	4,198.4
Defined benefit liability at year-end	**(1,013.7)**	(941.6)

The cost of providing the pension scheme over the year, recognised in the 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. Past service credits/costs are those credits/costs in relation to prior years' service costs as a result of changes to future benefits earned by members

Contribution expense in respect of Partnership 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 in relation to the pension scheme

Net interest on the net defined benefit liability, which is made up of the interest cost on pension liabilities and interest income on pension assets

Amounts recognised in the income statement	2017 £m	2016 £m
Current service cost	**(124.2)**	(228.3)
Past service credit	**270.0**	–
Contribution expense*	**(53.7)**	(10.0)
Administrative expenses – funded by the pension scheme	**(4.9)**	(4.2)
Administrative expenses – funded by the employer	**(5.1)**	(2.8)
Total operating income/(expenses)	**82.1**	(245.3)
Net interest on net defined benefit liability	**(29.6)**	(36.9)
Total pension income/(charge)	**52.5**	(282.2)

* Includes Partnership contributions to the defined contribution section of the pension scheme of £49.0m (2016: £5.9m), together with cash supplements in respect of certain Partners in lieu of future pension accrual of £4.7m (2016: £4.1m).

The past service credit of £270.0m relates 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	2017 £m	2016 £m
Return on plan assets greater/(less) than the discount rate	**581.7**	(24.3)
Remeasurements:		
– (loss)/gain from changes in financial assumptions	**(1,164.1)**	432.0
– gain from changes in demographic assumptions	**150.4**	–
– experience (losses)/gains	**(0.6)**	3.4
Total (losses)/gains recognised in equity	**(432.6)**	411.1

Notes to the consolidated financial statements (continued)

6 Pensions (continued)

6.1 Retirement benefits (continued)

6.1.3 Reconciliation of retirement benefits

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	2017 £m	2016 £m
Net defined benefit liability at beginning of year	**(941.6)**	(1,249.3)
Pension income/(expense)	**111.3**	(269.4)
Contributions	**249.2**	166.0
Total (losses)/gains recognised in equity	**(432.6)**	411.1
Net defined benefit liability at end of year	**(1,013.7)**	(941.6)

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. Past service credits/costs are those credits/costs in relation to prior years' service costs as a result of changes to future benefits earned by members. These are charged to the income statement

Future pension obligations are stated at present value. A discount rate is used to calculate this 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	2017 £m	2016 £m
Defined benefit obligation at beginning of year	**(5,140.0)**	(5,301.0)
Current service cost	**(124.2)**	(228.3)
Past service credit	**270.0**	–
Interest on pension liabilities	**(187.9)**	(165.2)
Remeasurements		
– (loss)/gain from changes in financial assumptions	**(1,164.1)**	432.0
– gain from changes in demographic assumptions	**150.4**	–
– experience (losses)/gains	**(0.6)**	3.4
Benefits paid	**137.4**	119.1
Defined benefit obligation at end of year	**(6,059.0)**	(5,140.0)

The scheme liabilities are 54.1% in respect of active scheme participants, 18.3% in respect of deferred scheme participants and 27.6% in respect of retirees.

The weighted average duration of the scheme liabilities at the end of the year is 22 years (2016: 21 years).

6 Pensions (continued)

6.1 Retirement benefits (continued)

6.1.3 Reconciliation of retirement benefits (continued)

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 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 represent 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	2017 £m	2016 £m
Value of assets at the beginning of year	**4,198.4**	4,051.7
Interest income on assets	**158.3**	128.3
Return on plan assets greater/(less) than discount rate	**581.7**	(24.3)
Benefits paid	**(137.4)**	(119.1)
Administrative expenses paid	**(4.9)**	(4.2)
Contributions	**249.2**	166.0
Value of assets at the end of year	**5,045.3**	4,198.4

6.1.4 Analysis of assets

Analysis of assets	2017 £m	2017 %	2016 £m	2016 %
Listed equities	**1,462.0**	**29%**	1,224.2	29%
Private equities	**332.0**	**7%**	303.7	7%
Properties	**470.1**	**9%**	472.5	11%
Liability driven investments*	**837.9**	**17%**	–	–
Government bonds	**49.2**	**1%**	703.6	17%
Credit**	**507.9**	**10%**	393.6	9%
Infrastructure	**205.7**	**4%**	149.0	4%
Investment funds	**1,057.9**	**21%**	927.1	22%
Cash and other	**122.6**	**2%**	24.7	1%
	5,045.3		4,198.4	

* Liability driven investments are part of the Trustee's investment strategy to hedge interest rate and inflation risk.
** Credit holdings consist of short dated listed corporate bond holdings (£86.0m at 28 January 2017) and unlisted credit (£421.9m at 28 January 2017).

The Trustee's investment strategy as set out in their Statement of Investment Principles dated 10 May 2016 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, consisting mainly of government bonds and other financial instruments with the intention of matching movements in the assessed value 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. As this is being done using derivatives, the allocation to return seeking assets is not intended to reduce.

Actual return on assets	2017 £m	2016 £m
Interest income on assets	**158.3**	128.3
Return on plan assets greater/(less) than discount rate	**581.7**	(24.3)
Actual return on assets	**740.0**	104.0

Notes to the consolidated financial statements (continued)

6 Pensions (continued)

6.1 Retirement benefits (continued)

6.1.5 Sensitivity analysis

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 28 January 2017	(1,013.7)	
Sensitivity of 0.1% increase to:		
– Discount rate*	(140.0)	(13.8%)
– Retail price inflation	100.0	9.9%
– Consumer price inflation	70.0	6.9%
– Salary increases	35.0	3.5%
Sensitivity of one-year increase in life expectancy	210.0	20.7%

* 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 28 January 2017, an increase of 0.1% to the discount rate would have also resulted in an increase in assets of 0.6%. The increase in the assets would have reduced the impact on the net liability by £27.9m.

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 £82.8m (2016: £80.5m) 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, John Lewis Properties plc provided a corporate guarantee to the pension scheme. This guarantee means that if John Lewis plc fails to make any payments due to the scheme for any reason, then the pension scheme can claim against John Lewis Properties plc for those payments. As part of the guarantee, John Lewis Properties plc is required to maintain at least £800.0m of net assets. The guarantee has improved the recovery to the pension scheme in the event of insolvency of the Partnership.

7 Financial risk management

In this section

This section sets out the policies and procedures applied to manage the financial risks to which the Partnership is exposed. A breakdown of our derivative financial instruments is given here as they are used by the Partnership to manage financial volatility. An analysis of our financial assets and liabilities is also given.

7.1 Management of financial risks

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 (defined as net debt plus equity) are to safeguard its ability to continue as a going concern, provide returns for its Partners and to maintain a prudent level of debt 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 using leverage and performance ratios similar to those used by rating agencies to assess risk, 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. The Partnership borrows centrally to meet the requirements of its Divisions using a mix of funding including debt capital market bond issues and bank facilities. Forms of borrowing include assets acquired via finance leases, assets obtained for use via operating leases and Share Incentive Plan shares as part of the BonusSave scheme.

7.1.2 Liquidity risk

In line with Partnership Board approved treasury policy, the Partnership is required to hold a minimum amount of liquidity, made up of a mixture of cash and 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, term deposits and money market funds 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 is being placed on cash balances providing a portion of the Partnership's overall liquidity, with committed credit facilities complementing these balances. In November 2016, the Partnership re-financed its committed credit facility, increasing it from £325m to £450m, and extending the maturity to November 2021. At the year-end, the Partnership had undrawn committed credit facilities of £450m (2016: £325m). In addition to these facilities, the Partnership has listed bonds totalling £875m (2016: £875m) of which £275m mature in 2019, £300m in 2025 and £300m in 2034. The bonds are not subject to repricing, and their maturity profiles are set out in note 7.3. In April 2016 the Partnership repaid the Partnership Bond amounting to £57.8m. In November 2016 the Partnership cancelled and repaid its 5% and 7½% Cumulative Preference Stock. Subsidiary Preference Stock was also cancelled and repaid.

In October 2016 the Partnership undertook a consent solicitation exercise with respect to its listed bonds. Bondholders subsequently approved two amendments to the terms and conditions of the listed bonds maturing in 2025 and 2034.

The Partnership's listed bonds and bank borrowing 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.

Since the year-end, the Partnership has entered into a further committed credit facility of £50.0m with a maturity of March 2021.

Notes to the consolidated financial statements (continued)

7 Financial risk management (continued)

7.1 Management of financial risks (continued)

7.1.2 Liquidity risk (continued)

The following analysis shows the contractual undiscounted cash flows payable under financial liabilities and derivative financial liabilities at the balance sheet date:

	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)**

	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	(57.7)	–	(983.8)
Interest payments on borrowings*	(54.6)	(54.2)	(378.7)
Finance lease liabilities	(3.6)	(2.7)	(41.9)
Trade and other payables	(1,393.2)	(2.4)	–
Derivative financial liabilities			
Derivative contracts – receipts	197.7	4.3	–
Derivative contracts – payments	(188.3)	(3.9)	–
At 30 January 2016	(1,499.7)	(58.9)	(1,404.4)

* Excludes annual interest of £0.3m on Cumulative Preference Stock which have no fixed redemption date.

Interest on borrowings is calculated based on the borrowing position throughout the financial year, without taking account of future issues.

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 policy. 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. The Partnership did not have any interest rate derivatives in place at year-end.

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 retailers. 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 £349.5m (2016: £201.8m) had been entered into, to hedge purchases in foreign currencies which will mature over the next 18 months.

7 Financial risk management (continued)

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:

	2017 £m	2016 £m
Trade and other receivables	**144.6**	142.9
Cash and cash equivalents	**673.7**	667.4
Derivative financial instruments	**15.4**	11.5
	833.7	821.8

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.

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

	2017		2016	
	Income statement +/- £m	Equity +/- £m	Income statement +/- £m	Equity +/- £m
UK interest rates +/- 1% (2016: +/- 1%)	**7.5**	**–**	6.2	–
US dollar exchange rate (GBP/USD) +/- 10% (2016: +/- 10%)	**0.9**	**19.2**	0.6	11.1
Euro exchange rate (GBP/EUR) +/- 10% (2016: +/- 10%)	**0.8**	**10.7**	0.6	5.9

Notes to the consolidated financial statements (continued)

7 Financial risk management (continued)

7.2 Derivative financial instruments and financial liabilities

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 28 January 2017, 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:

	2017		2016	
Fair value of derivative financial instruments	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Non-current				
Currency derivatives – cash flow hedge	**0.1**	**(1.1)**	–	–
	0.1	**(1.1)**	–	–
Current				
Currency derivatives – cash flow hedge	**14.1**	**(3.3)**	11.3	(0.4)
Other derivatives	**1.2**	**(3.9)**	0.2	(1.9)
	15.3	**(7.2)**	11.5	(2.3)

The fair value of a derivative financial instrument represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the forward rates of exchange and interest rates prevailing at the balance sheet date.

The fair value of the derivative financial instruments held by the Partnership are classified as level 2 under the IFRS 13 fair value hierarchy, as all significant inputs to the valuation model used are based on observable market data and are not traded in an active market.

Specific valuation techniques used to value the financial instruments include quoted market prices. There have been no changes in valuation techniques from the prior year.

7 Financial risk management (continued)

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):

	2017 £m		2016 £m	
	CV	FV	CV	FV
Financial liabilities				
Listed bonds	**(862.7)**	**(997.3)**	(865.3)	(980.2)
Preference Stock	**–**	**–**	(4.6)	(4.1)

The fair values of the Partnership's listed bonds and Preference Stock have been determined by reference to market price quotations and are classified as level 1 under the IFRS 13 fair value hierarchy. In November 2016 the Partnership cancelled and repaid its 5% and 7½% Cumulative Preference Stock. Subsidiary Preference Stock was also cancelled and repaid.

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

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 deposited in sterling.

Currency analysis	Floating rate £m	Non-interest bearing £m	Total £m
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**
Sterling financial assets	588.3	89.1	677.4
At 30 January 2016	588.3	89.1	677.4

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.

It's Your Results

Notes to the consolidated financial statements (continued)

7 Financial risk management (continued)

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 28 January 2017	**(887.2)**	**(104.2)**	**(991.4)**
At 30 January 2016	(954.8)	(104.3)	(1,059.1)

Maturity of financial liabilities	2017 £m	2016 £m
Repayable within one year		
Bank overdrafts	–	(0.1)
Property finance leases	**(1.2)**	(2.6)
Bonds	–	(57.7)
Unamortised bond transaction costs	–	0.1
	(1.2)	(60.3)
Repayable between one and two years		
Property finance leases	**(0.7)**	(1.7)
	(0.7)	(1.7)
Repayable between two and five years		
Property finance leases	**(2.1)**	(2.1)
Bonds	**(275.0)**	(275.0)
Unamortised bond transaction costs	**0.8**	1.1
	(276.3)	(276.0)
Repayable in more than five years		
Property finance leases	**(20.5)**	(20.9)
Bonds	**(600.0)**	(600.0)
Unamortised bond transaction costs	**11.5**	8.6
Cumulative Preference Stock	–	(4.2)
Cumulative Preference Stock of subsidiary undertakings	–	(0.4)
Share Incentive Plan shares	**(104.2)**	(104.2)
	(713.2)	(721.1)
	(991.4)	(1,059.1)

8 Other notes

In this section

This section includes other financial information that is required by accounting standards.

8.1 Share capital

Share capital consists of Ordinary Shares. It is measured as the number of shares issued and fully paid, multiplied by their nominal value.

	2017		2016	
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

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, £0.8m was paid in respect of the operating lease (2016: £1.1m).

8.2.3 Arrangements with John Lewis Partnership Trust Limited

John Lewis Partnership Trust Limited[1] 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 Share Incentive Plan shares issued to John Lewis Partnership Trust Limited as part of the BonusSave scheme are recorded in the Company's balance sheet within borrowings of £104.2m (2016: £104.2m).

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 £116,000 (2016: £106,000). The Partnership also made donations totalling £1.1m to the John Lewis Foundation.

1 The address of the registered office is 171 Victoria Street, London SW1E 5NN.

Notes to the consolidated financial statements (continued)

8 Other notes (continued)

8.3 Subsequent events

Events that take place after the balance sheet date of 28 January 2017 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 24 February 2017, the Partnership made contributions into the pension fund of £81.0m. This was an early payment of one-off contributions due by 31 March 2017 of £50.0m and a prepayment of 11 months of normal pension payments for 2017/18 of £31.0m. No accounting was recorded for the year ended 28 January 2017 in respect of these payments.

8.3.2 Restructuring

On 8 February 2017, Waitrose announced proposals to close several branches and change branch management structures and the rollout of the Working Flexibly model, which aims to work more productively as one team. On 24 February 2017, John Lewis announced changes to Core Home Services and the rollout of the Catering Operating Model. On 22 March 2017, the Partnership announced proposals to change the structure of the Personnel function as part the Partnership's Functional Review Programme, creating a 'One Partnership' approach to Personnel. No accounting was recorded for the year ended 28 January 2017 in respect of these changes.

Company balance sheet

as at 28 January 2017

In a nutshell

We separately disclose the financial statements of the parent company, John Lewis Partnership plc, as required by accounting standards.

Notes		2017 £m	2016 £m
	Non-current assets		
11	Investments	**121.2**	124.3
	Total assets	**121.2**	124.3
	Current liabilities		
13	Trade and other payables	**(2.5)**	(2.2)
	Non-current liabilities		
12	Borrowings	**(104.2)**	(108.4)
	Total liabilities	**(106.7)**	(110.6)
	Net assets	**14.5**	13.7
	Equity		
14	Share capital	**0.6**	0.6
	Capital redemption reserve	**5.0**	5.0
	Retained earnings	**8.9**	8.1
	Total equity	**14.5**	13.7

The financial statements on pages 127 to 131 were approved by the Board of Directors on 26 April 2017 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 28 January 2017

Notes		Share capital £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
	Balance at 31 January 2015	0.6	5.0	7.3	12.9
10	Profit for the year and total comprehensive income	–	–	0.8	0.8
	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**

Notes to the Company financial statements (continued)

9 Accounting policies

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 in the year other than those set out under '1.1.4 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 funding available at the date 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

The Company is exempt from disclosing a full income statement as allowed by the Companies Act 2006, therefore the profit for the Company for the year is disclosed within this note.

As permitted by Section 408 of the Companies Act 2006, John Lewis Partnership plc has not presented its own income statement or statement of comprehensive income/(expense).

The result dealt with in the accounts of the Company amounted to £0.8m profit (2016: £0.8m profit).

Details of auditor's remuneration are provided in note 2.4 to the Partnership's consolidated financial statements.

11 Investments

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 28 January 2017.

	Subsidiary		Other	
Investments	Shares in John Lewis plc £m	Loan to John Lewis plc £m	Shares in John Lewis Partnership Trust Limited £m	Total £m
At 30 January 2016	13.0	111.2	0.1	124.3
Movements*	(1.7)	(1.4)	–	(3.1)
At 28 January 2017	**11.3**	**109.8**	**0.1**	**121.2**

* The movement in the shares in John Lewis plc is as a result of the cancellation and repayment of John Lewis plc's Preference Stock.

The intercompany loan from the Company to John Lewis plc is non-interest bearing with no specific repayment terms.

12 Borrowings

Borrowings consist of Share Incentive Plan shares, which are allocated to Partners who are entitled to a dividend.

Borrowings	2017 £m	2016 £m
Non-current:		
5% Cumulative Preference Stock	–	(3.7)
7½% Cumulative Preference Stock	–	(0.5)
Share Incentive Plan shares	**(104.2)**	(104.2)
	(104.2)	(108.4)

In November 2016 the Company cancelled and repaid its 5% and 7½% Cumulative Preference Stock.

13 Trade and other payables

Trade and other payables include amounts we owe in respect of Preference and BonusSave dividends, and to HMRC in the form of taxes.

Trade and other payables	2017 £m	2016 £m
Other payables	**(2.5)**	(2.2)

All of the Company's trade and other payables are current. The carrying amount of trade and other payables approximates to fair value.

Notes to the Company financial statements (continued)

14 Share capital

Share capital consists of Ordinary Shares and is measured as the number of shares issued and fully paid multiplied by their nominal value.

Share capital	2017 Authorised £m	2017 Issued and fully paid £m	2016 Authorised £m	2016 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

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.

16 Subsidiary and related undertakings

This note sets out the principal and related subsidiaries and related undertakings of the Company, along with the principal activities, country of incorporation and percentage of shares owned of each subsidiary and related undertaking.

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 28 January 2017 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.

16 Subsidiary and related undertakings (continued)

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	Partnership interest	100%
John Lewis Car Finance Limited*	Car finance	England & Wales[1]	Ordinary	100%
John Lewis Delivery Limited	Non-trading	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 28 January 2017.
1 The address of the registered office is 171 Victoria Street, London SW1E 5NN.
2 The address of the registered office is Redwood House, St Julian's Avenue, St Peter Port, Guernsey GY1 1WA.
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 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 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 and prudent
- State whether they have been prepared in accordance with IFRSs as adopted by the EU
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Partnership and the parent Company will continue in business

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 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 Rules and Transparency Rules of the Financial Conduct Authority in relation to those matters.

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 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

26 April 2017

Independent auditor's report to the members of John Lewis Partnership plc

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of John Lewis Partnership plc for the year ended 28 January 2017 set out on pages 78 to 131.
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 28 January 2017 and of the Partnership's profit for the year then ended
- The Partnership's financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU)
- The parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006 and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows:

Carrying amount of property, plant and equipment £4,112.4m (2016: £4,189.3m)

Refer to Audit and Risk Committee report (pages 54 to 55), accounting policy (page 98) and financial disclosures (pages 98 to 99).

The risk

Impairment considerations

The Partnership has significant property, plant and equipment (PPE) assets held on its consolidated balance sheet. The Directors perform trigger testing annually to identify any assets which may require impairment and recoverable amount calculations to determine any impairment. The trigger tests take into account recent performance of the individual branches and any changes in the business. If the trigger tests are not suitable, or incorrectly performed, branches possibly requiring impairment may not be identified. In the current year 62 branches at Waitrose and 18 branches at John Lewis failed these initial trigger tests. For all such branches, an impairment is recorded against the carrying value of the net assets within that related cash generating unit, to the extent that the carrying value would otherwise exceed its recoverable amount.

An impairment of £26.9m has been recognised, predominantly in relation to the Waitrose branches.

The key assumptions used in the in value in use (ViU) calculations for estimating the recoverable amount are short-term cash flow forecasts, the long-term (LT) growth rates and the discount rates.

Residual values and useful economic lives

The judgement around residual values and useful economic lives (UEL) drives the depreciation charged to the income statement. In particular the estimation of 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 estimated residual values.

Our response

Impairment triggers

- We challenged whether the triggers were suitable, through discussions with Divisional management, our own knowledge of the business, inspection of Board minutes and other management information
- We re-performed the calculation the Directors performed for the initial trigger testing, checking the source of the information was reasonable

ViU calculations: key assumptions

- Cash flows that drive the ViU calculations forecasts: We considered the risks built into the Board approved short-term (five 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)
- LT growth rate: We compared the rates used to market (such as sector surveys) and competitor growth rates
- Discount rate: We used our own valuation specialists in order to consider the appropriateness of the underlying methodology. Where relevant we agreed assumptions back to market available information and competitor information (such as using competitor Betas from external data)

For all of the above key assumptions we performed sensitivity analysis to stress-test the assumptions.

Residual values & UELs

- With the assistance of our own property valuation specialists 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
- We compared the UELs on each of the categories of assets and 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 so identified we considered whether this indicated the UEL was incorrect

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.

Independent auditor's report to the members of John Lewis Partnership plc (continued)

Pensions defined benefit obligation £6,059.0m (2016: £5,140.0m)

Refer to Audit and Risk Committee (page 54), accounting policy (page 111) and financial disclosures (pages 111 to 118).

The risk

A significant level of estimation and judgement is required in order to determine the valuation of the gross pension 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.

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

Assumptions

We used our own actuarial specialists to challenge the key assumptions. This involved comparing the assumptions to available market data, our own expectations and to other similar UK pension schemes' assumptions.

We also considered the adequacy of the Partnership's disclosures in respect of the sensitivity of the deficit to these assumptions.

Membership data

We obtained a listing of the membership data directly from the actuaries used by the Directors and tested a sample back to source documents to confirm key data input for the obligation calculation.

Rebates/supplier income

Refer to Audit and Risk Committee report (page 55), accounting policy (page 103) and financial disclosures (pages 102 to 103).

The risk

Across John Lewis and Waitrose there are a large number of supplier income agreements in place, most of which fall into two categories: volume rebates and marketing rebates.

Supplier income is recorded against cost of sales in the income statement. The terms of the numerous agreements are complex and specific to each supplier and therefore require individual consideration in terms of the related income to be recognised.

A significant proportion of the Waitrose supplier income is for volume rebates. These are normally contracted on a calendar year and therefore most are closed out prior to the year-end, so require limited estimation.

Events in recent years in the retail industry indicate the scope for misstatement.

Our response

We have spent a significant amount of time in the current year assessing the processes in place across the two Divisions around supplier income and examining the contracts in place.

John Lewis

– For income recognised in the period we selected a sample of rebates and agreed back to confirmations received by John Lewis from the supplier and the payment from the supplier

– For the accruals balance we checked for a sample whether supplier income accrued for agreed back to contract or confirmations received by John Lewis from the supplier

– We also considered any rebates cancelled by a supplier after the year-end to check whether they have been appropriately excluded from the year-end balance. For any rebates raised by a supplier post year-end, we examined whether they were included in the correct period

Waitrose

– We tested the operating effectiveness of controls over the approval of supplier income to check whether the contract terms are fully agreed by both parties prior to the income being recorded and the period end checks over the final income recognised

– We sample tested the income recognised during the year, obtained the underlying contract to understand its terms and then agreed back to source information relevant to the agreement and payment from the supplier

Provisions – Long leave £140.1m (2016: £124.2m), Service guarantee £64.8m (2016: £67.4m), Customer returns £35.1m (2016: £31.5m), Pay provision in respect of National Minimum Wage £36.0m (2016: £nil)

Refer to Audit and Risk Committee Report (page 55), accounting policy (page 105) and financial disclosures (page 105).

The risk

The financial statements contain a number of provisions which when considered in aggregate involve significant judgement and estimates. The key estimates and judgements 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, the assumptions around the scope and associated costs of the probable settlement amount

Our response

We considered the underlying calculations for the provisions, including assessing the underlying data / historical data used, consistency of methodology and appropriateness of assumptions. In particular we considered for the following:

– Long leave: We used our own actuarial specialists to consider the key assumptions being used, comparing to our expected range. We also performed sensitivity analysis over these assumptions

– Service guarantee costs: We have considered the underlying data inputs into the Directors' calculations, checking the source of the historical data is reasonable based on our understanding of the industry and business and performing trend analysis in respect of historical cost per unit

- Customer returns: We have obtained the Directors' calculation and checked the data inputs are reasonable, by comparing to actuals in the prior year and performing sensitivity analysis around the period over which the customer return liability is calculated
- Pay provisions in respect of National Minimum Wage: We examined the legal advice from the Partnership's external legal advisers and used our own specialists to challenge the assumptions based on their experience of similar scenarios. We also re-calculated the liability, including sampling the relevant information used in the calculation back to source data. Finally, we considered the disclosure of the fact that the ultimate settlement amount might change

We also considered the adequacy of the Partnership's disclosures in respect of these provisions.

Carrying amount of intangibles £432.7m (2016: £388.4m)

Refer to Audit and Risk Committee report (page 54), accounting policy (page 96) and financial disclosures (pages 96 to 97).

The risk

In order to continually improve their operating systems the Partnership develops a significant amount of software, which is capitalised on the balance sheet. For the year ended January 2017, there is £157.2m (2016: £146.4m) 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 £157.4m (2016: £137.2m) 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
- New ordering systems

Our response

We selected specific projects, by value of work in progress, to perform work over. For those projects we carried out the following procedures:

- We challenged the Directors' assessment of the economic benefits that would flow from the projects, comparing this to our understanding of the business and the future strategy to confirm it was aligned
- At a more granular level, we also met with the project manager to understand the work being undertaken and the expected benefits of the project. 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 any successful output
- We considered the ageing profile of work in progress to challenge whether any old elements of the project previously capitalised needed to be impaired

3 Our application of materiality and an overview of the scope of our audit

Materiality for the consolidated financial statements as a whole was set at £16.0m, determined with reference to a benchmark of £370.4m which is Partnership profit before tax, normalised to exclude this year's Partnership Bonus as disclosed in note 2.6 'Partner pay and benefits', of £89.4m, and exceptional items as disclosed in note 2.3, of £171.2m. Materiality on this basis represents 4.3%. Audit work was performed over the exceptional items and Partnership Bonus separately.

We reported to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £0.75m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Partnership is structured across 4 main Divisions; John Lewis, Waitrose, Partnership Services and Group with 15 reporting components each representing a statutory entity based in the UK or Channel Islands.

Of the Partnership's 15 reporting components, we subjected 11 to audits for group reporting purposes and 1 to specified risk-focussed 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 3 non-significant components. In addition to the 15 reporting components we have included an additional component which is made up of a number of small units. We performed analysis at a Partnership level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Partnership operates a shared service centre in Bracknell, 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-focussed 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 table below.

The senior statutory auditor is also responsible for all of the reporting components including setting the component materialities, which ranged from £0.4m to £15.2m, having regard to the mix of size and risk profile of the Partnership across the components.

	Number of components	Partnership revenue	Partnership profit before tax	Partnership total assets
Audits for group reporting purposes	11	100%	99%	100%
Audits of one or more account balances*	1	0%	0%	0%
Reviews of financial information (including enquiry)	3	0%	1%	0%
Total	**15**	**100%**	**100%**	**100%**

* We have performed specific risk-focussed audit procedures over a liability balance which is not totalled in the table above.

Independent auditor's report to the members of John Lewis Partnership plc (continued)

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion the information given in the Group Strategic Report and the Directors' report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Group Strategic Report and the Directors' report:

– We have not identified material misstatements in those reports and
– In our opinion, those reports have been prepared in accordance with the Companies Act 2006

5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

– The Directors' statement of viability on pages 72 to 73, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Partnership's continuing in operation over the three years to January 2020 or
– The disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting

6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

– We have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that 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 position and performance, business model and strategy or
– The Audit and Risk Committee report does not appropriately address matters communicated by us to the Audit and Risk Committee

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

In addition to our audit of the financial statements, the Directors have engaged us to review their Corporate Governance Statement as if the Company were required to comply with the Listing Rules and the Disclosure Rules and Transparency Rules of the Financial Conduct Authority in relation to those matters. Under the terms of our engagement we are required to review:

– The Directors' statements, set out on pages 72 and 73, in relation to going concern and longer term viability and
– The part of the Corporate Governance Statement on pages 74 to 76 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' responsibilities statement set out on page 132, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014b, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Michael Maloney (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL

26 April 2017

Five year financial record

for the year ended January

Income statement	2017 £m	2016 £m	2015[1] £m	2014 £m	2013[2] £m
Gross sales					
Waitrose	**6,633.2**	6,461.4	6,508.9	6,111.9	5,763.9
John Lewis	**4,741.0**	4,557.4	4,433.7	4,059.6	3,777.4
	11,374.2	11,018.8	10,942.6	10,171.5	9,541.3
Revenue					
Waitrose	**6,245.5**	6,086.0	6,135.3	5,753.7	5,416.1
John Lewis	**3,780.7**	3,662.8	3,565.7	3,274.1	3,049.4
	10,026.2	9,748.8	9,701.0	9,027.8	8,465.5
Operating profit before exceptional items and Partnership Bonus					
Waitrose	**253.5**	232.6	237.4	310.1	292.3
John Lewis	**243.2**	250.2	250.5	226.1	216.7
Group and other	**(18.5)**	(80.7)	(45.6)	(65.3)	(55.6)
	478.2	402.1	442.3	470.9	453.4
Net finance costs	**(107.8)**	(96.6)	(99.6)	(94.5)	(110.1)
Exceptional items	**171.2**	129.3	7.9	(47.3)	–
Profit before Partnership Bonus, tax and exceptional items	**370.4**	305.5	342.7	376.4	343.3
Partnership Bonus	**(89.4)**	(145.0)	(156.2)	(202.5)	(210.8)
As a percentage of eligible pay	**6%**	10%	11%	15%	17%
Taxation	**(98.7)**	(66.6)	(50.9)	(25.0)	(31.5)
Profit for the year	**353.5**	223.2	143.5	101.6	101.0
Number of employees at year-end	**86,700**	91,500	93,800	91,000	84,700
Average number of full time equivalent employees[3]	**63,300**	63,900	64,500	60,600	57,700

1 53-week year.
2 Restated for the adoption of IAS 19 'Employee benefits' (Revised 2011), which amends the accounting for employee benefit.
3 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	2017 £m	2016 £m	2015[1] £m	2014 £m	2013 £m
Non-current assets	**4,658.5**	4,677.0	4,682.1	4,384.5	4,116.0
Current assets	**1,627.6**	1,534.7	1,170.4	1,139.5	1,247.6
Total assets	**6,286.1**	6,211.7	5,852.5	5,524.0	5,363.6
Current liabilities	**(1,834.2)**	(1,848.7)	(1,692.0)	(1,705.6)	(1,633.9)
Non-current liabilities	**(2,396.5)**	(2,297.9)	(2,641.7)	(2,036.7)	(1,828.2)
Total liabilities	**(4,230.7)**	(4,146.6)	(4,333.7)	(3,742.3)	(3,462.1)
Net assets	**2,055.4**	2,065.1	1,518.8	1,781.7	1,901.5
Borrowings	**(966.9)**	(1,031.8)	(1,030.2)	(728.2)	(814.7)
Net debt	**(250.6)**	(372.5)	(721.7)	(485.8)	(371.9)

1 Restated to reflect changes made in 2016 to classify cash in transit balances as payables rather than to recognise an overdraft. 2013 and 2014 have not been restated.

Notes

Notes

Notes

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 Secretariat, John Lewis Partnership plc, Partnership House, Carlisle Place, London SW1P 1BX.

Partnership website

For more information about the John Lewis Partnership please visit our Partnership website: **www.johnlewispartnership.co.uk**

For more information about Waitrose or John Lewis stores please visit our websites:
www.waitrose.com
www.johnlewis.com

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 website.

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