In the hands of our **Partners**

JOHN LEWIS PLC ANNUAL REPORT AND ACCOUNTS 2014

John Lewis | Waitrose

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The Group Strategic Report runs from pages 1 to 45.

You can see our

Sustainability Review 2014 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**

This is the Annual Report and Accounts for John Lewis plc ('the Group' or 'the Company'). The Company is the principal trading subsidiary of the John Lewis Partnership plc ('the Partnership') and owns Waitrose Limited.

The Group includes John Lewis and Waitrose and has 91,000 employees – or Partners – for whom the Partnership is owned in trust.

Details of the Partnership's Constitution and governance structures are included in the Partnership's Annual Report and Accounts which can be accessed via **www.johnlewispartnership.co.uk**

STRATEGIC REPORT

Pages 1 to 45 comprise the Group Strategic Report.

The Strategic Report was approved by the Board of Directors on 10 April 2014.

Sir Charlie Mayfield, Chairman, 10 April 2014

AT A GLANCE

John Lewis plc is the principal trading subsidiary of the John Lewis Partnership plc (the John Lewis Partnership).

We operate 305 Waitrose shops and 40 John Lewis shops, johnlewis.com, waitrose.com and have business-to-business customers in the UK and abroad.

The two trading divisions of Waitrose and John Lewis are supported by Partnership Services (a shared service division) and Corporate (the Group head office function).

Our Partners co-own the Partnership.

PARTNERSHIP BONUS

15% of pay

2013: 17%

PROFIT BEFORE PARTNERSHIP BONUS AND TAX

£328.6m

-4.1%

GROSS SALES (INCLUDING VAT)

Group

£10.2bn

+6.6%

2013: £9.5bn

Waitrose

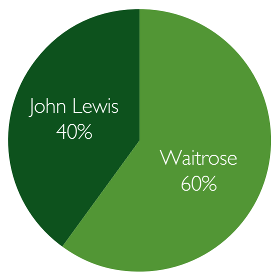
£6.1bn +6.0%

2013: £5.8bn

John Lewis

£4.1bn +7.5%

2013: £3.8bn



REVENUE

Group

£9.0bn

+6.6%

2013: £8.5bn

Waitrose

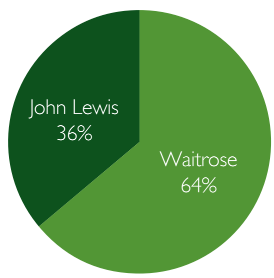
£5.7bn +6.2%

2013: £5.4bn

John Lewis

£3.3bn +7.4%

2013: £3.1bn



OPERATING PROFIT

Operating profit

£421.2m

-6.5%

2013: £450.7m

Operating profit before exceptional item

£468.5m

+3.9%

2013: £450.7m

Waitrose

£310.1m +6.1%

2013: £292.3m

John Lewis

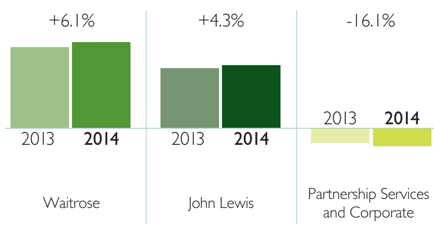
£226.1m +4.3%

2013: £216.7m

Partnership Services and Corporate

(£67.7m) -16.1%

2013: (£58.3m)

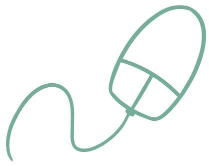


For a more detailed insight into our Group and divisional performance in the year, please turn to 'Our Performance in 2013/14' on page 18.

INVESTING ONLINE

£1.4bn

Annual online sales were £1.4bn with johnlewis.com up 19.2% and waitrose.com grocery sales up 41.4%.



CO_2e EMISSIONS INTENSITY

-5.0%

An emissions increase of 1.3% against a revenue increase of 6.6%, equating to a 5.0% decrease in emissions intensity. We are working to reduce absolute operational CO_2 equivalent (CO_2e) emissions by 15% by 2020/21 against our 2010/11 baseline.

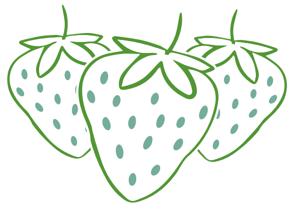
About **Waitrose**

Waitrose has 305 shops in the UK and Channel Islands and has consistently achieved sales growth ahead of the market. Its strong performance has been driven by the service from loyal and dedicated Partners, a long-term commitment to sourcing the UK's finest local and regional foods, the success of the essential Waitrose range, Brand Price Match, the success of the myWaitrose card and free delivery for online shopping.

Waitrose combines the convenience of a supermarket with the expertise and service of a specialist shop – it is dedicated to offering quality food that has been responsibly sourced, combined with high standards of customer service.

BEST SELLING PRODUCT

Our essential Waitrose range offers keenly priced everyday items with no compromise on quality. Our best selling product from the range was essential strawberries.



NEW PRODUCTS LAUNCHED

4,000+

ONLINE GROCERY SALES GROWTH

+41.4%

2013 AWARDS

- Good Housekeeping Favourite Supermarket
- Favourite Food and Grocery Retailer (Verdict's Customer Satisfaction Awards)
- Top performer in National Consumer Satisfaction Index

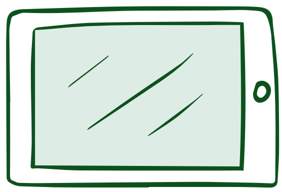
About **John Lewis**

John Lewis has 40 shops in the UK: 30 department stores, 10 John Lewis at home and johnlewis.com. Led by our committed and focussed Partners, we sell the best of fashion, beauty, home and giftware and electrical items. John Lewis typically stocks more than 350,000 separate lines in the department stores. The website offers over 250,000 products including online exclusives. johnlewis.com is consistently ranked one of the top online shopping destinations in the UK.

John Lewis Insurance offers a comprehensive range of insurance products – home, car, wedding and event, travel and pet insurance and life cover – delivering the usual values of expertise, trust and customer service expected from the John Lewis brand.

BEST SELLING PRODUCT

We're a market leader in the electronics and home technology sector so it's fitting that 2013/14's best selling products were tablets.



ONLINE SHARE OF JOHN LEWIS SALES

28.1%

ONLINE SALES GROWTH

+19.2%

2013 AWARDS

- Retailer of the year (Oracle Retail Week Awards)
- The Nation's Best Retailer (Verdict's Customer Satisfaction Awards)
- Best Retailer 2013 (Which? awards)

OUR STORY

In the hands of our **Partners**

Since our early days, we've done things differently. Our Partnership model makes us unique, and it's still key to our success today.

The combination of a trusted legacy and continuous innovation keeps us at the forefront of retail. We have a competitive and commercial mindset. And, most important of all, our Partners keep us one step ahead with new ideas and personal commitment.

We will continue to invest in our business, listen to our Partners, and do things differently – in shops, service, and ways to shop. And that will ensure our doors stay open to a bright, sustainable future.

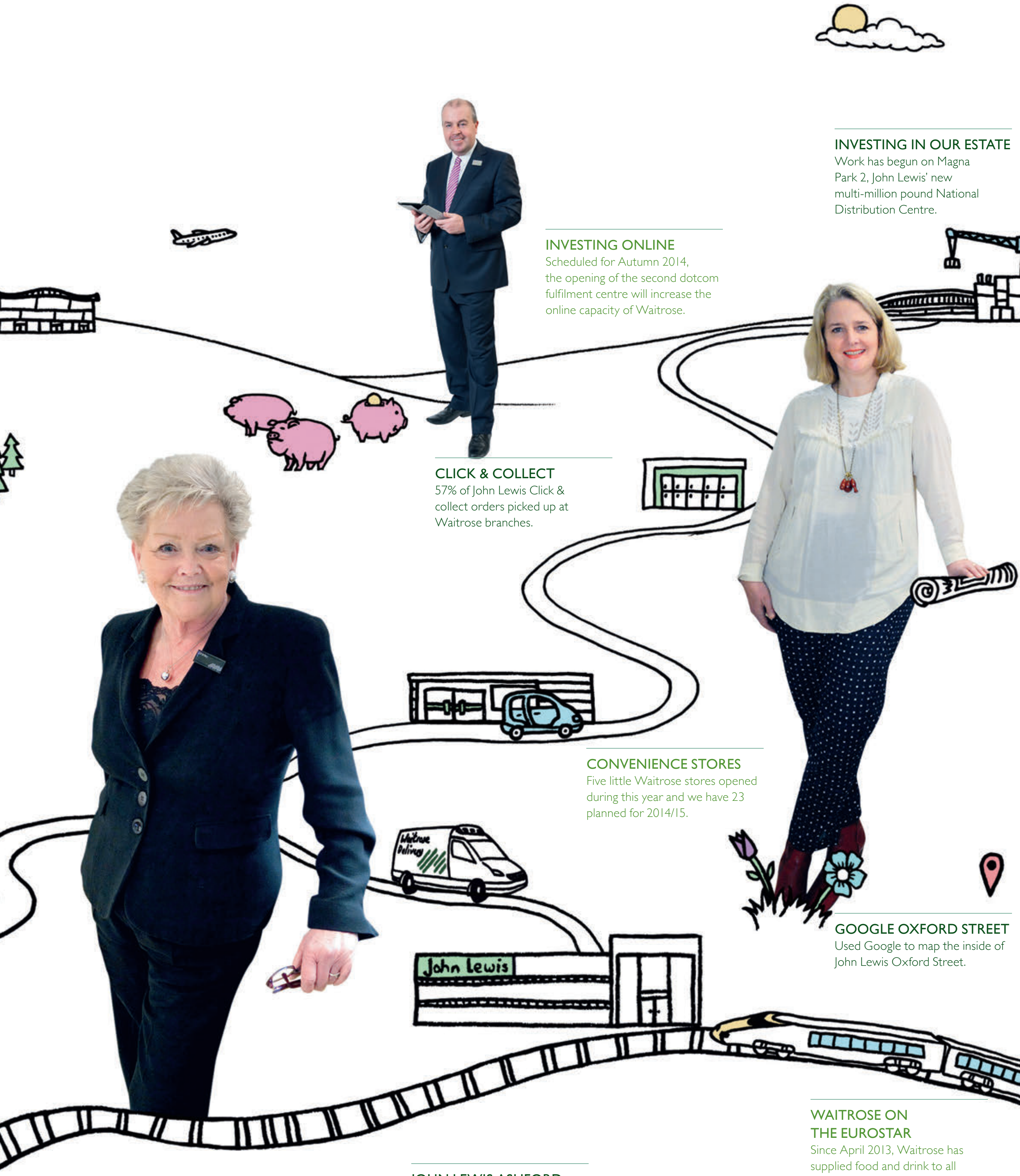
During the year, the Partnership created 6,300 net new jobs.

NEW BRANCHES
We have an active pipeline of new stores across Waitrose and John Lewis, including a John Lewis in Heathrow's Terminal 2.

WAITROSE GARDEN
Launched 6,000 gardening products devoted to helping our customers grow their own flowers, fruit and veg.

FIRST MOBILE CHRISTMAS
At Christmas, the shift to mobile devices for online shopping was confirmed but the in-store sale is well and truly thriving.

WAITROSE CHIPPING SODBURY
Opened in October 2013 and is more than 40% more carbon efficient than the equivalent existing shop.



INVESTING IN OUR ESTATE
Work has begun on Magna Park 2, John Lewis' new multi-million pound National Distribution Centre.

INVESTING ONLINE
Scheduled for Autumn 2014, the opening of the second dotcom fulfilment centre will increase the online capacity of Waitrose.

CLICK & COLLECT
57% of John Lewis Click & collect orders picked up at Waitrose branches.

CONVENIENCE STORES
Five little Waitrose stores opened during this year and we have 23 planned for 2014/15.

GOOGLE OXFORD STREET
Used Google to map the inside of John Lewis Oxford Street.

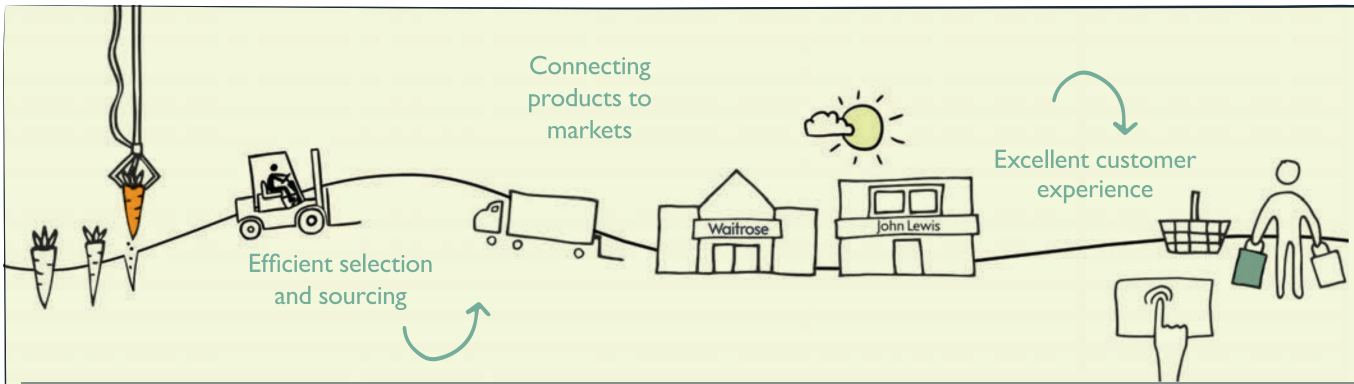
WAITROSE ON THE EUROSTAR
Since April 2013, Waitrose has supplied food and drink to all Eurostar buffet cars.

JOHN LEWIS ASHFORD
Opened our tenth at home shop in November 2013, creating 125 jobs.

HOW WE CREATE VALUE

We create value through understanding and delivering on our customers' needs across the value chain resulting in a strong financial performance.

A retail value chain sits at the heart of our business. John Lewis and Waitrose tailor their approach to creating value based on a deep understanding of customer needs.



Efficient selection and sourcing

- Selecting and sourcing the best products to meet our customers' needs
- Providing value for customers by driving efficiency throughout the supply chain
- Purchasing local, ethical and sustainably-sourced products

Connecting products to markets

- Meeting our customers' needs for flexible ways to research, shop and receive their products
- Operating a smart distribution network and investing in new technology to meet customer demands
- Reducing CO_2e emissions from transport and distribution

Excellent customer experience

- Providing the best customer service – wherever and however they shop with us
- Creating strong customer loyalty by providing services which enhance the products themselves
- Informing customers about the sustainability and story of the products they buy

With the opening of a new frozen beef production site in Yorkshire, Waitrose now has one of the shortest supply chains for beef of any UK supermarket.

Waitrose began a pilot for Click & collect temperature controlled lockers in July.

John Lewis became the first UK electrical retailer to launch a minimum two year guarantee on all its electrical products at no extra cost.

Value we created in 2013/14

Our business activities have a significant economic impact on our Partners and stakeholders beyond. This year, for the first time, we've aggregated our economic impacts in a value-added statement to show how and where we created value in 2013/14 for our Partners and other key stakeholders.

Payments and benefits to Partners

Wages and salaries
£1.3bn

Bonus incl. NI
£203m

Pension charge excluding exceptional item
£168m

Other
£118m

Long leave	Residential clubs	Leisure, Council, associated costs	Dining room subsidies	Journalism	Partners' discount
£8m	£6m	£12m	£25m	£4m	£63m

Salaries and benefits

Commitment

Income and expenditure

Revenue
£9.0bn

Cost of sales
£6.0bn

Operating expenses
£2.6bn

Exceptional item (holiday pay)
£47m

Other payments (financing, tax etc.)
£117m

Capital

Interest

Services

Taxes

Licence to operate

Investment

Payments to stakeholders

Financing
Interest
£93m

Governments
Taxation and social security
£144m

Communities
Investment
£14m

Key
To the Partnership
From the Partnership

OUR STRATEGY

The Group executes the strategy of John Lewis Partnership plc, which is underpinned by three Aims.

As the Group expands and the retail marketplace evolves, it remains important that our strategy focusses on our ultimate goal: balancing the happiness of our Partners with the success of the business as a whole.

The Partnership Board sets the strategy after considering our areas of strength, opportunities and changes in the marketplace and in the world around us.

Our strategy is underpinned by three Aims. They are designed to make us bolder, clearer, and more confident that our Group approach is a better way of doing business. Delivering on our Aims ensures that, as our business grows, we can respond better to new demands and continue to make the most of our co-ownership model. Underneath all our activities are the Group's ethical principles and our commitment to do business in a fair, sustainable way.

OUR AIMS

Increase advantage of Partners
When our Partners achieve their very best at work, it creates a competitive advantage for the whole Group – happiness makes us all more motivated and effective. We aim for Partners to gain personal satisfaction by being members of a co-owned enterprise in which they have worthwhile and fulfilling employment, as well as a genuine sense of community.

Realise market potential
We aim to attract new customers, and retain and deepen the relationships with those we already have. We do this through better understanding and quickly responding to their changing needs, whether that means more competitive pricing, flexible shopping opportunities, or peace of mind about our product sourcing. Enhancing our sustainability programme will support our market position.

Grow efficiently
The business has grown significantly over the last ten years, and growth will continue to be important. But growth increases business complexity and impacts our costs. Focussing on efficiency is becoming more important and to achieve a balanced and profitable growth, whilst delivering enough profit to distribute to our Partners, we need to carefully prioritise our investments and further instil cost control discipline.

Our strategy in context

Our strategy reflects fundamental changes in customer attitudes towards value, service and trust.

Our customers' needs are changing

Value for money

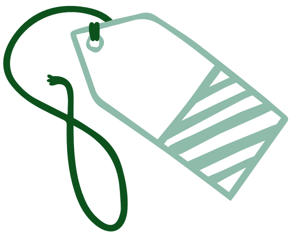
Customers are demanding better value for money with no compromise on quality and innovation.

Service and convenience

Technological innovation is driving demand for flexible shopping according to customer lifestyles.

Trust

Customers are increasingly demanding that companies operate ethically and keep their promises.



For more information about the changing attitudes of our customers, please see page 38.

How we are investing to respond to changing customer demands

- essential Waitrose
- John Lewis Value ranges
- Never Knowingly Undersold
- Brand Price Match
- Developing better value products of excellent quality through product innovation

- Omni-channel services: online and on the move
- New retail formats and service offerings
- Enhanced network of Click & collect locations
- Improved in-store experience
- Greater online distribution capacity
- Investment in supply chain and IT

- Never Knowingly Undersold
- Guaranteed Guarantees
- Improving supply chain practices
- Increasing the product range from certified sustainable sources
- Supporting UK supply

469 new essential Waitrose products were launched in 2013/14.

Our Click & collect service is now available in every John Lewis and 229 Waitrose stores.

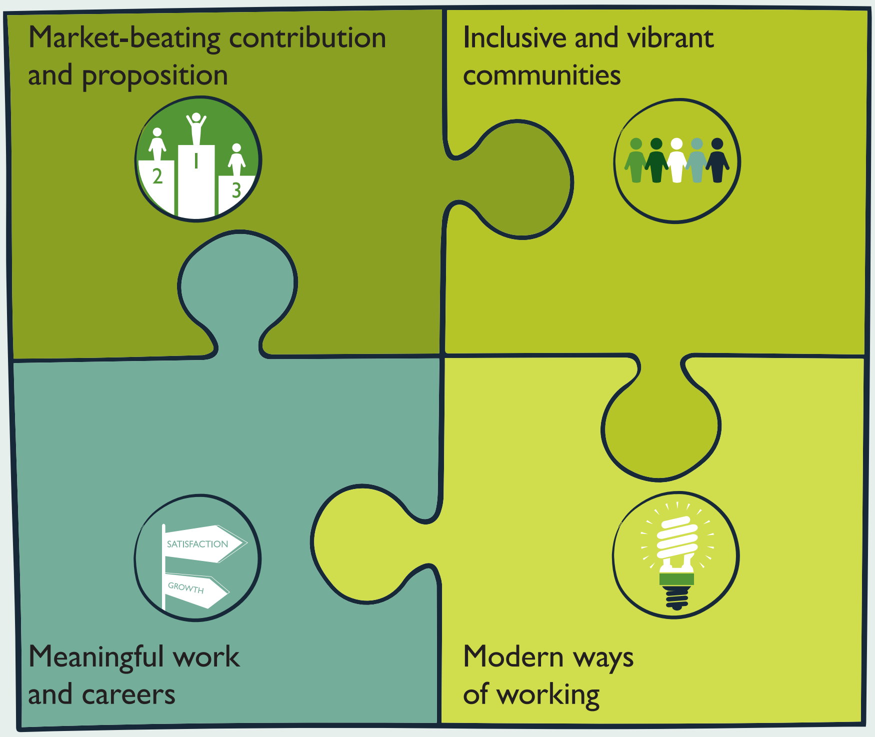
100% of the palm oil in our own brand ingredients are certified sustainable (CSPO).

OUR PARTNERS

The retail environment is becoming increasingly competitive. But thanks to the dedication and drive of our 91,000 Partners, we continue to thrive.

Our success has created new challenges. We need to ensure that the way we work and the services we provide are right for our growing business. We also need to keep our Partners engaged in what it means to be a co-owner during a period of significant transformation.

Launched in November 2012, the Partner Plan is built around four key themes. It addresses the issues that our Partners have told us are most important to them and changes in our business model.



87%

OF PARTNERS:

"Recommend the Partnership as a great place to work."

Increasing the advantage of Partners is at the heart of our strategy. Our Partner Plan is helping us achieve this.

Market-beating contribution and proposition

Every Partner shares in the benefits of a co-owned business. Our ownership structure enables us to offer a comprehensive reward package including pay, Partner discounts, subsidised dining and leisure facilities, career development and a non-contributory final salary pension scheme. Partners also have a direct say in how the business is run. The Partnership is currently engaged in discussions with the Partnership Council on the level and form of future provision of pension benefits to Partners. More information on the review of pension benefits can be found on page 27.

In return, we ask Partners to show responsibility for the Partnership's ongoing success by giving us their very best performance – from adaptive, innovative thinking and excellent customer service to a significant contribution to continuous improvement.

In focus

To help increase the Partner advantage, we have introduced a Group-wide appraisal system called My Performance. Its core purpose is to show Partners how they are performing against consistent, business-wide criteria. In early 2014, we introduced a Group-wide Pay for Performance approach to clearly demonstrate how greater contribution can be rewarded.

Pay for Performance is our new Partnership pay framework implemented in March 2014. Aligning with My Performance, it aims to link performance and pay more closely and consistently for Partners – no matter where they work. It does this by measuring a Partner's annual performance rating against their position in the pay range to determine their percentage pay increase for the year.

Meaningful work and careers

As the employment landscape changes and work practices shift, we need to develop the capabilities required to keep our competitive edge. We already have Partners from across four generations, and 59% of Partners have less than five years' service. With the percentage of younger Partners expected to grow, we need to offer training that allows Partners of all ages and abilities to stay up to date with technological advances and new ways of doing business. By providing opportunities, we're encouraging Partners to learn new skills – whatever stage they're at in their working lives.

In focus

This year, Waitrose introduced a new product specialist role in Fruit, Vegetables & Flowers, with an accredited Level 3 qualification from City & Guilds. 500 Partners completed the learning for the new specialist role. John Lewis offered Level 2 (the equivalent of a GCSE) Functional Skills qualifications in Maths, English and ICT for those Partners who wanted to brush up on literacy, numeracy and IT skills. To date, more than 300 Partners have taken advantage of this programme.

Across the business, more than 2,000 Partners completed vocational qualifications ranging from accountancy to procurement. We offered 95 apprenticeships and nearly 900 Partners took part in IPAR (Inspiring Performance, Achieving Results), our Partnership line management training programme.

74%

OF PARTNERS SAY:

"My job satisfies me."

"Pay for Performance looks great in theory, and my managers have grasped it quickly but the test will be in calibration. There will be particular challenges in areas where there are currently a lot of existing pay models."

says **Nikki Donaldson**, Partnership Councillor

Chris Coburn, Partnership Councillor and Chair of the Partner Group, explains,

"Pay for Performance is fairer because it rewards consistent performance. It is better than previous approaches because the annual Partner performance discussion will now just be about performance."

OUR PARTNERS *CONTINUED*

Inclusive and vibrant communities

We strive to be a welcoming and diverse business that recognises and values difference. This goes to the heart of our ultimate goal of being a successful co-owned enterprise that benefits all of our Partners.

This aim is supported by our Diversity and Inclusion Policy. The policy is there to help us create a vibrant Partner community, with a varied range of skills, talents, experiences and backgrounds, within a fair environment free of discrimination and harassment.

Our ethnic mix of Partners has not changed significantly over the last decade. Our white Partner demographic continues to reflect the UK population as a whole at 84% of our population, but at senior management levels, white Partners account for 92% of the population. As a Partnership, we want to do more to foster a culture of inclusion at all levels, and we took clear steps to do this in 2013/14.

In focus

In September 2013, a number of our senior leaders, including Heads of Branch at John Lewis and Heads of Retail Operations at Waitrose, attended a seminar on unconscious bias. This helped understand how our unconscious personal preferences affect our behaviour.

Tony Wheeler, Managing Director at Peter Jones, says,

"The unconscious bias seminar was very enlightening. It deepened my understanding of the ever-changing face of society and our marketplace and demonstrated how leaders need to be more agile and adaptable. I am certainly a more commercial leader as a result."

In November, we also launched a dedicated intranet page for our LGBT (Lesbian, Gay, Bisexual and Transgender) networking group, Pride in the Partnership.

In 2014, we will continue to drive this culture of inclusivity. We will be rolling out online e-learning diversity training to all 91,000 Partners, emphasising the value of understanding and embracing cultural differences. We will also be setting up a mentoring network for those managers from under-represented ethnic minorities and providing funding and support for Partner-generated diversity groups and networks.

Abby Chicken, Chair of the LGBT networking group and Food Hall Manager at John Lewis Oxford Street, says,

"It's fantastic to finally have an official point of contact for LGBT Partners across all divisions. We hope to be a real resource for Partners and managers to access if they are looking for guidance or support on LGBT issues."

Thanks to our Diversity and Inclusion scorecard, we are able to monitor and measure the impact and effectiveness of our activities to improve performance in this area. This scorecard will be presented to the Partnership Board each year.

73%

OF PARTNERS SAY:

"We build relationships powered by our principles."

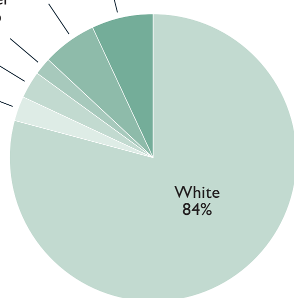
In terms of gender breakdown, the position at the end of the financial year for the following populations is:

GENDER DIVERSITY

	Male	Female
Directors and Management Board members	67%	33%
Senior managers*	57%	43%
All other Partners**	43%	57%

* Other than Directors and Management Board members
** Other than Directors, Management Board members and senior managers

PARTNER ETHNICITY



Modern ways of working

In order to adapt to a fast-paced business environment with ongoing technological change, Partners are increasingly working together across both roles and divisions. Although the majority of Partners feel empowered at work, we still have more to do as a business to fully realise and release their potential.

In focus

2013/14 has been the year that continuous improvement has begun to take hold within the Partnership, thanks to cross-divisional sharing of knowledge and skills. Many areas of the Partnership have been involved in this initiative, from our contact centres to our branches, distribution facilities, head offices and shared service centre. Two examples of the power of Partner engagement in 2013/14 come from work conducted at our Hamilton Contact Centre in Glasgow and a number of locations within Waitrose.

Our Hamilton team has developed a method of continuous improvement they call IMPACT (Improving My Partnership and Changing Together). It follows a structured approach to rapidly improve performance, with ideas coming from Partners who are at the heart of the operation.

Sue Troughton, Customer Service Advisor, says,

"I undertook IMPACT training at Hamilton and it has significantly changed my view of the role I have within John Lewis. It has enabled me to understand that every Partner has the ability to effect change within the business, and we are all in control of driving not only our own success, but the success of the business as a whole."

At Waitrose, Andi Macauley, Branch Manager at Caversham, has been sharing the knowledge he gained while undertaking his Master's Degree at Warwick Business School. He is collaborating with his PartnerVoice (the local forum for Partner opinion) representatives to identify opportunities for improving their day-to-day working environment. The group has implemented a number of ideas, including improving the organisation of consumables around checkouts and ordering packaging materials in smaller quantities to reduce the amount of stock held in branch.

Tina Bates, Partner at Waitrose Caversham, says,

"Personally, I feel my ability to influence what's happening outside of the branch is limited, but through the good suggestion scheme and talking with my managers, I really feel I can add value in my immediate working environment."

76%

OF PARTNERS SAY:

"We create real influence over our working lives."

68%

OF PARTNERS SAY:

"We take responsibility for our business success."

OUR SUSTAINABILITY HIGHLIGHTS

We're proud of our achievements over the past 12 months. They're testament to our Partners' dedication – inside and outside the business.

The Partnership Constitution provides a set of guidelines about how we do business – about the relationships we hold with our customers, our suppliers, our communities and Partners. The work we are doing to protect our environment is testament to our values.

2013/14 has been another year of collaborative effort in successfully addressing sustainability across the Group.

There is still more to do as the scale of global challenges we face becomes more evident. For 2014/15, we are introducing a sustainability materiality assessment across the Group that will help us to identify and prioritise the issues our business is facing. Then we can better set out our priorities and plan and invest accordingly.

Our suppliers

What do we mean?

- Responsibly sourcing raw materials and goods
- Improving supply chain working practices
- Nurturing supplier and Partner development to support responsible sourcing practices
- Ensuring food quality and safety
- Sourcing locally

Key achievements

- John Lewis joined the Better Cotton Initiative
- Waitrose was highly praised by WWF in its 'Palm Oil Buyers Scorecard'
- John Lewis initiated a pilot to bring financial literacy training and access to bank savings accounts to factory workers in Delhi

AWARDS

Best Supermarket – Soil Association Organic Food Awards

BITC Big Tick – Award Ensuring a Sustainable Price for Pig Farmers

Soil Association Organic Food Awards 2013 BEST SUPERMARKET

BIG TICK 2013 BUSINESS IN THE COMMUNITY

Our customers

– Helping our customers to make informed choices
– Providing clear and better advice
– Encouraging sustainable behaviour
– Encouraging better nutrition and healthy lifestyles

Our environment

– Conserving natural resources
– Managing our estate with minimal environmental impact
– Recognising good environmental practice in our supply chain

Our communities

– Acting locally to respond to community needs
– Building trust in the local community
– Developing our Partners through community involvement
– Contributing to social and economic growth where we operate

– Through our dedicated programmes – 'the Waitrose way' and John Lewis' 'Bringing Quality to Life' – we are encouraging our customers to lead more sustainable lives
– Waitrose teamed up with Start – a charitable initiative set up by HRH The Prince of Wales to inspire and encourage people to live more sustainably
– John Lewis is trialling an Energy Efficiency Service to help customers save energy at home

The Waitrose way

Championing British | Treading lightly | Treating people fairly | Living well

Bringing Quality to Life

Supporting our communities | A better way of doing business | Encouraging sustainable living

CO_2e EMISSIONS AGAINST REVENUE

-5.0%

WASTE DIVERTED FROM LANDFILL

96.1%

DISTRIBUTION MILEAGE

-5.3%

AWARDS

Waitrose and John Lewis Ipswich won Retail Project of the Year at the 2013 Lux Lighting Awards.

VOLUNTEER HOURS GIVEN

136,000

PRE-TAX PROFITS TO CHARITABLE AND COMMUNITY ACTIVITIES

4.3%

AMOUNT DONATED TO GOOD CAUSES THROUGH COMMUNITY MATTERS

£4m+

NET NEW JOBS CREATED

6,300

THE BIGGER PICTURE

Our business was founded on strong principles. These still guide how we do business today.

In today's uncertain world it's increasingly important that we not only stay true to these principles, but also ensure they evolve with the changing landscape. Sustainability was integral to John Spedan Lewis' vision and is central to the Group's plans for the future.

Tracey Killen, Director of Personnel

"We've had a robust carbon plan in place for a number of years and we are seeing tangible returns from the investment we have put in."

Sustainability

Throughout its history, the Group has recognised the value of corporate citizenship. Indeed, our founder, John Spedan Lewis, was a noted environmentalist of his time, with a deep interest in the natural world, so good stewardship has always been part of our culture.

That said, there is no doubt that issues of environmental sustainability and social stability are becoming ever more important to our sales and profit, whether we are facing increasingly volatile commodity prices or ensuring we continue to recruit the best Partners. These are issues that will affect our long-term ability to generate profit. How we respond couldn't be more vital.

The biggest challenges

Clearly, the challenges in our supply chain are extremely important to us. We supply a vast range of goods and services to our customers. We have almost 400,000 separate product lines listed across John Lewis and Waitrose – and each one has some form of environmental or social impact. To meet our customers' expectations in the future, we know we have to increase our purchase of sustainably and ethically sourced products, including those certified and accredited as such.

In addition to this emerging challenge, climate change and managing our operational footprint has long been a priority. We've had a robust carbon plan in place for a number of years and we are seeing tangible returns from the investment we have put in. However, there are other hurdles ahead as, in recent years, the growth of our business has far exceeded all our expectations. This means we will have to look very carefully at how we meet the ambitious carbon targets we have in place.

The continuing increase in the number of middle-class consumers in India and China is of huge significance. There will be many more companies around the world competing for the same products and that could have a profound effect on what we are able to offer consumers. Naturally, this growth in demand presents many commercial opportunities, but we will need to continue to innovate and act quickly with our supply chains if we are to capture them. Greater connectivity between the consumer, business and beyond is fundamentally changing the way people shop.

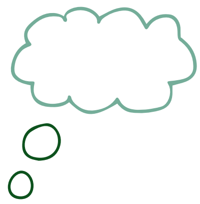
Planning to ensure an appropriate response

Of course, like any business, we have to prioritise. Crucially, we need to know where we can pioneer and lead the rest of the retail sector. We need to concentrate on the areas that are of greatest threat to our business and on those that offer the most commercial opportunity.

We already prioritise a number of areas – for example, for many years, Waitrose has been sustainably sourcing British produce; while John Lewis has been putting considerable effort into helping customers to choose more sustainable products and to live more sustainably – but we can always be more ambitious.

For 2014/15, we are introducing a sustainability materiality assessment to update our views of the sustainability issues that are most material to our business, so that we can better set our priorities and then plan and invest accordingly. This materiality review will involve interviews with senior management across the Group, as well as our key stakeholders, to understand what matters most to them, to the business and to wider society.

Given the importance of these issues, we have also brought our Annual Report and Accounts into closer alignment with our Sustainability Review. This year, we are publishing them at the same time, with more shared content than ever before, to promote "integrated thinking" within the Group. Next year, to advance this, we will combine the two documents. After that, our ambition is to produce a fully integrated report – to demonstrate that the Group's performance story and our sustainability story are the same. This will provide everyone interested in the Group's future – Partners, suppliers, customers, non-governmental organisations, financiers, communities and the media – with an engaging report that will show how we are meeting the goals set out by John Spedan Lewis all those years ago.



FACING GREAT CHALLENGES

The business landscape looks very different today to the time when John Spedan Lewis wrote the Constitution. It will be as different again in the future.

"For 2014/15, we are introducing a sustainability materiality assessment across the Partnership that will help us to identify and prioritise the issues our business and our customers are facing."

OUR PERFORMANCE IN 2013/14

In the Performance section, you'll find:

- An overview of the performance during the year
- Our key performance indicators, showing the measures we use to assess our performance
- Detailed commentaries on Waitrose, John Lewis and Partnership Services and Corporate
- Factors that might affect our future performance
- The key risks in our business and how we mitigate them

CONTENTS

CHAIRMAN'S STATEMENT

In a good year, Partners have played a key role in our results. Profit before exceptionals has grown by almost 10% and, for the first time, we have achieved gross sales of over £10 billion.

Financial and operational highlights

- Gross sales exceed £10bn for the Group, £6bn for Waitrose, and £4bn for John Lewis.
- Revenue exceeds £9bn for the Group, with Waitrose £5.8bn and John Lewis £3.3bn.
- Profit before Partnership Bonus, tax and exceptional item up almost 10%; down by 4% after the exceptional item.
- Partnership Bonus of £202.5m; 15% of salary (equal to nearly 8 weeks' pay).
- Net debt of £386.3m, up £101.4m (35.6%); pension deficit of £1.0bn, up £181.3m (22.1%).

Sir Charlie Mayfield, Chairman, John Lewis Partnership

Overview

This has been another good year for the Group. Both Waitrose and John Lewis increased market share for the fifth consecutive year, profit before exceptionals has grown by almost 10% and, for the first time, we have achieved sales of over £10 billion. As a result of our performance, I am delighted that 91,000 Partners received a Bonus of 15%, equivalent to nearly 8 weeks' pay. The Bonus reflects the balance of a strong trading year, but also the increased costs of pension provision. The exceptional cost of £47m, relating to holiday pay premiums (announced in August 2013), did not affect the bonus percentage.

Embracing the need for change

Our ownership by Partners has played a key role in these results. There are fundamental changes taking place in retail, especially in customer attitudes towards value, convenience and personalisation. For several years we have been adapting our business to take advantage of these changes. That has required high levels of investment, organisational change and new capabilities. The level of change has at times been challenging, but Partners have understood and embraced the need for their business to continue to develop.

Targeted investment

As a result we have been able to make important progress in several areas. Innovation in product and service continues to be vital in today's market and there have been great examples of that in Waitrose and John Lewis. We have improved our omni-channel offer significantly with new online platforms for both brands and expansion of the hugely popular Click & collect service. We have also introduced greater personalisation to the relationship with customers, particularly with myWaitrose. To deliver all of this we continue to make improvements to branch structures and are giving greater emphasis to the importance of our leadership teams creating opportunities for individual Partners.

INNOVATION AND INVESTMENT

Innovation and investment drive strong sales and profit performance

£202.5m

Partnership Bonus

SHARING BENEFITS

The total amount of profit shared amongst our Partners.

CHAIRMAN'S STATEMENT *CONTINUED*

Sustainability update

This year has seen us continue to lower the environmental impact across our estate, in our products and in our supply chains. We have also invested Partner time in community activities and in encouraging customers to live more sustainable lives.

- Our new Waitrose store in Chipping Sodbury is 40% more carbon efficient than the equivalent existing shop.
- John Lewis launched a trial Energy Efficiency Service – selling heating systems and insulation, solar panels and home energy control devices – and we are participating in a trial with the Department for Energy and Climate Change (DECC) to give customers information on the lifetime electricity running costs of laundry products.
- We were highly praised by WWF in its 'Palm Oil Buyers Scorecard' for our leading efforts in sourcing segregated sustainable palm oil.
- At John Lewis we are developing a sustainable fibre guide to help buying Partners make more sustainable purchasing decisions.
- Partners continued to invest their time and skills in the local community through the continued work of the Golden Jubilee Trust, and through the launch of dedicated programmes at Waitrose and John Lewis that support local schools in the curriculum.
- Through the 'Waitrose Way' commitments, Waitrose continued to encourage customers to make small changes in the way they shop and live.

We recognise that managing sustainability issues across our complex and growing business is only going to become more challenging and so, for 2014/15, we are adopting a Group-wide process to update our views of the issues that are most material to our business, allowing us to prioritise and then plan and invest accordingly.

2014/15 Outlook

There are more encouraging signs for the economy as a whole and, although this has not yet come through as a significant increase in consumer spending, I am cautiously optimistic that we will see improvements this year. I am confident that however quickly the UK economy emerges from this prolonged period of slow growth, the Group is well positioned to continue to strengthen its competitive position and to grow market share in both Waitrose and John Lewis.

Sir Charlie Mayfield,
Chairman,
John Lewis Partnership

John Lewis 150 years

In 1864, John Lewis opened a draper's shop on the same site that our flagship occupies on Oxford Street. We'll be marking our 150th anniversary with celebrations throughout the summer, bringing to life the original vision of John Spedan Lewis through activities in our shops, reviving and reinterpreting designs from our 150 year history, and creating new collaborations with some of the brands we work with today.

"You don't achieve the progress we have in a straight line: there will be bumps along the way. It's how you respond to those bumps that defines a successful organisation and we have been agile and responsive."
Sir Charlie Mayfield

HIGHLIGHTS AND CHALLENGES

Innovation and investment have driven strong sales and profit performance.

GROSS SALES

£10.2bn

+£630m (6.6%)

REVENUE

£9.0bn

+£562m (6.6%)

PARTNERSHIP BONUS

£203m

15% of salary

2013: £211m (17%)

PROFIT BEFORE PARTNERSHIP BONUS, TAX AND EXCEPTIONAL ITEM

£376m

+£33m (9.8%)

EXCEPTIONAL ITEM

£47m

following review of holiday pay policy

PROFIT BEFORE PARTNERSHIP BONUS AND TAX

£329m

-£14m (-4.1%)

INVESTED IN BENEFITS TO OUR PARTNERS

£584m

including Partnership Bonus, pensions cash contributions, Partner discount, catering subsidy, long service leave, leisure spending and the running of our five holiday centres, up 6.0%

FINAL SALARY PENSION SCHEME

£263m

total cash contributions to final salary pension scheme

PENSION DEFICIT

£1.0bn

+£181m (22.1%)

NEW JOBS CREATED

6,300

net new jobs created

NET DEBT

£386m

+£101m (35.6%)

SUSTAINABILITY KEY FIGURES

-5.0%

CO_2e emissions against intensity

KEY PERFORMANCE INDICATORS (KPIs)

We use a range of key performance indicators (KPIs) to measure and monitor our progress.

Across the Group, 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.

GROSS SALES GROWTH (%)

Definition

GROSS SALES GROWTH
Percentage increase in gross sales during the reporting period. Gross sales is defined on page 59.

LIKE-FOR-LIKE SALES
Like-for-like sales is a measure of the year-on-year branch and online sales growth, excluding VAT, as well as 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 Group 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 5.8% and John Lewis outperformed the BRC Retail Index by 4.3%.

How we performed

GROSS SALES GROWTH (%)

LIKE-FOR-LIKE (%)

Waitrose* +5.1%
John Lewis +6.4%

* Excludes petrol sales

OPERATING MARGIN (%)

Definition

Operating profit before exceptional item expressed as a percentage of revenue.

Why we use this measure

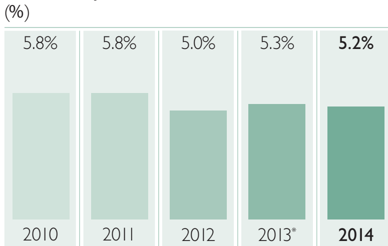
Operating margin is an indicator of profitability, evaluating the Group's pricing strategy and operating efficiency.

Commentary

Operating margin before the exceptional item has decreased, principally due to the year-on-year increase in pension operating costs and specific restructuring costs in John Lewis. After including the exceptional item, margin reduced to 4.7%.

How we performed

(%)



* Restated for the implementation of IAS 19 revised

NEW STORES

During the year, 13 new Waitrose stores were opened and one John Lewis at home.

PROFIT BEFORE PARTNERSHIP BONUS, TAX AND EXCEPTIONAL ITEM (£m)

Definition
Profit before Partnership Bonus, tax and exceptional item.

Why we use this measure
Measures how much profit is left after deducting all costs and expenses, before Partnership Bonus, tax and exceptional item have been deducted.

Commentary
Profit before Partnership Bonus, tax and exceptional item is in line with stronger trading partially offset by increased pension costs. Including the exceptional item, profit before Partnership Bonus and tax fell 4.1% to £328.6m, reflecting the impact of the exceptional item.

How we performed
£375.9m
+9.8%

GROUP 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
Group profit margin has increased from 4.0%. After including the exceptional item the margin decreased to 3.6%.

How we performed

PRE EXCEPTIONAL ITEM
4.2%
+0.2%

POST EXCEPTIONAL ITEM
3.6%
-0.4%

PROFIT BEFORE TAX (PBT) PER AVERAGE FTE

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

Why we use this measure
Measures whether the profit generated per average FTE is increasing or decreasing. This is useful to assess whether we are growing efficiently.

Commentary
PBT per average FTE increased due to the strong trading performance and lower net finance costs.

How we performed
£6,700
+£200

KEY PERFORMANCE INDICATORS (KPIs) *CONTINUED*

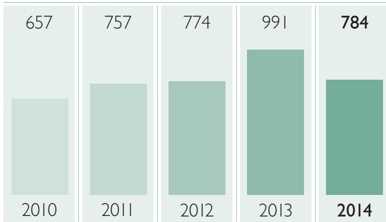
CASH FLOW FROM OPERATIONS (£m)

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

Why we use this measure
Identifies whether the Group 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 fell by 21.0% principally due to higher normal pension contributions and lower improvements in working capital.

How we performed
(£m)



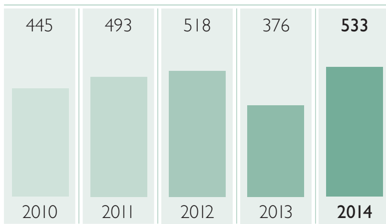
CAPITAL EXPENDITURE (£m)

Definition
Expenditure relating to the acquisition or upgrade of physical assets, such as buildings or machinery and intangible assets, such as computer software.

Why we use this measure
Measures how funds are being reinvested into the Group, particularly in the form of new shops and refurbishments, or to enhance the agility and robustness of systems and infrastructure in distribution and IT.

Commentary
Capital expenditure increased by 41.4%, principally on our store base, as well as in distribution and IT.

How we performed
(£m)



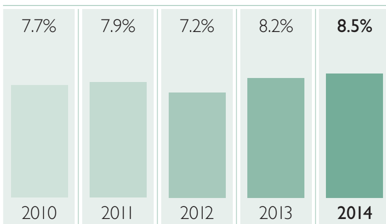
RETURN ON INVESTED CAPITAL (ROIC) (%)

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 Group 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 increased principally due to the strong profit growth in the year.

How we performed
(%)



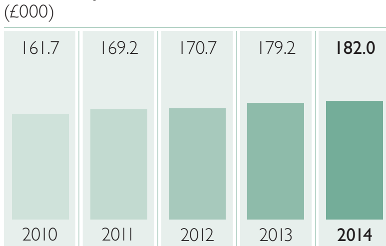
GROSS SALES PER AVERAGE FTE (£000)

Definition
Gross sales divided by the average number of Partners.

Why we use this measure
Gross sales per FTE is an indicator of productivity within the Group. This is particularly useful when compared against other retailers – a higher result denotes higher productivity.

Commentary
Gross sales per FTE increased due to the strong like-for-like sales growth in both Waitrose and John Lewis.

How we performed
(£000)



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 Group.

Commentary
Net 6,300 new jobs were created in the year.

How we performed
91,000
+7.4%

NUMBER OF STORES

Definition
The number of stores trading as at the year-end date.

Why we use this measure
Demonstrates the change in our retail space in our business year on year – a key driver of growth.

Commentary
Waitrose opened 13 new branches during the year of which five were little Waitrose; John Lewis at Home in Ashford opened and there is an active pipeline of new sites.

How we performed
345
+14 stores

Waitrose 305
John Lewis 40

SELLING SPACE (M SQ FT)

Definition
Selling space including all customer-facing areas but excluding offices, warehouse space and Partner facilities.

Why we use this measure
Demonstrates the change in our retail space in our business year on year – a key driver of growth.

Commentary
Selling space increased to 10 million square feet reflecting store expansion and refurbishment.

How we performed
10.0m sq ft
+0.3m sq ft

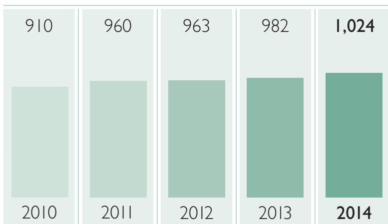
GROSS SALES PER SELLING SQ FT (£)

Definition
Gross sales generated for every square foot of selling space.

Why we use this measure
Measures sales density which is an indicator of performance.

Commentary
Gross sales per selling square foot have increased principally due to the strong like-for-like sales growth in both Waitrose and John Lewis.

How we performed
(£)



GROUP PERFORMANCE

Our results reflect the collective hard work of our Partners.

Group performance

In 2013/14, the Group traded well, delivering good growth in sales and profit before exceptionals. Both Waitrose and John Lewis grew sales well ahead of their respective markets, increasing their market shares.

Gross sales (inc VAT) were £10.2bn, an increase of £630.2m, or 6.6%, on last year. Revenue, which is adjusted for sale or return sales and excludes VAT, was £9.0bn, up by £562.3m or 6.6%.

Operating profit and exceptional item

Group operating profit was £421.2m, down £29.5m, or 6.5% on last year. This includes an exceptional cost of £47.3m following a review of the Partnership's holiday pay policy during the year. Excluding the exceptional item, operating profit was £468.5m, an increase of £17.8m or 3.9%.

The exceptional item comprises costs of £39.3m for payments to Partners and associated expenses, and £8.0m for an increase in future pension liabilities.

Profit before Partnership Bonus and tax

Profit before Partnership Bonus and tax was £328.6m, down by £13.9m, or 4.1% on last year with the decline wholly attributable to the exceptional item. Excluding this it was £375.9m, up by £33.4m or 9.8%.

Partnership Bonus

These results reflect the collective hard work of our Partners who, as co-owners, each received the same percentage of annual pay as Partnership Bonus. Partners shared £202.5m in profit, which represents 15% of pay or the equivalent of nearly 8 weeks' pay.

Investment in the future

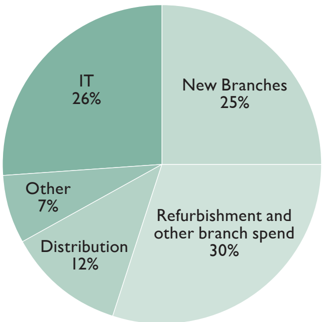
Capital investment in 2013/14 was £533.1m, an increase of £156.2m (41.4%) on the previous year. This includes £55.8m on freehold properties.

The majority of our spend continues to be in our store base, either on new stores or the refurbishment of existing ones. However, to enhance the agility and robustness of our systems and infrastructure, we have also significantly increased our capital investment in distribution and IT in the year.

Investment in Waitrose was £316.6m, up £118.4m (59.7%) on the previous year, and in John Lewis investment was £174.8m, up £30.5m (21.1%).

We expect the higher level of capital investment to continue in 2014/15, as our employee-owned model allows us to invest for the long term.

Capital investment by category
(%)



Helen Weir,
Group Finance Director

INVESTMENT

We are investing in our store base as well as our IT and distribution infrastructure to address our customers' changing needs.

Pensions

The Group has adopted 'IAS 19 revised' in the year, which changes the way in which pension costs are recognised in the income statement. Consequently the comparative income statement for 2012/13 has been restated with an increase in operating profit of £1.0m and an increase in finance costs of £67.3m. Profit before tax therefore has decreased by £66.3m.

In 2013/14, the pension operating cost before exceptional item was £167.7m, an increase of £30.7m or 22.4% on the prior year, reflecting changes to financial assumptions and growth in scheme membership. Pension finance costs were £35.3m, an increase of £6.2m or 21.3% on the restated prior year pension finance costs, 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 item were £203.0m, an increase of £36.9m or 22.2%. The exceptional item includes £8.0m for an increase in future pension liabilities, resulting in total pension costs of £211.0m.

The total accounting pension deficit at 25 January 2014 was £1,003.4m, an increase of £181.3m (22.1%). Net of deferred tax, the deficit was £820.3m. The accounting valuation of pension fund liabilities increased by £422.2m (11.1%) to £4,218.2m, while pension fund assets increased by £240.9m (8.1%) to £3,214.8m, including an £85m one-off cash contribution made by the Group in January 2014.

The triennial actuarial valuation of our non-contributory defined benefit final salary scheme as at 31 March 2013 has concluded with a deficit of £840.0m. We have agreed to increase the ongoing contribution rate to 16.4% of members' gross taxable pay, up from 12.2%, and put in place a plan to eliminate the deficit over a 10 year period through the one-off contribution made in January 2014 and annual deficit reduction contributions of £44.3m. The balance of the deficit is expected to be met by investment returns on the scheme's assets.

The pension is one of the most important benefits offered to Partners, but also accounts for the greatest single investment made each year by the Group. We are undertaking a review of the pension scheme to ensure that it can remain fair to Partners and sustainable from a business perspective. A draft proposal was published earlier this year to move to a defined benefit/defined contribution hybrid scheme, where future pension risk is shared between Partners and the Group. Partners remain at the centre of the review as co-owners of the business and have the opportunity to share their views. The proposal will be further developed over the course of 2014, with a decision expected to be agreed by Partnership Council and the Partnership Board towards the end of the year.

Financing

Net finance costs on borrowings and investments decreased by £1.2m (2.1%) to £56.9m. After including the financing elements of pensions and long service leave and non-cash fair value adjustments, net finance costs decreased by £15.6m (14.4%) to £92.6m.

At 25 January 2014, net debt was £386.3m, an increase of £101.4m (35.6%). In January 2014 we repaid a £100m bond from available cash and agreed a new £150m short term bilateral borrowing facility, which was undrawn at year end.

Full information in relation to our liquidity and funding position is in note 20 to the consolidated financial statements.

Taxation

The effective tax rate in the year was 19.3% which is lower than 23.5% recorded in the prior year. This principally reflects the impact on deferred tax of the change in future corporation tax rates, along with the decrease in the underlying statutory rate of corporation tax.

Helen Weir
Group Finance Director

PARTNERSHIP BONUS

Our Partners shared £202.5m, which represents 15% of pay

PENSION BENEFIT REVIEW

The Partnership is currently engaged in discussions with the Partnership Council on the level and form of the future provision of pension benefits to Partners.

WAITROSE PERFORMANCE

The shaping of the modern Waitrose continued apace throughout the year. We are growing our online business and also creating additional reasons for customers to visit our branches.

Financial and operational highlights

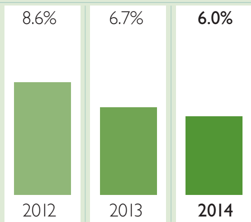
– Gross sales £6.1bn, revenue £5.8bn and operating profit £310m
– 13 new branches (including five little Waitrose)
– Total online services gross sales of £262m
– Waitrose.com grocery gross sales up 41.4%
– More than 5.6m customer visits each week
– myWaitrose cardholders now account for 68% of sales
– 56 months of market outperformance

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

Performance against divisional KPIs

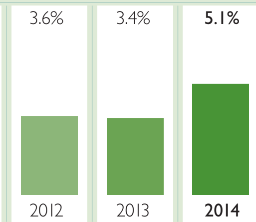
Gross Sales Growth (%)

6.0%



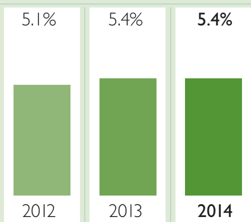
Like-for-like Sales Growth (%)

5.1%



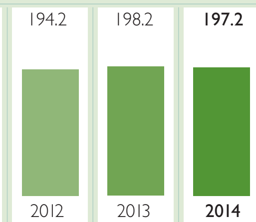
Operating margin (%)

5.4%



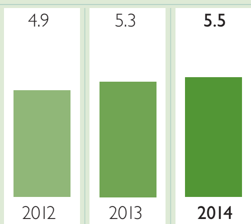
Gross sales per average FTE (£000)

197.2



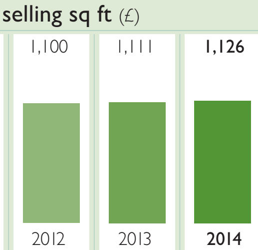
Selling Space (m sq ft)

5.5



Gross sales per selling sq ft (£)

1,126



Cash from operations

£477.4m

2013: £565.0m

Capital expenditure

£316.6m

2013: £198.2m

NUMBER OF PARTNERS

59,300

+10.1%

KPIs are defined on pages 22 to 25.

Sales and profit performance

The shaping of the modern Waitrose continued apace throughout the year. Gross sales (excluding petrol) for the year were up 6.0% to £6.1bn and like-for-like sales (excluding petrol) grew by 5.1%, with a large proportion of this uplift attributable to volume growth. Operating profit was up by 6.1% to £310.1m.

"Alongside Brand Price Match, essential Waitrose and promotions, myWaitrose gives us a real advantage, and we'll use it to help us build deeper, stronger relationships with our customers."

Growing our market share

The myWaitrose card is allowing us to deepen relationships with our customers, we are growing our online business and, through more services and hospitality, we are creating additional reasons to visit our branches. Our customer service, high quality products, breadth of range and value offer continue to resonate with customers and Waitrose has now outperformed the market for 56 months in a row. As a result, our market share increased from 4.9% to 5.1% over the year.

Increasing customer transactions

Customer transactions grew by 9.6% and there are now more than 5.6m customer visits each week. More than 4.1m customers now have a myWaitrose card and 68% of sales are to cardholders. As well as the benefits that customers already receive, myWaitrose became even more appealing in October when we increased the number of price promotions on branded products. In addition to Brand Price Match (where we match Tesco prices on branded goods excluding promotions), myWaitrose customers now receive an extra 10% discount on hundreds of lines.

CHRISTMAS SUPPORT

Waitrose supported Christmas lunch events for nearly 40,000 elderly, homeless and vulnerable people across the UK as part of its Christmas Isolation campaign to tackle loneliness.

SEASON'S GREETINGS

The Heston from Waitrose range proved popular at Christmas – an impressive 150,000 boxes of chocolates flew off the shelves. Areas like horticulture also saw strong results, with the demand for Christmas flowers up 50%. And gift certificates for the Waitrose Cookery School also went up 23%.

WAITROSE PERFORMANCE *CONTINUED*

6,000 GARDENING PRODUCTS

Available from the Waitrose flower garden range and Waitrosegarden.com

ONLINE SUCCESSES

Waitrose announced plans to increase its online capacity in the capital by opening a second dotcom fulfilment centre (DFC) in Coulsdon, South London. The depot, due to be completed in Autumn 2014, will feature an 80,000 square foot picking space. This is twice the size of Acton (the existing DFC) meaning more items can be picked per hour and more customer deliveries per van can be made each week.

Continued investment in waitrose.com

Waitrose.com performed strongly with grocery gross sales up 41.4%. We continued to invest in our online business, improving the shopping experience with a new look for the site, making it more tablet-friendly, and easier to register, navigate and search for products. In the year we nearly doubled the capacity of our branches to fulfil online orders. We will have the capacity to realise further potential for our online business in the London area when our second dark store opens in Coulsdon later this year.

NUMBER OF STORES

305

We opened 13 new branches (including five little Waitrose shops)

Click & collect developments

Customers increasingly expect to be able to move smoothly between channels and during the year 57% of all John Lewis Click & collect orders were picked up from Waitrose stores, amounting to 2.5m collections. We are exploring more ways to integrate our channels and are trialling drive-through collections in five shops. We began a pilot for collection lockers in 2013.

New branches and refurbishments

We opened 13 new branches and relocated two others in the year, which brought the total number of shops at the end of the year to 305. We now have 42 little Waitrose shops in total, five of which were opened last year.

We carried out major refurbishments of 11 branches and now have concierge-style welcome desks in 112 shops. These give a focal point for our existing services as well as the opportunity to try out new offerings in the future. We continue to develop our hospitality offer with cafés in more than 100 of our branches and are trialling concepts, such as new-look bakery and wine departments and grazing areas in our Kingston and Cambridge branches.

In the year ahead we plan to open 38 new branches, including 23 little Waitrose shops, as well as relocating two branches. We closed our Dartford branch at the end of its lease in February.

"As online grows, our branches are taking on a renewed significance, offering services and experiences that customers can't get on the website."

Innovation-led products

Innovation, superb quality and high standards of provenance are at the heart of our products, from essential Waitrose to Duchy from Waitrose. We launched over 4,000 products during the year and expect to sustain this pace in 2014. In addition, April 2013 saw the debut of the Waitrose flower garden range and Waitrosegarden.com, offering 6,000 gardening products in total.

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

CONTINUOUS IMPROVEMENT

In Waitrose Distribution, a "continuous improvement" initiative was introduced during 2013/14. The principles were based on D.M.A.I.C. (Define/Measure/Analyse/Improve/Control) and offered a step by step approach to problem solving – something that worked well with the existing '7 Waste Walk' process.

"The initiative has made a real difference to my job, showing me useful techniques to help support the operational management of the warehouse. It means we are able to gather information, measure its impact, think about solutions and control the process going forward, resulting in us saving money and strengthening procedure."

Cambell Keen, Warehouse Partner, Waitrose Distribution

FIVE YEAR ANNIVERSARY OF ESSENTIAL WAITROSE:

- Annual sales of more than £1bn
- 18% of total sales come from essential Waitrose
- 2,100 products across 22 categories
- Exported to 47 countries including Chile, Bahamas and the Philippines
- 469 new products launched in 2013/14, including new beauty products

A RECORD CHRISTMAS

Our record Christmas results have been a real highlight: sales on Monday 23 December were £51m – the highest ever taken by the business in a single day with an average of 22,000 items going through checkouts every minute. Christmas Eve also proved to be particularly busy but thanks to the preparation and hard work of all the Partners, these periods were dealt with well.

JOHN LEWIS PERFORMANCE

Our sales passed the £4bn mark for the first time, with strong growth seen in our shops and online.

Financial and operational highlights

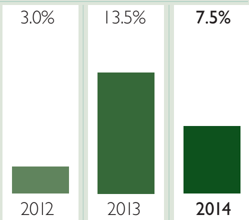
– Gross sales £4.1bn, revenue £3.3bn and operating profit £226m
– johnlewis.com gross sales of £1.1bn, up £184m (19.2%)
– Click & collect grown by 57%
– Significant market share gains across Home, Fashion and EHT
– New at home store at Ashford and strong store pipeline
– £97m 'Magna 2' distribution centre on track

Andy Street,
Managing Director, John Lewis

Performance against divisional KPIs

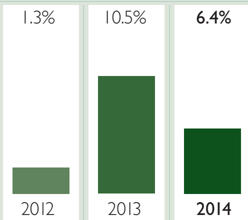
Gross Sales Growth (%)

7.5%



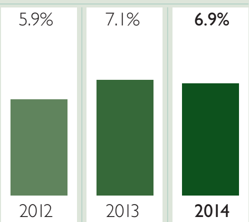
Like-for-like Sales Growth (%)

6.4%



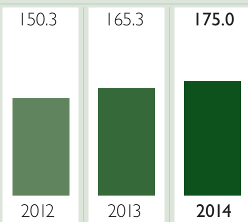
Operating margin (%)

6.9%



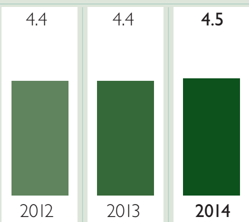
Gross sales per average FTE (£000)

175.0



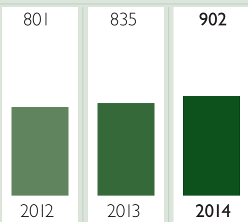
Selling Space (m sq ft)

4.5



Gross sales per selling sq ft (£)

902



Cash from operations

£371.4m

2013: £403.1m

Capital expenditure

£174.8m

2013: £144.3m

KPIs are defined on pages 22 to 25.

NUMBER OF PARTNERS

29,800

+0.3%

Sales and profit performance

John Lewis gross sales grew strongly throughout the year, increasing by 7.5% in total and passing the £4bn mark for the first time. Total like-for-like sales grew by 6.4%. Operating profit before restructuring costs was up 11.0% to £240.5m. Restructuring costs were £14.4m for streamlining our department store management structures and the future closure of our Park Royal distribution centre, as part of our programme to upgrade our distribution infrastructure. Both of these will improve long-term efficiency. Operating profit including these costs was up 4.3% to £226.1m.

> "This year, Electrical and Home Technology has led the way with our Fashion and Home categories accelerating."

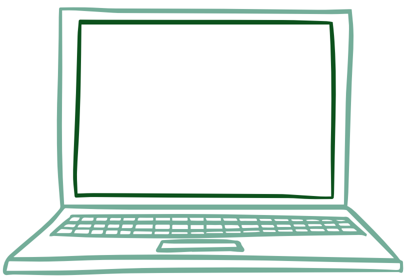
Sales growth was shared across the categories:

- Home (+2.3%): We made significant progress in our ambition to be the UK's largest home retailer through new initiatives such as Any Shape, Any Fabric and the maturation of our HOUSE range.
- Fashion (+5.0%): We expanded our Kin fashion lifestyle brand with new accessories and babywear collections, as well as building on the success of our fashion labels, Somerset by Alice Temperley and John Lewis & Co.
- Electricals and Home Technology (EHT) (+15.5%): We were Samsung's retailer of choice to debut their new OLED televisions, and were exclusive stockists of Nest when the product launched in the UK.

+19.2%

STRONG GROWTH OF JOHNLEWIS.COM

Sales on johnlewis.com grew to £1.1bn and this is part of our omni-channel approach: shoppers should experience a seamless and rich experience, no matter which channel they use to experience John Lewis.



SHOPS AS SOCIAL SPACES

Although the growth of online has been driven by customers seeking ever-more convenient and quick ways to shop, our customers still want the social experience of visiting our shops. We've opened collaborations with new food brands in two of our shops, Scandinavian brand Joe & the Juice in Solihull, and Hotel Chocolat's Cocoa Bar Café in Edinburgh. They join our beauty spas and Kuoni travel concessions in our strategy to create experiences which draw people into our shops and give them an experience which can't be recreated online.

HOW WE SHOP, LIVE AND LOOK

First publication of a detailed insight into the UK's changing tastes and habits with a special focus on our shoppers.

JOHN LEWIS PERFORMANCE *CONTINUED*

£164m

A MOBILE CHRISTMAS

For the first time this year, traffic from tablets and mobile phones to johnlewis.com overtook visits from desktops, making up 76% of total traffic on Christmas Day. Mobile is creating a more rounded shopping experience with checking prices in shops, looking at ratings & reviews and posting about their purchases on social media all making up part of the new customer journey.

The five-week peak period also saw a number of records for John Lewis, notably in the final pre-Christmas week (ending 21 December), John Lewis broke the £160m barrier for the first time with sales of £164m, and the first day of Clearance being the largest-ever for both our shops and website.

JOHN LEWIS AT HOME

John Lewis at home opened in Ashford on 7 November 2013.

Omni-Channel Leadership

Omni-channel capability and innovation has been key to our success. We have seen growth in both shops and online, with shops significantly outperforming the high street and johnlewis.com up 19.2% to £1.1bn, achieved while launching a new web platform in the first half. Click & collect has grown strongly, up 57%, with the convenience of being able to pick up from Waitrose being particularly appreciated. Collect+ was successfully launched in September. Mobile also grew rapidly this year, and visits from phones and tablets now account for 50% of traffic to johnlewis.com.

NUMBER OF STORES

40

This now includes 10 at home branches.

> "We are investing in a new distribution centre to support our omni-channel proposition and to deliver a seamless customer experience."

Building customer trust

We continued to build the value and trust our customers expect of us through our commitment to be 'Never Knowingly Undersold', and our guarantees were improved further this year through Guaranteed Guarantees, to give a minimum of two years' cover on any electrical item. The my John Lewis membership card was also launched with 500,000 members joining in just four months. Our 'The Bear and the Hare' Christmas advertising campaign was also a huge success, with over 12 million views on YouTube.

Infrastructure investment

Behind the scenes, we have invested significantly in our support infrastructure. Our new £97m distribution centre will begin operations in 2015 alongside our existing Magna Park site in Milton Keynes, further enhancing our fulfilment capability.

Shop developments and services

Shop developments continue to be a strong focus of our growth strategy. 2013/14 saw the full refurbishment of our High Wycombe shop, and we have an active pipeline of new sites. In 2013/14 we opened an at home shop in Ashford and this year we will open a full line flexible format shop in York, and our smallest shop to date at Heathrow's Terminal 2.

We have announced future sites in Birmingham, Leeds, Westfield White City, Oxford, Chelmsford, Horsham, and Basingstoke. New catering partnerships with Joe & the Juice and Hotel Chocolat's Cocoa Bar Café were launched, alongside the first little Waitrose within a John Lewis shop at Watford.

We continue to exploit new technology including equipping our Partners with transactional tablets, and we are the first major department store to use Google to map the inside of our Oxford Street shop.

Andy Street,
Managing Director, John Lewis

THE BEAR AND THE HARE

In recent years our TV adverts have resonated with customers who take time to consider the perfect gift for their loved ones, and this year's Bear and Hare advertisement was no exception. Following the story of a Hare who wanted to give his friend the Bear a Christmas he would never forget, the two minute animated film attracted 12.5 million views on YouTube and was our most interactive campaign ever, with Bear and Hare soft toys available to buy, a children's book and story-telling Bear caves in our shops.

OMNI-CHANNEL LEADERSHIP

2013/14 has seen us continue our strategy to integrate our online and shop operations to meet the changing demands our customers and anticipate how those habits will continue to change. Our newly launched iPad app is more creative and inspiring than ever, as well as making Never Knowingly Undersold enquiries more streamlined than ever. Our partnership with Collect + extended our Click & collect coverage to new parts of the UK, allowing customers to pick up deliveries in corner shops and petrol stations as well as John Lewis and Waitrose shops.

Partners are trialling transactional tablets in our shops, allowing purchases to be made on the shopfloor rather than at central till points. The tablets also allow Partners to access our operational procedures and systems, meaning they can spend more time helping customers on the shop floor.

PARTNERSHIP SERVICES AND CORPORATE PERFORMANCE

Partnership Services and Corporate reduced net operating costs during the year and expanded the range of business services supporting the Partnership.

Financial and operational highlights

– Net operating costs reduced by £12.0m (16.2%)
– Overall costs increased by £9.4m due to an increase in pension operating costs
– Delivered key pan-Partnership projects
– 2014/15 will focus on stabilising new systems and service

Patrick Lewis,
Managing Director, Partnership Services

Operating costs

Partnership Services and Corporate includes the operating costs for our Corporate offices, Partnership Services, transformation programmes and certain pension operating costs. Corporate and Partnership Services net operating costs, including the costs of transformation programmes, were down year-on-year by £12.0m or 16.2%. However, overall costs increased by £9.4m to £67.7m due to the increase in pension operating costs resulting from changes in financial assumptions.

Focusing on productivity

Partnership Services has grown significantly since 2009 with the division now providing business services for IT, Financial Processing, Procurement, Personnel, Partnership Health and Pensions administration. The division has made significant progress in improving the productivity of its most established operations, with financial processing of invoices almost 30% more efficient than the previous year.

Improving Partner services

In the year, the division has also delivered and supported a number of key projects including the Personnel Transformation Programme (PTP). PTP included the launch of a Partnership-wide health service, the transfer in of Personnel policy and administrative tasks, as well as the launch of self service. On completion in 2014/15, PTP will provide our Partners with a consistent way of working and our line managers with more efficient processes, and will give us much deeper insight into Partner performance.

Outlook

In 2014/15 Partnership Services will focus on stabilising the new systems and services it has taken on – particularly in IT and Personnel. New processes need to be bedded in to allow us to gain the full benefits of the investments we have made.

Patrick Lewis,
Managing Director, Partnership Services

PARTNERSHIP HEALTH SERVICES

Our new Health Hub is the first port of call for Partners requesting health services and provides medical advice six days a week whether online or by phone. After triage, when appropriate, a consultation is booked with one of the 30 Clinical Case Managers (Occupational Health Advisers) or three Regional Managers based throughout the country.

Since 1 July 2013, the Health Hub has taken an average of 1,600 phone calls per month and there have been 6,300 new service requests (including physiotherapy). We have also provided 6,600 podiatry sessions to 3,000 Partners.

AUTOMATIC NETTING

With the introduction of automatic netting for payments and receipts, the Accounts Receivable team has ensured the Partnership is using efficient payment methods.

CORPORATE

Our Group Head Office function, Corporate, directs the aims and policies which we use to gauge how well we are achieving our core purpose – Principle 1 of our Constitution. Corporate teams play an important assurance role through our Group functions, democracy and journalism, as well as supporting our governing authorities and offering specialist expertise.

NUMBER OF PARTNERS

1,900
+11.8%

FACTORS AFFECTING FUTURE PERFORMANCE

We need to continue to adapt, evolve and invest in our operations to remain resilient and sustainable in the long term.

Our strategy in context

Our strategy is developed in the context of the economic environment in which we operate. It takes into account different economic and consumer-led scenarios and their associated risks and opportunities.

There are also risks associated with the world economy, which we take into account, such as commodity prices driven by increasing scarcity of key resources and prices of end products. This is important as we source from different countries. However, our key market remains the UK and, therefore, the performance of the UK economy and the demands of UK consumers are the ones that affect us the most.

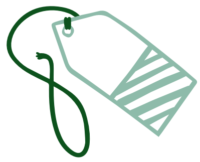
Our retail environment: key market trends

We are just coming out of a prolonged period of recession in the UK, sparked by the global economic crisis of 2008. It is a testament to our model that we were able to grow and invest in these difficult times.

During the last five years, UK retailers have experienced testing market conditions, with consumer spend contracting due to low real wage growth, job security worries and reduced credit. At the same time, there has been a paradigm shift in the way customers research, shop and take delivery of their goods, whether grocery or non-food. There is also increasing customer demand for more information about where and how products are made and, particularly for food products, the provenance and integrity of ingredients. In this section we share some of the key factors affecting consumer demand which in turn affect our business. They can be broadly categorised as:

– Value for money
– Service and convenience
– Trust

These are considered in detail overleaf.



VALUE FOR MONEY

Customers are demanding better value for money with no compromise on quality and innovation.

SERVICE AND CONVENIENCE

Technological innovation is driving demand for flexible shopping according to customers' lifestyles.

TRUST

Customers are increasingly demanding that companies operate ethically and keep their promises.

FACTORS AFFECTING FUTURE PERFORMANCE *CONTINUED*

Value for money

Customers are demanding better value for money with little or no compromise on quality and innovation.

Overview

Whilst we are seeing more encouraging signs for the economy as a whole, this has not yet come through as a significant increase in consumer spending. We keep a close eye on key macroeconomic indicators which reflect the overall prosperity of the economy and which also have an impact on consumers' propensity to spend.

Inflation and Real Household Disposable Income (RHDI)

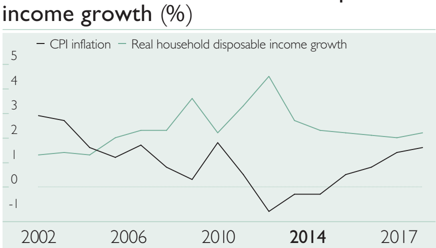
Why this matters

RHDI is the amount of money that households have available for spending and saving after income taxes have been deducted. It provides an indication of how much consumers have to spend. In recent years inflation has outstripped consumers' wage growth, putting continued pressure on RHDI.

Current trends

Inflation is showing signs of stability but utility price rises may prevent it from reaching the Bank of England's target of 2% and pose a risk of putting further pressure onto real disposable incomes. As a result, projected growth in RHDI is not expected to reach 2010 levels until 2015. This means that current improvements in the economy may not immediately translate into growth in consumer spending.

CPI inflation vs real household disposable income growth (%)



Source: ONS and Verdict

Consumer confidence

Why this matters

Consumer confidence is an economic indicator, which measures the degree of optimism that consumers feel about the overall state of the economy and their personal financial situation. It is a particularly important indicator for retailers, in conjunction with the increase of RHDI, as confidence increases the propensity for people to spend rather than save.

Current trends

The latest data from GfK suggests that consumer confidence is continuing to pick up with increasingly positive news about the economic outlook.

GfK Consumer confidence index (%)

Source: GfK

The performance above illustrates the recent recovery in consumer confidence after a number of challenging years. Lower consumer confidence combined with the advent of online has led to consumers becoming far more savvy in terms of shopping around, comparing prices and carefully selecting products.

Grocery buying patterns

Whilst price has a part to play in buying decisions, consumers also consider product quality before purchasing. Recent research shows, for example, that following the horsemeat crisis, 33% of consumers have stopped buying cheap/value range meat and processed meat ranges and 12% have changed the supermarket they shop at, choosing to shop at more premium supermarkets. (Source: nVision online survey).

How the Group is responding to these trends

We continue to invest in developing better value products of excellent quality for our customers through innovation, and also by driving efficiency throughout our supply chain. We remain focussed on price-matching branded products and also extending our John Lewis Value and essential Waitrose ranges, which offer a range of good quality, staple items at competitive prices. At our John Lewis shops, our Never Knowingly Undersold promise, which has existed for 89 years, symbolises our commitment to ensuring our customers are getting good value for money when they shop with us.

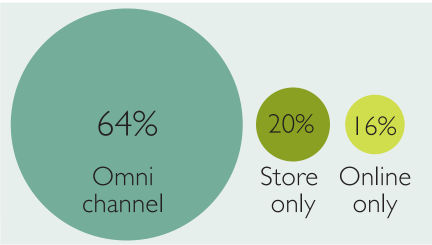
Service and convenience

Technological innovation is driving demand for flexible shopping according to customers' lifestyles.

Overview

Changes in consumer shopping habits, supported by rapid technological advances, have had a significant impact on the UK retail market and altered the competitive landscape for ever. Consumers are now able to research products and reviews, compare prices and order their goods 24/7 on-line from home or 'on the move' from mobile devices. There is also demand for more flexible delivery and collection services which fit in with consumer preferences.

John Lewis customers use all channels



Source: Internal data

Nearly two thirds of customers use both in-store and online channels when shopping with John Lewis.

For Waitrose, other key trends, particularly for grocery purchases, include customers carrying out more "top-up" shopping (i.e. shopping more frequently but spending less money per trip). Typically, "top-up" shops are made in smaller convenience stores, which are located in high footfall areas (e.g. railway and service stations).

Despite strong online and convenience trends, we also know that our customers like to visit John Lewis shops to browse big-ticket items and Waitrose to select their own produce, for example.

Our John Lewis customers tell us that a trip to John Lewis is a 'leisure experience' and our busiest shopping day of the week is Saturday, with peak trading between 11am and 3pm, although transactions per hour are higher on Sunday.

Source: How we shop, live and look. The John Lewis Retail Report 2013

How the Group is responding to these trends

In response to changing demands, we continue to invest in our omni-channel services, giving our customers the choice of when and how they wish to shop with us. Areas of investment include improving the customer experience on our websites, efficiency improvements in our IT systems and behind-the-scenes expansion of our online distribution and picking capacity to cater for increased demand.

We also continue to invest in new retail stores and services. In 2013/14 we invested £296m in our branches, on new stores and refurbishments. We opened five little Waitrose convenience stores in 2013/14 (one within a John Lewis shop itself). Inside our Waitrose stores, we have focussed on developing services which appeal to our customers (such as welcome desks, more in-store product demonstrations and the availability of hot drinks).

At John Lewis we have launched new catering partnerships, for example Joe & the Juice and Hotel Chocolat's Cocoa Bar Café. During the year, John Lewis refurbished the High Wycombe branch and will open its smallest shop to date at London Heathrow Terminal 2 in 2014.

We also provide exclusive membership benefits to myWaitrose and my John Lewis card holders – giving shoppers in store something different to the experience they can get online.

Partners ready to welcome customers at Waitrose Wells.

"Within the John Lewis customer base, 50 per cent of online traffic now comes from smartphones and tablet computers."

Source: How we shop, live and look. The John Lewis Retail Report 2013

HESTON FROM WAITROSE

Heston from Waitrose is expert innovation that brings fabulous flavours and an unexpected twist to favourite dishes.

FACTORS AFFECTING FUTURE PERFORMANCE *CONTINUED*

Trust

Customers are increasingly demanding peace of mind about product provenance and ethical and environmental behaviour.

Overview

Our trading brands have long standing and consistent reputations for being amongst the most trusted in the country. Customers have come to expect excellent service and quality products, but increasingly they are also looking at other factors when making purchasing decisions. They are asking more questions about where products are sourced, the quality of supplier working conditions, whether fair wages are paid and the environmental impacts of the products they buy.

In Waitrose, we have seen growing enthusiasm for British produce which has led to an upsurge in buying British and locally produced foods.

At the same time, a move to what we call "radical transparency", means customers, Non-Governmental Organisations ('NGOs') and the Media have access to more information about what we do and how we perform than ever before. Events happening on one side of the world can become headline news on the other in a matter of clicks and the rise of social media means that customers can easily post comments and be influenced by other customers' views when making purchasing decisions.

How the Group is responding to these trends

Our customers expect good corporate behaviour and sound ethical, social and environmental practices.

In our supply chain, we work closely with our suppliers and provide them with the tools to help them to make sound business decisions based on expectations written into our Constitution – to respect the wellbeing of their employees, the local communities and the environment. Our ambition is to increase the proportion of products we sell that are sustainably certified. This not only assures us of integrity in the way products are sourced but sends a positive message to our customers through associated product labelling.

At Waitrose, we are 'Championing British' through our dedicated supply chains – all our fresh beef, pork, chicken, hen eggs and milk are 100% British – and at John Lewis we are offering British start-ups mentoring to help refine their products and services for the market through the StartUp Britain campaign.

However, we can always be more ambitious. In order to meet our customers' expectations in the future, we recognise there is much more to do to ensure we are investing in the right way to respond to the greatest challenges impacting society. 2014 will see us undertaking a 'materiality review' to prioritise the issues of greatest importance across our value chain – from the way we source our products, to the way we operate our estate, to the way we engage with our Partners and customers – and to plan and invest accordingly.

53%

of the British public see the horsemeat contamination as a betrayal of trust.

Source: 'Horsemeat in the food supply: one year on' IPSOS MORI, January 2014

SUSTAINABILITY REVIEW

For more details about these initiatives, please see our separate Sustainability Review.

PRODUCT LABELLING

We are committed to making our product labelling even more transparent and we work with our suppliers to promote sustainability throughout the supply chain.

Our outlook: how these factors affect the Group.

Even though the economic environment has started showing signs of recovery, we do not expect this to alter the current trends in consumer behaviours and would anticipate that our customers will continue to demand:

- better value for money, as consumer attitudes towards spending have changed over recent years
- flexible shopping options, links with recent technology, and high levels of service across all channels
- strong ethical and sustainability credentials

As a result we need to continue to adapt, evolve and invest in our operations to remain resilient and sustainable in the long term.

VALUE

We remain focussed on price-matching branded products and also extending our John Lewis Value and essential Waitrose ranges, which offer a range of good quality, staple items at competitive prices.

LITTLE WAITROSE

Five new convenience stores opened in 2013/14 and we have 23 planned to open in 2014/15.

PRINCIPAL RISKS AND UNCERTAINTIES

Understanding and responding to risks in our operations means we can make informed decisions and ensure a bright future for the Group.

Risk management

Risk arises from the operations and strategic decisions taken by every business. It's not something that can be avoided, but should be understood and harnessed in the pursuit of our shared objectives. Effective risk management ensures that the risks facing the Group are understood and managed appropriately, enhancing our capacity to build value.

The Partnership Board has ultimate responsibility for risk management throughout the business, determining the nature and extent of the risks we are willing to take to achieve the Partnership's objectives. John Lewis plc operates within the Partnership's risk management framework. Certain responsibilities, such as overseeing the systems of risk management and internal control, have been delegated to the Partnership's Audit and Risk Committee, which completes an annual review of the effectiveness of these processes.

Risk is managed proactively throughout the Partnership by Divisional Risk Committees, operating close to the heart of our business. This allows us to make an agile and rapid response to risks as they arise.

In 2013/14, there was significant investment in the risk management process, resulting in improved understanding and reporting.

As this is a co-owned business, we aim to embed in Partners an individual awareness of the risk management responsibilities that impact on their specific areas of operation.

Partnership Board
Ultimate responsibility for the management of risk throughout the business.

Chairman's Committee
Executive Directors with responsibility for the identification and management of key Partnership risks.

Audit and Risk Committee
Responsible for oversight of the Partnership's systems of risk management and internal control.

Divisional Board Members and Corporate Board Directors
Responsible for the risks in their areas of control.

Divisional Risk Committees
Oversee the embedding of the risk management framework.

Partners
Responsible for ensuring the Partnership is not exposed to unwanted risks and for escalation where they believe risks are not being appropriately managed.

Risk management framework
Comprises the policy, supporting systems and processes, and the management reporting which enable the Partnership to identify, manage and monitor risks.

"We made great strides in the way we manage risks throughout the Partnership, with the Divisional Risk Committees close to the heart of our business operations."

Identifying and monitoring key Partnership risks

We have a formal risk identification process, which includes a rigorous analysis of internal and external risks at both a Divisional Board and Partnership Board level.

As part of its annual business planning process, each division identifies key risks that could threaten the successful delivery of its short and longer-term business plans. The risk review is holistic and considers:

- Risks collated from the Partnership's Enterprise Risk Management System;
- A detailed analysis of internal operational and business risks;
- External market factors (such as economic updates, competitor monitoring and regulatory trends);
- Actions required to manage these risks within the agreed risk tolerance; and
- Self-certification of risk assessment and mitigation at Divisional Board level.

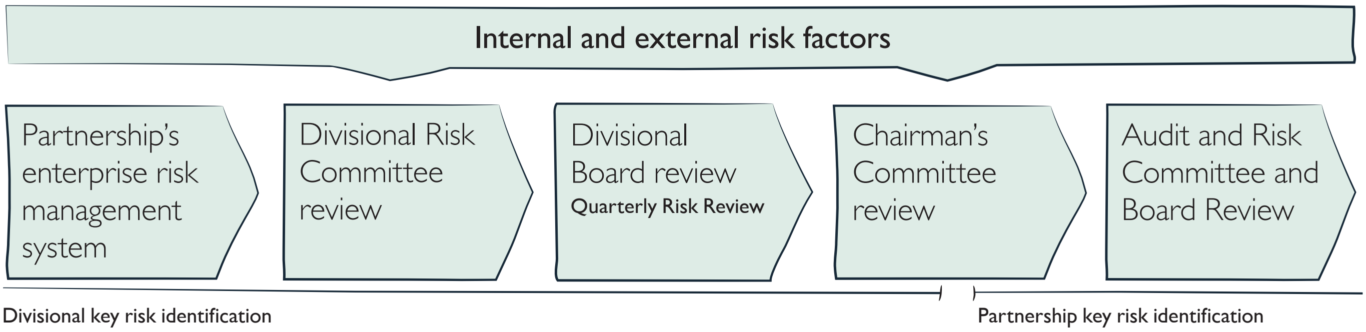
The Chairman's Committee, supported by the Head of Internal Audit and Risk Management, reviews the divisional risk analysis, using additional information as required, to:

- Identify and agree the key risks to the Partnership strategy;
- Agree the ownership of each of these risks (typically a member of the Chairman's Committee);
- Determine whether the controls and management plan for each risk are adequate and within the Partnership's agreed risk tolerance; and
- Review the process for monitoring each of these risks.

Following the Chairman's Committee review, and a review of the risk identification processes by the Audit and Risk Committee, an updated Partnership risk profile is presented to the Partnership Board for discussion and debate in order to agree the key risks faced by the Partnership. The risks are reviewed by the Partnership's Insurance department to assess whether there is any further scope and appetite for insuring those risks. See page 44 for an overview of the Partnership's principal risks and key mitigations.

Key risks and mitigations are reviewed quarterly by each Divisional Risk Committee and the Audit and Risk Committee and annually by the Partnership Board. An Internal Audit review is also undertaken to test internal controls and business risks using a risk-based audit plan.

Risk identification and review process



Process review and controls

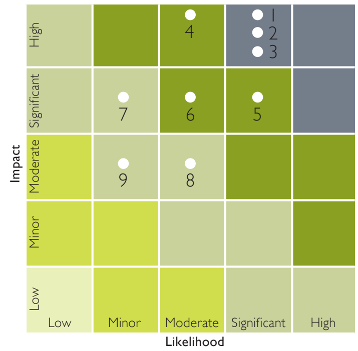
Audit and Risk Committee reviews the risk identification processes

Self-certification of risk assessment and mitigations

Internal Audit review of internal controls and business risks

KEY GROUP RISKS AND MITIGATIONS

We have invested significantly in our risk management process, resulting in improved understanding and reporting across the Group.



1 Managing the delivery of change

Risk description
Failure to deliver the benefits of major change programmes, such as the Personnel Transformation Programme and the upgrade of the distribution infrastructure in John Lewis, and the associated Partner benefits, resulting in increased costs, disruption in trading activities and loss of Partners' trust.

Key mitigations
- During the year, we have strengthened the pan-Partnership programme governance with Group and Divisional Change Boards, allowing for the early identification and remediation of delivery issues and consideration of the impact on Partners.
- A framework for project and programme assurance has also been developed and is being rolled out, led by Internal Audit.
- At divisional level, Project Management Offices are being strengthened to develop change capability and process improvement.

2 Operating model strain

Risk description
Several pressures, such as a shift in sales mix towards lower margin products, growth in online and a lack of flexibility in operations create strain in our operating model, threatening our ability to grow profitably.

Key mitigations
Significant investment is planned in our IT infrastructure and supply chain to support their efficiency and continue to develop a market-leading omni-channel proposition.

3 IT operating model

Risk description
The IT operating model is unable to deliver change programmes and business plan ambitions, placing the Partnership at a competitive disadvantage.

Key mitigations
There is ongoing work to strengthen the capability of the IT functions including a customer driven priorities project to deliver the IT infrastructure and processes that will provide resilience and protect the Group.

4 Pension obligations

Risk description
Defined benefit pension obligations place a significant or unsustainable financial burden on the Group.

Key mitigations
The valuation assumptions and pensions funding status are subject to regular external and internal review and ongoing monitoring. A pensions benefit review is also underway to assess how best to offer future pension provision to Partners in an affordable but fair manner.

5 Business interruption

Risk description
Reputational damage and financial loss as a result of business interruption and/or the loss of key IT systems.

Key mitigations
- Key systems are tested regularly and disaster recovery plans are in place for platinum (business-critical) systems. However these sit alongside a number of other planned improvements designed to strengthen system resilience:
  - A peak capacity and risk remediation review is underway, which will outline required resilience and capacity requirements to be implemented for 2014/15.
  - A revised data centre strategy to run more of our key live systems on our backup data centre, which will ensure greater resilience, will be rolled out later this year.
  - A review and refresh of our management incident response process is also underway.

6 Data breach

Risk description
Reputational damage and fines as a result of a data breach.

Key mitigations
- We have a series of IT security controls in place including:
  - Network security
  - User privilege management
  - Malware prevention
  - Network and system monitoring
- In addition, regular penetration testing and system scans are completed to provide early identification of network or system vulnerabilities and weaknesses. An IT controls improvement programme is also underway to address known weaknesses.
- Although controls are in place, an increasing data-breach has resulted in a review of data security with an ongoing programme of work identifying where sensitive data is held and developing the means to protect it.

7 Regulatory compliance

Risk description
Failure to comply with legislative requirements in the UK or other legal jurisdictions where the Group operates.

Key mitigations
- An early warning horizon scanning system to identify new or emerging regulatory requirements is in operation.
- Work is underway to strengthen our regulatory compliance framework.
- A centralised schedule of who holds responsibility for regulatory compliance is maintained and regularly updated.
- Support is also provided by the Legal Services department to verify compliance and establish policies and controls as required.

8 UK economy

Risk description
External economic and competitive pressures, such as government spend restrictions, a static economy, low market growth or aggressive price competition impair our ability to grow in line with our ambitions.

Key mitigations
We continue to pursue a strategy to deliver the highest levels of customer service, product quality and product innovation. We aim to secure value for all our customers through our range selections and price matching commitments, while maintaining our store appeal by investing in store refurbishment and continuing to grow our footprint through new store openings.

9 Talent

Risk description
Lack of ability to attract and retain talented Partners with the right capability to deliver our business goals.

Key mitigations
Talent and succession planning takes place annually to ensure that our top talent is identified and succession plans exist for key roles. Talent gaps are addressed by plans to grow capability through training and development.

CORPORATE GOVERNANCE

In the Governance section, you will find:

- The Directors of the Company and Company Secretary
- The Directors' Report

CONTENTS

DIRECTORS AND COMPANY SECRETARY

CHAIRMAN AND EXECUTIVE DIRECTORS

Sir Charlie Mayfield
Chairman

Started current role: March 2007
Joined the Board: 2001
Length of time with Partnership:
14 years
Other appointments:
Chairman of the John Lewis Partnership Trust Limited
Chairman of the UK Commission for Employment and Skills
Director of Central Surrey Health Trust Limited
Trustee of Place2Be – Children's Charity

Tracey Killen
Director of Personnel

Started current role: April 2007
Joined the Board: 2007
Length of time with the Partnership:
31 years

Rachel Osborne
Finance Director, John Lewis

Started current role: July 2011
Joined the Board: January 2013
Length of time with the Partnership:
3 years

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

Started current role: April 2007
Joined the Board: 2005
Length of time with the Partnership:
31 years
Other appointments: Non-Executive Member and Deputy Chairman of Channel Four Television Corporation, Chairman of Business in the Community, Chairman of the Trustees of The Prince's Countryside Fund, Countryside Fund Trading Limited

Andy Street
Managing Director, John Lewis

Started current role: February 2007
Joined the Board: 2002
Length of time with the Partnership:
28 years
Other appointments:
Vice-Chairman of Performances Birmingham Limited
Chair of the Greater Birmingham and Solihull Local Enterprise Partnership (LEP)

Helen Weir CBE, FCMA
Group Finance Director

Started current role: June 2012
Joined the Board: 2012
Length of time with the Partnership:
2 years
Other appointments:
Non-Executive Director of SAB Miller plc
Director of Caldicott Trust Limited

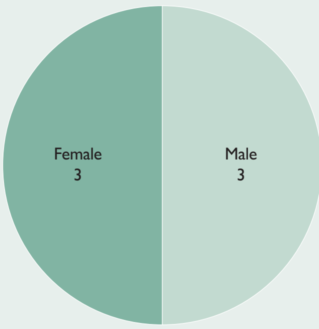
COMPANY SECRETARY

Margaret Casely-Hayford

Started current role: April 2006
Length of time with the Partnership:
8 years
Professional qualifications: Barrister and Solicitor
Other appointments:
The Partnership's representative on the Board of the British Retail Consortium
Non-Executive Director to NHS England

BOARD COMPOSITION

Gender diversity



DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 25 January 2014.

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

Principal activity and future developments

The principal activity of John Lewis plc is retailing, with the main trading operations being the Waitrose and John Lewis businesses. The Company controls the entities listed in note 52, comprising John Lewis department stores, John Lewis at home stores, johnlewis.com, a liaison office in Gurgan, India, Waitrose supermarkets, Waitrose convenience stores, waitrose.com, business to business contracts in the UK and abroad and ancillary manufacturing activities. A review of the business and an indication of likely future developments in the Group can be found on page 41.

Corporate governance

John Lewis plc, as the principal trading subsidiary of John Lewis Partnership plc, falls within the governance auspices of the Partnership. To comply with the Disclosure and Transparency Rules applicable to John Lewis plc, its corporate governance arrangements are provided by the Partnership Board and its Committees. These arrangements are explained in the relevant sections of the Partnership's Governance Report, which can be found on pages 50 to 79 of the Annual Report and Accounts of John Lewis Partnership plc.

The principal risks and uncertainties and mitigations for those risks for the John Lewis plc group are explained on pages 42 to 45 of the Strategic Report. These risks are reviewed and monitored by the Partnership's Audit and Risk Committee. The work undertaken by the Partnership's Audit and Risk Committee during the year to review these risks are detailed in the Committee's Report on pages 70 to 73 of the Annual Report and Accounts of John Lewis Partnership plc.

The management functions for preparing consolidated financial statements for John Lewis plc and its internal audit and risk management functions are provided by the Partnership. The Partnership's Audit and Risk Committee is responsible for monitoring the financial reporting process, including the process for preparing consolidated financial statements, and the effectiveness of internal controls, internal audit and risk management systems for John Lewis plc. The Committee's activities in these areas are detailed in the Partnership's Audit and Risk Committee Report on pages 70 to 73 of the Annual Report and Accounts of John Lewis Partnership plc.

The Company's capital structure is described on page 49 of this Directors' Report.

Going concern

After reviewing the Group's operating budgets, investment plan, financing arrangements and possible financial risks, the Directors consider that the Group has adequate financial resources to continue in operation for the foreseeable future.

A full description of the Group'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. The Group 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.

Financial risk management and insurance, treasury and tax policies

The Partnership Board approves the Group's financial risk management, insurance, treasury and tax policies, which are delegated to the Partnership's Finance Director to implement and control. Further details of the Group's financial risk management arrangements are provided in the Business Review and note 20 to the consolidated financial statements.

Dividends

Dividends on Cumulative Preference Stocks for the year ended 25 January 2014 were £125,000 (2013: £125,000).

The Directors do not recommend the payment of a dividend (2013: nil).

Directors

There have been no changes to the Board of Directors during the year. Directors of the Company at the date of this report are listed on page 47.

Directors' interests

Under the Constitution of the Partnership, the Directors, 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.

The Directors' other directorships are disclosed on page 47.

No Director has a contract of employment that provides for a notice period of longer than 12 months.

No Director has, or had, a material interest in any contract or arrangement to which the Company or any subsidiary is, or was, a party.

Employees

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 and are encouraged to take an active interest in promoting its commercial success.

The aim is to ensure that the co-owners are given the information they need to be able to decide whether the Chairman, the Partnership Board and management are being effective. The Partnership's democratically elected bodies, including the Partnership Council and other elected councils and forum, provide regular opportunities at all levels of the business for management to report to Partners and for Partners to question management. Additionally, there is an open system of journalism, including the weekly Gazette, which provides a means of sharing information extensively with all Partners and contributes to effective accountability.

Partners receive an annual Partnership Bonus from the profits of the business. This is a shared bonus for shared effort.

Further information regarding the Partnership's policies in relation to diversity and applications for employment made by disabled persons and provisions for disabled Partners are provided below.

Employment

All employees can benefit from the Group's training and development policies, and further information can be found on page 11. The Group 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.

The Group 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.

Human Rights

The Group recognises its responsibility to respect human rights, in particular those expressed in the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work.

All own-brand suppliers are required to comply with the Partnership Responsible Sourcing Code of Practice ("the Code"), as set out in our Terms and Conditions of Purchase. The code is based on the Ethical Trading Initiative Base Code and on the conventions of the International Labour Organisation. The Group expects its suppliers to have policies and procedures in place to ensure compliance with the code and as such potential and existing supplier sites are monitored regularly through independent ethical audits. Where non-compliances are found, remedial action is undertaken to mitigate them. The Group also undertakes capacity-building and training programmes with its suppliers to ensure long term improvements to working conditions in its supply chain.

Greenhouse Gas Emissions

Global GHG emissions data for the period 27 January 2013 to 25 January 2014:

	Tonnes of CO_2e
Emissions from:	
Combustion of fuel & operation of facilities	215,179
Electricity purchased for own use	271,112
Water supply and treatment, business travel by rail or air, waste to landfill	60,067
Total	**546,358**
Intensity measurement: Emissions reported above normalised to per £million sales	53.7

Methodology

The Group 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. Excluded from this scope are emissions as a result of energy from heat networks and minor biomass fuel consumption and emissions from sites operated by stores under licence, franchisees (both overseas and Welcome Break franchises). The Group has commissioned DNV Two Tomorrows Limited to undertake independent assurance of Greenhouse Gas emissions data in its Sustainability Review 2014. DNV Two Tomorrows Limited 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 in our 2014 Sustainability Review on www.johnlewispartnership.co.uk.

Political donations

The Group made no political donations.

Capital structure

At 25 January 2014, the Company has in issue 1,457,500 5% First Cumulative Preference Stock of which 83.3% was held by John Lewis Partnership plc and 750,000 7% Cumulative Preference Stock of which 75.6% is held by John Lewis Partnership plc and bonds and 6,750,000 ordinary shares of £1 each. The rights attaching to the Cumulative Preference Stock are set out in note 16 of these accounts.

Each ordinary share carries the right to one vote at a general meeting of the Company. The ordinary shares are wholly owned by John Lewis Partnership plc.

Annual General Meeting

The Annual General Meeting will be held at 13.30 on Thursday 5 June 2014 at Partnership House, Carlisle Place, London, SW1P 1BX.

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 have taken all the necessary steps to make themselves aware of any information needed by the Group'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 Group's auditors have not been apprised.

Approved by the Directors and signed on behalf of the Board

Margaret Casely-Hayford
Director of Legal Services and
Company Secretary

10 April 2014

FINANCIAL STATEMENTS

2013/14: An overview

Throughout our business, through the Gazette, Partner Intranet and local forums, we make our numbers as accessible and meaningful as possible. This year, we have extended this approach to our Annual Report and Accounts to help everyone get a better understanding of our financial performance and condition.

CONTENTS

Consolidated income statement
for the year ended 25 January 2014

Notes		2014 £m	2013 (restated)* £m
2, 4	**Gross sales**	**10,171.5**	9,541.3
4	**Revenue**	**9,027.8**	8,465.5
	Cost of sales	**(6,008.9)**	(5,640.1)
	Gross profit	**3,018.9**	2,825.4
	Other operating income	**74.2**	64.1
5	Operating expenses before exceptional item	**(2,624.6)**	(2,438.8)
4	**Operating profit before exceptional item**	**468.5**	450.7
3	Exceptional item	**(47.3)**	–
4	**Operating profit**	**421.2**	450.7
6	Finance costs	**(95.6)**	(110.1)
6	Finance income	**3.0**	1.9
	Profit before Partnership Bonus and tax	**328.6**	342.5
	Partnership Bonus	**(202.5)**	(210.8)
7	**Profit before tax**	**126.1**	131.7
8	Taxation	**(24.4)**	(30.9)
	Profit for the year	**101.7**	100.8
4	**Profit before Partnership Bonus, tax and exceptional item**	**375.9**	342.5

* Refer to note 1.

Consolidated statement of comprehensive expense
for the year ended 25 January 2014

Notes		2014 £m	2013 (restated)* £m
	Profit for the year	**101.7**	100.8
	Other comprehensive income/(expense):		
	Items that will not be reclassified to profit or loss:		
22	Remeasurement of defined benefit pension schemes	**(245.2)**	(260.0)
8	Movement in deferred tax on pension schemes	**5.9**	13.3
8	Movement in current tax on pension schemes	**27.4**	34.6
	Items that may be reclassified subsequently to profit or loss:		
	Net (loss)/gain on cash flow hedges	**(9.7)**	3.7
	Other comprehensive expense for the year	**(221.6)**	(208.4)
	Total comprehensive expense for the year	**(119.9)**	(107.6)

* Refer to note 1.

Consolidated balance sheet
as at 25 January 2014

Notes		2014 £m	2013 £m
	Non-current assets		
10	Intangible assets	**266.9**	213.7
11	Property, plant and equipment	**3,987.2**	3,820.9
13	Trade and other receivables	**61.3**	55.8
8	Deferred tax asset	**69.1**	25.6
		4,384.5	4,116.0
	Current assets		
12	Inventories	**554.0**	514.0
13	Trade and other receivables	**225.7**	191.9
	Current tax receivable	**–**	3.1
21	Derivative financial instruments	**0.7**	4.2
14	Cash and cash equivalents	**358.9**	534.4
		1,139.3	1,247.6
	Total assets	**5,523.8**	5,363.6
	Current liabilities		
16	Borrowings and overdrafts	**(75.6)**	(156.3)
	Current tax payable	**(0.1)**	–
17	Trade and other payables	**(1,599.3)**	(1,451.3)
18	Finance lease liabilities	**(3.3)**	(3.0)
19	Provisions	**(120.9)**	(110.0)
21	Derivative financial instruments	**(5.9)**	(0.6)
		(1,805.1)	(1,721.2)
	Non-current liabilities		
16	Borrowings	**(628.7)**	(627.7)
17	Trade and other payables	**(135.5)**	(119.3)
18	Finance lease liabilities	**(32.4)**	(35.9)
19	Provisions	**(137.2)**	(136.2)
22	Retirement benefit obligations	**(1,003.4)**	(822.1)
		(1,937.2)	(1,741.2)
	Total liabilities	**(3,742.3)**	(3,462.4)
	Net assets	**1,781.5**	1,901.2
	Equity		
24	Share capital	**6.7**	6.7
	Share premium	**0.3**	0.3
	Other reserves	**(4.2)**	5.3
	Retained earnings	**1,778.7**	1,888.9
	Total equity	**1,781.5**	1,901.2

The financial statements on pages 51 to 86 were approved by the Board of Directors on 10 April 2014 and signed on its behalf by

Sir Charlie Mayfield and Helen Weir
Directors, John Lewis plc

Consolidated statement of changes in equity

for the year ended 25 January 2014

Notes		Share capital £m	Share premium £m	Capital reserve £m	Hedging reserve £m	Foreign currency translation reserve £m	Retained earnings (restated)* £m	Total Equity (restated)* £m
	Balance at 28 January 2012	6.7	0.3	1.4	0.2	–	2,000.3	2,008.9
	Profit for the year	–	–	–	–	–	100.8	100.8
22	Remeasurement of defined benefit pension schemes	–	–	–	–	–	(260.0)	(260.0)
8	Tax on above item recognised in equity	–	–	–	–	–	47.9	47.9
	Fair value gains on cash flow hedges	–	–	–	0.3	–	–	0.3
	– transfers to inventories	–	–	–	3.4	–	–	3.4
	Dividends	–	–	–	–	–	(0.1)	(0.1)
	Balance at 26 January 2013	6.7	0.3	1.4	3.9	–	1,888.9	1,901.2
	Profit for the year	–	–	–	–	–	101.7	101.7
22	Remeasurement of defined benefit pension schemes	–	–	–	–	–	(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	**6.7**	**0.3**	**1.4**	**(5.8)**	**0.2**	**1,778.7**	**1,781.5**

* Refer to note 1.

Retained earnings comprise £1,374.2m (2013: £1,481.5m) of distributable and £404.5m (2013: £407.4m) 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 25 January 2014

Notes		2014 £m	2013 £m
25	**Cash generated from operations**	**783.8**	991.1
	Net taxation paid	**(32.1)**	(52.9)
	Partnership Bonus paid	**(210.6)**	(164.3)
22	Additional contribution to the Pension Scheme	**(85.0)**	(125.0)
	Finance costs paid	**(2.6)**	(4.9)
	Net cash generated from operating activities	**453.5**	644.0
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(387.1)**	(261.5)
	Purchase of intangible assets	**(107.9)**	(96.5)
	Proceeds from sale of property, plant and equipment and intangible assets	**2.9**	1.9
	Finance income received	**1.5**	1.9
	Net cash used in investing activities	**(490.6)**	(354.2)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	**(54.5)**	(56.8)
	Payment of capital element of finance leases	**(3.1)**	(3.5)
	Payments to preference shareholders	**(0.1)**	(0.1)
	Cash outflow on borrowings	**(100.0)**	(242.0)
	Net cash used in financing activities	**(157.7)**	(302.4)
	Decrease in net cash and cash equivalents	**(194.8)**	(12.6)
	Net cash and cash equivalents at beginning of the year	**478.1**	490.7
	Net cash and cash equivalents at end of the year	**283.3**	478.1
14	**Net cash and cash equivalents comprise:**		
	Cash at bank and in hand	**117.7**	120.0
	Short-term investments	**241.2**	414.4
	Bank overdrafts	**(75.6)**	(56.3)
		283.3	478.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Accounting policies

We prepare our accounts 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 other than to pensions accounting as detailed in '1.4 Amendments to accounting standards'.

1.1 Basis of preparation

The accounts 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) valued at fair value through profit or loss, and 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.

Going concern

The Directors, after reviewing the Group's operating budgets, investments plans and financing arrangements, consider that the Company and Group 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 Group 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 Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights.

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 Group has adopted IAS 19 'Employee benefits' (Revised 2011), which amends the accounting for employee benefits. The adoption of the revised standard has been applied on a retrospective basis, and consequently the relevant charges or income in the consolidated income statement and the consolidated statement of comprehensive expense for the year ended 26 January 2013 have been restated.

As a result of the change, the expected return on pension scheme assets and the interest cost on pension scheme liabilities is replaced with a net interest expense or income calculated by applying the discount rate to the net defined benefit liability or asset. This has increased finance costs but has had no impact on equity. Administration costs by pension funds are now recognised as an expense when the administration services are performed.

For the year to 26 January 2013, the effect of the restatement is that the net finance income recognised on the defined benefit retirement schemes of £38.2m has become a net finance cost of £29.1m for the full year. Additionally, operating profit has increased by £1.0m.

IAS 19 'Employee benefits' (Revised 2011) also requires more extensive disclosures, which have been provided in note 22.

The Group has adopted IFRS 13 'Fair value measurement' in the year, which aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 also requires additional disclosures.

The application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures and the fair value hierarchy are provided in note 21.

The Group has adopted the amendments to IAS 1 'Presentation of financial statements', which requires the Group to separate items of other comprehensive income into two distinct categories: items that will not be reclassified subsequently to the income statement; and items that will be reclassified subsequently to the income statement when specified conditions are met.

The following standards, amendments and interpretations were adopted by the Group for the year ended 25 January 2014 and have not had a significant impact on the Group's profit for the year, equity or disclosures:

- Amendment to IFRS 7 'Financial instruments: disclosures' on offsetting financial assets and liabilities;
- Amendment to IAS 32 'Financial instruments: presentation';
- Amendment to IAS 39 'Financial instruments: recognition and measurement'.

The following standards, amendments and interpretations are not mandatory for the Group until 26 January 2014. However the Group has decided to early adopt these standards for the year ended 25 January 2014. These standards have not had a significant impact on the Group's profit for the year, equity or disclosures:

- IFRS 10 'Consolidated financial statements';
- IFRS 11 'Joint arrangements';
- IFRS 12 'Disclosure of interests in other entities'.

The following are new accounting standards and amendments to existing standards that have been published and are applicable for the Group's accounting periods beginning on or after 26 January 2014, which the Group has not adopted early:

- IFRIC 21 'Levies';
- Amendment to IAS 36 'Impairment of assets'.

These are not expected to have a material impact on the profit or equity for future years, but may affect disclosures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *CONTINUED*

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 Group 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 are treated as future liabilities, and revenue is recognised when the gift vouchers are redeemed against a later transaction. Certain companies within the Group 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 Group on a sale or return basis, where the Group 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 Group's principal retirement benefit scheme is a defined benefit pension fund with assets held separately from the Group. 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 Group also operates a defined contribution scheme. Contributions are charged in the income statement as they fall due. The Group has no further obligations once the contributions have been made.

The Group has a scheme to provide up to six months paid leave after 25 years' service (long leave). The costs of providing the benefits under the scheme is determined actuarially. 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 Group'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 Group 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 and fittings (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.

Leased assets

Assets used by the Group which have been funded through finance leases on terms that transfer to the Group 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 Group 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
Operating segments are determined based on business activities for which operating results are reviewed by the chief operating decision maker ('CODM'). The Group's CODM is the Board and the operating segments reflect the management structure of the Group. The Group's operating segments are: John Lewis, Waitrose and Partnership Services and Corporate.

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 'Intangible Assets'. 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.

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 Group uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates and interest rates. Derivative financial instruments used by the Group 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 reperformed at each period end to ensure that the hedge remains highly effective.

Hedge accounting is discontinued when the hedging instrument matures, is sold, 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 Group's accounting classification of each class of its financial assets and liabilities:

	Note	Classification	Measurement
Financial assets:			
Cash and cash equivalents	14	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	18	Financial liabilities	Amortised cost
Borrowings and overdrafts	16	Financial liabilities	Amortised cost
Trade payables	17	Financial liabilities	Amortised cost
Other payables	17	Financial liabilities	Amortised cost
Partnership Bonus	17	Financial liabilities	Amortised cost
Accruals	17	Financial liabilities	Amortised cost
Derivative financial instruments	21	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *CONTINUED*

1 Accounting policies (continued)

Impairment

Assets that are subject to amortisation or depreciation 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.

Provisions

Provisions are recognised when the Group 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 Group'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 this Partnership Bonus is included in the year end accounts, with the amount confirmed by the 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 Group's financial statements.

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 statement of cash flows, 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 22.

ii. Provisions and liabilities

Provisions and liabilities recognised at the balance sheet date are detailed in notes 17 and 19 and include amounts for long leave, unredeemed gift vouchers, 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 Group 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.

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 Group for goods and services supplied to customers, net of discounts but including sale or return sales and VAT. This measure shows the underlying 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 Group's underlying business performance.

2.3 Net debt

Net debt incorporates the Group'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 overall debt position.

3 Exceptional items

Exceptional items are material, non-recurring items of income and/or expense arising from events or transactions that fall within the activities of the Group. 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.

On 22 August 2013, the Group made an announcement regarding holiday pay payments. Following a recent review of the Group'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 Board therefore decided to make one-off additional payments to those affected.

An exceptional operating expense has been recorded in the year to 25 January 2014 totalling £47.3m. This reflects 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 have also increased by £8.0m as a result.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *CONTINUED*

4 Segmental reporting

This note analyses our performance between our three operating segments which are Waitrose, John Lewis and Partnership Services and Corporate. This analysis is consistent with how our Board reviews performance throughout the year.

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

2014	Waitrose £m	John Lewis £m	Partnership Services and Corporate £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	310.1	226.1	(67.7)	468.5
Exceptional item	–	–	(47.3)	(47.3)
Operating profit	310.1	226.1	(115.0)	421.2
Finance costs	–	–	(95.6)	(95.6)
Finance income	–	–	3.0	3.0
Partnership Bonus	–	–	(202.5)	(202.5)
Profit before tax	310.1	226.1	(410.1)	126.1
Taxation	–	–	(24.4)	(24.4)
Profit for the year	310.1	226.1	(434.5)	101.7

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	(160.3)	375.9
Partnership Bonus	–	–	(202.5)	(202.5)
Exceptional item	–	–	(47.3)	(47.3)
Profit before tax	310.1	226.1	(410.1)	126.1

Segment assets	2,844.4	1,868.9	810.5	5,523.8
Segment liabilities	(610.2)	(730.1)	(2,402.0)	(3,742.3)
Net assets	2,234.2	1,138.8	(1,591.5)	1,781.5

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 – increase/(decrease)	(6.5)	14.4	4.0	11.9

4 Segmental reporting (continued)

2013 (restated)	Waitrose £m	John Lewis £m	Partnership Services and Corporate (restated) £m	Total (restated) £m
Gross sales	5,763.9	3,777.4	–	9,541.3
Adjustment for sale or return sales	–	(134.6)	–	(134.6)
Value added tax	(347.8)	(593.4)	–	(941.2)
Revenue	5,416.1	3,049.4	–	8,465.5
Operating profit before exceptional item	292.3	216.7	(58.3)	450.7
Exceptional item	–	–	–	–
Operating profit	292.3	216.7	(58.3)	450.7
Finance costs	–	–	(110.1)	(110.1)
Finance income	–	–	1.9	1.9
Partnership Bonus	–	–	(210.8)	(210.8)
Profit before tax	292.3	216.7	(377.3)	131.7
Taxation	–	–	(30.9)	(30.9)
Profit for the year	292.3	216.7	(408.2)	100.8
Reconciliation of Profit before Partnership Bonus and tax to Profit before tax:				
Profit before Partnership Bonus and tax	292.3	216.7	(166.5)	342.5
Partnership Bonus	–	–	(210.8)	(210.8)
Profit before tax	292.3	216.7	(377.3)	131.7
Segment assets	2,624.7	1,770.2	968.7	5,363.6
Segment liabilities	(553.7)	(648.1)	(2,260.6)	(3,462.4)
Net assets	2,071.0	1,122.1	(1,291.9)	1,901.2
Other segment items:				
– Depreciation	(142.7)	(96.7)	(15.7)	(255.1)
– Amortisation	(19.4)	(7.9)	(14.6)	(41.9)
– Capital expenditure – property, plant and equipment	(166.9)	(102.9)	(11.0)	(280.8)
– Capital expenditure – intangible assets	(31.3)	(41.4)	(23.4)	(96.1)
– Movement in provisions – increase	4.2	6.3	29.5	40.0

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.

	2014 £m	2013 (restated) £m
Branch operating expenses	**(2,013.4)**	(1,901.7)
Administrative expenses	**(611.2)**	(537.1)
	(2,624.6)	(2,438.8)

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.

	2014 £m	2013 (restated) £m
Finance costs		
Interest payable on:		
Bank loans and overdrafts	**(1.1)**	(2.1)
Other loans repayable within five years	**(13.4)**	(13.6)
Other loans repayable in more than five years	**(41.3)**	(41.3)
Finance lease interest payable	**(1.6)**	(1.7)
Amortisation of issue costs of bonds and loan facilities	**(1.0)**	(1.2)
Preference dividends	**(0.1)**	(0.1)
Finance costs in respect of borrowings	**(58.5)**	(60.0)
Fair value measurement and other	**–**	(0.6)
Net finance costs arising on defined benefit and other employee benefit schemes	**(37.1)**	(49.5)
Total finance costs	**(95.6)**	(110.1)
Finance income		
Finance income in respect of cash and short-term investments	**1.6**	1.9
Fair value measurements and other	**1.4**	–
Total finance income	**3.0**	1.9
Net finance costs	**(92.6)**	(108.2)

	2014 £m	2013 (restated) £m
Total finance costs in respect of borrowings	**(58.5)**	(60.0)
Total finance income in respect of cash and short-term investments	**1.6**	1.9
Net finance costs in respect of borrowings and short-term investments	**(56.9)**	(58.1)
Fair value measurements and other	**1.4**	(0.6)
Net finance costs arising on defined benefit retirement schemes	**(35.3)**	(29.1)
Net finance costs arising on other employee benefit schemes	**(1.8)**	(20.4)
Net finance costs	**(92.6)**	(108.2)

7 Profit before tax

Detailed below are the key items, as required by IFRS, charged/credited to arrive at our profit before tax.

	2014 £m	2013 (restated) £m
Staff costs (note 9)	**(1,753.9)**	(1,604.0)
Depreciation – owned assets	**(251.9)**	(251.7)
Depreciation – assets held under finance leases	**(2.7)**	(3.4)
Amortisation of intangible assets	**(54.5)**	(41.9)
Loss on sale of property	**(1.8)**	–
Profit/(loss) on disposal of other plant and equipment and intangible assets	**0.2**	(6.1)
Inventory – cost of inventory recognised as an expense	**(6,008.9)**	(5,640.1)
Reorganisation costs	**(14.7)**	(16.2)
Operating lease rentals:		
– land and buildings	**(139.6)**	(127.9)
– plant and machinery	**(0.3)**	(0.2)
Sub-lease income:		
– land and buildings	**7.7**	6.1

Contingency rents expensed during the year were £2.7m (2013: £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:

	2014 £m	2013 £m
Audit and audit-related services:		
– Audit of the parent company and consolidated financial statements	**(0.3)**	(0.4)
– Audit of the Company's subsidiaries	**(0.5)**	(0.4)
	(0.8)	(0.8)
Non-audit services:		
– Tax advisory services	**–**	(0.1)
– Other assurance services	**(0.2)**	–
– Other non-audit services	**–**	(0.1)
	(0.2)	(0.2)
Total fees	**(1.0)**	(1.0)

In addition to the above, the Group's auditors also acted as auditors to the Group's pension schemes. The aggregate fee for audit services to the pension schemes during the year was £49,500 (2013: £53,900).

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. 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 payable in future periods in respect of taxable temporary differences.

8.1 Analysis of tax charge for the year

Analysis of tax charge	**2014 £m**	2013 (restated) £m
Corporation tax – current year	**(61.1)**	(77.5)
Corporation tax – adjustment in respect of prior years	**(0.9)**	2.2
Total current tax charge	**(62.0)**	(75.3)
Deferred tax – current year	**35.0**	44.2
Deferred tax – adjustment in respect of prior years	**2.6**	0.2
	(24.4)	(30.9)

Tax credited to other comprehensive income	**2014 £m**	2013 (restated) £m
Movement in current tax on pension schemes	**27.4**	34.6
Movement in deferred tax on pension schemes	**5.9**	13.3
	33.3	47.9

8.2 Factors affecting tax charge in the year

The tax charge for the year is lower (2013: lower) than the standard corporation tax rate of 23.17% (2013: 24.33%). The differences are explained below:

	2014 £m	2013 (restated) £m
Profit before tax	**126.1**	131.7
Profit before tax multiplied by standard rate of corporation tax in the UK of 23.17% (2013: 24.33%)	**(29.2)**	(32.0)
Effects of:		
Changes in tax rate	**14.6**	12.7
Adjustment to current tax in respect of prior years	**(0.9)**	2.2
Adjustment to deferred tax in respect of prior years	**2.6**	0.2
Depreciation on assets not qualifying for tax relief	**(12.5)**	(13.6)
Difference between accounting and tax base for land and buildings	**1.4**	2.0
Differences in overseas tax rates	**2.2**	0.7
Sundry disallowables	**(2.6)**	(3.1)
Total tax charge	**(24.4)**	(30.9)
Effective tax rate (%)	**19.3**	23.5

8.3 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 21% (2013: 23%) 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 (2013: 23%).

8 Taxation (continued)

The movement on the deferred tax account is shown below:

	2014 £m	2013 (restated) £m
Opening asset/(liability)	**25.6**	(32.1)
Credited to income statement	**37.6**	44.4
Credited to other comprehensive income	**5.9**	13.3
Closing asset	**69.1**	25.6

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 28 January 2012	(166.0)	(5.7)	(22.5)	(3.6)	(197.8)
Credited to income statement	18.8	1.0	2.6	1.4	23.8
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)**

Deferred tax assets	Capital gains tax on land and buildings £m	Pensions and provisions (restated) £m	Total (restated) £m
At 28 January 2012	6.5	159.2	165.7
Credited to income statement	0.8	19.8	20.6
Credited to other comprehensive income	–	13.3	13.3
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**

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 25 January 2014 (2013: £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 22).

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax asset at 25 January 2014 was £69.1m (2013: £25.6m asset). The net deferred tax asset is recoverable after more than one year.

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 on the current year (2013: 2% rate change) was to decrease the deferred tax asset by £6.5m (2013: £0.5m decrease) with a £21.1m charge (2013 restated: £13.2m charge) being taken to other comprehensive income and a £14.6m tax credit (2013 restated: £12.7m credit) to the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *CONTINUED*

9 Partners

This note shows the average number of Partners employed by us in the year, which areas of the Group they work in, and total employment related costs. At the end of the year, the total number of Partners was 91,000.

9.1 Partner numbers

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

	2014	2013
John Lewis	**29,800**	29,300
Waitrose	**55,000**	51,000
Partnership Services and Corporate	**1,800**	1,600
	86,600	81,900

9.2 Partner benefits

Employment and related costs were as follows:

	2014 £m	2013 (restated) £m
Staff costs:		
Wages and salaries	**(1,271.1)**	(1,162.3)
Social security costs	**(97.1)**	(88.5)
Partnership Bonus	**(180.2)**	(187.4)
Employers' national insurance on Partnership Bonus	**(22.3)**	(23.4)
Other pension costs (note 22)	**(175.7)**	(137.0)
Long leave cost	**(7.5)**	(5.4)
Total before Partner discounts	**(1,753.9)**	(1,604.0)
Partner discounts (excluded from revenue)	**(63.3)**	(57.4)
	(1,817.2)	(1,661.4)
Included above are the following amounts in respect of key management compensation:		
Salaries and short-term benefits	**(14.1)**	(13.5)
Post-employment benefits*	**(4.8)**	(4.6)
	(18.9)	(18.1)

* Includes pension supplements in lieu of future pension accrual.

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 28 January 2012	59.6	168.4	72.4	300.4
Additions	–	–	96.1	96.1
Transfers	23.7	30.0	(53.7)	–
Disposals	(5.3)	(2.7)	(4.8)	(12.8)
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**
Accumulated amortisation				
At 28 January 2012	(33.9)	(102.2)	–	(136.1)
Charge for the year	(8.0)	(33.9)	–	(41.9)
Disposals	0.8	7.2	–	8.0
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)**
Net book value at January 2012	25.7	66.2	72.4	164.3
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**

For the year to 25 January 2014, computer systems valued at £129.6m (2013: £53.7m) were brought into use. This covered a range of selling, support, supply chain, administration and information technology infrastructure applications, with asset lives ranging from three to ten years.

Amortisation of intangible assets is charged within operating expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *CONTINUED*

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 and fittings £m	Assets in course of construction £m	Total £m
Cost				
At 28 January 2012	3,742.7	1,595.9	88.9	5,427.5
Additions	14.1	2.7	264.0	280.8
Transfers	145.8	93.6	(239.4)	–
Disposals	(11.4)	(64.4)	(1.4)	(77.2)
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**
Accumulated depreciation				
At 28 January 2012	(651.6)	(977.5)	–	(1,629.1)
Charge for the year	(98.9)	(156.2)	–	(255.1)
Disposals	10.1	63.9	–	74.0
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)**
Net book value at January 2012	3,091.1	618.4	88.9	3,798.4
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**

Included above are land and buildings assets held under finance leases with a net book value of £28.1m (2013: £30.9m).

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.

	2014 £m	2013 £m
Raw materials	**4.0**	3.1
Work in progress	**0.9**	0.9
Finished goods and goods for resale	**549.1**	510.0
	554.0	514.0

The cost of inventory recognised as an expense by the Group in the year was £6,008.9m (2013: £5,640.1m). Provisions against inventories of £7.9m were charged (2013: £12.7m charged) in branch operating expenses.

13 Trade and other receivables

Trade and other receivables are amounts owed to us, from customers and from suppliers if we are owed rebates. This note also includes: interest receivable from third parties and amounts due from our Partners in respect of the Group's car finance scheme; prepayments which are payments made in advance of the delivery of goods or rendering of services; accrued income earned by the Group 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 recoverable.

	2014 £m	2013 £m
Current:		
Trade receivables	**55.1**	49.5
Other receivables	**48.1**	46.2
Prepayments and accrued income	**122.5**	96.2
	225.7	191.9
Non-current:		
Other receivables	**13.1**	12.6
Prepayments and accrued income	**48.2**	43.2
	61.3	55.8

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.

As of 25 January 2014, trade and other receivables of £2.2m (2013: £2.3m) were fully impaired. Movements in the allowance for impaired receivables were as follows:

	2014 £m	2013 £m
At start of year	**(2.3)**	(1.2)
Charged to income statement	**(0.6)**	(1.4)
Utilised	**0.5**	–
Released to income statement	**0.2**	0.3
At end of year	**(2.2)**	(2.3)

The creation and release of the allowance for impaired receivables have been included in branch operating expenses in the income statement.

As of 25 January 2014, trade and other receivables of £24.4m (2013: £21.0m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

	2014 £m	2013 £m
Up to 3 months past due	**19.5**	18.1
3 to 12 months past due	**2.9**	2.0
Over 12 months past due	**2.0**	0.9
	24.4	21.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *CONTINUED*

14 Cash and cash equivalents

Our cash and cash equivalents include cash in hand and investments in term deposits with financial institutions and money market funds.

	2014 £m	2013 £m
Cash at bank and in hand	**117.7**	120.0
Short-term investments	**241.2**	414.4
	358.9	534.4

For the year ended 25 January 2014, the effective interest rate on short-term investments was 0.4% (2013: 0.5%) and these deposits had an average maturity of 1 day (2013: 1 day).

At 25 January 2014, £39.1m (2013: £34.4m) of the Group's cash balance and £0.3m (2013: £0.1m) of the Group's accrued interest balance was pledged as collateral. This is part of the Group'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:

	2014 £m	2013 £m
Cash and cash equivalents, as above	**358.9**	534.4
Less bank overdrafts	**(75.6)**	(56.3)
Net cash and cash equivalents	**283.3**	478.1

15 Analysis of financial assets

Our financial assets, primarily cash and cash equivalents, are subject to currency and interest rate exposures. This note sets out the amount of cash and cash equivalents deposited in sterling or other currencies, together with the effective interest rate.

Short-term trade and other receivables and derivative financial assets are excluded from this analysis, on the basis that they are all non-interest bearing and denominated in sterling.

Interest rate and currency analysis	Effective interest rate	**Floating rate £m**	**Non-interest bearing £m**	**Total £m**
Sterling	0.4%	343.6	15.2	358.8
Other	0.0%	0.1	–	0.1
At 25 January 2014		**343.7**	**15.2**	**358.9**
Sterling	0.5%	520.0	14.3	534.3
Other	0.0%	0.1	–	0.1
At 26 January 2013		520.1	14.3	534.4

Floating rate assets are bank balances and short-term deposits at interest rates linked to LIBOR or the base rate of the relevant currency. Non-interest bearing balances include cash floats, primarily held in the stores.

16 Borrowings and overdrafts

Our borrowings comprise loans from banks, bonds issued on a long-term basis, bank overdrafts and Cumulative Preference Stock.

16.1 Borrowings and overdrafts

	2014 £m	2013 £m
Current:		
Bank overdraft	**(75.6)**	(56.3)
10½% Bonds, 2014	–	(100.0)
	(75.6)	(156.3)
Non-current:		
Partnership Bond, 2016*	**(56.6)**	(56.1)
8³/₈% Bonds, 2019	**(275.0)**	(275.0)
6¹/₈% Bonds, 2025	**(300.0)**	(300.0)
Unamortised bond transaction costs	**5.2**	5.7
5% First Cumulative Preference Stock	**(1.5)**	(1.5)
7% Cumulative Preference Stock	**(0.8)**	(0.8)
	(628.7)	(627.7)

* 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.

If the preference dividends are in arrears or in the event of winding up the 5% First Cumulative Preference Stock and the 7% Cumulative Preference Stock have one vote per share. Otherwise, the holders of preference stock have one vote for every ten shares, whereas the holders of ordinary share have one vote for every ordinary share held. The amounts receivable in a winding up would be limited to the amounts paid up, the 5% First Cumulative Preference Stock taking priority over the 7% Cumulative Preference Stock.

16.2 Obligations under finance leases

	2014 £m	2013 £m
Current	**(3.3)**	(3.0)
Non-current	**(32.4)**	(35.9)
	(35.7)	(38.9)

The minimum lease payments under finance leases fall due as shown in note 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *CONTINUED*

17 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; and to our Partners, through salaries and our annual profit share, the Partnership Bonus.

	2014 £m	2013 £m
Current:		
Trade payables	**(788.1)**	(698.1)
Amounts owed to parent undertaking	**(101.4)**	(89.2)
Other payables	**(122.8)**	(115.1)
Other taxation and social security	**(167.6)**	(174.0)
Accruals	**(189.6)**	(151.5)
Deferred income	**(46.7)**	(33.4)
Partnership Bonus	**(183.1)**	(190.0)
	(1,599.3)	(1,451.3)
Non-current:		
Other payables	**(0.6)**	(0.7)
Deferred income	**(134.9)**	(118.6)
	(135.5)	(119.3)

The carrying amount of trade and other payables approximates to fair value.

18 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 Group. This note details the schedule of payments due over the life of the finance leases, together with the present value of the finance lease recorded in the consolidated balance sheet.

	2014 £m	2013 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	**(4.8)**	(4.6)
Later than one year but not more than five	**(12.9)**	(16.0)
More than five years	**(44.8)**	(46.6)
	(62.5)	(67.2)
Future finance charge on finance leases	**26.8**	28.3
Present value of finance lease liabilities	**(35.7)**	(38.9)
Of which:		
Not later than one year	**(3.3)**	(3.0)
Later than one year but not more than five	**(8.6)**	(11.2)
More than five years	**(23.8)**	(24.7)

The Group'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'.

19 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 26 January 2013	(112.2)	(52.7)	(26.3)	(21.5)	(33.5)	(246.2)
Charged to income statement	(9.2)	(33.6)	(26.2)	(13.6)	(62.9)	(145.5)
Released to income statement	–	10.9	–	–	5.3	16.2
Utilised	8.6	18.0	26.3	9.4	55.1	117.4
At 25 January 2014	**(112.8)**	**(57.4)**	**(26.2)**	**(25.7)**	**(36.0)**	**(258.1)**
Of which:						
Current	(40.1)	(22.6)	(26.2)	(5.7)	(26.3)	(120.9)
Non-current	(72.7)	(34.8)	–	(20.0)	(9.7)	(137.2)

The Group 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 Group's retirement benefit obligations (note 22), 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 Group's expected liability for future repair costs based on estimated failure rates and unit repair costs for the classes of goods sold.

Provision for customer refunds reflects the Group's expected liability for returns of goods sold based on experience of rates of return.

Provisions for insurance claims are in respect of the Group'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 the 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 Group's best estimate of utilisation is provided above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *CONTINUED*

20 Management of financial risks

The principal financial risks that we are exposed to are: liquidity risk, interest rate risk, foreign currency risk, credit risk, capital risk and energy risk. This note details how each of these risks are managed.

20.1 Liquidity risk

Liquidity requirements are managed in line with short and long-term cash flow forecasts and reviewed against the Group's debt portfolio and maturity profile. Surplus cash held over and above balances required for working capital management is invested in interest bearing current accounts, term deposits and money market funds with appropriate maturities or sufficient liquidity determined by the above mentioned forecasts. In January 2014, the Group repaid a £100m bond and entered into an 18 month £150m bilateral borrowing facility. At the year end the Group had undrawn committed revolving borrowings facilities of £475m (2013: £325m). In addition to these facilities, the Group has listed bonds totalling £575m (2013: £675m) of which £275m mature in 2019 and £300m in 2025 and the Group bond issued in April 2011 and maturing in 2016, which raised gross proceeds of £58m. The bonds are not subject to repricing, and their interest rates and maturity profiles are set out in note 23.

The Group's bank borrowing facilities contain financial covenants. Throughout the year the Group maintained comfortable headroom against its covenants and is expected to do so into the foreseeable future.

The Group's total committed sources of available funds at the date of signing these accounts are £1,108m.

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	(75.6)	–	(635.1)
Interest payments on borrowings*	(44.0)	(44.0)	(260.1)
Finance lease liabilities	(4.8)	(4.4)	(53.3)
Trade and other payables	(1,385.0)	(0.6)	–
Derivative financial liabilities			
Derivative contracts – receipts	185.0	28.7	–
Derivative contracts – payments	(190.8)	(29.1)	–
At 25 January 2014	**(1,515.2)**	**(49.4)**	**(948.5)**

	Due within 1 year £m	Due between 1 and 2 years £m	Due 2 years and beyond £m
Non-derivative financial liabilities			
Borrowings and overdrafts	(156.3)	–	(635.1)
Interest payments on borrowings*	(54.5)	(44.0)	(304.1)
Finance lease liabilities	(4.6)	(4.6)	(58.0)
Trade and other payables	(1,243.9)	(0.7)	–
Derivative financial liabilities			
Derivative contracts – receipts	163.0	–	–
Derivative contracts – payments	(166.7)	–	–
At 26 January 2013	(1,463.0)	(49.3)	(997.2)

* Excludes annual interest of £0.1m on cumulative preference stock which have no fixed redemption date.

Interest on borrowings is calculated based on the borrowing position at the financial year end 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.

20.2 Interest rate risk

In order to manage the risk of interest rate fluctuations the Group targets a ratio of fixed and floating rate debt in line with the Board approved treasury policy. An analysis of the Group's financial liabilities is detailed in note 23. Exposures to interest rate fluctuations are managed using interest rate derivatives.

As authorised by the Board, the ratio of fixed to floating rate borrowing has remained outside treasury policy during the year, as it was decided not to enter into new interest rate swaps given the historically low bond yield levels.

20.3 Foreign currency risk

The Group uses derivative financial instruments to manage exposures to movements in exchange rates arising from transactions with foreign suppliers. 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 fully effective. At the balance sheet date, the notional value of open forward foreign currency contracts of £213.7m (2013: £163.0m) had been entered into to hedge purchases in foreign currencies which will mature over the next 18 months.

20.4 Credit risk

The Group has no significant exposure to customer 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 counterparties with a credit rating not less than a Standard & Poor's equivalent 'A' rating and designating appropriate limits to each counterparty.

The Group considers its maximum exposure to credit risk is as follows:

	2014 £m	2013 £m
Trade and other receivables	**116.3**	108.2
Cash and cash equivalents	**358.9**	534.4
Derivative financial instruments	**0.7**	4.2
	475.9	646.8

20.5 Capital risk

The Group'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 Group 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 Group manages capital to ensure an appropriate balance between investing in Partner, customer and profit. The policy is to maintain a capital structure consistent with an investment grade credit rating. Although the Group does not have an external credit rating, it routinely monitors its capital and liquidity requirements using capital ratios commonly used by rating agencies to assess risk, whilst maintaining an appropriate level of debt headroom and a smooth debt maturity profile to ensure continuity of funding. The Group borrows centrally to meet the requirements of its divisions using a mix of funding including capital market issues and bank facilities. The Group further diversified its funding sources through the issue of a Group bond to its Partners and customers in April 2011. Other forms of borrowing include a small amount of Cumulative Preference Stock.

20.6 Energy risk

The Group operates risk management processes for the Group's energy costs associated with its activities. The Group'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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *CONTINUED*

20 Management of financial risks (continued)

20.7 Sensitivity analysis

The following analysis illustrates the sensitivity of the Group'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, reflects the Group's view of reasonable possible changes to these variables which existed at the year end.

The analysis excludes the impact of movements in market variables on the carrying value of pension and other post-retirement obligations and provisions.

The analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating rate borrowings and the proportion of financial instruments in foreign currencies are constant throughout the year, based on positions as at the year end.

The following assumptions have been made in calculating the sensitivity analysis:

- the sensitivity of interest costs to movements in interest rates is calculated using floating rate debt and investment balances prevailing at the year end;
- changes in the carrying value of derivative financial instruments not in hedging relationships are assumed only to affect the income statement; and
- all derivative financial instruments designated as hedges are assumed to be fully effective.

		2014		2013
	Income Statement +/- £m	**Equity +/- £m**	Income Statement +/- £m	Equity +/- £m
UK interest rates +/- 1% (2013: +/- 1%)	**2.7**	**–**	4.5	–
US dollar exchange rate +/-10% (2013: +/- 10%)	**0.4**	**9.3**	0.4	9.3
Euro exchange rate +/- 10% (2013: +/- 10%)	**0.1**	**9.6**	0.5	4.9

21 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.

21.1 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 25 January 2014, 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.

21.2 Fair value of derivative financial instruments

The fair value of derivative financial instruments is as follows:

	2014		2013	
Fair value of derivative financial instruments	**Assets £m**	**Liabilities £m**	Assets £m	Liabilities £m
Currency derivatives – cash flow hedge	**0.7**	**(5.9)**	4.2	(0.6)

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 Group 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.

21.3 Fair value of financial assets and liabilities held at amortised cost

The following table compares the Group's liabilities held at amortised cost, where there is a difference between carrying value (CV) and fair value (FV):

	2014 £m		2013 £m	
	CV	**FV**	CV	FV
Financial liabilities				
Listed bonds	**(569.8)**	**(695.4)**	(669.3)	(826.8)
Preference stock	**(2.3)**	**(2.0)**	(2.3)	(1.9)

The fair values of the Group'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.

22 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 Group 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 Group.

The scheme is governed by a Trustee which is independent of the Group. The Trustee is responsible for the operation and governance of the scheme, including making decisions regarding the scheme's investment strategy.

The scheme is subject to a full actuarial valuation every three years on assumptions agreed between the Trustee and the Group. 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 Group 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 (increasing with inflation), in addition to a one-off contribution of £85.0m made in January 2014. The balance of the deficit is expected to be met by investment returns on the scheme assets exceeding the discount rate used to value the liabilities. Total contributions to the scheme in 2015 under this agreement are expected to be £197.0m.

The next triennial actuarial valuation of the scheme will take place as at 31 March 2016.

The cost of the scheme to the Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *CONTINUED*

22 Retirement benefit obligations (continued)

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.

The senior pension scheme provided additional benefits to certain members of senior management. The senior pension scheme was merged into the main scheme on 31 March 2013.

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 25 January 2014, calculated on assumptions that are appropriate for accounting under IAS 19.

The Group is currently engaged in discussions with the Partnership Council on the level and form of future provision of pension benefits to Partners.

22.1 Financial assumptions

Scheme assets are stated at market values at 25 January 2014. The following financial assumptions have been used:

	2014	2013
Discount rate	**4.40%**	4.60%
Future retail price inflation (RPI)	**3.30%**	3.20%
Future consumer price inflation (CPI)	**2.30%**	2.30%
Increase in earnings	**3.80%**	3.70%
Increase in pensions – in payment	**3.00%**	3.00%
Increase in pensions – deferred	**2.30%**	2.30%

Increases in earnings are projected at 0.5% above retail price inflation, with increases in pensions in payment being 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%.

22.2 Demographic assumptions

The average life expectancies assumed were as follows:

	2014		2013	
	Men	**Women**	Men	Women
Average life expectancy for a 60 year old (in years)	**26.8**	**28.9**	26.2	28.5
Average life expectancy at age 60, for a 40 year old (in years)	**28.7**	**30.9**	27.6	29.9

22.3 Amounts recognised in the financial statements

Amounts recognised in the balance sheet	2014 £m	2013 £m
Defined benefit obligation for funded arrangements	**(4,201.2)**	(3,781.0)
Defined benefit obligation for unfunded arrangements	**(17.0)**	(15.0)
Total defined benefit obligation	**(4,218.2)**	(3,796.0)
Total value of assets	**3,214.8**	2,973.9
Defined benefit liability at year end	**(1,003.4)**	(822.1)

Amounts recognised in the income statement	2014 £m	2013 (restated) £m
Current service cost	**(155.7)**	(128.0)
Past service cost	**(8.0)**	–
Contribution expense*	**(9.4)**	(6.4)
Administrative expenses	**(2.6)**	(2.6)
Operating expenses	**(175.7)**	(137.0)
Net interest on net defined benefit liability	**(35.3)**	(29.1)
Total pension charge	**(211.0)**	(166.1)

* Includes Group 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 £8.0m relates to additional pension liabilities arising from the correction of pensionable pay for certain members arising from the review of the Group's holiday pay policy. See note 3.

22.4 Amounts recognised in equity

Amounts recognised in equity	2014 £m	2013 (restated) £m
Return on plan assets (less)/greater than the discount rate	**(49.7)**	179.1
Remeasurements:		
– from changes in demographic assumptions	**39.4**	30.3
– from changes in financial assumptions	**(234.9)**	(469.4)
Total losses recognised in equity	**(245.2)**	(260.0)
Cumulative loss recognised in equity	**(990.8)**	(745.6)

22.5 Retirement benefit obligations

Reconciliation of net defined benefit liability	2014 £m	2013 (restated) £m
Net defined benefit liability at beginning of year	**(822.1)**	(638.1)
Pension expense	**(199.0)**	(157.1)
Contributions	**262.9**	233.1
Total losses recognised in equity	**(245.2)**	(260.0)
Net defined benefit liability at end of year	**(1,003.4)**	(822.1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *CONTINUED*

22 Retirement benefit obligations (continued)

Reconciliation of defined benefit obligation	2014 £m	2013 (restated) £m
Defined benefit obligation at beginning of year	**(3,796.0)**	(3,175.0)
Service cost	**(159.2)**	(124.5)
Interest on pension liabilities	**(172.5)**	(154.8)
Remeasurements		
– from changes in demographic assumptions	**39.4**	30.3
– from changes in financial assumptions	**(234.9)**	(469.4)
Benefits paid	**105.0**	97.4
Defined benefit obligation at end of year	**(4,218.2)**	(3,796.0)

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 20 years.

22.6 Scheme assets

Reconciliation of value of assets	2014 £m	2013 (restated) £m
Value of assets at the beginning of year	**2,973.9**	2,536.9
Interest income on assets	**137.2**	125.7
Return on plan assets (less)/greater than discount rate	**(49.7)**	179.1
Benefits paid	**(105.0)**	(97.4)
Administrative expenses paid	**(4.5)**	(3.5)
Contributions	**262.9**	233.1
Value of assets at the end of year	**3,214.8**	2,973.9

22.7 Analysis of assets

	2014		2013	
Analysis of assets	**£m**	**%**	£m	%
Listed Equities	**1,249.9**	**39%**	1,595.3	53%
Private Equities	**235.3**	**7%**	198.6	7%
Properties	**206.4**	**6%**	181.6	6%
Government Bonds*	**219.5**	**7%**	70.6	2%
Credit**	**304.7**	**10%**	292.4	10%
Infrastructure	**115.0**	**4%**	81.6	3%
Investment Funds	**397.7**	**12%**	292.7	10%
Cash and Other***	**486.3**	**15%**	261.1	9%
	3,214.8		2,973.9	

* Government bond holdings at 25 January 2014 consisted of a portfolio of long dated index linked government bonds.

** Credit holdings consist of short dated listed corporate bond holdings (£216.9m at 25 January 2014) and unlisted credit (£87.8m at 25 January 2014).

*** Cash holdings at 25 January 2014 include £294.4m 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	2014 £m	2013 (restated) £m
Interest income on assets	**137.2**	125.7
Return on plan assets (less)/greater than discount rate	**(49.7)**	179.1
Actual return on assets	**87.5**	304.8

22.8 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:

	£m	% change
Liability as at 25 January 2014	**(1,003.4)**	
Sensitivity of 0.1% increase to:		
– Discount rate	**78.0**	**+ 1.8%**
– Retail price inflation	**(71.0)**	**– 1.7%**
– Consumer price inflation	**(10.0)**	**– 0.2%**
– Salary increases	**(20.0)**	**– 0.5%**
Sensitivity of one year increase in life expectancy	**(130.0)**	**– 3.1%**

22.9 History of experience of gains and losses

History of experience of gains and losses	2014 £m	2013 (restated) £m
(Losses)/gains on assets	**(49.7)**	179.1
% of assets at the end of the year	**(1.5%)**	6.0%
Experience gains on defined benefit obligation	**39.4**	30.3
% of defined benefit obligation at the end of the year	**0.9%**	0.8%

22.10 Other arrangements

On 30 January 2010, the Group entered into an arrangement with the Pension Scheme Trustees to address an element of the scheme deficit that existed at that time.

The Group established two partnerships, JLP Scottish Limited Partnership and JLP Scottish Partnership, which are both consolidated within these Group financial statements.

Together with another Group 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 Group companies. The Group 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 September 2011, the Group withdrew properties with a market value of £70.0m and substituted these with other properties with a market value of £72.8m.

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 Group 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 Group may be required to transfer this amount in cash to the scheme.

Under IAS 19 (revised 2011), 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 Group's consolidated financial statements. Accordingly, the pension deficit position presented in these consolidated accounts does not reflect the £87.9m (2013: £108.0m) 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.

The investment does represent a plan asset for the purpose of the company accounts. The retirement benefit obligation for the company as at 25 January 2014 is £915.5m (2013: £714.1m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *CONTINUED*

23 Analysis of financial liabilities

This note sets out the currency and interest rate exposure of our financial liabilities. The interest rate and 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, together with the effective interest rate.

Short-term payables are excluded from this analysis on the basis that they are all non-interest bearing.

Interest rate and currency analysis	Fixed rate £m	Floating rate £m	Total £m
All sterling			
At 25 January 2014	**(664.4)**	**(75.6)**	**(740.0)**
At 26 January 2013	(766.6)	(56.3)	(822.9)

Maturity of financial liabilities	**2014** Effective interest rate	**2014** £m	2013 Effective interest rate	2013 £m
Repayable within one year				
Bank overdrafts	**1.8%**	**(75.6)**	1.8%	(56.3)
Property finance leases	**7.6%**	**(3.3)**	7.6%	(3.0)
Bonds		–	10.5%	(100.0)
		(78.9)		(159.3)
Repayable between one and two years				
Property finance leases	**7.6%**	**(3.1)**	7.6%	(3.3)
		(3.1)		(3.3)
Repayable between two and five years				
Property finance leases	**7.6%**	**(5.5)**	7.6%	(7.9)
Bonds	**5.5%**	**(56.6)**	5.5%	(56.1)
Unamortised bond transaction costs		**0.3**		0.4
		(61.8)		(63.6)
Repayable in more than five years				
Property finance leases	**7.6%**	**(23.8)**	7.6%	(24.7)
Bonds	**7.2%**	**(575.0)**	7.2%	(575.0)
Unamortised bond transaction costs		**4.9**		5.3
Cumulative Preference Stock	**5.6%**	**(2.3)**	5.6%	(2.3)
		(596.2)		(596.7)
		(740.0)		(822.9)

24 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.

	2014		2013	
	Authorised £m	Issued and fully paid £m	Authorised £m	Issued and fully paid £m
Equity				
Deferred Ordinary Shares				
6,750,000 of £1 each	**6.7**	**6.7**	6.7	6.7

25 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.

	2014 £m	2013 (restated) £m
Profit before tax	**126.1**	131.7
Amortisation of intangible assets	**54.5**	41.9
Depreciation	**254.6**	255.1
Net finance costs	**92.6**	108.2
Partnership Bonus	**202.5**	210.8
Loss on disposal of property, plant and equipment and intangible assets	**1.6**	6.1
Increase in inventories	**(40.0)**	(48.8)
(Increase)/decrease in receivables	**(39.3)**	16.7
Increase in payables	**135.3**	229.9
(Decrease)/Increase in retirement benefit obligations	**(14.2)**	19.9
Increase in provisions	**10.1**	19.6
Cash generated from operations	**783.8**	991.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *CONTINUED*

26 Analysis of net debt

Net debt summarises our net financial liability position as at the year end.

	2013 £m	Cash flow £m	Other non-cash movements £m	**2014 £m**
Current assets				
Cash and cash equivalents	534.4	(175.5)	–	**358.9**
Derivative financial instruments	4.2	–	(3.5)	**0.7**
	538.6	(175.5)	(3.5)	**359.6**
Current liabilities				
Borrowings and overdrafts	(156.3)	80.7	–	**(75.6)**
Finance leases	(3.0)	3.1	(3.4)	**(3.3)**
Derivative financial instruments	(0.6)	–	(5.3)	**(5.9)**
	(159.9)	83.8	(8.7)	**(84.8)**
Non-current liabilities				
Borrowings	(633.4)	–	(0.5)	**(633.9)**
Unamortised bond transaction costs	5.7	–	(0.5)	**5.2**
Finance leases	(35.9)	–	3.5	**(32.4)**
	(663.6)	–	2.5	**(661.1)**
Total net debt	(284.9)	(91.7)	(9.7)	**(386.3)**

Reconciliation of net cash flow to net debt

	2014 £m	2013 £m
Decrease in net cash and cash equivalents in the year	**(194.8)**	(12.6)
Cash outflow from movement in debt and lease financing	**103.1**	245.5
Movement in debt for the year	**(91.7)**	232.9
Opening net debt	**(284.9)**	(504.8)
Non-cash movements	**(9.7)**	(13.0)
Closing net debt	**(386.3)**	(284.9)

27 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.

27.1 Capital commitments

At 25 January 2014 contracts had been entered into for future capital expenditure of £106.8m (2013: £11.1m) of which £106.2m (2013: £10.5m) relates to property, plant and equipment and £0.6m (2013: £0.6m) relates to intangible assets.

27.2 Lease guarantees

John Lewis plc continues to provide lease guarantees in favour of the Group's former associate company, Ocado Limited, of £6.8m (2013: £6.8m).

27.3 Commitments under operating leases

Future aggregate minimum lease payments Under non-cancellable operating leases, payable:	2014 Land and buildings £m	2013 Land and buildings £m
Within one year	**148.5**	138.4
Later than one year and less than five years	**535.3**	503.4
After five years	**2,397.8**	2,299.3

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years comprise the following:	2014 Land and buildings £m	2013 Land and buildings £m
Later than five years and less than 10 years	**577.4**	529.5
Later than 10 years and less than 20 years	**711.8**	677.5
Later than 20 years and less than 40 years	**329.6**	323.0
Later than 40 years and less than 80 years	**297.9**	296.6
After 80 years	**481.1**	472.7
	2,397.8	2,299.3

Total future sub-lease payments receivable relating to the above operating leases amounted to £9.2m (2013: £11.8m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *CONTINUED*

28 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 trustees, 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.

28.1 Subsidiaries

All transactions between the Group and its subsidiaries are eliminated upon consolidation, and therefore do not need to be disclosed separately. A list of subsidiaries within the Group are included within note 52.

28.2 Arrangements with Pension Scheme trustees

The Group 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. Details of this arrangement and changes made in September 2011 are set out in note 22.

In December 2011 the Group 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 25 January 2014 £0.9m (2013: 0.8m) was paid in respect of the operating lease.

28.3 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 Group 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 £97.2m (2013: £84.7m).

28.4 Other transactions

Key management compensation has been disclosed in note 9.

Company balance sheet

as at 25 January 2014

Notes		2014 £m	2013 £m
	Non-current assets		
32	Intangible assets	**173.6**	128.7
33	Property, plant and equipment	**920.0**	877.0
34	Investments	**1,402.4**	854.3
36	Trade and other receivables	**50.1**	46.4
43	Deferred tax asset	**187.1**	177.9
		2,733.2	2,084.3
	Current assets		
35	Inventories	**313.5**	293.9
36	Trade and other receivables	**109.5**	86.3
	Current tax receivable	**33.8**	47.7
45	Derivative financial instruments	**0.7**	4.2
37	Cash and cash equivalents	**232.5**	424.9
		690.0	857.0
	Total assets	**3,423.2**	2,941.3
	Current liabilities		
39	Borrowings and overdrafts	**(71.6)**	(154.7)
40	Trade and other payables	**(1,260.0)**	(1,154.3)
41	Finance lease liabilities	**(0.6)**	(0.2)
42	Provisions	**(112.3)**	(96.9)
45	Derivative financial instruments	**(5.9)**	(0.6)
		(1,450.4)	(1,406.7)
	Non-current liabilities		
39	Borrowings	**(628.7)**	(627.7)
40	Trade and other payables	**(116.7)**	(104.2)
41	Finance lease liabilities	**(15.4)**	(14.3)
42	Provisions	**(116.9)**	(118.2)
49	Retirement benefit obligations	**(915.5)**	(714.1)
		(1,793.2)	(1,578.5)
	Total liabilities	**(3,243.6)**	(2,985.2)
	Net assets/(liabilities)	**179.6**	(43.9)
	Equity		
50	Share capital	**6.7**	6.7
	Share premium	**0.3**	0.3
	Hedging reserve	**(5.8)**	3.9
	Retained earnings/(Accumulated losses)	**178.4**	(54.8)
	Total equity	**179.6**	(43.9)

The financial statements on pages 87 to 108 were approved by the Board of Directors on 10 April 2014 and signed on its behalf by

Sir Charlie Mayfield and Helen Weir
Directors, John Lewis plc

Company statement of changes in equity

for the year ended 25 January 2014

Notes		Share capital £m	Share premium £m	Hedging reserve £m	Retained earnings (restated) £m	Total equity (restated) £m
	Balance at 28 January 2012	6.7	0.3	0.2	169.9	177.1
30	Loss for the year	–	–	–	(35.7)	(35.7)
	Remeasurement of defined benefit pension schemes	–	–	–	(239.9)	(239.9)
	Tax on above item recognised in equity	–	–	–	51.0	51.0
	Fair value gains on cash flow hedges	–	–	0.3	–	0.3
	– transfers to inventories	–	–	3.4	–	3.4
	Dividends	–	–	–	(0.1)	(0.1)
	Balance at 26 January 2013	6.7	0.3	3.9	(54.8)	(43.9)
30	Profit for the year	–	–	–	466.4	466.4
	Remeasurement of defined benefit pension schemes	–	–	–	(258.5)	(258.5)
	Tax on above item recognised in equity	–	–	–	25.3	25.3
	Fair value losses on cash flow hedges	–	–	(6.6)	–	(6.6)
	– transfers to inventories	–	–	(3.1)	–	(3.1)
	Balance at 25 January 2014	6.7	0.3	(5.8)	178.4	179.6

Company statement of cash flows
for the year ended 25 January 2014

Notes		2014 £m	2013 £m
47	**Cash generated from operations**	**337.8**	457.8
	Net taxation received	**14.3**	11.8
	Partnership Bonus paid	**(97.6)**	(73.8)
	Additional contribution to the Pension Scheme	**(85.0)**	(125.0)
	Finance costs paid	**(1.4)**	(3.5)
	Net cash generated from operating activities	**168.1**	267.3
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(135.4)**	(101.5)
	Purchase of intangible assets	**(75.1)**	(64.8)
	Proceeds from sale of property, plant and equipment	**0.6**	1.1
	Investment in subsidiary	**–**	(0.1)
	Dividends paid	**–**	(0.1)
	Loans (advanced to)/from Group companies	**(15.9)**	165.1
	Finance income received	**1.5**	1.8
	Net cash (used)/generated in investing activities	**(224.3)**	1.5
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	**(54.5)**	(56.8)
	Movement in finance leases	**1.5**	(0.2)
	Payments to preference shareholders	**(0.1)**	(0.1)
	Cash outflow from borrowings	**(100.0)**	(242.0)
	Net cash used in financing activities	**(153.1)**	(299.1)
	Decrease in net cash and cash equivalents	**(209.3)**	(30.3)
	Net cash and cash equivalents at beginning of the year	**370.2**	400.5
	Net cash and cash equivalents at end of the year	**160.9**	370.2
	Net cash and cash equivalents comprise:		
	Cash	**29.6**	45.6
	Short-term investments	**202.9**	379.3
	Bank overdraft	**(71.6)**	(54.7)
		160.9	370.2

NOTES TO THE COMPANY FINANCIAL STATEMENTS

29 Accounting policies

John Lewis plc (the Company) prepares its accounts under International 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 Group. 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 Group'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 Group's accounting policies as described in note 1. Additional accounting policies are noted below.

Investment in subsidiary undertakings
The Company has a number of investments in subsidiary companies. Investments are valued at cost, less allowances for impairment. Impairment reviews are performed annually.

30 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 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 £466.4m profit (2013 restated: £35.7m loss). During the year an intra-group dividend of £500.0m (2013: nil) was received.

Details of auditors' remuneration are provided in note 7 to the consolidated financial statements of John Lewis plc.

31 Partners

This note shows the average number of Partners employed by us in the year, which areas of the Company they work in, and total employment related costs.

31.1 Partner numbers

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

	2014	2013
John Lewis	**29,800**	29,300
Other	**1,800**	1,600
	31,600	30,900

31 Partners (continued)

31.2 Partner benefits

Employment and related costs were as follows:

	2014 £m	2013 (restated) £m
Staff costs:		
Wages and salaries	**(559.1)**	(520.3)
Social security costs	**(48.3)**	(44.1)
Partnership Bonus	**(80.5)**	(84.7)
Employers' national insurance on Partnership Bonus	**(9.9)**	(10.6)
Other pension costs (note 49)	**(87.0)**	(68.0)
Long leave cost	**(4.3)**	(2.6)
Total before partner discounts	**(789.1)**	(730.3)
Partner discounts (deducted from revenue)	**(35.3)**	(31.5)
	(824.4)	(761.8)
Included above are the following amounts in respect of key management compensation:		
Salaries and short-term benefits	**(9.2)**	(9.0)
Post-employment benefits*	**(3.2)**	(3.1)
	(12.4)	(12.1)

* Includes pension supplements in lieu of future pension accrual.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

31.3 Directors' emoluments

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 Group.

Highest paid director

The total emoluments for the year ended 25 January 2014 and 26 January 2013 of the Chairman, who was also the highest paid Director, were £1,520,000 (2013: £1,478,000), comprising pay of £904,000 (2013: £825,000), Partnership Bonus of £136,000 (2013: £140,000), pension supplement in lieu of further defined pension accrual of £466,000 (2013: £495,000) and benefits with a cash value of £14,000 (2013: £18,000).

Total emoluments paid to Directors were £6,102,000 (2013: £5,605,000).

Pension arrangements

All Directors, except one, have ceased to accrue further pension benefits in the Partnership's pension schemes including the senior pension scheme. Their accrued pensions 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.

The Chairman's aggregate defined benefit pension entitlement from the age of 60 accrued at the end of the year was £245,000 per annum (2013: £224,000 per annum). There was no increase in the accrued entitlement above consumer price inflation during the year.

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

Key management include Directors of Group companies, members of the Group's management Boards and officers of the Group. 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 Group's long leave scheme, which is open to all employees 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.

32 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 28 January 2012	33.2	168.1	59.3	260.6
Additions	–	–	64.8	64.8
Transfers	12.1	10.5	(22.6)	–
Disposals	(4.9)	(75.4)	(21.3)	(101.6)
At 26 January 2013	40.4	103.2	80.2	223.8
Additions	–	0.2	74.9	75.1
Transfers	36.3	54.2	(90.5)	–
Disposals	(4.9)	(6.7)	–	(11.6)
At 25 January 2014	**71.8**	**150.9**	**64.6**	**287.3**
Accumulated amortisation				
At 28 January 2012	(21.0)	(101.9)	–	(122.9)
Charge for the year	(2.7)	(19.8)	–	(22.5)
Disposals	0.5	49.8	–	50.3
At 26 January 2013	(23.2)	(71.9)	–	(95.1)
Charge for the year	(9.2)	(21.0)	–	(30.2)
Disposals	4.9	6.7	–	11.6
At 25 January 2014	**(27.5)**	**(86.2)**	**–**	**(113.7)**
Net book value at January 2012	12.2	66.2	59.3	137.7
Net book value at January 2013	17.2	31.3	80.2	128.7
Net book value at January 2014	**44.3**	**64.7**	**64.6**	**173.6**

For the year to 25 January 2014 computer systems valued at £90.5m (2013: £22.6m) 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS *CONTINUED*

33 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 and fittings £m	Assets in course of construction £m	Total £m
Cost				
At 28 January 2012	679.4	755.5	22.8	1,457.7
Additions	0.1	1.0	102.7	103.8
Transfers	44.6	45.0	(89.6)	–
Disposals	(0.6)	(46.7)	(1.6)	(48.9)
At 26 January 2013	723.5	754.8	34.3	1,512.6
Additions	0.1	1.2	144.1	145.4
Transfers	41.4	78.4	(119.8)	–
Disposals	(0.5)	(45.6)	–	(46.1)
At 25 January 2014	**764.5**	**788.8**	**58.6**	**1,611.9**
Accumulated depreciation				
At 28 January 2012	(125.9)	(451.9)	–	(577.8)
Charge for the year	(23.0)	(80.0)	–	(103.0)
Disposals	0.2	45.0	–	45.2
At 26 January 2013	(148.7)	(486.9)	–	(635.6)
Charge for the year	(26.0)	(76.4)	–	(102.4)
Disposals	0.5	45.6	–	46.1
At 25 January 2014	**(174.2)**	**(517.7)**	**–**	**(691.9)**
Net book value at January 2012	553.5	303.6	22.8	879.9
Net book value at January 2013	574.8	267.9	34.3	877.0
Net book value at January 2014	**590.3**	**271.1**	**58.6**	**920.0**

Included above are land and buildings assets held under finance leases with a net book value of £12.5m (2013: £12.8m).

34 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 Group.

The Company has the following investments in subsidiaries at 25 January 2014.

	Shares in group companies £m	Loans to group companies £m	Total £m
At 26 January 2013	41.7	812.6	854.3
Movements	–	548.1	548.1
At 25 January 2014	**41.7**	**1,360.7**	1,402.4

A list of subsidiary undertakings is provided in note 52.

35 Inventories

This note sets out the make-up of our inventories and the value of inventories charged through the Company 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 inventories primarily consist of finished goods and goods for resale. Once the inventory is sold, it is charged to cost of sales in the Company income statement.

	2014 £m	2013 £m
Raw materials	–	0.2
Finished goods and goods for resale	**313.5**	293.7
	313.5	293.9

The cost of inventory recognised as an expense by the Company in the year was £1,952.9 (2013: £1,798.6m). Provisions against inventories of £7.7m were charged (2013: £12.5m charged) in operating expenses.

NOTES TO THE COMPANY FINANCIAL STATEMENTS *CONTINUED*

36 Trade and other receivables

Trade and other receivables are amounts owed to us, from customers and from suppliers if we are owed rebates. This note also includes: interest receivable from third parties; prepayments which are payments made in advance of the delivery of goods or rendering of services; accrued income earned by the Company 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 recoverable.

	2014 £m	2013 £m
Current:		
Trade receivables	**15.0**	9.6
Other receivables	**34.2**	27.2
Prepayments and accrued income	**60.3**	49.5
	109.5	86.3
Non-current:		
Prepayments and accrued income	**50.1**	46.4

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.

As of 25 January 2014, trade and other receivables of £1.9m (2013: £1.8m) were fully impaired. Movements in the allowance for impaired receivables were as follows:

	2014 £m	2013 £m
At start of year	**(1.8)**	(0.7)
Charged to income statement	**(0.6)**	(1.1)
Utilised	**0.5**	–
At end of year	**(1.9)**	(1.8)

The creation and release of the allowance for impaired receivables have been included in operating expenses in the income statement.

As of 25 January 2014, trade and other receivables of £16.8m (2013: £9.6m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

	2014 £m	2013 £m
Up to 3 months past due	**12.3**	7.4
3 to 12 months past due	**2.6**	1.3
Over 12 months past due	**1.9**	0.9
	16.8	9.6

37 Cash and cash equivalents

Our cash and cash equivalents include cash in hand and investments in term deposits with financial institutions and money market funds.

	2014 £m	2013 £m
Cash at bank and in hand	**29.6**	45.6
Short-term investments	**202.9**	379.3
	232.5	424.9

For the year ended 25 January 2014, the effective interest rate on short-term investments was 0.4% (2013: 0.5%) and these deposits had an average maturity of 1 day (2013: 1 day).

In the Company statement of cash flows, net cash and cash equivalents are shown after deducting bank overdrafts, as follows:

	2014 £m	2013 £m
Cash and cash equivalents, as above	**232.5**	424.9
Less bank overdrafts	**(71.6)**	(54.7)
Net cash and cash equivalents	**160.9**	370.2

38 Analysis of financial assets

Our financial assets, primarily cash and cash equivalents, are subject to currency and interest rate exposures. This note sets out the amount of cash and cash equivalents deposited in sterling or other currencies, together with the effective interest rate.

Short-term trade and other receivables and derivative financial assets are excluded from this analysis, on the basis that they are all non-interest bearing and denominated in sterling.

Interest rate and currency analysis	Effective interest rate	Floating rate £m	Non-interest bearing £m	Total £m
Sterling	0.4%	229.0	3.4	232.4
Other	0.0%	0.1	–	0.1
At 25 January 2014		**229.1**	**3.4**	**232.5**
Sterling	0.5%	421.6	3.2	424.8
Other	0.0%	0.1	–	0.1
At 26 January 2013		421.7	3.2	424.9

Floating rate assets are bank balances and short-term deposits at interest rates linked to LIBOR or the base rate of the relevant currency. Non-interest bearing balances include cash floats, primarily held in the stores.

NOTES TO THE COMPANY FINANCIAL STATEMENTS *CONTINUED*

39 Borrowings and overdrafts

Our borrowings comprise loans from banks, bonds issued on a long-term basis, bank overdrafts and Cumulative Preference Stock.

39.1 Borrowings and overdrafts

	2014 £m	2013 £m
Current:		
Bank overdraft	**(71.6)**	(54.7)
10 ½% Bonds, 2014	**–**	(100.0)
	(71.6)	(154.7)
Non-current:		
Partnership Bond, 2016*	**(56.6)**	(56.1)
8 3/8% Bonds, 2019	**(275.0)**	(275.0)
6 1/8% Bonds, 2025	**(300.0)**	(300.0)
Unamortised bond transaction costs	**5.2**	5.7
5% First Cumulative Preference Stock	**(1.5)**	(1.5)
7% Cumulative Preference Stock	**(0.8)**	(0.8)
	(628.7)	(627.7)

* 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.

If the preference dividends are in arrears or in the event of winding up, the 5% First Cumulative Preference Stock and the 7% Cumulative Preference Stock have one vote per share. Otherwise, the holders of preference stock have one vote for every ten shares, whereas the holders of ordinary shares have one vote for every ordinary share held. The amounts receivable in a winding up would be limited to the amounts paid up, the 5% First Cumulative Preference Stock taking priority over the 7% Cumulative Preference Stock.

39.2 Obligations under finance leases

	2014 £m	2013 £m
Current	**(0.6)**	(0.2)
Non-current	**(15.4)**	(14.3)
	(16.0)	(14.5)

The minimum lease payments under finance leases fall due as shown in note 41.

40 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; and to our Partners, through salaries and our annual profit share, the Partnership Bonus.

	2014 £m	2013 £m
Current:		
Trade payables	**(354.0)**	(305.5)
Amounts owed to parent company	**(102.2)**	(89.2)
Amounts owed to Group companies	**(242.4)**	(220.9)
Other payables	**(108.3)**	(92.2)
Other taxation and social security	**(133.6)**	(136.1)
Accruals	**(97.8)**	(94.6)
Deferred income	**(43.5)**	(27.8)
Partnership Bonus	**(178.2)**	(188.0)
	(1,260.0)	(1,154.3)
Non-current:		
Deferred income	**(116.7)**	(104.2)

The carrying amount of trade and other payables approximates to fair value.

41 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 Company. This note details the schedule of payments due over the life of the finance leases, together with the present value of the finance lease recorded in the consolidated balance sheet.

	2014 £m	2013 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	**0.9**	0.5
Later than one year but not more than five	**3.2**	2.0
More than five years	**24.1**	24.4
	28.2	26.9
Future finance charge on finance leases	**(12.2)**	(12.4)
Present value of finance lease liabilities	**16.0**	14.5
Of which:		
Not later than one year	**0.6**	0.2
Later than one year but not more than five	**1.9**	0.8
More than five years	**13.5**	13.5

The Company'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 COMPANY FINANCIAL STATEMENTS *CONTINUED*

42 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	Other £m	Total £m
At 26 January 2013	(112.2)	(52.7)	(26.3)	(23.9)	(215.1)
Charged to income statement	(9.2)	(33.6)	(26.2)	(59.4)	(128.4)
Released to income statement	–	10.9	–	3.3	14.2
Utilised	8.6	18.0	26.3	47.2	100.1
At 25 January 2014	**(112.8)**	**(57.4)**	**(26.2)**	**(32.8)**	**(229.2)**
Of which:					
Current	(40.1)	(22.6)	(26.2)	(23.4)	(112.3)
Non-current	(72.7)	(34.8)	–	(9.4)	(116.9)

The Company 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 Group's retirement benefit obligations (note 22), 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 Company's expected liability for future repair costs based on expected failure rates and unit repair costs for the classes of goods sold.

Provision for customer refunds reflects the Company's expected liability for returns of goods sold based on experience of rates of return.

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 Company's best estimate of utilisation is provided above.

43 Deferred tax

43.1 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 21% for deferred tax assets or liabilities expected to reverse before April 2015 and 20% for those assets or liabilities expected to reverse after 2015 (2013: 23%).

The movement on the deferred tax account is shown below:

	2014 £m	2013 (restated) £m
Opening asset	**177.9**	129.1
Credited to income statement	**62.3**	32.4
(Charged)/credited to other comprehensive income	**(53.1)**	16.4
Closing asset	**187.1**	177.9

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 28 January 2012	(71.0)	(0.1)	(8.5)	(1.8)	(81.4)
Credited to income statement	10.6	–	1.2	0.5	12.3
At 26 January 2013	(60.4)	(0.1)	(7.3)	(1.3)	(69.1)
Credited to income statement	10.2	–	1.0	1.3	12.5
At 25 January 2014	**(50.2)**	**(0.1)**	**(6.3)**	**–**	**(56.6)**

Deferred tax assets	Capital gains tax on land and buildings £m	Pensions and provisions (restated) £m	Total £m
At 28 January 2012	12.2	198.3	210.5
(Charged)/credited to income statement	(0.8)	20.9	20.1
Credited to other comprehensive income	–	16.4	16.4
At 26 January 2013	11.4	235.6	247.0
(Charged)/credited to income statement	(1.4)	51.2	49.8
Charged to other comprehensive income	–	(53.1)	(53.1)
At 25 January 2014	**10.0**	**233.7**	**243.7**

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 25 January 2014 (2013: £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 22).

NOTES TO THE COMPANY FINANCIAL STATEMENTS *CONTINUED*

43 Deferred tax (continued)

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax asset at 25 January 2014 was £187.1m (2013 restated: £177.9m asset). The net deferred tax asset is recoverable after more than one year.

43.2 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 on the current year (2013: 2% rate change) was to increase the deferred tax asset by £34.5m (2013: £16.1m increase) with a £30.7m charge (2013 restated: £15.9m charge) being taken directly to reserves and a £3.8m tax charge (2013 restated: £0.2m charge) to the income statement.

44 Management of financial risks

The principal financial risks that we are exposed to are: liquidity risk, interest rate risk, foreign currency risk, credit risk, capital risk and energy risk. This note details how each of these risks are managed.

44.1 Liquidity risk

The approach to liquidity risks has been discussed in note 20 above.

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	(71.6)	–	(635.1)
Interest payments on borrowings*	(44.0)	(44.0)	(260.1)
Finance lease liabilities	(0.9)	(0.9)	(26.4)
Trade and other payables	(1,082.9)	–	–
Derivative financial liabilities			
Derivative contracts – receipts	185.0	28.7	–
Derivative contracts – payments	(190.8)	(29.1)	–
At 25 January 2014	(1,205.2)	(45.3)	(921.6)

* Excludes annual interest of £0.1m on Cumulative Preference Stock which have no fixed redemption date.

44 Management of financial risks (continued)

	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	(154.7)	–	(635.1)
Interest payments on borrowings*	(54.5)	(44.0)	(304.1)
Finance lease liabilities	(0.5)	(0.5)	(25.9)
Trade and other payables	(990.4)	–	–
Derivative financial liabilities			
Derivative contracts – receipts	163.0	–	–
Derivative contracts – payments	(166.7)	–	–
At 26 January 2013	(1,203.8)	(44.5)	(965.1)

* Excludes annual interest of £0.1m on Cumulative Preference Stock which have no fixed redemption date.

Interest on borrowings is calculated based on the borrowing position at the financial year end 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.

44.2 Interest rate risk

Interest rate risks have been discussed in note 20 above.

44.3 Foreign currency risk

Foreign currency risks have been discussed in note 20 above.

44.4 Credit risk

The Company has no significant exposure to customer 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 counterparties with a credit rating not less than a Standard & Poor's equivalent 'A' rating and designating appropriate limits to each counterparty.

The Company considers its maximum exposure to credit risk is as follows:

	2014 £m	2013 £m
Trade and other receivables	**49.2**	36.8
Cash and cash equivalents	**232.5**	424.9
Derivative financial instruments	**0.7**	4.2
	282.4	465.9

44.5 Capital risk

Capital risks have been discussed in note 20 above.

44.6 Energy risk

Energy risks have been discussed in note 20 above.

44.7 Sensitivity analysis

A sensitivity analysis has been performed in note 20 above.

NOTES TO THE COMPANY FINANCIAL STATEMENTS *CONTINUED*

45 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, 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.

45.1 Fair value of derivative financial instruments

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 25 January 2014, 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.

The fair value of the derivative financial instruments held by the Company 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.

The fair value of derivative financial instruments is as follows:

	2014		2013	
Fair value of derivative financial instruments	**Assets £m**	**Liabilities £m**	Assets £m	Liabilities £m
Currency derivatives – cash flow hedge	**0.7**	**(5.9)**	4.2	(0.6)

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.

45.2 Fair value of financial assets and liabilities held at amortised cost

The following table compares the Company's liabilities held at amortised cost, where there is a difference between carrying value (CV) and fair value (FV):

	2014 £m		2013 £m	
	CV	**FV**	CV	FV
Financial liabilities				
Listed bonds	**(569.8)**	**(695.4)**	(669.3)	(826.8)
Preference stock	**(2.3)**	**(2.0)**	(2.3)	(1.9)

The fair values of the Company's listed bonds and preference stock have been determined by reference to market price quotations.

For other financial assets and liabilities, there are no material differences between carrying value and fair value.

46 Analysis of financial liabilities

This note sets out the currency and interest rate exposure of our financial liabilities. The interest rate and 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, together with the effective interest rate.

Short-term payables are excluded from this analysis on the basis that they are all non-interest bearing.

Interest rate and currency analysis	Fixed rate £m	Floating rate £m	Total £m
All sterling			
At 25 January 2014	**(644.7)**	**(71.6)**	**(716.3)**
At 26 January 2013	(742.2)	(54.7)	(796.9)

Maturity of financial liabilities	2014 Effective interest rate	2014 £m	2013 Effective interest rate	2013 £m
Repayable within one year				
Bank overdrafts	**1.8%**	**(71.6)**	1.8%	(54.7)
Property finance leases	**7.6%**	**(0.6)**	7.6%	(0.2)
Bonds		**–**	10.5%	(100.0)
		(72.2)		(154.9)
Repayable between one and two years				
Property finance leases	**7.6%**	**(0.5)**	7.6%	(0.2)
		(0.5)		(0.2)
Repayable between two and five years				
Property finance leases	**7.6%**	**(1.4)**	7.6%	(0.6)
Bonds	**5.5%**	**(56.6)**	5.5%	(56.1)
Unamortised bond transaction costs		**0.3**		0.4
		(57.7)		(56.3)
Repayable in more than five years				
Property finance leases	**7.6%**	**(13.5)**	7.6%	(13.5)
Bonds	**7.2%**	**(575.0)**	7.2%	(575.0)
Unamortised bond transaction costs		**4.9**		5.3
Cumulative Preference Stock	**5.6%**	**(2.3)**	5.6%	(2.3)
		(585.9)		(585.5)
		(716.3)		(796.9)

NOTES TO THE COMPANY FINANCIAL STATEMENTS *CONTINUED*

47 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 statement of consolidated cash flows. Items added back to / deducted from the profit before tax are non-cash items that are adjusted to arrive at cash generated from operations.

	2014 £m	2013 (restated) £m
Profit/(loss) before tax	**478.7**	(42.3)
Dividend income	**(500.0)**	–
Amortisation of intangible assets	**30.2**	22.5
Depreciation	**102.4**	103.0
Net finance costs	**91.4**	106.9
Partnership Bonus	**89.7**	95.2
(Profit)/loss on disposal of plant and equipment and intangible assets	**(0.6)**	53.9
Increase in inventories	**(19.6)**	(30.4)
Increase in receivables	**(26.9)**	(7.2)
Increase in payables	**85.0**	115.1
(Decrease)/increase in retirement benefit obligations	**(4.9)**	26.7
Increase in provisions	**12.4**	14.4
Cash generated from operations	**337.8**	457.8

48 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.

48.1 Capital commitments

At 25 January 2014 contracts had been entered into for future capital expenditure of £31.7m (2013: £3.5m) of which £31.1m (2013: £2.9m) relates to property, plant and equipment and £0.6m (2013: £0.6m) relates to intangible assets.

48.2 Lease guarantees

John Lewis plc continues to provide lease guarantees in favour of the Group's former associate company, Ocado Limited, of £6.8m (2013: £6.8m).

48.3 Commitments under operating leases

Future aggregate minimum lease payments Under non-cancellable operating leases, payable:	2014 Land and buildings £m	2013 Land and buildings £m
Within one year	**49.3**	47.9
Later than one year and less than five years	**160.1**	156.6
After five years	**1,049.3**	1,001.1

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years comprise the following:	2014 Land and buildings £m	2013 Land and buildings £m
Later than five years and less than ten years	**171.2**	154.0
Later than ten years and less than twenty years	**242.9**	224.6
Later than twenty years and less than forty years	**142.8**	144.9
Later than forty years and less than eighty years	**158.0**	155.7
After eighty years	**334.4**	321.9
	1,049.3	1,001.1

Total future sub-lease payments receivable relating to the above operating leases amounted to £2.6m (2013: £3.6m).

49 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 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.

As disclosed in note 22 to the Group financial statements, the Company's investment in the pension scheme in JLP Scottish Limited Partnership of £87.9m (2013: £108.0m), represents a plan asset for the Company accounts which is offset against the Group's obligation of £1,003.4m (2013: £822.1m). The retirement benefit obligation of the Company as at 25 January 2013 was £915.5m (2013: £714.1m). Note 22 of the Group financial statements details the financial assumptions used.

50 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.

	2014		2013	
	Authorised £m	Issued and fully paid £m	Authorised £m	Issued and fully paid £m
Equity				
Deferred Ordinary Shares				
6,750,000 of £1 each	**6.7**	**6.7**	6.7	6.7

NOTES TO THE COMPANY FINANCIAL STATEMENTS *CONTINUED*

51 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.

51.1 Loan from John Lewis Partnership plc

The loan from John Lewis Partnership plc has been disclosed in note 40. The loan is non-interest bearing with no specific repayment terms.

51.2 Transactions with other group companies

During the year John Lewis plc entered into transactions with other group companies in respect of the supply of goods for resale and associated services totalling £14.6m (2013: £16.0m), purchase of goods for totalling £57.5m (2013: £51.0m), the supply of administrative and other shared services totalling £57.2m (2013: £26.6m) and the hire of vehicles totalling £18.8m (2013: £15.6m).

In addition, John Lewis plc, settled other transactions on behalf of group companies for administrative convenience, such as payroll and supplier settlement. All such transactions were charged at cost to the relevant group company. It is not practical to quantify these recharges.

52 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.

Principal subsidiary undertakings as at 25 January 2014 were as follows:

Name	Principal activity	Country of Incorporation	Percentage shareholdings
Herbert Parkinson Limited	Weaving and making up	England	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	100%
John Lewis Delivery Limited	International delivery	England	100%
John Lewis Properties plc	Property holding company	England	100%
Waitrose (Jersey) Limited	Food retailing	Jersey	100%
Waitrose (Guernsey) Limited	Food retailing	Guernsey	100%
Waitrose Limited	Food retailing	England	100%

The whole of the ordinary share capital of the subsidiary undertakings of John Lewis plc is held within the Group. The list excludes non-trading subsidiary undertakings which have no material effect on the accounts of the Group. Except as noted above, all of these subsidiary undertakings operate wholly or mainly in the United Kingdom.

John Lewis Partnership plc is the Company's immediate and ultimate parent company and prepares consolidated accounts which include the accounts of the Company.

Ultimate control rests with the John Lewis Partnership Trust Limited, which holds the equity of John Lewis Partnership plc in trust for the benefit of the employees. Both of these companies are registered in England and Wales.

Copies of these accounts may be obtained from the Company Secretary, John Lewis Partnership, 171 Victoria Street, London SW1E 5NN.

The Group 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.

Each of the Directors, whose names and functions are listed on page 47, 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

Helen Weir
Directors, John Lewis Partnership plc

10 April 2014

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF JOHN LEWIS PLC

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Group's and of the Company's affairs as at 25 January 2014 and of the Group's and of the Company's profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group and Company financial statements (the "financial statements"), which are prepared by John Lewis plc, comprise:

- the Consolidated and Company balance sheet as at 25 January 2014;
- the Consolidated income statement and Consolidated statement of comprehensive expense for the year then ended;
- the Consolidated and Company statement of changes in equity and the Consolidated and Company statement of cash flows for the year then ended;
- 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 their preparation is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 Group'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.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts (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.

Opinion on other matter prescribed by the Companies Act 2006

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.

Other matters on which we are required to report by exception

Adequacy of 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;
- 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.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 109, 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.

Ranjan Sriskandan
(Senior Statutory Auditor)

for and on behalf of
PricewaterhouseCoopers LLP

Chartered Accountants and
Statutory Auditors

London

10 April 2014

RETAIL BRANCHES

Waitrose stores and John Lewis branches

Waitrose stores

London

Balham	Chiswick	Fulham	Kings Road	Raynes Park	Twickenham
Barbican	Clapham	Fulham Palace Road	Kingston	Richmond	Upminster
Barnet	Clapham Common	Gloucester Road	Knightsbridge	Ruislip	Vauxhall
Bayswater	Clerkenwell	Green Street Green	Marylebone	Sanderstead	Victoria Street
Beckenham	Coulsdon	Greenwich	Mill Hill	South Harrow	Wandsworth
Belgravia	Crouch End	Hampton	Monument	South Woodford	West Ealing
Biggin Hill	Croydon	Harrow Weald	Muswell Hill	Staines	Westfield
Bloomsbury	East Putney	Highbury Corner	New Malden	Stratford City	Whetstone
Brent Cross	East Sheen	High Holborn	Northwood	St Katharine Docks	Wimbledon
Bromley	Edgware Road	Holloway Road	Old Brompton Road	Surbiton	Wimbledon Hill
Bromley South	Enfield Chase	Islington	Palmers Green	Swiss Cottage	Worcester Park
Canary Wharf	Enfield	Kensington	Parsons Green	Temple Fortune	
Cheam	Finchley	Kensington Gardens	Putney	Tottenham Court Road	

Southern England

Abingdon	Caversham	Farnham	Leighton Buzzard	Romsey	Wallingford
Allington Park	Chandlers Ford	Fleet	Lewes	Saffron Walden	Walton-on-Thames
Alton	Cheltenham	Frimley	Littlehampton	Salisbury	Wantage
Amersham	Chesham	Gerrards Cross	Longfield	Saltash	Warminster
Ampthill	Chichester	Gillingham	Lymington	Sandhurst	Waterlooville
Andover	Chippenham	Godalming	Maidenhead	Sevenoaks	Watford
Ashford	Chipping Sodbury	Goldsworth Park	Marlborough	Sidcup	Wellington
Aylesbury	Christchurch	Gosport	Marlow	Sidmouth	Wells
Banstead	Cirencester	Hailsham	Melksham	Southampton	Welwyn Garden City
Bath	Clifton	Harpenden	Milton Keynes	Southend	Westbury Park
Beaconsfield	Cobham	Haslemere	Nailsea	Southsea	Weston-Super-Mare
Bedford	Colchester	Havant	Newbury	St Albans	West Byfleet
Berkhamsted	Crewkerne	Headington	Okehampton	Stevenage	Weybridge
Billericay	Crowborough	Henley	Oxted	Storrington	Wimborne
Bishop's Stortford	Dibden	Hersham	Paddock Wood	Stroud	Winchester
Bracknell	Dorchester	Hertford	Parkstone	Sunningdale	Windsor
Bridport	Dorking	Hitchin	Petersfield	Tenterden	Winton
Brighton	Eastbourne	Holsworthy	Portishead	Thame	Witney
Buckhurst Hill	East Cowes	Horley	Poundbury	Thatcham	Wokingham
Buckingham	East Grinstead	Horsham	Ramsgate	Tonbridge	Woodley
Burgess Hill	Epsom	Hythe	Reading	Torquay	Worthing
Canterbury	Esher	Kings Hill	Rickmansworth	Twyford	Yateley
Caterham	Exeter	Leigh on Sea	Ringwood	Uckfield	

In addition to the shops listed below, the Partnership operates the following businesses:
johnlewis.com Internet retail
John Lewis Insurance Insurance products and services
waitrose.com Internet retail, mail order and wholesale including export
Herbert Parkinson, Darwen Weaving and making up
Leckford Estate, Stockbridge Farming

Midlands, East Anglia, Northern England, Wales and Scotland

Abergavenny	Cardiff	Hexham	Monmouth	Ponteland	Sudbury
Alcester	Cheadle Hulme	Huntingdon	Morningside	Pontprennau	Sutton Coldfield
Alderley Edge	Chester	Ipswich	Newcastle	Poynton	Swaffham
Altrincham	Comely Bank	Ipswich Cranes	Newark	Rushden	Towcester
Ashbourne	Cowbridge	Jesmond	Newmarket	Sandbach	Walton-Le-Dale
Barry	Daventry	Kenilworth	Newport	Saxmundham	Willerby
Birmingham	Droitwich	Kingsthorpe	Newton Mearns	Sheffield	Wilmslow
Blaby	Ely	Knutsford	North Walsham	Shrewsbury	Wolverhampton
Brackley	Formby	Leeds	Northwich	Spinningfields	Wooton
Bury St Edmunds	Four Oaks	Lichfield	Norwich	Stamford	Wymondham
Buxton	Great Malvern	Lincoln	Nottingham	Stirling	York
Byres Road	Hall Green	Lutterworth	Oadby	St Ives	
Caldicot	Harborne	Market Harborough	Otley	St Neots	
Cambridge	Harrogate	Meanwood	Oundle	Stourbridge	
Cambridge – Fitzroy St	Helensburgh	Menai Bridge	Peterborough	Stratford Upon Avon	

Channel Islands

Admiral Park	Rohais	Red Houses	St. Helier	St. Saviour

John Lewis branches

London

John Lewis, Oxford Street	Peter Jones, Sloane Square	John Lewis, Stratford City
John Lewis, Brent Cross	John Lewis, Kingston	John Lewis at home, Croydon

Southern England

John Lewis, Bluewater	John Lewis, Southampton	John Lewis at home, Newbury
John Lewis, Cribbs Causeway	John Lewis, Watford	John Lewis at home, Poole
John Lewis, Exeter	John Lewis, Welwyn	John Lewis at home, Swindon
John Lewis, High Wycombe	Knight & Lee, Southsea	John Lewis at home, Tunbridge Wells
John Lewis, Milton Keynes	John Lewis at home, Ashford	
John Lewis, Reading	John Lewis at home, Chichester	

Midlands, East Anglia, Northern England, Wales and Scotland

John Lewis, Aberdeen	John Lewis, Leicester	John Lewis, Sheffield
John Lewis, Cambridge	John Lewis, Liverpool	John Lewis, Solihull
John Lewis, Cardiff	John Lewis, Newcastle	John Lewis, Trafford
John Lewis, Cheadle	John Lewis, Norwich	John Lewis at home, Chester
John Lewis, Edinburgh	John Lewis, Nottingham	John Lewis at home, Ipswich
John Lewis, Glasgow	John Lewis, Peterborough	John Lewis at home, Tamworth

NOTICE OF AGM

Notice is hereby given that the eighty-sixth Annual General Meeting of the Company will be held at 13.30 on 5 June 2014 at The Board Room, Partnership House, Carlisle Place, London, SW1P 1BX:

– To receive the Company's Annual Report and Accounts, together with the Strategic Report, the Directors' Report, and the Auditor's Report on those Accounts for the year ended 25 January 2014
– To re-elect, as separate resolutions, Tracey Killen, Rachel Osborne, Mark Price, Andy Street and Helen Weir. Biographical details of the Directors and their experience are set out on page 47.
– To re-appoint 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
– To authorise the Directors to determine the remuneration of the Auditor

By Order of the Board

Margaret Casely-Hayford,
Company Secretary

171 Victoria Street, London SW1E 5NN

10 April 2014

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 of the company, but a proxy who is not a member has only the rights conferred by section 329 of the Companies Act 2006. To be effective, a proxy form must reach the company's registered office not later than forty-eight hours before the time for holding the meeting. For the convenience of members a form of proxy is enclosed.

GENERAL INFORMATION

Advisers

Independent Auditors –
PricewaterhouseCoopers LLP

Solicitors – Hogan Lovells International LLP

Bankers – Royal Bank of Scotland PLC

Registered office

171 Victoria Street, London SW1E 5NN

Incorporated and registered in England No. 233462

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 above.

NOTES

MIX
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responsible sources
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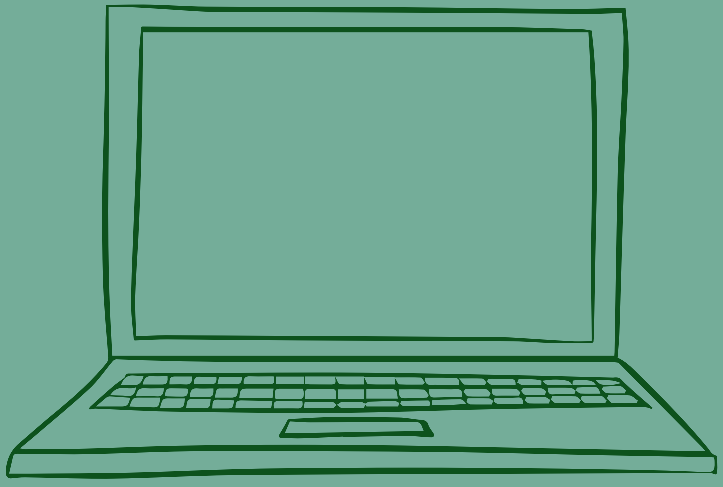
johnlewispartnership.co.uk

waitrose.com johnlewis.com



Look and listen

The John Lewis Partnership believes in sharing information with interested parties. Audiocasts, videos, webcasts and interactive media are available online **johnlewispartnership.co.uk/resources/look-and-listen/latest.html**