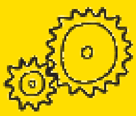
the Partnership

IT'S YOUR BUSINESS

John Lewis Partnership plc
Annual Report and Accounts 2015

The Group Strategic Report runs from pages 1 to 81.

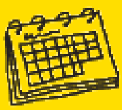


An update on our reporting journey

For the first time, we are combining our Annual Report and Sustainability Review information into one document, reflecting the way in which we do business. Additional performance statistics can be found online
www.johnlewispartnership.co.uk

Tell us what you think

Our Annual Report and Accounts is all about our Partners. And we'd like your feedback on it.
www.johnlewispartnership.co.uk/meta/contact-us.html



52 v 53 weeks?

The Partnership's year end is always the last Saturday in January.

Usually we have a 52 week year but this year it is 53 weeks. The 2014/15 year-on-year financial movements have been presented on a 52 week basis so that they are comparable with earlier periods, unless indicated otherwise. This has been done to provide a more consistent comparison and meaningful understanding of this year's financial performance.

2014/15

IT'S YOUR BUSINESS IT'S YOUR YEAR

Our seven principles are at the heart of our business. They define us, make us stronger and help us succeed as an employee-owned business – one that believes in a purpose greater than profit. So this year, we've put them at the heart of our Annual Report and Accounts.

Knowledge is one of the fundamental rights and responsibilities of ownership, alongside profit and power. As owners, it's vital that we know our business if we are to improve it, particularly in what are challenging trading conditions.

In this year's report we start with our trading performance (page 3), explore our purpose and principles (page 12), how that informs our strategy (page 36), before returning to our performance in more depth (page 48 onwards). The second half of the report covers our governance and financial statements.

So, as Partners, it's critical we all make the time to read this report. It will help us understand how we performed last year and the challenges we face to improve performance and profitability. Sections such as 'Our response to the changes in retail' on page 8 bring to life the nature of those challenges and how we must respond.

This report is designed for Partners and those interested in the Partnership. Whether you are one of our valued customers, potential Partners, suppliers, investors, a journalist or simply someone interested in our business, this report is for you. We hope it will help you understand our Partnership better.

The Partnership Board

Our year in review

We increased our sales and customer numbers last year, responding well to changing customer demands. However, our profit and bonus fell, partly due to the highly competitive and deflationary trading environment in the grocery sector.

Putting Partners first

Satisfaction

72% of Partners feel satisfied with their job, down 2% from last year.

Experience

41% of permanent Partners have more than five years of service.

Ethnicity

Our Partner population is diverse but we need to increase ethnic representation at management levels.

Partnership Council

Our Partnership Council is made up of Partners representing every area of our business. During its three-year term to March 2015 it met 21 times.

Diversity

57% of our Partners are female.

A unique anniversary

John Lewis celebrated 150 years since our first shop opened in Oxford Street, in 1864.

Partnership Day

On 4 July 2014, we celebrated what it means to be a Partner.

Pension review

We agreed to change our pension so it is fair for Partners and affordable for the business.

Strong sales performance with profits down

Gross sales (including VAT)
Partnership

£10.9BN

+5.7%

2014: £10.2bn

Waitrose

£6.5BN

+4.6%

2014: £6.1bn

John Lewis

£4.4BN

+7.5%

2014: £4.1bn

Operating profit before exceptional item
Partnership

£442.3M

-7.5%

2014: £470.9m

Waitrose

£237.4M

-24.4%

2014: £310.1m

John Lewis

£250.5M

+10.4%

2014: £226.1m

Operating profit
Partnership

£450.2M

+4.7%

2014: £423.6m

Partnership Bonus

11% OF PAY

2014: 15%

Investing for the future

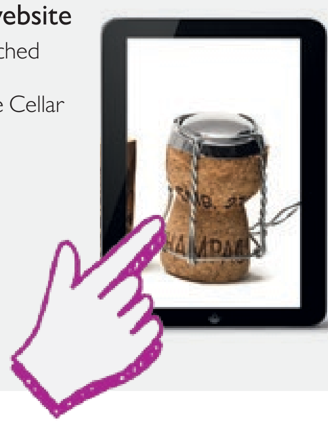
New shops
During the year we opened 33 new Waitrose shops and three new John Lewis shops.

New dotcom fulfilment centre
In March 2015, Waitrose opened the new Coulsdon fulfilment centre.

Omnichannel
In the coming years, John Lewis will invest 37% of our capital expenditure in IT – up 15% from 2009.

New distribution site
We have invested £95m into a new John Lewis distribution site in Milton Keynes, set to open in 2016.

New website
We launched our new Waitrose Cellar website.

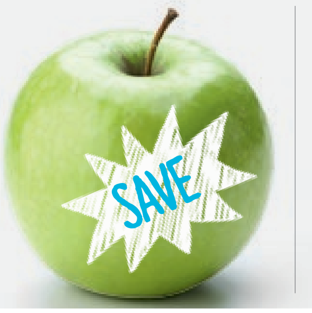


Focussing on our customers

Price matching
In Waitrose, we match Tesco on 8,000 branded products and have lowered prices on over 1,600 own-label products.

my John Lewis
We have more than 1.4 million members and offer customers new and tailored rewards including exclusive events in our shops.

Special deals
We offer 1,300 special deals a month for myWaitrose members.



Never Knowingly Undersold
Our commitment on quality, price and service remains the lynchpin of John Lewis' promise – we invested 7.6% more in NKU this year.

Managing our responsibilities

Sourcing
We joined the WWF UK Forest Campaign to support its goal of 100% sustainable timber trade by 2020.

Environment
We now have BREEAM certification for sustainable development at a further eight sites.

Community
We donated over 120,000 volunteering hours across the Partnership.

120,000 HOURS

Chairman's statement

During the year, we achieved strong sales with continued market outperformance. Good profit growth in John Lewis was offset by lower profitability in Waitrose. We have invested an additional £294m into the pension fund and reduced future risk by approving a new hybrid pension scheme.

"WE ACHIEVED STRONG SALES WITH INCREASED MARKET SHARE AND CUSTOMER NUMBERS. HOWEVER, OUR UNDERLYING PROFIT DECREASED. WE EXPECT RETURNS FOR THE GROCERY SECTOR TO BE MATERIALLY LOWER FOR A PERIOD OF TIME."

Sir Charlie Mayfield
Chairman, John Lewis Partnership

Overview

The Partnership achieved a strong sales performance with increased market share in both Waitrose and John Lewis, and customer numbers were up by 6% and 4% respectively. Profit before Partnership Bonus, tax and exceptional item is down 9.0% (down 10.5% on a 52 week basis), with increased profits in John Lewis offset by a decline in Waitrose.

Investment delivery in John Lewis

In its 150th year, John Lewis increased gross sales by 9.2% to £4.43bn (7.5% on a 52 week basis) and operating profit grew by 10.8% to £250.5m (10.4% on a 52 week basis). The investments made over many years in systems, logistics and IT infrastructure combined to enable John Lewis to make more deliveries via Click & Collect than to customers' homes for the first time. John Lewis was able to fulfil over 6.4m orders over the year with 98.7% of parcels in-store the following day.

Challenging grocery market

Waitrose grew sales by 6.5% to £6.51bn (4.6% on a 52 week basis) with like-for-like sales up 1.4%. Operating profit fell by 23.4% to £237.4m (down 24.4% on a 52 week basis). This was held back by three factors: the impact of trading in a highly competitive and deflationary market; a significantly higher level of investment in the year; and the impact of one-off items, including property impairments and onerous leases.

Partnership Bonus

Our 93,800 Partners received a Bonus of 11%, equivalent to nearly six weeks' pay for Partners with us for the whole year. And for the first time in 15 years, thanks to new legislation that puts Employee Ownership on a similar footing to other forms of ownership, no Partner paid tax on their Bonus up to £3,600.

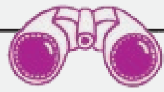
Sustainability

This year we concluded our CSR materiality assessment, prioritising the issues which are of the greatest importance to our stakeholders, our Partners and to the commercial health of the business. This assessment will underpin future decisions on sustainability and community investment and will help with our move to publishing an integrated Annual Report and Accounts.

Existing initiatives have continued to deliver tangible benefits to our business, the environment and the wider community.

More information can be found in the Performance section on pages 48 to 81 ›

Outlook 2015/16



We expect the returns for the grocery sector to be materially lower for a period of time. Waitrose's value perception has improved significantly over the last few years and we will continue to defend that hard won position during this period of change in the grocery sector.

For John Lewis, the outlook is more robust. Our focus remains on positioning our brand to outperform and our investment in supply chain and systems, which has been growing for some years, will exceed that in new shops and refurbishment for the first time this year.

Sir Charlie Mayfield
Chairman, John Lewis Partnership

52 v 53 weeks?

The Partnership's year end is always the last Saturday in January. Usually we have a 52 week year but this year it is 53 weeks. The 2014/15 year-on-year financial movements have been presented on a 52 week basis so that they are comparable with earlier periods, unless indicated otherwise. This has been done to provide a more consistent comparison and meaningful understanding of this year's financial performance.

Gross sales

£10.9BN

+5.7%

2014: £10.2bn

For more details:
Go to page 50

Revenue

£9.7BN

+5.6%

2014: £9.0bn

For more details:
Go to page 50

Pension deficit

£1.25BN

+25%

2014: £1.00bn

For more details:
Go to page 51

Operating profit margin in Waitrose (52 weeks)

3.9%

-150BPS

2014: 5.4%

For more details:
Go to page 62

Partnership Bonus

£156M

11% OF SALARY

2014: £203m (15% of salary)

For more details:
Go to page 50

Operating profit margin in John Lewis (52 weeks)

7.1%

+20BPS

2014: 6.9%

For more details:
Go to page 70

Partner job satisfaction (June 2014)

72%

June 2013: 74%

For more details:
Go to page 53

New jobs created

2,800

Net new jobs created

2014: 6,300

For more details:
Go to page 78

Community investment

3.7*%

2014: 4.3%

For more details:
Go to page 57

* Calculated on statutory profit before tax.

Net debt

£780M

+61%

2014: £486m

For more details:
Go to page 51

Environmental footprint

-15%

CO_2e emissions intensity

Since 2010/11

For more details:
Go to page 58

Challenges we face

Understanding the bigger picture helps us plan for the future by adapting our strategy and business model. Here we sum up some of the biggest global and retail trends affecting our business.

Global trends

Our external environment is considerably more complex than when John Spedan Lewis established the Partnership.

Trends

Globalisation of supply chains and volatility in commodity prices

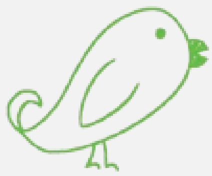
The globalisation of supply chains makes it more difficult for companies to have complete visibility of all suppliers and associated costs. The volatility in commodity prices, such as oil and raw materials, creates greater risk for businesses.

Growing concerns around health, wellbeing, inequality and diversity

Growing health crises such as obesity are costing lives. Austerity and stagnating wages around the world are heightening the gap between rich and poor. Whilst the diversity of UK population continues to grow, this is not represented in the workplace.

Climate change and natural resources

Human activity is contributing to climate change, with negative impacts already affecting global supply chains. Natural resources are being over-exploited.



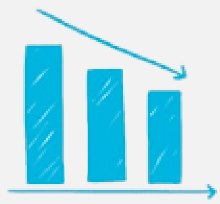
Retail trends

There continues to be significant shifts in the way customers research, shop and take delivery of their goods, whether grocery or non-food.

Trends

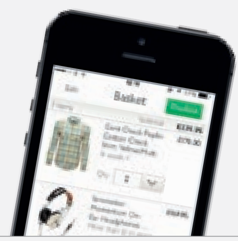
Deflation and structural changes in the grocery sector

The falling oil price, good harvests globally, and lower consumption in developed countries have led to the highest level of food price deflation in the UK since the 1970s. The rise of discount grocery retailers has added to demand for value and increased price competition across the industry.



Rise of convenience shopping and technology

New technology is driving demand for convenient, flexible shopping based around consumer lifestyles. Consumers now shop and take delivery of their goods 24/7 online from home and mobile devices.



Transparency and trust more important than ever

There is increasing demand for transparency on a variety of issues, from corporate conduct to where and how products are made.

DID YOU KNOW?

In 2014 we carried out an assessment of material sustainability issues by interviewing key stakeholders to understand the potential impact of these issues on our current and future performance. See the Performance section from page 48 for more information.

What this means for the Partnership

→ We must strive for traceability in the supply chain and secure sustainable sources of supply.

→ We must address health, wellbeing, inequality and diversity concerns, including:
- Investing in our local communities
- Ensuring the health and wellbeing of Partners
- Ensuring our workforce represents our diverse population
- Developing and marketing products responsibly.

→ We must manage the environmental footprint of our operations and supply chain, through sustainable and responsible sourcing, especially as our business grows.

What this means for the Partnership

→ We must invest in innovation, including:
- Driving efficiency throughout our operations and supply chain, without compromising standards
- Committing capital prudently to protect our profits and achieve target returns
- Creating new products and services for our customers.

→ We must be agile and continue to reshape our operations, including:
- Investing in IT and distribution to deliver our customers' shopping quickly and efficiently
- Addressing the pressure these changes place on our Partners and their working environments
- Creating and designing meaningful jobs in the face of change.

→ We must strive for transparency, providing information and assurance on issues such as supplier working conditions, fair wages, animal welfare and environmental impacts.

How we're responding

Look for the following headings in the Performance section page 48 onwards to find out more:

FINANCIAL REVIEW

PARTNER REVIEW

CUSTOMER REVIEW

SOURCING REVIEW

COMMUNITIES REVIEW

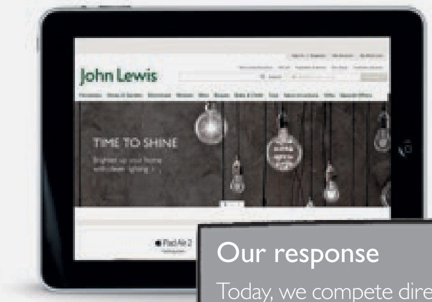
ENVIRONMENT REVIEW

Our response to the changes in retail

Our workplace is changing dramatically as the Partnership evolves to meet market demands. It is vital that we understand and embrace these challenges as co-owners.

DID YOU KNOW?

£17bn was spent online over Christmas 2014 – almost 30% via tablets and smart phones.



1

What's the challenge?

We must keep investing in our business to support growth. This includes refurbishing and upgrading existing shops. More significantly, we need to invest in new systems and distribution capabilities, adopting new technology and reshaping our operations to serve new customer needs, such as online shopping and home delivery.

In recent years, investment in these latter areas has taken a greater share of our overall capital investment.

Our response

Today, we compete directly with online retailers as much as we do with traditional high street names. We will make tougher decisions about where we prioritise investment.

WE NEED TO INVEST WISELY

2

What's the challenge?

Deflation and the focus on price and value, especially in grocery, are creating pressure on margins. So too are the different operating requirements of an omnichannel business, where every item sold online carries a cost of picking, purchasing and delivery. We also need greater investment in our supply chain and systems.

Our response

With increasing investment levels and market pressures, we will be placing more emphasis on efficiency and less on growth to achieve 'sufficient profit'.

Go to Our Partnership Aims page 38›
Go to Partnership Services performance page 76›

DID YOU KNOW?

We estimate the cost for Waitrose of competing in a deflationary market to be £35-40 million a year as prices go down.

WE NEED TO BECOME MORE EFFICIENT

What do we mean by 'omnichannel'?

Our 'omnichannel' sales approach provides customers with a seamless shopping experience, whether they are buying online from a desktop, with a mobile device, over the telephone or in a 'bricks and mortar' shop.

What do we mean by 'supply chain'?

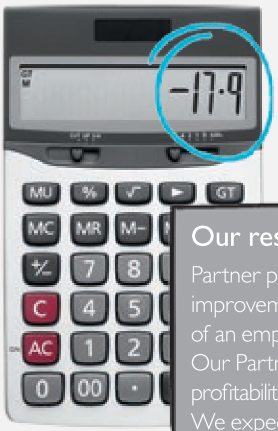
Our supply chain starts with the sourcing of raw ingredients, and ends with the delivery of finished products to our customers. It includes all stages in between.

"BEING MORE PRODUCTIVE MEANS WE CAN GROW OUR PAY AND FINANCIAL RETURNS THROUGH BONUS."

Sir Charlie Mayfield
Chairman, John Lewis Partnership

DID YOU KNOW?

Profit before tax per average full-time equivalent Partner decreased by 17.9% last year – a result of an increase in Partner numbers and a decrease in profit.



Our response

Partner productivity and continuous improvement are at the heart of an employee-owned business. Our Partners play a vital role in growing profitability through personal contributions. We expect this to be a prominent topic during the next three-year Partnership Council term.

Go to Partner review page 52›

3

What's the challenge?

As co-owners, we need to become more productive. In some cases this will mean role changes, with some lost and others created. It also means a greater contribution from our Partners through personal development, job design and technology. This is not about 'working harder'. It is about our ability to offer worthwhile and satisfying jobs. It is the sustainable way to enable growth in Partners' pay and bonus levels.

WE NEED TO BE MORE PRODUCTIVE

WE ARE DETERMINED TO ACHIEVE AN INCREASINGLY POSITIVE CYCLE OF INVESTMENT, EFFICIENCY AND PRODUCTIVITY TO DRIVE GREATER FINANCIAL RETURNS: PROFIT, PAY AND PARTNER BONUS.

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The Partnership today

The way people want to shop continues to change. So we're investing in new shops, logistics and online to meet our customers' expectations for convenience and innovation.

336 Waitrose shops
- 33 New
- 2 Closed
- 2 Relocated

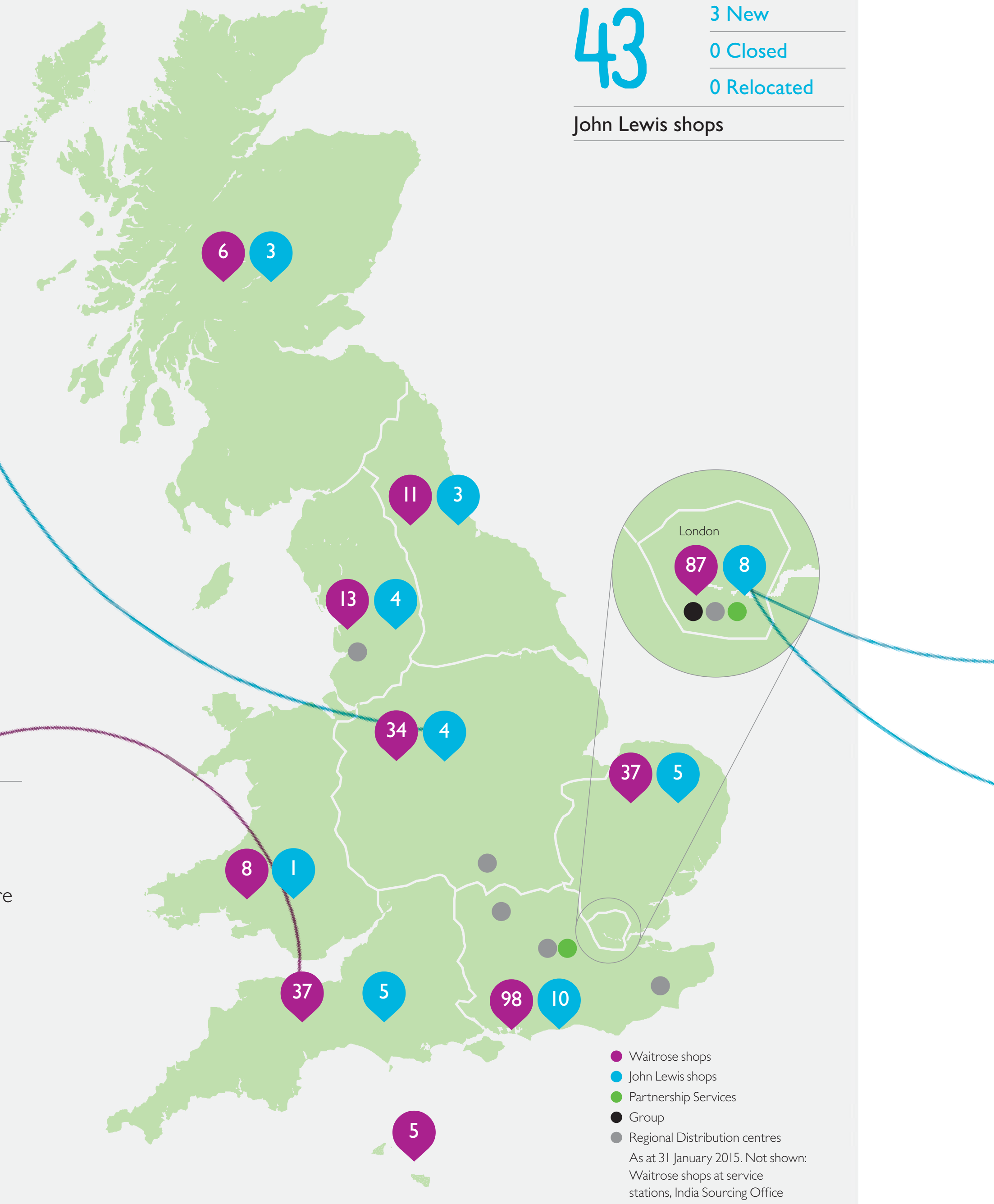
43 John Lewis shops
- 3 New
- 0 Closed
- 0 Relocated

Regional flagship in the making

Work is well under way on John Lewis Birmingham, due to open in September 2015, bringing a new regional flagship to the heart of the city.

New Waitrose concepts

We are responding to changing shopping habits with new services, hospitality and grazing concepts. Branches like Salisbury are tapping into growth in casual dining with a wine and tapas bar.



John Lewis

3 SHOP FORMATS

31 DEPARTMENT STORES

10 AT HOME SHOPS

2 CONVENIENCE-DRIVEN FORMATS

myWaitrose loyalty card

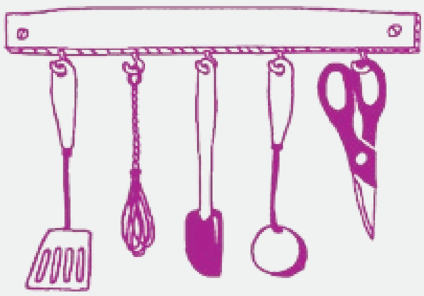
We have been deepening customer relationships through myWaitrose. There are 5.4 million members, up from 4.1 million last year.

New John Lewis shops

The sustainable design of John Lewis York received an 'Outstanding' certification from BREEAM, while convenience driven shop formats opened at Heathrow and St Pancras.

Second Waitrose Cookery School

We opened a second Waitrose Cookery School this year, as part of the Salisbury redevelopment. We are building another in Kings Cross which will open in September 2015.



Partnership Services

Partnership Services is our internal shared service centre. It supports Partners and suppliers with efficient processes and systems in the following areas:

- CHANGE & SERVICE IMPROVEMENT
- FINANCE
- PERSONNEL
- PROCUREMENT
- IT

New sights in-store

The first John Lewis opticians opened at our Stratford and Cardiff shops, with customers taking advantage of the very latest in diagnostic eye care and wear from brands including Giorgio Armani, Prada and Ray-Ban.

New Waitrose National Distribution Centre

Work has started on building the first Waitrose National Distribution Centre in Magna Park, near Milton Keynes. The centre is an investment in creating a sustainable supply chain. It will handle 25,000 longer life ambient products and will open in July 2015.

Innovation is in our DNA

JLAB, John Lewis' first ever technology business incubator, has opened us up to innovative ideas from start-up companies. More than 500 small businesses registered their interest in the chance of a £100,000 investment and the opportunity to trial their technology in our shops.

Waitrose

3 SHOP FORMATS

276 SHOPS

60 LITTLE WAITROSE SHOPS

28 SHOPS AT SERVICE STATIONS

IT'S YOUR BUSINESS

IT'S YOUR PARTNERSHIP

Partnership difference

We're a unique business. In this section, we explore the ownership model that sets us apart and helps us create value differently.

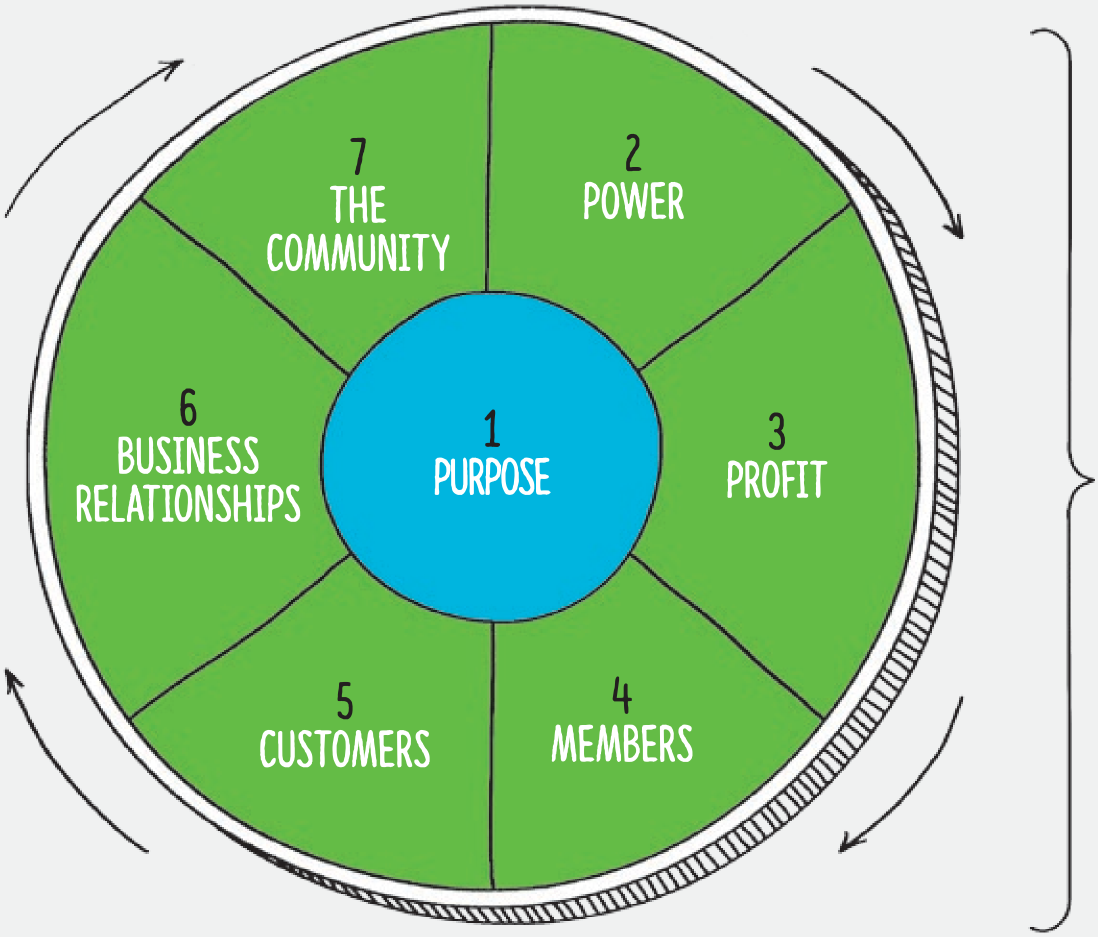
Our principles

The John Lewis Partnership is different to other companies because it is owned by our Partners through two Trust settlements. Together, our commitment, pride and talents as owners shape two of the UK's greatest brands.

Our business is powered by seven principles. They are at the core of our Partnership model – and this is reflected throughout the Annual Report and Accounts.

As we grow, we are finding new ways to celebrate these principles and listen to each other so we remain connected to our core values.

This report shows the journey we made together this year.



Dynamic and charismatic, Partnership Founder John Spedan Lewis had a vision for a better business that is still as relevant to the Company we are today as it was 95 years ago.

Whether it's our Partnership Council, which holds our Chairman to account (see page 96), or the Bonus we've just received, so much that makes the Partnership special exists because Spedan signed the business over to Partners through the 1929 and 1950 Trust Settlements.

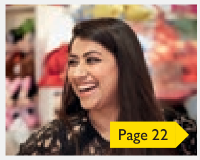
These Trust Settlements mean that the Partnership's shares are held in trust on behalf of its Partners.

"THE VISION OF THE PARTNERSHIP WAS CREATED WHOLLY AND SOLELY TO MAKE THE WORLD A BIT HAPPIER AND A BIT MORE DECENT."

John Spedan Lewis

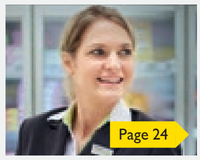
1 PURPOSE

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



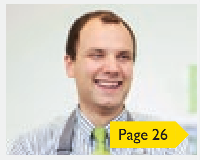
2 POWER

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



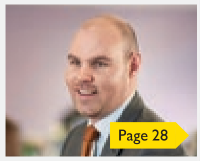
3 PROFIT

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



4 MEMBERS

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

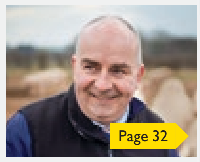


5 CUSTOMERS

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

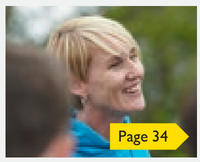
6 BUSINESS RELATIONSHIPS

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



7 THE COMMUNITY

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



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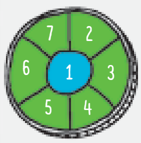
Our Partnership model

As the largest employee-owned business in the UK, the Partnership has its own distinctive culture. This culture gives us a competitive edge. It's safeguarded by our governance and accountability structures, which protect and promote co-ownership, democracy and Partner representation.

Our Constitution and governing bodies

Our Constitution

Our written Constitution is the bedrock of our Partnership. It doesn't just establish our Partnership's principles, it also sets out the way in which we, as Partners, should operate. Although the Constitution has been revised and refreshed over the years, it retains a direct connection with the fundamental principles established in 1929. At the heart of the Constitution, Principle 1 sets out the Partnership's ultimate purpose, and the responsibilities and rewards of owning a successful business.



Throughout this year's Annual Report and Accounts, we show examples of how our principles have been brought to life in the Partnership today. See page 20.

Our governing bodies

We protect and promote our Partners, co-ownership model and democracy through our three key Partnership governing bodies: the Partnership Council, the Chairman and the Partnership Board.

The Partnership Council

Partnership Council is made up of Partners representing every area of the business and has three roles:

→ to hold the Chairman to account (i.e. allowing our Partners to ask our Chairman to explain his actions);

→ to make some key decisions (such as our review of pensions);

→ to influence policy.

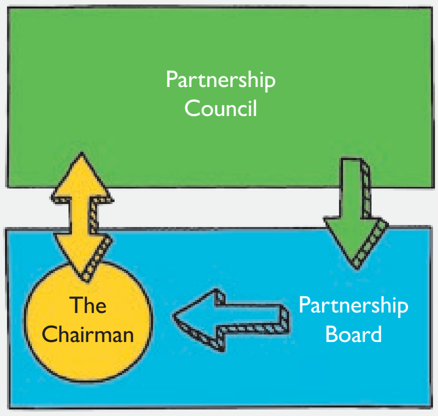
The Chairman

The Chairman is ultimately responsible for the Partnership's commercial performance. He reports upon and answers questions about this twice a year before the Partnership Council. The Chairman also chairs the Partnership Board and leads the delivery of the Partnership Business Plan.

The Partnership Board

The Partnership Board has ultimate responsibility for developing and reviewing major policy and allocating the Partnership's financial and other resources. A large part of its role is keeping the Partnership true to its principles, both in terms of its commercial progress and its distinctive co-ownership objectives.

Find out more about the roles, responsibilities and actions of these three governing bodies and their supporting sub-committees in the Governance section (pages 82 to 119).



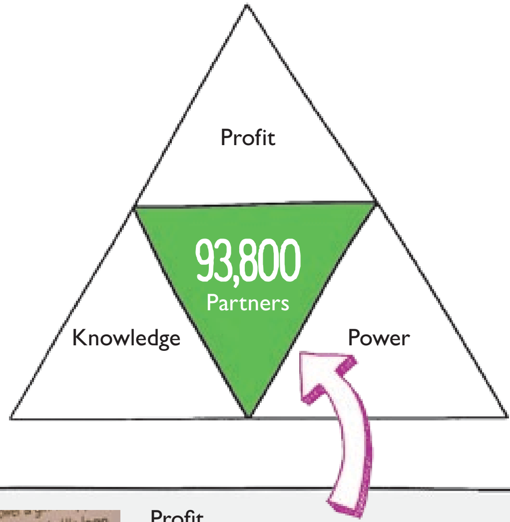
Provides governance and assurance to

Entrusts management of the business to

Delegates management authority to

DID YOU KNOW?

The Partnership Council has the power to dismiss the Chairman. At the last vote in March 2015 on the Chairman's leadership, there were no 'no' votes and no abstentions.



Our Partners

93,800 Partners make our businesses and brands and are brought together by our shared purpose and principles.

£156.2M

The total amount of profit shared amongst our Partners as Bonus

Profit

Our success depends on the collaboration and contribution of our Partners, who, in return, receive a share of profits in the form of a Partnership Bonus.

Knowledge

We provide our Partners with the knowledge they need to fulfil their responsibilities as co-owners of the Partnership.

Power

Our Partners are able to influence their business at all levels of the Partnership through the democratic structure and representative bodies that are defined in our Constitution.

Our democracy

By sharing knowledge and power we can create a more successful business and a more worthwhile and satisfying place to work. Our Partners have a constitutional right to be heard and have their opinions considered.

Our Partners are able to influence what happens in their part of the Partnership through their local PartnerVoice. 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.

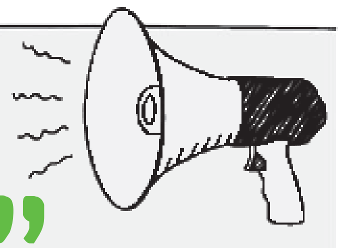
Through our democratic communications channel, issues discussed at a local level can be raised at the Partnership Council with our democratically elected councillors.

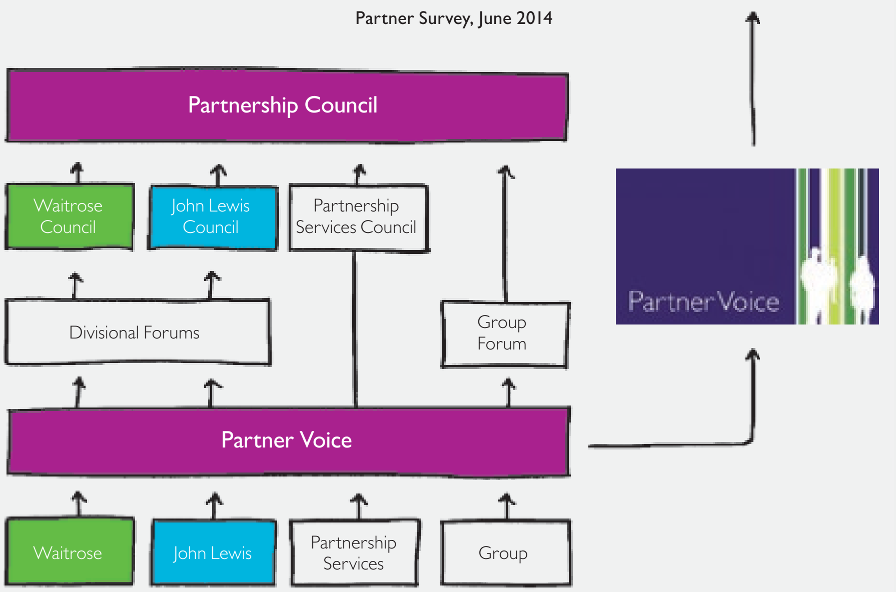
Our pension benefit review has been a key focus for the democratic structures over the past two years. In January 2015, we reached a decision that was both fair for Partners and affordable for the business.

Read more on page 51›

75% OF PARTNERS SAY: "WE CREATE REAL INFLUENCE OVER OUR WORKING LIVES."

Partner Survey, June 2014





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How we create value

IN A NUTSHELL...
The diagram below shows how the Partnership creates value for its various stakeholders and how it does things differently in the market place.

We have a unique purpose, ownership structure, and governance model which apply to both Waitrose and John Lewis. Although we have different strategies to maximise the value we create in each Division, the fundamental structures of our value chains are the same.

How we create value

CAREFUL SOURCING

We develop and select our third-party branded quality products to meet our customers' needs. We develop high quality, innovative own-label ranges.

EFFICIENT DISTRIBUTION

We move our carefully sourced products cost-effectively to shops and customers.

CONVENIENT, EXCELLENT SHOPPING EXPERIENCE

We serve our customers by providing a market leading end-to-end shopping experience.

The Partnership difference

We have many exclusive and often long-standing sourcing partnerships with suppliers for key products giving us a greater influence over quality and provenance.

Waitrose	John Lewis
100% All our fresh beef, pork, chicken, milk and eggs are British	**+11%** £584m sales of UK-sourced products
4,900 new or improved products this year	**1/3** of suppliers we work with to develop our own-brand products

"OUR AWARD-WINNING APPROACH TO FARMING HELPS US ENSURE THE BEST STANDARDS IN QUALITY, SAFETY, ENVIRONMENT AND ANIMAL WELFARE."

Heather Jenkins
Director, MPFFD Buying and Agriculture Strategy, Waitrose

We have invested significantly in distribution and logistics infrastructure over the past few years.

Waitrose	John Lewis
+47% Our delivery slot capacity has increased by 47%	**£95M** investment in a new distribution centre Magna Park 2
66% of John Lewis Click & Collect orders now picked up at Waitrose branches	**54%** of online orders now received through Click & Collect

"BY REDUCING MILES, IMPROVING FUEL CONSUMPTION, AND INVESTING IN LOW CARBON SOLUTIONS WE'RE NOW MORE EFFICIENT THAN EVER."

Justin Laney
General Manager, Central Transport, John Lewis Partnership

We have a market leading omnichannel service, offering our customers unrivalled choice, experience and convenience.

Waitrose	John Lewis
1ST to have temperature-controlled lockers for online Click & Collect orders	**>50%** of johnlewis.com traffic comes from mobile devices
TAILOR MADE Increase in personalised offers through myWaitrose card	**33%** of John Lewis sales made online

"OUR EXPANSION STORY CONTINUES AS WE TAKE THE BRAND TO MORE CUSTOMERS AND INVEST IN OUR OMNICHANNEL APPROACH."

Nigel Keen
Property Services Director, John Lewis Partnership

Supported by

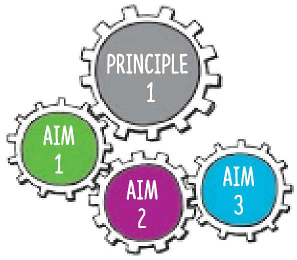
PARTNERSHIP SERVICES

Go to page 76›

Creating more value

To maximise the value we create, we are guided by our three Partnership Aims (see page 38) and a rigorous approach to risk management (see page 42).

Pages 20 to 35 explores how we are applying our principles to the way we manage our resources and relationships.



DEVELOPING ENDURING CUSTOMER RELATIONSHIPS

We provide value for money and outstanding customer service before, during and after purchase, wherever and however they shop with us.

We provide award-winning customer service and after-sale support, which leads to enduring customer relationships.

Waitrose	John Lewis
6M customer transactions each week, with customer numbers up 5%	**11M** John Lewis customers, with a year-on-year increase of 4%
AWARD Which? UK's favourite supermarket	**AWARD** Which? Best retailer

"I AM SO IMPRESSED BY THE HELPFULNESS OF MEMBERS OF YOUR STAFF EVEN THOUGH IT WAS A VERY SMALL ORDER."

One of our John Lewis customers

GROUP
Go to page 77›

The value we create

We create value in many different ways:

- FINANCIAL Go to page 50›
- PARTNERS Go to page 52›
- CUSTOMERS Go to pages 63/71›
- SOURCING Go to page 56›
- COMMUNITIES Go to page 57›
- ENVIRONMENT Go to page 58›

FULFILMENT OF OUR PURPOSE FOR PARTNERS

Our core purpose is unique in retail. It centres on the happiness of our Partners, who share in the ownership of our business.

Here are some examples of the value we created this year:

17.4M
Waitrose and John Lewis customers

£124M
Partner benefits

£13M
Invested in the community

TOP 10
Ranked 10th in the PwC 2014 Total Tax Contribution Survey report for our contribution to UK wages and salaries

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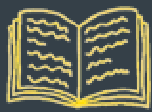


IT'S YOUR STORY

Principles

Our Partnership is built on seven principles. Here we look at how seven Partners have brought these principles to life throughout the year.

Our principles in action

PRINCIPLE 1
PURPOSE

BUILDING A STRONGER, HAPPIER BUSINESS

Principle 1 of our Constitution states 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 its members, they share the responsibilities of ownership as well as its rewards – profit, knowledge and power."

Our principle in action

As an employee-owned business, our Partners receive a share of profits in the form of a bonus, a wide selection of benefits, opportunities to increase their knowledge and a voice in how the business is run. This helps make our jobs more satisfying and is part of what makes us successful.

A study carried out by Cass Business School[1] backs this up. It shows that employee-owned businesses (including the John Lewis Partnership) tend to be more profitable and resilient. The research found that employee-owned businesses consistently recruit more employees and reward them with higher wages.

DID YOU KNOW?

Our Partner advocacy score – that's the number of us that recommend the Partnership as a 'great place to work' – has consistently put us among UK market leaders

Investing in Partners creates value for our business

Investing in our Partners' happiness makes us stronger both as individuals and as a business. In 2014, we carried out some research to establish how investment in Partners generates greater value for the Partnership. Specifically, we wanted to look at customer satisfaction. We studied personnel data, financial results and customer satisfaction scores and found that:

- → There is a positive relationship between Partner job satisfaction and customer satisfaction.
- → The more Partners reported feeling recognised for doing something well and that our ideas to improve the business are welcome, the higher the level of customer satisfaction.

The research concluded that the link between Partner data and customer satisfaction ratings for each Waitrose and John Lewis shop in the UK validates our Partnership model as a basis for good customer service. See the full report at www.johnlewispartnership.co.uk.

"I THINK WHAT MAKES OUR BUSINESS DIFFERENT IS THE PRIDE WE TAKE IN REALLY KNOWING OUR STUFF AND PROVIDING CUSTOMERS WITH THE BEST POSSIBLE SERVICE. THIS PRIDE IS REALLY DRIVEN BY THE SENSE OF OWNERSHIP AND BENEFITS WE SHARE."

Nadia Hassan
Section Manager, John Lewis, Oxford Street

[1] www.cassknowledge.com/inbusiness/feature/employee-owned-businesses

NADIA'S COMMITMENT TO PRINCIPLE 1 MAKES YOUR BUSINESS

11%

Nadia started working for John Lewis in 2006 as a temporary Partner over the busy Christmas period. As a result of her commitment and dedication, she has progressed to Section Manager and has been selected for a leadership development programme.

One of her passions is customer service, which is why she was one of a few Partners chosen to unveil our 11% Bonus announcement in 2015.

PRINCIPLE 2 POWER

MAKING BETTER DECISIONS, TOGETHER

Principle 2 of the Constitution states that "Power in the Partnership is shared between three governing authorities, the Partnership Council, the Partnership Board and the Chairman." Rule 3 explains their hierarchy: "The Partnership Council entrusts management of the business to the Partnership Board, which delegates its management authority to the Chairman."

Our principle in action

Our Partnership Council represents Partners as a whole and reflects their opinion. It exercises power in three ways. Firstly, every six months, it holds the Chairman to account for his leadership of the business and for progress towards the achievement of Principle 1. Secondly, Council makes a number of key Elected Director and Trustee appointments. Thirdly, and perhaps most importantly, it discusses, influences and makes recommendations on the development of policy.

For example, in July 2014 the Council discussed the most recent Partner Survey. The results clearly reflected Partners' belief in the Partnership and support for our leadership. The debate highlighted the importance of good line management as a positive driver of job satisfaction. However, it also identified that Partners – especially line managers – felt under increased pressure as the business sought to innovate its products, services and operations to stay ahead.

Our Personnel Transformation Programme and other change initiatives had sought to deepen line managers' relationships with their Partners through giving them control of activities such as the management of recruitment, performance and pay. However, in the short term, the expectations of line managers had increased while many were struggling with the new personnel systems and centralised support services.

Listening and learning

In response to the strength of opinion from Councillors, the Chairman commissioned Registry to investigate and report back on this issue. Registry's findings were discussed by the Divisional boards, who responded by developing action plans. These included identifying and sharing best practice; investing in training for line managers to ensure they are equipped to fulfil their roles; and reviewing the personnel administration activities and systems used by line managers. The plans were discussed with Divisional Councils in September and Partnership Council in October. Progress is being reviewed quarterly.

DID YOU KNOW?

Registry is an independent function which reports to the Chairman. It assures the application of the Partnership's principles within the business.

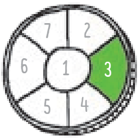
LAUREN'S COMMITMENT TO DEMOCRATIC DECISION-MAKING MAKES YOUR BUSINESS

"IT MAKES ME PROUD THAT OUR COMPANY LISTENS TO ITS PEOPLE. TOGETHER WE CAN MAKE INFORMED DECISIONS, AND PRODUCE BETTER BUSINESS RESULTS."

Lauren Anderson
Section Manager Waitrose Horsham and Partnership Councillor for Waitrose Group M

23

Lauren is on the Partnership Council. Her role on the Council involves considering, gathering feedback on and debating formal proposals put to Partnership Council. During the term of the current Partnership Council 23 proposals were passed, two rejected and one withdrawn. This year, she has seen the feedback from the annual Partner Survey and the Pension Review be debated. Her voice represents Partners in Waitrose Horsham.



PRINCIPLE 3
PROFIT

USING OUR PROFITS TO GROW SUSTAINABLY

Principle 3 of our Constitution expresses our view on profits generated by the business: "The Partnership aims to make sufficient profit from its trading operations to sustain its commercial vitality, to finance its continued development, to distribute a share of those profits each year to its members, and to enable it to undertake other activities consistent with its ultimate purpose."

Our principle in action

Our Partnership Board considers Principle 3 when deciding how to balance rewarding Partners with investing back into the business.

Each year, the business rewards Partners with a bonus from profits generated by the Divisions. This is a percentage of ranking pay, which is the same for all Partners regardless of level or length of service. This would be similar to a dividend given to shareholders in a conventional company. Profits are also used to fund our pension scheme and pay down debt on funding borrowed by the Partnership.

Importantly, the Partnership also reinvests back in our business to allow it to grow sustainably.

Investing in new technology

One example of how we are investing back into the business is in the capital investment we have made in Waitrose's QuickCheck technology. This allows customers to scan and pack their shopping as they move about the shop. Customers check out at specially designated tills where they simply need to end their shop on the hand-held scanners and pay.

Investment in QuickCheck makes sense. It gives shoppers a more convenient experience. It means that Partners on tills can be redeployed to interact with customers in other ways. And we now know that customers using QuickCheck are more loyal.

DID YOU KNOW?

This year we distributed 48% of profits to our Partners. The remainder was retained for investing in the pension scheme, repaying debt or reinvesting in the business.

"INVESTING IN QUICKCHECK HAS BEEN REALLY WORTHWHILE. WITH CUSTOMERS, I FOCUSSED ON THE BENEFITS QUICKCHECK OFFERS. FOR EXAMPLE, GETTING SHOPPING DONE FASTER, AND MANAGING SHOPPING BUDGETS MORE EASILY. CUSTOMERS REALLY RESPONDED TO THESE ASPECTS OF THE SERVICE."

Jonathan Hall
Customer Services, Waitrose Cambridge

JONATHAN'S COMMITMENT TO CONVENIENCE MAKES YOUR BUSINESS

4,000

While this technology has been in place for a number of years, in 2014 we ran a 'branch challenge' to increase the uptake of the service. Jonathan Hall became the QuickCheck champion at our Waitrose shop in Cambridge. The shop signed up 4,000 new customers during the year and increased transactions via QuickCheck from 7.9% to 13.9% over the year – the highest of any branch. Jonathan made use of the technology to improve customer satisfaction, and allow Partners to focus on delivering excellent customer service.

PRINCIPLE 4 MEMBERS

LEADING WITH A MORE ENGAGING APPROACH

Principle 4 of our Constitution states "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."

Our principle in action

We believe that one of the ways in which our Partnership helps us protect profit is through the long-term investment we make in our Partners. Our market-leading approach to employing, developing and rewarding Partners is crucial to our business success. Our commitment to lifelong learning and developing Partners' skills and knowledge is even enshrined in our Constitution. Our position on pay and benefits is also an example of best practice within the sector. See page 52 for more on our Partner Plan.

DID YOU KNOW?

The John Lewis Partnership was listed in the Guardian's Top Employers UK 2015 for our leading benefits and Partner Plan.

Retaining, developing and rewarding our Partners in 2014

- The average length of service for Partners over the age of 22 is over nine years.
- Almost 70% of Partners said they have the opportunity to keep developing their skills and potential – one of the top three drivers of job satisfaction, followed by opportunities for career progression.[1]
- 94% of Partners value the range of benefits that are available to them[1], putting us among the top 10% of UK employers.[2]

Investment in our workforce benefits the Partnership by boosting job satisfaction and brand advocacy. Keeping Partners engaged helps us manage recruitment and absence costs and enhance our relationships with customers (see page 22 for more information).

In 2014, we spent 56% more than similar organisations on the creation and delivery of Partner development. This investment sets us apart from the competition.

"MY JOB IS TO WORK WITH PERSONNEL TO ENSURE WE REMAIN AT THE FOREFRONT OF THE EMPLOYMENT MARKET WHILE STAYING TRUE TO OUR CONSTITUTION."

Patrick Winters
Programme Manager, Partner Strategy, John Lewis Partnership

[1] Partner Survey
[2] Based on ORC benchmark

PADDY'S COMMITMENT TO ALL OF US MAKES YOUR BUSINESS

2011

Paddy is Programme Manager for Partner strategy. He joined Waitrose in 2011 working in Operational Development. Today his job involves working with the Director of Personnel in Group to shape the long-term Partner Plan. Their goal is to ensure we address the needs of our members in a changing commercial environment.

PRINCIPLE 5 CUSTOMERS

GENERATING LOYALTY THROUGH CHOICE, VALUE AND SERVICE

Principle 5 of our Constitution outlines our approach to understanding and meeting our customers' needs "The Partnership aims to deal honestly with its customers and secure their loyalty and trust by providing outstanding choice, value and service."

Our principle in action

In 2014/15, as in previous years, we were honoured to receive several awards for customer service, including receiving the highest score of any UK business in the Institute of Customer Service's Customer Satisfaction Index.

Understanding customers' changing needs is essential to satisfying customers in today's omnichannel world. Customers expect retailers to make it easy for them to shop how and when they want, and make collecting their purchases as convenient as possible. We also understand that customers want value for money with no compromise on quality and innovation, so we continue to invest in developing products of excellent quality, and selling them at competitive prices.

DID YOU KNOW?

We have a dedicated team who monitor competitor prices and promotions across the country, and Partners get a bonus for every 'under-sale' they report where we subsequently lower our price.

Outstanding service

To ensure our Partners are equipped to meet changing customer needs, we have put dedicated training programmes in place. For example, our new training programme is developing Partners' specialist knowledge of the products they sell, so that customers have the information they need to make informed purchases. After our new initiative was introduced, our Cambridge and Norwich branches saw their NPS (Net Promoter Scores) – that is the number of customers that would recommend us – increase by nearly 20%.

Never Knowingly Undersold

At the heart of our approach is the John Lewis Never Knowingly Undersold promise on quality, value and service. Part of our business since 1925, Never Knowingly Undersold means that customers can trust that we will always stock the best quality products, and that we will set competitive prices.

In 2014/15, we invested 7.6% more in Never Knowingly Undersold, compared with the previous year. We had 1.4 million members of my John Lewis shopping more regularly than they would have done before.

Principle 5 in action is helping us to develop enduring customer relationships.

"GREAT SERVICE IS DELIVERING A PERSONALISED EXPERIENCE TO EACH AND EVERY CUSTOMER. I COACH PARTNERS ON HOW TO MAKE CONVERSATIONS RELEVANT TO EACH AND EVERY CUSTOMER."

Giles Britton
Selling Coach, John Lewis

11M

Giles Britton's role involves helping Partners achieve the standard of service that our 11 million customers have come to expect from us. He helps Partners to develop their skills on everything from product knowledge, to building their confidence when interacting with customers.

GILES' COMMITMENT TO CUSTOMER SERVICE MAKES YOUR BUSINESS

PRINCIPLE 6
BUSINESS RELATIONSHIPS

A BETTER WAY OF DOING BUSINESS

Principle 6 of our Constitution outlines our approach to our business relationships: "The Partnership aims to conduct all its business relationships with integrity and courtesy, and scrupulously to honour every business agreement."

Our principle in action

Our approach leads to long-standing relationships, which in turn enable us to have confidence in our supply chain. Our Waitrose Farming Partnership is an excellent example of how we achieve this. It brings together our livestock meat suppliers to share best practice. As a result, we are confident that our meat is of the high quality that customers expect, produced with the highest standards of farming and respect for animal welfare and the environment, and with a fair price paid to British farmers.

Dalehead Foods (and its subsidiary BQP) is our only supplier of fresh pork, and has been a Waitrose supplier for more than 30 years. Its production methods far exceed UK standards. The transparent pricing formula we apply in this relationship means prices are more stable, so farmers are confident about what they will be paid. This respectful partnership approach has given BQP the ability to invest in the individual farms with which it works. This helps to increase capacity, improve standards and efficiency, and encourage the next generation of farmers.

DID YOU KNOW?

Around 60% of the free range pigs in the UK are destined for Waitrose.

- → Since 2010, 44 of Dalehead's farmer partners have invested more than £13 million in buildings, during a period of low confidence in the sector as a whole, to create new capacity to our production standard.
- → BQP matched funded research into 'Eco Pig', an innovative feeding system with lower environmental impact. It then invested £3 million rolling it out across farms in its supply chain. The value of the feed saved was estimated at £850,000 per year.
- → Dalehead's farming partners are 10 years younger than average UK farmers and England pig farmers.

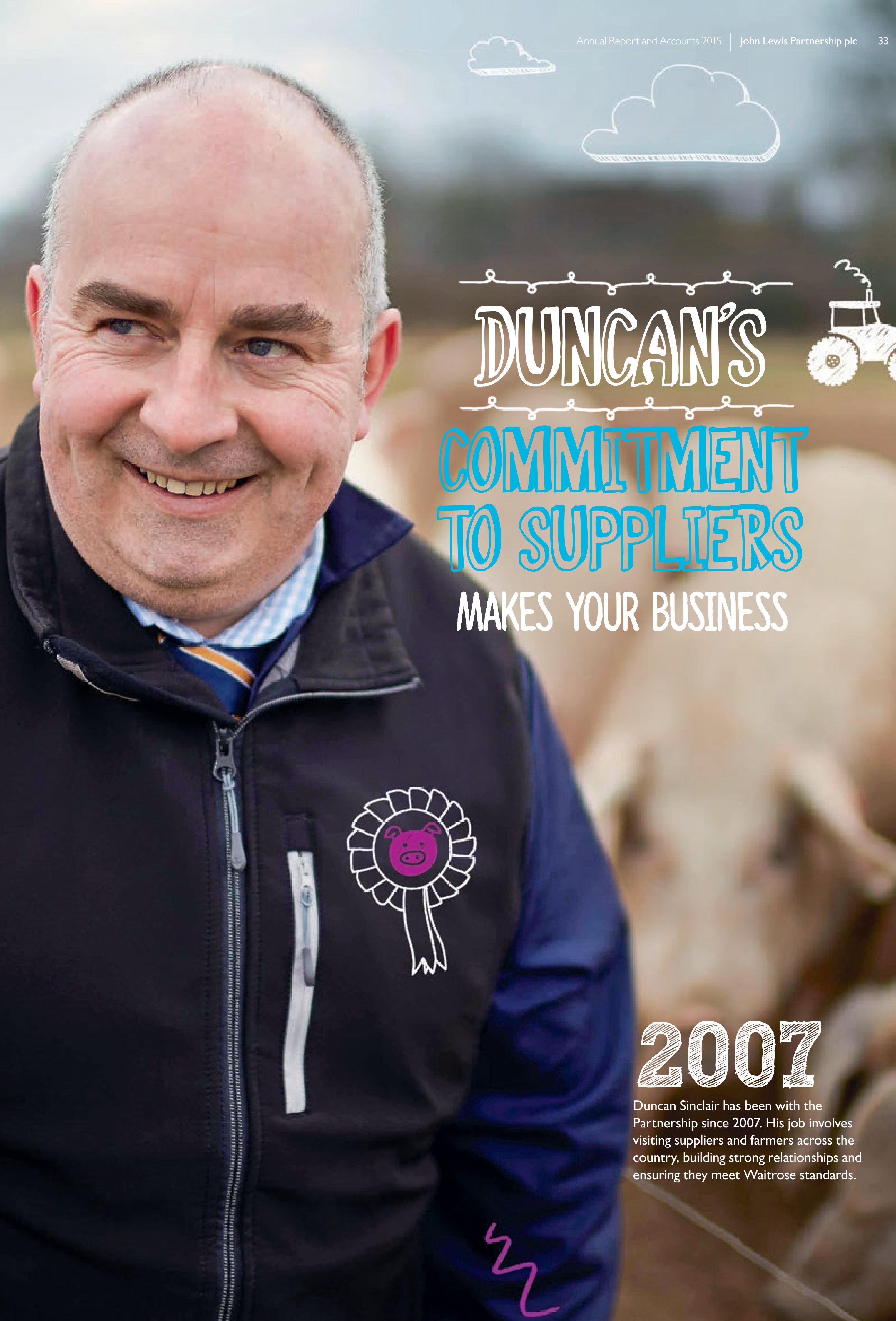
In 2014, we engaged economic specialists eftec (economics for the environment consultancy), to help us understand the benefits of our approach by looking at this specific relationship. They concluded that:

"The higher confidence and investment by Dalehead and its farmer partners than is typical within UK pork production brings benefits to Waitrose as a business. It creates a supply chain which is better able to deliver production to Waitrose's high standards, and that has been able to expand to support Waitrose's increased market share in the UK over recent years."

See the full report at www.johnlewispartnership.co.uk

"A REALLY POSITIVE ASPECT OF OUR BUSINESS MODEL IS THE NUMBER OF YOUNGER FARMERS WHO HAVE BEEN ABLE TO GET THEIR FIRST FOOT ON THE FARMING LADDER. WE HAVE ALSO BEEN ABLE TO REASSURE CUSTOMERS OF THE QUALITY AND CONSISTENCY OF OUR PRODUCT."

Duncan Sinclair
Agricultural Manager, Waitrose



DUNCAN'S COMMITMENT TO SUPPLIERS MAKES YOUR BUSINESS

2007

Duncan Sinclair has been with the Partnership since 2007. His job involves visiting suppliers and farmers across the country, building strong relationships and ensuring they meet Waitrose standards.

PRINCIPLE 7
THE COMMUNITY

CREATING VALUE BEYOND THE PARTNERSHIP

Principle 7 of our Constitution outlines our approach to our social responsibilities in 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."

Our principle in action

We participate in a number of volunteering initiatives, with Partners across the country sharing their skills with local charities. In 2014/15, we volunteered over 120,000 hours.

The Golden Jubilee Trust is our unique flagship Partnership volunteering programme. This gives Partners the opportunity to volunteer full or part time with a UK-registered charity for up to six months, on full pay. Since it launched in 2000, more than 700 volunteers have dedicated around 278,000 hours to 690 charities, spanning causes such as youth education, care of people in need, environmental protection and the arts.

We are one of very few businesses who have committed to give their employees the opportunity to have such a deep and lasting positive impact in the community, by regularly providing volunteers in this way.

DID YOU KNOW?

The personal and social value of volunteering has an economic value, estimated to be worth around 3.5% of annual UK GDP – the same as the UK energy sector's contribution.[1]

Benefiting our local communities, Partners and business

This year, we asked 80 Partners who'd volunteered in the last five years about the impact they felt the programme had had on them. In addition to strengthening community relationships, the vast majority of Partners felt this experience had deepened their understanding of our Constitutional Principles, and that it had enriched them personally.

- → 86% said they had either gained new skills or had developed existing skills during the secondment, which helped them in their day-to-day job with the Partnership. These included communication, leadership and adaptability skills.
- → 65% of Partners agreed that the experience had a positive influence on their performance at work.
- → 60% asserted the experience had influenced their career choices and progression since, or they thought it would in the future.

"MY VOLUNTEERING EXPERIENCE HAS GIVEN ME MUCH MORE CONFIDENCE IN APPROACHING DIFFICULT SITUATIONS, AND I AM CONVINCED THIS HAS PLAYED A ROLE IN MY RECENT PROMOTION. KNOWING THAT THE WORK I HAVE DONE HAS MADE A REAL IMPACT ON SO MANY PEOPLE, GIVES ME A FEELING OF GREAT SATISFACTION."

Nicola Storey
Section Manager John Lewis, York

[1] Speech made by Chief Economist, Bank of England, Andrew Haldane to the Society of Business Economists, London in September 2014.

NICOLA'S COMMITMENT TO HER COMMUNITY MAKES YOUR BUSINESS

700

In 2011, Nicola Storey, John Lewis Sheffield Catering Partner, volunteered 700 hours over six months for SAFE@LAST – a charity working with young people at risk. The role involved communicating and expanding the charity's services in the Midlands, at a time when it was facing a lack of funding.

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IT'S YOUR FUTURE

Strategy

A strong business needs a strong strategy. Over the next few pages we look at our long-term Partnership Aims, our Divisional strategies to meet them, and how we manage risk.

Our Partnership Aims

Our Aims set the direction for the Partnership's business strategy. They establish how the Partnership will achieve Principle 1 in the next three to five years.

IN A NUTSHELL...
In this section our Chairman shares our Partnership Aims and explains how we keep track of our progress.

Our Aims are ambitious

Our Aims reflect and build on our strengths. They also require the Partnership to do some new and different things. They identify how we will compete, what behaviours are required, and how we will judge success.

The Aims are also the lens through which we judge our success. Progress will mean we have successfully enabled Partners to add more value to our business than employees do for our competitors, and therefore earn more as a result. We will have successfully targeted the most valuable customers, who shop across our brands, and gained a greater share of their spend. Through improved processes and clearer responsibilities, we'll be successfully funding our growth through better efficiency and operating margins.

Divisional performance is tracked against our Aims to ensure we're meeting our overall objective to achieve Principle 1.

Sir Charlie Mayfield
Chairman, John Lewis Partnership

Aim	What this means	How we measure success
INCREASE ADVANTAGE OF PARTNERS	 DEFINE AND ENABLE THE WORTHWHILE AND SATISFYING EMPLOYMENT OF PARTNERS.	→ Job satisfaction → Gross sales per average FTE (£000s) → Partnership profit per average FTE (£) → Staff turnover (%) → Number of Partners
REALISE MARKET POTENTIAL	 DELIVER A MARKET-LEADING OFFER TO CUSTOMERS.	→ Number of shops → Selling space (m sq ft) → Gross sales per selling sq ft (£) → Gross sales growth (%) → % of customers shopping in both brands
GROW EFFICIENTLY	 GENERATE SUSTAINABLE RETURNS FOR THE PARTNERSHIP AND APPROPRIATE RETURN FOR PARTNERS' OWNERSHIP.	→ Partnership profit margin (%) → Cash flow from operations (£m) → Return on invested capital (%)

For more information:
Turn to the next pages 40-41 to see how our Divisional teams are implementing their strategies.

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Our Divisional strategies

Our Divisional strategies support the three Partnership Aims that underpin our overall Partnership strategy.

IN A NUTSHELL...

In this section, our Divisional Managing Directors explain the strategic priorities for their Division.

Waitrose

"OUR STRATEGY TO CREATE MODERN WAITROSE HAS PARTNERS AT ITS HEART, HELPING CUSTOMERS ENJOY THE QUALITY, INSPIRATION AND SERVICE THEY TRUST – WHENEVER, WHEREVER AND HOWEVER THEY WANT TO SHOP."

Mark Price
Managing Director, Waitrose

Partnership Aim: INCREASE ADVANTAGE OF PARTNERS

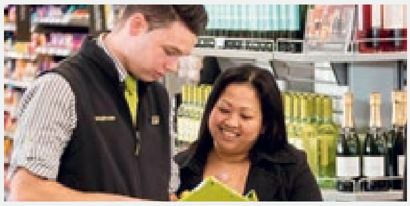
Strategic priorities

- Invest in Partner development and progression
- Support productivity

In progress

>12,000
Training days for shop managers

>4,000
iPads provided for management teams



In 2015, we will undertake our biggest ever training programme for managers in our shops.

Partnership Aim: REALISE MARKET POTENTIAL

Strategic priorities

- Create Modern Waitrose: build online presence; broaden convenience offer; develop compelling reasons to visit shops
- Investment in product innovation and value
- Deepen customer relationships through myWaitrose

In progress

+31%
increase in online grocery sales

4,900
new or improved products launched

68%
of sales made to myWaitrose cardholders

We set up 144 new welcome desks, 167 gardening pods and price-matched 8,000 products with Tesco.

Partnership Aim: GROW EFFICIENTLY

Strategic priorities

- Open appropriate new retail space
- Invest in IT and distribution to support growth

In progress

33
new shops – including 20 Little Waitrose, plus five Welcome Break shops

35%
increase in IT capital investment

National Distribution Centre due to open in July 2015.

For more information:
Go to How we create value on page 18›
Go to Performance on page 60›

John Lewis

“THE SUCCESSFUL COMBINATION OF BRICKS AND CLICKS IS PAYING OFF – WE’RE GROWING MARKET SHARE ACROSS ALL THREE BUYING CATEGORIES AND ACROSS BOTH ONLINE AND SHOPS.”

Andy Street
Managing Director, John Lewis

Partnership Aim | Strategic priorities | In progress

→ Partners owning success

83%
Partner advocacy score

1,300
Partners received an external qualification

364
Partners celebrated through ‘roof raisers’ recognition programme

Maintained our Partner advocacy scores and used our 150th anniversary to reignite the history of John Lewis.

→ Outperform in current markets
→ Grow online business
→ Expand physical space

4.9%
Outperformance of the BRC

400,000
New customers

3+8
Opened three new shops in 2014/15 with eight in the pipeline

Grown market share in all three product categories and across both channels.

→ Drive efficiency to exploit scale
→ Diversify into new products and services

10.4%
Increase in operating profit across shops and online

35%
Uplift in insurance commission

Invested in transformation of our distribution and IT infrastructure, and extended in-store services.

For more information:
Go to How we create value on page 18›
Go to Performance on page 68›

Managing our Partnership risks

> "EFFECTIVE RISK MANAGEMENT IS SIMPLY ABOUT GOOD MANAGEMENT. IT HELPS US MAINTAIN PARTNERS' TRUST AND BUILD VALUE FOR THE PARTNERSHIP."

Loraine Woodhouse
Acting Group Finance Director

How do we define risk?

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

Our approach to risk

Risk is not something that we can avoid. It is an inherent part of how the Partnership seeks to grow and create value. In the pursuit of our Partnership Aims, strategy and business plan objectives, we seek to understand and harness risks, but operate within an acceptable level of risk taking – our perceived 'risk tolerance' in accordance with parameters set by our Constitution and the Board.

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.

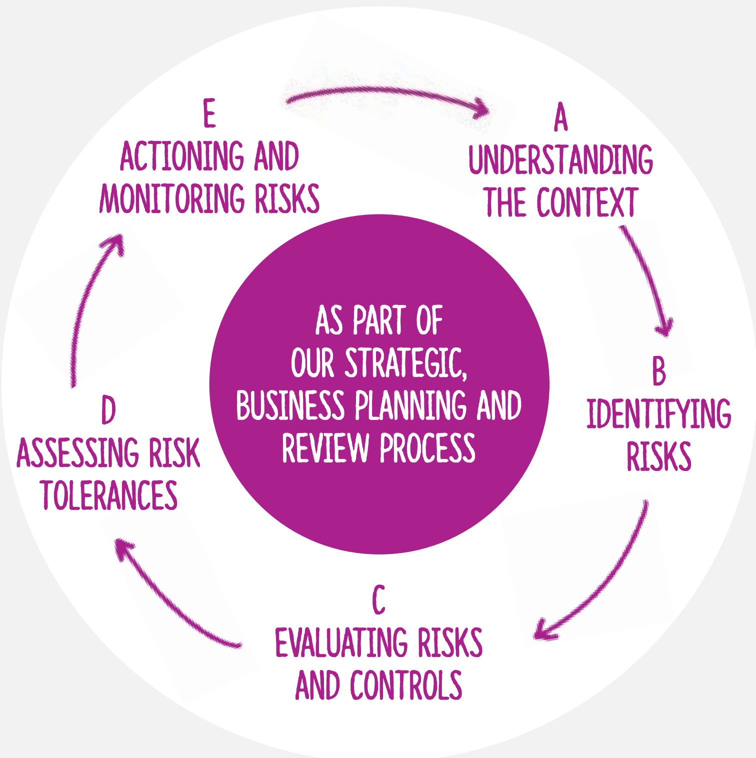
Risks or opportunities?

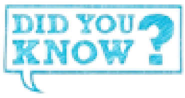
Risks can come in different forms, some arising from challenges from the external environment in which we compete, but others internally from uncertainties and issues with our strategic responses and how we operate our business model. Some may threaten our success or viability directly with a financial, operational and/or reputational impact; others could be opportunities we might miss for further growth and a sustainable future. By understanding our risks more clearly and managing them more pro-actively we should be in a better position to build future value and achieve Principle 1.

Our risk management process

To improve our ability to consistently identify, manage and monitor risks, and take advantage of opportunities, we have developed a structured approach to assessing, managing and communicating risk.

A PRACTICAL APPROACH



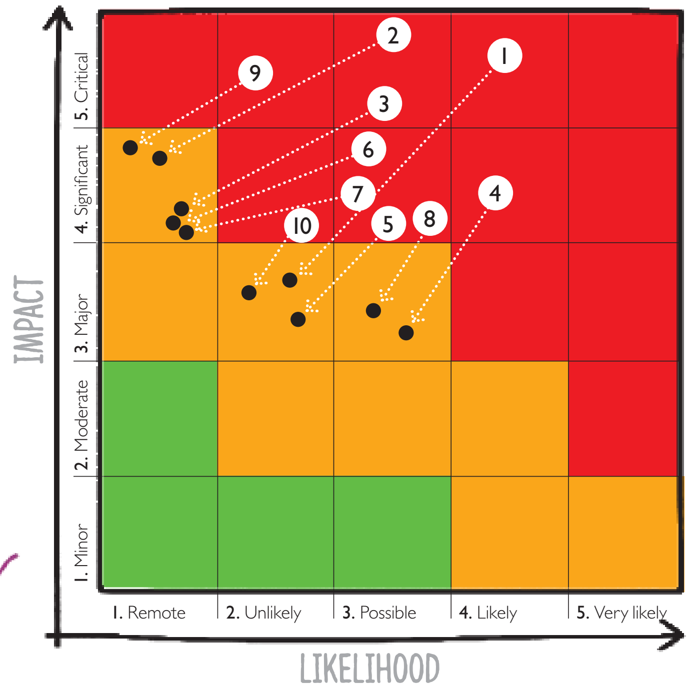


The top ten Partnership risks

1 Competition
2 Pension obligations
3 Property valuation
4 Efficiency
5 Economic environment
6 Operating model strain
7 IT infrastructure capability
8 Change delivery
9 Data protection breach
10 Talent

HEAT MAP

Partnership risks to the achievement of Principle 1 and The Business Plan



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

Risk management in practice

Our risk management process is used to stress-test key decision-making points in our planning and review procedures. We do this before we commit, so we can make any changes to our plans and deliver them with confidence. A structured risk assessment is a requirement of our strategic and business planning and review process, as well as being an essential part of our management of projects and compliance activities. In this way, risks are assessed by Divisions and Directorates half-yearly, considering the potential impact of the risk and the likelihood of its occurrence – see Heat Map.

Evaluation of impact and likelihood is made after consideration of the effectiveness of current mitigating controls we have in place – to give a 'net' profile. If this net profile is deemed to be placing us at too much risk for the return expected and against our risk tolerance (demonstrated by being evaluated in the 'red zone'), a response will be needed to bring the risk back within an acceptable level of risk taking.

> "UNDERSTANDING OUR RISKS, AND THEIR IMPACT ON OUR BUSINESS PLANS AND DAY-TO-DAY OPERATIONS, IS VITAL TO CREATING SUSTAINABLE VALUE."

Loraine Woodhouse
Acting Group Finance Director

To help visualise this for analysis and decision making, risks are plotted on a Heat Map.

In general, risks evaluated in:

RED ZONE – the 'red zone' are ones where we feel we are taking too much risk for the return and against our risk tolerance. Desired 'target profiles' are set and further actions identified to bring the risk back within our risk tolerance.

AMBER ZONE – the 'amber zone' are ones which we feel we are managing satisfactorily against our tolerance. They will be formally monitored to ensure they do not deteriorate to the red zone, but no further actions are expected.

GREEN ZONE – the 'green zone' are ones felt currently to be immaterial and unlikely to affect our Partnership objectives. Risk owners are responsible for monitoring them and raising the alarm if they show significant deterioration.

Details of our risk profiles, current mitigating controls, risk tolerances and further actions are captured in Risk Registers in each Division and at a Partnership level.

The output from the Divisional risk assessments is consolidated, per their net profile, to produce the Partnership Risk Profile. This is reviewed and challenged by the Chairman's Committee, before being submitted to the Partnership Board for final review and approval. The outcome of this review is fed back to the Divisions for consideration of any changes. The top ten risks are highlighted above.

To ensure that we are managing and taking risk at the right level, the Chairman's Committee and Divisional Risk Committees monitor the ongoing status and progress of key further action against each risk and its tolerance, on a quarterly basis.

Managing our Partnership risks (continued)

Our formal risk assessment process for stress-testing key business plan decisions reinforces our intuitive use of risk management in every day decision-making.

How we govern risk management

The Partnership Board has overall accountability for ensuring that risk is effectively managed across the Partnership and determining the nature and extent of the significant risks it is willing to take.

The Partnership Board has delegated responsibility for the day-to-day management of the principal Partnership risks to the Chairman's Committee, within the Board's set risk tolerances. The Audit and Risk Committee review the effectiveness of the risk management process.

Each Division is responsible for identifying, evaluating, managing, measuring and monitoring the risks in their respective area. Divisional Risk Committees oversee the effective use of the risk assessment process, with assistance from the Group Head of Risk and Divisional Risk Managers.

Internal Audit reviews internal controls using a risk-based audit plan, and management self-certify that they have followed the risk management process at the year end.

Our governance structure encourages the effective flow of risk insights throughout the Partnership. For more detail, go to the Audit and Risk Committee report on page 104.

DID YOU KNOW?

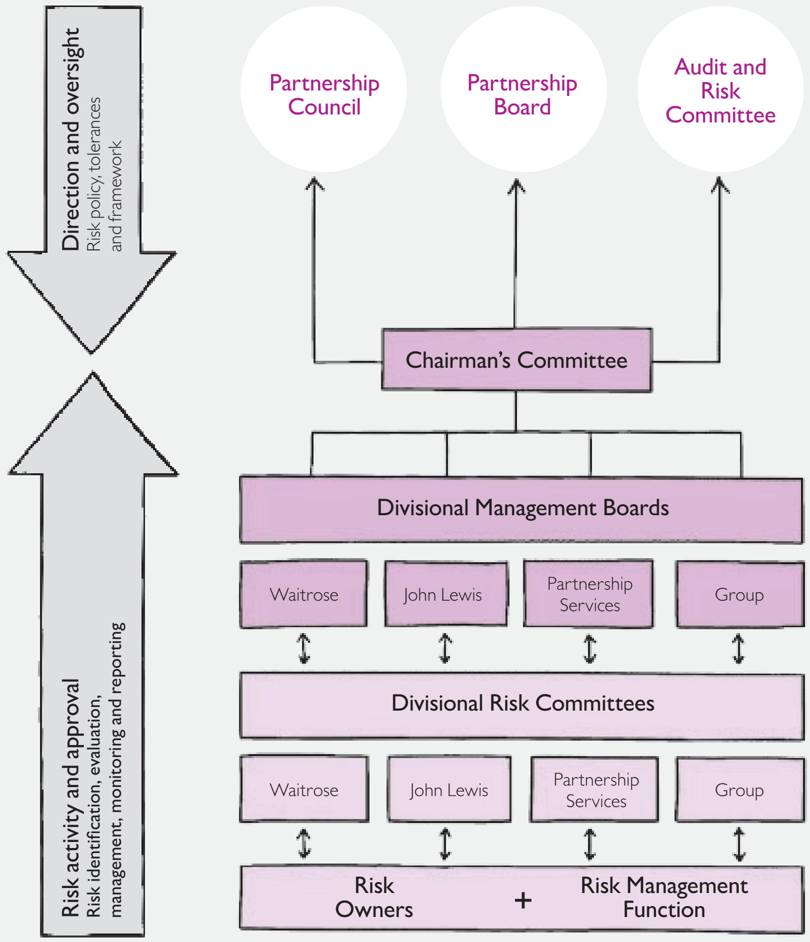
We have chosen to adopt the UK Corporate Governance Code on a voluntary basis. For more information about how we comply go to our governance section starting on page 82.

Providing confidence to our stakeholders

A formalised approach to risk management is also a Corporate Governance requirement, providing confidence to our stakeholders.

In this we apply voluntarily the principles of the UK Corporate Governance Code ('the Code'). The Financial Reporting Council, the UK's Corporate Governance regulator, updated the Code in September 2014. As detailed on page 85, the revised Code will be reported against for our next financial year.

Risk Management Governance structure



Our principal risks and mitigations

Using our risk universe, risk management process and governance structure, the Chairman's Committee has identified 23 principal risks, prioritised between 'red' and 'amber' risks:

DID YOU KNOW?

We have defined a Risk Universe for the Partnership, defining a comprehensive list of potential risks we could be exposed to. It helps us identify and analyse our risks.

Principal risks, analysed per our Risk Universe categories

	Strategic risks i.e. risk of us "doing the wrong thing"	Operational risks i.e. risk of us "doing the right thing, in the wrong way"	Financial risks i.e. risk of us "doing it in a way that loses money or incurs unnecessary liabilities"	Compliance risks i.e. risk of us "not doing what Regulators require"
Top red risks (10)	1 Competition 5 Economic environment 6 Operating model strain 7 IT infrastructure capability 8 Change delivery	4 Efficiency 10 Talent	2 Pension obligations 3 Property valuation	9 Data protection breach
Top amber risks (13)	→ Political environment → Media communications	→ Omnichannel proposition → Responsible sourcing → Loss of key suppliers, 3rd parties → Loss of key B2B customers → IT failure → Business interruption	→ Funding & liquidity → Financial control, reporting and governance	→ Product quality and food safety → Health & Safety breach → Other regulatory compliance

Of those identified:

→ Ten risks are in the 'red zone'. They have been assessed as beyond our tolerance for acceptable risk taking and so require further responses. Plans have been developed with action owners and timelines. Progress is reviewed by the Chairman's Committee.

→ For details of how we evaluated the top ten risks, see page 43 and for how we manage them, see pages 46 to 47.

→ 13 risks are in the 'amber zone'. They have been assessed as being managed satisfactorily and so no additional actions are required. They are formally monitored by Divisional Risk Committees to ensure they do not deteriorate.

→ Our risk universe helps us to identify emerging and changing risks.

These risks do not comprise all those associated with the Partnership, as there are some risks currently deemed to be less material, i.e. in the 'green zone', and others we are not yet aware of.

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. Following this year's evaluation, the Chairman's Committee has identified that:

Increased risk profile

+3 principal risks have increased significantly and are now in the red zone.

1 Competition | 4 Efficiency | 3 Property valuation

What are we doing about these risks?

Additional plans have been developed to improve our management of threats from competitors, secure delivery of our efficiency initiatives and protect against changes in the value of our property. Progress is monitored by Divisional Risk Committees and the Chairman's Committee.

Decreased risk profile

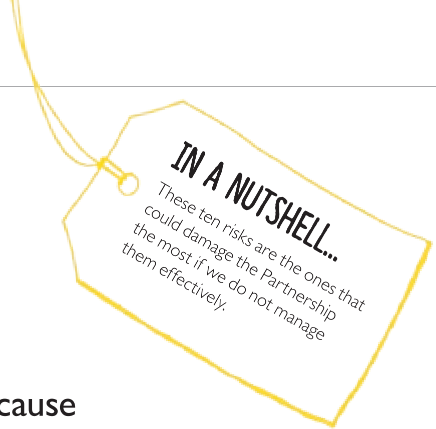
–2 principal risks from last year's evaluation are no longer in the red zone, as they are now deemed to be being managed satisfactorily and have a reduced threat.

Business interruption | Regulatory compliance

Why have these reduced?

Work performed throughout the year has improved the resilience of our key IT systems and a Regulatory Compliance project is underway to improve our policies and procedures.

Our principal risks and mitigations (continued)

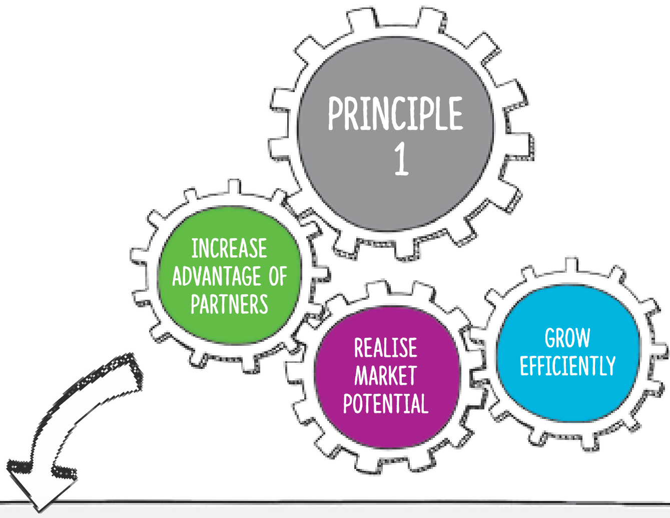


These are our top ten principal risks; the ones that cause us the most concern in delivering our strategy and business plan. We have mitigations in place and have identified further actions where we feel we need them to protect the Partnership.

Possible causes	Potential consequences	How we manage and mitigate these risks
Strategic risks		
1 Competition — Increased risk profile ↑		
Aggressive price competition puts pressure on our margin and profitability as the current environment in the retail grocery sector means that Waitrose customers focus more on value for money and less on loyalty.	We may lose customers, impairing our ability to grow profitably. **Partnership Aims affected** → Realise Market Potential → Grow Efficiently	→ Tracking competitor impact and customer perceptions to inform our decisions. → Focussing on the customer experience we offer to differentiate us from other retailers, including myWaitrose benefits to offer additional value to customers. → Implementing efficiency projects to protect our operating margin.
5 Economic environment		
A worsening external economic environment, for instance due to government spending restrictions, a static economy and lack of pay increases, reduces our customers' spending power and harms our suppliers' financial resilience.	Our customers may move away from our core product offers or buy less. Key suppliers may demand higher prices or fail us. This could impair our ability to grow profitably. **Partnership Aims affected** → Realise Market Potential → Grow Efficiently	→ Pursuing our strategy to deliver the highest levels of customer service, product quality and product innovation. → Securing value for all our customers through our range selections and price matching commitments, while continually introducing new products and services to anticipate changing customer requirements. → Developing long term relationships with our suppliers and having contingency plans for key vulnerabilities.
6 Operating model strain		
Changing customer requirements, a shift to online and the need to increase investment in supply chain and IT put strain on our operating model and threaten our ability to meet customer needs and grow profitably.	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. **Partnership Aims affected** → Realise Market Potential → Grow Efficiently	→ Significant investment in our IT infrastructure and supply chain to support efficiency and continue development of a market-leading omnichannel proposition. → All change initiatives consider Partner impact. → Implementing sales initiatives and continually introducing new products and services to ensure we meet changing customer requirements.
7 IT infrastructure capability		
As our customer needs change and our ambitions grow, our IT infrastructure becomes less 'fit for purpose' for our current operational needs and is not able to adapt to meet our future aspirations.	Change may require significant investment, through capital, expertise and Partner input. In addition, change could strain our operating model, both from an efficiency and a continuity perspective. **Partnership Aims affected** → Realise Market Potential → Grow Efficiently → Increase Advantage of Partners	→ Our IT vision and strategy align with our business strategy and enable the sustainable change required. → IT restructure programmes are in progress, which will provide resilience and protect the Partnership. → System backups are in place to provide business continuity, and SLAs are in place with IT third parties.
8 Change delivery		
Due to the size, nature and complexity of our change agenda, we may experience issues with planning and governance, resourcing and investment, and engaging our Partners.	Failure to develop, implement and embed change effectively could result in increased costs, disruption to our trading activities, missing our growth ambitions and losing the engagement of our Partners. **Partnership Aims affected** → Realise Market Potential → Grow Efficiently → Increase Advantage of Partners	→ Heads of Portfolio Management develop and manage our change capability. Significant investment has been made in specialist project management support. → Working Groups, Steering Groups, Group and Divisional Change Boards are in place to provide pan-Partnership programme governance. This enables early identification and remediation of issues and considers the impact on Partners. → Project and programme assurance is provided by Internal Audit.

Partner Trust

Partner impact is pervasive and inherent in all of our principal risks and is given consideration in all key decisions.



Possible causes	Potential consequences	How we manage and mitigate these risks
Operational risks		
4 Efficiency Increased risk profile ↑		
In response to the ever changing external environment and pressures on our operating model, we have developed programmes to optimise our efficiency and productivity. There is a risk that these programmes fail and therefore the required savings are not delivered.	Failure to deliver the savings required from our planned efficiency programmes may constrain our ability to improve our profitability and result in strain on our Partners. **Partnership Aims affected** → Increase Advantage of Partners → Grow Efficiently	→ Specific projects and programmes, to focus on our current and future efficiency and productivity. → Project management capability assigned to all major projects, and external specialists used when required. → Change Boards in place to monitor current efficiency programmes and enable early identification of any issues.
10 Talent		
In a changing and competitive market and in consideration of our Partnership model, we constantly need to assess what talent the Partnership needs to deliver our business goals and how we can attract, develop and retain it.	Failure to attract, develop and retain talented Partners with the right capability may impair our ability to grow profitably in line with our ambitions. **Partnership Aims affected** → Increase Advantage of Partners → Grow Efficiently	→ Annual talent reviews ensure that our top talent is identified, developed and succession plans exist for key roles. → Leadership Development Programmes in place to support succession and capability needs of the Partnership. → Benchmarked benefits and remuneration to support competitive reward.
Financial risks		
2 Pension obligations		
The open nature of the Partnership's defined benefit scheme could lead to a future increase in pension liabilities, with the risk that cash flows are put under strain in order to address a significant pension deficit.	Defined benefit pension obligations place a significant financial burden on the Partnership and can divert resources (and Partner attention) away from other investment opportunities. **Partnership Aims affected** → Increase Advantage of Partners → Realise Market Potential	→ Pensions Benefit Review approved by the Partnership Council and the Partnership Board and implementation of the new arrangements initiated. → Valuation assumptions and pension funding strategy have regular external and internal monitoring and review. → A project to investigate means to further de-risk the pension fund investment portfolio initiated.
3 Property valuation Increased risk profile ↑		
Continuing market shifts in the retail grocery sector, from the current channel format towards online and convenience stores, could cause a fall in freehold estate valuation for Waitrose's freehold properties.	A fall in freehold estate valuations and any revaluation of our property portfolio could impact profit before tax and the strength of our balance sheet. **Partnership Aims affected** → Realise Market Potential → Grow Efficiently	→ All property acquisitions are reviewed by the appropriate Management Boards and annual post investment reviews are performed on new acquisitions for their first three years. → Annual impairment reviews are performed. → A review is in progress to assess the appropriateness of our portfolio and mix between freehold and leasehold.
Compliance risks		
9 Data protection breach		
Due to increasing external attempts to cause disruption or access sensitive data and the pace of technological development, we may be vulnerable to a breach of our Partner or customer data.	**Potential consequence:** A significant data breach and loss of either Partner or customer data could cause financial, regulatory, legal and/or reputational damage. **Partnership Aims affected:** → Increase Advantage of Partners → Realise Market Potential → Grow Efficiently	→ Policies and procedures clarify how to protect our Partner, customer and operational data. → IT security controls in place, including network security and regular penetration testing provide early identification of network or system vulnerabilities and weaknesses. → Data and IT Security Improvement Programmes are being implemented across the Partnership.

IT'S YOUR BUSINESS

IT'S YOUR PERFORMANCE

Performance

Performance isn't just about profits. In this section, we summarise our 2014/15 performance – financial and non-financial – as well as how we're addressing our wider responsibilities as a business.

Partnership performance

Our market is evolving. Against a rapidly changing retail landscape, we continued to grow as a Partnership – boosting sales, investing in the future and tackling some big challenges.

"GROSS SALES INCREASED BY 7.6% (5.7% ON A 52-WEEK BASIS) BUT PROFIT BEFORE PARTNERSHIP BONUS, TAX AND EXCEPTIONALS FELL 9.0% (10.5% ON A 52-WEEK BASIS)."

Loraine Woodhouse
Acting Group Finance Director

IN THIS SECTION...

* 53 week data

Highlights

- Gross sales grew by 7.6% (5.7% on a 52 week basis)
- Partners shared a bonus of £156m
- We invested 3.7% of our pre-tax profits in our communities

Challenges

- Partnership operating profit before exceptional items fell by 6.1% (7.5% on a 52 week basis)
- Our Partners are facing growing pressures driven by a changing retail landscape
- We must continue to address the ethical and environmental challenges we face in our supply chain

FINANCIAL REVIEW

During the year, sales have increased but profit was down. The Partnership has amended its pension arrangements and prepaid £294m of previously-agreed deficit reduction contributions to the pension scheme.

Sales

In 2014/15 the Partnership delivered good sales growth. Both Waitrose and John Lewis grew sales well ahead of their respective markets, increasing market share. Partnership gross sales (including VAT) were £10.94bn, an increase of £771.1m, or 7.6%, on last year (5.7% on a 52 week basis). Revenue, which is adjusted for sale or return sales and excludes VAT, was £9.70bn, up by £673.2m or 7.5% (5.6% on a 52 week basis).

Operating profit

Partnership operating profit before exceptional items was £442.3m, down by £28.6m or 6.1% on last year (down 7.5% on a 52 week basis). Last year, following a review of the Partnership's holiday pay policy, an exceptional cost of £47.3m was recorded. This year, following a reassessment of the total costs that were recognised, we have released remaining liabilities as exceptional income of £7.9m. Partnership operating profit, including exceptional items, was £450.2m, up £26.6m, or 6.3% on last year (4.7% on a 52 week basis).

Profit before Partnership Bonus and tax

Profit before Partnership Bonus, tax and exceptional item was £342.7m, down by £33.7m or 9.0% on last year (down 10.5% on a 52 week basis). After including the exceptional item, it was £350.6m, up by £21.5m, or 6.5% on last year (4.7% on a 52 week basis).

Partnership Bonus

Our Partners, as co-owners, each receive the same percentage of pay as Partnership Bonus, which changes from year to year reflecting the performance of our business. Partners shared £156.2m in profit, which represented 11% of pay or the equivalent of nearly six weeks' pay for Partners with us for the whole year.

Partners also continue to receive a number of other benefits. In total we have spent £773m in benefits to our Partners, including Partnership Bonus, pensions, Partner discount, catering subsidy, long service leave, leisure spending and the running of our five holiday centres.

Investment in the future

Capital investment in 2014/15 was £670.9m, an increase of £175.9m (35.5%) on the previous year. This includes £143.2m invested in freehold properties, an increase of £87.4m on the previous year, and includes six freehold branches purchased from the Co-operative.

The majority of our spend continues to be invested in our store base, either on new shops or the refurbishment of existing ones. However, to enhance the agility and robustness of our systems and infrastructure, and invest in our future capability given the changing dynamics within retail, we have also significantly increased our capital investment in distribution and IT in the year.

Investment in Waitrose was £388.5m, up £100.8m (35.0%) on the previous year, and investment in John Lewis was £231.9m, up £67.1m (40.7%).

Financing

In December 2014, we issued a £300m 4.25% bond due in 2034, and used the net proceeds of £294.1m to prepay previously-agreed deficit reduction contributions to the pension scheme. As a consequence, at 31 January 2015, net debt was £780.2m, an increase of £294.4m (60.6%).

Net finance costs on borrowings and investments decreased by £6.0m (10.2%) to £52.8m. The year-on-year decrease reflects the repayment of a £100m bond at the end of the previous year. After including the financing elements of pensions, long service leave and non-cash fair value adjustments, net finance costs increased by £5.1m (5.4%) to £99.6m.

Pensions

The pension operating cost before exceptional item was £194.5m. This is an increase of £26.8m or 16.0% on the prior year costs. The increase reflects changes to financial assumptions, growth in scheme membership, and a one-off cost in the year of £6.5m for an increase in future pension liabilities. The one-off cost followed our decision to take all paid overtime into account when calculating holiday pay for Partners, for holiday taken from 1 November 2014.

Pension finance costs were £37.6m, an increase of £2.3m or 6.5% on the prior year, reflecting a higher accounting pension deficit at the beginning of the year than at the beginning of the previous year. As a result, total pension costs before exceptional items were £232.1m, an increase of £29.1m or 14.3%.

Following the conclusion of the triennial actuarial valuation of our defined benefit pension scheme as at 31 March 2013, we agreed to increase the ongoing contribution rate to 16.4% of members' gross taxable pay. We also agreed to put in place a plan to eliminate the deficit over a 10 year period through a one-off contribution and annual deficit reduction contributions. However, to secure long-term debt at low interest rates, we issued a £300m bond in December 2014. We used the net proceeds of the issue to prepay almost seven years of the previously-agreed deficit reduction contributions to the pension scheme. In the year, total contributions to the pension scheme therefore totalled £492.8m, an increase of £229.9m or 87.4% on the prior year.

The total accounting pension deficit at 31 January 2015 was £1,249.3m, an increase of £245.9m (24.5%) since 25 January 2014. Net of deferred tax, the deficit was £1,018.4m. The accounting valuation of pension fund liabilities increased by £1,082.8m (25.7%) to £5,301.0m. This mainly reflects market volatility in the financial assumptions as the real discount rate used to value the liabilities decreased substantially from 1.10% at the beginning of the year, to 0.35% at the end of the year. Pension fund assets increased by £836.9m (26.0%) to £4,051.7m, including the £294.1m one-off contribution made by the Partnership in December 2014.

DID YOU KNOW?

The pension scheme has 121,000 members of whom 52,000 are current Partners.

Pension review

The Partnership amended its pension arrangements after a thorough consultation within the business. Partners were involved throughout and we used technology to facilitate this. For example, we live streamed meetings, and relevant pages on the company intranet received thousands of hits.

A final decision was taken in January 2015, after a two year process. The outcome was to adopt a hybrid scheme with a non-contributory Defined Benefit scheme based on a Partner's final salary, but at a reduced accrual rate of 1/120ths. The Defined Contribution section of the scheme will see Partner contributions matched up to 4.5% of basic pay plus 3% of their basic pay each month on a non-contributory basis. The new proposals will be implemented in April 2016.

"IT'S ABOUT MAKING SURE THE PENSION IN THE FUTURE IS BOTH AFFORDABLE TO THE PARTNERSHIP AND FAIR FOR PARTNERS GOING FORWARD."

Sir Charlie Mayfield
Chairman, John Lewis Partnership

Partnership performance (continued)

> "AS OWNERS OF OUR BUSINESS WE ALL SHARE IN ITS SUCCESS. WHILE OUR PARTNER ADVOCACY SCORES REMAIN HIGH, CHANGES IN THE RETAIL WORKPLACE MEAN IT'S MORE IMPORTANT THAN EVER THAT WE HAVE A PARTNER PLAN WHICH ENABLES US TO BE AGILE AND TO ADAPT, WHILE STAYING TRUE TO OUR PRINCIPLES."

Tracey Killen
Director of Personnel

PARTNER REVIEW

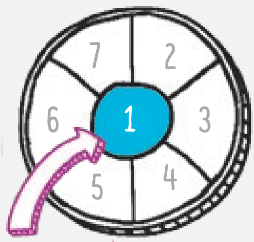
Our employees are Partners, which means we are all owners of the business and share in its success. Our founder, John Spedan Lewis, had an ambitious vision of employee co-ownership with the happiness of Partners as the ultimate purpose, and his vision lives on in the modern Partnership of today.

The challenges we face

The world of work is changing for our Partners. Changes in the way customers shop are driving fundamental shifts in the Partnership's business model. We are increasingly reliant on technology, and need to continue developing our understanding of customers' needs. This will enable Partners to continue to provide the excellent service the Partnership is known for.

Our Partners' happiness remains a priority in the face of these changes. Not only is Partner happiness part of our purpose, but Partners' wellbeing is vital if we are to retain our competitive advantage – we know that the more satisfied our Partners are, the more satisfied our customers are. So we must ensure that we are providing the right working conditions, support and benefits in order to help our Partners through this time of changes. It is also important that our workforce continues to diversify, reflecting changes in the UK population.

Together we will meet these challenges, and continue to succeed.



Principle 1

Principle 1 outlines what the Partnership stands for and how our Partners sit at the heart of our Constitution: "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."

Number of Partners (53 weeks)

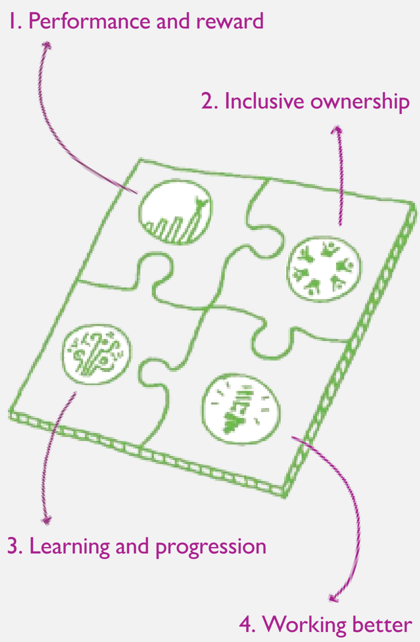
93,800

+3.1%

2014: 91,000

Our Partner Plan

It is against this backdrop that the Partner Plan, our strategic roadmap for our people, has developed and evolved, enabling the business to continue to respond to the challenges presented now and in the future. Now in its third year, we refreshed and updated our four themes to more closely reflect the challenges we face as a community of 93,800 Partners.



1. Performance and reward

We believe that our approach to pay and benefits is market leading within the sector. Pay levels are informed by the market, to help us attract and retain high calibre people. We are guided on this by Rules 61 and 62 of our Constitution.

The current economic climate has heightened the need for us to focus on ensuring Partners can improve their pay. Our democratic channels have been alive with discussion around the increasing cost of living and how we can support Partners with the challenges they face.

We enable and incentivise Partners to increase wages through our Pay for Performance framework, which links performance with pay. Launched in 2014, the new framework has enabled us to ensure a fair and consistent approach to the application of pay awards across the Partnership.

Reward is not just about pay, and our package aims to provide Partners with a range of benefits. This year we enabled Partners to buy additional holiday entitlement, which was taken up by 1,500 Partners. We also introduced interest-free season ticket loans to help reduce the cost of commuting to work. More than 1,000 Partners have taken advantage of this benefit. We also offer a childcare voucher scheme, generous discount in our shops, and subsidies on tickets for events.

In 2014, 94% of Partners agreed that they value the range of benefits available to them. This places us among the top 10% of UK employers[1].

For more on Partners benefits:
www.johnlewispartnership.co.uk/work/pay-and-benefits.html

Partner benefits (53 weeks)

Wages and salaries

£1,360M

+7.0%

2014: £1,271m

Other payments and benefits to Partners

£773M

+32%

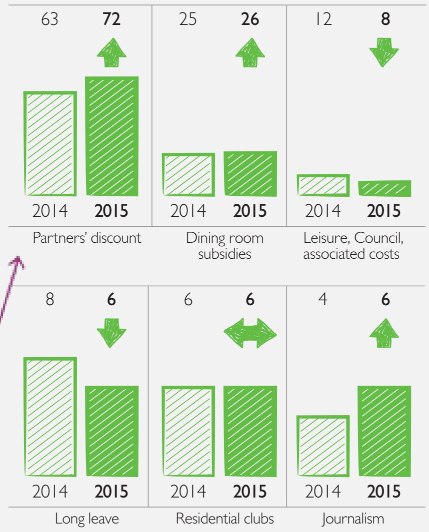
2014: £584m

Including:

£124M

+5.1%

2014: £118m



In 2014, 76% of Partners completed our annual survey:

72%

Partner job satisfaction scores were at 72%.

86%

Partner advocacy remained high with 86% of Partners recommending the Partnership as a great place to work.

92%

of Partners agreed they understand how their work contributes to the success of the Partnership.

> "THE ANNUAL SURVEY IS A KEY OPPORTUNITY FOR ALL PARTNERS TO STRIKE UP A CONVERSATION ABOUT WHAT IT MEANS TO WORK HERE, HOW WE CAN WORK SMARTER AND BETTER TOGETHER, WHILE REMAINING TRUE TO OUR PRINCIPLES."

Anna Rigby
John Lewis Councillor and Head of Buying, Home Accessories, Gifts and Seasonal

[1] Based on ORC benchmark

Partnership performance (continued)

2. Inclusive ownership

Diversity

Diversity & Inclusion (D&I) for us means doing business in a way that uniquely values everyone. We understand that recognising and valuing difference helps us to make better decisions, spark innovation, and develop talent.

Our Constitution requires that in our employment conditions we take no account of age, gender, marital status, sexual orientation, ethnic origin, social position or religious or political views. We refreshed our D&I policy in 2013 and report annually to the Partnership Board on our progress. Our approach is focussed on:

1. Resourcing inclusively to ensure we recruit, retain and progress a diverse population of Partners.
2. Creating the right conditions to support inclusive working by ensuring we have the right policies and processes in place.
3. Ensuring awareness and the right behaviours, so that working better together and inclusively becomes instinctive.
4. Measuring and reporting the progress, effectiveness and impact of our activities.

“SETTING A GOAL IS A FANTASTIC STEP FORWARD AS IT ADDRESSES THE NEED TO HAVE MORE TALENT AT MANAGEMENT LEVELS OF PARTNERS FROM AN ETHNIC BACKGROUND, ULTIMATELY LEADING TO A REFLECTION OF THE COMMUNITIES IN WHICH JOHN LEWIS AND WAITROSE TRADE.”

Baz Naik
Branch Manager, Waitrose Kings Road

Gender diversity of the Partnership

	2015		2014	
	Male	**Female**	Male	Female
Partnership Board	**60%**	**40%**	60%	40%
Directors and Management Board members*	**71%**	**29%**	66%	34%
Senior Managers**	**55%**	**45%**	57%	43%
All other Partners	**42%**	**58%**	43%	57%
All Partners	**43%**	**57%**	43%	57%

* Other than Partnership Board Members
** Other than Partnership Board Members, Directors and Management Board Members

We are keen to ensure that our Partner population is reflective of the rapidly changing demographics of the employment markets we operate in.

In late 2014, we centralised and improved our reporting to help us understand how representative our recruitment process is at each stage. We launched a new mandatory e-learning programme to build Partner confidence, engagement and knowledge, understanding of our policy and their personal responsibilities. We also began to roll out 'unconscious bias' training for managers.

As well as our growing Pride in the Partnership (PiPs) Partner network group for LGBT Partners, we now also have Partner groups for gender, faith and ethnic minority Partners. In 2014, we also introduced a diversity policy statement for the Partnership Board to help us reflect an increasingly diverse UK population. We have set a goal to increase the current proportion of ethnic minority managers by 50% over the next five years, so that ethnic minority managers make up at least 10% of all managers (Levels 1-9).

In 2014, 87% of our Partners told us that they believe that the Partnership values individual differences, placing us among the top 10% of organisations who include this question in their employee survey. 40% of our Partnership Board and 45% of our senior management population (Levels 1-5) are female. 15% of our Partners are from an ethnic minority.

For more on Partner diversity:
www.johnlewispartnership.co.uk/performanceandreporting

DID YOU KNOW?

40% of our Partnership Board and 45% of our senior management population (Levels 1-5) are female. 15% of our Partners are from an ethnic minority.

Health and wellbeing

The health and wellbeing of our Partners is fundamental to their happiness, and it is important to us. We offer a range of benefits which include Partnership Health Services, discounted rates at health clubs and benefits for Partners to enrich their lives outside of work.

Our health services were introduced back in 1929. Since then, the nature of these has changed to reflect external health provisions and the growth and changing needs of the Partnership. In 2013, we launched our Partnership Health Services to combine our existing divisional health teams into a single Partnership offer. These provide accessible occupation-focussed services. In the last year alone, our Health Services team managed more than 15,000 medical cases and 6,000 podiatry sessions. We also offer discounted rates at health clubs.

It was Spedan Lewis' vision that the Partnership should also encourage Partners to increase their career satisfaction, by encouraging interests outside of work. All Partners have a responsibility to promote each other's wellbeing and to recognise the importance of a healthy balance between the needs of the Partnership and the personal life of Partners. As well as ensuring our members' health, our employment offer also includes the use of our five heavily subsidised hotels, and generous contributions towards leisure learning. Our offer is extensive and is very popular.

3. Learning and progression

We are also leading the way in our approach to Partner development. Our commitment to lifelong learning and developing Partners' skills and knowledge is enshrined in Rule 56 of the Partnership's Constitution. The Partnership currently spends 56% more than similar organisations on the creation and delivery of Partner development, which we believe is key to the success of the Partnership, not only to ensure Partners are reaching their full potential, but also to be able to respond to the changes we are seeing in the retail industry.

Last year for example, we launched our new online Partner Development website. This involved migrating over forty individual Partner Learning systems into one single database and site. This was a major step forward for the Partnership in enabling learning access for all. By the end of 2014, the website had already received over 1.1 million hits.

Our investment in front-line skills continued with the roll out of a customer service training programme to 16,500 Partners in our John Lewis branches. We also updated and re-launched our leadership development offer. In 2014/15, 59% of our Partners had less than six years' service, so it is important to offer them the right tools and training.

We also identified the capabilities needed by our business now and in the future to help us retain competitive advantage. As a result, we have improved our talent management process at all levels of the organisation.

4. Working better

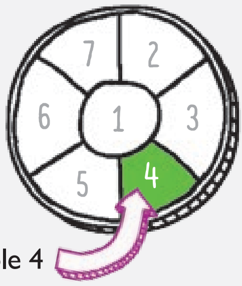
We aim to provide efficient and valued Partner services, while ensuring we streamline our policies and processes to support a more flexible and agile workforce.

A key area of activity in 2014 was the centralisation of our resourcing function to a shared centralised service centre. This was a significant operational challenge, especially around our peak trading time. It is a great example of Partners working cross-functionally for the greater good of our business.

We also focussed on continuing to improve our ability to adapt to change. 65% of Partners feel we are successful in this area, agreeing that 'We manage change well'. This compares to an average of 45% for UK companies[1].

In 2014, 79% of Partners agreed that personal advice and support was available if they needed it, and 77% were satisfied with their physical working conditions.

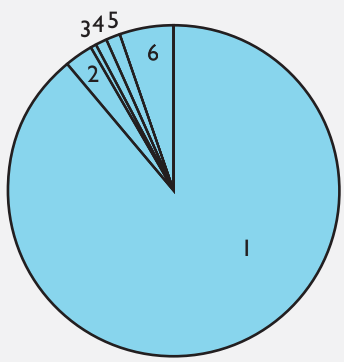
[1] Based on ORC benchmark.



Principle 4

Principle 4 outlines our intentions for Partners, as members, clearly: "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."

Ethnicity of senior manager[1] population %



1 White	91.3
2 Asian or Asian British	1.8
3 Black or Black British	0.2
4 Chinese or other ethnic group	0.5
5 Mixed origin	0.8
6 Not given	5.4

[1] Senior management Levels 1–5.

Partnership performance (continued)

SOURCING REVIEW

Rule 96 of our Constitution says that "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".

The challenges we face

We face a number of issues in sourcing our products, and these are very different to the ones we faced when the Partnership was first established. For example, the globalisation of supply chains has meant that tracing the original source of all products, and ensuring they are sourced responsibly, is not an easy task. Many retailers are under growing pressure from consumers to address serious human rights issues in the supply chain, the exploitation of natural resources, impacts on climate change, and issues with product safety and quality.

In 2014, we carried out an assessment of material sustainability issues linked to our core business activities to help us prioritise and respond to these issues (see more on page 72 for John Lewis and page 64 for Waitrose).

DID YOU KNOW?

Last year we spoke to more than 20 organisations to help us understand and address our social and environmental footprint.

Our approach

We pride ourselves on the mutually beneficial relationships we hold with our many suppliers around the world. Long-term relationships with suppliers give us confidence in our supply chain, and give our suppliers confidence in doing business with us. Our approach also means customers can continue to trust our products and our business.

At a Partnership level we have robust supplier procedures that are enshrined in the Partnership's supplier Code of Practice on Responsible Sourcing. Adherence to the Code is monitored through regular inspections of supplier sites by third parties and our own Partners. Where problems occur, we work with suppliers to identify the root causes and support them to make long-term improvements.

We aim to uphold internationally agreed standards of labour, in particular those set by the International Labour Organisation. We expect our suppliers to treat workers fairly, honestly and with respect for their human rights and wellbeing. See our human rights statement on page 117.

In 2014, we supported the introduction of the Modern Slavery Act and the UK Government's commitment to eradicate the abuse and exploitation of workers, both in this country and overseas.

As well as improving workers' lives, our approach and policies also reflect our ambitions to ensure a responsible approach to farming and to ensure transparency in supply chains to help us source raw materials sustainability.

FAIRTRADE FOUNDATION

Collaborating for change

We work closely with numerous organisations to continue ensuring the integrity of our supply chain. For example, we are active members of the Ethical Trading Initiative. We also engage with organisations such as Cotton Connect, The Fairtrade Foundation, The Better Cotton Initiative, The Soil Association, Compassion in World Farming and WRAP (Waste Resources Action Programme). Please see page 65 for more on our partnership with The Fairtrade Foundation.

WWF Forest Campaign

In 2014 we supported the WWF UK Forest Campaign. We contribute towards the rapidly growing demand for wood, paper and agricultural products, so we have a clear role to play in ensuring all the forest-related products we use come from a sustainable source and do not irreparably destroy the world's forests. Being a part of the campaign can serve to incentivise positive change and put in place mechanisms to enable the market to trade in 100% sustainable timber by 2020.

COMMUNITIES REVIEW

Our Partners and customers are at the heart of our local communities. They help us understand and respond to community needs in the UK, through our giving and volunteering programmes.

Partners across the country share their skills with local charities, and this strengthens their relationship with their community, as well as opportunities to develop. Partner engagement and development is in our Constitution, and we think it's a natural fit with our community investment.

Supporting communities at home and abroad

In 2014/15, we invested £13m, and volunteered more than 120,000 hours in the local communities where we operate, at home and overseas. We also supported elderly, isolated, young and unemployed people through a number of initiatives.

Overseas, we support our supplier communities through our Foundations. This work helps us find sustainable solutions to the challenges our suppliers face. Read more about this on page 66 for Waitrose and page 74 for John Lewis. We also provide emergency relief and address strategic issues specific to our sector by supporting national and international charities. For example in 2014 we made donations to the British Red Cross Disaster Fund and the Retail Trust.

As well as strengthening our current programmes, in 2014 we began reviewing these not only to ensure that we continue to make a difference where it is most needed, but also to ensure we are using our strengths to have the biggest positive impact. We will continue this work in 2015/16.

More information on our Partnership community investment can be found online at www.johnlewispartnership.co.uk/ourcommunities.

The Golden Jubilee Trust

We have a number of volunteering programmes across the Partnership. The Golden Jubilee Trust is our unique flagship Partnership volunteering programme. It gives Partners the opportunity to volunteer full or part-time with a UK-registered charity for up to six months, on full pay. We believe we are one of a very few businesses who have committed to give their employees the opportunity to have such a deep and lasting positive impact in the community. In 2014/15, the Trust helped 46 charities and donated a further 16,880 hours, making over 278,000 hours since its launch.

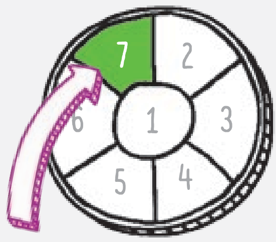
Wider economic contribution

One of the biggest positive economic impacts we have in the UK is the employment we offer. In 2014/15, we created 2,800 net new jobs. See page 11 to read more about the new shops and distribution centres we opened.

This also means we are able to make considerable tax contributions in the UK. Our Tax Code of Conduct is aimed at building trust in the communities in which we operate, by ensuring our tax obligations are met. In 2014/15, over £320m in taxes were borne by the Partnership and a further £685m collected. Based on our contributions the previous year, we ranked 20 out of 103 participants for total taxes borne in the PwC Total Tax Contribution survey for the 100 Group.

For more on the Golden Jubilee Trust:
www.johnlewispartnership.co.uk/ourcommunities

Last year we invested £13 million in the community – that's 3.7% of our pre-tax profits.



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.

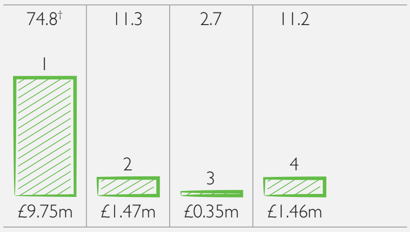
Volunteering hours

>120,000

11.1% ↓

2014: >136,000

Partnership contribution to charities and community groups* %



1 Total value of cash contributions made to charities and community groups
2 Total value of time contributions made to charities and community groups
3 Total value of in-kind contributions made to charities and community groups
4 Total value of management cost contributions made to charities and community groups

* As defined by the London Benchmarking Group model.
† This figure includes money raised through leverage.
Assured by DNV GL

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Partnership performance (continued)

ENVIRONMENT REVIEW

The Partnership's approach to the environment is outlined in the Constitution in rule 109 to "take all reasonable steps to minimise any detrimental effect its operations may have on the environment, and to promote good environmental practice".

The challenges we face

The issue of climate change should be a primary concern for all businesses. For the Partnership, it matters both in terms of how we minimise our impact on the environment, and how the effects of climate change will impact us in the future. We need to take action so that we can carry on growing, while minimising our direct negative environmental impacts and continuing to ensure we source products from environmentally sustainable sources.

Our Carbon Plan

The biggest contributor to our operational carbon footprint is the energy we use in our estate. In 2010 we published our Carbon Plan with an absolute operational emission target of 15% CO_2e reduction. This is an exceptionally challenging target in particular with our current level of growth being a 33% increase in sales since 2010. In addition we recognise the changes in global carbon reporting coming into effect in 2015 will have a material effect on the way we report our carbon footprint. During 2014 we have also gained valuable insight on the application and viability of on-site renewable energy technologies which have proved very challenging.

We are therefore reviewing our future Carbon Plan targets in line with the Partnership's projected growth rate, the balance of that growth to be delivered between new shops and online, the change in reporting guidance and the availability of viable on site renewable technology. We will ensure that these changes do not deter from the Partnership's goal of reducing our environmental impact.

In 2014 we have continued to innovate and develop technologies that help make us more efficient. This has included building two new award-winning highly energy efficient shops, an industry leading LED roll out programme, innovative green fuel trucks and a 19% reduction in refrigerant emissions since last year. This year our trading was 53 weeks (usually 52) so in light of this, and an 11% increase in electricity emission factors, we believe our reduction in carbon intensity is good progress.

Responsible Development Framework

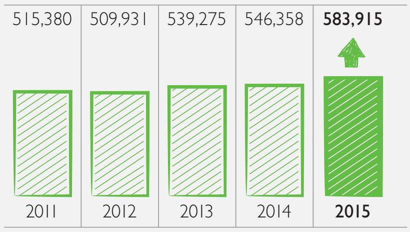
Our Responsible Development Framework helps us design, operate and manage our estate in a way that meets the needs of our customers, Partners and the wider community, while minimising our environmental impact.

Since its launch, our focus has been to embed it into our construction process. In 2014 we worked on developing a tool to do this, which we will implement in 2015.

Once again this year, we chose shops to trial new technologies, new materials, and new ways of end-to-end working. In 2014, we also developed a planting policy that will have positive outcomes for wildlife, carbon reduction and the community.

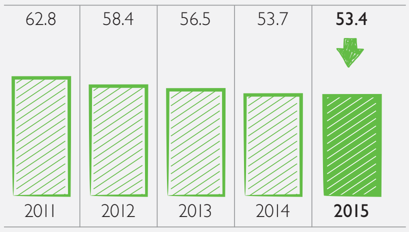
Partnership emissions

Absolute Partnership emissions tonnes CO_2e



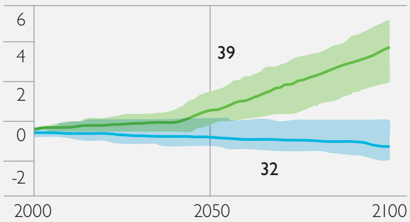
Assured by DNV GL

Partnership emissions tonnes CO_2e per £m sales



Assured by DNV GL

Global average surface temperature change (relative to 1986–2005) °C



Source: IFCC

Focus on climate change

2015 is set to be a vital year in addressing the challenge of climate change as world leaders work towards ratifying a new international climate change agreement in December. These international negotiations offer Governments an opportunity to draft long-lasting agreements to tackle climate change. Business will be integral to helping to achieve these ambitions.

Transport

We aim to reduce transport emissions by 15% by 2020. This excludes the effect of business growth, which means we need to reduce emissions by around a half for each item we carry. As a result of the increase in sales and the shift to greater fulfilment of online orders, this has been a challenge. However, we aim to meet our target by reducing miles driven, improving fuel consumption, and exploring lower carbon fuels. See www.johnlewispartnership.co.uk/ourenvironment for more on our approach.

Waste

We aim to divert 98% of our operational waste from landfill by year-end 2015/16 which we are on track for. We continue to look for opportunities to increase the use of recycled materials in our buildings and, where possible, to make this a closed-loop solution. See www.johnlewispartnership.co.uk/ourenvironment for more information.

DID YOU KNOW?

Through our Waitrose Farm Risk assessment, we are encouraging our suppliers to understand their environmental footprint.

Supply chain emissions

We recognise there is much more work to do with our supply chain partners, communities and customers to widen our circle of influence and create bigger change through collaboration. See pages 56, 64, 72 for how we are managing our impact through sourcing.

Collaboration

We work with a number of organisations to help us reduce our environmental footprint, primarily through research, and engagement with policy makers. For example, we sit on a number of the British Retail Consortium's (BRC) working groups, including the Environmental Policy Action Group.

Our priorities

To ensure we are driving and measuring our progress in the right areas, we will identify and establish key indicators which we will start reporting against in 2016.

For more on our environmental activities:
www.johnlewispartnership.co.uk/ourenvironment

Using low carbon fuels

We currently operate 44 trucks using gas dual-fuel technology. These vehicles use both diesel fuel and methane gas – the gas displaces around 40% of diesel. Methane produces less carbon emissions than diesel, in particular where bio-methane is used. One of our dual-fuel trucks running on bio-methane will reduce overall carbon emissions by 36%.

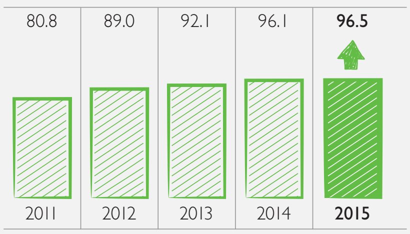
Transport emissions

Transport emissions tonnes CO_2e per £m sales

Assured by DNV GL

Waste diverted from landfill

Proportion of Partnership waste diverted from landfill %



Assured by DNV GL

Waitrose performance

In 2014/15, we continued to build Modern Waitrose. We invested to improve customer experience and focussed on growing sustainably.

"AGAINST THE BACKDROP OF A TOUGH MARKET WHERE PRICES ARE FALLING AND CUSTOMER SHOPPING PATTERNS ARE CHANGING, OUR STRATEGY OF INVESTING TO CREATE MODERN WAITROSE HAS SUPPORTED US IN INCREASING SALES, GROWING CUSTOMER TRANSACTIONS AND GAINING MARKET SHARE."

Mark Price
Managing Director, Waitrose

IN THIS SECTION...

* 53 week data

Highlights

- Volume growth as customer transactions rose by an average of 400,000 a week
- Online grocery sales up by 31.2%, average order value increased by 5%
- Top tier of the Business Benchmark on Farm Animal Welfare
- 19,000 people reached through our Tackling Isolation campaign
- Won the H&V News award for Collaboration of the Year for sustainable design at Chipping Sodbury

Challenges

- Operating profit held back by highly competitive, deflationary trading environment and investment strategy to ensure future strength of our business. This includes price matching, new shops, new technology, building our online presence and one-off items
- Continued need to manage issues which impact the sustainability of our supply chains

Outlook

Our strategy to create Modern Waitrose is seeing us grow sales, win new customers and gain market share.

In the year ahead, as well as planning to open seven new core branches and seven convenience shops, we will continue to add attractive features to existing branches (such as outdoor seating at 70 shops). In addition, we will launch a new online kitchen offer and a very exciting new approach to customer promotions.

In 2015/16, we will also continue to improve how we measure and report the progress we make on key supply chain priorities.

Mark Price
Managing Director, Waitrose

Waitrose at a glance

336 Shops

33 New shops

4,900 New or improved products

2,600 Net new Partners

Our year in 30 seconds

A challenging market:
- → Highly competitive
- → Food price deflation
- → Changing shopping habits

Waitrose received the MSC UK Award for 2014 Best Fish Counter.

Waitrose partnered with startup Hiku to trial home scanning in UK industry first.

New services hospitality and grazing concepts include 167 gardening pods, 144 welcome desks and dry cleaning in 123 shops.

Significant investment to create Modern Waitrose.

Modern

338 green trucks in our distribution network, with 44 using lower carbon dual-fuel technology.

myWaitrose membership up to 5.4 million with 68% of sales to cardholders.

+32%

Our 2,100 essential Waitrose range products now make up 18% of total sales.

2,100

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Waitrose performance (continued)

FINANCIAL REVIEW

Gross sales for the year grew by 6.5% to £6.51bn (4.6% on a 52 week basis), with like-for-like sales up 1.4%. On average, we had 400,000 more customer transactions a week compared to last year, and our market share grew to 5.4% (Kantar).

Operating profit was down by 23.4% to £237.4m (down 24.4% on a 52 week basis). This was held back by a significantly higher level of investment in the year in new branches and IT resilience, and the impact of one-off items. The year-on-year impact on our profits from these factors was approximately £30m and £27m respectively. The remaining profit decline of £26m, after excluding property profits, is primarily the impact of trading in a highly competitive and deflationary market. One-off items include property impairments and onerous lease costs (£16m), and costs associated with the planned closure of our Acton dotcom fulfilment centre (£4m).

In 2014/15, we opened 13 new core branches (including eight acquired from the Co-operative) and another 20 convenience shops. The launch costs associated with this opening programme and the expected lower returns from new space in the early months both impacted profit this year.

DID YOU KNOW?

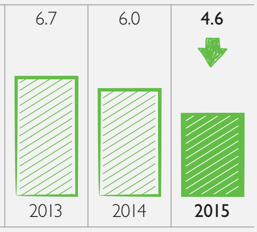
We have Click & Collect lockers in six places – including London Underground.

Performance against divisional KPIs

Gross sales growth %

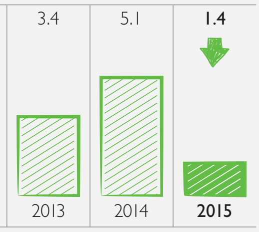
4.6%

53 weeks: 6.5%



Like-for-like sales growth %

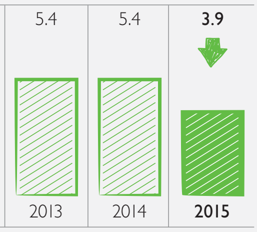
1.4%



Operating margin %

3.9%

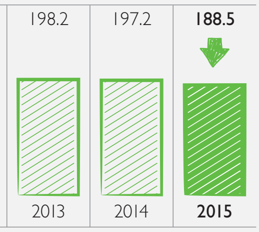
53 weeks: 3.9%



Gross sales per average FTE £000

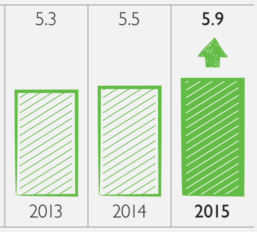
188.5

53 weeks: 191.9



Selling space m sq ft

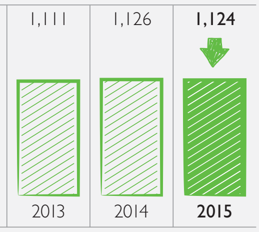
5.9



Gross sales per selling sq ft £

1,124

53 weeks: 1,145



Cash from operations

£559.8M

2014: £477.4m

Capital expenditure

£388.5M

2014: £287.7m

CUSTOMER REVIEW

Our significant investment to create Modern Waitrose saw us investing in new and existing space, improving our IT capability and strengthening our distribution network.

In addition we continued to build our online business, convenience offer, hospitality and services in our branches and – through the myWaitrose card – our understanding of our customers.

Investing for the future

One of the most visible and impactful aspects of our IT investment has been the rollout of more than 4,000 iPads this year. This programme provides branch management teams with easier access to information. It supports enhanced customer service by, for example, being able to answer product queries on the shop floor.

Behind the scenes, we have invested in supply chain efficiency to support our growth. Work has started on the first National Distribution Centre in Milton Keynes, which is due to open in summer 2015 and will handle 25,000 longer-life ambient products.

Omnichannel retailing

Our online business was another area of investment and strong performance. Grocery gross sales were up 31.2% (on a 52 week basis) and we saw 5% growth in average order value. Our new specialist wine website – Waitrose Cellar – launched in May, and we introduced Click & Collect for wine orders in October. In addition, more branches handled Click & Collect for John Lewis orders, supported by new processes that are making the service faster and more efficient.

Building enduring customer relationships

We are deepening our understanding of and relationships with customers through our myWaitrose card. The number of customers with a card is now 5.4 million and 68% of sales are to cardholders. By using the information customers make available to us, we are increasingly able to target promotions and personalise our offers to customers. As a result, in the last year we have doubled the number of tailored customer communications.

Product innovation and value

In the context of food price deflation and increased competitor activity we continued to invest in value. This included matching Tesco on branded products (excluding promotions), and Sainsbury's on own-label. We increased promotional participation and special deals for myWaitrose customers, including 10% off hundreds of everyday products each week.

We launched 4,900 new or improved lines last year. Waitrose own brand grew sales by 5.6%, outperforming the market (Kantar). One of the highlights was the Horticulture and Garden range, with impressive growth driven from the new outdoor pods in 167 branches.

Helping customers live healthier lives

As a grocery retailer, we have a role to play in helping to tackle growing societal problems associated with poor diet and lifestyle, such as obesity and diabetes. Between 1993 and 2012, the proportion of the population considered obese increased from 13.2% to 24.4% for men and from 16.4% to 25.1% for women[1].

As part of our Living Well initiative, we are making continuous nutritional improvements to the foods and drinks we offer through our work with suppliers. This includes highlighting benefits such as '5 a day' and the importance of vitamins and minerals in our diets.

We track nutrition progress through regular measurement of our key suppliers' nutritional data. Examples of our work in 2014/15 included removing more than 2,000 calories and decreasing fat by 6% from our sandwiches, and removing nine tonnes of saturated fat and over 60,000 calories from annual sales of key lines in our chilled patisserie range. Through better labelling and promotions of our products and services, we can help customers make healthier and more sustainable choices.

We have also signed up to the food commitments under the Government's Responsibility Deal to support public health goals. These include calorie reduction, promoting fruit and vegetable intake, salt targets, saturated fat reduction, out-of-home calorie labelling and front-of-pack labelling. We report our progress publicly via the Department of Health website.

[1] www.hscic.gov.uk

The Waitrose way

The Waitrose way brings our corporate responsibility programmes to life for customers and Partners. It is based around four pillars – Championing British, Treading Lightly, Treating People Fairly and Living Well. These pillars put our work around health, environment, sustainable agriculture, community investment and responsible sourcing into context.

Compelling reasons to visit our branches

Hand-in-hand with building our online presence, we want to give our customers reasons to visit our branches with offers and services they can't get on a website. So we've invested in new welcome desks, display units, seasonal bays, perch tables, gardening pods and horticulture. These developments have generated over £100m of extra sales since roll-out.

Waitrose performance (continued)

SOURCING REVIEW

Globalisation of supply chains, the emerging impacts of a changing climate, and the availability of natural resources are among a number of issues that are becoming a greater risk to our business.

At Waitrose, we work with around 800 own brand suppliers. We stock 3,400 product ranges in our smallest convenience shops, up to 27,600 in our largest shops – and each product has some form of environmental or social impact.

Sourcing sustainably

In addition to the Partnership's Responsible Sourcing Code of Practice, Waitrose has specific policies for the responsible sourcing of fish and shellfish, and the responsible use and sustainable sourcing of soya and palm oil, which we communicate to our suppliers. In 2014, we updated our policy on fish and shellfish to take into consideration the changing sustainability status of certain fish groups.

See the table below for the progress we are making against our commitments to source these ingredients sustainably.

Raising farm standards

We believe we have a role to play in ensuring commercial farming is sustainable in the long-term. This is supported by our tradition of working with suppliers and growers who share our values.

The Waitrose Farming Partnership

Sharing insights and ideas through the supply chain is a priority for us. We are building strong, long-term trusted relationships with our suppliers. The Waitrose Farming Partnership is a good example of this. It brings together all our farmers and offers them even more of the benefits that come from being a Waitrose supplier. Long-term partnerships allow for long-term planning and early adoption of practices that lead to improved quality and sustainability of the farming operation.

Through our Farming Partnership we are confident that our meat, milk, eggs and fish, are of the high quality that customers expect, produced with the highest standards of farming and respect for the environment, and with a fair price paid to British farmers.

For more on our sourcing:
www.johnlewispartnership.co.uk/sourcing

Sustainable sourcing

Ingredient	Commitment	Progress in 2014/15
Soya	100% of the soya in own-brand Waitrose products to come from certified sustainable sources, including RTRS Certified soya and Pro Terra Certified soya by year-end 2015/16.	**On track** We were commended by WWF in its 'Soya Scorecard' for 2014.
Fish	Continue to only stock fish and shellfish from responsibly sourced wild capture fisheries and farming operations and work towards 100% third-party verification by year-end 2016/17 for own label fish and shellfish.	**On track** At present 78% of seafood sales in Waitrose are from third-party certified sources. Waitrose received the MSC UK Award for 2014 Best Fish Counter.
Palm oil	Source 100% certified sustainable palm oil (CSPO) in our own-brand ingredients.	**Already achieved** We continue to find ways to source more segregated and mass balance CSPO rather than using book and claim certificates.
Timber	Use 100% FSC or PEFC or recycled certified timber and paper products by December 2015.	**On track** Currently over 90% from certified sources. EU timber regulation compliance due diligence mechanism set up with consultancy SEC.

Applying our Principles to supplier relationships

A good example of the way we work with suppliers is our relationship with Dovecote Park – our dedicated beef supplier who we have been working with exclusively for almost 20 years. Dovecote Park only produces British beef, sourced directly from 900 trusted farmers, who are members of the Waitrose beef supply group. The short supply chain – direct from farm to supermarket – is a positive example in retail. The majority of our cattle are slaughtered on site to ensure complete traceability is maintained from farm to shelf. Dovecote Park's confidence in our relationship means they are able to set fair, consistent and competitive prices with farmers.

The Waitrose Farm Risk Assessment

We continue to ensure transparency in our supply chains and work with suppliers to identify challenges and solutions. An example of this is our Waitrose Farm Risk Assessment, which we started in 2011. Our trained assessors engage with over 1,000 farmers in 43 countries to fully understand current sustainability performance and identify potential solutions. We publicly disclose our findings so that others can benefit from our analysis.

Treating People Fairly

Human rights and working conditions

At Waitrose, we are committed to working with our suppliers to uphold the highest standards of human rights and working conditions in our supply chain. In addition to the Partnership's Responsible Sourcing Code of Practice, Waitrose has a Code of Practice on Responsible Labour Provision. This requires suppliers to ensure effective procedures are in place to prevent any exploitation of workers, for example through strict requirements around the use of licensed labour providers.

DID YOU KNOW?

In 2014, we became members of Cruelty Free International. They now certify all of our own label cosmetic and household products.

Collaborating for change

Waitrose continues to work with Stronger Together, a multi-stakeholder initiative which tackles hidden labour exploitation in the UK. In 2014, more than 140 of our UK suppliers attended Stronger Together workshops to increase their understanding of issues such as forced labour, exploitative practices by labour providers, human trafficking, and the role of organisations such as the Gangmasters Licensing Authority.

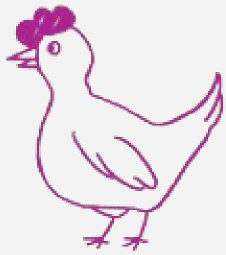
In 2014, we collaborated with other supermarkets, importers, the Ethical Trading Initiative and Oxfam, to improve working conditions in the Moroccan strawberry sector. We have seen improvements in conditions for workers in some areas including health and safety standards, although there is still a long way to go. We also supported Project Issara in Thailand, in collaboration with other supermarkets and Anti-Slavery International. This aims to improve human rights and working conditions in the Thai seafood sector.

Fairtrade

In 2014, we expanded our Fairtrade certified own-label tea range and our Waitrose brown baking sugars and the Seriously block chocolate range are now all 100% certified.

We also entered into a 'first of its kind' partnership with the Fairtrade Foundation to increase the social and economic impact of our respective supply networks. The work of the Waitrose Foundation will be recognised and validated by the Fairtrade Foundation.

We are committed to going beyond certification in our respective supply networks. See www.waitrose.com/fairtrade for the latest information on our commitments, and page 66 of the report to find out more about how we are supporting local communities in our supply chain overseas through the Waitrose Foundation.



Animal welfare

In 2014, our improved reporting of our high standards placed us in the top tier of Compassion in World Farming's Business Benchmark on Animal Welfare. This year we will be striving to further develop our welfare reporting strategy ahead of the 2016 Benchmark report.

Supporting our farmers

- → Partnerships with Farming Futures and Duchy Originals Future Farming Programme deliver efficiencies to our farmers.
- → Our 'farm gate' milk and beef pricing policy protects farmers' incomes.
- → We champion British with the biggest range of English wine in the UK, and 100% British fresh beef, pork, chicken, eggs and milk.
- → We transfer knowledge with briefings including those from veterinary specialist and bankers.
- → We source more UK high-protein beans to replace imported soya for our livestock feed.

Waitrose performance (continued)

COMMUNITIES REVIEW

We are committed to making a positive contribution to society and our Partners and customers take more interest than ever in how we respond to the challenges emerging in a changing social landscape.

Building relationships with local communities becomes more important as we continue to grow, open new stores and expand our supply chain. In 2014/15, our investment was focussed on community giving and volunteering in the UK. Much of this was driven by our Partners and customers. We also supported projects to benefit supply chain communities overseas.

Community Matters

Our Community Matters scheme gives our Partners and customers a voice in how we give back. Partners and customers choose three charities each month, which Waitrose customers then vote for with a green token at the end of their shop.

Each month, every Waitrose branch donates £1,000 (£500 in convenience shops) between three local causes. Every three months, Waitrose.com also shares a donation of £25,000 between three national charities voted for by customers.

In total, in 2014/15, Waitrose donated £3.5m to good causes.

For more on Community Matters:
www.waitrose.com/home/inspiration.html

Partner volunteering

Waitrose Partners can volunteer their time through a number of initiatives. We have been running our Community Matters Partner volunteering programme since 2012, sharing our time and skills for good causes. In 2014/15, we volunteered over 69,000 hours in the local community.

For the second year running, we also supported Business in the Community's Give and Gain. More than 1,000 Partners spent their time promoting healthy eating through local organisations.

Inspiring young people with Grow and Sell

Sharing our skills and knowledge is a big part of our community activity.

For example, in 2014 we celebrated the second year of our Grow and Sell programme. This encourages 7–11 year olds in schools to grow their own produce, and sell it outside our shops. Schools are given classroom seed kits and Partners are able to teach children to identify where food comes from, the importance of seasonality and the fragility of producing food. As well as learning about food, children learn entrepreneurial skills. In 2014, we distributed close to 3,500 seed kits to schools – almost treble the number of the previous year. We added pollination to the syllabus, and launched our Grow and Sell app. The children raised up to £120 per class, which was donated back to their schools.

The Waitrose Foundation

As well as supporting communities in the UK, we also support projects overseas. 2015 marks the 10th anniversary of the Waitrose Foundation, an innovative supply chain collaboration that returns a percentage of profits from the sale of Waitrose Foundation produce, including avocados and green beans, to fund locally led sustainable programmes, chosen by the farmers and smallholders who grow them.

The Foundation is integral to Waitrose's strategy, building thriving local communities to underpin fresh produce supply chains, enabling long-term security of supply. There are over 45 seasonal products sourced from South Africa, Kenya and Ghana. It's invested over £7m and delivered 450 programmes – from income generation activities to after-school centres.

It's funded through investment from all supply chain partners – Waitrose, exporters, importers and growers – and employs experts in the sourcing communities to empower local worker committees, ensuring funds are invested wisely. As part of a three year programme, the Foundation is providing accredited agricultural and life skills training to 500 young people in South Africa, currently unemployed or in seasonal employment. This programme is increasing the prospects for young people to access work and better jobs.

For more on the Waitrose Foundation:
www.waitrose.com/home/inspiration.html

Tackling Isolation Campaign

For the second year running, Waitrose supported elderly, homeless and vulnerable people in the community, by supporting over 450 events across the UK at Christmas. This reached 19,000 people. We donated money towards food and resources. Waitrose Partners supported the event, volunteering over 2,100 hours in paid time.

Food donation points

In 2014, we further developed our partnership with Trussell Trust food bank. We aim to promote food donation by introducing food donation points in all our core branches and 26 convenience stores across the UK. The new initiative helps provide local food banks with a steady and manageable supply of both food and non-food items, all year round. In 2014, our collections provided almost 65,000 meals to those in need.

Sponsoring cricket

Waitrose is supporting the future of cricket as part of its three year sponsorship deal with The England and Wales Cricket Board (ECB). We pledged £100 for every four or six scored across the entire 2014 home international summer, including England, England Women, England Lions and England Under-19s. Our donation enables more clubs to benefit from grants to help improve facilities.

ENVIRONMENT REVIEW

With 336 shops, 24,959 refrigeration units, and almost 1.6 million own deliveries in 2014/15, we must continue minimising our impact on the environment.

We are working to ensure the efficiency of our existing operations as well as new investments according to our Responsible Development Framework. For more on the framework and our emissions reduction target see page 58.

We have a target to reduce refrigerant leakage to no more than 10% of entrained volume by the end of 2015. In 2014, we ran an extensive programme to reduce CO_2e emissions associated with our refrigeration systems. This included a refurbishment programme where we replaced the existing HFC refrigeration systems in six branches, and reduced leakage in 16 branches. As a result, there was a 17.3% reduction in refrigerant and cooling direct emissions year-on-year.

In 2014, for the second year running, the Environmental Investigation Agency (EIA) voted Waitrose a Green Cooling Leader. This title is awarded to retailers that show real commitment to HFC-free refrigeration, both in domestic and international stores.

We also opened our Malmesbury store in 2014 with low carbon initiatives such as water cooled refrigeration, LED lighting, and energy management systems. It also has a SUDS system in the car park, which will dramatically reduce the water run-off rate. We are also managing our impact around the shop with a programme to protect wildlife.

Our priorities

In 2015, we will continue to roll out our more efficient refrigeration programme across our existing estate. We will also establish Waitrose specific key indicators that will help us drive and measure our performance against our ambitions, with reporting against these commencing in 2016.

Evaluating environmental impact

Our Waitrose Chipping Sodbury shop is 30% more energy efficient than older Waitrose branches and is rated as 'Excellent' by BREEAM. It has a number of environmental innovations and features.

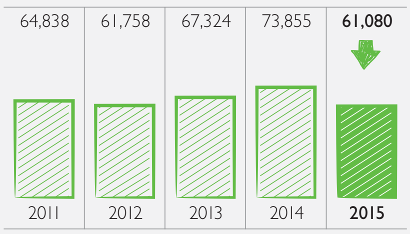
Before it opened, we also were able to make a number of improvements to benefit the local community. We invested in the biodiversity of the area, both in existing green space and new space in which we planted around 100 trees.

In 2014, we engaged specialists eftec (economics for the environment consultancy), to help us understand the value of some of these enhancements. They identified which of the benefits from these were most suitable for valuation, for example the impact of trees in improving the health of local people by reducing air pollution, and regulating climate. These impacts can be valued using an approach (following guidance including Defra's value transfer guidelines), to help quantify the returns on our investments. The research is helping us shape our future thinking.

In 2014, we won the H&V News award for Collaboration of the Year.

Direct emissions

Waitrose refrigerant and cooling direct emissions tonnes CO_2e



Assured by DNV GL

John Lewis performance

In 2014/15, we continued to evolve as an innovative, omnichannel retailer, enabling more customers than ever to shop when, where and how they want.

"IN A CHANGING RETAIL WORLD, WE BELIEVE THAT GROWTH WILL COME FROM THE SUCCESSFUL COMBINATION OF INSPIRING SHOPS AND A CONVENIENT ONLINE SHOPPING EXPERIENCE. WE CONTINUE TO INVEST IN BOTH CHANNELS TO ACHIEVE THIS."

Andy Street
Managing Director, John Lewis

IN THIS SECTION...

* 53 week data

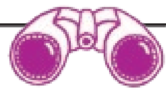
Highlights

- → Growth in shops and online shows strength of the omnichannel model, combined with growth in market share in all three product categories
- → Continued to expand customer numbers and offer market-leading shopping through inspiring shops and convenient online shopping
- → In a new partnership with Barnado's we raised almost £640,000 and volunteered almost 11,000 hours of our time
- → Our new flexible format shop in York was the first department store in the world to be awarded 'Outstanding' status by environmental standard BREEAM
- → We signed up to the WWF UK Forest Campaign, joining other businesses in a collaborative effort to tackle global deforestation

Challenges

- → Significant investment needed to support shops and online growth
- → Building operational capacity for the new shape of Christmas trade
- → Growing risks in our supply chain make responsible sourcing more important than ever
- → We must find ways to minimise our direct negative environmental impacts as we continue to grow

Outlook



The pace of change looks set to continue in 2015, with the strongest retailers combining bricks and clicks to create the customer service levels and convenience that customers want. In 2015, we will open our regional flagship shop in Birmingham, setting a new benchmark in bricks and mortar retailing.

Over the year we will also work to identify and establish key indicators that will help us drive and measure our performance against material issues faced through our sourcing and operational footprint.

Andy Street
Managing Director, John Lewis

John Lewis at a glance

43
Shops

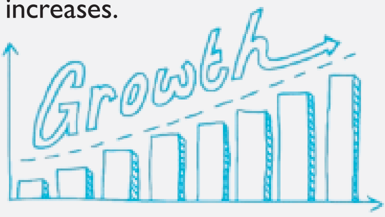
3
New shops

33%
Sales via online

100
Net new Partners

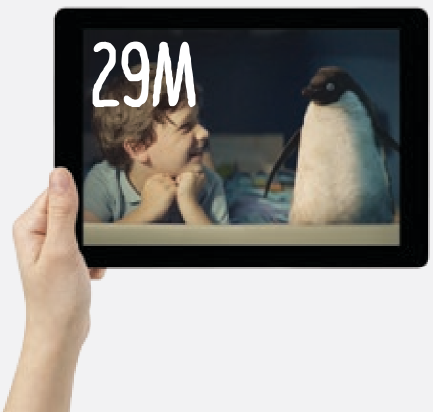
Our year in 30 seconds

Sales and market share increases.



Sales and market share increases in all three categories: Fashion, Home and Electrical Home Technology (EHT).

29 million views of our Christmas ad across all social media channels.



Scott Pendrous won our 2014 Roofraiser programme, recognising and celebrating Partners for outstanding contribution.

Hit £1.4bn of online sales, in a year when Click & Collect overtook home delivery.

Shop sales increased by 2.2%.

In 2014, John Lewis opened a further three shop-in-shops within branches of Shinsegae, a South Korean department store, bringing the total number to eight.

Customers and Partners celebrated 150th anniversary.

In 2014, John Lewis won more than 30 awards including 'Best Overall Retailer' at the Verdict customer satisfaction awards.

John Lewis performance (continued)

FINANCIAL REVIEW

John Lewis continued to outperform the market with gross sales up 9.2% to £4.43bn (7.5% on a 52 week basis), beating the British Retail Consortium average by 4.9%, combined with growth in operating profit, up 10.8% to £250.5m (10.4% on a 52 week basis).

Every channel and category grew during the year. On a 52 week basis, shop sales were up 2.2% with LFL shop sales growth at 0.6%, while johnlewis.com saw an increase of 21.6% to £1.4bn.

All three categories (Fashion, Home and EHT) saw increases in sales and in market share. On a 52 week basis:

- → Fashion had a particularly strong performance, up 8.3%, with growth from Nursery at 16.3%, Childrenswear at 8.2%, Women's Accessories at 8.5% and our own-brand Kin range at 46.6%;
- → Home was up 7.2% with Furniture the highlight at 12.8%, Floor covering up 6.1%, and our House range continuing to grow at 24.2%;
- → EHT was up 7.9%, performing well across the year, despite a challenging market, with growth in Large Electrical at 12.4% and Audio at 23.4%.

DID YOU KNOW?

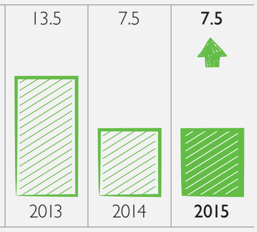
Sales of House by John Lewis have increased by 71% since it launched in 2012.

Performance against divisional KPIs

Gross sales growth %

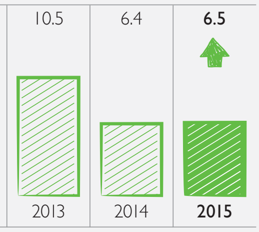
7.5%

53 weeks: 9.2%



Like-for-like sales growth %

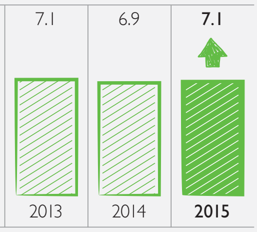
6.5%



Operating margin %

7.1%

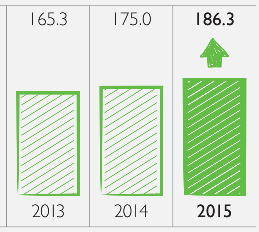
53 weeks: 7.0%



Gross sales per average FTE £000

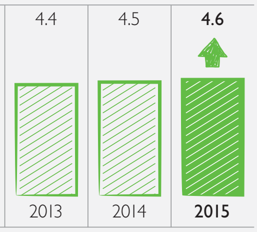
186.3

53 weeks: 189.3



Selling space m sq ft

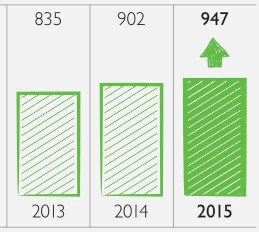
4.6



Gross sales per selling sq ft £

947

53 weeks: 962



Cash from operations

£372.0M

2014: £371.4m

Capital expenditure

£231.9M

2014: £164.8m

CUSTOMER REVIEW

In recent times, there has been a paradigm shift in the way customers research, shop and take delivery of their goods. These changes have had a significant impact on the UK retail market.

The biggest change continues to be the shift to online and 'omni-shopping', and this is an area in which John Lewis continues to invest.

Convenience driving customer behaviour

This year we have seen two milestones reached in changing consumer behaviour: Click & Collect overtook home deliveries, now accounting for 54% of online orders; and a new shape of peak trade was firmly established with Black Friday marking our busiest single day. Our distribution and online operations stood up well to these challenges.

In response to our customers' changing shopping needs, we continue to flex our delivery options. With Click & Collect now making up over half of online orders, we have extended our order cut-off to 8pm, expanded the number of Waitrose shops which offer the service, and expanded our partnership with Collect+.

Innovation in shops

In our physical estate, we opened two convenience-driven shop formats at London's St Pancras station and Heathrow Terminal 2, and our new flexible format shop in York has seen trade exceed expectations.

In our existing shops, we further enhanced the in-store customer experience by opening opticians and expanding our third-party catering offer. We completed a major refurbishment of our Southampton shop, which now includes a Little Waitrose within the branch.

A logistics challenge

While omnichannel capability and innovation remain at the heart of our success, logistics has been at the forefront in driving differentiation and delivering to changing customer expectations. In 2014/15, we invested £92.5m in our IT and systems, laying the foundations of a fully joined-up customer experience. Work continued on our second distribution centre in Magna Park, which takes us to over 1.3 million sq. ft. of space when combined with our existing Magna Park site. We have also announced the opening of a third distribution centre in Milton Keynes in 2016.

150 years of retail

This year was the 150th anniversary of John Lewis. We took time to mark the history of our business at a one-off celebratory event for Partners across the UK. We also created a range of innovative products through brand and designer collaborations.

While our founder John Spedan Lewis would have recognised the commitment to service in the John Lewis of today, he would be excited by the advances in technology we are embracing. Change is always welcome, pushing us to innovate in all areas of our business to satisfy our customers. The winner of our JLAB technology incubator, Localz, a 'micro-location' technology startup, is a prime example of this forward-thinking approach.

A 150th anniversary

As well as celebrating with our Partners, we produced some historic collaborations with brands we love and rejuvenated prints from our own archive to create John Lewis 150th anniversary products. Our 150 year old Cummersdale print was reproduced on certain products and we worked with Antoni and Alison on a range of 1960s- and 1950s-inspired silk dresses with vintage brooch appliqué.

Expanding our distribution infrastructure

Work continued this year on our second distribution centre at Magna Park. With the 'link bridge' between the new and current sites complete, Magna Park 2 is already being used for some operations ahead of being fully up and running in 2016. The £95m, 675,000 sq. ft. site will allow us to process hanging garment orders. This means that customers take delivery of fewer parcels and we can bring more efficiencies into our supply chain.

John Lewis performance (continued)

SOURCING REVIEW

We are a much more complex business today than when John Lewis started one hundred and fifty years ago. In a rapidly changing economic, social and environmental context, the way our Constitution guides how we do business becomes particularly relevant.

We have 350,000 product lines in our John Lewis shops and 280,000 online. These are sourced from thousands of suppliers from across the globe. Through our sourcing, we can have a huge direct and indirect impact on the environment and communities in which we operate. It is up to us to ensure we manage our footprint responsibly, creating positive change where we can.

In 2014/15, we analysed numerous issues which could have an impact on our performance. We prioritised these to ensure we're addressing the most material ones. We have thousands of suppliers, more than a third of which supply our own brand products, so issues related to our sourcing are particularly relevant for us.

Understanding where products come from

Tracing the original source of all the raw materials used in products, and ensuring they come from a sustainable source, is a challenge for a lot of retailers. We use a number of raw materials across our John Lewis own brand ranges. It is important for us to be able to trace their sources, particularly for materials we use a lot, such as timber.

DID YOU KNOW?

All of our own-brand wooden outdoor living ranges use FSC certified wood.

Improving the traceability of raw materials and a responsible approach to sourcing them will help us minimise environmental damage, for example avoiding deforestation, which is a serious issue globally. We are working to increase the traceability of key raw materials used, and are also working towards sourcing them responsibly. In 2015/16, we will review our sourcing strategy to help us on our sustainability journey.

Avoiding deforestation and habitat loss

According to the World Resources Institute, the world has lost nearly 13 million hectares of forest – an area roughly the size of England – every year between 2000 and 2010. According to the WWF, demand for wood is set to triple by 2050 and currently only around 10% of the world's forests are protected. There is an increasing risk of illegally logged timber ending up in complex supply chains that retailers are not able to easily trace. In this context it becomes ever more important for us to ensure the sustainability of the timber we source, for example through third-party accreditation schemes.

The European Timber Regulation (EUTR) aims to limit the trade in illegal timber. Since it came into force, our focus has been on due diligence in our diverse supply chains, through a process which in fact exceeds the scope of the regulation.

We have experienced a number of challenges getting the right information from our suppliers, many of whom were not ready for this level of engagement. While we have invested time educating them on our requirements, this has also meant we have had to face the reality that we would not meet our previously stated targets. These were to source all own-branded wooden products from certified sustainable or recycled sources by the end of January 2016, and paper by the end of 2015. In 2014, our focus has been to reassess how we achieve our ambition by improving our data, driving engagement, and continuing to implement and ensure compliance with our policy.

Driving best practice

We continue to work with expert non-governmental organisations (NGOs) to deepen our understanding of our material issues. For example the Rainforest Alliance is providing us with expert advice on our timber sourcing policy, as we work towards our new 2020 ambition.

Sourcing sustainable cotton

John Lewis is a member of the Better Cotton Initiative (BCI) which aims to make global cotton production better for the people who produce it, better for the environment it grows in, and better for the sector's future. We have now switched 50% of the cotton used in our schoolwear polo shirts to using Better Cotton sources. In 2014, BCI supported our efforts to create an on-pack message "Made with Cotton which supports more responsible production". We have a target to source 50% of cotton from more sustainable sources by the end of 2020/21. See more on our website.

In June we held a summit where 75 of our key timber and paper suppliers joined our buyers at briefings on the EUTR regulation, our timber policy and the compliance process. We also invested significantly in redeveloping our data platform to make it easier for suppliers to share data with us.

In 2016 we will report on our performance against our new ambition to source all the wood and paper used in our John Lewis branded products sustainably and responsibly by the end of 2020 to help tackle global deforestation, and give more details of how we are going to achieve this.

Human rights in the supply chain

John Lewis is committed to respecting human rights throughout our supply chain, working with our suppliers to raise labour standards, improve working conditions, and create meaningful, fairly-rewarded employment. Our Responsible Sourcing Code and sourcing policies reflect this.

We source our products from around the world so it is important for us to have a full picture of where and how our products are made. In 2014, we invested in a new, externally hosted database to give us greater visibility of our entire supply chain. This has helped us with our reporting, improving the speed and accuracy of our data.

Building up a real time picture of our supply base is crucial in order for us to identify any risks and help us shape our improvement programmes. Building on our support for the Modern Slavery Act (see page 117 for more), we have also enhanced our audit programme for our UK factories in order to identify and address any concerns raised relating to employment practice.

In order to ensure that our Partners are equipped to manage our risks in the supply chain, in 2014 more than 85% of our buying and merchandising Partners successfully completed an online responsible buying training module.

Going beyond audits

We understand that improving working conditions in the supply chain goes beyond the audit of the factories we work with. We also support a number of projects overseas which reach and support workers at all tiers in the supply chain.

One example is our rug project in India which aims to improve working conditions and to create meaningful employment for workers in this complex and multi-layered supply chain. During 2014, we worked with the John Lewis Rug Supplier group (known as SAKAAR) to provide support and build knowledge, empowering the group to self-assess all tiers in the local supply chain to improve working conditions. See page 74 for more projects which support our supply chain through the John Lewis Foundation.

The challenge to ensure our standards are upheld throughout the supply chain will remain a priority for us in 2015. We will continue auditing our supply base, improving communications with them in order to further embed our approach to responsible sourcing. We will build our 'beyond audit' programme to empower suppliers to take ownership of worker standards, building capacity for long-term sustainable change.

Collaborating with like-minded organisations will also remain a priority for us, so that we can contribute towards sustainable solutions, and continue to deepen our understanding of human rights issues faced by the industry as a whole.

In 2016 we will report on our performance against our ambition and give more details of how we are going to achieve this.

Read more on our standards and policies across the Partnership on page 56.

For more on our sourcing:
www.johnlewispartnership.co.uk/sourcing

Collaborating on human rights

In 2014, we continued working with the Accord on Fire and Building Safety in Bangladesh. This multi-stakeholder group aims to make sustainable improvements to working conditions in the Bangladesh garment industry. Building, fire safety and electrical inspections have been carried out in all of our factories and we are working with the Accord and our suppliers to implement improvements where necessary.

"WORKING WITH OUR SUPPLIERS TO RAISE LABOUR STANDARDS WILL CONTINUE TO BECOME MORE OF A PRIORITY FOR US. THIS MEANS GOING BEYOND COMPLIANCE TO EMPOWER OUR SUPPLIERS TO TAKE OWNERSHIP OF WORKER STANDARDS."

Stephen Cawley
Head of Sustainability and Responsible Sourcing, John Lewis

John Lewis performance (continued)

COMMUNITIES REVIEW

We are committed to ensuring the wellbeing of our local communities. We do this by supporting causes that our Partners and customers tell us are important, and by building relationships and investing our time and money in causes where we know we can make a difference, at home and overseas.

Supporting young people

In 2014, we entered into a new partnership with Barnardo's to support disadvantaged young people. Working with them has enabled us to make a positive impact at a local level, nationwide. To date, we have raised more than £790,000 through a combination of charity products, our Community Matters programme, Partner and customer fundraising, Partner volunteering and through gifts in-kind.

Some of this will support their Early Years intervention work to improve parenting and to give children the opportunity to develop. So far, almost 1,000 Barnardo's employees have been trained in 220 children services. They estimate that this will reach more than 100,000 families.

We also support young people through Bringing Skills to Life, our free primary education programme. We launched this in 2013, with the ambition of registering 1,000 schools in one year. So far, it has been an incredible success – more than 3,000 schools registered in that time, downloading more than 30,000 free resources. In 2014/15, Partners ran over 1,300 hours' worth of workshops with children, building their practical skills and developing their imagination.

For our work with young people, we were honoured to win the Charity Times Local Partnership Award and be shortlisted for the Lord Mayors Dragon Award for Local Partnership.

Partner volunteering

John Lewis Partners can volunteer their time with a number of organisations who provide meaningful opportunities – for example through our schools programme, and with Barnardo's. In 2014/15, we volunteered almost 31,000 hours in the community.

The John Lewis Foundation

As well as investing in communities in the UK, we also support projects that address issues faced by our supplier communities overseas. Following a successful pilot with Geosansar in India, we are rolling out financial literacy training and access to a bank savings account scheme to a further 45 Indian factories over a three year period. The programme will directly benefit 10,800 low-income workers, with almost 100,000 estimated to benefit indirectly.

Working with local charity Care and Fair, the Foundation also funded a new school in an area of India where we source from.

In 2015, the Foundation will continue to address local needs, including capacity building and support for entrepreneurship.

For more on the John Lewis Foundation:
www.johnlewispartnership.co.uk/ourcommunities

Believe in children
Barnardo's

Supporting Barnardo's

The strong fundraising and volunteering engagement of Partners and the shared ethos of the John Lewis management team have both ensured the success of our charity partnership to date.

"JOHN LEWIS HAS AND CONTINUES TO BE A FANTASTIC SUPPORTER OF BARNARDO'S WORK WITH VULNERABLE AND DISADVANTAGED CHILDREN AND FAMILIES IN THE UK THEY'VE MADE A POSITIVE CONTRIBUTION IN HELPING CHANGE CHILDREN'S LIVES FOR THE BETTER."

Supporting cotton farmers in India

Another of our most successful John Lewis Foundation partnerships has been with Cotton Connect, with whom we are working on a three year project to help cotton farmers in Gujarat, western India. The initiative aims to help farmers improve their profits by reducing production costs, as well as adopting environmentally sound crop management. To date, more than 1,500 farmers have been trained and yields are currently up on average 8% and costs down 12%. Through this project John Lewis has gained a better understanding of traceability and sustainability issues in the cotton supply chain, and has established a sustainable source of cotton which is being used for bath mats, bags for life, and some fabric production.

For more on cotton sourcing:
www.johnlewispartnership.co.uk/sourcing

DID YOU KNOW?

We saved enough energy last year to heat the entire Oxford Street shop for one year.

ENVIRONMENT REVIEW

Managing our operational footprint continues to be very important for us, particularly as the growth of our whole business has far exceeded our expectations. This means we have to look very carefully at how we can carry on growing, while minimising our environmental impacts.

As we continue to work towards our operational emissions target (see more on page 58), the efficiency of our new operations is incredibly important. John Lewis York was opened April 2014, and is the first department store in the world to receive the internationally recognised BREEAM 'Outstanding' certification. The store is predicted to achieve around 40% reduction in energy usage and CO_2e emissions, through innovative solutions such as the use of sun pipes, air displacement ventilation, LED lighting and an automated energy management system. The roof mounted photovoltaic panels, which generate 4% of the shop's electricity will help towards this.

In 2015 we will continue to roll out LED replacements across our existing estate. Research and development into newer technologies such as biofuel, combined heat and power, and energy from waste schemes will also be a focus for us. We will assess our new estate under the BREEAM scheme and deliver these against our Responsible Development Framework (see more on page 58).

We are currently on track to receive an 'Excellent' rating at our new Birmingham department store, due to open towards the end of 2015. We are aiming for the same high standard at our Basingstoke shop. To help us, we are embedding a new tool for developers, and will be trialling new technologies which have the potential to be integrated into our design standard.

For more on our environmental priorities:
www.johnlewispartnership.co.uk/ourenvironment

Protecting wildlife at award-winning shop

Since the early stages of development, the award-winning John Lewis York has been working with the Yorkshire Wildlife Trust, Yorkshire Bee Keeping Association, York Natural Environment Trust and the York City Council landscape and ecology teams to support projects that will create and enhance the natural environment.

We have created a 'wildlife wall' so that bats and birds can roost and nest, and adjacent to the shopping park is an area that is going to be planted as a wildflower meadow. We have been working with the Yorkshire Bee Keeping Association to design and build a bee apiary on the site that will be run by the local bee keeping group, who will encourage the local community to get involved.

We've also contributed funding to the Friends of Rawcliffe Meadows and the York Natural Environment Trust to help them develop Cornfield Nature Reserve, part of Rawcliffe Meadows. To further support projects in the area, we are also pleased to be funding a Wildlife Trust trainee volunteer for a year.

Partnership Services performance

> “EFFICIENT AND EFFECTIVE SUPPORT SERVICES ARE AN INCREASINGLY IMPORTANT INGREDIENT TO OUR TRADING SUCCESS.”

Patrick Lewis
Managing Director, Partnership Services

About Partnership Services

In Partnership Services, our goal is to free up Partners' time and save the Partnership money so that our business can focus on providing excellent customer service and driving sales. Partnership Services is responsible for providing support in IT, Personnel, Finance and Procurement.

Operational priorities

At the beginning of 2014/15, following a very challenging Christmas peak period, Partnership Services set out to fix the basics in its IT and Personnel operations so as to improve the user experience. The priority was to establish excellent operational and professional personnel systems, and align relationships with stakeholders.

A significant step forward was the launch of our Resourcing service in May 2014. This saw the amalgamation of three divisional teams in one central location as well as attempting to streamline numerous processes. Since then, we have successfully recruited more than 22,000 Partners to the business as well as continuously striving to improve the process.

As a result of their hard work the Resourcing team were recognised for the work they do when awarded The Times Top 100 Graduate Employer and Targetjobs most Popular Graduate Employer of choice for Retail and Sales. New administration and policy services in Personnel launched last year have also consistently improved service levels throughout the year. The Partnership Health Service (PHS) celebrated its first anniversary with Health Partners reporting an improved productivity of 20%. For example, PHS helped 3,400 Partners with physiotherapy cases, giving an estimated saving of nearly 41,000 absence days. We have also focussed on improving the resilience and capacity of our IT systems, particularly during peak trading. Partnership Services IT implemented 500 changes, on top of a significant number of Divisional-led improvements. This reduced the number of major incidents caused by our infrastructure, from 40 at the end of 2013, to one at the end of 2014.

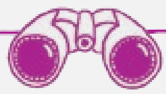
Awards and recognition

In 2014, Finance continued to improve its efficiency, and Procurement delivered £37m of benefits to the Partnership. The John Lewis Partnership became the first retailer to be awarded the Quality in Credit Management, thanks to our Accounts Receivable team. In addition the Payroll and Expenses team were also recognised by being awarded an accreditation for their exemplary procedures, policies and compliance by the Chartered Institute of Payroll Professionals (CIPP).

Positive Partner feedback

The successful peak trading period reinforced the great progress Partnership Services made in providing reliable and valuable services to our customers in Waitrose, John Lewis and Group. Both Paul Coby, John Lewis IT Director and Cheryl Millington, Waitrose IT Director praised the support provided by our IT team to ensure systems ran smoothly over the peak period.

We have continued to focus on the importance of Partners in the divisions, and have seen steady improvements in our Partner pulse score, where Partners are asked if the division is a great place to work, from 51% to 59%. This is when Partners are asked if the division is a great place to work.



Outlook

We will continue to build on the expertise of our Partners through great Leadership, Line Managers and Partners. We will focus on providing excellent customer service and lower costs to the trading divisions, ensuring we are exceeding their expectations in everything we do for them.

Patrick Lewis
Managing Director, Partnership Services

Group performance

“GROUP’S OVERRIDING PURPOSE IS TO ENSURE THE PARTNERSHIP ACHIEVES PRINCIPLE 1 OF OUR CONSTITUTION.”

Andrew Moys
Head of Branch, Group and Director of Communications

About Group

Group’s purpose is to ensure the Partnership achieves Principle 1 of our Constitution. That means setting a direction for the Partnership and ensuring we have the policies and assurance mechanisms we need to both monitor progress against our Aims and ensure adherence to our Constitution.

In the current challenging trading conditions, Group Functions must ensure the Partnership is agile and responsive in today’s market place, while remaining true to our longer-term Constitutional purpose and principles.

Although day-to-day delivery of the Partnership’s Aims sits with the Divisions, specialist Functions within Group also directly support the business with a range of professional services.

Our seven Group Functions are Communications, Finance, Group Customer Insight, Legal and Company Secretary, Personnel, Property Services and Registry.

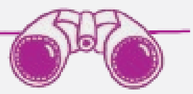
Delivering the Partnership Aims

Group made good progress against its support of the Partnership Aims. First, in our goal to foster a culture of inclusivity, involvement and contribution across the Partnership. We launched the It’s Your Business movement to engage our Partners in ownership, including Partnership Day, while also establishing Pay for Performance as part of the Partner Plan to ensure a fair approach to pay awards. The Gazette was relaunched to strengthen our independent journalism and new functionality added to our internal digital communications.

Under competitive capabilities, Group Customer Insight supported the continued growth of myWaitrose and my John Lewis through the responsible use of customer data. As part of our sustainability agenda, the CSR team concluded our materiality assessment of priority areas for all our stakeholders to inform future decisions and reporting.

In our goal to drive efficiency in our operating model, we successfully concluded our Pension Benefit Review with unanimous support of Partnership Council and raised a £300m, 20-year bond to prepay previously-agreed deficit-reduction contributions to the pension fund. Property Services project managed the build and fit-out of 36 new Waitrose and John Lewis shops.

Finally, we fulfil an assurance role by directly supporting and advising our three governing authorities – the Chairman, Partnership Council and the Partnership Board.



Outlook

Our Partner Survey scores showed the progress we have made in building strong foundations in Group, with 31 out of 35 questions showing improvement on the previous year. Group teams will work closely with the Divisions in the year ahead to ensure we have the capabilities, expertise and controls to deliver the Partnership’s ambitious business plan.

Andrew Moys
Head of Branch, Group
and Director of Communications

Our key financial performance indicators

Across the Partnership, we focus on a number of KPIs to identify trends in the trading performance of both Waitrose and John Lewis. These KPIs are designed to help us measure and understand our operational performance and link to our three Partnership Aims.

Increase advantage of Partners

Gross sales per average FTE £000

Definition

Gross sales divided by the average number of full time equivalent Partners.

Why we use this measure

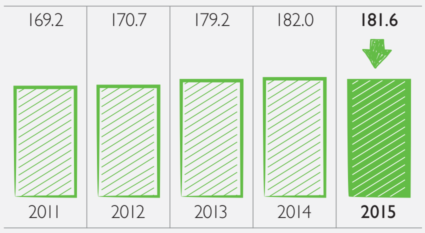
Gross sales per FTE is an indicator of productivity within the Partnership. A higher result denotes higher productivity.

Commentary

Gross sales per FTE decreased slightly reflecting a decline in gross sales per FTE in Waitrose, where FTEs grew at a faster rate than the sales growth. This was offset by an increase in gross sales per FTE in John Lewis. On a 53 week basis the KPI was £184,800.

How we have performed

Gross sales per average FTE £000



Partnership profit per average FTE £000

Definition

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

Why we use this measure

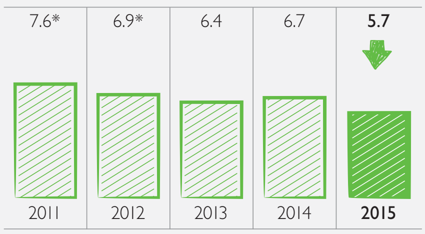
Measures the profit generated per average FTE. This is useful to assess whether we are growing efficiently.

Commentary

PBT per average FTE decreased, principally due to the decline in operating profit and the increase in average FTEs. On a 53 week basis the KPI was £5,800.

How we have performed

Partnership profit per average FTE £000



* Not restated for the adoption of IAS 19 (revised).

Number of Partners

Definition

Number of Partners as at year-end date.

Why we use this measure

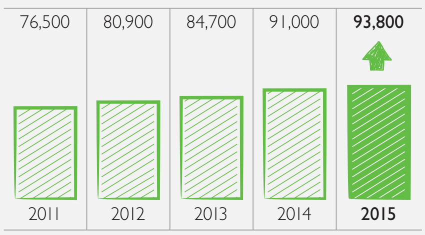
Measures growth in the number of Partners and the net new jobs created by the Partnership.

Commentary

Net 2,800 new jobs were created in the year, principally in Waitrose.

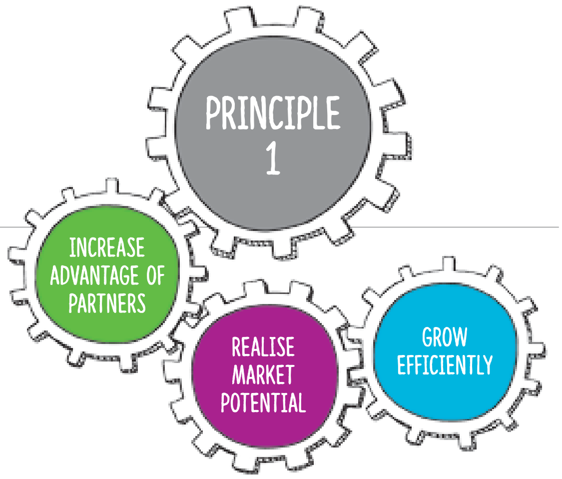
How we have performed

Number of Partners at year end



52 v 53 weeks?

The Partnership's year end is always the last Saturday in January. Usually we have a 52 week year but this year it is 53 weeks. The 2014/15 year-on-year financial movements have been presented on a 52 week basis so that they are comparable with earlier periods, unless indicated otherwise. This has been done to provide a more consistent comparison and meaningful understanding of this year's financial performance.



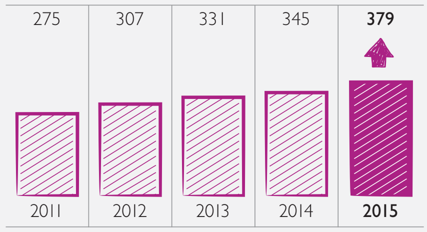
Definition	Why we use this measure	Commentary	How we have performed

Realise market potential

Number of shops

Definition	Why we use this measure	Commentary
The number of shops trading as at the year-end date.	Demonstrates the change in our retail space in our business year on year – a key driver of growth.	Waitrose opened 33 new branches during the year of which 20 were convenience shops, and closed two branches. John Lewis opened three new shops. There is an active pipeline of new sites.

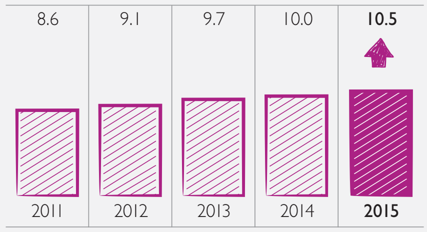
Number of stores



Selling space m sq ft

Definition	Why we use this measure	Commentary
Selling space including all customer-facing areas but excluding offices, warehouse space and Partner facilities.	Demonstrates the change in our retail space in our business year on year – a key driver of growth.	Selling space increased to 10.5 million square feet reflecting store expansion and refurbishment.

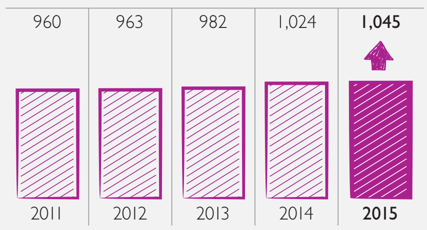
Selling space m sq ft



Gross sales per selling sq ft £

Definition	Why we use this measure	Commentary
Gross sales generated for every square foot of selling space.	Measures sales density which is an indicator of performance.	Gross sales per selling square foot has increased principally due to the strong like-for-like sales performance in John Lewis. On a 53 week basis the KPI was £1,063.

Gross sales per selling sq ft £



Our key financial performance indicators (continued)

Definition	Why we use this measure	Commentary	How we have performed

Realise market potential

Gross sales growth %

Definition

Gross sales growth
Percentage increase in gross sales during the reporting period. Gross sales is defined on page 131.

Like-for-like sales
Like-for-like sales is 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.

Why we use this measure

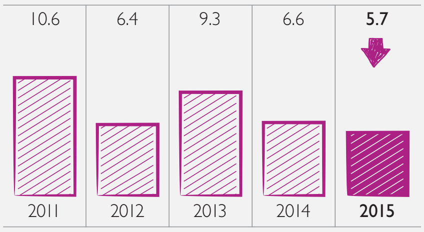
Sales growth is a key retail measure, and we use it to establish how the John Lewis Partnership is performing against the overall market. It also measures our aim to achieve long-term sustainable growth.

Commentary

Both Waitrose and John Lewis grew sales well ahead of their respective markets, increasing their market share. Waitrose outperformed the Kantar Grocery Market by 4.8% and John Lewis outperformed the BRC Retail Index by 4.9%. On a 53 week basis the KPI was 7.6%.

How we have performed

Gross sales growth %



Like-for-like (%)

Waitrose* +1.4%

John Lewis +6.5%

* Excludes petrol sales.

Grow efficiently

Partnership profit margin %

Definition

Profit before Partnership Bonus, tax and exceptional item expressed as a percentage of revenue.

Why we use this measure

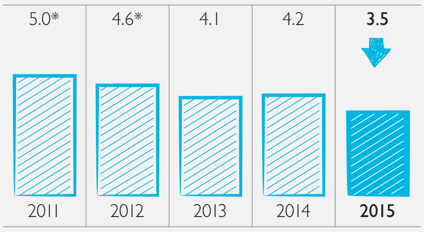
Measures whether profitability is changing at a higher or lower rate relative to revenue.

Commentary

Partnership profit margin has decreased from 4.2% to 3.5%, principally due to the decline in operating margin in Waitrose. On a 53 week basis the KPI was 3.5%.

How we have performed

Partnership profit margin %



* Not restated for the adoption of IAS 19 (revised).

Definition	Why we use this measure	Commentary	How we have performed

Grow efficiently

Cash flow from operations £m

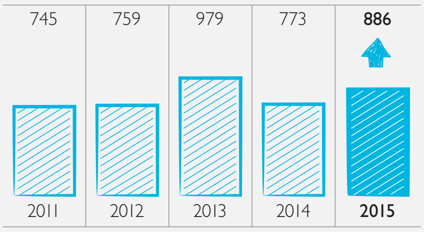
Definition: Measure of how much cash has been generated by the Partnership's business operations.

Why we use this measure: Identifies whether the Partnership is generating sufficient positive cash flow to maintain and invest in our operations, or whether external financing may be required.

Commentary: Cash inflow generated from operations increased by 14.6%, principally due to greater improvements in working capital and the cash impact of the exceptional item last year.

How we have performed:

Cash flow from operations £m



Return on invested capital (ROIC) %

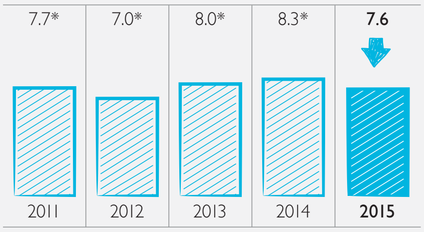
Definition: Post tax profit, adjusted for non-operating and exceptional items, as a proportion of average operating net assets, adjusted to reflect a deemed capital value for property lease rentals.

Why we use this measure: Measures how efficiently the Partnership uses the capital invested in our operations. ROIC is a useful metric to assess the long-term value creation by our business.

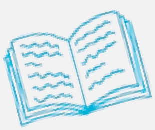
Commentary: ROIC has decreased principally due to the decline in operating profit in Waitrose.

How we have performed:

Return on invested capital %



* Restated to calculate the deemed capital value for property lease rentals on a consistent basis to 2015.

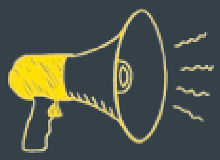


Strategic Report

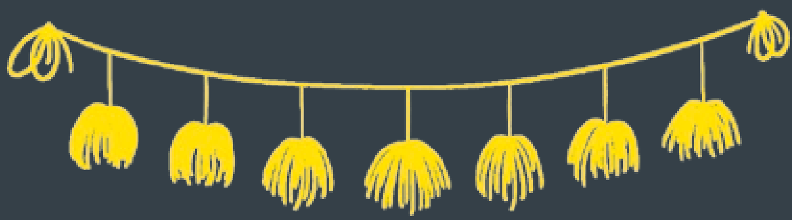
Pages 1 to 81 comprise the Group Strategic Report.
The Group Strategic Report was approved by the Board of Directors on 16 April 2015.

Sir Charlie Mayfield
Chairman, John Lewis Partnership, 16 April 2015

IT'S YOUR BUSINESS



IT'S YOUR VOICE



Governance 2014/15

Our governance structure is set out in our Constitution. On the following pages we explore the roles and responsibilities of our governing bodies – including how they aim to protect the Partnership's future, enhance its prosperity and ensure its integrity.

Our governance approach

> “THE WAY OUR PARTNERSHIP IS GOVERNED IS INTEGRAL TO OUR ABILITY TO ACHIEVE OUR PARTNERSHIP STRATEGY. IT ENSURES THAT OUR PRINCIPLES, WHICH GUIDE OUR BUSINESS AND EMPOWER OUR PARTNERS, ARE FULFILLED.”

Sir Charlie Mayfield
Chairman, John Lewis Partnership

How is the Partnership governed?

The Partnership is governed by our written Constitution, which provides a framework establishing the Partnership's Principles and the way in which the Partnership should operate. The Constitution has been revised and 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 1929. At the heart of the Constitution is Principle 1, which has been described on page 22. This compelling statement on the responsibility of co-ownership is what differentiates the Partnership and its governance from other corporate bodies. We have democratic bodies that seek to protect the fundamental principle of co-ownership and engagement of Partners. Our governance structure is designed to safeguard the Partnership's future, enhance its prosperity and ensure its integrity. Please see pages 36 to 41 for information on the Partnership's strategy that is guided and supported by our unique governance framework.

Which other governance regulations are applicable to the Partnership?

The Partnership is also governed by its Articles of Association, the Companies Act, and complies with the Listing Rules and Disclosure and Transparency Rules applicable to a Standard Listed company on the London Stock Exchange (LSE). Our listing is explained more fully on page 119 of our Directors' Report.

As the Partnership has no tradable equity share capital listed on the LSE, it is eligible for exemption from the Financial Conduct Authority's requirements relating to corporate governance disclosures. The UK Corporate Governance Code (the Code) is a guide to effective board practice and is based on the underlying principles of good governance: accountability, transparency, probity and focus on the sustainable success of an entity over the longer term. As the Partnership seeks to maintain its reputation and standing in its dealings with external stakeholders as well as Partners, the Partnership Board voluntarily seeks to apply these principles.

DID YOU KNOW?

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

The Partnership Board believes that the structure provided by the Partnership's written Constitution offers the necessary level of assurance for Partners as co-owners of the business.

How does our governance model compare with the Code?

Throughout the year ended 31 January 2015, the Partnership has voluntarily sought to apply the principles of the Code, published by the Financial Reporting Council (FRC) and available to view at www.frc.org.uk. The Code recognises that alternative governance arrangements may be justified, if good governance can be achieved by other means. This is the 'comply or explain' approach and is the trademark of corporate governance in the UK.

The Partnership Board believes that the Partnership's practices are consistent with each of the Code's principles, are appropriate, and offer the necessary level of protection to Partners and other stakeholders. However, as the Partnership's Constitution and co-ownership model establishes its own unique governance structure, there are certain aspects of the Code that the Partnership does not comply with.

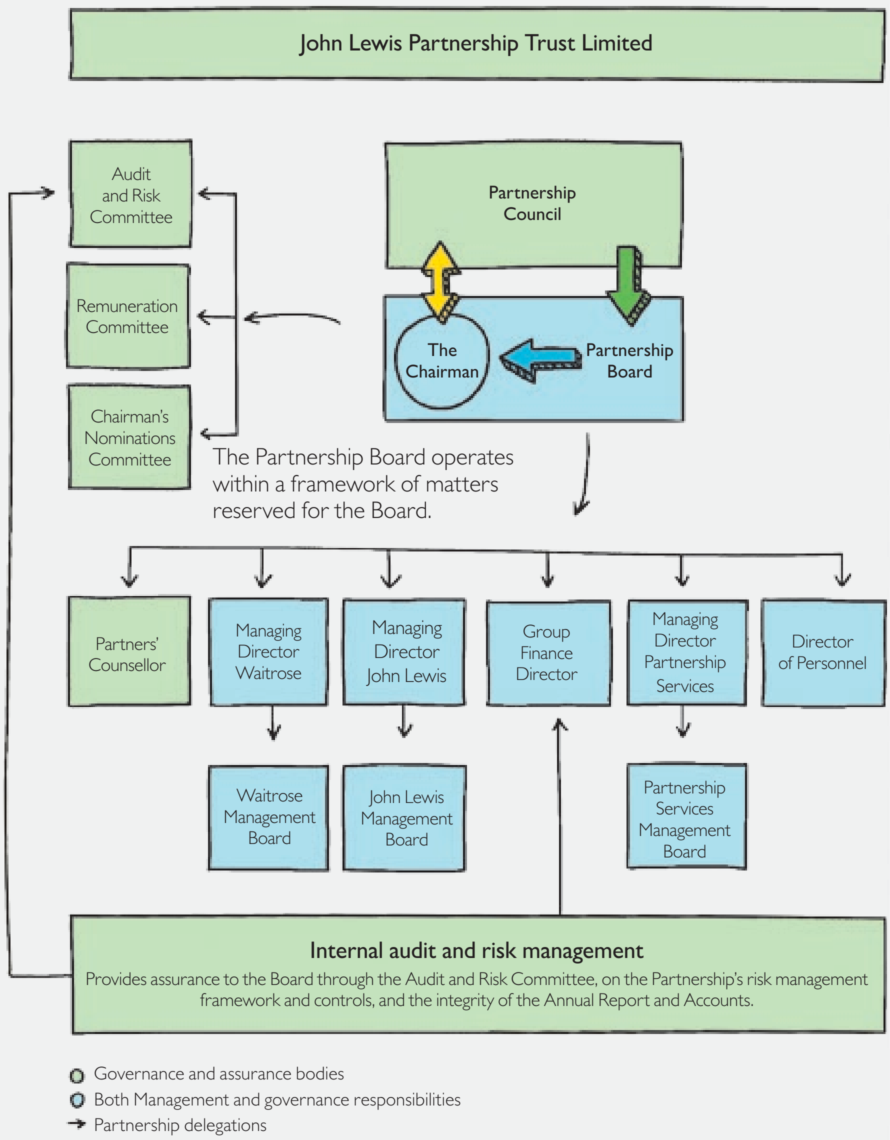
Comply or explain?

Where we have not complied with the Code Provisions, these areas are highlighted in the report with the above icon and explained in more detail.

The Code was updated in September 2014. The revised provisions apply to accounting periods beginning on or after 1 October 2014 and will therefore be reported against in next year's Annual Report and Accounts.

The Partnership's governance mechanisms and practices are explained in the following pages. The way the Partnership seeks to apply Principle A.2. (a clear division of responsibilities at the head of the company) is set out on page 87.

OUR GOVERNANCE STRUCTURE AND GOVERNING AUTHORITIES



Introduction
Partnership difference
Principles
Strategy
Performance
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Financial statements

Our governance approach (continued)

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 and is the ultimate holding company of the Partnership.

More information about the Trust Company can be found on page 89›

What is the role of the Constitution?

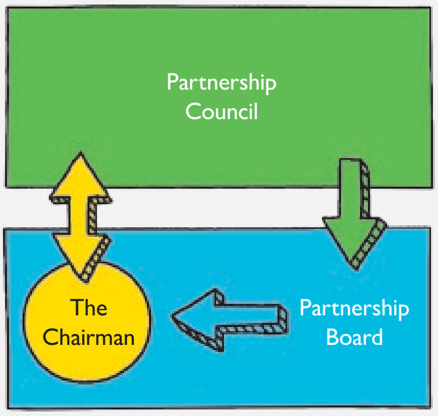
The Constitution defines mechanisms which allow the Partnership to be run fairly and effectively, with checks and balances to ensure accountability, transparency and honesty. These mechanisms, which include a series of delegated authorities, also ensure that the views of Partners are heard.

The Constitution defines three governing authorities:

→ **The Partnership Council**
Roles and responsibilities are set out on page 96 to 99 of the Partnership Council report

→ **The Chairman**
Roles and responsibilities are set out in this report

→ **The Partnership Board**
Roles and responsibilities are set out in this report



Provides governance and assurance to
Entrusts management of the business to
Delegates management authority to

The Constitution established the representation of the co-owners on the Partnership Board through the election of Partners as Directors (Elected Directors) and it also determines the role of the Partners' Counsellor. See pages 90 and 91 for more detail on their roles.

The Constitution may be amended or cancelled by agreement between two thirds of the voting membership of the whole Partnership Council and the Chairman.

How is corporate social responsibility (CSR) and sustainability governed?

Our Director of Personnel, Tracey Killen, has principal responsibility for leading and co-ordinating sustainability in the Partnership. Operational management responsibility for sustainability is delegated from the Chairman to the Managing Directors of John Lewis and Waitrose, who in turn delegate responsibility to Management Board members within the divisions.

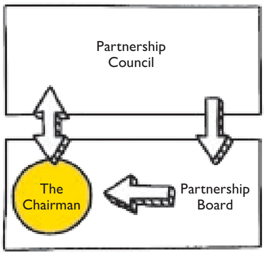
Cross functional steering groups, such as the Partnership's Environmental Steering Group and the Partnership and divisional CSR and Community Investment Committees, then focus on key cross-divisional issues.

The governance of CSR is overseen by the Chairman's Committee. The Partnership Board considers CSR issues as and when appropriate, but at least once a year. In 2014/15, the Chairman's Committee reviewed the Partnership's approach and results from the sustainability materiality assessment.

The assessment process involved interviews with senior management across the Partnership, as well as our key stakeholders, to understand what matters most to them, the business and wider society. See page 6 for more information on the issues identified and visit www.johnlewispartnership.co.uk for information on the Partnership's stakeholder engagement around these issues.

In 2015/16, the Partnership will continue to strengthen the governance structure to ensure the appropriate management of material issues key to the Partnership's sustainability.

The Chairman



What are the Chairman's roles and responsibilities?

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.
He is also responsible for the leadership of the Partnership Board and ensuring its effectiveness in all aspects of its role. The Chairman's role and responsibilities are defined in the Constitution.

How is the Chairman accountable within the Partnership?

The Chairman is not only accountable to the Partnership Board, but also to the Partnership Council, in accordance with the Partnership's Constitution. 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 Chairman attended five Partnership Council meetings during the year under review.

How does the Chairman delegate his management authority?

The Chairman delegates his management authority for the day-to-day management and development of the core businesses to the Divisional Managing Directors and the Partnership's financial and personnel operations to the Group Finance Director and Director of Personnel respectively.

What other bodies support the Chairman?

The Chairman is supported in his executive role by the Chairman's Committee, which comprises the Chairman and the Executive Directors of the Partnership. The Chairman's Committee typically meets 17 – 18 times a year to develop strategy, business plans and budgets and to review major operational and management issues, financial results and forecasts, as well as plans for the development of the Partnership's businesses.

In addition to formal Partnership Board meetings, the Chairman maintains regular contact with all Directors through meetings of the Chairman's Committee and through informal meetings with the Elected, Non-Executive and Executive Directors and the senior leadership group of Partners.

Comply or explain?

The Role of the Chairman

Code principle A.2 states that there should be a clear division of responsibilities at the head of the Company between the running of the board and the executive responsibility for the running of the Company's business, and that no one individual should have unfettered powers of decision.

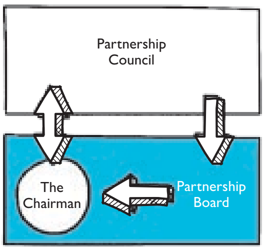
Code provision A.2.1 states that the roles of chairman and chief executive should not be exercised by the same individual, and a division of responsibilities between these roles should be clearly established and agreed upon by the board. This provision supports the Code principle that no one individual should have unfettered powers of decision.

The Constitution applies this principle by means of a number of effective checks and balances on the powers of the Chairman. He is accountable separately to the Partnership Council and the Partnership Board and delegates part of his management authority as explained in this report. Additionally, the Partnership Counsellor and Elected Directors, whose roles are detailed on pages 90 to 91, are able to monitor at first hand how the business is being run, with the particular perspective of the Partners and the Constitution.

The Partnership has voluntarily adopted the UK Corporate Governance Code on a comply or explain basis.
For more information: Go to page 84›

Our governance approach (continued)

The Partnership Board



How is the Partnership Board made up?

The Partnership Board comprises the following 15 members:

- CHAIRMAN
- DEPUTY CHAIRMAN
- FOUR EXECUTIVE DIRECTORS (IN ADDITION TO THE CHAIRMAN AND DEPUTY CHAIRMAN)
- PARTNERS' COUNSELLOR
- FIVE ELECTED DIRECTORS
- THREE NON-EXECUTIVE DIRECTORS

More detail about individuals on the Partnership Board and their roles can be found on pages 90 to 91›

What is the Partnership Board's responsibility?

The Partnership Board has ultimate responsibility for approving major policy and strategy decisions and allocating the financial and other resources of the business. 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 the nature and extent of the risk it is willing to take in achieving its strategic objectives.

It is responsible for the overall management and performance of the Partnership and operates within a framework of prudent and effective controls, which enable risk to be assessed and managed. It is collectively responsible for the success of the Partnership and operates within a framework of reserved matters, delegations and assurance.

Quorum: Three members.

How often does the Partnership Board meet and what does it discuss?

The Partnership Board met 12 times during the reporting year and the members' attendance is detailed in the table on page 90. The Partnership Board governs the Partnership's affairs through a schedule of matters reserved for its decision. It agrees the Partnership's strategy, business plan and annual budgets, including those of Waitrose, John Lewis, Partnership Services and Group divisions. It approves and monitors the Partnership's revenue and capital spending and determines each year the amount of the Partnership's profits that should be reserved for the maintenance and development of the Partnership's business, and hence the rate at which the Partnership Bonus may be paid. It also monitors performance, including that of the divisions, against business plans, budgets and forecasts.

Senior executives attend Partnership Board and Committee meetings as appropriate to support proposals on policy setting, investments and the results and strategies of their divisions. Partnership Board members are given relevant and timely documentation in advance of each Partnership Board and Committee meeting.

The Partnership Board agendas are structured to create sufficient time for strategic discussion and debate.

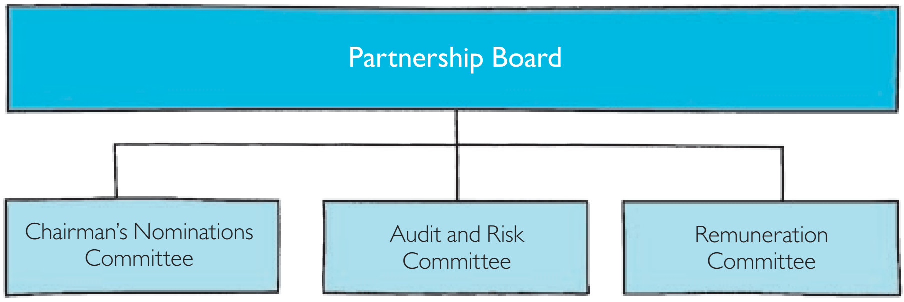
Debate has included both the medium and longer term direction of the Partnership. This includes recognising the implications of the impact of changes in the market and the different cost pressures of competing in an increasingly multi-channel world.

What other committees assist the Partnership Board?

The Partnership Board is aided in carrying out its supervisory and assurance responsibilities by its committees: the Chairman's Nominations Committee, the Audit and Risk 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 104, the Chairman's Nominations Committee report on page 100 and the Remuneration Committee report on page 110.

COMMITTEES ASSISTING THE PARTNERSHIP BOARD



Go to page 100 for the Committee's Report›

Go to page 104 for the Committee's Report›

Go to page 110 for the 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.

What is the Partners' role in how the Partnership is governed?

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, such as the open system of journalism for the Gazette and the annual Partners' Survey;
- Representative bodies, as shown on page 17; and
- Through personal contact between Partners and their line managers.

Please see The Partnership Council report on pages 96 to 99 for more information on how Partners' opinion is voiced through the Partnership Council.

A word about the Trust Company

John Lewis Partnership Trust Limited ('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 ('the Trustee'), under the Constitution, is to protect the Constitution and democracy 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 Trustees elected?

The Articles of Association of the Trust Company states 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.

The Trustees of the Constitution are elected by the Partnership Council, as described on page 99.

How often do the Trustees meet?

The Trust Board meets as required. In 2014/15 it met three times during the year.

What did the Trustees discuss in 2014/15?

In 2014/15, the Trustees reviewed, considered and approved the following:

- The payment of the 2014 Partnership Bonus
- Policy for exclusions from Partnership Bonus
- Application for SIP shares as Trustee of the John Lewis Partnership BonusSave Plan
- Confirmation from the Chairman of the process regarding the Chairman's nomination of successor
- The financial statements for the Trust and the Trust Company and the auditors' engagement letter
- Changes to the Articles of Association of John Lewis Partnership plc
- Partnership Council constituencies

During the year under review, the Trustees participated in training facilitated through the Institute of Directors on their role and responsibilities as Trustees and Directors of the Trust Company.

Our governance approach (continued)

The Partnership Board continued

The members of the Partnership Board and their attendance at Partnership Board meetings during 2014/15 were as follows:

	Appointed during the year	Resigned/retired during the year	Number of Partnership Board meetings attended
Executive Directors			
Sir Charlie Mayfield (Chairman)			12
Mark Price (Deputy Chairman)			12
Tracey Killen			12
Patrick Lewis			12
Andy Street			12
Loraine Woodhouse	1 December 2014		2
Former Executive Directors			
Helen Weir		1 December 2014	9
Partners' Counsellor			
Jane Burgess			12
Elected Directors			
Kate Brewer			12
Steve Gardiner			12
Kim Lowe			12
Kevin Payne			12
Dan Smith			12
Non-Executive Directors			
Denis Hennequin	1 March 2014		10
Baroness Hogg			12
Keith Williams	1 March 2014		8
Former Non-Executive Directors			
David Anderson		14 February 2014	–
David Barclay		28 February 2014	2

In addition to the 12 scheduled Partnership Board meetings above, the Partnership Board also met on a quorate basis on four occasions. These quorate meetings were constituted by the Partnership Board from those members available at that time, having considered the views of the whole of the Partnership Board beforehand.

Biographies of members of the Partnership Board can be found on pages 94 to 95.

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

The Partnership Board and its 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 87.

DEPUTY CHAIRMAN

Mark Price 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 an Executive Director and Managing Director of Waitrose.

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

EXECUTIVE DIRECTORS

The Executive Directors at the date of this report are Tracey Killen, Patrick Lewis, Sir Charlie Mayfield, Mark Price, Andy Street and Loraine Woodhouse (appointed as Acting Group Finance Director with effect from 1 December 2014 following Helen Weir's resignation).

The appointment of Executive Directors is subject to recommendation 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 Director of the Partnership Board in accordance with the Constitution.

The Partners' Counsellor monitors and upholds the integrity of the business, its values and ethics as enshrined in the Constitution. The Partners' Counsellor has responsibility for the independence, health and effectiveness of the Partnership's elected representative bodies. She is responsible for Registry, which is an independent function that reports to the Chairman and assures the application of the Partnership's principles within the business, whose purpose is to ensure Partners' views and opinions are heard. She helps shape the future success of the Partnership and obtains assurance for Partners about the strength of the business and of the democracy and that due regard is paid to Partners' interests.

The relationship between the Partners' Counsellor, Elected Directors and Partners enables Partners' views to be communicated to the Partnership Board as a whole, allowing the Partnership Board to maintain a balanced understanding of the issues and concerns 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 Kate Brewer, Steve Gardiner, Kim Lowe, Kevin Payne and Dan Smith.

At the end of each three-year term of the Partnership Council, Elected Directors are appointed through a democratic voting process. Elections took place on 25 March 2015. Dan Smith decided not to stand for re-election. The results were that, in addition to Dan Smith, Kate Brewer and Kevin Payne will step down as Elected Directors with effect from close of business on 16 April 2015. Stephen Gardner and Kim Lowe were re-elected as Elected Directors, and Chris Coburn, Baiju Naik and Lucy Parks will be appointed Elected Directors with effect from 17 April 2015. 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 are independent of the management of the Partnership and they have no executive responsibilities on the Board.

The Partnership Board treats Elected Directors as being independent for the purpose of considering matters reserved to the Board for decision, regardless of the fact that they are Partners.

NON-EXECUTIVE DIRECTORS

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

During the year, Baroness Hogg's term of office was extended from September 2014 to April 2017.

Denis Hennequin and Keith Williams were appointed as Non-Executive Directors on 1 March 2014 for an initial term of three years. 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 Baroness Hogg continues to be independent of the management of the Partnership and that Denis Hennequin and Keith Williams were independent on appointment. 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.

SENIOR INDEPENDENT DIRECTOR

The Partnership Board does not appoint a Senior Independent Director.

Comply or explain?

The role of the Senior Independent Director

Code Provisions A.1.2, A.4.1, A.4.2 and B.6.3. require that one of the Non-Executive Directors is appointed as the Senior Independent Director to provide a sounding board for the Chairman, and to serve as an intermediary for the other Directors, lead the performance evaluation process for the Chairman and to be identified in the Annual Report and Accounts.

The Partnership Board does not appoint a Senior Independent Director and so does not comply with the above Code Provisions. The functions contemplated by this Code Provision are split across the responsibilities of Mark Price as Deputy Chairman and Jane Burgess as Partners' Counsellor.

The role of the Deputy Chairman and Partners' Counsellor are set out on page 90.

The Chair of the Remuneration Committee, who is a Non-Executive Director, leads the performance appraisal process for the Chairman and met with the other Directors, without the Chairman present, to appraise the Chairman's performance.

The Partnership has voluntarily adopted the UK Corporate Governance Code on a comply or explain basis.

For more information: Go to page 84›

Our governance approach (continued)

The Partnership Board continued

Meetings without the Executive Directors

In addition to attending Partnership Board meetings, the Non-Executive Directors and the Elected Directors meet together without the Executive Directors as required by the Code three times during the year. These meetings are facilitated by the Partners' Counsellor.

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. Together, Elected Directors and Non-Executive Directors form a majority of the Partnership Board.

Retirement by rotation

The Partnership does not operate a system of retirement by rotation or annual election by shareholders. The Partnership Board considers that a rigorous process of accountability exists to ensure compliance with the Partnership's Constitution, especially Principle 1. The Constitution's governance mechanisms provide opportunities throughout the year to review and scrutinise the efficacy of each Director.

Conflicts of interest

The Partnership Board maintains procedures that require the regular review of potential conflicts of interest. All Directors are required to declare pertinent interests and absent themselves from any discussion that might give rise to a conflict of interest. A register of interests is maintained by the General Counsel and Company Secretary.

At no time during the year did any Director hold 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 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 Trustee of the Partnership's Pension Fund, Patrick Lewis also has the benefit of this indemnity.

The Partnership Board has looked closely at the other appointments held by Directors, details of which are contained in their biographies on pages 94 to 95. The Partnership Board considers that the Chairman and each Director 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.

Effectiveness of the Partnership Board

During the year, the Board undertook an internal evaluation of its own effectiveness facilitated through the 'Thinking Board' on-line self-assessment tool provided by Independent Audit Limited and supported by interviews with the Directors conducted by the Interim Director of Legal Services.

The key recommendations of the 2013/14 evaluation had been to review the role and responsibilities of each of the Committees, as well as their relationship and interactions with the Board and management, so that they are clearly defined and reflected within each Committee's Terms of Reference. The Terms of Reference for the committees were subsequently reviewed in light of this recommendation. As a result, one of the key areas the 2014/15 evaluation was designed to assess was how effective this review had been. This year's evaluation review concluded that the new Terms of Reference for the Committees provided the greater clarity identified as being required in the previous year's evaluation.

Comply or explain?

Board Independence

Code Provision B.1.2 states that 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.

The Code does not contemplate nor does it give credit for employee directors on the boards of listed companies.

As at 31 January 2015 the Partnership Board included three Non-Executive Directors considered by the Code to be independent and therefore did not comply with this Code Provision. Instead, the Partnership Board reflects the stakeholders of the Partnership: the Partners' Counsellor and the five Elected Directors are neither Executive Directors nor Non-Executive Directors. 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, in accordance with the independence definition provided by Code Provision B.1.1, they test Partnership Board decisions and proposals by the executive from their perspective as Partners and co-owners, and while they must act in accordance with their statutory duties as Directors, they are also, through their Constitutional position, mindful of the Partners' best interests as a whole.

The Partnership has voluntarily adopted the UK Corporate Governance Code on a comply or explain basis.

For more information: Go to page 84›

Overall, the Board evaluation concluded that the Board continued to develop its operating effectiveness to meet the risks and challenges facing the business and particularly welcomed the more strategic focus encouraged under the Chairman's leadership. The initial results were reported to the Board at its meeting in January 2015, and the new General Counsel and Company Secretary is reviewing the main themes arising from the evaluation. He will make recommendations to the Board during the course of the year.

Independent professional advice

All Directors of the Partnership Board have unrestricted access to the General Counsel and Company Secretary and to other executives within the Partnership, on any matter of concern to them in relation to their duties. The Partnership has undertaken to reimburse legal fees to the Directors if circumstances should arise in which it is necessary for them to seek separate, independent legal advice in order for them to carry out their duties effectively. Should the Elected Directors ever consider it necessary to seek independent legal advice, they can rely on the Partners' Counsellor to provide the budget.

General Counsel and Company Secretary

The General Counsel and Company Secretary is responsible for advising the Partnership Board on all corporate governance matters, ensuring that Board procedures are followed and that there is a good flow of information, facilitating induction programmes for new Directors and assisting with Directors' continuing professional development. Following the retirement of Margaret Casely-Hayford as Director of Legal Services and Company Secretary with effect from 31 July 2014, Alan Buchanan was appointed as Interim Director of Legal Services and Company Secretary with effect from 31 July 2014. Subsequently, Keith Hubber was appointed General Counsel and Company Secretary with effect from 1 February 2015.

Sharing knowledge and relations with Partners

The Code requires that boards should 'maintain a dialogue with shareholders based on mutual understanding and objectives'.

The Partnership Board is committed to regular dialogue with Partners, as co-owners of the Partnership and in accordance with Principle 1. Partners are updated weekly on the performance of the Partnership through the Gazette magazine, other journalism and the Partner Intranet. There is a regular flow of information at all levels of the business through meetings held by elected councils and local forums and an open system of journalism operated through the Gazette, which also enables Partners to submit questions to management on any subject. Questions are answered within 21 working days. The Gazette is published weekly and made available to all Partners.

During Council and forum meetings and through the Gazette, the Executive Directors are able to share the Partnership's objectives and discuss performance against those objectives. Elected Directors also attend Partnership Council meetings. Each of these information-sharing opportunities, as described above, enables all Directors to develop an understanding of Partners' views and to act upon them.

Through our website, we share information with external investors 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.

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.

Comply or explain?

Retirement by rotation

Code Provision B.7.1 states that all Directors of FTSE 350 companies should be subject to annual election by shareholders. As the Partnership is not a FTSE 350 company this provision does not apply.

Code Provision B.7.1 further requires that 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.

In accordance with the Articles of Association, all Directors appointed by the Partnership Board are eligible for re-election by shareholders at the first Annual General Meeting following appointment. However, the Partnership does not operate a system of annual election or re-election at three-year intervals.

As detailed on page 87 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 99).

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 two times 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 to account in their areas of responsibility.

The Partnership has voluntarily adopted the UK Corporate Governance Code on a comply or explain basis.

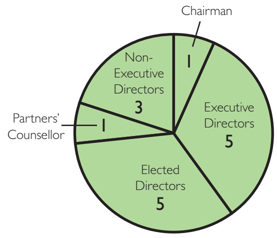
For more information: Go to page 84

Our Partnership Board members

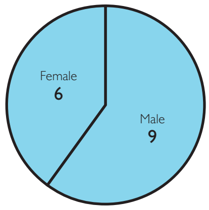
Our Partnership Board is different to most other Boards, bringing relevant skills and experience to the table through a mix of appointed and democratically elected Partners.

Board composition

Position within the Board



Gender diversity



For more information about the role of our governing authorities, see Our governance approach on page 84›

Chairman and Executive Directors

Sir Charlie Mayfield N
Chairman and Chairman of the Chairman's Nomination Committee

Started current role: March 2007

Joined the Partnership Board: 2001

Length of time with Partnership: 15 years

Other appointments: Chairman of the John Lewis Partnership Trust Limited, Chairman of the UK Commission for Employment and Skills, Chairman of the British Retail Consortium, Director of Central Surrey Health Trust Limited, Director of Fabindia Overseas Private Limited, Trustee of Place2Be – Children's Charity

Mark Price CVO
Managing Director, Waitrose and Deputy Chairman of the John Lewis Partnership

Started current role: April 2007

Joined the Partnership Board: 2005

Length of time with Partnership: 32 years

Other appointments: Deputy Chairman of the John Lewis Partnership Trust Limited, Non-Executive Member and Deputy Chairman of Channel Four Television Corporation, Chairman of the Trustees and Director of The Prince's Countryside Fund, Director of Countryside Fund Trading Limited

Tracey Killen
Director of Personnel

Started current role: April 2007

Joined the Partnership Board: 2007

Length of time with Partnership: 32 years

Other appointments: Director and Trustee of Roffey Park Institute Limited

Andy Street
Managing Director, John Lewis

Started current role: February 2007

Joined the Partnership Board: 2002

Length of time with Partnership: 29 years

Other appointments: Vice-Chairman of Performances Birmingham Limited, Chair of the Greater Birmingham and Solihull Local Enterprise Partnership (LEP)

Patrick Lewis
Managing Director, Partnership Services

Started current role: October 2012

Joined the Partnership Board: 2009

Length of time with Partnership: 20 years

Other appointments: Trustee of the Partnership's Pension Fund, Non-Executive Chairman of 3BM, Director of Wycombe Abbey School

Loraine Woodhouse ACMA
Acting Group Finance Director

Started current role: December 2014

Joined the Partnership Board: December 2014

Length of time with Partnership: two years

Other appointments: Director and Trustee of Somerset House Trust, Director of Somerset House Enterprises Limited

Elected Directors

Steve Gardiner N R
Branch Manager, Waitrose Cirencester

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

Length of time with Partnership: 19 years

Kim Lowe N R
Head of Branch, John Lewis Bluewater

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

Length of time with Partnership: 32 years

Kevin Payne A S
Distribution Contract Manager, Waitrose

Joined the Partnership Board: 2012

Length of time with Partnership: 30 years

Kate Brewer A S
Business Analyst IT Relationships, John Lewis Victoria

Joined the Partnership Board: 2013

Length of time with Partnership: 11 years

Dan Smith A S
Selling Assistant, John Lewis, Kingston

Joined the Partnership Board: 2012

Length of time with Partnership: 10 years

Partners' Counsellor

Jane Burgess A

Joined the Partnership Board: 2012

Length of time with Partnership: 35 years

Non-Executive Directors

Denis Hennequin N A R
Non-Executive Director and Chairman of the Remuneration Committee

Joined the Partnership Board: 2014

Other appointments: Non-Executive Director of Eurostar, Chairman of e-house (Eurostar Hotels), Non-Executive Director of Select Service Partners Limited, Director of Cojean Restaurant Investments, Chief Executive Officer of Cojean International Limited, Non-Executive Director of "1001fontaines"

Baroness Hogg N A R
Non-Executive Director and Chairman of the Audit and Risk Committee

Joined the Partnership Board: 2011

Other appointments: Non-Executive Director of BG Group plc, Lead independent Director of HM Treasury, Member of the Takeover Panel, Independent National Director of The Times

Keith Williams ACA N A
Non-Executive Director

Joined the Partnership Board: 2014

Other appointments: Chairman and Chief Executive Officer, British Airways Plc, Independent Non-Executive Director of Transport for London

General Counsel and Company Secretary

Keith Hubber

Started current role: February 2015

Length of time with Partnership: 0 years

Professional qualifications: Solicitor

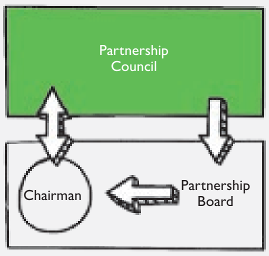
On 25 March 2015, elections were held by the Partnership Council to select five Partners to be members of the Partnership Board for the next three year term of the Partnership Council. Please see page 91 for further details.

Key

N Member of the Chairman's Nominations Committee
A Member of the Audit and Risk Committee
R Member of the Remuneration Committee
S To stand down with effect from close of business on 16 April 2015. See page 91 for further details.

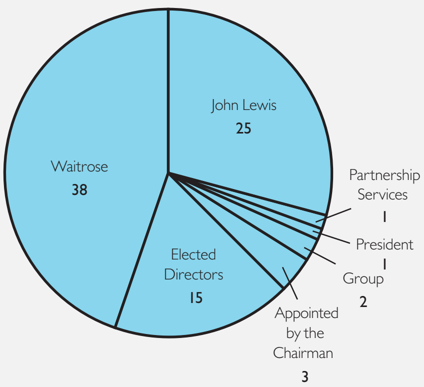
The Partnership Council report

> **"OUR ACTIONS AND DECISION-MAKING THIS YEAR WERE ACCOMPANIED BY LIVELY DEBATE ON PAY, PENSIONS AND SYSTEMS AND LED TO SOME LANDMARK CHANGES IN PENSIONS."**
>
> Jane Burgess
> Partners' Counsellor



IN THIS SECTION:

The Partnership Council split



Council members

The Partnership Council currently consists of 66 elected members (38 Waitrose, 25 John Lewis, two Group, one Partnership Services), a President, three members appointed by the Chairman and the 15 members of the Board, who are automatically members. Over the past year, there have been 16 by-elections and Council attendance averaged 95% of elected councillors.

66

Elected members of Council

Meetings and attendance

The Constitution requires that the Partnership Council meets at least twice a year.

Role of the Council

Partnership Council is central to the business' co-ownership structure, and its role is set out in the Constitution. As the most senior representative body of the members of the Partnership, it entrusts management of the business to the Partnership Board, which delegates its management authority to the Chairman (Rule 3). It is one of the Partnership's three governing authorities, along with the Chairman and the Partnership Board. All three are ultimately responsible for the success and wellbeing of the Partnership.

PARTNER OPINION

Since the Partnership is owned in trust for Partners – past, present and future – sovereign authority ultimately lies in Partner opinion. Yet whilst all three governing authorities therefore have a duty to ensure that Partner opinion is paramount, the Partnership Council is where this is most vividly brought to life. Every Partner has a responsibility, as outlined in the Constitution, to contribute to the success and well-being of the Partnership in order to share in the rewards of profit, knowledge and power.

The two key ways in which Partners fulfil that responsibility are by voicing their opinion and by carefully selecting representatives to carry that opinion forward at every level of our democratic structure, culminating in it being formally brought to bear at Partnership Council meetings.

Partnership Council actions

This year has seen a leap forward in the Partnership Council's ability to gather and hone Partner opinion through the introduction of Google communities and the issuing of iPads to all Councillors in the autumn. As a result, every Councillor is now more easily able to access emails, the intranet and a newly designed Partnership Council site, complete with links to all agendas, supporting papers, presentations and summaries, both for the full Council and for its Specialist Groups. We are hopeful, too, that the development of webinar facilities will further enhance Councillors' ability to share opinion and be briefed on topics.

IN A NUTSHELL...

Our Partners' Counsellor, Jane Burgess, shares the Partnership Council's key actions and achievements in the year.

Councillors also have their own online community for regular sharing of opinion, questions and links to articles. As well as posting to each other in between meetings, Councillors are usually members of several other online communities, typically including their local Forum or PartnerVoice, and frequently post updates – both verbal and photographic – before, during and after meetings. This more personalised addition to the live streaming introduced in recent years has enhanced constituents' engagement with the Council and there is perhaps a growing expectation that the live "capturing" of views from across the Partnership during a Council meeting could further enliven the sense in which Partner opinion is driving the Partnership forward.

HOLDING TO ACCOUNT

The Council has a formal responsibility to hold the Chairman to account twice a year for his leadership of the Partnership. The proposal on which Councillors vote judges three elements:

- The Chairman's report, which includes the financial results for the year or half year
- The Chairman's leadership
- Progress towards achieving Principle 1

Although Councillors take into account the views of their constituents, they are not delegates and must make up their own minds, often with the advantage of additional information and discussion which their constituents will not have been privy to. Dissatisfaction with any of the three elements outlined above might lead a Councillor to decide not to support the proposal. The votes were as follows:

- October 2014 – carried with five votes against
- March 2015 – carried unanimously

Partnership Council actions

As well as holding to account, there can be robust challenge at other times, such as whenever the Chairman is involved in debates on the Partner Survey, not least because the results include scoring on specific questions about the Partnership's leadership and Partners' interaction with their managers. This July's discussion brought to a head the Council's desire to see more progress in supporting line managers to deliver a better Partner experience – one that fully reflects our co-ownership principles and mirrors the impressive customer experience that all Partners strive to deliver on a daily basis.

As a result of Councillors' robust and vocal feedback the Chairman commissioned a special report from the Partners' Counsellor on line management. A summary of that report and the executive's response to it was presented to a packed Council meeting in October before being shared more widely with the Partnership's management. Subsequent updates, both at Partnership Council and within the divisions, have enabled Partners to see clearly the energy and investment now being devoted to this key aspect of every Partner's experience of the Partnership.

DID YOU KNOW?

There have been five Google communities established this year, enabling Councillors to engage with each other and ensure Partner opinion is constantly being shared.

It's your voice

Partnership Council is re-elected every three years. A new Council will be elected in June 2015. In the current term (2012 to 2015) Partnership Council has met formally on 12 occasions, had five specialist briefings, three conferences and a 'Council of Councils' with divisional representative bodies.

Line management

In July 2014, the Council discussed the cumulative impact of change and the pressure on line managers across the business.

The Partnership Council report (continued)

INFLUENCING POLICY

Unlike the more formal and very visible 'holding to account' moments, the process of influencing policy is more gradual.

Partnership Council actions

There were three key areas of focus this year:

- → Pensions, which culminated in an historic vote in January;
- → Pay, where the debate on pay for performance, the living wage and benefits continues to gather pace into the new Council term; and
- → Systems, where increasing centralisation and complexity can quickly lead to frustration at sub-optimal reliability or process change.

Pensions

This second year of the Pension Benefit Review included two occasions on which Partner opinion was "rolled up" through PartnerVoice, Forums and Divisional Councils in response to draft proposals brought by management. The strong feedback that Partners gave on the proposed halving of the accrual rate to 1/120 resulted in an improved proposal that included a 3% contribution from the Partnership to the Defined Contribution pension for those Partners who had qualified for the Defined Benefit section of the scheme.

But as well as shaping the main elements of the proposal, Partnership Councillors also influenced some of the more detailed aspects – such as increases to pensions in retirement, death in service benefits and ill-health pensions – during additional briefing sessions which included sense-checking progress with an independent pensions expert.

Pay

Pay was the subject of two separate sessions at the Council's November Conference. Firstly a confidential briefing on senior pay and pensions was designed to give a "warts and all" reassurance in response to some disquiet and puzzlement expressed at earlier meetings around whether this small group of Partners was being treated more favourably than others.

Secondly, the Partner Group (the Council's Specialist Group working with the Personnel Directorate) had been scrutinising our first year of Pay for Performance and the link to questions around the pay review process, pay budgeting, the Living Wage and the National Minimum Wage. That led to a session with the whole Council and coincided with lively debate on the intranet and in the Gazette letters pages. The responses to the 2015 Partner Survey questions on pay will then provide a springboard for further influence when they are discussed in the coming year.

Systems

Influencing our systems is also a gradual process and Councillors recognised that they needed a better understanding of the Partnership Services division in order to appreciate the scale of change that the Partnership was managing. A well-planned afternoon's visit in July 2014 to Spedan House in Bracknell was for many Councillors their first direct insight into the division, including some frank questioning of those responsible for the recently launched Resourcing service. The Partner Group's follow-up visit to that area in February 2015 found a much more stable operation, but on both occasions Councillors were struck by Partners' openness to feedback and strong desire to get things right.

DID YOU KNOW?

Rule 64 of the Constitution provides for Partners in exceptional need to receive financial assistance from the Partnership. This assistance is funded through monies granted to the Partnership Council. In 2014/15, the Partnership provided hardship loans to 824 Partners totalling £538,000 and hardship grants to 756 Partners totalling £474,000.

Partner Group

Our pay policy is monitored by a committee of the Partnership Council, the Partner Group. The Partner Group is consulted on changes to policies, and can make their own recommendations for change or review.

Live streaming

All formal meetings of the Partnership Council are live streamed to branches and sites across the country. The meetings are reported in the following week's Gazette, the Partnership's magazine. After each Partnership Council meeting, full written summaries and highlights films are available from the Partner intranet.

MAKING DECISIONS

Key Partnership Council decisions taken

Pension Benefit Review

Council's most important decision this year was in January 2015: the unanimous acceptance of the Pension Benefit Review proposal at the end of a two-year long process of consultation, influence and opinion gathering. At the same meeting, Councillors also made an important decision (by 40 votes to 22) not to ring fence temporary pensions. The discussion of this issue was prompted by the receipt of two Gazette letters late on in the consultation process. Councillors had received a detailed briefing on the issue from the Review team. Some were personally affected or had had the chance to speak to those that were at Divisional Council meetings the week before Partnership Council. The vote which followed the 90 minute debate on the issue was an important moment for our democratic process as it confirmed Councillors' authority to make such a decision as representatives acting in the best interests of the Partnership, without further consultation of their constituents. They also debated and decided (by 51 votes to 11) not to exercise the option of delaying the decision in order to gather more Partner opinion.

Election of President of Partnership Council for 2015 to 2018

Another key decision by the Council in January was the election of Trevor Phillips as its President for the 2015 to 2018 term. The Co-ownership Group is the Specialist Group which manages the business of the Council on its behalf. It had agreed with the Partners' Counsellor that candidates for the post should be sought from both inside and outside the Partnership and was fully involved, as on previous occasions, with the interviewing process and made the final recommendation.

Directors and Trustee elections

The Council's final meeting of its three year term in March 2015 was the occasion on which it elected five Directors of the Partnership Board and three Trustees of the Constitution for the new council term of 2015 to 2018. There were 17 and seven candidates respectively and a 98% turnout in the ballot, with the following results:

→ Elected Directors of the Partnership Board: Kim Lowe (re-elected), Steve Gardiner (re-elected), Chris Coburn, Baiju Naik, Lucy Parks.

→ Trustees of the Constitution: Cathy Houchin (re-elected), Karen Crisford and Johnny Aisher.

Whilst these posts are all elected simultaneously, earlier in the year the Chairman had agreed the Council's recommendation to move to rolling elections for the four trustees elected to the Pensions Board and to extend their term of office from three to four years.

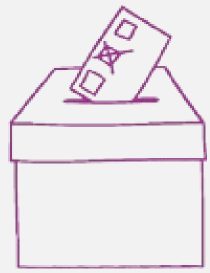
Employee Ownership Champion nominations

There was an even fuller field in response to the call for Partners to nominate colleagues for the Philip Baxendale Awards "Employee Ownership Champion" category, designed to recognise the individual or team who have done the most to support and promote an ownership culture within their organisation, particularly those operating at the frontline/shop floor or junior/middle management levels.

The Co-ownership Group selected four from a strong field of over 40 and, whilst none were victorious this time, those Partners present at the Employee Ownership Association's annual conference were able to see the Mary Knowles Homecare Partnership be the first recipient of the Partnership-sponsored 'Rising Star' award. Mary Knowles Homecare provides expert care and support to people in their homes in Oxfordshire and the surrounding region, helping enable a more comfortable, independent and fulfilling life.

It was also a welcome opportunity to learn from other similar organisations and to share notes on how democratic engagement is central to ensuring that we have a better way of doing business.

Jane Burgess
Partners' Counsellor
16 April 2015



Ballot results

Elected Directors of the Partnership Board:
Steve Gardiner (re-elected)
Kim Lowe (re-elected)
Chris Coburn
Baiju Naik
Lucy Parks
Trustees of the Constitution:
Cathy Houchin (re-elected)
Johnny Aisher
Karen Crisford

New Council President

In March 2015, Partnership Councillors unanimously agreed a change to the Constitution that means a non-Partner can now be elected as Council President. The move allows President Elect and broadcaster Trevor Philips to be formally appointed as successor to the current President, David Jones, from the start of the new Council term.

Chairman's Nominations Committee report

"OUR COMMITTEE'S MAIN FOCUS THIS YEAR WAS BOARD AND SENIOR MANAGEMENT SUCCESSION PLANNING, ALONG WITH OVERSEEING THE DEVELOPMENT OF THE PARTNERSHIP'S TALENT MANAGEMENT PROCESSES."

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 to provide:

- A formal, rigorous and transparent process for the appointment of new Directors to the Partnership Board, who must all be people of ability and integrity committed to working together and supporting the Partnership's Principles;
- A formal, rigorous and transparent process for the succession plans for Directors to the Board;
- That appropriate development and training is provided to enable each Board member to fulfil their accountabilities as a member of the Board;
- Oversight of the process of nominating and appointing the Chairman and will, following consultation with the Chairman, inform the Board concerning the plans and the process for succession regarding the role of the Chairman of the Partnership.

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

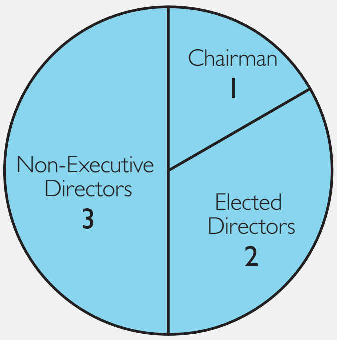
Meetings and attendance

There were four meetings during the year and Directors' attendance at meetings is shown in the table below.

SIR CHARLIE MAYFIELD	4
DAVID ANDERSON*	–
DAVID BARCLAY*	–
STEVE GARDINER	4
DENIS HENNEQUIN	4
BARONESS HOGG**	1
KIM LOWE	4
KEITH WILLIAMS	3

* David Anderson and David Barclay retired prior to the first meeting of the Committee during the year under review.
** Baroness Hogg was only eligible to attend one meeting of the Committee during the year having joined the Committee on 11 December 2014.

Committee composition at date of this report



Committee members

Members at the date of this report:

Sir Charlie Mayfield (Chair), Kim Lowe, Steve Gardiner, Denis Hennequin, Baroness Hogg and Keith Williams.

Changes in Committee membership:

During the year under review David Anderson and David Barclay retired from the Partnership Board and the Chairman's Nominations Committee on 14 February and 28 February 2014 respectively. Denis Hennequin and Keith Williams were appointed as members of the Committee with effect from 1 March 2014. Baroness Hogg was appointed as a member of the Committee on 11 December 2014 for the duration of the search process for a new Group Finance Director.

Quorum

Three members to include the Chairman of the Committee (or his appointed deputy) and at least one Elected Director and one Non-Executive Director.

IN A NUTSHELL...

A Nominations Committee is a standard Board committee, whose main role is to ensure the integrity of the nominating process for Partnership Board members.

Work performed by the Chairman's Nominations Committee during the year

Succession planning and talent management

Succession planning and talent management was the focus of two reviews during the year by the Committee.

The first review focussed on the development of talent management in the Partnership, particularly senior talent and Board development, as well as reviewing measures to develop succession plans. Talent management within the Partnership follows a meritocratic approach and provides greater clarity for Partners around career progression. The three priority areas for the talent management strategy have been identified as 1) developing the competitive capabilities that are needed for the organisation; 2) ensuring strong succession plans are in place where they are needed most; and 3) building a healthy pipeline of talent for the future.

The second review focussed on succession plans. The role of the Chairman's Nominations Committee is to oversee and review the plans for the Board and senior management succession and assurance was provided that succession cover is in place for the Executive Director roles. The talent management review extended to include functional reviews and considered the future capabilities required for the Partnership and any capability gaps.

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

Appointment of new Directors

The Chairman's Nominations Committee oversees the process for selecting and recommending candidates for appointment as Executive Directors.

Following the resignation of Helen Weir as Group Finance Director on 1 December 2014, and the appointment of Loraine Woodhouse as Acting Group Finance Director with effect from the same date, the Committee has initiated the search process for a new Group Finance Director. The search includes internal and external candidates. The Committee selected Saxton Bampfylde as external search consultants to assist with the search for suitable candidates. The candidates will be shortlisted and considered on merit against objective criteria set by the Committee, including ensuring prospective candidates share the Partnership's values. Saxton Bampfylde have no other connection with the Partnership.

During the year, the Committee also oversaw the extension of Baroness Hogg's term to April 2017 and approved the addition of Baroness Hogg as a member of the Committee for the duration of the search process for a new Group Finance Director.

Appointment of new General Counsel and Company Secretary

The Chairman's Nominations Committee also oversees the process for selecting and recommending candidates for the position of General Counsel and Company Secretary.

Following the retirement of Margaret Casely-Hayford as Director of Legal Services and Company Secretary with effect from 31 July 2014, the Committee delegated authority to the Chairman to make a six month interim appointment to provide cover for the role during the selection process for the permanent appointment.

Comply or explain?

Composition and role of the Chairman's Nominations Committee

Code provision B.2.1 states that the Nominations Committee 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 persons to the Board is subject to independent review and not dominated by the executive.

The Committee does not comply with all parts of this provision. Under the Constitution the Chairman is responsible for the appointment of the Executive Directors and co-ordinates their responsibilities. He therefore chairs the Committee. The Committee also comprises three 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.

Continued on page 103›

Chairman's Nominations Committee report (continued)

Alan Buchanan was appointed as Interim Director of Legal Services and Company Secretary with effect from 31 July 2014 and subsequently the Committee oversaw the recruitment process for the permanent position which resulted in the appointment of Keith Hubber as General Counsel and Company Secretary with effect from 1 February 2015.

Hedley May were chosen as the external search consultancy to assist with the search for suitable candidates both for the interim and permanent positions. Hedley May have no other connection with the Partnership.

Diversity and Inclusion Policy

As part of its oversight of the recruitment of Executive Directors and the General Counsel and Company Secretary, the Chairman's Nominations Committee ensures that candidates are considered on merit and against objective criteria, and with due regard for the benefits of diversity on the Board, including gender. The Partnership has a Diversity and Inclusion Policy which applies to all Partners and a clear action plan which aims to encourage an inclusive and vibrant community of Partners. During the year under review, the Partnership Board monitored progress against the plan and obtained assurance on compliance with the Diversity and Inclusion Policy. The Partnership Board has adopted a Diversity Statement, as set out to the right, regarding the composition of the Partnership Board, the aims of which are supported by the Diversity and Inclusion Policy.

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 commonsense 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.

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 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 Board (including skills, knowledge, experience and backgrounds) are monitored, to ensure that when considering 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.

Ultimately, all 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 Board's policy to set specific targets by legally protected characteristics such as gender.

Induction and training

During the year, the Committee reviewed and updated the induction programme for Executive, Non-Executive and Elected Directors. At the request of the Committee, a review of Director training and development to meet the needs of the Board tailored to meet the requirements of the three specific cohorts, Executive Directors, Non-Executive Directors and Elected Directors, was undertaken. In light of the two new Non-Executive Directors, Denis Hennequin and Keith Williams, joining the Partnership Board, the opportunity was also taken to review their induction into the Partnership. Induction training is provided internally and includes the Partnership's governance mechanisms and meetings with all Directors and senior Partners who support the Partnership Board agenda. The training programme for Directors includes external training courses to support development and to gain external insight on topics covered by the Partnership Board.

Committee evaluation

During the year, the Committee undertook an internal evaluation of its own effectiveness facilitated through the "Thinking Board" on-line self-assessment tool provided by Independent Audit Limited and supported by interviews with the Committee members conducted by the Interim Director of Legal Services.

The key recommendations of the 2013/14 evaluation had been to review the role and responsibilities of the Committee, and the role of management that supports and provides assurance to the Committee, so that they are clearly defined and reflected within the Committee's Terms of Reference. The Terms of Reference for the Committee were subsequently reviewed in light of this recommendation. As a result one of the key areas the 2014/15 evaluation was designed to assess was how effective this review had been. This year's evaluation review concluded that the new Terms of Reference for the Committee provided greater clarity identified as being required in the previous years' evaluation.

Other key results of the 2014/15 evaluation included agreement that the Committee had a healthy dynamic, where members are contributing and challenging freely and constructively. Meeting agendas were appropriate and that the right mix of skills, experience and diversity of perspectives exists on the Committee. One area for development and focus for improvement in 2015/16 was identified as continuing to look at the scope of information that the Committee receives to ensure reports presented to the Committee provide appropriate information to enable the Committee to fulfil its responsibilities.

The Committee concluded that it has acted in accordance with its Terms of Reference and is performing its duties to the Board effectively.

The new General Counsel and Company Secretary is reviewing the main themes arising from the evaluation and will make recommendations to the Partnership Board during the course of the year.

On behalf of the Chairman's Nominations Committee

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

Comply or explain?

Composition and role of the Chairman's Nominations Committee (continued)

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 succession regarding the role of the Chairman of the Partnership. In accordance with the Constitution the Chairman is the Chairman of the Partnership Board, by virtue of his appointment as Chairman of John Lewis Partnership Trust Limited. He nominates his successor in accordance with the Articles of Association of John Lewis Partnership Trust Limited.

The Chairman's Nominations Committee, led by the Chairman, 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 led by the Partnership Council.

The Partnership has voluntarily adopted the UK Corporate Governance Code on a comply or explain basis.
For more information: Go to page 84

Introduction
Partnership difference
Principles
Strategy
Performance
Governance
Financial statements

Audit and Risk Committee report

IN A NUTSHELL...
The Audit and Risk Committee focusses on the financial reporting and control environment.

"THE AUDIT AND RISK COMMITTEE'S MAIN FOCUS DURING THE YEAR HAS CONTINUED TO BE ON THE FINANCIAL REPORTING AND CONTROL ENVIRONMENT ACROSS THE PARTNERSHIP, PARTICULARLY IT. THIS INCLUDED CONSIDERATION OF THE ACCOUNTING FOR SIGNIFICANT ITEMS, RISKS AND CONTROLS."

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

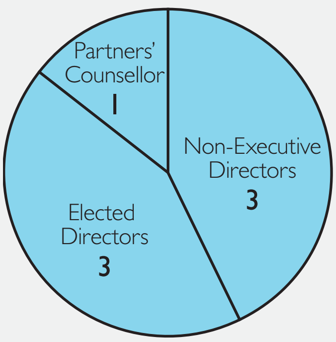
Role of the Committee

The Committee is responsible to the 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 Committee operates in accordance with its Terms of Reference that are available at www.johnlewispartnership.co.uk.

Committee composition at the date of this report



Meetings and attendance

There have been five Audit and Risk Committee meetings during the year and Directors' attendance at those meetings is shown in the table below.

DAVID ANDERSON*	–
DAVID BARCLAY*	–
KATE BREWER***	3
JANE BURGESS	5
MARGARET EWING**	2
DENIS HENNEQUIN	5
BARONESS HOGG	5
KEVIN PAYNE	5
DAN SMITH	5
KEITH WILLIAMS	5

* David Anderson and David Barclay retired prior to the first meeting of the Committee during the year under review.
** Margaret Ewing was only eligible to attend two meetings of the Committee during the year as she retired from her role on 30 April 2014.
*** Kate Brewer was only eligible to attend three meetings of the Committee during the year as she joined the Committee with effect from 3 June 2014.

Committee members

Members at the date of this report

Members at the date of this report: Baroness Hogg (Chair), Kate Brewer, Jane Burgess, Denis Hennequin, Kevin Payne, Dan Smith and Keith Williams.

Changes in Committee membership

Baroness Hogg has served as the Chair of the Audit and Risk Committee from 27 February 2014, succeeding David Anderson who retired from the Partnership Board and its Committees with effect from 14 February 2014.

David Barclay retired from the Partnership Board and its Committees on 28 February 2014. Denis Hennequin and Keith Williams were appointed as members with effect from 1 March 2014.

Margaret Ewing retired from the role of External Member of the Audit and Risk Committee with effect from 30 April 2014. Kate Brewer joined the Committee with effect from 3 June 2014.

Quorum

Three members to include at least one Elected Director and one Non-Executive Director.

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

Work performed by the Committee during the reporting period

Financial reporting

The Partnership prepares consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union which form part of the Annual Report and Accounts. Additionally, 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 to ensure that adequate accounting records are maintained and transactions accurately recorded. The Committee reviewed the draft Annual Report and Accounts including assessing whether they provide a fair, balanced and understandable assessment of the Partnership's performance, business model and strategy.

During the year, the Committee reviewed and agreed the scope of the external audit work to be undertaken by the external auditors and agreed the fees to be paid to the external auditors for their audit of the 2014/15 consolidated annual financial statements.

The Committee also reviewed and monitored the integrity of the 2014/15 interim report and the 2014/15 Annual Report and Accounts, including considering the following six significant financial reporting issues and accounting judgements and reporting to the Partnership Board on them.

Our six significant financial reporting issues and our responses

1 Exceptional item for holiday pay
Note 3

Issue

Following a review of the Partnership's holiday pay policy in the prior year an exceptional charge of £47.3m was recorded. The charge included payments to Partners, a provision for associated expenses and an increase in pension entitlements.

Response

The Committee reviewed the papers prepared by management, detailing how the original charge was utilised. By the end of the 2014/15 year, the majority of the work had been completed and finalised and the Committee agreed the remaining unutilised provision should be released.

2 Impairment
Note 10 and 11

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. There were indicators of potential impairment within Waitrose to which trigger tests needed to be applied.

Response

The Committee reviewed methodology and results of the trigger tests and the sensitivity of the proposed impairment charge to movements in key assumptions. The Committee considered how key assumptions compared externally and satisfied itself that the assumptions used were reasonable.

3 Supplier income
Note 13

Issue

The Partnership receives supplier income mainly in the form of volume and marketing rebates. Judgement is exercised in ensuring that rebates are recognised in the accounting period to which they relate and that any estimates of rebates are accurately calculated.

Response

The Committee reviewed the approach to recording the different types of supplier income, including the work of Internal Audit. The Committee decided to enhance the disclosures in relation to supplier income by publishing the accounting policy and quantifying the estimated supplier income at year end.

4 Liability for unredeemed gift vouchers and gift cards
Note 18

Issue

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

Response

The Committee reviewed the papers prepared by management detailing the methodology, actual experience and key assumptions used in calculating the liability for unredeemed gift vouchers and gift cards, and accepted management's estimates.

5 Provisions in relation to long leave, service guarantee costs, customer refunds, insurance claims
Note 20

Issue

As in previous years, the Partnership has significant provisions in relation to the Partnership's long leave scheme, which provides up to six months paid leave after 25 years of service to all Partners; expected future customer refunds; service guarantees and insurance claims. Management judgement is exercised in preparing the estimates and assumptions that form the basis of the provision calculations.

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.

6 Employee benefits
Note 23

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 using a number of key assumptions, notably the discount rate and inflation rate, which are sensitive to small changes in market conditions.

Response

Significant judgement is exercised in determining these actuarial assumptions. 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. The Committee satisfied itself as to the acceptability of the key assumptions, including the discount rate and inflation, and reviewed the sensitivities.

Summary

In respect of the six significant financial reporting issues described above, the Committee concluded that the judgements were reasonable and the presentation and disclosures in the financial statements were appropriate.

The Committee also discussed these matters with the external auditor.

The Committee considers the Annual Report and Accounts presents the items listed above on a fair, balanced and understandable basis.

Audit and Risk Committee report (continued)

External audit activities

PricewaterhouseCoopers LLP are the Partnership's auditors and also provide the Committee with relevant reports, reviews, information and advice throughout the year, as set out in their engagement letter.

Evaluation and re-appointment of auditors

The Committee is responsible for making a recommendation to the Partnership Board, relating to the appointment, reappointment or removal of the external auditors. During the year, the Committee conducted an evaluation of the auditors' performance. Members of the Committee and senior finance executives within the Partnership were provided with an opportunity, through an evaluation questionnaire, to comment on the effectiveness of the external auditors and the audit process. The outcome of the evaluation was reviewed by the Committee which concluded the effectiveness of the external auditors and the audit process were 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. The year ended 31 January 2015 is the fourth year of the current audit engagement partner's appointment.

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.

The Committee will continue to monitor the implementation in the UK of the legislative changes proposed by the European Union and ongoing review by the UK Competition Commission on audit tendering and rotation.

The Partnership has not undertaken an audit tender in the last 20 years but has initiated a tender process for the 2016/17 financial year.

Auditors' 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 auditors 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 auditors 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 Acting 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 Committee. Details of the amounts paid to the external auditors are given in note 7 to the consolidated financial statements. The Committee will review this policy in the light of the legislative changes proposed by the European Union.

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 auditors' independence.

Summary of non-audit services policy

→ The auditors are 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 work to be undertaken by the external auditor.

Risk management and internal audit activities

The Partnership Board has ultimate responsibility for the Partnership's system of internal control and risk management and reviewing its effectiveness.

The Partnership Board delegates the monitoring of internal control and risk management processes to the Committee. The Committee seeks assurance from the work of the Group Risk Management, and Internal Audit and Operational Risk Management departments, 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 Group Risk and the Head of Internal Audit and Operational Risk Management report functionally to the Chair of the Committee and operationally to the Acting Group Finance Director.

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.

Executive management is responsible for identifying and evaluating the principal business risks and for implementing and maintaining systems for managing those risks in an efficient and effective manner.

To enable this, the Partnership has developed 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 42 to 43, along with details of our principal risks and how we mitigate them, on pages 45 to 47.

Strategic, operational, financial and compliance risk areas are all included within the scope of these activities.

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 Committee monitors the development of our policies and systems for identifying, evaluating and managing the principal risks throughout the Partnership. On a quarterly basis, the Committee receives an updated Risk Report on progress on the principal Partnership risks identified as part of the business planning process.

Strategic risks
e.g. risk of us "taking the wrong investment decision"

Operational risks
e.g. risk of us "doing the right thing, in the wrong way"

Financial risks
e.g. risk of us "doing things in a way that loses money or incurs unnecessary liabilities"

Compliance risks
e.g. risk of us "not doing what Regulators require"

The Committee reports regularly to the Partnership Board, which seeks assurance that the systems of internal control for risk management are operating effectively. Reporting is through management representations, the work of internal audit and other means of assurance.

During the year, the Committee focussed on IT controls including meeting with Divisional IT Directors to understand plans to strengthen our IT controls framework. Additionally the Committee oversaw the updating of the Partnership's Internal Controls Framework.

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

During the year and for 2015/16

Strengthening and embedding our risk management framework

During the year, the Committee has overseen further strengthening and embedding of the risk management framework within the Partnership as part of a continuous improvement programme. This included initiating a review by external consultants of our framework.

Outcome of our actions

In response, new tools have been developed, new practices implemented and our risk governance structure has been refined. These are now in use and provide a consistent basis across the Partnership for more efficient identification, evaluation and communication of emerging risk and control issues.

Focus areas for 2015/16

In the following year, we plan to formalise the identification and monitoring of measures for our principal risks and their mitigations, to give us better warning of changes to our risks and the resilience of our internal controls.

Audit and Risk Committee report (continued)

The Partnership's approach to internal audit

The Committee reviews and approves the scope of the Internal Audit work programme each year. At each meeting, the Committee receives a report from the Head of Internal Audit and Operational Risk Management on the work of Internal Audit, and on management responses to recommendations for improvements made in the audit reports issued.

During the year, the Committee has reviewed 20 Internal Audit reports covering key processes, systems and controls and IT projects and programmes. The reports have provided a wide coverage across different areas in the Partnership and have recommended improvements that can be made to the control environment to increase efficiency and add value. Examples of the areas that have been reviewed in the year include:

Change audits

Change delivery was a Partnership principal risk last year and has remained so this year. Examples include the John Lewis transformation programmes, Pioneer and OCCO.

Operational audits

Operational audits included Buying, E-Commerce, Social Media, IT Spend Governance, Central Transport and Contact Handling Centres.

Financial audits

Financial Control audits were performed across both trading divisions.

Regulatory audits

Areas include Health and Safety and the Waitrose compliance report with the Groceries Supply Code of Practice ('GSCoP').

Additional audits

At the request of the Committee, in response to issues raised in other UK retailers, an internal audit review of rebates from both trading divisions was commissioned.

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. During the year, there have been two audits conducted in response to whistleblowing.

The Committee conducted their annual evaluation of the internal audit function during the year and members of the Committee and management were provided with an opportunity, through an evaluation questionnaire, to comment on the Internal Audit function's effectiveness. The outcome of the evaluation demonstrated progress since last year although team capacity remained an area where it was believed improvement was needed.

Relevant qualifications of Audit and Risk Committee members

Keith Williams has recent and relevant financial experience.

Composition of the Audit and Risk Committee

At the year end, the Audit and Risk Committee comprised the following members:

- Three Non-Executive Directors;
- Three Elected Directors;
- The Partners' Counsellor.

The composition, including the Partners' Counsellor and Elected Directors, reflects the Constitution and the co-owned structure of our business.

DID YOU KNOW?

The internal audit plan seeks to provide risk-based assurance across a wide variety of the Partnership's activities from Gift Cards to the Leckford Estate, and our large IT and change programmes.

Training

During the year, the Directors have continued to receive induction training on Audit and Risk Committee matters. Training has been provided by external training providers and also internally. It has been linked to the Partnership Board agenda and covers the Partnership's financial risks and financial reporting.

An induction programme was arranged for the two new Non-Executive Directors and one Elected Director who joined the Committee during the year.

Committee evaluation

During the year, the Committee undertook an internal evaluation of its own effectiveness facilitated through the 'Thinking Board' on-line self-assessment tool provided by Independent Audit Limited and supported by interviews with Committee members conducted by the Interim Director of Legal Services.

Key recommendations of the 2014/15 evaluation

The key recommendations of the 2013/14 evaluation had been to review the role and responsibilities of the Committee, and the role of management that supports and provides assurance to the Committee, so that they are clearly defined and reflected within the Committee's Terms of Reference. The Terms of Reference for the Committee were subsequently reviewed in light of this recommendation. As a result one of the key areas the 2014/15 evaluation was designed to assess was how effective this review had been. This year's evaluation concluded that the new Terms of Reference for the Committee provided the greater clarify identified as being required in the previous year's evaluation.

Other key results of the 2014/15 evaluation included agreement that the priorities of the Committee are clear, the Committee facilitates high quality discussions in meetings and has the right mix of skills, experience and diversity of perspectives. One area for development and focus for improvement in 2015/16 was identified as continuing to look at the scope of information that the Committee receives to ensure reports presented to the Committee provide appropriate information to enable the Committee to fulfil its responsibilities.

The Committee concluded that it has acted in accordance with its terms of reference and is performing its duties to the Board effectively.

The new General Counsel and Company Secretary is reviewing the main themes from the evaluation and will make recommendations to the Board during the course of 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

Comply or explain?

Composition of the audit and risk committee

Code Provision C.3.1 states that the Board should establish an Audit Committee of at least three independent Non-Executive Directors. This provision supports the Code principle that the Audit Committee should be independent of executive management.

During the year, the Partnership Board's Audit and Risk Committee comprised three Non-Executive Directors, three Elected Directors, the Partners' Counsellor and, until 30 April 2014, an external independent member. This composition ensures that the assurance and critical analysis of the business systems, operations and financial probity is conducted with appropriate objective and independent scrutiny, whilst also mindful of Partners' interests.

The Partnership has voluntarily adopted the UK Corporate Governance Code on a comply or explain basis.
For more information: Go to page 84›

Remuneration Committee report

IN A NUTSHELL...
The Remuneration Committee oversees how the pay policy is applied to the Chairman, Executive Directors, Non-Executive Directors and the Partners' Counsellor. It comprises two Non-Executive Directors and two Elected Directors.

"DURING THE YEAR THE REMUNERATION COMMITTEE FOCUSSED ON THE SENIOR REWARD REVIEW AND THE ANNUAL PAY REVIEW FOR THE CHAIRMAN AND EXECUTIVE DIRECTORS."

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 to executive remuneration. The Committee operates in accordance with its terms of reference that are available at www.johnlewispartnership.co.uk.

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.

As well as submitting a recommendation on the Chairman's pay to the Partnership Board and setting the pay of the Partnership's Executive Directors, this year the Remuneration Committee has:

- → Reviewed and agreed a new pay benchmarking methodology for members of the Chairman's Committee, the Partners' Counsellor, Directors reporting to the Chairman and divisional Management Boards through the Senior Reward Review. The review also made changes to the benchmarking approach for the wider senior management group within the Partnership;
- → Reviewed the structure of senior remuneration, agreeing to rebalance the value of pension and basic salary within the total reward package for the Executive Directors;
- → Approved the remuneration for the new General Counsel and Company Secretary.

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.

Meetings and attendance

There have been six Remuneration Committee meetings during the year and Directors' attendance at those meetings is shown in the table below.

DENIS HENNEQUIN	5
DAVID BARCLAY*	–
STEVE GARDINER	6
BARONESS HOGG	5
KIM LOWE	6

* David Barclay retired prior to the first meeting of the Committee during the year under review.

Under the Terms of Reference of the Remuneration Committee, Non-Executive members take no part in the deliberations with regard to Non-Executive remuneration and therefore Denis Hennequin and Baroness Hogg were only eligible to attend five Remuneration Committee meetings.

Committee members

Members at the date of this report:

Denis Hennequin (Chair), Steve Gardiner, Baroness Hogg and Kim Lowe.

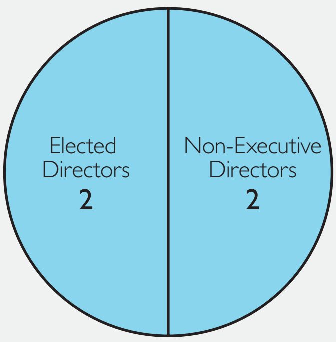
Changes in Committee membership:

Denis Hennequin was appointed Chair of the Remuneration Committee from 1 March 2014, succeeding David Barclay who retired from the Board and as Chair of the Remuneration Committee on 28 February 2014.

Quorum

Two members, to include one Non-Executive Director and one Elected Director. When approving the remuneration of Non-Executive Directors, the quorum is two Elected Directors.

Committee composition at date of this report



Pay and reward in the Partnership

In 2014/15, the Partnership spent £1,814.8m on employment and related costs. This represented 18.7% of the Partnership's revenue. £1,359.5m was spent on pay and every eligible Partner received 11% of their 2014/15 gross pay as a Partnership Bonus, at a cost of £156.2m.

What is the Partnership's pay policy?

Each job in the Partnership has a pay range that is informed by the market. The rate of pay for each Partner is reviewed each year, based on their performance and following a review with their line manager. All Partners have the opportunity to increase their pay through the pay range as their performance develops.

The Partnership does not operate annual incentive plans. However, Partners who display outstanding performance may, on an exceptional basis, be recognised with special bonus awards of up to 10% of salary.

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.

How did the Partnership's approach to senior reward for Executive Directors and senior Partners change during the year?

The same policy and principles apply to setting pay for the Executive Directors and senior Partners as for all Partners. Over the last year the Partnership has completed the Senior Reward Review which considered how we remunerate senior Partners. This review examined the structure of the total reward package for senior Partners as well as making recommendations in response to the Pension Benefit Review. In September the Partnership Board agreed to the following proposals:

- → The pay range benchmarking methodology for Partners at Partnership Levels 2, 3 and 4 would no longer include a negative adjustment for Partnership Bonus when setting pay ranges.
- → The benchmarking methodology for all Partners at Partnership Levels 1 to 4 will be aligned and will be based on the value of basic salary and target bonus in the market.
- → The value of pension and basic pay should be rebalanced for Partners at Partnership Levels 1 and 2 to better reflect market practice. This will be achieved through a reduction in the value of pension benefit and an increase in basic salary opportunity.
- → The small number of Partners who are not part of the Partnership's pension scheme will receive a reduction in the value of their pension benefit in proportion to the Pension Benefit Review proposals. This will ensure that all Partners are fairly affected by the changes being made through the pension benefit review.

The new benchmarking methodology and the pension rebalancing has been implemented as part of the 2015 pay review. The proportional reduction in pension value for all Executive Directors and senior Partners will coincide with the implementation of the Pension Benefit Review.

Comply or explain?

Composition of the Remuneration Committee

Code Provision D.2.1 states that 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.

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 the Partners' interests.

Role of the Remuneration Committee

Code Provision D.2.2 states that 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.

The Partnership has voluntarily adopted the UK Corporate Governance Code on a comply or explain basis.
For more information: Go to page 84›

Remuneration Committee report (continued)

How do we ensure Committee member independence?

The Remuneration Committee consists of 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, when two Elected Directors are required.

There were six meetings during the year, and Directors' attendance at these meetings is shown in the table on page 110.

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

Who advises the Remuneration Committee?

The Committee has retained Towers Watson as independent remuneration consultants to advise generally on remuneration and related matters. Towers Watson also provide consulting advice on the Partnership's job evaluation system and pensions, and is the actuary to the John Lewis Partnership Trust for pensions.

The Committee was advised during the year by Tracey Killen, Director of Personnel, and Lesley Ballantyne, Director, Partner Strategy, specifically on the Senior Reward Review.

How does the Remuneration Committee determine pay?

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

→ Individual performance, including the achievement of specified personal objectives and the leadership behaviours demonstrated in achieving those objectives;

→ The performance of the function or division for which the Partner is responsible, and/or Group performance, where appropriate;

→ The market context, based on the advice of Towers Watson, who are the Committee's independent remuneration consultants;

→ Rule 63 of the Constitution in the case of the highest-paid Partner.

The review of Executive Directors' pay takes account of not only what has been achieved, but also how it has been achieved. This reflects the same principles taken in the 'My Performance' appraisal framework used for all Partners.

The Remuneration Committee considers and reviews each Executive Director's basic salary each year. The basic salary is compared with amounts paid to Executives in other similar organisations. 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 bonus as a benchmark for rewarding good performance. The comparison excludes the value of pension benefit, long-term incentives, share and share option schemes, which are widely available in the market at executive board level.

£1,529,000

Total remuneration paid to the Chairman for 2014/15, up 0.6% on last year.

£1,425,000

Total remuneration excluding Partnership Bonus paid to the Chairman for 2014/15, up 3.0% on last year.

What is the Chairman paid? (audited)

In the year under review, the value of the Chairman's total reward increased by 0.6% to £1,529,000. This is the pay and total reward the Chairman received in the last financial year. Pay is based on his and the business' performance for the year ending 25 January 2014 and his Partnership Bonus is for the year ended 31 January 2015.

The total reward package is made up of the following:

£	2015	2014
Pay	**941,000**	904,000
Partnership Bonus	**104,000**	136,000
Pension supplement in lieu of further defined pension accrual	**470,000**	466,000
Cash value of benefits	**14,000**	14,000
	1,529,000	1,520,000

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."

In 2014/15, the pay of the highest-paid Partner, the Chairman, was £941,000 (2014: £904,000), which was 66 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 the total reward, including pension allowance 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 (who are eligible for membership of the Partnership's non-contributory defined benefit pension scheme).

The Committee values defined benefit pension benefits on a 'buy-out' basis, that is the estimated cost of obtaining similar benefits in the market. Following the triennial pension scheme valuation the buyout value of the pension scheme for non management Partners has increased this year. This change increases the average total reward of non-management Partners and narrows the gap with the highest-paid Partner.

66 TIMES

The Chairman's basic pay is 66 times the average basic pay of non-management Partners compared to a maximum of 75 times per the Constitution.

60 TIMES

The Chairman's total pay excluding Partnership Bonus is 60 times the average basic pay of non-management Partners with three or more years' service.

On this basis, the total reward excluding Partnership Bonus of the Chairman, who was the highest-paid Partner in the year ended 31 January 2015, was £1,425,000, which was 60 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)

The Chairman, the Executive Directors apart from one and the 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 schemes.

One Executive Director joined the Partnership Board in 2014 and remains in the waiting period for joining the Partnership's pension scheme. This Executive Director is a member of the defined contribution scheme and receives a pension cash supplement.

How much is the pension supplement? (audited)

During the year ended 31 January 2015, the total pension supplement paid to the Chairman, Executive Directors and Partners' Counsellor was £2,035,000 (2014: £2,022,000).

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:

	2015	2014
£50,000 – £100,000	1	1
£100,001 – £150,000	1	2
£150,001 – £200,000	2	1
£200,001 – £250,000	1	2
£250,001 – £300,000	1	–
Total	6	6

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 £991,000 per annum for six individuals (2014: £972,000 for six individuals).

Remuneration Committee report (continued)

The accrued pensions for the Chairman, Executive Directors and Partners' Counsellor increase 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, payable from age 60 until their state pension starts. The aggregate entitlement to temporary pensions was £35,000 per annum for four individuals (2014: £35,000 for four individuals). For those Directors for whom there was an increase, the transfer value of the aggregate increase in accrued pension entitlement above consumer price inflation during the year was £81,000 including temporary pensions (2014: £151,000).

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 £255,000 per annum (2014: £245,000 per annum).

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.

One Executive Director left the Partnership Board during the year, receiving emoluments in accordance with their contract.

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

What are 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 supplements described below, for all Directors except the Elected Directors:

	2015	2014
£1 – £50,000	2	1
£50,001 – £100,000	4	2
£300,001 – £350,000	1	1
£700,001 – £750,000	1	2
£750,001 – £800,000	1	–
£900,001 – £950,000	1	–
£1,050,001 – £1,100,000	–	2
£1,100,001 – £1,150,000	1	–
£1,200,001 – £1,250,000	–	1
£1,250,001 – £1,300,000	1	–
£1,500,001 – £1,550,000	1	1

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

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 Directors' time commitment and responsibilities. Non-Executive Directors' fees are determined by the Elected Directors on behalf of the Committee. Non-Executive Directors are not entitled to Partnership Bonus, or to any other salary or benefits from the Partnership.

Comply or explain?

Remuneration for Non-Executive Directors

Code Provision D.2.3 states that the board should determine the remuneration of the Non-Executive Directors. Where permitted by the Articles of Association, the board may, however, delegate this responsibility to a committee that might include the chief executive. The provision supports the Code principle that care should be taken to recognise and avoid conflicts of interest.

The Partnership does not comply with the Code as the Partnership Board does not determine the remuneration for Non-Executive Directors. Instead, this is the responsibility of the Elected Directors on the Remuneration 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.

The Partnership has voluntarily adopted the UK Corporate Governance Code on a comply or explain basis.

For more information: Go to page 84›

Committee evaluation

During the year, the Committee undertook an internal evaluation of its own effectiveness facilitated through the 'Thinking Board' on-line self-assessment tool and supported by interviews with the Committee members conducted by the Interim Director of Legal Services.

The key recommendations of the 2013/14 evaluation had been to review the role and responsibilities of the Committee, and the role of management that supports and provides assurance to the Committee, so that they are clearly defined and reflected within the Committee's Terms of Reference. The Terms of Reference for the Committee were subsequently reviewed in light of this recommendation. As a result one of the key areas the 2014/15 evaluation was designed to assess was how effective this review had been. This year's evaluation review concluded that the new Terms of Reference for the Committee provided greater clarity identified as being required in the previous years' evaluation.

Other results of the 2014/15 evaluation included agreement that the Committee has the right mix of skills, experience and diversity of perspectives and a healthy Committee dynamic where members are contributing and challenging freely and constructively. Areas for continuing development were identified as ensuring meeting agendas are appropriate and that the Committee meets with the right frequency, and continues to communicate effectively with the Board on Committee decisions and discussions.

The Committee concluded that it has acted in accordance with its terms of reference and is performing its duties to the Board effectively.

The new General Counsel and Company Secretary is reviewing the main themes arising from the evaluation and will make recommendations to the Board during the course of the year.

What about external appointments?

An Executive Director with an external appointment may not retain any earnings from such appointment unless it dates from before he or she joined the Partnership.

The small print

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 incentives, 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 112 and 114 is cross-referenced from note 9 of the financial statements and forms part of the audited financial statements.

On behalf of the Remuneration Committee

Denis Hennequin
Chairman of the Remuneration Committee
16 April 2015

Directors' report

"THERE IS INCREASING DEMAND FOR TRANSPARANCY ON A VARIETY OF ISSUES FROM CORPORATE CONDUCT TO WHERE AND HOW PRODUCTS ARE MADE AND THE IMPACT ON THE ENVIRONMENT."

Keith Hubber
General Counsel and Company Secretary

The Directors present their report and the audited financial statements for the year ended 31 January 2015.

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 John Lewis and Waitrose businesses. John Lewis and Waitrose operate in a number of different formats including John Lewis department stores, John Lewis at home stores, a John Lewis liaison office in Gurgaon, India, Waitrose supermarkets and convenience stores, on-line (johnlewis.com and waitrose.com), business to business contracts in the UK and abroad and ancillary manufacturing activities (together the Partnership). The Company controls the entities listed in note 37. An indication of likely future developments in the Partnership can be found on page 4.

Corporate governance

The Partnership's statements on corporate governance can be found in the Governance section of these financial statements on pages 82 to 119. These also include the Audit and Risk Committee report, the Chairman's Nominations Committee report and Remuneration report. The Governance section forms part of this Directors' report.

Equal opportunities

The Constitution of the Partnership provides for the democratic involvement of employees (our Partners) as co-owners of the business. Partners are provided with extensive information on all aspects of business operations, including economic and financial factors affecting performance, and are encouraged to take an active interest in promoting the Partnership's commercial success. All employees can benefit from the Partnership's training and development policies, and further information can be found on page 55.

The key purpose of our Equal Opportunities Policy is to provide equality and fairness for all those who work for and are engaged with the Partnership by creating an environment free from discrimination, where all Partners are given equal opportunities to develop and progress. The Partnership aims to develop and maintain a workforce that is fully representative of the society in which it trades, where every Partner feels respected for their contribution, works to the best of their ability and feels supported to develop to their full potential.

This applies as equally to our Partners with a disability as it does to any other group covered under protected characteristics. The Partnership recruits people with disabilities to suitable vacancies on merit. Where disability occurs during the period of employment, every effort is made to continue to provide suitable employment with the provision of appropriate training

Discrimination on the grounds of disability is prohibited under the Equal Opportunities Policy. This includes direct and indirect discrimination, any unjustified less favourable treatment because of the effects of a disability, and failure to make reasonable adjustments to alleviate disadvantages caused by a disability.

Diversity and inclusion

The Partnership seeks to embrace diversity and this is reflected in all we do. The Board is therefore committed to providing equal opportunities for all in employment at all levels of the organisation, regardless of individual differences such as gender and ethnic origin. Further information can be found on page 54.

IN A NUTSHELL...

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

BonusSave

The Partnership operates BonusSave, a Share Incentive Plan ('the Plan'), which is available to all Partners and has been approved by HMRC. In conjunction with the announcement of the annual results, all 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. 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 6. 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.

Respecting human rights

We source products from numerous countries globally, have 93,800 Partners, serve millions of customers and are an integral part of hundreds of communities across the UK. We have a responsibility to respect the human rights of these groups and our responsibilities are set out in our Constitution.

Our approach

We are committed to upholding human rights and support the UN Universal Declaration of Human Rights and the International Labour Organization (ILO) Core Conventions. We investigate allegations of human rights infringements and take appropriate action where necessary.

As a large omnichannel retailer, our greatest areas of influence with respect to human rights are our Partners and our supply chain.

The complexity of this policy area should not be underestimated and we believe careful risk assessment and collaboration are essential in the identification and remediation of issues. Human rights-related risks are overseen by the Partnership Audit and Risk Committee as part of the annual review of Responsible Sourcing for John Lewis and Waitrose and governance of CSR as a whole is overseen by The Chairman's Committee.

Partners

Our Partner Plan (page 52) outlines the priorities and activities that bring Principle 1 to life for our Partners as co-owners of the business. It focusses on performance and reward, learning and progression, inclusive ownership and working better. Partners' voices are heard through their relationship with their managers, our democratic process, annual Partner Survey and ongoing journalism. Our dedicated registry also provides confidential support for those Partners who need it. In 2014, we focussed on Pay for Performance and diversity and inclusion.

Supply chain

We adopt a comprehensive approach to respecting human rights through our supply chain:

- → **Standards** – All own-brand suppliers are required to comply with our Responsible Sourcing Code of Practice ('Code'), as set out in our Terms and Conditions of Purchase. The Code is based on the Ethical Trading Initiative (ETI) base code and on the conventions of the ILO. Potential and existing sites are monitored regularly through independent ethical audits. Where non-compliance is found, remedial action is undertaken to mitigate it.
- → **Insight** – We continually assess risks through our supply chains to guide our responsible sourcing strategies
- → **Training and communications** – Buyers and technical teams are trained on the Code to drive increased awareness and understanding of the Code
- → **Collaboration** – We work with our suppliers and with multi-stakeholder groups such as the Ethical Trading Initiative (ETI) to build knowledge and find solutions. Two examples of our work in 2014 are:
  - UK Modern Slavery Act – we lent our support to a letter sent to the Government from the ETI and the British Retail Consortium requesting stronger wording in the draft modern slavery bill; and
  - Stronger Together – Waitrose is a sponsor of this multi-stakeholder initiative, which aims to reduce human trafficking, forced labour and hidden third-party exploitation of workers. We have encouraged our suppliers to attend Stronger Together workshops to raise their understanding of these issues.

Continual improvement

We strive for continual improvement in this complex area. Over the coming year we will be conducting a comprehensive review of our human rights strategy based on the outputs of our materiality assessment and taking into consideration the new UN Guiding Principles Reporting Framework, the UK Government's National Action Plan on Human Rights and the UK Modern Slavery Act.

Directors' report (continued)

Greenhouse gas emissions

Global GHG emissions data for the period 26 January 2014 to 31 January 2015:

	Tonnes of CO_2e
Emissions from:	
Scope 1: Combustion of fuel and operation of facilities	205,278
Scope 2: Electricity purchased for own use	316,343
Scope 3: Water supply and treatment, business travel by rail or air, waste to landfill	62,294
Total	**583,915**
Intensity measurement:	
Emissions reported above normalised to per £million sales	53.4

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.

The reporting followed the 2013 UK Government environmental reporting guidance (Chapter 2) and used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), data gathered to fulfil our requirements under the CRC Energy Efficiency scheme, and, where available, emission factors from UK Government's GHG Conversion Factors for Company Reporting.

2014 and 2015 data has been calculated using Defra-DECC 2014 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.

Excluded from this scope are emissions from sites operated by stores under licence and franchisees (both overseas and Welcome Break franchises).

The Partnership has commissioned DNV GL to undertake independent assurance of Greenhouse Gas emissions data in the 2015 Annual Report and Accounts and online environmental reporting.

DNV GL performed its work using international assurance standards, including the International Standard on Assurance Engagements 3000 (Revised) – 'Assurance Engagements Other Than Audits and Reviews of Historical Financial Information' and ISO19011. For a full description of the work they performed, please see their assurance statement on www.johnlewispartnership.co.uk

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

Waitrose has remained compliant with the Order and the GSCoP during the period and the business continues to ensure that its comprehensive Partner training programme (including annual refresher and new starter training), together with the ongoing monitoring of supplier contracts, promotes the necessary awareness and behaviours in order to ensure compliance.

As required by the Order and the GSCoP, the Code Compliance Officer is obliged to present a report detailing Waitrose's compliance to the Partnership's Audit and Risk Committee for approval. The report is then submitted to the Groceries Code Adjudicator and the Competitions and Markets Authority.

The Audit and Risk Committee, at its meeting on 14 April 2015, approved the Code Compliance Officer's report on Waitrose's compliance for the 12 month period ending 31 January 2015. The Audit and Risk Committee noted that Waitrose had not been the subject of any supplier or supply chain disputes under the Order or GSCoP during the period. The Audit and Risk Committee also noted that Waitrose's approach to GSCoP compliance reflects the Partnership's commitment to its overarching principle of fairness governing its relationships with suppliers.

Political donations

The Partnership made no political donations.

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 companies.

Any conflicts of interest are disclosed on page 92 and details of the Directors' service agreements and notice periods are given on page 114.

Capital structure and purchase of shares

At 31 January 2015, the Partnership had in issue 3,696,995 5% Cumulative Preference stock, 500,000 7.5% Cumulative Preference stock (together "the Preference Shares"), 612,000 Deferred Ordinary Shares and 104,169,594 SIP Shares. 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 trading companies within the Partnership.

There are no voting rights attached to the Preference Shares unless the preference dividend is six months in arrears or unless a resolution is proposed which directly affects the interest of these shares as a class.

At the Annual General Meeting held on 5 June 2014, the Partnership was authorised to make market purchases of up to £3,696,995 in nominal amounts of the 5% Cumulative Preference stock and up to £500,000 in nominal amounts of the 7.5% Cumulative Preference stock, representing the remaining stock in issue. No purchases were made during the year, and shareholders will be invited to renew the authority at the Annual General Meeting, as detailed on page 179. The Partnership Board considers that these stocks are an inefficient form of fixed interest finance and that it would be advantageous to the Partnership to acquire them over time as suitable opportunities arise.

Listing on the London Stock Exchange (LSE)

Both the Partnership and its immediate subsidiary, John Lewis plc, have Standard Listings on the LSE. Many years ago, both companies issued Cumulative Preference Stocks. This is a form of share with a right to receive fixed rate of dividend payment per annum, which cumulates if not paid annually. It has to be paid before any dividend to ordinary shareholders. The Cumulative Preference Stocks issued by John Lewis Partnership plc carry no rights of ownership of the Partnership and nor do they carry any voting rights, unless the preference dividend is six months in arrears or unless a resolution is proposed which directly affects the interest of these shares as a class. The Cumulative Preference Stocks are 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 17.

CREST Settlement

During the year under review the Articles of Association of the Company were amended to facilitate the mechanics of holding and trading in the Cumulative Preference Stocks (Preference Shares) in order to comply with the Company's legal obligations under EU Regulation 909/2014 on Central Securities Depositories (CSD) Regulation. This means the Preference Shares can be held on an uncertificated basis and are capable of transfer in de-materialised form through CREST subject to the provisions of the CSD Regulation. The Partnership Board believes that adopting the measures necessary to accommodate settlement and holding of the Preference Shares in de-materialised form may be of assistance in establishing a matching facility to facilitate liquidity of the Preference Shares in future. Should steps be taken to establish such a facility, an announcement will be made at that time.

Dividends

No dividends were paid on the Deferred Ordinary Shares (2014: nil). As the ultimate holding company of the Partnership, 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 companies (the Employing Companies). 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, being an amount at least as great as the amount available for distribution should a dividend have been declared.

Dividends on Preference shares were £222,000 (2014: £222,000). Dividends on SIP Shares (issued in connection with BonusSave) were £1,268,000 (2014: £1,712,000).

Going concern

After reviewing the Partnership's operating budgets, business plans, investment plans, financing arrangements and material risks, the Directors consider that the Partnership has adequate financial resources to continue in operation for the foreseeable future.

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 Strategic Report on page 1 to 81.

The Partnership has, at the date of this report, sufficient financing available for its estimated requirements for the foreseeable future and, accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the financial statements and are not aware of any material uncertainties to the Company's ability to continue to do so over a period of at least 12 months from the date of approval of this report.

Events after the balance sheet date

Since 31 January 2015, the asset classified as held for sale has been sold for an amount in excess of carrying value. See note 14.

Auditors and disclosure of information to auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be reappointed will be proposed at the Annual General Meeting, together with a resolution to authorise the Directors to determine the auditors' 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 auditors in connection with preparing their report and to establish that the auditors are aware of that information. As far as the Directors are aware, there is no such information of which the Partnership's auditors have not been apprised.

Annual General Meeting

The Annual General Meeting will be held at 2.30pm on Thursday 4 June 2015 at Longstock House, Leckford, Stockbridge, Hampshire SO20 6JF.

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

Keith Hubber
General Counsel and Company Secretary
16 April 2015

IT'S YOUR BUSINESS

IT'S YOUR FINANCIALS

Financial statements 2014/15

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

Consolidated income statement

for the year ended 31 January 2015

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

Notes		2015* £m	2014 £m
2, 4	**Gross sales**	**10,942.6**	10,171.5
4	**Revenue**	**9,701.0**	9,027.8
	Cost of sales	**(6,426.9)**	(6,008.9)
	Gross profit	**3,274.1**	3,018.9
	Other operating income	**86.1**	74.2
5	Operating expenses before exceptional item	**(2,917.9)**	(2,622.2)
4	**Operating profit before exceptional item**	**442.3**	470.9
3	Exceptional item	**7.9**	(47.3)
4	**Operating profit**	**450.2**	423.6
6	Finance costs	**(102.5)**	(97.5)
6	Finance income	**2.9**	3.0
	Profit before Partnership Bonus and tax	**350.6**	329.1
	Partnership Bonus	**(156.2)**	(202.5)
7	**Profit before tax**	**194.4**	126.6
8	Taxation	**(50.9)**	(25.0)
	Profit for the year	**143.5**	101.6
4	**Profit before Partnership Bonus, tax and exceptional item**	**342.7**	376.4

* 53 week year

Consolidated statement of comprehensive expense

for the year ended 31 January 2015

IN A NUTSHELL...
The net sum of other income or expenses, not included in the income statement above.

Notes		2015* £m	2014 £m
	Profit for the year	**143.5**	101.6
	Other comprehensive income/(expense):		
	Items that will not be reclassified to profit or loss:		
23	Remeasurement of defined benefit pension schemes	**(523.5)**	(245.2)
8	Movement in deferred tax on pension schemes	**38.3**	5.9
8	Movement in current tax on pension schemes	**70.8**	27.4
	Items that may be reclassified subsequently to profit or loss:		
	Net gain/(loss) on cash flow hedges	**8.8**	(9.7)
8	Movement in deferred tax on cash flow hedges	**(0.6)**	–
	Other comprehensive expense for the year	**(406.2)**	(221.6)
	Total comprehensive expense for the year	**(262.7)**	(120.0)

* 53 week year

Consolidated balance sheet

as at 31 January 2015

IN A NUTSHELL...

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

Notes		2015 £m	2014 £m
	Non-current assets		
10	Intangible assets	**335.5**	266.9
11	Property, plant and equipment	**4,160.1**	3,987.2
13	Trade and other receivables	**62.7**	61.3
8	Deferred tax asset	**123.8**	69.1
		4,682.1	4,384.5
	Current assets		
12	Inventories	**580.7**	554.0
13	Trade and other receivables	**208.6**	225.9
	Current tax receivable	**18.9**	–
22	Derivative financial instruments	**9.6**	0.7
14	Assets held for sale	**15.7**	–
15	Cash and cash equivalents	**339.8**	358.9
		1,173.3	1,139.5
	Total assets	**5,855.4**	5,524.0
	Current liabilities		
17	Borrowings and overdrafts	**(61.4)**	(75.6)
18	Trade and other payables	**(1,513.7)**	(1,499.7)
	Current tax payable	**–**	(0.2)
19	Finance lease liabilities	**(3.1)**	(3.3)
20	Provisions	**(110.1)**	(120.9)
22	Derivative financial instruments	**(6.6)**	(5.9)
		(1,694.9)	(1,705.6)
	Non-current liabilities		
17	Borrowings	**(1,030.2)**	(728.2)
18	Trade and other payables	**(175.9)**	(135.5)
19	Finance lease liabilities	**(28.3)**	(32.4)
20	Provisions	**(158.0)**	(137.2)
23	Retirement benefit obligations	**(1,249.3)**	(1,003.4)
		(2,641.7)	(2,036.7)
	Total liabilities	**(4,336.6)**	(3,742.3)
	Net assets	**1,518.8**	1,781.7
	Equity		
25	Share capital	**0.6**	0.6
	Other reserves	**8.8**	0.8
	Retained earnings	**1,509.4**	1,780.3
	Total equity	**1,518.8**	1,781.7

The financial statements on pages 122 to 163 were approved by the Board of Directors on 16 April 2015 and signed on its behalf by

Sir Charlie Mayfield and Loraine Woodhouse
Directors, John Lewis Partnership plc

Consolidated statement of changes in equity

for the year ended 31 January 2015

> **IN A NUTSHELL...**
> A reconciliation between the beginning and the end of the period which discloses profit or loss, items of comprehensive income 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 26 January 2013	0.6	5.0	1.4	3.9	–	1,890.6	1,901.5
	Profit for the year	–	–	–	–	–	101.6	101.6
23	Remeasurement of defined benefit pension scheme	–	–	–	–	–	(245.2)	(245.2)
8	Tax on above item recognised in equity	–	–	–	–	–	33.3	33.3
	Fair value losses on cash flow hedges	–	–	–	(6.6)	–	–	(6.6)
	– transfers to inventories	–	–	–	(3.1)	–	–	(3.1)
	Gain on currency translations	–	–	–	–	0.2	–	0.2
	Balance at 25 January 2014	0.6	5.0	1.4	(5.8)	0.2	1,780.3	1,781.7
	Profit for the year	–	–	–	–	–	143.5	143.5
23	Remeasurement of defined benefit pension scheme	–	–	–	–	–	(523.5)	(523.5)
	Fair value gains on cash flow hedges	–	–	–	0.4	–	–	0.4
	– transfers to inventories	–	–	–	9.1	–	–	9.1
	– transfers to property, plant and equipment	–	–	–	(0.7)	–	–	(0.7)
8	Tax on above items recognised in equity	–	–	–	(0.6)	–	109.1	108.5
	Loss on currency translations	–	–	–	–	(0.2)	–	(0.2)
	Balance at 31 January 2015*	**0.6**	**5.0**	**1.4**	**2.4**	**–**	**1,509.4**	**1,518.8**

* 53 week year

Retained earnings comprise £1,117.2m (2014: £1,375.8m) of distributable and £392.2m (2014: £404.5m) of non-distributable reserves, arising on the revaluation of freehold and long leasehold properties prior to 31 January 2004.

Consolidated statement of cash flows

for the year ended 31 January 2015

IN A NUTSHELL...

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

Notes		2015* £m	2014 £m
26	**Cash generated from operations**	**885.9**	773.3
	Net taxation paid	**(16.1)**	(32.1)
	Partnership Bonus paid	**(202.8)**	(210.6)
23	Additional contribution to the Pension Scheme	**(294.1)**	(85.0)
	Finance costs paid	**(3.1)**	(2.8)
	Net cash generated from operating activities	**369.8**	442.8
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(526.2)**	(387.1)
	Purchase of intangible assets	**(144.7)**	(107.9)
	Proceeds from sale of property, plant and equipment and intangible assets	**44.7**	2.9
	Finance income received	**0.6**	1.5
	Net cash used in investing activities	**(625.6)**	(490.6)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	**(44.0)**	(54.5)
	Payment of capital element of finance leases	**(4.4)**	(3.1)
	Payments to preference shareholders	**(0.2)**	(0.2)
	Payments to Share Incentive Plan shareholders	**(1.3)**	(1.7)
	Cash inflow from borrowings	**300.8**	12.5
	Cash outflow on borrowings	**–**	(100.0)
	Net cash generated from/(used in) financing activities	**250.9**	(147.0)
	Decrease in net cash and cash equivalents	**(4.9)**	(194.8)
	Net cash and cash equivalents at beginning of the year	**283.3**	478.1
	Net cash and cash equivalents at end of the year	**278.4**	283.3
15	**Net cash and cash equivalents comprise:**		
	Cash at bank and in hand	**99.7**	117.7
	Short-term investments	**240.1**	241.2
	Bank overdrafts	**(61.4)**	(75.6)
		278.4	283.3

* 53 week year

Notes to the consolidated financial statements

1 Accounting policies

We prepare our financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. Below we set out significant accounting policies applied in the current reporting period. The accounting policies are set in line with the requirements of IFRS and there have been no changes in accounting policies in the year. We have included accounting policies for the first time in respect of supplier income and the Share Incentive Plan.

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 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 and discussed in section 1.6.

The financial period is the 53 weeks ended 31 January 2015 (prior period: 52 weeks ended 25 January 2014).

Going concern

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

1.2 Basis of consolidation

The consolidated Partnership financial statements incorporate the results for the Company and all its subsidiary undertakings made up to the year end date.

1.3 Subsidiaries

Subsidiary undertakings are all entities over which the Partnership has control. Control exists when the Partnership has the power to direct the activities of an entity so as to affect the return on investment.

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

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 31 January 2015 and have not had a significant impact on the Partnership's profit for the year, equity or disclosures:

- Amendments to IFRS 10, IFRS 12 and IAS 27 'Investment Entities';
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities';
- Amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets';
- Amendments to IAS 39 'Novation of Derivatives and Continuation of Hedge Accounting';
- IFRIC 21 'Levies'.

The following are new accounting standards and amendments to existing standards that may have been published and applicable for the Partnership's accounting periods beginning on 1 February 2015, which the Partnership has not adopted early:

- Amendments to IAS 19 'Defined Benefit Plans: Employee contributions';
- Annual improvements to IFRSs 2010-2012 Cycle – various standards;
- Annual improvements to IFRSs 2011-2013 Cycle – various standards.

These are not expected to have a material impact on profit or equity for future years, but may affect disclosures.

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

- IFRS 15 'Revenue from Contracts with Customers' (applicable for the year ending 27 January 2018);
- IFRS 9 'Financial Instruments' (applicable for the year ending 26 January 2019).

1 Accounting policies (continued)

1.5 Significant accounting policies

Revenue

Sales of goods and services 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.

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.

Employee benefits

The Partnership's principal retirement benefit scheme is a defined benefit pension fund with assets held separately from the Partnership. The cost of providing benefits under 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 costs are recognised immediately in the consolidated income statement.

Remeasurements of defined 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.

The Partnership also operates a defined contribution scheme. Contributions are charged in the income statement as they fall due. The Partnership has no further obligations once the contributions have been made.

The Partnership has a scheme to provide up to six months paid leave after 25 years' service (long leave). The cost of providing the benefits under the scheme is determined using the projected unit credit actuarial valuation method. The current service cost is included within operating profit in the consolidated income statement. The financing elements of long leave are included in finance costs in the consolidated income statement.

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 life, at the following rates:

- Freehold and long leasehold buildings – 2% to 4%;
- Other leaseholds – over the shorter of the useful economic life and the remaining period of the lease;
- Building fixtures – 2.5% to 10%;
- Fixtures, fittings and equipment (including vehicles and information technology equipment) – 10% to 33%.

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.

Notes to the consolidated financial statements (continued)

1 Accounting policies (continued)

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.

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 are: John Lewis, Waitrose and Partnership Services and Group.

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.

Taxation

The charge for corporation tax is based on the results for the year adjusted for items which are not taxed or are disallowed. It is calculated using tax rates in legislation that has been enacted or substantively enacted by the balance sheet date.

Deferred income 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 expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged to other comprehensive expense, in which case the deferred tax is also dealt with in other comprehensive expense.

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 3 and 10 years.

1 Accounting policies (continued)

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.

Financial instruments

The Partnership uses derivative financial instruments to manage its exposure to fluctuations in financial markets, including foreign exchange rates and interest rates. Derivative financial instruments used by the Partnership include forward currency 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 period end 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.

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

	Note	Classification	Measurement
Financial assets:			
Cash and cash equivalents	15	Loans and receivables	Amortised cost
Trade receivables	13	Loans and receivables	Amortised cost
Other receivables	13	Loans and receivables	Amortised cost
Financial liabilities:			
Finance leases	19	Financial liabilities	Amortised cost
Borrowings and overdrafts	17	Financial liabilities	Amortised cost
Trade payables	18	Financial liabilities	Amortised cost
Other payables	18	Financial liabilities	Amortised cost
Accruals	18	Financial liabilities	Amortised cost
Partnership Bonus	18	Financial liabilities	Amortised cost
Derivative financial instruments	22	Financial assets or 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.

Impairment

Assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment testing is on cash generating units which are branches, being the lowest level of separately identifiable cash flows. An impairment loss is recognised for the amount by which the asset's carrying amount 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.

Notes to the consolidated financial statements (continued)

1 Accounting policies (continued)

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.

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 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.

Share Incentive Plan

The Share Incentive Plan (SIP or BonusSave) is described in note 17. It 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.

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 held at branches in foreign currencies, movements go through the foreign currency translation reserve.

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 cash flow statement, net cash and cash equivalents comprise cash and cash equivalents, as defined above, net of bank overdrafts.

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.

Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

1.6 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

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 discussed below:

i. 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. Details of assumptions are given in note 23.

ii. Provisions and liabilities

Provisions and liabilities recognised at the balance sheet date are detailed in notes 18 and 20 and include amounts for long leave, unredeemed gift vouchers and gift cards, service guarantee costs, customer refunds, insurance claims, reorganisation costs, accrued holiday pay and property related costs.

Although provisions and 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.

iii. Impairment

The Partnership is required to test whether assets in use in operations have suffered any impairment. The recoverable amounts of cash generating units 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 cash generating unit 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. Details of assumptions are given in note 11.

2 Non-GAAP measures

Our financial statements report measures which are required under accounting standards. We also report financial measures which 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.

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.

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.

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.

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 and unamortised bond transaction costs. This measure indicates the Partnership's overall debt position.

3 Exceptional item

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 item reported in both the prior and current year.

In the prior year, the Partnership made an announcement regarding holiday pay payments. Following a review of the Partnership's holiday pay policy, it became clear that Partners who receive certain additions to pay, such as premiums for working on Sunday or bank holidays, had not been paid correctly under the Working Time Regulations legislation. The Partnership Board therefore decided to make one-off additional payments to those affected.

An exceptional operating expense was recorded in the year to 25 January 2014 totalling £47.3m. This reflected estimated costs of £39.3m for payments to Partners and associated expenses for holiday pay dating back to 2006 which had not been calculated correctly. Future pension liabilities were also increased by £8.0m as a result.

In the year ending 31 January 2015, exceptional operating income has been recognised of £7.9m. This comprises a release of £3.4m from the pension liability and £4.5m released from other provisions since the estimated costs for correcting our systems for holiday pay and updating pension scheme members' entitlements were lower than originally expected.

A tax charge of £1.7m was recognised on the exceptional item (2014: credit of £10.9m).

Notes to the consolidated financial statements (continued)

4 Segmental reporting

This note analyses our performance between our three reporting segments which 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, Partnership Services, 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 before the exceptional item.

2015	Waitrose £m	John Lewis £m	Partnership Services and Group £m	Total £m
Gross sales	6,508.9	4,433.7	–	10,942.6
Adjustment for sale or return sales	–	(173.1)	–	(173.1)
Value added tax	(373.6)	(694.9)	–	(1,068.5)
Revenue	6,135.3	3,565.7	–	9,701.0
Operating profit before exceptional item and profit on sale of property	226.9	247.7	(46.5)	428.1
Profit on sale of property	10.5	2.8	0.9	14.2
Operating profit before exceptional item	237.4	250.5	(45.6)	442.3
Exceptional item	–	–	7.9	7.9
Operating profit	237.4	250.5	(37.7)	450.2
Finance costs	–	–	(102.5)	(102.5)
Finance income	–	–	2.9	2.9
Partnership Bonus	–	–	(156.2)	(156.2)
Profit before tax	237.4	250.5	(293.5)	194.4
Taxation	–	–	(50.9)	(50.9)
Profit for the year	237.4	250.5	(344.4)	143.5
Reconciliation of Profit before Partnership Bonus, tax and exceptional item to Profit before tax:				
Profit before Partnership Bonus, tax and exceptional item	237.4	250.5	(145.2)	342.7
Partnership Bonus	–	–	(156.2)	(156.2)
Exceptional item	–	–	7.9	7.9
Profit before tax	237.4	250.5	(293.5)	194.4
Segment assets	2,947.7	2,002.7	905.0	5,855.4
Segment liabilities	(675.1)	(771.0)	(2,890.5)	(4,336.6)
Net assets	2,272.6	1,231.7	(1,985.5)	1,518.8
Other segment items:				
– Depreciation	(172.3)	(93.5)	(15.9)	(281.7)
– Amortisation	(33.2)	(26.0)	(16.9)	(76.1)
– Capital expenditure – property, plant and equipment	334.6	151.9	27.6	514.1
– Capital expenditure – intangible assets	39.5	80.9	24.3	144.7
– Movement in provisions – increase	6.4	3.0	0.6	10.0

4 Segmental reporting (continued)

2014	Waitrose £m	John Lewis £m	Partnership Services and Group £m	Total £m
Gross sales	6,111.9	4,059.6	–	10,171.5
Adjustment for sale or return sales	–	(148.9)	–	(148.9)
Value added tax	(358.2)	(636.6)	–	(994.8)
Revenue	5,753.7	3,274.1	–	9,027.8
Operating profit before exceptional item and profit on sale of property	310.1	226.1	(65.3)	470.9
Profit on sale of property	–	–	–	–
Operating profit before exceptional item	310.1	226.1	(65.3)	470.9
Exceptional item	–	–	(47.3)	(47.3)
Operating profit	310.1	226.1	(112.6)	423.6
Finance costs	–	–	(97.5)	(97.5)
Finance income	–	–	3.0	3.0
Partnership Bonus	–	–	(202.5)	(202.5)
Profit before tax	310.1	226.1	(409.6)	126.6
Taxation	–	–	(25.0)	(25.0)
Profit for the year	310.1	226.1	(434.6)	101.6
Reconciliation of Profit before Partnership Bonus, tax and exceptional item to Profit before tax:				
Profit before Partnership Bonus, tax and exceptional item	310.1	226.1	(159.8)	376.4
Partnership Bonus	–	–	(202.5)	(202.5)
Exceptional item	–	–	(47.3)	(47.3)
Profit before tax	310.1	226.1	(409.6)	126.6
Segment assets	2,844.4	1,868.9	810.7	5,524.0
Segment liabilities	(610.2)	(730.1)	(2,402.0)	(3,742.3)
Net assets	2,234.2	1,138.8	(1,591.3)	1,781.7
Other segment items:				
– Depreciation	(141.6)	(95.7)	(17.3)	(254.6)
– Amortisation	(24.3)	(19.2)	(11.0)	(54.5)
– Capital expenditure – property, plant and equipment	(283.8)	(126.3)	(15.1)	(425.2)
– Capital expenditure – intangible assets	(32.8)	(48.5)	(26.6)	(107.9)
– Movement in provisions – (decrease)/increase	(6.5)	14.4	4.0	11.9

5 Operating expenses before exceptional item

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.

	2015 £m	2014 £m
Branch operating expenses	**(2,228.0)**	(2,013.4)
Administrative expenses	**(689.9)**	(608.8)
	(2,917.9)	(2,622.2)

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Notes to the consolidated financial statements (continued)

6 Net finance costs

Net finance costs are primarily our costs in respect of interest payable on bank borrowings, our defined benefit pension, long leave and other employee benefit schemes. Finance income primarily consists of interest received from short-term investments and fair value movements.

	2015 £m	2014 £m
Finance costs		
Interest payable on:		
Bank loans and overdrafts	(1.9)	(1.1)
Other loans repayable within five years	(26.6)	(13.4)
Other loans repayable in more than five years	(20.7)	(41.3)
Finance lease interest payable	(1.4)	(1.6)
Amortisation of issue costs of bonds and loan facilities	(1.3)	(1.0)
Preference dividends	(0.3)	(0.3)
Share Incentive Plan dividends	(1.3)	(1.7)
Finance costs in respect of borrowings	(53.5)	(60.4)
Fair value measurements and other	(1.5)	–
Net finance costs arising on defined benefit and other employee benefit schemes	(47.5)	(37.1)
Total finance costs	(102.5)	(97.5)
Finance income		
Finance income in respect of cash and short-term investments	0.7	1.6
Fair value measurements and other	2.2	1.4
Total finance income	2.9	3.0
Net finance costs	(99.6)	(94.5)

	2015 £m	2014 £m
Total finance costs in respect of borrowings	(53.5)	(60.4)
Total finance income in respect of cash and short-term investments	0.7	1.6
Net finance costs in respect of borrowings and short-term investments	(52.8)	(58.8)
Fair value measurements and other	0.7	1.4
Net finance costs arising on defined benefit retirement schemes	(37.6)	(35.3)
Net finance costs arising on other employee benefit schemes	(9.9)	(1.8)
Net finance costs	(99.6)	(94.5)

7 Profit before tax

Detailed below are the key items, as required by accounting standards (IFRS), charged/credited to arrive at our profit before tax.

	2015 £m	2014 £m
Staff costs (note 9)	**(1,814.8)**	(1,753.9)
Depreciation – owned assets	**(278.8)**	(251.9)
Depreciation – assets held under finance leases	**(2.9)**	(2.7)
Amortisation of intangible assets	**(76.1)**	(54.5)
Profit/(loss) on sale of property	**14.2**	(1.8)
(Loss)/profit on disposal of other plant and equipment and intangible assets	**(1.9)**	0.2
Inventory – cost of inventory recognised as an expense	**(6,426.9)**	(6,008.9)
Reorganisation costs	**(6.9)**	(14.7)
Operating lease rentals:		
– land and buildings	**(158.2)**	(139.6)
– plant and machinery	**(0.4)**	(0.3)
Sub lease income:		
– land and buildings	**8.1**	7.7

Contingency rents expensed during the year were £3.1m (2014: £2.7m). Contingency rents are determined based on store revenues.

Total auditors' remuneration is included within administrative expenses, and is payable to our auditors, PricewaterhouseCoopers LLP, as analysed below:

	2015 £m	2014 £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	**(0.5)**	(0.5)
	(0.8)	(0.8)
Non-audit services:		
– Other assurance services	**(0.1)**	(0.2)
– Other non-audit services	**(0.2)**	–
	(0.3)	(0.2)
Total fees	**(1.1)**	(1.0)

In addition to the above, the Partnership's auditors also acted as auditors to the Partnership's pension scheme. The aggregate fee for audit services to the pension scheme during the year was £51,300 (2014: £49,500).

Notes to the consolidated financial statements (continued)

8 Taxation

This note explains how our tax charge arises. The tax charge is made up of current and deferred tax. Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in previous years. Current tax is charged through the consolidated income statement and consolidated statement of comprehensive expense. Deferred tax assets represent the amounts of income taxes recoverable in future periods in respect of taxable temporary differences. Deferred tax liabilities represent the amounts of income taxes payable in future periods in respect of taxable temporary differences.

8.1 Analysis of tax charge for the year

Analysis of tax charge	2015 £m	2014 £m
Corporation tax – current year	(70.3)	(61.2)
Corporation tax – adjustment in respect of prior years	2.4	(1.4)
Total current tax charge	(67.9)	(62.6)
Deferred tax – current year	17.1	35.0
Deferred tax – adjustment in respect of prior years	(0.1)	2.6
	(50.9)	(25.0)

Tax credited/(charged) to other comprehensive income	2015 £m	2014 £m
Movement in current tax on pension schemes	70.8	27.4
Movement in deferred tax on pension schemes	38.3	5.9
Movement in deferred tax on cash flow hedges	(0.6)	–
	108.5	33.3

8.2 Factors affecting tax charge in the year

The tax charge for the year is higher (2014: lower) than the standard corporation tax rate of 21.33% (2014: 23.17%). The differences are explained below:

	2015 £m	2014 £m
Profit before tax	194.4	126.6
Profit before tax multiplied by standard rate of corporation tax in the UK of 21.33% (2014: 23.17%)	(41.5)	(29.3)
Effects of:		
Changes in tax rate	(1.1)	14.6
Adjustment to current tax in respect of prior years	2.4	(1.4)
Adjustment to deferred tax in respect of prior years	(0.1)	2.6
Depreciation on assets not qualifying for tax relief	(13.9)	(12.5)
Difference between accounting and tax base for land and buildings	1.5	1.4
Differences in overseas tax rates	2.0	2.2
Sundry disallowables	(2.2)	(2.6)
Other permanent differences on sale of property	2.0	–
Total tax charge	(50.9)	(25.0)
Effective tax rate (%)	26.2	19.8

8 Taxation (continued)

8.3 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 21% (2014: 21%) for deferred tax assets or liabilities expected to reverse before April 2015 and 20% for those assets or liabilities expected to reverse after April 2015 (2014: 20%).

The movement on the deferred tax account is shown below:

	2015 £m	2014 £m
Opening asset	**69.1**	25.6
Credited to income statement	**17.0**	37.6
Credited to other comprehensive income	**37.7**	5.9
Closing asset	**123.8**	69.1

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	Other £m	Total £m
At 26 January 2013	(147.2)	(4.7)	(19.9)	(2.2)	(174.0)
Credited to income statement	21.9	0.9	2.7	2.2	27.7
At 25 January 2014	(125.3)	(3.8)	(17.2)	–	(146.3)
Credited to income statement	2.9	1.0	1.0	–	4.9
At 31 January 2015	**(122.4)**	**(2.8)**	**(16.2)**	**–**	**(141.4)**

Deferred tax assets	Capital gains tax on land and buildings £m	Pensions and provisions £m	Other £m	Total £m
At 26 January 2013	7.3	192.3	–	199.6
Credited to income statement	(0.1)	10.0	–	9.9
Credited to other comprehensive income	–	5.9	–	5.9
At 25 January 2014	7.2	208.2	–	215.4
Credited/(charged) to income statement	(0.4)	11.1	1.4	12.1
Credited/(charged) to other comprehensive income	–	38.3	(0.6)	37.7
At 31 January 2015	**6.8**	**257.6**	**0.8**	**265.2**

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 31 January 2015 (2014: £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 23).

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax asset at 31 January 2015 was £123.8m (2014: £69.1m asset). The net deferred tax asset is recoverable after more than one year.

Notes to the consolidated financial statements (continued)

8 Taxation (continued)

8.4 Factors affecting tax charges in current and future years

The Finance Act 2013 reduced the main rate of corporation tax from 23% to 21% from 1 April 2014. Further reductions to reduce the main rate of corporation tax to 20% from 1 April 2015 have also been enacted.

The effect of the 3% rate change in the prior year was to decrease the deferred tax asset by £6.5m with a £21.1m charge being taken to other comprehensive income and a £14.6m tax credit to the income statement.

9 Partners

This note shows the average number of Partners employed by us in the year, which areas of the Partnership they work in, and total employment related costs. At the end of the year, the total number of Partners was 93,800.

9.1 Partner numbers

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

	2015	2014
John Lewis	**29,900**	29,800
Waitrose	**60,300**	55,000
Partnership Services and Group	**1,900**	1,800
	92,100	86,600

9 Partners (continued)

9.2 Partner benefits

Employment and related costs were as follows:

	2015 £m	2014 £m
Staff costs:		
Wages and salaries	**(1,359.5)**	(1,271.1)
Social security costs	**(102.2)**	(97.1)
Partnership Bonus	**(139.0)**	(180.2)
Employers' national insurance on Partnership Bonus	**(17.2)**	(22.3)
Pension costs (note 23)	**(191.1)**	(175.7)
Long leave cost – total	**(5.8)**	(7.5)
Total before Partner discounts	**(1,814.8)**	(1,753.9)
Partner discounts (excluded from revenue)	**(72.3)**	(63.3)
	(1,887.1)	(1,817.2)
Included above are the following amounts in respect of key management compensation:		
Salaries and short-term benefits	**(15.2)**	(14.1)
Post-employment benefits*	**(5.0)**	(4.8)
Compensation for loss of office	**(1.0)**	–
	(21.2)	(18.9)

* Includes pension supplements in lieu of future pension accrual.

Key management include the Directors of the Company, members of the Partnership's Divisional Management Boards and other officers of the Partnership. Key management compensation includes salaries, 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.

9.3 Directors' emoluments

Directors' emoluments have been summarised below. Further details of the remuneration of Directors is given in the parts of the Remuneration Report noted as audited on pages 110 to 115.

	2015 £m	2014 £m
Aggregate emoluments	**(7.0)**	(6.9)

Notes to the consolidated financial statements (continued)

10 Intangible assets

Our balance sheet contains intangible assets in relation to computer software. This note details additions, disposals and transfers of intangible assets in the year, together with amortisation (a charge to the income statement to represent usage of these assets).

	Computer software			
	Purchased £m	Internally developed £m	Work in progress £m	Total £m
Cost				
At 26 January 2013	78.0	195.7	110.0	383.7
Additions	–	0.2	107.7	107.9
Transfers	53.6	76.0	(129.6)	–
Disposals	(8.2)	(8.0)	–	(16.2)
At 25 January 2014	123.4	263.9	88.1	475.4
Additions	–	–	144.7	144.7
Transfers	49.0	83.9	(132.9)	–
Disposals	(4.2)	(16.3)	–	(20.5)
At 31 January 2015	**168.2**	**331.5**	**99.9**	**599.6**
Accumulated amortisation				
At 26 January 2013	(41.1)	(128.9)	–	(170.0)
Charge for the year	(19.5)	(35.0)	–	(54.5)
Disposals	8.2	7.8	–	16.0
At 25 January 2014	(52.4)	(156.1)	–	(208.5)
Charge for the year	(30.6)	(45.5)	–	(76.1)
Disposals	4.2	16.3	–	20.5
At 31 January 2015	**(78.8)**	**(185.3)**	**–**	**(264.1)**
Net book value at January 2013	36.9	66.8	110.0	213.7
Net book value at January 2014	71.0	107.8	88.1	266.9
Net book value at January 2015	**89.4**	**146.2**	**99.9**	**335.5**

For the year to 31 January 2015, computer systems valued at £132.9m (2014: £129.6m) 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.

11 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 details additions, disposals and transfers of property, plant and equipment in the year, together with depreciation (a charge to the income statement to represent usage of these assets).

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in course of construction £m	Total £m
Cost				
At 26 January 2013	3,891.2	1,627.8	112.1	5,631.1
Additions	0.1	2.1	423.0	425.2
Transfers	154.8	187.6	(342.4)	–
Disposals	(11.5)	(79.5)	–	(91.0)
At 25 January 2014	4,034.6	1,738.0	192.7	5,965.3
Additions	–	1.4	512.7	514.1
Transfers	331.0	210.8	(541.8)	–
Disposals	(64.6)	(135.3)	–	(199.9)
Transfers to assets held for sale	(13.3)	–	(6.2)	(19.5)
At 31 January 2015	**4,287.7**	**1,814.9**	**157.4**	**6,260.0**
Accumulated depreciation				
At 26 January 2013	(740.4)	(1,069.8)	–	(1,810.2)
Charge for the year	(100.4)	(154.2)	–	(254.6)
Disposals	7.4	79.3	–	86.7
At 25 January 2014	(833.4)	(1,144.7)	–	(1,978.1)
Charge for the year*	(116.6)	(165.1)	–	(281.7)
Disposals	21.5	134.6	–	156.1
Transfers to assets held for sale	3.8	–	–	3.8
At 31 January 2015	**(924.7)**	**(1,175.2)**	**–**	**(2,099.9)**
Net book value at January 2013	3,150.8	558.0	112.1	3,820.9
Net book value at January 2014	3,201.2	593.3	192.7	3,987.2
Net book value at January 2015	**3,363.0**	**639.7**	**157.4**	**4,160.1**

* Charge for the year ending 31 January 2015 includes an impairment charge of £10.3m to land and buildings.

Included above are land and buildings assets held under finance leases with a net book value of £24.4m (2014: £28.1m).

Notes to the consolidated financial statements (continued)

11 Property, plant and equipment (continued)

In accordance with IAS 36 'Impairment of Assets', the Partnership tests its property, plant and equipment for impairment, whenever events or circumstances indicate that the value on the balance sheet may not be recoverable. For the purpose of impairment testing, each branch is a Cash Generating Unit ('CGU').

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 and expected sales performance and branch 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 branch 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 of 2.0% (2014: 3.2%). The discount rate is based on the Partnership's pre-tax weighted average cost of capital of between 9 to 10% (2014: 9 to 10%).

Having applied the above methodology and assumptions, the Partnership recognised an impairment charge of £10.3m to land and buildings in the Waitrose division. The impairment charge reflects the revision of the long term forecast cashflows as a result of trading in a highly competitive and deflationary market.

A reduction of 0.5% in the long term growth rate would result in an additional impairment charge of £9.9m. An increase in the discount rate of 0.5% would result in an additional impairment charge of £22.4m.

12 Inventories

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

	2015 £m	2014 £m
Raw materials	4.4	4.0
Work in progress	1.0	0.9
Finished goods and goods for resale	575.3	549.1
	580.7	554.0

The cost of inventory recognised as an expense by the Partnership in the year was £6,426.9m (2014: £6,008.9m). Provisions against inventories of £5.1m were charged (2014: £7.9m charged) in branch operating expenses.

13 Trade and other receivables

This note provides a split of trade and other 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.

	2015 £m	2014 £m
Current:		
Trade receivables	57.4	55.1
Other receivables	58.1	48.3
Prepayments and accrued income	93.1	122.5
	208.6	225.9
Non-current:		
Other receivables	16.1	13.1
Prepayments and accrued income	46.6	48.2
	62.7	61.3

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 £6.5m (2014: £9.1m). 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 creditor balances is included in trade creditors. As of 31 January 2015, trade and other receivables of £1.6m (2014: £2.2m) were fully impaired. Movements in the allowance for impaired receivables were as follows:

	2015 £m	2014 £m
At start of year	(2.2)	(2.3)
Charged to income statement	(0.1)	(0.6)
Utilised	0.6	0.5
Released to income statement	0.1	0.2
At end of year	(1.6)	(2.2)

The creation and release of the allowance for impaired receivables have been included in branch operating expenses in the income statement. As of 31 January 2015, trade and other receivables of £18.3m (2014: £24.4m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

	2015 £m	2014 £m
Up to 3 months past due	16.5	19.5
3 to 12 months past due	0.9	2.9
Over 12 months past due	0.9	2.0
	18.3	24.4

Notes to the consolidated financial statements (continued)

14 Assets held for sale

Assets held for sale are non-current assets which are no longer held for continuing use in the Partnership. They must be actively being marketed for sale, with a high probability of completion within 12 months.

At 31 January 2015, one property was recorded as held for sale totalling £15.7m (2014: nil). It is held within the John Lewis Division.

Since 31 January 2015, the asset classified as held for sale has been sold for an amount in excess of carrying value.

15 Cash and cash equivalents

Our cash and cash equivalents include cash in hand and investments in short-term deposits with financial institutions and money market funds.

	2015 £m	2014 £m
Cash at bank and in hand	99.7	117.7
Short-term investments	240.1	241.2
	339.8	358.9

For the year ended 31 January 2015, the effective interest rate on short-term investments was 0.5% (2014: 0.4%) and these deposits had an average maturity of 1 day (2014: 1 day).

At 31 January 2015, £38.3m (2014: £39.1m) of the Partnership's cash balance and £0.1m (2014: £0.3m) 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:

	2015 £m	2014 £m
Cash and cash equivalents, as above	339.8	358.9
Less bank overdrafts	(61.4)	(75.6)
Net cash and cash equivalents	278.4	283.3

16 Analysis of financial assets

Our financial assets, primarily cash and cash equivalents, are subject to currency exposures. This note sets out the amount of cash and cash equivalents deposited in sterling or other currencies.

Short-term trade and other receivables and derivative financial assets are excluded from this analysis, on the basis that they are primarily non-interest bearing and denominated in sterling.

Currency analysis	Floating rate £m	Non-interest bearing £m	Total £m
Sterling	322.4	17.1	339.5
Other	0.3	–	0.3
At 31 January 2015	**322.7**	**17.1**	**339.8**
Sterling	343.6	15.2	358.8
Other	0.1	–	0.1
At 25 January 2014	343.7	15.2	358.9

Floating rate assets are bank balances and short-term deposits at market rates or the base rate of the relevant currency. Non-interest bearing balances include cash floats, primarily held in the stores.

Notes to the consolidated financial statements (continued)

17 Borrowings and overdrafts

Our borrowings comprise bonds, loans from banks, bank overdrafts and Share Incentive Plan shares, which are held in Trust for the benefit of Partners.

	2015 £m	2014 £m
Current:		
Bank overdraft	**(61.4)**	(75.6)
	(61.4)	(75.6)
Non-current:		
Partnership Bond, 2016*	**(57.1)**	(56.6)
8⅜% Bonds, 2019	**(275.0)**	(275.0)
6⅛% Bonds, 2025	**(300.0)**	(300.0)
4¼% Bonds, 2034	**(300.0)**	–
Unamortised bond transaction costs	**10.7**	5.2
5% Cumulative Preference Stock	**(3.7)**	(3.7)
7½% Cumulative Preference Stock	**(0.5)**	(0.5)
Cumulative Preference Stock of subsidiary undertakings	**(0.4)**	(0.4)
Share Incentive Plan shares (SIP)	**(104.2)**	(97.2)
	(1,030.2)	(728.2)

* The Partnership Bond is a five year investment product offering a fixed annual return of 4.5% in cash and a further 2% in John Lewis Partnership gift vouchers.

All borrowings are unsecured, denominated in sterling, and are repayable on the dates shown, at par.

In December 2014, the Partnership issued a £300m bond with an interest rate of 4.25%. The bond is due to be repaid in 2034.

Unless the preference dividends are in arrears, the 5% and 7½% Cumulative Preference Stock only have voting rights in relation to a variation of their class rights. The amounts receivable in a winding up would be limited to the amounts paid up, for the 5% Cumulative Preference Stock, and to one and a half times the amounts paid up for the 7½% Cumulative Preference Stock.

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.

18 Trade and other payables

Trade and other payables include amounts we owe to: suppliers that have been invoiced or accrued; HMRC in the form of taxes and social security; 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.

	2015 £m	2014 £m
Current:		
Trade payables	(832.7)	(788.1)
Other payables	(138.3)	(124.6)
Other taxation and social security	(161.1)	(167.6)
Accruals	(187.7)	(189.6)
Deferred income	(52.5)	(46.7)
Partnership Bonus	(141.4)	(183.1)
	(1,513.7)	(1,499.7)
Non-current:		
Other payables	(0.5)	(0.6)
Deferred income	(175.4)	(134.9)
	(175.9)	(135.5)

The carrying amount of trade and other payables approximates to fair value.

19 Finance lease liabilities

We enter into finance leases relating to buildings and plant, property and equipment. Finance leases arise when the terms of the lease agreement substantially transfers all the risks and rewards incidental to the 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.

	2015 £m	2014 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	(4.3)	(4.8)
Later than one year but not more than five	(10.5)	(12.9)
More than five years	(38.8)	(44.8)
	(53.6)	(62.5)
Future finance charge on finance leases	22.2	26.8
Present value of finance lease liabilities	(31.4)	(35.7)
Of which:		
Not later than one year	(3.1)	(3.3)
Later than one year but not more than five	(6.9)	(8.6)
More than five years	(21.4)	(23.8)

The Partnership's finance lease liabilities relate to buildings and plant, property and equipment that have been classified as finance leases in accordance with IAS 17 Leases.

Notes to the consolidated financial statements (continued)

20 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 and insurance claims.

	Long leave £m	Service guarantee £m	Customer refunds £m	Insurance claims £m	Other £m	Total £m
At 25 January 2014	(112.8)	(57.4)	(26.2)	(25.7)	(36.0)	(258.1)
Charged to income statement	(16.8)	(33.3)	(29.6)	(12.8)	(20.0)	(112.5)
Released to income statement	1.3	8.7	–	–	9.0	19.0
Utilised	8.6	20.5	26.2	11.5	16.7	83.5
At 31 January 2015	**(119.7)**	**(61.5)**	**(29.6)**	**(27.0)**	**(30.3)**	**(268.1)**
Of which:						
Current	(38.8)	(20.6)	(29.6)	(5.0)	(16.1)	(110.1)
Non-current	(80.9)	(40.9)	–	(22.0)	(14.2)	(158.0)

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 benefit obligations (note 23), with the exception of the 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 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, accrued holiday pay and property related costs.

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.

21 Management of financial risks

The principal financial risks that we are exposed to relate to the capital structure and long-term funding structure 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 funding risk, liquidity risk, interest rate risk, foreign currency risk, energy risk and credit risk. This note details how each of these risks are managed.

21.1 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 manages capital to ensure an appropriate balance between investing in Partner, customer and profit. The policy is to maintain a prudent capital structure, consistent with the financial risk profile of 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 commonly used by rating agencies to assess risk, whilst maintaining an appropriate level of committed debt headroom and a smooth 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 capital market issues and bank facilities. The Partnership further diversified its funding sources through the issue of a Partnership bond to its Partners and customers in April 2011. Other forms of borrowing include assets acquired via finance leases, assets obtained for use via operating leases, Share Incentive Plan shares as part of the BonusSave scheme and a small amount of cumulative preference stock.

21.2 Liquidity risk

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 current 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 sources of debt and committed credit facilities. In January 2014, the Partnership entered into an 18 month £150m bilateral borrowing facility. At the year end the Partnership had undrawn committed revolving borrowings facilities of £475m (2014: £475m). In addition to these facilities, the Partnership has listed bonds totalling £875m (2014: £575m) of which £275m mature in 2019, £300m in 2025 and £300m in 2034. The Partnership has a retail bond, the 'Partnership bond', issued in April 2011 and maturing in 2016, which raised gross proceeds of £58m. The bonds are not subject to repricing, and their maturity profiles are set out in note 24.

The Partnership's 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.

The Partnership's total committed sources of available funds at the date of signing these accounts are £1,408m (2014: £1,108m).

Notes to the consolidated financial statements (continued)

21 Management of financial risks (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	(61.4)	(57.8)	(983.8)
Interest payments on borrowings*	(56.8)	(56.8)	(432.8)
Finance lease liabilities	(4.3)	(4.9)	(44.4)
Trade and other payables	(1,300.1)	(0.5)	–
Derivative financial liabilities			
Derivative contracts – receipts	208.9	22.8	–
Derivative contracts – payments	(206.1)	(22.9)	–
At 31 January 2015	**(1,419.8)**	**(120.1)**	**(1,461.0)**

	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	(75.6)	–	(734.6)
Interest payments on borrowings*	(44.0)	(44.0)	(260.1)
Finance lease liabilities	(4.8)	(4.4)	(53.3)
Trade and other payables	(1,285.4)	(0.6)	–
Derivative financial liabilities			
Derivative contracts – receipts	185.0	28.7	–
Derivative contracts – payments	(190.8)	(29.1)	–
At 25 January 2014	(1,415.6)	(49.4)	(1,048.0)

* 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.

21 Management of financial risks (continued)

21.3 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 ratio 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 24. Exposures to interest rate fluctuations are managed using interest rate derivatives. The Partnership did not have any interest rate derivatives in place at year end.

21.4 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 John Lewis and Waitrose 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 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 £231.7m (2014: £213.7m) had been entered into to hedge purchases in foreign currencies which will mature over the next 18 months.

21.5 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 a credit rating not less than a Standard & Poor's equivalent 'A' rating for investments and 'BBB' for the provision of operational cash management services. Appropriate credit limits are designated to each counterparty.

The Partnership considers its maximum exposure to credit risk is as follows:

	2015 £m	2014 £m
Trade and other receivables	**131.6**	116.5
Cash and cash equivalents	**339.8**	358.9
Derivative financial instruments	**9.6**	0.7
	481.0	476.1

21.6 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 electricity and gas consumption and determines strategy for forward purchasing and hedging of energy costs using flexible purchase contracts.

21.7 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.

Notes to the consolidated financial statements (continued)

21 Management of financial risks (continued)

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; and
– all derivative financial instruments designated as hedges are assumed to be fully effective.

	2015		2014	
	Income Statement +/- £m	Equity +/- £m	Income Statement +/- £m	Equity +/- £m
UK interest rates +/- 1% (2014: +/- 1%)	**1.4**	**–**	1.7	–
US dollar exchange rate +/-10% (2014: +/- 10%)	**0.4**	**10.7**	0.4	9.3
Euro exchange rate +/- 10% (2014: +/- 10%)	**1.3**	**8.8**	0.1	9.6

22 Derivative financial instruments and financial liabilities

We use cash flow hedges to manage the risk of adverse currency movements. We also hold bonds and preference stock. These cash flow hedges, bonds and preference stock are classified as derivative financial instruments and financial liabilities under IFRS.

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, as defined by IFRS, represents the amount that would be received from the sale of an asset or paid to pass on a liability in an orderly transaction between willing market participants.

22.1 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 31 January 2015, 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.

22.2 Fair value of derivative financial instruments

The fair value of derivative financial instruments is as follows:

	2015		2014	
Fair value of derivative financial instruments	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Currency derivatives – cash flow hedge	**9.6**	**(6.6)**	0.7	(5.9)

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.

22 Derivative financial instruments and financial liabilities (continued)

22.3 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):

	2015 £m		2014 £m	
	CV	FV	CV	FV
Financial liabilities				
Listed bonds	**(864.5)**	**(1,031.2)**	(569.8)	(695.4)
Preference stock	**(4.6)**	**(3.9)**	(4.6)	(3.9)

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.

For other financial assets and liabilities, there are no material differences between carrying value and fair value.

23 Retirement benefit obligations

We operate a defined benefit pension scheme, open to all Partners, subject to length of service, providing benefits based on final pensionable pay. The consolidated balance sheet includes a retirement benefit obligation which is the expected obligations of the scheme, offset by assets held by the scheme to meet these obligations. The expected obligations are calculated by an actuary using a number of financial assumptions whilst the assets are held at fair value.

This note details the financial assumptions used, together with amounts recorded in the consolidated balance sheet and income statement in relation to the pension scheme.

The principal pension scheme operated by the Partnership is the John Lewis Partnership Trust for Pensions. The scheme is a funded final salary defined benefit pension scheme, providing pensions and death benefits to members, and is open to new members. All contributions to the scheme are funded by the Partnership.

The scheme is governed by a 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.

In January 2015, the 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 will take place in two stages. From 1 April 2015 the waiting period to join the Defined Benefit section of the scheme will increase from 3 to 5 years. Then from 1 April 2016, the principal changes are 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, include linking the Partnership normal retirement age to the State Pension Age, and a change in the rate of pension increases in payment.

The scheme is subject to a full actuarial valuation every three years using assumptions agreed between the Trustee and the Partnership. The most recent valuation was carried out by an independent professionally qualified actuary as at 31 March 2013 and resulted in a funding deficit of £840.0m. The market value of the assets of the scheme as at 31 March 2013 was £3,169.0m. The actuarial valuation showed that these assets were sufficient to cover 79% of the benefits which had accrued to members.

Following this valuation, the Partnership and the Trustee agreed to increase the normal future annual contribution rate to 16.4% of gross taxable pay of members and put in place a plan to eliminate the deficit over a 10 year period through deficit reduction contributions of £44.3m per year, increasing on 31 March each year by 3%, in addition to a one-off contribution of £85.0m made in January 2014. In December 2014, the Partnership agreed to prepay the scheduled deficit reduction contributions up to July 2021 by making a payment of £294.1m.

The balance of the deficit is expected to be met by investment returns on the scheme assets. Total contributions to the scheme in 2016 under this agreement are expected to be £167.7m.

The next triennial actuarial valuation of the scheme will take place as at 31 March 2016.

Notes to the consolidated financial statements (continued)

23 Retirement benefit obligations (continued)

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 appropriate 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.
- 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.
- 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.
- 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.
- 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 by the scheme applying a Life Expectancy Adjustment Factor, whereby future pensions coming into payment are adjusted in part to allow for increases in life expectancy.

Pension commitments recognised in these accounts have been calculated based on the most recent actuarial valuation, as at 31 March 2013, which has been updated by actuaries to reflect the assets and liabilities of the scheme as at 31 January 2015, calculated on assumptions that are appropriate for accounting under IAS 19, 'Employee Benefits'.

23.1 Financial assumptions

Scheme assets are stated at market values at 31 January 2015. The following financial assumptions have been used:

	2015	2014
Discount rate	**3.15%**	4.40%
Future Retail Price Inflation (RPI)	**2.80%**	3.30%
Future Consumer Price Inflation (CPI)	**1.80%**	2.30%
Increase in earnings	**3.30%**	3.80%
Increase in pensions – in payment	**2.70%**	3.00%
Increase in pensions – deferred	**1.80%**	2.30%

Increases in earnings are projected at 0.5% (2014: 0.5%) above retail price inflation, with increases in pensions in payment being 0.1% (2014: 0.3%) below retail price inflation, reflecting the impact of a cap on the level of pension increases, and increases in deferred pensions are projected to be in line with consumer price inflation.

The post-retirement mortality assumptions used in valuing the pensions liabilities were based on the 'S1 Light' series standard tables. Based on scheme experience, the probability of death at each age was multiplied by 127% for males and 114% 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%.

23.2 Demographic assumptions

The average life expectancies assumed were as follows:

	2015		2014	
	Men	Women	Men	Women
Average life expectancy for a 60 year old (in years)	**26.9**	**29.0**	26.8	28.9
Average life expectancy at age 60, for a 40 year old (in years)	**28.8**	**31.0**	28.7	30.9

23 Retirement benefit obligations (continued)

23.3 Amounts recognised in the financial statements

Amounts recognised in the balance sheet	2015 £m	2014 £m
Defined benefit obligation for funded arrangements	(5,280.0)	(4,201.2)
Defined benefit obligation for unfunded arrangements	(21.0)	(17.0)
Total defined benefit obligation	(5,301.0)	(4,218.2)
Total value of assets	4,051.7	3,214.8
Defined benefit liability at year end	**(1,249.3)**	(1,003.4)

Amounts recognised in the income statement	2015 £m	2014 £m
Current service cost	(170.1)	(151.2)
Past service cost	(3.1)	(8.0)
Contribution expense*	(11.1)	(9.4)
Administrative expenses – funded by the pension scheme	(4.4)	(4.5)
Administrative expenses – funded by the employer	(2.4)	(2.6)
Total operating expenses	(191.1)	(175.7)
Net interest on net defined benefit liability	(37.6)	(35.3)
Total pension charge	**(228.7)**	(211.0)

* Includes Partnership contributions to the defined contribution scheme, together with cash supplements in respect of certain Partners in lieu of future pension accrual.

The past service cost of £3.1m relates to additional pension liabilities of £6.5m arising from a legislative change in the calculation of holiday pay, offset by a release of £3.4m following the finalisation of the review of the Partnership's holiday pay policy, which is described in note 3.

In 2014, the past service cost of £8.0m relates to additional pension liabilities arising from the correction of pensionable pay for certain members arising from the review of the Partnership's holiday pay policy, which is described in note 3.

23.4 Amounts recognised in equity

Amounts recognised in equity	2015 £m	2014 £m
Return on plan assets greater/(less) than the discount rate	312.8	(49.7)
Remeasurements:		
– loss from changes in financial assumptions	(844.2)	(234.9)
– experience gains	7.9	39.4
Total losses recognised in equity	(523.5)	(245.2)
Cumulative loss recognised in equity	**(1,514.3)**	(990.8)

Notes to the consolidated financial statements (continued)

23 Retirement benefit obligations (continued)

23.5 Retirement benefit obligations

Reconciliation of net defined benefit liability	2015 £m	2014 £m
Net defined benefit liability at beginning of year	(1,003.4)	(822.1)
Pension expense	(215.2)	(199.0)
Contributions	492.8	262.9
Total losses recognised in equity	(523.5)	(245.2)
Net defined benefit liability at end of year	**(1,249.3)**	(1,003.4)

Reconciliation of defined benefit obligation	2015 £m	2014 £m
Defined benefit obligation at beginning of year	(4,218.2)	(3,796.0)
Service cost	(173.2)	(159.2)
Interest on pension liabilities	(183.1)	(172.5)
Remeasurements		
– loss from changes in financial assumptions	(844.2)	(234.9)
– experience gains	7.9	39.4
Benefits paid	109.8	105.0
Defined benefit obligation at end of year	**(5,301.0)**	(4,218.2)

The scheme liabilities are 51% in respect of active scheme participants, 16% in respect of deferred scheme participants and 33% in respect of retirees.

The weighted average duration of the scheme liabilities at the end of the period is 21 years.

23.6 Scheme assets

Reconciliation of value of assets	2015 £m	2014 £m
Value of assets at the beginning of year	3,214.8	2,973.9
Interest income on assets	145.5	137.2
Return on plan assets greater/(less) than discount rate	312.8	(49.7)
Benefits paid	(109.8)	(105.0)
Administrative expenses paid	(4.4)	(4.5)
Contributions	492.8	262.9
Value of assets at the end of year	**4,051.7**	3,214.8

23 Retirement benefit obligations (continued)

23.7 Analysis of assets

Analysis of assets	2015 £m	2015 %	2014 £m	2014 %
Listed Equities	1,288.2	32%	1,249.9	39%
Private Equities	256.6	6%	235.3	7%
Properties	373.1	9%	206.4	6%
Government Bonds*	609.5	15%	219.5	7%
Credit**	344.2	9%	304.7	10%
Infrastructure	127.4	3%	115.0	4%
Investment Funds	914.1	23%	397.7	12%
Cash and Other***	138.6	3%	486.3	15%
	4,051.7		3,214.8	

* Government bond holdings at 31 January 2015 consisted of a portfolio of long dated index linked government bonds.
** Credit holdings consist of short dated listed corporate bond holdings (£143.3m at 31 January 2015) and unlisted credit (£200.9m at 31 January 2015).
*** Cash holdings at 31 January 2015 include £100.0m which was invested in long dated index linked government bonds following the year end.

The Trustee's investment strategy as set out in their statement of Investment Principles dated 11 March 2014 is to hold 15% of assets in a liability matching portfolio mainly consisting of index linked government bonds of an appropriate duration. The remaining 85% is invested in a return seeking portfolio that aims to reduce concentrations of risk by diversifying across a range of asset classes and geographies.

Actual return on assets	2015 £m	2014 £m
Interest income on assets	145.5	137.2
Return on plan assets greater/(less) than discount rate	312.8	(49.7)
Actual return on assets	**458.3**	**87.5**

Notes to the consolidated financial statements (continued)

23 Retirement benefit obligations (continued)

23.8 Sensitivity analysis

The net defined benefit obligation is inherently volatile to the financial assumptions used. 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 31 January 2015	(1,249.3)	
Sensitivity of 0.1% increase to:		
– Discount rate	108.0	8.6%
– Retail price inflation	(99.0)	(7.9%)
– Consumer price inflation	(15.0)	(1.2%)
– Salary increases	(25.0)	(2.0%)
Sensitivity of one year increase in life expectancy	(165.0)	(13.1%)

23.9 Other arrangements

On 30 January 2010, the Partnership entered into an arrangement with the Pension Scheme Trustees 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. In January 2015 the Partnership withdrew a property with a market value of £9.0m.

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 £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 £83.9m (2014: £87.9m) 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.

24 Analysis of financial liabilities

This note sets out the currency exposure of our financial liabilities. The currency analysis details the amount of financial liabilities held in sterling or other currencies, together with amounts at floating or fixed interest rates. The maturity analysis provides an indication of repayment phasing for the 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 31 January 2015	**(957.4)**	**(165.6)**	**(1,123.0)**
At 25 January 2014	(666.7)	(172.8)	(839.5)

Maturity of financial liabilities	2015 £m	2014 £m
Repayable within one year		
Bank overdrafts	**(61.4)**	(75.6)
Property finance leases	**(3.1)**	(3.3)
	(64.5)	(78.9)
Repayable between one and two years		
Property finance leases	**(3.8)**	(3.1)
Bonds	**(57.1)**	–
Unamortised bond transaction costs	**0.2**	–
	(60.7)	(3.1)
Repayable between two and five years		
Property finance leases	**(3.1)**	(5.5)
Bonds	**(275.0)**	(56.6)
Unamortised bond transaction costs	**1.2**	0.3
	(276.9)	(61.8)
Repayable in more than five years		
Property finance leases	**(21.4)**	(23.8)
Bonds	**(600.0)**	(575.0)
Unamortised bond transaction costs	**9.3**	4.9
Cumulative Preference Stock	**(4.2)**	(4.2)
Cumulative Preference Stock of subsidiary undertakings	**(0.4)**	(0.4)
Share Incentive Plan shares	**(104.2)**	(97.2)
	(720.9)	(695.7)
	(1,123.0)	(839.5)

Notes to the consolidated financial statements (continued)

25 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.

	2015		2014	
	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, with whom ultimate control rests.

26 Reconciliation of profit before tax to cash generated from operations

This note analyses how our profit before tax reconciles to the cash generated from our main revenue producing activities, as shown in the consolidated statement of cash flows. Items added back to / deducted from profit before tax are non-cash items that are adjusted to arrive at cash generated from operations.

	2015 £m	2014 £m
Profit before tax	**194.4**	126.6
Amortisation of intangible assets	**76.1**	54.5
Depreciation	**281.7**	254.6
Net finance costs	**99.6**	94.5
Partnership Bonus	**156.2**	202.5
(Profit)/loss on disposal of property, plant and equipment and intangible assets	**(12.3)**	1.6
Increase in inventories	**(26.7)**	(40.0)
Decrease/(increase) in receivables	**19.2**	(39.3)
Increase in payables	**118.8**	122.4
Decrease in retirement benefit obligations	**(21.2)**	(14.2)
Increase in provisions	**0.1**	10.1
Cash generated from operations	**885.9**	773.3

27 Analysis of net debt

Net debt summarises our net financial liability position as at the year end.

	2014 £m	Cash flow £m	Other non-cash movements £m	2015 £m
Current assets				
Cash and cash equivalents	358.9	(19.1)	–	**339.8**
Derivative financial instruments	0.7	–	8.9	**9.6**
	359.6	(19.1)	8.9	**349.4**
Current liabilities				
Borrowings and overdrafts	(75.6)	14.2	–	**(61.4)**
Finance leases	(3.3)	4.4	(4.2)	**(3.1)**
Derivative financial instruments	(5.9)	–	(0.7)	**(6.6)**
	(84.8)	18.6	(4.9)	**(71.1)**
Non-current liabilities				
Borrowings	(733.4)	(306.9)	(0.6)	**(1,040.9)**
Unamortised bond transaction costs	5.2	6.1	(0.6)	**10.7**
Finance leases	(32.4)	–	4.1	**(28.3)**
	(760.6)	(300.8)	2.9	**(1,058.5)**
Total net debt	(485.8)	(301.3)	6.9	**(780.2)**

Reconciliation of net cash flow to net debt

	2015 £m	2014 £m
Decrease in net cash and cash equivalents in the year	**(4.9)**	(194.8)
Cash (inflow)/outflow from movement in debt and lease financing	**(296.4)**	90.6
Movement in debt for the year	**(301.3)**	(104.2)
Opening net debt	**(485.8)**	(371.9)
Non-cash movements	**6.9**	(9.7)
Closing net debt	**(780.2)**	(485.8)

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Notes to the consolidated financial statements (continued)

28 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.

28.1 Capital commitments

At 31 January 2015 contracts had been entered into for future capital expenditure of £39.4m (2014: £106.8m) of which £36.0m (2014: £106.2m) relates to property, plant and equipment and £3.4m (2014: £0.6m) relates to intangible assets.

28.2 Lease guarantees

John Lewis plc continues to provide lease guarantees in favour of the Partnership's former associate company, Ocado Limited, of £6.8m (2014: £6.8m).

28.3 Commitments under operating leases

Future aggregate minimum lease payments Under non-cancellable operating leases, payable:	2015 Land and buildings £m	2014 Land and buildings £m
Within one year	**170.3**	148.5
Later than one year and less than five years	**587.8**	535.3
After five years	**2,661.8**	2,397.8

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years comprise the following:	2015 Land and buildings £m	2014 Land and buildings £m
Later than five years and less than 10 years	**745.3**	577.4
Later than 10 years and less than 20 years	**932.3**	711.8
Later than 20 years and less than 40 years	**465.1**	329.6
Later than 40 years and less than 80 years	**238.2**	297.9
After 80 years	**280.9**	481.1
	2,661.8	2,397.8

Total future sub-lease payments receivable relating to the above operating leases amounted to £6.8m (2014: £9.2m).

29 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 and key management personnel. As required by IFRS, this note details the transactions made in the year with related parties.

29.1 Subsidiaries

All transactions between the Partnership and its subsidiaries are eliminated upon consolidation, and therefore do not need to be disclosed separately. A list of subsidiaries within the Partnership are included within note 37.

29.2 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 31 January 2015, £1.1m was paid in respect of the operating lease (2014: £0.9m).

29.3 Arrangements with the John Lewis Partnership Trust Limited

The John Lewis Partnership Trust Limited is a related party and holds the Deferred Ordinary Shares in the Partnership on behalf of the Partners. The 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 the John Lewis Partnership Trust Limited as part of the BonusSave scheme are recorded in the Company's balance sheet within borrowings of £104.2m (2014: £97.2m).

29.4 Other transactions

Key management compensation has been disclosed in note 9.

Company balance sheet

As at 31 January 2015

Notes		2015 £m	2014 £m
	Non-current assets		
32	Investments	**122.9**	115.3
	Total assets	**122.9**	115.3
	Current liabilities		
34	Trade and other payables	**(1.6)**	(1.9)
	Non-current liabilities		
33	Borrowings	**(108.4)**	(101.4)
	Total liabilities	**(110.0)**	(103.3)
	Net assets	**12.9**	12.0
	Equity		
35	Share capital	**0.6**	0.6
	Capital redemption reserve	**5.0**	5.0
	Retained earnings	**7.3**	6.4
	Total equity	**12.9**	12.0

The financial statements on pages 164 to 168 were approved by the Board of Directors on 16 April 2015 and signed on its behalf by

Sir Charlie Mayfield and Loraine Woodhouse
Directors, John Lewis Partnership plc

Company statement of changes in equity

For the year ended 31 January 2015

Notes		Share capital £m	Capital redemption reserve £m	Retained earnings* £m	Total equity £m
	Balance at 26 January 2013	0.6	5.0	5.8	11.4
31	Profit for the year and total comprehensive income	–	–	0.6	0.6
	Balance at 25 January 2014	0.6	5.0	6.4	12.0
31	Profit for the year and total comprehensive income	–	–	0.9	0.9
	Balance at 31 January 2015	**0.6**	**5.0**	**7.3**	**12.9**

* 53 week year.

Notes to the Company financial statements

30 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 '1.4 Amendments to accounting standards' in note 1 of the Partnership's consolidated financial statements.

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. Additional accounting policies are noted below.

Basis of preparation

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. 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.

31 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 expense.

The result dealt with in the accounts of the Company amounted to £0.9m profit (2014: £0.6m profit).

Details of auditors' remuneration are provided in note 7 to the consolidated financial statements of the Partnership.

Notes to the Company financial statements (continued)

32 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 in subsidiaries at 31 January 2015.

	Subsidiary			Other
	Shares in John Lewis plc £m	Loan to John Lewis plc £m	Shares in John Lewis Partnership Trust Limited £m	Total £m
At 25 January 2014	13.0	102.2	0.1	115.3
Movements	–	7.6	–	7.6
At 31 January 2015	**13.0**	**109.8**	**0.1**	**122.9**

The intercompany loan from the Company to John Lewis plc is non-interest bearing with no specific repayment terms.

33 Borrowings

Borrowings primarily consist of Cumulative Preference Stock and Share Incentive Plan shares, which are allocated to Partners who are entitled to a dividend.

	2015 £m	2014 £m
Non-current:		
5% Cumulative Preference Stock	**(3.7)**	(3.7)
7½% Cumulative Preference Stock	**(0.5)**	(0.5)
Share Incentive Plan shares	**(104.2)**	(97.2)
	(108.4)	(101.4)

34 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.

	2015 £m	2014 £m
Other payables	**(1.6)**	(1.9)

All of the Company's trade and other payables are current. The carrying amount of trade and other payables approximates to fair value.

35 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.

	2015		2014	
	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, with whom ultimate control rests.

36 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. The Company has a number of related parties with whom it transacts. As required by IFRS, this note details the transactions made in the year with related parties.

36.1 Loan to John Lewis plc

The loan to John Lewis plc has been disclosed in note 32.

36.2 Other transactions

Arrangements with Pension Scheme trustees and John Lewis Partnership Trust Limited are disclosed within note 29 of the consolidated Partnership accounts.

Notes to the Company financial statements (continued)

37 Subsidiary undertakings

This note sets out the principal subsidiaries of the Company, along with the principal activities, country of incorporation and percentage of shares owned of each subsidiary.

The Partnership has a number of subsidiaries which contribute to the overall profitability of the Partnership. The principal subsidiaries are disclosed below. The Company has taken advantage of Section 410(2) of the Companies Act 2006 to list only its principal subsidiary undertakings. A schedule of interests in all subsidiary undertakings is filed with the Annual Return.

Principal subsidiary undertakings as at 31 January 2015 were as follows:

Name	Principal activity	Country of incorporation	Percentage shareholdings
John Lewis plc	Department store retailing, corporate and shared services	England & Wales	100%

Shareholdings in John Lewis plc are analysed as follows:

Class of share	Percentage shareholding
Ordinary shares	100%
5% First Cumulative Preference Stock	83.3%
7% Cumulative Preference Stock	75.6%

Subsidiary undertakings of John Lewis plc:

Name	Principal activity	Country of Incorporation	Percentage shareholdings
Herbert Parkinson Limited	Weaving and making up	England & Wales	100%
JLP Insurance Limited	Insurance	Guernsey	100%
JLP Scottish Limited Partnership	Investment holding undertaking	Scotland	100%
JLP Scottish Partnership	Investment holding undertaking	Scotland	100%
John Lewis Car Finance Limited	Car finance	England & Wales	100%
John Lewis Delivery Limited	International delivery	England & Wales	100%
John Lewis Properties plc	Property holding company	England & Wales	100%
Waitrose (Jersey) Limited	Food retailing	Jersey	100%
Waitrose (Guernsey) Limited	Food retailing	Guernsey	100%
Waitrose Limited	Food retailing	England & Wales	100%

The whole of the ordinary share capital of the subsidiary undertakings of John Lewis plc is held within the Partnership. The list excludes non-trading subsidiary undertakings which have no material effect on the accounts of 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 financial statements for each financial year. Under that law the Directors have prepared the Partnership and parent company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. 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 the Company and of the profit or loss of the Partnership for that period. In preparing these financial statements, the Directors are required to:

- → Select suitable accounting policies and then apply them consistently;
- → Make judgements and accounting estimates that are reasonable and prudent; and
- → State whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Partnership and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Partnership financial statements, Article 4 of the IAS Regulation.

They are also responsible for safeguarding the assets of the Company and the Partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors 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 a company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 94 to 95, confirm that, to the best of their knowledge:

- → The Partnership financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Partnership; and
- → The Strategic report includes a fair review of the development and performance of the business and the position of the Partnership, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

Sir Charlie Mayfield and **Loraine Woodhouse**
Directors, John Lewis Partnership plc
16 April 2015

Independent auditors' report to the members of John Lewis Partnership plc

Report on the financial statements

Our opinion

In our opinion:

- John Lewis Partnership plc's consolidated financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Partnership's and of the Company's affairs as at 31 January 2015 and of the Partnership's and Company's profit and the Partnership's cash flows for the year then ended;
- the Partnership financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union 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 and, as regards the Partnership financial statements, Article 4 of the IAS Regulation.

What we have audited

John Lewis Partnership plc's consolidated and Company financial statements comprise:

- the consolidated balance sheet and balance sheet of the Company as at 31 January 2015;
- the consolidated income statement and statement of comprehensive expense for the year then ended;
- the consolidated and Company statement of changes in equity for the year then ended;
- consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006. Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts (the 'Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

Our audit approach

Overview

Materiality:

- Overall Partnership materiality: £18.5 million (2014: £18.5 million) which represents approximately 5% of Profit before Partnership Bonus, tax and exceptional item.

Audit scope:

- Of the Partnership's 15 reporting units, we audited the complete financial information of 12 reporting units, which accounted for 97% (2014: 96%) of Profit before Partnership Bonus, tax and exceptional item.

Areas of focus:

- Supplier rebates
- Post-retirement benefit obligation
- Capitalisation of intangible assets
- Impairment of property, plant and equipment and finite-lived intangible assets
- Provisions

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Supplier income	
As described in the accounting policies section on page 128 and the Audit and Risk Committee report on page 105, the Partnership receives income from suppliers based on two principal streams: Volume rebates and marketing rebates. Supplier income is recorded against cost of sales in the income statement and the conditions to determine the recognition of such income can vary, such as suppliers offering rebates for specific promotions or rebates recognised based on selling product volumes over certain thresholds throughout the year. The majority of rebates are settled during the year by being netted against payments made to suppliers. The terms of such arrangements can also vary between suppliers and sometimes involve a degree of judgement, for example forecasting expected future sales volumes in order to determine whether volume based rebates revenue recognition criteria will be met. Furthermore, the process for maintaining records and calculating rebate income requires significant manual input. The complexities and judgement involved in these calculations and the scope for human error means there is an increased risk of incorrect income recognition or income recognition that is not in compliance with supplier agreements and of incorrect amounts of revenue being accrued at the period end.	We agreed the rebate income recognised by the Partnership, covering all types of rebates, to the agreements from a range of different suppliers. In particular we verified whether the rebate income had been calculated correctly and recognised in the correct period, based on the supplier agreements. No material exceptions were noted in this testing. We also performed a detailed analysis of the rebate income in the year, analysing income by supplier year on year and comparing movements to trends in revenue and gross margin. We did not identify any unusual trends in the rebate income recognised in the year. For a sample of rebates, we also confirmed the amount and timing directly with the supplier. This testing did not identify any material exceptions. We tested management's process for ensuring the completeness and accuracy of the year end accrued income balance for supplier rebates of £6.5m (see note 13). This process involved testing rebates raised and cancelled after the year end. We did not note any material amounts that were not recorded in the correct period.

Independent auditors' report to the members of John Lewis Partnership plc (continued)

Area of focus	How our audit addressed the area of focus
Post-retirement benefit obligation	
The Partnership has a net post-retirement benefit obligation of £1,260 million, which is significant in the context of both the overall balance sheet and the results of the Partnership. The net deficit has increased in the year, despite a one-off contribution of £294m, principally due to a decrease in the real discount rate (the net of the discount rate and future RPI) from 1.1% to 0.35%. The valuation of the pension liability also requires significant levels of judgement and technical expertise in making appropriate assumptions. Changes in the key assumptions (including salaries increase, inflation, discount rates and mortality) can have a material impact on the calculation of the liability. Refer to note 23 to the financial statements and page 105 of the Audit and Risk Committee report.	Management makes use of external actuaries to support the judgements involved in valuing the pension liability. Using our experience of other companies and of the relevant assumptions, we challenged the reasonableness of these actuarial assumptions, in particular the discount rate and inflation measures. We noted that the assumptions used by the Directors are within our benchmark ranges and checked that the pension liability calculation methods are appropriate and consistent with the prior year. We tested that the membership census data used in the actuarial models is consistent with the payroll data held by the Partnership, and tested significant changes to the post-retirement benefit obligation including the one-off contribution made during the year.
Capitalisation of intangible assets	
Total additions to computer software in the period were £145 million, of which £100 million related to internally generated costs and £45 million was external expenditure. Refer to note 10. We focussed on this area because material amounts have been capitalised in the year, particularly in relation to internally developed software. The principal projects relate to: → Enhancements to the Partnership's customer-facing websites; → A new warehouse management system; and → New ordering and enterprise resource management systems. Under accounting standards, internally generated software costs cannot be capitalised when they relate to the research phase of projects. Project development costs can be capitalised when certain criteria are met, including demonstrating that the project is expected to be completed and will bring economic benefits to the Partnership. As such, judgement is required in determining the appropriate accounting treatment. In particular: → Determining the amount of time that specifically relates to each project; → Whether the capitalisation criteria have been met for each project and an asset has been created that will bring benefits to the Partnership; and → Determining the internal costs, principally salaries, that are attributed to the time spent on each project.	Focussing in particular on the principal projects listed to the left, we performed the following procedures: → We assessed the Directors' policies and processes for determining the amount of time that specifically relates to each project and did not note any issues; → We tested the approval process for projects including the consistent use of asset or project creation forms. In doing so we assessed whether the amounts capitalised relate to time spent on the development phase, as opposed to the research phase, of intangible projects, and we did not identify any material issues; → We assessed and challenged the status of significant projects and confirmed that the amounts capitalised during the year have met the capitalisation criteria. Specifically, we checked that the amounts capitalised relate to projects which management expects to finalise and that will bring economic benefits to the Partnership; and → We tested the rates used when capitalising internal costs and checked that they appropriately capture relevant costs that are directly related to the staff time spent on internally generated intangible assets.

Area of focus	How our audit addressed the area of focus
Impairment of property, plant and equipment and finite-lived intangible assets	
For each cash generating unit ('CGU'), which is defined as a branch, the Directors assess on an annual basis whether there are any impairment triggers that would indicate that the CGU is overvalued. For branches where triggers are identified, the value in use is compared to the carrying value and an impairment charge is recorded where the carrying value exceeds the value in use. In the current year, more branches triggered for impairment than in the prior year and impairments were recorded on 19 branches. The impairment charge was £10.3m, made up of small impairments across several branches, principally in the core, non-convenience estate. See note 11 and page 105 of the Audit and Risk Committee report for more details. We focussed on this area because of the materiality of these assets and because of the judgement required in determining whether there are any impairment triggers. In addition, where triggers were identified for certain CGUs, calculating the value in use of those CGUs involves subjective judgements by the Directors, particularly regarding short- and long-term growth rates and operating margins.	We tested the Directors' assessment of impairment triggers and were satisfied that it appropriately took into account both internal and external impairment indicators, including the trading performance of each branch and competitor activity. No impairment triggers were identified in John Lewis. Where impairment triggers were identified in Waitrose, we audited the value-in-use models, including comparing the forecasts in them to the latest approved budgets. We challenged the Directors' key assumptions, in particular the long-term strategic growth rate, by comparing the assumptions to recent results both for the Partnership and the retail sector as a whole. We were satisfied with management's rationale for adopting a slightly higher long-term growth rate than the industry average, based on the Partnership's recent outperformance of the industry. We performed sensitivity analysis around the key drivers being the discount rate and long-term growth rates of the cash flow forecasts to ascertain the extent of change in those assumptions that either individually or collectively would be required for the relevant asset to be impaired. We then considered the likelihood of such movement in those key assumptions arising based on our knowledge of the Partnership and of the retail industry amongst other factors. We were satisfied that the key assumptions reflect reasonable expectations for each branch, and take into account whether the branch is core or convenience.

Independent auditors' report to the members of John Lewis Partnership plc (continued)

Area of focus	How our audit addressed the area of focus
Provisions	
The financial statements contain several provisions, principally long leave, unredeemed gift vouchers, service guarantee costs and inventory obsolescence. See page 105 of the Audit and Risk Committee Report. We focussed on these areas due to the number and magnitude of potential exposures across the Partnership, and the complexity and judgement inherent in determining the appropriate valuation of the provision for each exposure. The key assumptions employed in calculating these liabilities relate to: → Long leave: Actuarial assumptions principally relating to salaries increase, inflation, discount rates, and mortality; → Unredeemed gift vouchers: Assumption for the amount of vouchers issued which are not expected to be redeemed; → Service guarantee costs: Assumptions regarding the frequency and cost of future repairs; and → Inventory obsolescence: Assumptions regarding the future selling price of aged and slow moving inventory.	We tested the Directors' policies for calculating these provisions, challenged the appropriateness of management's judgements and assumptions, and considered the nature and suitability of any historic data used in support of the judgements and assumptions made, in estimating the provisions. In doing so we noted no material issues. In particular, we focussed on the following key assumptions: → Long leave: Challenged the actuarial assumptions and noted that those used by the Directors are within our benchmark ranges; → Unredeemed gift vouchers: Checked that the non-redemption rate used by the Directors is based on historical data for gift voucher sales and redemptions; → Service guarantee costs: Checked that the assumptions regarding the frequency and cost of future repairs are based on appropriate historical data, and also take into account appropriate assumptions for future changes in failure rates and cost inflation; and → Inventory obsolescence: Checked that the assumptions in the provision calculation for future selling price are based on historical data for similar items. We also considered the completeness of provisions, by making inquiries of the General Counsel and Company Secretary and reviewing events and conditions that could give rise to provisions in the year to assess whether management has taken known exposures into account, and the related disclosures. Based on this, we did not identify any material omissions.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Partnership, the accounting processes and controls, and the industry in which the Partnership operates.

The Partnership is structured along three business lines being Waitrose, John Lewis and Partnership Services and Group. The Partnership financial statements are a consolidation of 15 reporting units within these business lines, each of which is a statutory entity based in the UK or Channel Islands, comprising the Partnership's operating businesses and centralised functions.

The audits of these reporting units were performed using materiality levels lower than that of the Partnership as a whole, established by reference to the size of, and risks associated with, the business concerned.

Of the Partnership's 15 reporting units, we have audited the complete financial information of 12 reporting units, which accounted for 97% (2014: 96%) of Profit before, Partnership Bonus, tax and exceptional item.

In establishing the overall approach to the Partnership audit, we determined the type of work that needed to be performed at the reporting units by us, as the Partnership engagement team, or component auditors within PwC UK and from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units, to be able to conclude whether sufficient and appropriate audit evidence had been obtained as basis for our opinion on the Partnership financial statements as a whole. We held regular meetings with component audit teams during the year.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Partnership materiality	£18.5 million (2014: £18.5 million).
How we determined it	5% of Profit before Partnership Bonus, tax and exceptional item.
Rationale for benchmark applied	We applied this benchmark because, in our view, this is the most relevant measure of underlying performance and the measure on which management and users of the financial statements focus.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £1 million (2014: £0.5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

The Directors have voluntarily complied with Listing Rule 9.8.6(R)(3) of the Financial Conduct Authority and provided a statement in relation to going concern, set out on page 119, required for companies with a premium listing on the London Stock Exchange.

The Directors have requested that we review the statement on going concern as if the Company were a premium listed company. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Partnership and Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed.

As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Partnership's and Company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion:

→ the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;

ISAs (UK & Ireland) reporting

The Directors have chosen to voluntarily comply with the UK Corporate Governance Code ('the Code') as if the Company were a premium listed company. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

→ Information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Partnership and Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report arising from this responsibility.
→ the statement given by the Directors on page 169, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Partnership's and Company's performance, business model and strategy is materially inconsistent with our knowledge of the Partnership and Company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
→ the section of the Annual Report on page 105, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of John Lewis Partnership plc (continued)

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Other voluntary reporting

Matters on which we have agreed to report by exception

Corporate Governance statement

The Company prepares a Corporate Governance statement in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority and has chosen voluntarily to comply with the UK Corporate Governance Code. The Directors have requested that we review the parts of the Corporate Governance Statement relating to the Company's compliance with the ten provisions of the UK Corporate Governance Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the Company were a premium listed company. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 169, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Partnership's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Ranjan Sriskandan
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 April 2015

Five year financial record

for the year ended January

INCOME STATEMENT	2015* £m	2014 £m	2013[1] £m	2012 £m	2011 £m
Gross sales					
Waitrose	**6,508.9**	6,111.9	5,763.9	5,400.4	4,974.6
John Lewis	**4,433.7**	4,059.6	3,777.4	3,329.1	3,231.7
	10,942.6	10,171.5	9,541.3	8,729.5	8,206.3
Revenue					
Waitrose	**6,135.3**	5,753.7	5,416.1	5,072.3	4,699.9
John Lewis	**3,565.7**	3,274.1	3,049.4	2,686.3	2,661.9
	9,701.0	9,027.8	8,465.5	7,758.6	7,361.8
Operating profit before exceptional item					
Waitrose	**237.4**	310.1	292.3	260.6	274.9
John Lewis	**250.5**	226.1	216.7	157.9	198.4
Group and other	**(45.6)**	(65.3)	(55.6)	(25.2)	(42.3)
	442.3	470.9	453.4	393.3	431.0
Net finance costs	**(99.6)**	(94.5)	(110.1)	(39.5)	(63.1)
Exceptional item	**7.9**	(47.3)	–	–	–
Profit before Partnership Bonus, tax and exceptional item	**342.7**	376.4	343.3	353.8	367.9
Partnership Bonus	**(156.2)**	(202.5)	(210.8)	(165.2)	(194.5)
As a percentage of eligible pay	**11%**	15%	17%	14%	18%
Taxation	**(50.9)**	(25.0)	(31.5)	(52.4)	(46.0)
Profit for the year	**143.5**	101.6	101.0	136.2	127.4
Number of employees at year end	**93,800**	91,000	84,700	80,900	76,500
Average number of full time equivalent employees	**59,200**	55,900	53,200	51,100	48,500

* 53 week year
[1] Re-stated for the adoption of IAS 19 'Employee benefits' (Revised 2011), which amends the accounting for employee benefit. 2011 and 2012 have not been re-stated.

BALANCE SHEET	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Non-current assets	**4,682.1**	4,384.5	4,116.0	4,014.0	3,775.4
Current assets	**1,173.3**	1,139.5	1,247.6	1,232.0	1,171.2
Total assets	**5,855.4**	5,524.0	5,363.6	5,246.0	4,946.6
Current liabilities	**(1,694.9)**	(1,705.6)	(1,633.9)	(1,539.9)	(1,284.0)
Non-current liabilities	**(2,641.7)**	(2,036.7)	(1,828.2)	(1,697.2)	(1,589.8)
Total liabilities	**(4,336.6)**	(3,742.3)	(3,462.1)	(3,237.1)	(2,873.8)
Net assets	**1,518.8**	1,781.7	1,901.5	2,008.9	2,072.8
Borrowings	**(1,030.2)**	(728.2)	(814.7)	(1,041.2)	(974.6)
Net debt	**(780.2)**	(485.8)	(371.9)	(577.3)	(548.4)

Independent assurance statement Summary for Annual Report and Accounts 2015

John Lewis Partnership plc (the 'Partnership') commissioned DNV GL Business Assurance Services UK Limited ('DNV GL') to undertake independent assurance of the Partnership's sustainability performance as published in the Environment and Community Performance sections in its Annual Report and Accounts 2015 on pages 57–59, 66–67 and 74–75 and in the Our Environment and Our Community documents published on its website (together the 'Sustainability Content'). Our assurance covered the reporting period 26 January 2014 – 31 January 2015. The review of financial and Partner data from the Annual Report and Accounts 2015 was not within the scope of our work.

For our full assurance statement, please see the Partnership website www.johnlewispartnership.co.uk/performanceandreporting.

We performed our work using DNV GL's assurance methodology VeriSustainTM, which is based on our professional experience and international assurance best practice, including reference to the International Standard on Assurance Engagements 3000 (Revised), 'Assurance Engagements Other Than Audits and Reviews of Historical Financial Information' and the AA1000 Assurance standard (2008).

We evaluated the Sustainability Content for adherence to the VeriSustainTM Principles (the 'Principles') of stakeholder inclusiveness, materiality, responsiveness, completeness, neutrality and reliability.

We evaluated the following sustainability performance data using the reliability principle together with the Partnership's Basis of Reporting (www.johnlewispartnership.co.uk/performanceandreporting), which sets out how the sustainability performance data are measured, recorded and reported:

- → Community;
- → Operational waste;
- → Transport;
- → Water;
- → Energy consumption; and
- → GHG emissions.

The specific sustainability performance data which have been assured by DNV GL are indicated.

We planned and performed our work to obtain the evidence we considered necessary to provide a basis for our assurance opinion. We are providing a 'limited level' of assurance. A 'reasonable level' of assurance would have required additional work at headquarters and site level to gain further evidence to support the basis of our assurance opinion.

On the basis of the work undertaken, nothing came to our attention to suggest that the Sustainability Content does not properly describe the Partnership's adherence to the Principles. In terms of reliability of the sustainability performance data in scope, nothing came to our attention to suggest that these data have not been properly collated from information reported at operational level, nor that the assumptions used were inappropriate.

For and on behalf of DNV GL Business Assurance Services UK Limited
London, UK

16 April 2015

T. A Oates

Tracy Oates
Principal Consultant and Lead Assurer
UK Sustainability, DNV GL –
Business Assurance

Mark Line
Senior Principal Consultant and Reviewer
UK Sustainability, DNV GL –
Business Assurance

DNV·GL

DNV GL Business Assurance Services UK Limited is part of DNV GL – Business Assurance, a global provider of certification, verification, assessment and training services, helping customers to build sustainable business performance. **www.dnvgl.com**

Notice of AGM

Notice is hereby given that the eighty-sixth Annual General Meeting of the Company will be held at 2.30pm on 4 June 2015 at Longstock House, Leckford, Stockbridge, Hampshire SO20 6JF to consider and, if thought fit, to pass Resolutions 1 to 7 inclusive as ordinary resolutions and Resolution 8 as a special resolution:

→ Resolution 1
To receive the Company's accounts and the reports of the Directors and the auditor on those accounts for the year ended 31 January 2015.

→ Resolution 2
To re-elect Chris Coburn as a Director.

→ Resolution 3
To re-elect Baiju Naik as a Director.

→ Resolution 4
To re-elect Lucy Parks as a Director.

→ Resolution 5
To re-elect Loraine Woodhouse as a Director.

→ Resolution 6
To reappoint PricewaterhouseCoopers LLP as Auditor of the Company to hold office from the conclusion of the meeting until the conclusion of the next meeting of the Company at which accounts are laid.

→ Resolution 7
To authorise the Directors to determine the remuneration of the Auditor.

→ Resolution 8
That the Company be and is hereby authorised to make market purchases (within the meaning of section 693(4) of the Companies Act 2006) of its 5 per cent Cumulative Preference stock ('the 5 per cent stock') and its 7½ per cent Cumulative Preference stock ('the 7½ per cent stock') on such terms and in such manner as the Directors may from time to time determine, provided that:

a) the maximum number of shares in its 5 per cent stock hereby authorised to be acquired is 3,696,995 shares;

b) the maximum number of shares in its 7½ per cent stock hereby authorised to be acquired is 500,000 shares;

c) the minimum price which may be paid for any 5 per cent stock is 60p per share;

d) the minimum price which may be paid for any 7½ per cent stock is 80p per share;

e) the maximum price which may be paid for any 5 per cent stock or 7½ per cent stock is the higher of (i) an amount equal to 105% of the average of the middle market quotations for the 5 per cent stock or 7½ per cent stock (as appropriate) as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such share is contracted to be purchased and (ii) the amount stipulated by Article 5(1) of the EU Buy-back and Stabilisation Regulation (being the higher of the price of the last independent trade and the highest current independent bid for the 5 per cent stock or the 7½ per cent stock (as appropriate) on the trading venues where the market purchases by the Company pursuant to the authority conferred by this Resolution 8 will be carried out);

f) the authority hereby conferred shall expire at the end of the next Annual General Meeting of the Company or, if earlier, on 30 August 2016 unless previously renewed, varied or revoked by the Company in general meeting; and

g) the Company may make a contract to purchase its 5 per cent stock or 7½ per cent stock under the authority hereby conferred prior to the expiry of such authority, which contract will or may be executed wholly or partly after the expiry of such authority, and may purchase its 5 per cent stock or 7½ per cent stock in pursuance of any such contract.

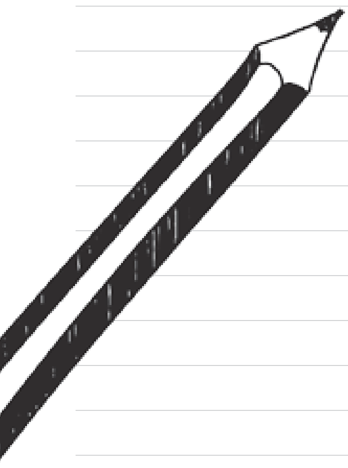
By Order of the Board

Keith Hubber
Company Secretary
171 Victoria Street, London SW1E 5NN
16 April 2015

The Report and Accounts are sent or made available to all members in accordance with instructions received, but only the members holding Deferred Ordinary Shares are entitled to attend and vote at this meeting.

A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member.

Notes



General information

Independent auditors

PricewaterhouseCoopers LLP

Registered office

171 Victoria Street, London SW1E 5NN

Incorporated and registered in England & Wales, under Company no. 238937

Preference shares

Transfer office for preference shares:

Capita Registrars, The Registry,
34 Beckenham Road, Beckenham,
Kent BR3 4TU

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.

Designed by Radley Yeldar.


johnlewispartnership.co.uk
waitrose.com
Johnlewis.com