John Lewis Partnership

In the hands of our **Partners**

JOHN LEWIS PARTNERSHIP PLC ANNUAL REPORT AND ACCOUNTS 2014

John Lewis | Waitrose

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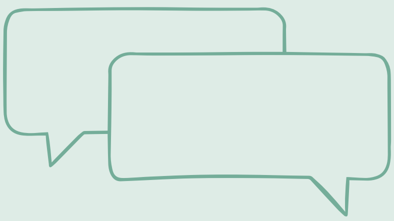
The Group Strategic Report runs from pages 1 to 49.

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 a somewhat different Annual Report and Accounts from those of a standard plc. That's because our shareholders are our 91,000 Partners for whom the Partnership is owned in trust. This report focusses on them.

In this year's Annual Report and Accounts, we've sought to show how we've performed and how the Partnership works. Our ownership is the basis of our business model – and fundamental to our customer offer. It also determines how we are governed.

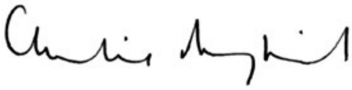
Whether you are a long-serving Partner or are new to our business, I hope you enjoy learning more about our Partnership.

Yours sincerely,
Sir Charlie Mayfield, Chairman,
John Lewis Partnership

STRATEGIC REPORT

Pages 1 to 49 comprise the Group Strategic Report.

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



Sir Charlie Mayfield, Chairman, John Lewis Partnership, 10 April 2014

THE JOHN LEWIS PARTNERSHIP AT A GLANCE

The John Lewis Partnership is unique: it's the UK's largest example of co-ownership and its activities are governed by a principles-based Constitution.

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

£329.1m
-4.1%

GROSS SALES (INCLUDING VAT)

Partnership

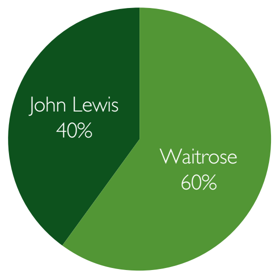
£10.2bn
+6.6%
2013: £9.5bn

Waitrose

£6.1bn +6.0%
2013: £5.8bn

John Lewis

£4.1bn +7.5%
2013: £3.8bn



REVENUE

Partnership

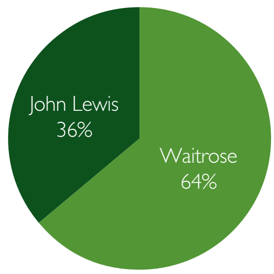
£9.0bn
+6.6%
2013: £8.5bn

Waitrose

£5.7bn +6.2%
2013: £5.4bn

John Lewis

£3.3bn +7.4%
2013: £3.1bn



OPERATING PROFIT

Operating profit

£423.6m
-6.6%
2013: £453.4m

Operating profit before exceptional item

£470.9m
+3.9%
2013: £453.4m

Waitrose

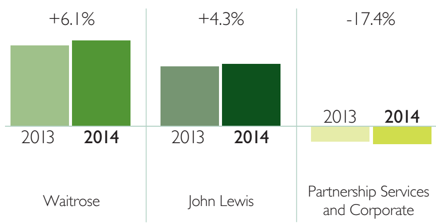
£310.1m +6.1%
2013: £292.3m

John Lewis

£226.1m +4.3%
2013: £216.7m

Partnership Services and Corporate

(£65.3m) -17.4%
2013: (£55.6m)

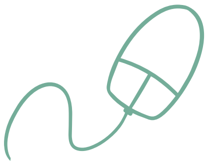


For a more detailed insight into our Group and divisional performance in the year, please turn to 'Our Performance in 2013/14' on page 22.

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.

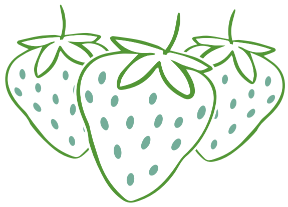
About **Waitrose**

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

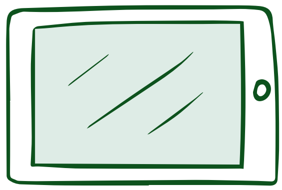
About **John Lewis**

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

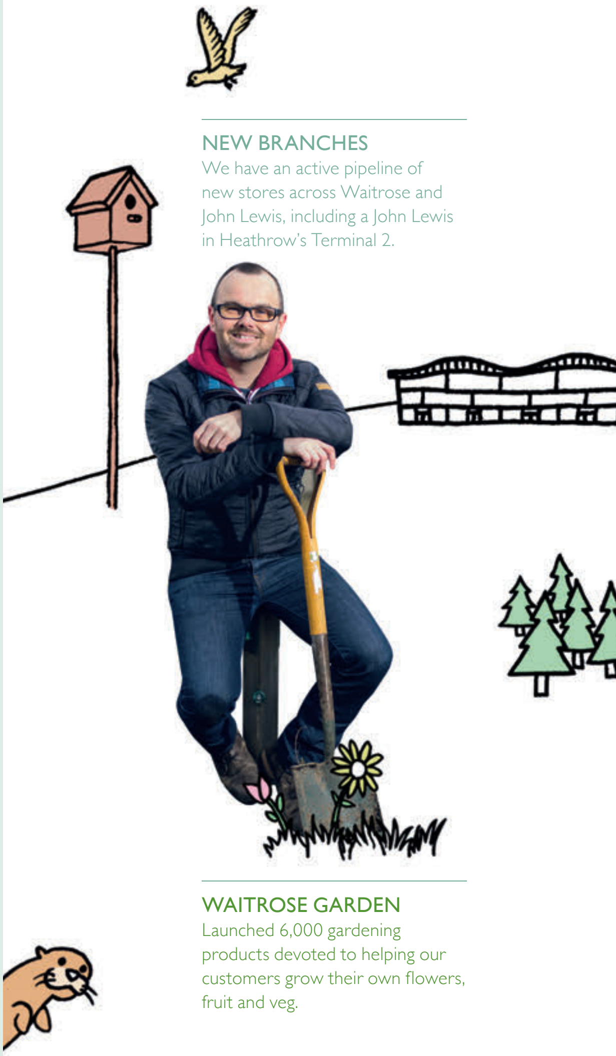
In the hands of our **Partners**

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.

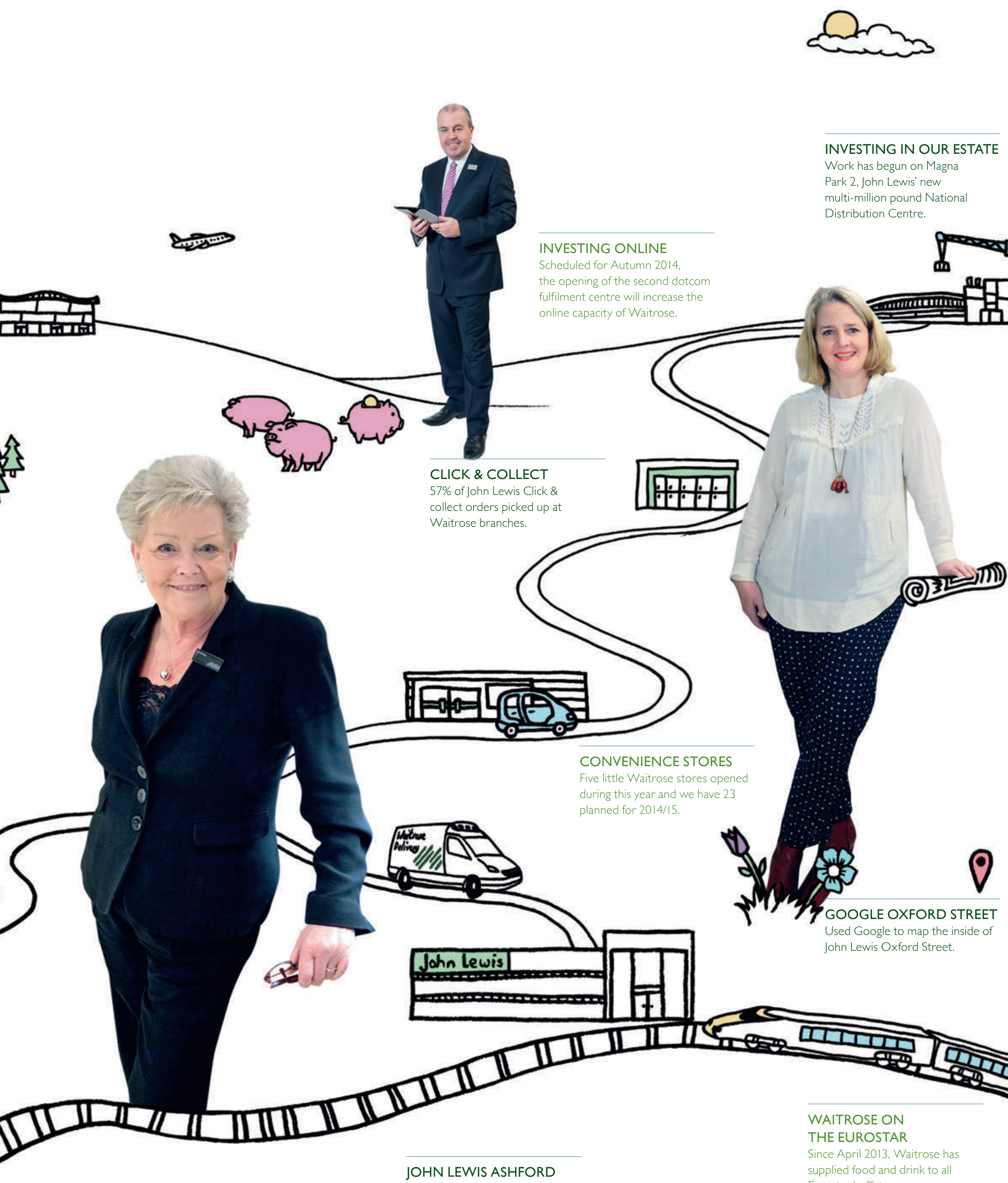


NEW BRANCHES
We have an active pipeline of new stores across Waitrose and John Lewis, including a John Lewis in Heathrow's Terminal 2.

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.

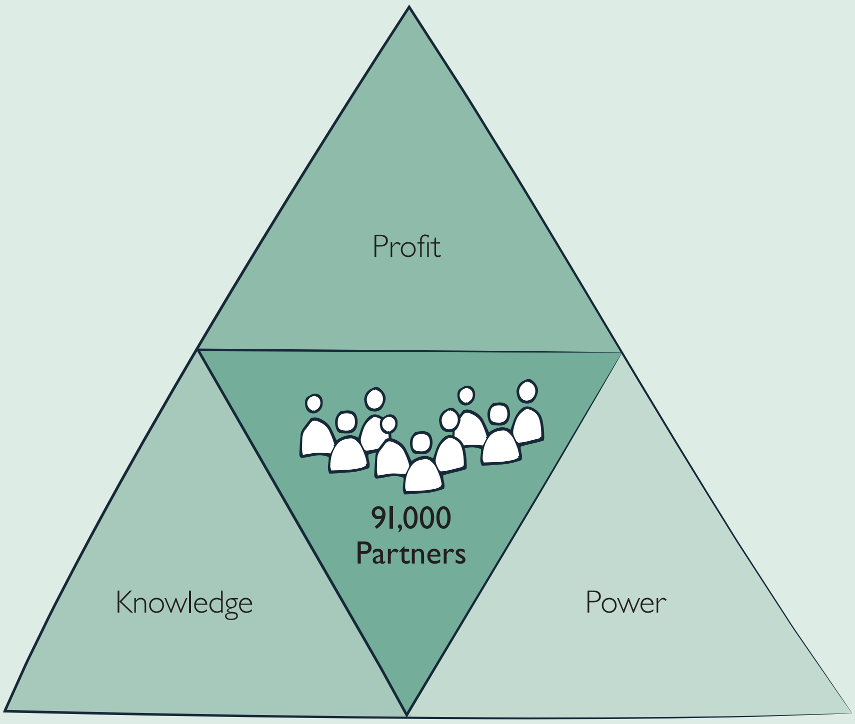
JOHN LEWIS ASHFORD
Opened our tenth at home shop in November 2013, creating 125 jobs.

OUR PARTNERSHIP MODEL

Uniting our Partners through a shared vision and values, our Constitution is the cornerstone of our Partnership.

Our founder, John Spedan Lewis, envisioned a great commercial enterprise whose success would be measured by the people working in it. His vision was enshrined in a written Constitution in 1929. This Constitution is still at the heart of our Partnership today. The Constitution's Principle 1 sums up what our Partnership stands for:

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



DID YOU KNOW?

Today, the John Lewis Partnership is the largest employee-owned business in the UK. Our Partnership model is admired across both the private and public sectors. Co-ownership gives us a distinctive culture – and a competitive advantage.

PARTNERS ARE CONNECTED BY OUR SHARED VISION AND VALUES

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

Knowledge
We provide our Partners with the knowledge they need to carry out their responsibilities effectively as co-owners of the Partnership.

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

See page 51 for more details.

Our Partnership model gives us our distinctive culture. This, combined with the efforts of our Partners, gives us our competitive advantage.

Governance of the Partnership model

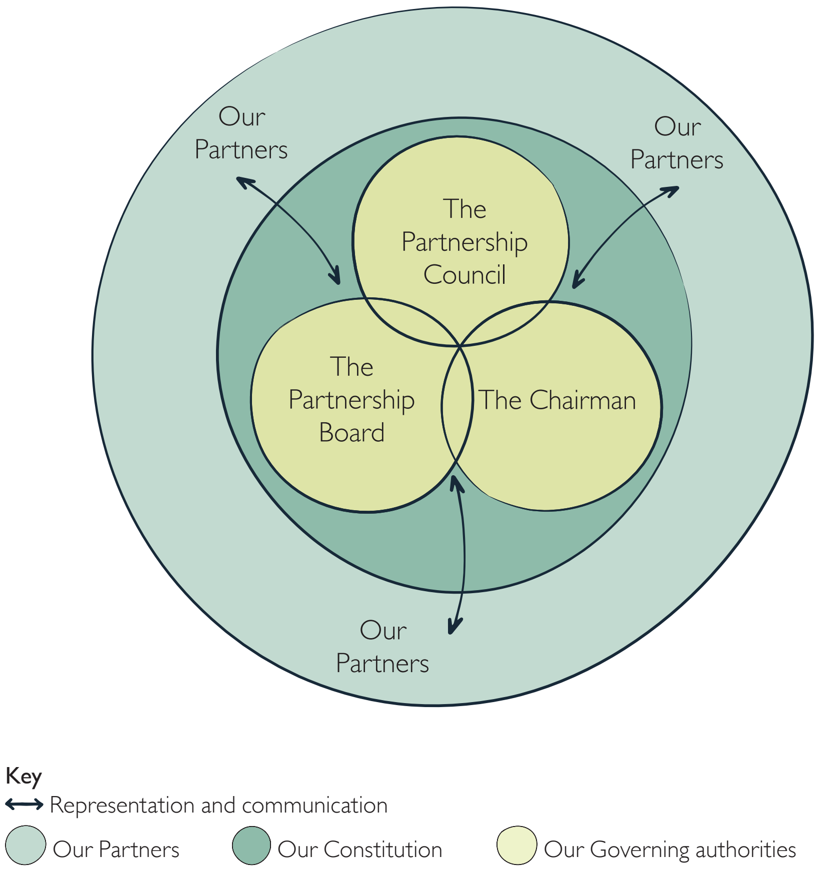
Aligning Partner interests
Our Partnership model creates a commercial competitive advantage through our 91,000 Partners. And because we're an open, fair and transparent democracy, there is a true sense of belonging to the John Lewis Partnership. This is clear in the way we do business: Partner engagement and investment for the long-term are at the heart of our commercial strategy.

Communicating Partner interests
Our Partnership model sets out clear channels of communication, from branch level right up to Partnership Council. These allow and, more importantly, encourage our Partners to make their opinions heard – and see them acted upon – whether that's through letters sent to the weekly Partnership magazine, the Gazette, or valuable representation at the decision-making table.

Representing Partner interests
Partners are formally represented in two of the three governing authorities: the Partnership Board and the Partnership Council. This means all Partners can share their thoughts about our strengths, weaknesses, accomplishments and plans with everyone in the organisation – from the shop floor to the Board.

PRINCIPLE 2:

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



GIVING OUR PARTNERS A VOICE THROUGH A DEMOCRATIC STRUCTURE

Read more about the Partnership Council on page 54.

15%

John Lewis Stratford Partners celebrate following the announcement in March 2014 that Partnership Bonus would equal 15% of pay.

OUR PARTNERSHIP MODEL IN ACTION

As a Partnership we are open, fair and transparent. There's a true sense of pride in belonging to a successful, well-respected business.

"I really enjoy discussing the business plans at Partnership Council – to see what Charlie Mayfield, Andy Street, Mark Price and Patrick Lewis have in the pipeline always makes me feel inspired as a Partner."

Rebecca Lacey, Partnership Councillor for John Lewis Victoria

Rebecca is one of the 66 Partners who have been elected onto the Partnership Council. She is an Assistant Buyer, Cookshop in John Lewis Victoria.

"During the Pension Review we will be looking to gather Partners' thoughts and feelings on all the options proposed – Partners can be confident we will ensure any changes are fair and reasonable."

REPRESENTING PARTNERS

The Partnership Council is elected for a three year term and includes 66 Partners. Any Partner can stand for election.

The 15 members of the Partnership Board are members of Council. Additionally, the Chairman appoints three members to Council. Members of the Partnership Board and the three members appointed by the Chairman have no vote in Council.

Many Partnership Council sessions are transmitted live to all branches via the Partner Intranet.

Elections take place for Partners to represent their colleagues at Partnership Council and on the Partnership Board.

"The Executive Directors have a good understanding of Partner opinion: what we have to do is cement it. Everyone's focussed on doing what's right for the business and for Partners and there are no other agendas."

Steve Gardiner, Elected Director on the Partnership Board

Steve is one of five Partners elected to represent Partners on the Partnership Board. He is the Branch Manager of Waitrose Cirencester and joined the Partnership Board in May 2012.

"I take the role of Elected Director very seriously. The responsibility motivates me to be the best that I can be."

OPENNESS

The Partnership Council holds the Chairman to account for running the business. It may ask the Chairman or Partnership Board any question. The Partnership Board or Chairman must respond to the Partnership Council unless it would, in their opinion, damage the Partnership's interests.

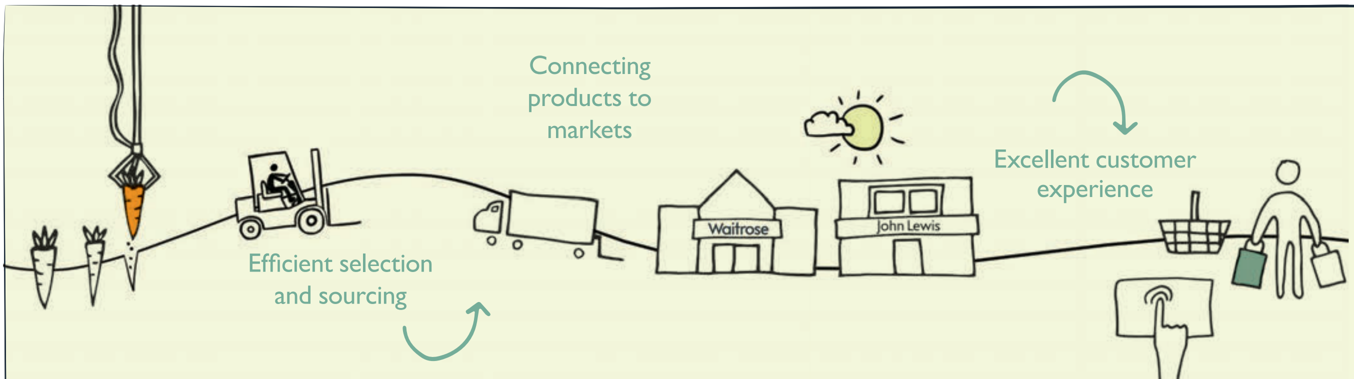
HOW WE CREATE VALUE

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.

PRINCIPLE 5:

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



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.)
£120m

Capital | Interest | Services | Taxes | Licence to operate | Investment

Payments to stakeholders

Financing
Interest
£95m

Governments
Taxation and social security
£144m

Communities
Investment
£14m

Key
To the Partnership
From the Partnership

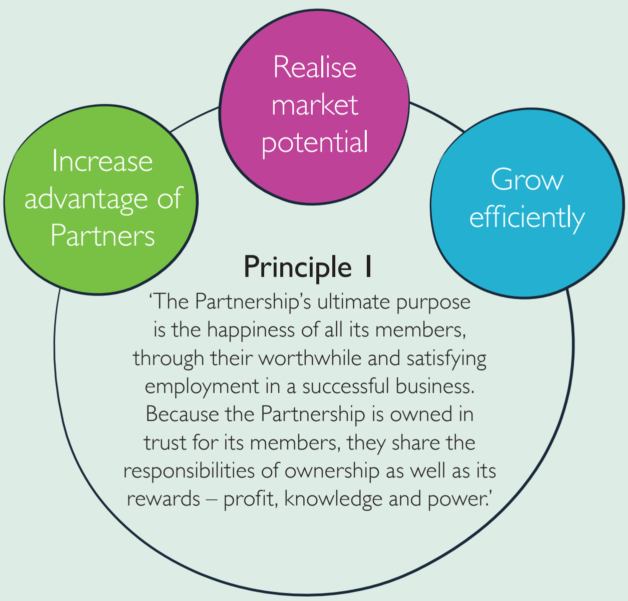
OUR PARTNERSHIP STRATEGY

The Partnership strategy is underpinned by three Aims, which support Principle 1.

As the Partnership 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, as outlined in Principle 1 of our Constitution.

Principle 1 sits at the heart of our overall business strategy. 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 Partnership approach is a better way of doing business. Delivering on our Aims ensures that, as our business grows, we respond better to new demands and continue to make the most of our co-ownership model. Underneath all our activities are the Partnership's ethical principles and our commitment to do business in a fair, sustainable way.



OUR PARTNERSHIP AIMS

Increase advantage of Partners
When our Partners achieve their very best at work, it creates a competitive advantage for the whole Partnership – 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.

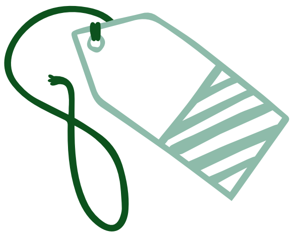
Our strategy in context

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 42.

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.

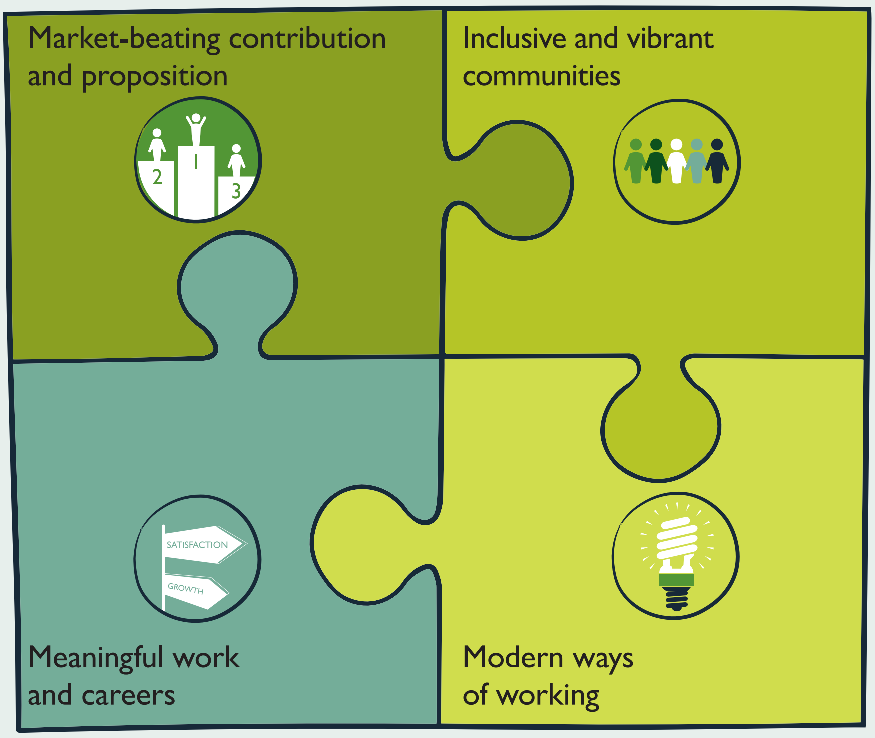
100% of the palm oil in our own brand ingredients are certified sustainable (CSPO).

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.



PRINCIPLE 4:

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

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

87%

OF PARTNERS:

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

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 31.

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 Partnership-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 Partnership-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:

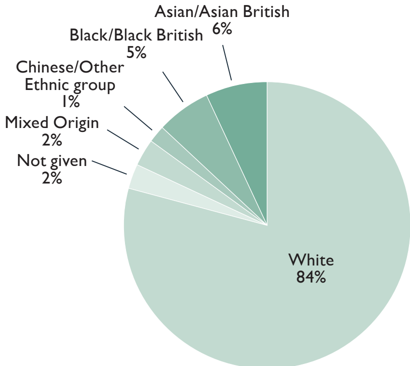
GENDER DIVERSITY

	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

Download additional data here

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 Partnership.

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 Partnership 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

Our customers

Our environment

Our communities

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

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

- 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$_2$e 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 Partnership's plans for the future.

Tracey Killen, Director of Personnel

The Constitution and sustainability

We are one of the few companies in the UK to be governed by a principles-based constitution. It is very clear about our responsibilities regarding the wellbeing of the communities in which we operate, as well as how we deal with suppliers and the way we impact the environment. Throughout its history, the Partnership 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.

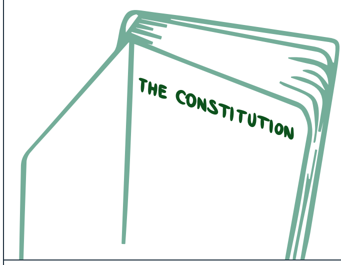
That said, there is no doubt that issues of environmental sustainability and social stability are becoming ever more important to our sales and profit, whether we are facing increasingly volatile commodity prices or ensuring we continue to recruit the best Partners. These are issues that will affect 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.

"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."



GOVERNED BY A CONSTITUTION

Our Constitution is very clear on our responsibilities regarding our communities, our suppliers and the environment.

PRINCIPLE 7:

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

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.

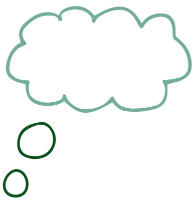
We already prioritise a number of areas – for example, for many years, Waitrose has been sustainably sourcing British produce; while John Lewis has been putting considerable effort into helping customers to choose more sustainable products and to live more sustainably – but we can always be more ambitious.

For 2014/15, we are introducing a sustainability materiality assessment process 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 Partnership, 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 Partnership. 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 Partnership's performance story and our sustainability story are the same. This will provide everyone interested in the Partnership'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.

PRINCIPLE 6:

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



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 Partnership, £6bn for Waitrose, and £4bn for John Lewis.
- Revenue exceeds £9bn for the Partnership, 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 £485.8m, up £113.9m (30.6%); 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 Partnership. 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 pan-Partnership 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 Partnership 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 (9.6%)

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

£486m

+£114m (30.6%)

SUSTAINABILITY KEY FIGURES

-5.0%

CO_2e emissions intensity

KEY PERFORMANCE INDICATORS (KPIs)

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

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

GROSS SALES GROWTH (%)

Definition

GROSS SALES GROWTH
Percentage increase in gross sales during the reporting period. Gross sales is defined on page 89.

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 Partnership is performing against the overall market. It also measures our aim to achieve long-term sustainable growth.

Commentary

Both Waitrose and John Lewis grew sales well ahead of their respective markets, increasing their market share. Waitrose outperformed the Kantar Grocery Market by 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

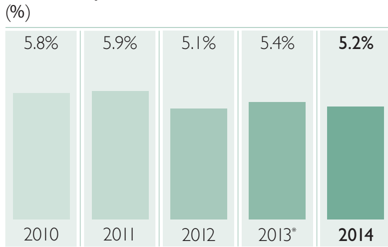
Operating margin is an indicator of profitability, evaluating the Partnership's pricing strategy and operating efficiency.

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 £329.1m, reflecting the impact of the exceptional item.

How we performed
£376.4m
+9.6%

PARTNERSHIP PROFIT MARGIN (%)

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

Why we use this measure
Measures whether profitability is changing at a higher or lower rate relative to revenue.

Commentary
Partnership profit margin has increased from 4.1%. After including the exceptional item the margin decreased to 3.6%.

How we performed

PRE EXCEPTIONAL ITEM
4.2%
+0.1%

POST EXCEPTIONAL ITEM
3.6%
-0.5%

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*

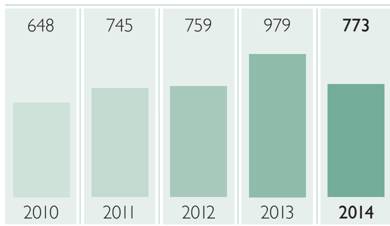
CASH FLOW FROM OPERATIONS (£m)

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

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

Commentary
Cash inflow generated from operations 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 Partnership, 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)

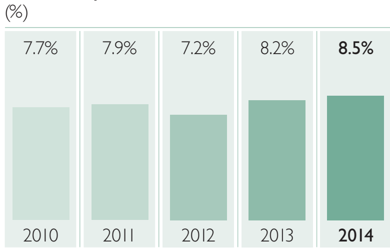
RETURN ON INVESTED CAPITAL (ROIC) (%)

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 Partnership uses the capital invested in our operations. ROIC is a useful metric to assess the long-term value creation by our business.

Commentary
ROIC has 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 Partnership. 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 Partnership.

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

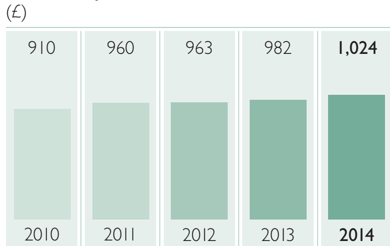
GROSS SALES PER SELLING SQ FT (£)

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 Partnership 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.

Partnership 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

Partnership operating profit was £423.6m, down £29.8m, or 6.6% 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 £470.9m, an increase of £17.5m 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 £329.1m, down by £14.2m, or 4.1% on last year with the decline wholly attributable to the exceptional item. Excluding this it was £376.4m, up by £33.1m or 9.6%.

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

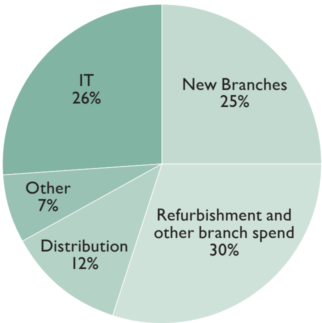
Capital investment in 2013/14 was £533.1m, an increase of £156.2m (41.4%) on the previous year. This includes £55.8m on freehold properties.

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,
Finance Director

INVESTMENT

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

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.

Pensions

The Partnership 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 Partnership 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 Partnership. 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 Partnership. 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

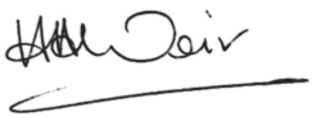
Net finance costs on borrowings and investments decreased by £1.2m (2.0%) to £58.8m. After including the financing elements of pensions and long service leave and non-cash fair value adjustments, net finance costs decreased by £15.6m (14.2%) to £94.5m.

At 25 January 2014, net debt was £485.8m, an increase of £113.9m (30.6%). 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 19.8% which is lower than 23.8% 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,
Finance Director

PRINCIPLE 3:

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

PARTNERSHIP BONUS

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

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

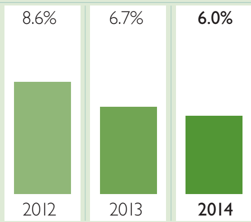
- Gross sales £6.1bn, revenue £5.8bn and operating profit £310m
- 13 new branches (including five little Waitrose)
- Total online services gross sales of £262m
- Waitrose.com grocery gross sales up 41.4%
- More than 5.6m customer visits each week
- myWaitrose cardholders now account for 68% of sales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

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

Performance against divisional KPIs

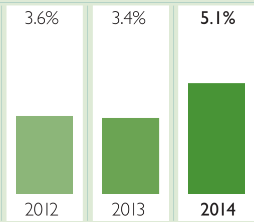
Gross Sales Growth (%)

6.0%



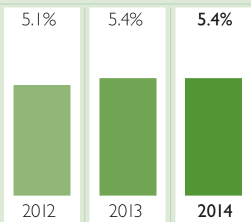
Like-for-like Sales Growth (%)

5.1%



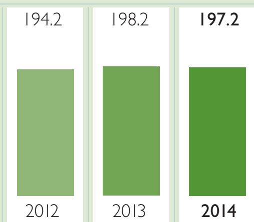
Operating margin (%)

5.4%



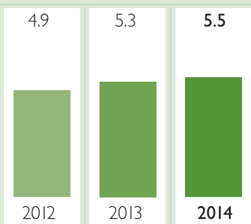
Gross sales per average FTE (£000)

197.2



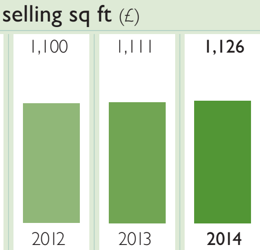
Selling Space (m sq ft)

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

KPIs are defined on pages 26 to 29.

NUMBER OF PARTNERS

59,300

+10.1%

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 July 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

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

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

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.

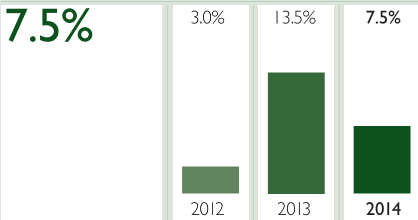
Financial and operational highlights

- 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

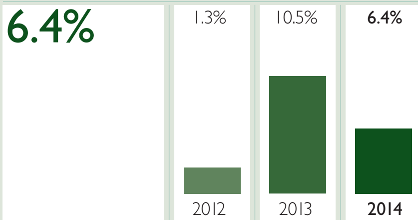
Andy Street,
Managing Director, John Lewis

Performance against divisional KPIs

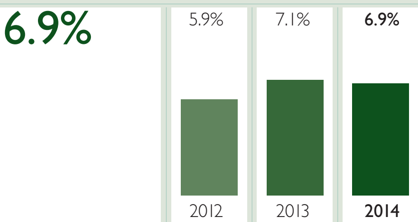
Gross Sales Growth (%)



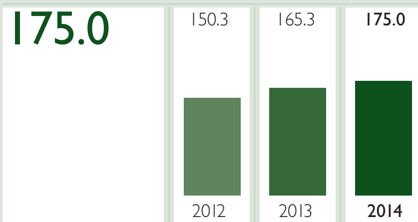
Like-for-like Sales Growth (%)



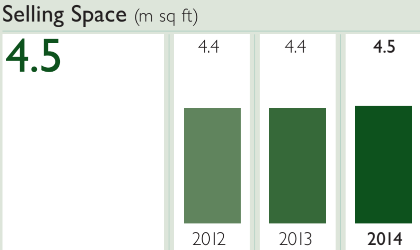
Operating margin (%)



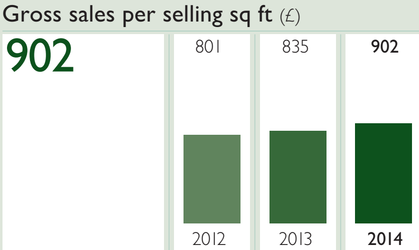
Gross sales per average FTE (£000)



Selling Space (m sq ft)



Gross sales per selling sq ft (£)



Cash from operations

£371.4m

2013: £403.1m

Capital expenditure

£174.8m

2013: £144.3m

NUMBER OF PARTNERS

29,800

+0.3%

KPIs are defined on pages 26 to 29.

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.

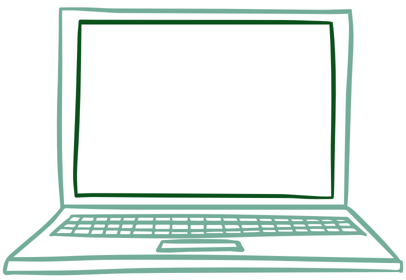
SHOPS AS SOCIAL SPACES

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.

+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.



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 before pensions reduced by £12.0m (16.2%)
- Overall costs increased by £9.7m due to an increase in pension 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 before pensions, including the costs of transformation programmes, were down year-on-year by £12.0m or 16.2%. However, overall costs increased by £9.7m to £65.3m due to the increase in pension operating costs resulting from changes in financial assumptions.

Focussing 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.

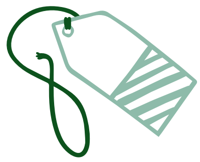
Our retail environment: key market trends

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 Partnership 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.

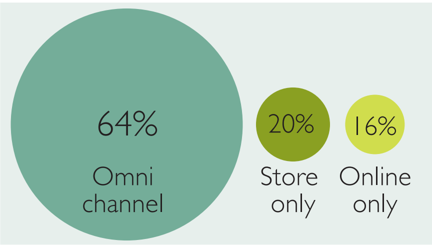
Service and convenience

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 Partnership 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 Partnership 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.

For details about our executive remuneration, please see page 74.

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 John Lewis Partnership.

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 Partnership.

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 Partnership 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. Certain responsibilities, such as overseeing the systems of risk management and internal control, have been delegated to the 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.

"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."

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.

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.

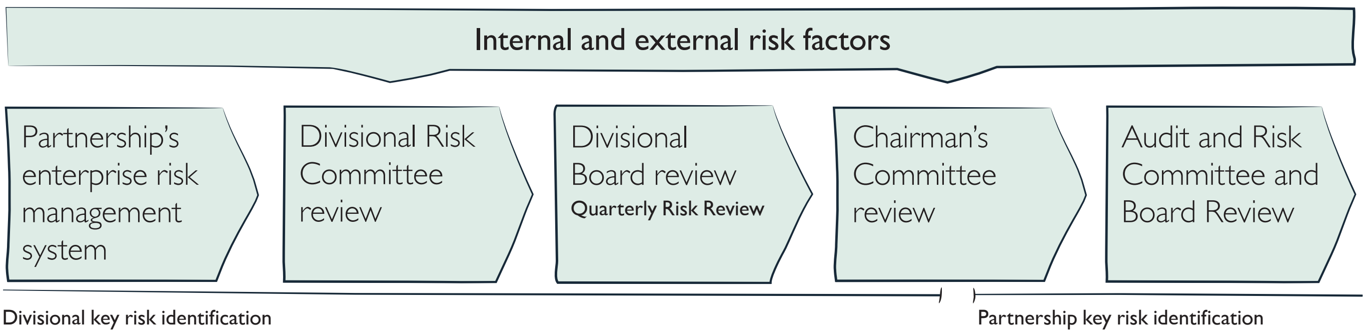
The Chairman's Committee, supported by the Head of Internal Audit and Risk Management, reviews the divisional risk analysis, using additional information as required, to:

- 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.

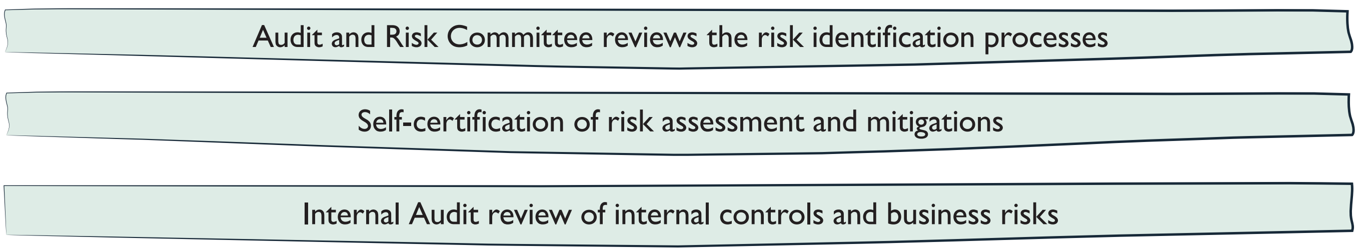
Following the Chairman's Committee review, and a review of the risk identification processes by the Audit and Risk Committee, an updated Partnership risk profile is presented to the Partnership Board for discussion and debate in order to agree the key risks faced by the Partnership. The risks are reviewed by the Partnership's Insurance department to assess whether there is any further scope and appetite for insuring those risks. See page 48 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

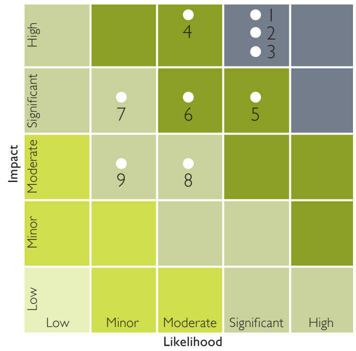


Process review and controls



KEY PARTNERSHIP RISKS AND MITIGATIONS

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



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 Partnership.

4 Pension obligations

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

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 threat of 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 Partnership 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:

- An overview of our governance principles and our structure according to the Partnership Constitution
- How we have applied the principles of the UK Corporate Governance Code (the Code)
- How our governing authorities aim to safeguard the Partnership's future, enhance its prosperity and ensure its integrity
- An overview of the roles and responsibilities of the committees of the Board

CONTENTS

OUR GOVERNANCE APPROACH

"The Constitution of the John Lewis Partnership was created to establish a business that is co-owned by its employees, the Partners."

Sir Charlie Mayfield,
Chairman,
John Lewis Partnership

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

Why is our governance approach different?

The Partnership exists today because of the extraordinary vision and ideals of our Founder, John Spedan Lewis.

From the very beginning, the Partnership has sought to safeguard its governance and accountability practices to protect the democratic principle of co-ownership including democracy and Partner representation.

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

How is the John Lewis Partnership governed?

We are governed by our written Constitution, which provides a framework establishing the Partnership's principles and the way in which it should operate. Although the Constitution has been revised and refreshed over the years, it retains a direct connection with the fundamental principles established in 1929. At the heart of the Constitution, Principle 1 sets out the Partnership's ultimate purpose.

Full details of Principle 1 can be found on page 12 in Our Partnership model. This compelling statement on the responsibility of co-ownership is what differentiates the Partnership from other corporate bodies. Eighty-five years after these words were first written, we adhere to the same philosophy.

Which other regulations are applicable?

In addition to the Constitution, the Partnership is governed by its Articles of Association. It also complies with the Companies Act, Listing Rules and Disclosure and Transparency Rules applicable to a Standard Listed company on the London Stock Exchange (LSE).

If the Partnership is a co-owned business, why is it listed on the London Stock Exchange (LSE)?

Both the Partnership and its immediate subsidiary, John Lewis plc, have Standard Listings on the LSE. Many years ago, both companies issued Cumulative Preference Stocks. This is a form of share with a right to receive fixed rate of dividend payment per annum, which cumulates if not paid annually. It has to be paid before any dividend to ordinary shareholders. However, they carry no rights of ownership of the Partnership and nor do they carry any voting rights, unless the annual payment is in arrears. The Cumulative Preference Stocks are treated in the balance sheet as a long-term liability of the business and not as equity share capital. Further details are provided on page 101.

Comply or explain

Throughout the year ended 25 January 2014, the Partnership has voluntarily sought to apply the principles of the Code, published by the Financial Reporting Council (FRC) and available to view at www.frc.org, and complied with its provisions except in the areas highlighted in the report with the icon above.

The Partnership's Constitution and co-ownership model establishes a governance structure that is different from that of other listed companies. Therefore, the Partnership does not comply strictly with certain detailed provisions of the Code.

The Partnership's actual practices and governance mechanisms are explained in this report. The Partnership Board believes that the Partnership's practices are consistent with each of the Code's principles, are appropriate, and offer the necessary level of protection to Partners and other stakeholders.

OUR GOVERNANCE APPROACH *CONTINUED*

Why do we voluntarily apply the principles of the UK Corporate Governance Code (the Code)?

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

Who owns the Partnership?

John Spedan Lewis, the founder of the Partnership, transferred his shareholding and the ownership of the Partnership into a trust to be held for the benefit of its members. The business became known as the John Lewis Partnership and the members, its employees, became known as Partners. John Lewis Partnership Trust Limited (the Trust Company) is the appointed trustee of the trust and is the ultimate holding company of the Partnership.

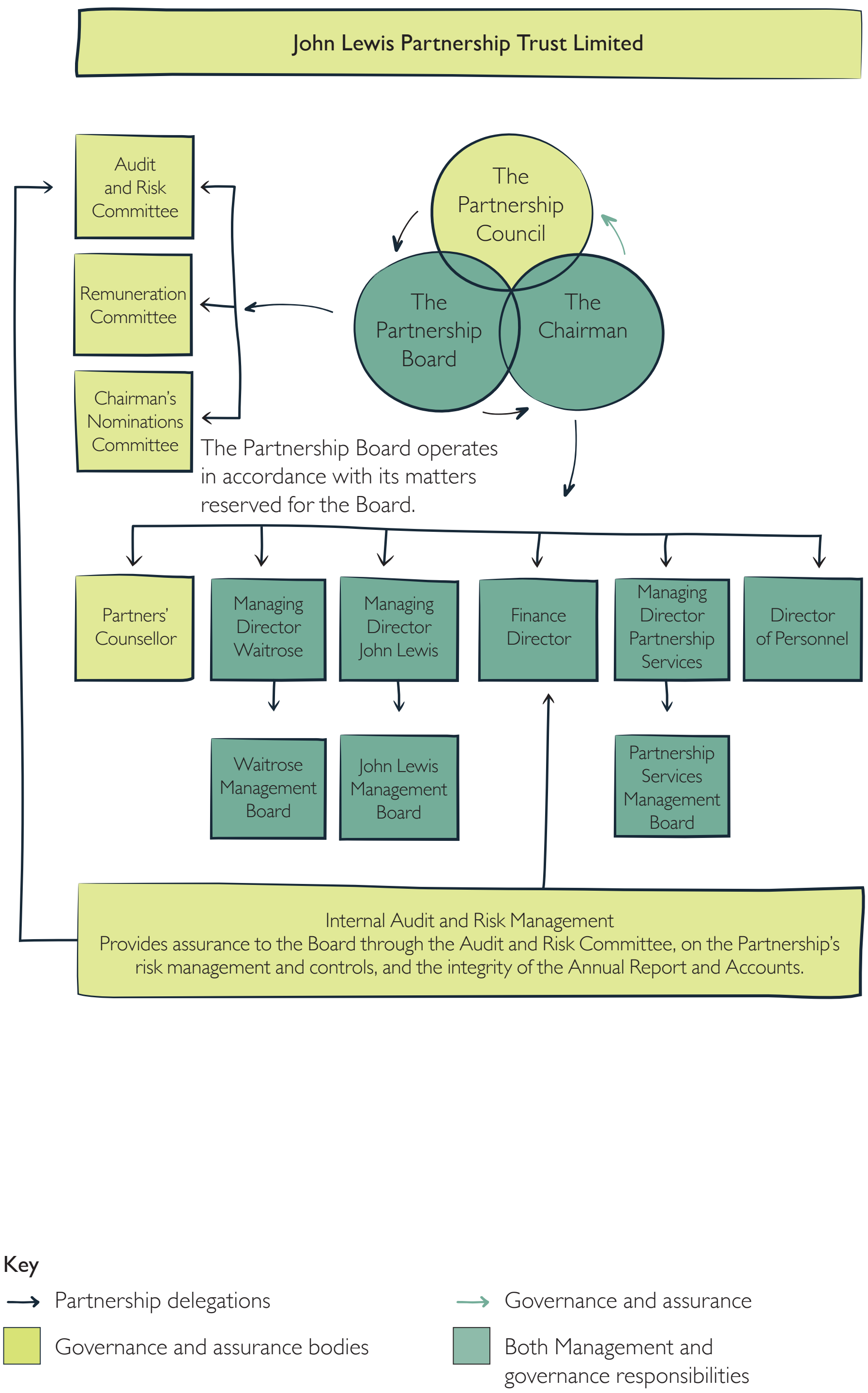
How does the Partnership share the responsibilities of ownership as well as its rewards – profit, knowledge and power?

The Partnership aims to make sufficient profit from its trading operations to sustain the business through investment and to distribute a share of those profits as Partnership Bonus to all Partners. This report, together with the Partnership Council report, on pages 64 to 67, explains how knowledge and power is shared within the Partnership through its democratic structures and how it is governed.

Our structure and governing authorities

Our governance structure is designed to safeguard the Partnership's future, enhance its prosperity and ensure its integrity.

The Partnership operates through a series of delegated authorities and assurance mechanisms whilst ensuring that the views of Partners are heard.



How do the management mechanisms of the Partnership work?

The Constitution defines mechanisms to provide for the management of the Partnership, with checks and balances to ensure accountability, transparency and honesty.

The Constitution defines three governing authorities:

- The Partnership Council
- The Chairman
- The Partnership Board

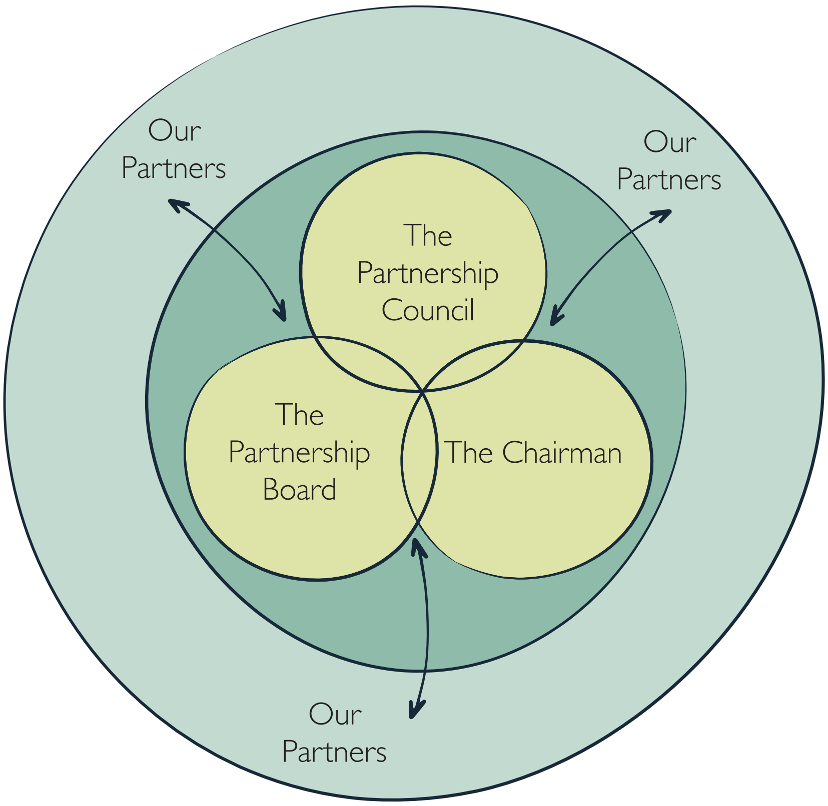
The Constitution established the representation of the co-owners on the Partnership Board through the election of Partners as Directors (Elected Directors) and it also determines the role of the Partners' Counsellor. See page 58 for more detail on their roles.

How are the Partners' opinions voiced?

The governing authorities' power to direct the Partnership's affairs depends on the consent of Partners.

Partners express their opinions through:

- Formal arrangements for sharing knowledge, such as the open system of journalism for the Gazette and the annual Partners' Survey;
- Representative bodies, as shown on page 54; and
- Through personal contact between Partners and their line managers.



Key

⟷ Representation and communication

Our Partners | Our Constitution | Our Governing authorities

About the Trust

John Lewis Partnership Trust Limited ('the Trust Company') holds the Deferred Ordinary Shares in the capital of the Company, in trust, for the benefit of the Partners.

The main purpose of the Trust Company ('the Trustee'), under the Constitution, is to protect the Constitution and democracy of the Partnership.

How is the Board of the Trust Company made up?

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

How are the Trustees elected?

The Articles of Association of the Trust Company states that the Chairman appoints both his own successor and the Deputy Chairman. This follows the wishes of the Partnership Founder, who believed that each appointment should represent the interests of the Partnership and work to preserve its future. The Chairman's Nominations Committee oversees the appointment process of the Chairman and the Deputy Chairman.

The Trustees of the Constitution are elected by the Partnership Council, as described on page 64.

How often do the Trustees meet?

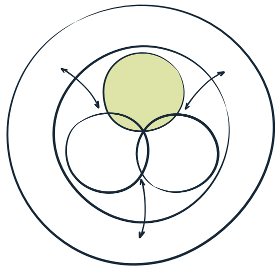
The Trust Board meets as required. It has met three times during the year and has considered and approved:

- The payment of the 2013 Partnership Bonus;
- The retirement of David Barclay as Deputy Chairman and the appointment of Mark Price as his successor;
- The financial statements for the Trust and the Trust Company and the Auditors' Engagement Letter; and
- Changes to the Articles of Association of John Lewis Partnership plc.

OUR GOVERNANCE APPROACH *CONTINUED*

About the governing authorities

The Partnership Council



What is its purpose?

The Partnership Council is the democratically elected body that represents Partners as a whole and reflects their opinion. It is the voice for ensuring that the business is run for and on behalf of Partners. It shares responsibility for the health of the Partnership and entrusts management of the Partnership to the Partnership Board which delegates its management authority to the Chairman. The Partnership Council holds the Chairman to account for leadership of the business in line with Partnership principles, and in particular, Principle 1.

How does the Partnership Council fulfil its duties?

The Partnership Council discharges its responsibilities by receiving information from the Chairman at its formal meetings and holding him to account for the performance and leadership of the business and the maintenance of the principles of the Constitution.

The Partnership Council delegates its work for holding divisional Managing Directors responsible for the delivery of divisional business plans to the John Lewis and Waitrose Divisional Councils and Partnership Services and Corporate Forums. Any concerns arising from those bodies are escalated via the Partnership Council to the Chairman, who in turn holds the Divisional Managing Directors to account. The Partnership Council's democratic function at local level is conducted within Forums and PartnerVoice, which are also democratically elected.

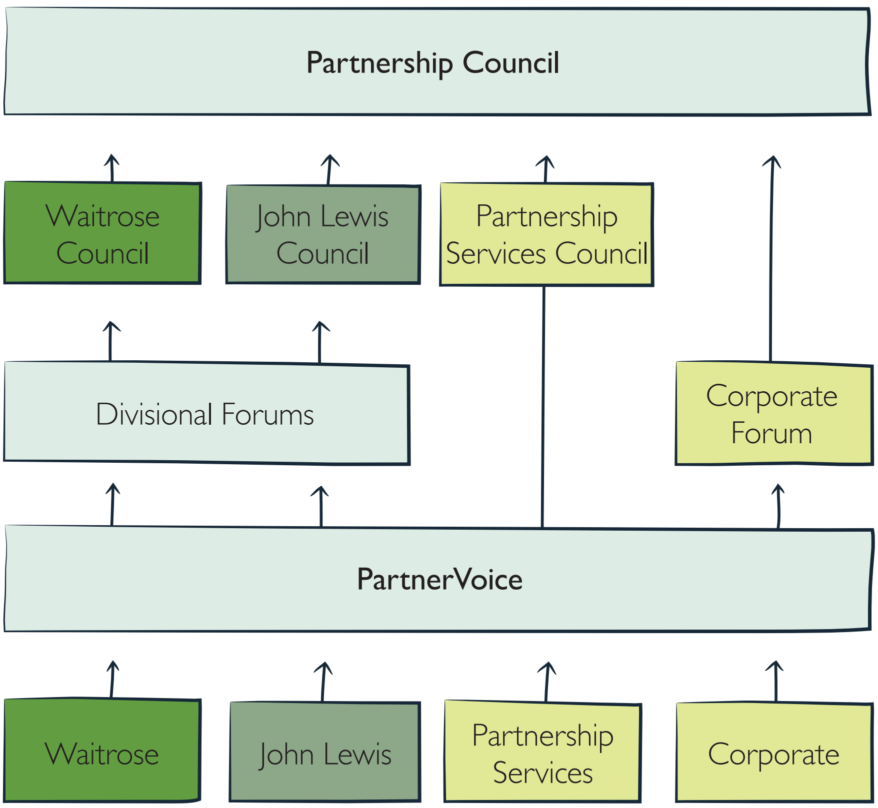
For more information about the Partnership Council, its responsibilities, accountabilities and actions, please see the Partnership Council Report on page 64.

The Partnership Council has powers, allowing it to:

- Hold the Chairman to account
- Make recommendations on policy
- Make recommendations to the Chairman on any subject.
- Ask the Partnership Board or the Chairman anything it wishes – and they must answer unless doing so would, in their opinion, damage the Partnership's interests.
- Regularly share the views of Partners on key issues.

Partnership Council

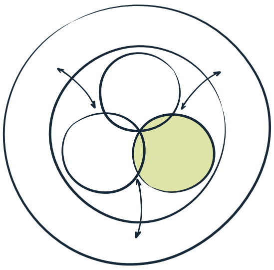
For the first time in our Annual Report and Accounts we've included a Partnership Council Report from Jane Burgess, our Partners' Counsellor. Find it on page 64.



THE CONSTITUTION

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

The Chairman



What are the Chairman's roles and responsibilities?

The Chairman must ensure that the Partnership develops its distinctive character and democratic vitality. The Partnership Board delegates management of the Partnership's business to the Chairman and he is ultimately responsible for the Partnership's commercial performance. He is the Chairman of the Partnership Board, by virtue of his appointment as Chairman of the Trust Company. He is also responsible for the leadership of the Partnership Board and ensuring its effectiveness on all aspects of its role. The Chairman's role and responsibilities are defined in the Constitution.

How is the Chairman accountable within the Partnership?

The Chairman is not only accountable to the Partnership Board, in accordance with the Companies Act, but also to the Partnership Council, in accordance with the Partnership's Constitution.

The Chairman attended four Partnership Council meetings during the year. If the Council judges that the Chairman has failed to fulfil (or is no longer a suitable person to fulfil) the responsibilities of his office, it may propose a Resolution upon the Constitution to dismiss the Chairman.

How does the Chairman delegate his management authority?

The Chairman delegates his management authority for the day-to-day management and development of the core businesses to the divisional Managing Directors and the Group Finance and Personnel operations to the Finance Director and Director of Personnel.

What other bodies support the Chairman?

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

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

Comply or explain

THE ROLE OF THE CHAIRMAN

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

The Constitution applies this principle by means of a number of effective checks and balances on the powers of the Executive Chairman. He is accountable separately to the Partnership Council and the Partnership Board and delegates part of his management authority as detailed below. Additionally, the Partnership Counsellor and Elected Directors, whose role is detailed on page 58, are able to monitor at first hand how the business is being run, with particular perspective of the Partners and the Constitution. All Directors have the same statutory duties.

OUR GOVERNANCE APPROACH *CONTINUED*

The Partnership Board

How is the Partnership Board made up?

The Partnership Board comprises the following 15 members:

- Chairman
- Deputy Chairman
- Four Executive Directors (in addition to the Chairman and Deputy Chairman)
- Partners' Counsellor
- Five Elected Directors
- Three Non-Executive Directors

More detail about individuals on the Partnership Board and their roles can be found below on page 62.

What is the Partnership Board's responsibility?

The Partnership Board has ultimate responsibility for approving major policy and strategy decisions and allocating the financial and other resources of the business. The Partnership Board is also responsible for reviewing the effectiveness of the Partnership's internal controls, including financial, operational, compliance and risk management systems, and for determining the nature and extent of the risk it is willing to take in achieving its strategic objectives.

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

Quorum: Three members

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

The Partnership Board met 11 times during the reporting year and the members' attendance is detailed in the table opposite. The Partnership Board governs the Partnership's affairs through a schedule of matters reserved for its decision. It agrees the Partnership's strategy, business plan and annual budgets, including those of Waitrose, John Lewis, Partnership Services and Corporate divisions. It approves and monitors the Partnership's revenue and capital spending and determines each year the amount of the Partnership's profits that should be reserved for the maintenance and development of the Partnership's business, and hence the rate at which the Partnership Bonus may be paid. It also monitors performance, including that of the divisions, against business plans, budgets and forecasts.

Senior executives attend Partnership Board and Committee meetings as appropriate to support proposals on policy setting, investments and the results and strategies of their divisions.

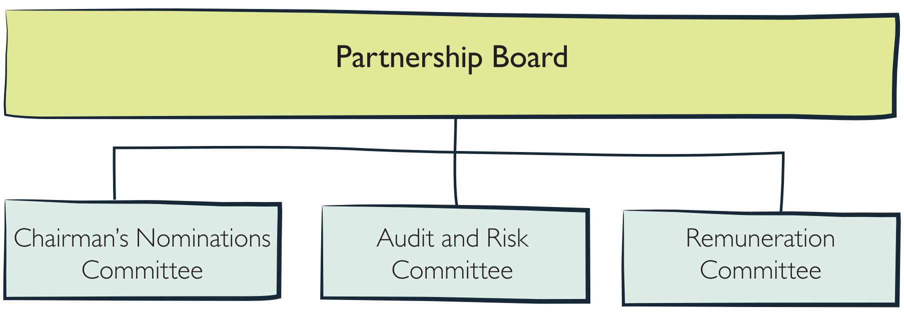
Partnership Board members are given relevant and timely documentation in advance of each Partnership Board and Committee meeting.

What other committees assist the Partnership Board?

The Partnership Board is aided in carrying out its supervisory and assurance responsibilities by its committees: the Chairman's Nominations Committee, the Audit and Risk Committee and the Remuneration Committee.
The responsibilities of these committees are set out in each committee's report, and their respective terms of reference are available at www.johnlewispartnership.co.uk.

The Audit and Risk Committee Report can be found on page 70 and the Chairman's Nominations Committee on page 68.
Full details of the composition and work performed by the Remuneration Committee are set out in the Remuneration Report on pages 74 to 77.

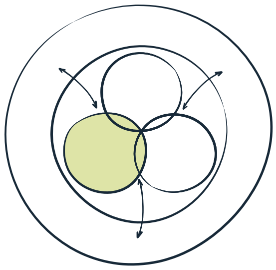
From time to time, the Partnership Board also delegates authority to ad hoc committees to help finalise matters within agreed parameters set by the Partnership Board. This year, sub-committees have reviewed the triennial pension scheme valuation and approved other specific material transactions.



See page 68 for the Committee's Report

See page 70 for the Committee's Report

See page 74 for the Committee's Report



The members of the Partnership Board and their attendance at meetings during 2013/14 were as follows:

	Appointed	Retired	Number of Partnership Board meetings attended
Executive Directors			
Sir Charlie Mayfield (Chairman)			11
Mark Price (Deputy Chairman)#			11
Tracey Killen			11
Patrick Lewis			11
Andy Street			10
Helen Weir			11
Partners' Counsellor			
Jane Burgess			11
Elected Directors			
Kate Brewer*	17 October 2013		4
Steve Gardiner			11
Kim Lowe			11
Kevin Payne			11
Noel Saunders*		17 October 2013	8
Dan Smith			11
Non-Executive Directors			
David Anderson		14 February 2014	10
David Barclay		28 February 2014	10
Denis Hennequin	1 March 2014		–
Baroness Hogg			10
Keith Williams	1 March 2014		–

Mark Price succeeded David Barclay as Deputy Chairman on 18 August 2013.
* Noel Saunders retired from and Kate Brewer was appointed to the Partnership Board on 17 October 2013 and so they were eligible to attend eight and four meetings respectively.

In addition to the 11 scheduled Partnership Board meetings above, the Partnership Board also met on a quorate basis on three occasions. These quorate meetings were constituted by the Partnership Board from those members available at that time, having considered the views of the whole of the Partnership Board beforehand.

Biographies of members of the Partnership Board, including the new members, can be found on page 62.

"I'm honoured that Partners have put their trust in me. The whole Board were very welcoming and have all offered me their support as I find my feet. Coming from John Lewis, my next step is to understand the Waitrose and Partnership Services divisions a bit better."

Kate Brewer,
Business Analyst IT Relationships

OUR GOVERNANCE APPROACH *CONTINUED*

The Partnership Board continued

The Partnership Board and its members in more detail

CHAIRMAN

Sir Charlie Mayfield holds the position of Chairman. This is an executive role. He is Chairman of the Partnership by virtue of his appointment as the Chairman of the Trust Company. More information about the Chairman's role as a governing authority can be found above on page 55.

DEPUTY CHAIRMAN

Mark Price holds the position of Deputy Chairman of the Partnership Board by virtue of his position as Deputy Chairman of the Trust Company. He is also an Executive Director and Managing Director of Waitrose.

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

David Barclay was Deputy Chairman until 18 August 2013.

EXECUTIVE DIRECTORS

The Executive Directors at the date of this report are Tracey Killen, Patrick Lewis, Sir Charlie Mayfield, Mark Price, Andy Street and Helen Weir.

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

PARTNERS' COUNSELLOR

The Partners' Counsellor, Jane Burgess, is appointed by the Chairman and is a Director of the Partnership Board in accordance with the Constitution.

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

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

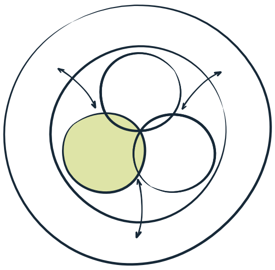
ELECTED DIRECTORS

The Constitution provides that five Partners are elected to the Partnership Board. The Elected Directors at the date of this report are Kate Brewer, Steve Gardiner, Kim Lowe, Kevin Payne and Dan Smith.

Elected Directors are appointed in accordance with the democratic process, by a vote of the Partnership Council during each three year term of the Council. Elections last took place in 2012. Following Noel Saunders' retirement, a by-election was also held in 2013, leading to Kate Brewer's appointment to the Partnership Board.

While Elected Directors must act in accordance with their statutory duties, through their constitutional role, they must remain mindful of Partners' best interests. The Elected Directors are Partners, but they are independent of the management of the Partnership and they have no executive responsibilities on the Board. Their role is to test decisions and proposals by the executive from the perspective of the democracy. The Partnership Board determines that the Elected Directors are independent for the purpose of considering matters reserved to the Board for decision, regardless of the fact that they are Partners.

In addition to attending Partnership Board meetings, the Elected Directors also meet together without the Executive Directors, led by the Partners' Counsellor.



NON-EXECUTIVE DIRECTORS

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

Baroness Hogg's term of office was extended until September 2014.

After the year-end, David Anderson and David Barclay resigned from the Board.

Denis Hennequin and Keith Williams were appointed as Non-Executive Directors on 1 March 2014 for an initial term of three years. Together, they bring external, independent and objective judgement to the Partnership Board.

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

The Non-Executive Directors and the Elected Directors met together without the Executive Directors as required by the Code, led by the Partners' Counsellor.

The Partnership Board reviews the interests of all Non-Executive Directors annually and has determined that Baroness Hogg continues to be independent of the management of the Partnership and that Denis Hennequin and Keith Williams were independent on appointment. The Board is also confident that none of the Non-Executive Directors have any cross-directorships or significant links that would adversely interfere with their independent judgement.

During the year, the Articles of Association of the Partnership were amended to allow Non-Executive Directors to vote at Partnership Board meetings.

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

SENIOR INDEPENDENT DIRECTOR

The Partnership Board does not appoint a Senior Independent Director.

Comply or explain

BOARD INDEPENDENCE

Code Provision B.1.2 states that at least half the Board, excluding the Chairman, should comprise Non-Executive Directors, determined by the Board to be independent. This supports the Code Principle that the Board should have the appropriate balance of skills, experience, independence and knowledge.

The Code does not contemplate employee directors on the boards of listed companies.

The composition of the Partnership Board does not comply with this Code Provision and at 25 January 2014 had three Non-Executive Directors considered by the Code to be independent. Instead, the Partnership Board reflects the stakeholders of the Partnership: the Partners' Counsellor and the five Elected Directors are neither Executive Directors nor Non-Executive Directors. They are not part of the executive, as they do not hold executive responsibilities, nor do they hold a Director's service contract. As Partners, they are co-owners of the Partnership.

While they are not independent, in accordance with the independence definition provided by Code Provision B.1.1, they test Partnership Board decisions and proposals by the executive from their perspective as Partners and co-owners, and while they must act in accordance with their statutory duties, they are also, through their Constitutional position, mindful of the Partners' best interests as a whole.

Comply or explain

THE ROLE OF THE SENIOR INDEPENDENT DIRECTOR

Code Provision A1.2, A.4.1, A.4.2 and B.6.3. require that one of the Non-Executive Directors is appointed as the senior independent Director and be identified in the Annual Report and Accounts and lead the performance evaluation process for the Chairman.

The Partnership Board does not appoint a senior independent Director and so does not comply with the above Code Provisions. The functions contemplated by this Code Provision are split across the responsibilities of Mark Price as Deputy Chairman and Jane Burgess as Partners' Counsellor. The role of the Deputy Chairman and Partners' Counsellor are set out on page 58.

The Chair of the Remuneration Committee, who is a Non-Executive Director, leads the performance appraisal process for the Chairman. As David Barclay was due to retire as Chair of the Remuneration Committee, this year the performance appraisal process for the Chairman was led by the Deputy Chairman. The Deputy Chairman met with the other Directors, without the Chairman present, to appraise the Chairman's performance.

The Partnership Board *continued*

Board independence

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

Retirement by rotation

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

Conflicts of interest

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

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

The Company also provides an indemnity for the benefit of each trustee of the Partnership's Pension Fund, in respect of liabilities that may attach to them in their capacity as a trustee. As a trustee of the Partnership's Pension Fund, Patrick Lewis also has the benefit of this indemnity.

The Partnership Board has looked closely at the other appointments held by Directors, details of which are contained in their biographies on pages 62 to 63. The Partnership Board considers that the Chairman and each Director are able to devote sufficient time to fulfil the duties required of them under the terms of their contracts or letters of appointment.

Directors' and Officers' liability insurance

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

Effectiveness of the Partnership Board

During the year the Partnership Board, facilitated by an independent firm, Board Intelligence, undertook the second part of an externally facilitated evaluation of its performance and effectiveness. The evaluation has been designed to take place over a three-year period. The first stage, undertaken last year, focussed on the performance and effectiveness of the Board. The second stage has included a review of the performance and effectiveness of the Partnership Board's committees. Board members and committee members were asked via survey to comment on the committees' roles, priorities and effectiveness. Meetings were then held with Board Intelligence and the Chairman and with each of the Committee Chairmen to discuss the themes and improvement ideas that arose from the surveys.

The committees have adopted the key recommendations of the evaluation which were to review and develop their roles and responsibilities, as well as their relationship and interactions with the Board and management. The resulting revised committees' terms of reference are available at www.johnlewispartnership.co.uk.

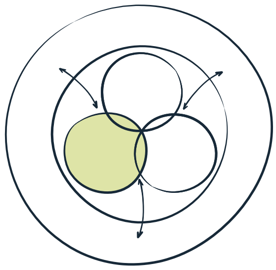
Board Intelligence has no other connection with the Partnership.

Independent professional advice

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

Company Secretary

The Director of Legal Services and Company Secretary is responsible for advising the Partnership Board on all corporate governance matters, ensuring that Board procedures are followed and that there is a good flow of information, facilitating induction programmes for new Directors and assisting with Directors' continuing professional development.



Sharing knowledge and relations with Partners

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

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

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

Annual General Meeting

The AGM of the Partnership is held and conducted in accordance with the Companies Act and the Company's Articles of Association. Representatives of the Trust Company and the Directors of the Partnership are entitled to attend the AGM. Voting is conducted by way of a show of hands, unless a poll is demanded.

Comply or explain?

RETIREMENT BY ROTATION

Code Provision B.7.1 states that all Directors of FTSE 350 companies should be subject to annual election by shareholders, and all other Directors to election by shareholders at their first annual general meeting, followed by re-election at intervals of no more than three years. This supports the Code Principle that the Directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

The Partnership does not operate a system of annual election, and its executive and Partners' Counsellor are not re-elected at three-year intervals. The Partnership instead uses the governance mechanisms set out in the Constitution to consider the efficacy of each Director.

The Chairman is accountable to the Partnership Council two times a year, rather than annually at an AGM. Being subject to the Partnership Council's scrutiny in this way ensures that the Chairman holds the Directors to account.

Directors are continually accountable through the Gazette, the Partnership's weekly internal publication where answers to Partners' questions are published.

OUR PARTNERSHIP BOARD MEMBERS

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

CHAIRMAN AND EXECUTIVE DIRECTORS

Sir Charlie Mayfield^
Chairman
Started current role: March 2007
Joined the Partnership 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 Partnership Board: 2007
Length of time with the Partnership: 31 years

Patrick Lewis
Managing Director, Partnership Services
Started current role: October 2012
Joined the Partnership Board: 2009
Length of time with the Partnership: 19 years
Other appointments:
Trustee of the Partnership's Pension Fund
Non-Executive Chairman of 3BM
Director of Margrange Investments
Director of Wycombe Abbey School

Mark Price CVO
Managing Director, Waitrose and Deputy Chairman of the John Lewis Partnership
Started current role: April 2007
Joined the Partnership Board: 2005
Length of time with 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 Partnership 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
Finance Director
Started current role: June 2012
Joined the Partnership Board: 2012
Length of time with the Partnership: 2 years
Other appointments:
Non-Executive Director of SAB Miller plc
Director of Caldicott Trust Limited

ELECTED DIRECTORS

Steve Gardiner^+
Branch Manager of Waitrose Cirencester
Joined the Partnership Board: 2012
Length of time with the Partnership: 17 years

Kim Lowe^+
Managing Director of John Lewis, Glasgow
Joined the Partnership Board: 2007 (re-elected in 2009 and 2012)
Length of time with the Partnership: 31 years

Kevin Payne#
Distribution Contract Manager, Waitrose
Joined the Partnership Board: 2012
Length of time with the Partnership: 29 years

Kate Brewer
Business Analyst IT Relationships, John Lewis Victoria
Joined the Partnership Board: 2013
Length of time with the Partnership: 10 years

Dan Smith#
Selling Assistant at John Lewis, Kingston
Joined the Partnership Board: 2012
Length of time with the Partnership: 9 years

PARTNERS' COUNSELLOR

Jane Burgess#
Joined the Partnership Board: 2012
Length of time with the Partnership: 34 years

NON-EXECUTIVE DIRECTORS

Denis Hennequin#+
Non-Executive Director
Joined the Partnership Board: 2014
Other appointments:
Non-Executive Director of Eurostar
Non-Executive Director of Select Service Partners Limited
Director of Cojean Restaurant Investments

Baroness Hogg#+
Non-Executive Director
Joined the Partnership Board: 2011
Other appointments:
Chairman of the Financial Reporting Council
Non-Executive Director of BG Group plc
Lead independent Director of HM Treasury
Member of the Takeover Panel

Keith Williams FCA^#
Non-Executive Director
Joined the Partnership Board: 2014
Other appointments:
Chairman and Chief Executive Officer, British Airways
Independent Non-Executive Director of Transport for London
Non-Executive Director of Iberia Lineas Aereas de España SA

33% of our Board Members are democratically elected from the business – our business is richer for it.

ADVISOR

Margaret Ewing FCA#
External member of Audit and Risk Committee

Started current role: January 2013

COMPANY SECRETARY

Margaret Casely-Hayford

Started current role: April 2006

Length of time with the Partnership: 8 years

Professional qualifications: Barrister and Solicitor

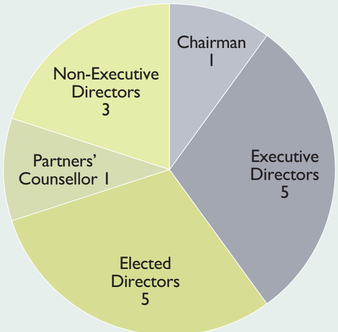
Other appointments:

The Partnership's representative on the Board of the British Retail Consortium

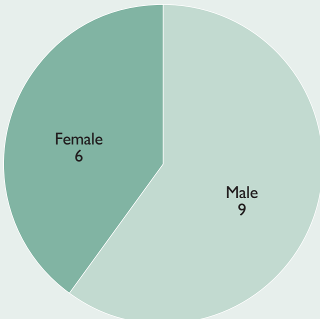
Non-Executive Director to NHS England

BOARD COMPOSITION

Position within the Board



Gender diversity



For more information about the role of our other governing authorities, please see pages 54 and 55 of the Governance section.

Key:

^ Member of the Nominations Committee
# Member of the Audit and Risk Committee
+ Member of the Remuneration Committee

THE PARTNERSHIP COUNCIL REPORT

"During the year, the Partnership Council has been involved in the review of performance, holiday pay and the Pension Benefit Review."

Jane Burgess,
Partners' Counsellor

Council members

The Partnership Council currently consists of 66 elected members (38 Waitrose, 25 John Lewis, two Corporate, one Partnership Services), a President, three members appointed by the Chairman and the 15 members of the Board, who are automatically members. Over the past year, there have been 16 by-elections and Council attendance averaged 97% of members.

Meetings and attendance

The Partnership Council meets at least four times a year and has three roles:

– To hold the Chairman to account
– To make some key decisions
– To influence policy

The Council holds the Chairman accountable for achieving Principle 1 by acting as the focus of opinion in the Partnership. Those opinions are channelled through the various levels of elected bodies to the Council. The Council may delegate to Divisional Councils and local forums so that management is held to account at the most appropriate level.

The Council has three vital decision-making powers:

1. To elect the Trustees of the Constitution and five Directors to the Board.
2. To change the Constitution, with the Chairman's agreement.
3. To dismiss the Chairman.

Role of the Council

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

Partnership Council

How does the Council hold the Chairman to account?

All managers in the Partnership need to be particularly open to challenge and suggestions from their fellow co-owners, whose business they have the responsibility of managing.

This is especially true of the Chairman in his relationship with the Council, which "holds him to account" by asking questions, giving feedback and making suggestions for how things could be improved.

The Constitution requires that the Chairman appears formally before the Council to account for the Partnership's performance as set out in the half- and full-year results. There are three stages to this process: firstly, the Council needs to have sufficient understanding and visibility of the performance during the reporting period and be able to understand the results in context; secondly, there needs to be a comprehensive debate on the proposal (see below); finally, all Councillors who represent constituents cast their vote. Members of the Partnership Board and the three members appointed by the Chairman have no vote in Council.

The wording of the proposal, which is always proposed by the President, is "This Council welcomes the Chairman's report and supports his leadership of the Partnership and its continuing progress towards achieving Principle 1".

For matters discussed at the Partnership Board, Councillors rely on the five Partners whom they have elected as Directors to understand and challenge on behalf of Partners. Councillors are also entitled to seek the reassurances they require to form their own view as an independent governing authority.

Significant feedback on the year's developments

In October 2013, the debate on the half-year results was dominated by the recently announced back payment of several years of holiday pay, which was distributed to Partners in August 2013 following a review of the Partnership's holiday pay policy.

Councillors had been invited to confidential briefings in London at the end of July to understand the background and the Board's rationale for its decision. They were invited to help shape the approach to communicating the announcement to Partners in August.

At the meeting itself, the Chairman was robustly held to account on holiday pay, both on how the issue was being managed as well as how it had arisen, with a number of Councillors frustrated that their advice on communication appeared not to have been heeded. At the President's request, a report was prepared for the Council (discussed in detail with the Co-ownership Group and subsequently tabled at the annual conference in November) listing more than 40 separate points where the Council's advice had indeed led to a change in management's plans.

In March 2014, Councillors shared their views and challenges on our 2013/14 results with the Chairman and reflecting their thoughts on his leadership of the Partnership. The key debates were: the experience of Partners during a period of significant change – both good and challenging; a focus on IT including the experience of users; our investment – whether it was sufficient and whether we would be market-leading. There was also comment that although our results were good, were they good enough, how did our cash flow link to our ability to live within our means and how can we be agile enough to adapt to changing market conditions. Finally there was a conversation on co-ownership and the dividend this brings for Partners.

Councillors also provided feedback on the first draft proposal for the review of the pension scheme. Councillors really felt the weight of their responsibilities. Their concerns were about communications, to ensure Partners were well informed, understood the assumptions behind the proposal and the other options that might be available. Partners also wanted to know what the impact would be for them personally and they expressed the view that halving of the accrual rate in the defined benefit scheme was too harsh.

The results of the voting on the proposal to support the leadership of the Chairman were:

October 2013:
Carried with one abstention

March 2014:
Carried with one abstention

The most important decision that the Council could make is to instruct the Trustees to remove the Chairman. Though such a "resolution on the Constitution" has never been passed, it remains the ultimate signal of the Council's authority.

What were the key decisions that the Council was involved in during the year?

The two more usual areas for Council decision-making are changes to the Constitution's Principles and Rules, and the election of Directors and trustees.

This year, the Council agreed changes to Rules 25-37 governing other democratic bodies (Divisional Councils, Forums and PartnerVoice) and Rules 82-92, on the role of the Partners' Counsellor and Registry. These rule changes require a two-thirds majority of all voting members of the Council, namely 44 Councillors. Both changes were passed (two and none voting against respectively).

As a result of the changes proposed to our democratic bodies, the Council also agreed to a three-month extension to the terms of Branch Forums and PartnerVoice, thereby enabling arrangements to be fully in place for 2014 to be a significant year of elections. Divisional councils and Forums move from a two year to a three year term of office, recognising the advantages of greater continuity, whilst PartnerVoice remains a two year term, reflecting the greater Partner turnover at a local level.

Making way for new trustees

The retirement of Noel Saunders, Managing Director, John Lewis Stratford City, triggered a by-election in July for an Elected Director of the Partnership Board, for which seven candidates put themselves forward. Each nomination requires the support of three Councillors proposing and seconding, as well as a comprehensive manifesto. Candidates are then invited to join Councillors at their meeting and to take part in hustings, giving short presentations about their suitability. After a 100% turnout in the paper ballot the following day, Kate Brewer, Business Analyst IT Relationships, John Lewis, was elected for the remainder of the three years to 2015.

JOHN SPEDAN LEWIS FOUNDATION

Later in the year, there was a by-election for a Trustee of the John Spedan Lewis Foundation, which supports environmental research and conservation projects throughout the UK. Where the gap between meetings is long, elections can be held online – and that is what happened here as Ged Keogh-Peters, Head of Returns & Operational Development, John Lewis, was chosen for the remainder of the Council term.

Lastly, during the year under review, the resignation of a Partner created a vacancy on the Pension Trustee Board. The elections were held in March 2014. Two retired Partners, Peter White and Maurice Dunster, were re-elected, and two working Partners were elected – Victoria Wheal, Senior Manager, Public Affairs and Andrew Ingram, Senior Group Insurance Manager.

THE PARTNERSHIP COUNCIL REPORT *CONTINUED*

How does the Council influence policy?

There are a number of ways in which the Council influences the direction of the Partnership over time, but in any given year, there are three principal opportunities. The first is through the Council's right to ask the Chairman or the Board any question it wishes, knowing that they must answer unless doing so would in their opinion damage the Partnership's interests (Rule 7). In the same vein, the Council may make recommendations to the Chairman on any subject.

The second approach, usually at a more detailed level, is through the work of the Council's Specialist Groups – the Co-ownership Group, Partner Group and Financial Assistance Committee – each of which has 10 members. The detail of the Specialist Groups can be found on page 67.

The third opportunity to influence policy comes through the Council's consideration of the Partner Survey results in July and October, pulling together all the analysis and discussions that have taken place at local, regional and divisional level.

Additionally, this year has seen the start of the pension benefit review, with the whole Council fully involved from the very beginning, rather than the detailed proposals being assessed by a specialist sub-committee as in previous reviews.

Addressing leadership, diversity and democracy

The key themes that emerged during the year under review on which the Council sought to influence the Chairman were leadership, diversity and democracy.

On leadership, Councillors have consistently emphasised how much a Partner's experience of the Partnership is dependent on their relationship with their line manager and have highlighted factors that put that relationship under pressure – the apparent inconsistency of manager: Partner ratios, the increasing amount of "signposting" managers need to do, and the lack of time for coaching and developing or even for listening to and welcoming Partners' ideas and suggestions.

Councillors recognised that inspirational leadership could not be learned overnight and welcomed investment in the development of line managers and the drive for greater Partnership-wide consistency. Greater investment in systems has been a recurring theme over recent years in Council, so promised developments that would ultimately release managers to spend more time with their teams were also welcomed.

Comments on diversity were principally borne out of frustration that progress was not quicker. Action plans have been developed to address the variation in Partner Survey scores seen across ethnic groups. However, the results of these are not yet reflected in survey outcomes. Councillors wanted Partners to be able to see how the detail of the business plans addressed these important concerns.

Concerns for democracy, the third key theme, centred around the extent to which Partners in general, and the Council in particular, did genuinely influence the management. Council played a key part in influencing the Democracy Workstream, part of the Driving the Difference programme, in its refreshing of our democratic structures and purpose. Partnership-wide elections this year provided an excellent opportunity to cement the resulting four-level structure, refreshed training and renewed emphasis on the active partnership between representatives and the responsible manager.

Proposals were comprehensively discussed at a historic "Council of Councils" meeting in May – the first time ever that the Divisional Councils and representatives of the Corporate and Partnership Services Forums had joined the Partnership Council for a conference.

In response to the debate on these themes in July, the Chairman reiterated the Council's critical role in the Partnership's structure of accountability, with the Partners effectively employing managers to run the business on their behalf.

David Jones is the Council's President and has served on the Partnership Board as well as the Waitrose and John Lewis Management Boards. He also emphasised the Council's considerable power to influence the business through its sheer honesty in raising important issues before a captive management audience.

Throughout the year, the Council has been keen to see that change is properly managed. The powerful metaphor, introduced in March, of the Chairman as chief air traffic controller and major change projects as planes coming in to land, was revisited at subsequent meetings. How were priorities determined? How bumpy were the landings? Were there enough fire engines at the ready? Councillors constantly sought reassurance that Partners could continue to trust the Partnership, that there would be a more consistent Partner experience and that post-implementation assessments would properly determine whether we had achieved value for money and the right balance between what was right for the Partnership and right for Partners.

What is the role of the Specialist Groups?

The Co-ownership Group is a committee of the Partnership Council and manages the business of the Council on its behalf. For example it determines the agendas of the Council meeting. The membership is ten Partnership Councillors elected for a three year term by their peers. The Partners' Counsellor is also a member of the group. During the year its chairmanship passed from Christopher Wright (John Lewis Glasgow, Edinburgh and Aberdeen) to Karen Crisford (John Lewis Victoria). This past year, for the first time, the Group attended the Employee Ownership Association Conference, where they were impressed by the enthusiasm and widespread engagement of younger and smaller employee-owned businesses. They also visited UK Parliament. This visit served as a helpful reminder that the Group's ultimate purpose – as is the Council's – is to do what is best for those they represent and the Partnership as a whole.

The Partner Group is also a committee of the Partnership Council and it's membership is ten Partnership Councillors elected for a three year term by their peers. This group is more closely involved in the development of personnel policy and this year activities have included a review of the drugs and alcohol policy and the suite of redundancy policies. While the whole Council has been involved in the introduction of the new performance management system and the linked implementation in 2014 of a new framework for pay for performance, the detail of both of these developments had previously been discussed with the Partner Group.

They also spent a day with the senior personnel team learning about the Partner Plan, and how they and the Council can best influence and hold management to account for its delivery over the coming years.

The Financial Assistance Committee, which is a group of ten Partners elected by the Partnership Council for a three year term, on behalf of the Partners' Counsellor, oversees gifts and loans to Partners, usually to assist with cases of extreme hardship, but also with some long leave projects. It also makes small financial gifts to Partners on marriage or civil partnership, and on leaving, and organises gifts to those on long-term sick leave. In large ways and small, it made a difference to the lives of 3,536 Partners, spending a total of £828,266 on gifts and £669,074 on loans. Of these, hardship gifts totalled £440,703 and loans £597,632.

Within the hardship category there are stories of illness, relationship breakdown, homelessness, payday loans, funerals and any number of other reasons why Partners suffer problems, and where we have been able to make a difference. In some cases we are not able to help financially, but can still signpost to organisations which can offer support and advice to those with debt problems. More positively, loans and gifts for long leave have enabled Partners to enjoy experiences which otherwise would have been out of their reach.

The Committee also considers discretionary cases of Partners qualifying for benefits in retirement and implements, on the Council's behalf, the policy on withholding Bonus in case of serious misconduct.

How do we raise awareness of the work of the Partnership Council?

Councillors fulfil their responsibilities both individually within their constituencies and "corporately" as part of the Council or one of its specialist groups. In both areas, they aim to raise awareness of the Council's work, and this year has seen great progress in the live streaming of Council meetings. For the first time, all the meetings during the year were live streamed to Waitrose stores, as well as John Lewis and head offices, while around 750 Partners attended the meetings in person.

As well as the independent Gazette coverage of the agenda and proceedings of each meeting, the Deputy Editor now also hosts a "Live at Lunch" discussion panel. After each meeting, a full summary is produced and published on the intranet alongside a short highlights film. This year, the Council decided that a full video recording of each session should be available to all Partners, and these films are also available on the intranet a few days after the meeting.

What will the Council focus on in 2014/15?

Under the Constitution, the Chairman has ultimate responsibility for developing the Partnership's democratic vitality (Rule 41) and the Partners' Counsellor is responsible for the "independence, health and effectiveness of the Partnership's representative bodies" (Rule 83). But the Partnership Council itself has to determine how best it may fulfil its role, as well as agreeing the terms of office and election methods for the other levels of democracy.

In 2014/15, the Council will be welcoming the introduction of online elections throughout the Partnership and the introduction of forums to John Lewis. Additionally, while the pension benefit review will be a focus at each of its meetings, the planned calendar covers all the key aspects of the Partnership, including financial results, continuing development from Partner Survey themes and holding the Chairman to account for his leadership of the Partnership in delivering Principle 1.

Jane Burgess

Jane Burgess,
Partners' Counsellor
10 April 2014

CHAIRMAN'S NOMINATIONS COMMITTEE REPORT

"The main focus of the Chairman's Nominations Committee was the appointment of the Deputy Chairman and two Non-Executive Directors."

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

Committee members

Members at the date of this report: Sir Charlie Mayfield (Chair), Kim Lowe, Steve Gardiner, Denis Hennequin and Keith Williams.

Changes in Committee membership: Following his retirement from the Partnership Board, Noel Saunders also stepped down as a member of the Chairman's Nominations Committee on 17 October 2013. Kim Lowe was appointed as a member of the Committee on the same date.

David Anderson and David Barclay retired from the Partnership Board and the Chairman's Nominations Committee on 14 February and 28 February 2014 respectively. Denis Hennequin and Keith Williams were appointed as members with effect from 1 March 2014.

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

Meetings and attendance

There have been six meetings during the year and Directors' attendance at meetings is shown in the table below.

Sir Charlie Mayfield	6
David Anderson	6
David Barclay	5
Steve Gardiner	6
Noel Saunders*	3
Kim Lowe*	2

* Noel Saunders was only eligible to attend four meetings, which took place up to his retirement from the Partnership Board and Kim Lowe was eligible to attend two meetings.

Role of the Committee

The Chairman's Nominations Committee operates in accordance with terms of reference that are available at www.johnlewispartnership.co.uk and were reviewed and amended during the year. The Committee's responsibilities are to support the Chairman to ensure that:

- There is a formal, rigorous and transparent process for the appointment of new Directors to the Partnership Board, who must all be people of ability and integrity committed to working together and supporting the Partnership's Principles.
- There is a formal, rigorous and transparent process for the succession plans for Directors to the Board.
- Appropriate development and training is provided to enable each Board member to fulfil their accountabilities as a member of the Board.

Work performed by the Nominations Committee during the year

Appointment of new Directors

The position of Deputy Chairman is held on the Partnership Board by virtue of being appointed as Deputy Chairman of the Trust Company. The Chairman has the authority to make this appointment and to ensure transparency the appointment is overseen by the Chairman's Nominations Committee of the Partnership Board.

The Chairman's Nominations Committee oversaw the selection and appointment process whereby Mark Price succeeded David Barclay as Deputy Chairman on 18 August 2013. As it was considered that this role be performed by a Partner, no open advertising or external search consultancy was used or considered necessary in order to search for a suitable candidate for this role.

The Committee has also overseen the process of nominating and appointing Denis Hennequin and Keith Williams as Non-Executive Directors with effect from 1 March 2014. After conducting an evaluation of the balance of skills, knowledge and experience amongst the current members of the Partnership Board, the Committee prepared a description of the role and capabilities required for the appointment of two new Non-Executive Directors. As well as professional experience, they considered the personal attributes required of an individual in order for them to be committed to working with the Partnership Board to support the Partnership's principles.

The Committee chose Egon Zender as the external search consultancy to assist with the search for suitable candidates. The candidates were shortlisted and considered on merit against objective criteria set by the Committee. Egon Zender has no other connection with the Partnership.

During the year, the Committee has also overseen the extension of Baroness Hogg's letter of appointment to 30 September 2014.

Succession planning

Succession planning is considered twice a year by the Committee, which has overseen the Chairman's proposals for the succession planning process for Executive Directors and senior management. During the year, the talent review processes have been extended substantially with divisional talent reviews. A Partnership functional talent review process has also been introduced, which will provide opportunities to view talent not only through the Partnership and divisional structures, but also in a matrix structure, centred on Partners' skills.

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

Diversity and Inclusion Policy

The Partnership Board has adopted a Diversity and Inclusion Policy Statement, the aims of which are supported by the Partnership's Diversity and Inclusion Policy (the Policy). The Partnership Board recognises and embraces the benefits of having a diverse Partnership Board and the principles of our Policy apply equally to the Board. As at the date of this report, six of the 15 members of the Partnership Board are female.

Through the Chairman's Nominations Committee, the structure, size, composition and balance of the Board (including skills, knowledge, experience and backgrounds) are monitored, to ensure that when considering Board candidates, due regard is given to the benefits of diversity, including gender, ethnicity and other characteristics protected by the provisions of the Equality Act 2010.

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

Induction and training

During the year, the Committee has reviewed and updated the induction programme for Executive, Non-Executive and Elected Directors. Induction training is provided internally and includes the Partnership's governance mechanisms and meetings with all Directors and senior Partners who support the Partnership Board agenda. The training programme for Directors includes external training courses to support development and gain external insight on topics covered by the Partnership Board. Kate Brewer has received induction training upon joining the Partnership Board and an induction programme has been arranged for the two new Non-Executive Directors who joined the Partnership Board after the year end.

The Committee also reviewed the continuing development of the Partnership Board and made recommendations for the Director training programme for 2014.

Committee Evaluation

During the year, the Committee undertook an externally facilitated evaluation of its own effectiveness. The key recommendations of the evaluation were to review the role and responsibilities of the Committee and the role of management that supports and provides assurance to the Committee so that they are clearly defined and reflected within the Committee's terms of reference. Board Intelligence, who facilitated the review, has no other connection with the Partnership.

On behalf of the Chairman's Nominations Committee

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

Comply or explain?

COMPOSITION AND ROLE OF THE CHAIRMAN'S NOMINATIONS COMMITTEE

Code provision B.2.1 states that the Nominations Committee be chaired by an independent Non-Executive Director, comprise a majority of Independent Non-Executive Directors and lead the process for board appointments. This provision supports the Code principle that the process for nominating persons to the Board is subject to independent review and not dominated by the executive.

The Committee does not comply with all parts of the Code. Under the Constitution the Chairman is responsible for the appointment of the Executive Directors and co-ordinates their responsibilities. He therefore chairs the Committee. The Committee also comprises two Non-Executive Directors and two Elected Directors. This provides a broad mix of members, including those mindful of Partners' interests as co-owners of the business.

The Chairman's Nominations Committee, led by the Chairman, oversees the process for Partnership Board appointments and makes recommendations to the Partnership Board.

The Chairman's Nominations Committee takes no part in the appointment of the Elected Directors, which is led by the Partnership Council.

AUDIT AND RISK COMMITTEE REPORT

"The Audit and Risk Committee's main focus during the year was on the financial reporting and control environment across the Partnership. This included consideration of the accounting for significant items, including holiday pay."

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

Committee members

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

Changes in Committee membership: David Anderson served as Chair of the Audit and Risk Committee throughout the period under review, but retired from the Partnership Board and its Committees with effect from 14 February 2014. Baroness Hogg agreed to extend her term of office until September 2014 and was appointed Chair of the Audit and Risk Committee on 27 February 2014.

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

Margaret Ewing has advised the Partnership Board that she intends to retire from the role of External Member of the Audit and Risk Committee with effect from 30 April 2014.

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

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

Meetings and attendance

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

David Anderson	5
David Barclay	5
Jane Burgess	5
Margaret Ewing	4
Baroness Hogg	5
Kevin Payne	5
Dan Smith	5

The Committee has an agenda linked to events in the Partnership's financial calendar. The agenda is approved by the Committee Chairman and operates in accordance with its terms of reference and a forward planner for items to be considered by the Committee. Each Committee member has the right to ask for reports on matters of interest to be added to the agenda.

Role of the Committee

The Committee operates in accordance with terms of reference. These were reviewed and amended during the year and are available at www.johnlewispartnership.co.uk.

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

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

Work performed by the Committee during the reporting period

Financial reporting

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

The Partnership has an internal control and risk management framework in place under which the Partnership operates, and which supports the preparation of consolidated financial statements. This includes policies and procedures to ensure that adequate accounting records are maintained and transactions accurately recorded so that the Partnership's financial reports and communications give a fair, balanced and understandable assessment of the Partnership, with consistency across the financial statements as a whole.

During the year, the Committee reviewed and agreed the scope of the external audit work to be undertaken by the external auditors and agreed the fees to be paid to the external auditors for their audit of the 2013/14 consolidated annual financial statements.

The Committee also reviewed and monitored the integrity of the 2013/14 interim report and the 2013/14 Annual Report and Accounts, including considering the following significant financial reporting issues and accounting judgements and reporting to the Partnership Board on them.

Employee benefits (note 22)

Issue

The Partnership operates a defined benefit pension scheme, open to all Partners, subject to length of service. The pension scheme liability is calculated using an actuarial model using a number of key assumptions, notably the discount rate and inflation rate, which are sensitive to small changes in market conditions. Significant judgement is exercised in determining these actuarial assumptions.

Response

The Committee reviewed the papers prepared by management, including the advice obtained by management from independent actuarial specialists on the appropriateness of the assumptions used. The Committee discussed with management the acceptability of the key assumptions, including the discount rate and inflation, and reviewed the sensitivities.

Exceptional item for holiday pay (note 3)

Issue
Following a review of the Partnership's holiday pay policy in the year, it became clear that Partners who receive certain additions to pay, such as premiums for working on Sunday or bank holidays, had not been paid correctly under the Working Time Regulations legislation. The Partnership Board decided to make a one-off additional payments to those affected, recording an exceptional charge of £47.3m. The charge includes payments to Partners, associated expenses and an increase in pension entitlements.

Response
The Committee reviewed the papers prepared by management, including how the holiday pay issue arose, how the charge was quantified and the accounting judgements involved. The Committee challenged management on the presentation of the amount as exceptional and the judgements involved.

Provisions in relation to long leave, service guarantee costs, customer refunds, insurance claims (note 19)

Issue
As in previous years, the Partnership has significant provisions in relation to the Partnership's long leave scheme, which provides up to six months paid leave after 25 years of service to all Partners; expected future customer refunds; service guarantees and insurance claims. Management judgement is exercised in determining the estimates and assumptions that form the basis of the provision calculations.

Response
The Committee reviewed the papers prepared by management detailing the methodology and key assumptions used in determining significant provisions. The Committee considers past use of each provision, as well as the sensitivity of the assumptions when reviewing the appropriateness of the provision.

Liability for unredeemed gift vouchers (note 17)

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

Response
The Committee reviewed the papers prepared by management detailing the methodology, actual experience and key assumptions used in calculating the liability for unredeemed gift vouchers.

Impairment (note 10 and 11)

Issue
The Partnership has significant non-current assets, both tangible and intangible. Judgement is exercised in reviewing their carrying value to ensure that they are not impaired.

Response
The Committee reviewed the papers prepared by management detailing the approach for identifying potential impairments and any more detailed review.

Summary

In respect of the five significant financial reporting issues described above, the Committee concluded that the judgements were reasonable and the presentation and disclosures in the financial statements were appropriate. The committee also discussed these matters with the external auditor.

The Committee considers that the financial statements present the items listed above on a balanced and understandable basis.

External audit activities

PricewaterhouseCoopers LLP are the Partnership's auditors and provide the Committee with relevant reports, reviews, information and advice throughout the year, as set out in their engagement letter.

Evaluation and re-appointment of auditors
The Committee is responsible for making a recommendation to the Partnership Board, relating to the appointment, reappointment and removal of the external auditors. During the year, the Committee conducted an evaluation of the auditors' performance. Members of the Committee and senior finance executives within the Partnership were provided with an opportunity, through an evaluation questionnaire, to comment on the effectiveness of the external auditors and the audit process. The outcome of the evaluation was reviewed by the Committee which concluded the effectiveness of the external auditors and the audit process were satisfactory.

Audit firm tendering
It is the Committee's policy to ensure that there is audit partner rotation every five years to safeguard the external auditor's objectivity and independence. The year ended 25 January 2014 is the third year of the current audit engagement partner's appointment. The Partnership has not undertaken an audit tender in the last 20 years. In 2012/13, the Committee adopted a policy in line with the Code relating to tendering the external audit contract at least every ten years. The Committee will continue to review the legislative changes proposed by the European Union and ongoing review by the UK Competition Commission on audit tendering and rotation.

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

The Committee recognises that the independence of the external auditors is a fundamental safeguard for the interests of the Partnership's co-owners. The Partnership has a non-audit services policy that sets out exceptional circumstances where the external auditors may be appointed to undertake additional non-audit work.

A summary of this policy is as follows:

- Most categories of non-audit services are prohibited;
- There is a specific approval process for any work to be undertaken by the external auditor; and
- Prohibited services include bookkeeping or other services related to the accounting records or financial statements, internal audit services, taxation services and any other work that could compromise the independence of the external auditor or is prohibited by UK ethical guidance.

Any proposal to engage the external auditor to perform non-audit services must be referred to the Finance Director for approval. Where fees exceed £100,000, the proposal must be approved by the Chair of the Committee and where fees exceed £250,000, the proposal must be approved by the Committee. Details of the amounts paid to the external auditors are given in note 7 to the consolidated financial statements. The Committee will review this policy in the light of the legislative changes proposed by the European Union.

AUDIT AND RISK COMMITTEE REPORT *CONTINUED*

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

Internal audit activities

The Partnership Board has ultimate responsibility for the Partnership's system of internal control and risk management and reviewing its effectiveness. The Partnership Board delegates the monitoring of internal control and risk management processes to the Committee. The Committee seeks assurance from the work of the Internal Audit and Risk Management department which provides objective assurance of the effectiveness of those arrangements through the delivery of a risk-based work plan and risk management activities. The Head of Internal Audit and Risk Management reports functionally to the Chair of the Committee and operationally to the Finance Director. The Internal Audit and Risk Management team has been strengthened during the year with additional IT and project assurance specialists; it was also restructured to provide dedicated internal audit managers for the Group and each Division.

The Committee reviews and approves the scope of the Internal Audit work programme each year. At each meeting, the Committee receives a report from the Head of Internal Audit and Risk Management on the work of internal audit, and on management responses to recommendations for improvements made in the audit reports issued.

During the year, the Committee has reviewed 20 Internal Audit reports covering key processes, systems and controls and IT projects and programmes. In addition, the Committee received an internal audit review of the holiday pay issue that arose during the year. The Committee oversaw the review by an external professional services firm of the Partnership's personnel policies with a particular focus on pay policies, and systems. Whilst this review found that the existing policies were compliant with relevant legislation and regulations, further work was being undertaken to strengthen the personnel policies' governance and assurance framework.

The Committee conducted an annual evaluation of the internal audit function during the year and members of the Committee and management were provided with an opportunity, through an evaluation questionnaire, to comment on the Internal Audit function's effectiveness. The outcome of the evaluation was positive. Some concerns were raised as to whether the size of the team was sufficient given the nature of high-risk, strategically important change and investment programmes. The team has since been strengthened. On all other areas; role, work approach, communication and impact the results of the evaluation were good.

The Partnership's systems of risk management and internal control

Managing risk is fundamental to safeguarding our Partners' interests. This year the Committee has overseen the risk management framework being strengthened and embedded within the Partnership as part of a continuous improvement programme. During the year, a first meeting of the pan-Partnership Risk Forum was held. It was chaired by the Head of Internal Audit and Risk Management and attended by the Divisional risk teams. Waitrose, John Lewis and Partnership Services have established divisional Risk Committees, with consistent Partnership-wide terms of reference, that report to their respective Management Boards.

Executive management is responsible for identifying and evaluating the key business risks and for implementing and maintaining systems for managing those risks in an efficient and effective manner.

The Committee monitors the development of policies and systems for identifying, evaluating and managing significant risk throughout the Partnership. It also monitors management's actions to manage those risks and reports regularly to the Partnership Board, which seeks regular assurance that the systems of internal control for risk management are operating effectively. The Committee has also conducted an annual review of the effectiveness of the risk management and internal control process.

To support this process, the Partnership has developed a risk management framework for the identification, assessment and monitoring of significant risks faced by the Partnership. Further details on this can be found on page 47. At each meeting, the Committee receives an updated Risk Report on the key Partnership risks identified as part of the business planning process.

Strategic, commercial, operational, financial and health and safety risk areas are all included within the scope of these activities.

The systems of internal control are designed to manage, rather than seeking to eliminate, the risk inherent in pursuit of business objectives. In pursuing these objectives, internal controls can only provide reasonable, and not absolute, assurance against material misstatement or loss.

During the year, the Committee has reviewed the measures for mitigating risks through appropriate internal controls and assurance mechanisms. The Committee received reports and presentations from management covering areas such as:

- Holiday pay review, as noted above;
- Processes and procedures relating to Information Assurance, to safeguard customer and Partner personal data, and the security and the resilience of the Partnership's transactional websites;
- Key strategic contracts for goods for resale (i.e. goods and services not for retail sale), to assess compliance with contractual terms, relating to our supplier's employment standards and services levels and contract management. The review has led to a roll-out of a template services agreement and the development of a new contract database;
- Operational risks, including business continuity and IT business interruption and disaster recovery, inflationary risks, profit protection and customer complaints;

- Regulatory risk management and compliance, including, health & safety, product and food safety. An external professional services firm was instructed during the year, to undertake a review of the Partnership's regulatory compliance framework and included a "deep dive" into the Partnership's policies and procedures for three specific areas of risk, anti-bribery and corruption, distance selling and competition law;
- The continued oversight and development of the financial control and information technology environment for the Partnership and its divisions and considered improvements in the areas of financial control and information technology. This includes the process for Directors and senior management confirming compliance and disclosure;
- Waitrose's compliance report with the Groceries (Supply Chain Practices) Market Investigation Order 2009 ('the Order') and the Groceries Supply Code of Practice ('GSCoP') and reviewed the report to be submitted to the Office of Fair Trading on 16 April 2013; and
- The Partnership whistleblowing procedures that allow Partners to raise, in confidence, any concerns about possible improprieties including matters of financial reporting, risk issues, fraud, internal controls and auditing issues.

Qualifications of Audit and Risk Committee members

Details of the members financial and accounting qualifications are given on their biographies on pages 62 to 63.

Composition of the Audit and Risk Committee

During the year, the Audit and Risk Committee comprised the following members:

- Three Non-Executive Directors;
- Two Elected Directors;
- One Partners' Counsellor; and
- One external independent member.

The composition, including the Partners' Counsellor and Elected Directors, reflects the Constitution and the co-owned structure of our business.

Training

During the year, the Directors have continued to receive induction training on Audit and Risk Committee matters. Training has been provided by external training providers and also internally. It has been linked to the Partnership Board agenda and covers the Partnership's financial risks and financial reporting.

An induction programme has been arranged for the two new Non-Executive Directors who joined the Committee after the year-end.

Committee evaluation

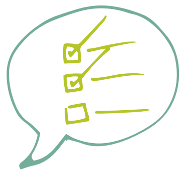
During the year, the Committee, facilitated by Board Intelligence, undertook an externally facilitated evaluation of its own effectiveness. The key recommendations of the evaluation were to review the role of the Committee and the role of management that supports and provides assurance to the Committee so that they are clearly defined and reflected within the Committee's Terms of Reference.

As a result of its work during the year, the Committee has concluded that it has acted in accordance with its terms of reference and operating effectively.

On behalf of the Audit and Risk Committee

Sarah Hogg

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



Comply or explain

COMPOSITION OF THE AUDIT AND RISK COMMITTEE

Code Provision C.3.1 – The Board should establish an Audit Committee of at least three independent Non-Executive Directors. This provision supports the Code principle that the Audit Committee should be independent of executive management.

During the year, the Partnership Board's Audit and Risk Committee comprised three Non-Executive Directors, two Elected Directors, the Partners' Counsellor and an external independent member. This composition ensures that the assurance and critical analysis of the business systems, operations and financial probity is conducted with appropriate objective and independent scrutiny, whilst also mindful of Partners' interests.

REMUNERATION REPORT

"During the year the Remuneration Committee focussed on the remuneration of the Chairman, Executive Directors and Non-Executive Directors."

Steve Gardiner

Kim Lowe

Committee members

Members at the date of this report: Denis Hennequin (Chair), Steve Gardiner, Baroness Hogg and Kim Lowe.

Changes in Committee membership: During the year, the Committee was chaired by David Barclay, a Non-Executive Director. David Barclay retired from the Board at the end of February 2014.

Denis Hennequin was appointed Chair of the Remuneration Committee from 1 March 2014.

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

Meetings and attendance

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

David Barclay	7
Steve Gardiner	9
Baroness Hogg	7
Kim Lowe	9

Under the terms of reference of the Remuneration Committee, Non-Executive members take no part in the deliberations with regard to Non-Executive remuneration and therefore David Barclay and Baroness Hogg were only eligible to attend seven Remuneration Committee meetings.

Role of the Committee

The Remuneration Committee has oversight of the application of the pay policy to executive remuneration. The Committee operates in accordance with terms of reference. These were reviewed during the year and are available at www.johnlewispartnership.co.uk.

The policy needs to attract, retain and motivate executive management of the quality required to run the Partnership successfully without paying more than is necessary, based on the market rate.

As well as submitting a recommendation on the Chairman's pay to the Partnership Board and setting the pay of the Partnership's Executive Directors, this year the Remuneration Committee has:

– Considered the pay benchmarking methodology for members of the Chairman's Committee, the Partners' Counsellor, Directors reporting to the Chairman and divisional Management Boards;
– Reviewed senior reward, agreeing to rebalance the value of pension and basic salary within the total reward package for the Executive Directors;
– Considered the remuneration for the Deputy Chairman;
– Reviewed the Remuneration Committee Terms of Reference and Roles and Responsibilities; and
– Considered the remuneration of Non-Executive Directors (Elected Director Committee members only).

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

Pay and reward in the Partnership

In 2013/14, the Partnership spent £1,754m on employment and related costs. This represented 19% of the Partnership's revenue. £1,271m was spent on pay and every Partner received 15% of their gross pay as a Partnership Bonus, at a cost of £202.5m.

How is pay determined in the Partnership?

Each job in the Partnership has a pay range that is informed by the market. The rate of pay for each Partner is reviewed each year, based on their performance and following a review with their line manager. All Partners have the opportunity to increase their pay through the pay range as their performance develops.

Partners who display outstanding performance may be recognised with special bonus awards of up to 10% of salary.

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

RULE 61:

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

RULE 62:

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

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

How is the pay for Executive Directors determined?

The same principles apply to setting pay for the Board as for all Partners.

How do we ensure Committee member independence?

The Remuneration Committee consists of four members, including two Non-Executive Directors and two Elected Directors. No decisions can be made by the Remuneration Committee without at least one Non-Executive Director and one Elected Director present, apart from when considering Non-Executive Directors' remuneration, when two Elected Directors are required.

There were nine meetings during the year, and Directors' attendance at meetings is shown in the table on page 74.

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

Who advises the Remuneration Committee?

The Committee has retained Towers Watson as independent remuneration consultants to advise generally on remuneration and related matters. Towers Watson also provides advice to the Partnership on the Partnership's job evaluation system.

The Committee was advised during the year by Tracey Killen, Director of Personnel, and Andrew Clark, Head of Reward.

How does the Remuneration Committee determine pay?

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

- Individual performance, including the achievement of specified personal objectives and the attitude demonstrated in achieving those objectives;
- The performance of the function or division for which the Partner is responsible, and/or Group performance, where appropriate;
- The market context, based on the advice of Towers Watson, who are the Committee's independent remuneration consultants;
- The overall positioning of Partnership pay against the market, including pension provisions; and
- Rule 63 of the Constitution in the case of the highest-paid Partner.

The Remuneration Committee considers and reviews each Executive Director's overall package each year, including base pay and pension arrangements. The overall package is compared with amounts paid to Executives in other similar organisations. When looking at the reward packages of other organisations, the Remuneration Committee focusses on the upper quartile value of cash compensation, including salary and target annual bonus, as well as pension value, as a benchmark for rewarding good performance. The comparison excludes the value of long-term incentives, share and share option schemes, which are widely available in the market at executive board level.

Comply or explain?

COMPOSITION OF THE REMUNERATION COMMITTEE

Code Provision D.2.1 states that the board should establish a remuneration committee of at least three independent Non-Executive Directors. This provision supports the Code principle that the committee should be independent of executive management.

The Remuneration Committee comprises two, rather than three, independent Non-Executive Directors and two Elected Directors. This provides a broad mix of members who are independent of executive management and mindful of the Partners' interests.

Comply or explain?

ROLE OF THE REMUNERATION COMMITTEE

Code Provision D.2.2 states that the remuneration committee should have delegated responsibility for setting remuneration for all Executive Directors and the chairman, including pension rights and any compensation payments. This provision supports the Code principle that remuneration should be set in a formal and transparent manner.

The Remuneration Committee does not have delegated responsibility for setting the Chairman's remuneration, but instead recommends to the Partnership Board the remuneration package for the Chairman.

Under the terms of Rule 63 of the Constitution, the highest paid Partner's pay is subject to a cap by reference to a formula related to the pay of other Partners.

REMUNERATION REPORT *CONTINUED*

What is the Chairman paid? (audited)

In the year under review, the value of the Chairman's total reward increased by 2.8% to £1,520,000. The total reward package is made up of the following:

£	2014	2013
Pay	**904,000**	825,000
Partnership Bonus	**136,000**	140,000
Pension supplement in lieu of further defined pension accrual	**466,000**	495,000
Cash value of benefits	**14,000**	18,000
	1,520,000	1,478,000

What about Rule 63?

RULE 63:

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

In 2013/14, the pay of the highest-paid Partner, the Chairman, was £904,000, which was 66 times the average basic pay of non-management Partners calculated on an hourly basis.

Although Rule 63 itself applies only to basic pay, the Remuneration Committee also considers each year the relationship between the total reward, including pension allowance and other benefits, as well as pay, of the highest-paid Partner and the average total reward of non-management Partners with three or more years' service (who are eligible for membership of the Partnership's non-contributory defined benefit pension scheme).

The Committee values defined benefit pension benefits on a "buy-out" basis that is the estimated cost of obtaining similar benefits in the market. On this basis, the total reward excluding Partnership Bonus of the Chairman who was the highest-paid Partner in the year ended 25 January 2014 was £1,384,000, which was 69 times the average total reward, excluding Partnership Bonus, of non-management Partners with three or more years' service.

The review of Executive Directors' pay takes account of not only what has been achieved, but also how it has been achieved. This reflects the same principles taken in the 'My Performance' appraisal framework used for all Partners.

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

The Chairman, Executive Directors and Partners' Counsellor have all ceased to accrue further pension benefits in the Partnership's pension scheme. One Director joined the Partnership in 2012 and has not joined the Partnership's pension scheme. In lieu of pension accrual for current service, the Chairman, Executive Directors and Partners' Counsellor each received a monthly pension supplement. These supplements are cash payments that are broadly equivalent in value to the defined benefit pension that the individual would previously have accrued in the Partnership's pension schemes.

The pension arrangements for the Chairman, Executive Directors and Partners' Counsellor will be reviewed as part of the broader ongoing review of the pension scheme.

How much is the pension supplement? (audited)

During the year ended 25 January 2014, the total pension supplement paid to the Chairman, Executive Directors and Partners' Counsellor was £2,022,000 (2013: £2,066,000).

What is the value of the defined benefit pension for the Executive Directors? (audited)

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

	2014	2013
£50,000 – £100,000	**1**	1
£100,001 – £150,000	**2**	2
£150,001 – £200,000	**1**	1
£200,001 – £250,000	**2**	2
TOTAL	**6**	6

For the Chairman, Executive Directors and Partners' Counsellor who served on the Partnership Board during any part of the year, the aggregate defined benefit pension entitlement accrued at the end of the year was £972,000 per annum for six individuals (2013: £930,000 for six individuals).

The accrued pensions for the Chairman, Executive Directors and Partners' Counsellor increase in line with either price inflation or future pay increases, depending on their individual arrangements. Where there are any accrued defined benefit pensions remaining on an unfunded basis, the Partnership has made provision for the associated liability.

In addition, most of the Directors are entitled to temporary pensions, payable from age 60 until their state pension starts. The aggregate entitlement to temporary pensions was £35,000 per annum for four individuals (2013: £34,000 for four individuals). For those Directors where there was an increase, the transfer value of the aggregate increase in accrued pension entitlement above consumer price inflation during the year was £151,000 including temporary pensions.

What pension will the Chairman receive? (audited)

The Chairman's aggregate defined benefit pension entitlement from the age of 60 accrued at the end of the year was £245,000 per annum (2013: £224,000 per annum).

What are the contractual notice periods for Executive Directors?

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

No compensation for loss of office was paid to departing directors during the period under review or to the date of this report.

What are the Executive Directors, the Non-Executive Directors and Partners' Counsellor paid? (audited)

The table below shows the number of Directors and their total remuneration for the year, including both Partnership Bonus and the pension supplements described below, for all Directors except the Elected Directors:

	2014	2013
£1 – £50,000	1	1
£50,001 – £100,000	2	3
£300,001 – £350,000	1	1
£700,001 – £750,000	2	3
£1,050,001 – £1,100,000	2	–
£1,100,001 – £1,150,000	–	1
£1,200,001 – £1,250,000	1	1
£1,450,001 – £1,500,000	–	1
£1,500,001 – £1,550,000	1	–

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

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

Elected Directors are not paid for their service on the Partnership Board, as their pay is determined by their respective roles and responsibilities in the Partnership. Their pay is therefore not considered by the Committee or the Partnership Board.

Non-Executive Directors receive fixed annual fees, which are reviewed periodically and set at levels that reflect each Director's time commitment and responsibilities. Non-Executive Directors' fees are determined by the Elected Directors on behalf of the Committee. Non-Executive Directors are not entitled to Partnership Bonus, or to any other salary or benefits from the Partnership.

Committee evaluation

During the year, the Committee, facilitated by Board Intelligence, undertook an externally facilitated evaluation of its own effectiveness. The key recommendations of the evaluation were to review the role of Committee and the role of management that supports and provides assurance to the Committee so that they are clearly defined and reflected within the Committee Terms of Reference.

As a result of its work during the year, the Committee has concluded that it has acted in accordance with its terms of reference and operating effectively.

What about external appointments?

An Executive Director with an external appointment may not retain any earnings from such appointment unless it dates from before he or she joined the Partnership.

The small print

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

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

The Directors' earnings section on pages 76 and 77 is cross-referenced from note 9 of the financial statements and forms part of the audited financial statements.

On behalf of the Remuneration Committee

Steve Gardiner

Kim Lowe

Elected Directors and members of the Remuneration Committee

10 April 2014

Comply or explain?

REMUNERATION FOR NON-EXECUTIVE DIRECTORS

Code Provision D.2.3 states that the board should determine the remuneration of the Non-Executive Directors. Where permitted by the Articles of Association, the board may, however, delegate this responsibility to a committee that might include the chief executive. The provision supports the Code principle that care should be taken to recognise and avoid conflicts of interest.

The Partnership does not comply with the Code as the Partnership Board does not determine the remuneration for Non-Executive Directors. Instead, this is the responsibility of the Elected Directors, who receive a recommendation from the Director of Personnel, while also considering the Chairman's views and relevant market data provided by the independent external remuneration consultant.

Steve Gardiner and Kim Lowe, the two Elected Directors who served on the Remuneration Committee throughout the year, are signing the Remuneration Report in place of David Barclay who served as Chairman of the Remuneration Committee during the year but who retired from the Partnership Board after the year end.

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 Partnership's year, confirming the state of the business and certifying that it is being run responsibly.

Principal activity and future developments

The Partnership's principal activity is retailing, with the main trading operations being the Waitrose and John Lewis businesses. The Company controls the entities listed in note 36, comprising John Lewis department stores, John Lewis at home stores, johnlewis.com, a liaison office in Gurgaon, India, Waitrose supermarkets, Waitrose convenience stores, waitrose.com, business to business contracts in the UK and abroad and ancillary manufacturing activities (together the Partnership). An indication of likely future developments in the Partnership can be found on page 45.

Corporate governance

The Partnership's statements on corporate governance can be found in the Governance Report on pages 50 to 79 of these financial statements. These also include the Audit and Risk Committee Report, the Chairman's Nominations Committee Report and Remuneration Report. The Governance Report forms part of this Directors' Report.

Going concern

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

A full description of the Partnership's business activities, financial position, cash flows, liquidity position, committed facilities and borrowing position, together with the factors likely to affect its future development and performance, are set out in the Strategic Report. The Partnership has, at the date of this report, sufficient financing available for its estimated requirements for the foreseeable future and, accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the financial statements.

Dividends

No dividends were paid on the Deferred Ordinary Shares (2013: nil).

Dividends on Preference stocks were £222,000 (2013: £222,000). Dividends on SIP Shares (issued in connection with BonusSave) were £1,712,000 (2013: £1,857,000).

Directors' interests

Under the Constitution of the Partnership, the Executive Directors, Elected Directors and Partners' Counsellor, as employees of John Lewis plc, are necessarily interested in the 612,000 Deferred Ordinary Shares in John Lewis Partnership plc, which are held in trust for the benefit of employees of John Lewis plc and certain other companies.

Any conflicts of interest are disclosed on page 59 and details of the Directors' service agreements and notice periods are given on page 76.

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. 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.

BonusSave

The Partnership operates BonusSave, a Share Incentive Plan ('the Plan'), which is available to all Partners and has been approved by HMRC. In conjunction with the announcement of the annual results, all Partners are invited to enter into a savings contract to save up to a maximum of £4,500, in any one year, in the Plan. The Plan allows for the investment made by Partners to be held in shares in the Partnership, in a class created specifically for this purpose known as SIP Shares. Details of SIP Shares can be found in note 16. The SIP Shares do not carry voting rights, cannot be sold or transferred out of the Partnership and are, at all times, held in trust for the benefit of the respective Partners in the name of John Lewis Partnership Trust Limited.

Employment

All employees can benefit from the Partnership's training and development policies, and further information can be found on page 15. The Partnership recruits people with disabilities to suitable vacancies on merit. Where disability occurs during the period of employment, every effort is made to continue to provide suitable employment with the provision of appropriate training.

The Partnership seeks to embrace diversity and this is reflected in all we do. The Board is therefore committed to providing equal opportunities for all in employment at all levels of the organisation, regardless of individual differences such as gender and ethnic origin.

Human Rights

The Partnership 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.

Central to this recognition is Principle 1 of the Partnership Constitution: 'The Partnership's ultimate purpose is the happiness of all its members, through their worthwhile and satisfying employment in a successful business' and Section 2 covering Partners rights and responsibilities. In addition, rule 96 of the Partnership Constitution states 'the Partnership expects its suppliers to obey the law and to respect the wellbeing of their employees, their local communities and the environment'.

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 Partnership 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 Partnership 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 Partnership has reported on all of the emission sources as required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

The reporting followed the 2013 UK Government environmental reporting guidance (Chapter 2) and used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), data gathered to fulfil our requirements under the CRC Energy Efficiency scheme, and, where available, emission factors from UK Government's GHG Conversion Factors for Company Reporting. 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 Partnership 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 Partnership made no political donations.

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

Waitrose has remained compliant with the Order and the GSCoP during the period and the business continues to ensure that it's comprehensive Partner training programme (including annual refresher and new starter training), together with the ongoing monitoring of supplier contracts, promotes the necessary awareness and behaviours in order to ensure compliance.

As required by the Order and the GSCoP, the Code Compliance Officer is obliged to present a report detailing Waitrose's compliance to the Partnership's Audit and Risk Committee for approval. The report is then submitted to the Groceries Code Adjudicator and the Competitions and Markets Authority (previously the Office of Fair Trading).

The Audit and Risk Committee, which met on 8 April 2014, approved the Code Compliance Officer's report on Waitrose's compliance for the 12 month period ending 25 January 2014. The Audit and Risk Committee was pleased to note that Waitrose had not been the subject of any supplier or supply chain disputes under the Order or GSCoP during the said period. The Audit and Risk Committee also noted that Waitrose's approach to GSCoP compliance reflects the Partnership's commitment to its overarching principle of fairness that has always governed its relationships with suppliers.

Capital structure and purchase of shares

At 25 January 2014, the Partnership had in issue 3,696,995 5% Cumulative Preference stock, 500,000 7.5% Cumulative Preference stock, 612,000 Deferred Ordinary Shares and 97,250,000 SIP Shares. Under the Constitution, the 612,000 Deferred Ordinary Shares in John Lewis Partnership plc are held in trust for the benefit of employees of John Lewis plc and certain other trading companies within the Partnership.

There are no voting rights attached to the Cumulative Preference stocks unless the dividend is six months in arrears or unless a resolution is proposed which directly affects the interest of these shares as a class.

At the Annual General Meeting held on 6 June 2013, the Partnership was authorised to make market purchases of up to £3,696,995 in nominal amounts of the 5% Cumulative Preference stock and up to £500,000 in nominal amounts of the 7.5% Cumulative Preference stock, representing the remaining stock in issue. No purchases were made during the year, and shareholders will be invited to renew the authority at the Annual General Meeting, as detailed on page 130. The Partnership Board considers that these stocks are an inefficient form of fixed interest finance and that it would be advantageous to the Partnership to acquire them over time as suitable opportunities arise.

Annual General Meeting

The Annual General Meeting will be held at 13.45 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 of the Partnership Board have taken all the necessary steps to make themselves aware of any information needed by the Partnership's auditors in connection with preparing their report and to establish that the auditors are aware of that information. As far as the Directors are aware, there is no such information of which the Partnership's auditors have not been apprised.

Approved by the Directors and signed on behalf of the Partnership 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	**(2,622.2)**	(2,436.1)
4	**Operating profit before exceptional item**	**470.9**	453.4
3	Exceptional item	**(47.3)**	–
4	**Operating profit**	**423.6**	453.4
6	Finance costs	**(97.5)**	(112.0)
6	Finance income	**3.0**	1.9
	Profit before Partnership Bonus and tax	**329.1**	343.3
	Partnership Bonus	**(202.5)**	(210.8)
7	**Profit before tax**	**126.6**	132.5
8	Taxation	**(25.0)**	(31.5)
	Profit for the year	**101.6**	101.0
4	**Profit before Partnership Bonus, tax and exceptional item**	**376.4**	343.3

* 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	**101.6**	101.0
	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	**(120.0)**	(107.4)

* 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	**225.9**	192.1
	Current tax receivable	**–**	2.9
21	Derivative financial instruments	**0.7**	4.2
14	Cash and cash equivalents	**358.9**	534.4
		1,139.5	1,247.6
	Total assets	**5,524.0**	5,363.6
	Current liabilities		
16	Borrowings and overdrafts	**(75.6)**	(156.3)
17	Trade and other payables	**(1,499.7)**	(1,364.0)
	Current tax payable	**(0.2)**	–
18	Finance lease liabilities	**(3.3)**	(3.0)
19	Provisions	**(120.9)**	(110.0)
21	Derivative financial instruments	**(5.9)**	(0.6)
		(1,705.6)	(1,633.9)
	Non-current liabilities		
16	Borrowings	**(728.2)**	(714.7)
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)
		(2,036.7)	(1,828.2)
	Total liabilities	**(3,742.3)**	(3,462.1)
	Net assets	**1,781.7**	1,901.5
	Equity		
24	Share capital	**0.6**	0.6
	Other reserves	**0.8**	10.3
	Retained earnings	**1,780.3**	1,890.6
	Total equity	**1,781.7**	1,901.5

The financial statements on pages 81 to 116 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 Partnership plc

Consolidated statement of changes in equity
for the year ended 25 January 2014

Notes		Share capital £m	Capital redemption reserve £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	0.6	5.0	1.4	0.2	–	2,001.7	2,008.9
	Profit for the year	–	–	–	–	–	101.0	101.0
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
	Balance at 26 January 2013	0.6	5.0	1.4	3.9	–	1,890.6	1,901.5
	Profit for the year	–	–	–	–	–	101.6	101.6
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	**0.6**	**5.0**	**1.4**	**(5.8)**	**0.2**	**1,780.3**	**1,781.7**

* Refer to note 1.

Retained earnings comprise £1,375.8m (2013: £1,483.2m) 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**	**773.3**	979.0
	Net taxation paid	**(32.1)**	(53.5)
	Partnership Bonus paid	**(210.6)**	(164.3)
22	Additional contribution to the Pension Scheme	**(85.0)**	(125.0)
	Finance costs paid	**(2.8)**	(4.9)
	Net cash generated from operating activities	**442.8**	631.3
	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	**(0.2)**	(0.2)
	Payments to Share Incentive Plan shareholders	**(1.7)**	(1.7)
	Cash inflow from borrowings	**12.5**	14.5
	Cash outflow on borrowings	**(100.0)**	(242.0)
	Net cash used in financing activities	**(147.0)**	(289.7)
	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 Partnership's operating budgets, investments plans and financing arrangements, consider that the Company and Partnership have, at the date of this report, sufficient financing available for the estimated requirements for the foreseeable future. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the Annual Report and Accounts.

1.2 Basis of consolidation

The consolidated Partnership financial statements incorporate the results for the Company and all its subsidiary undertakings made up to the year end date.

1.3 Subsidiaries

Subsidiary undertakings are all entities over which the Partnership has 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 Partnership 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 Partnership 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 Partnership. Additional disclosures and the fair value hierarchy are provided in note 21.

The Partnership has adopted the amendments to IAS 1 'Presentation of financial statements', which requires the Partnership 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 Partnership for the year ended 25 January 2014 and have not had a significant impact on the Partnership'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 Partnership until 26 January 2014. However the Partnership has decided to early adopt these standards for the year ended 25 January 2014. These standards have not had a significant impact on the Partnership'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 Partnership's accounting periods beginning on or after 26 January 2014, which the Partnership 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 Partnership receives on the transaction. Revenue is also net of Partner discounts and VAT. Revenue is recognised in respect of sales under bill and hold arrangements when the goods are segregated for the customer's benefit at their request, and made available for delivery.

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

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

Inventory valuation

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

Employee benefits

The Partnership's principal retirement benefit scheme is a defined benefit pension fund with assets held separately from the Partnership. The cost of providing benefits under the scheme is determined using the projected unit credit actuarial valuation method, which measures the liability based on service completed and allowing for projected future salary increases. The current service cost, which is the increase in the present value of the retirement benefit obligation resulting from employee service in the current year, and gains and losses on settlements and curtailments, which arise on transactions that eliminate part or all of the benefits provided or when there are amendments to terms such that a significant element of future service will no longer qualify for benefits or will qualify only for reduced benefits, are included within operating profit in the consolidated income statement. Past service costs are recognised immediately in the consolidated income statement.

Remeasurements of defined pension schemes due to experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

There are a number of unfunded pension liabilities, where the actuarially assessed costs of providing the benefit are charged to the consolidated income statement. There are no assets supporting these arrangements.

The Partnership also operates a defined contribution scheme. Contributions are charged in the income statement as they fall due. The Partnership has no further obligations once the contributions have been made.

The Partnership has a scheme to provide up to six months paid leave after 25 years' service (long leave). The cost of providing the benefits under the scheme is determined 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 Partnership's freehold and long leasehold properties were last valued by the Directors, after consultation with CB Richard Ellis, Chartered Surveyors, at 31 January 2004, at fair value. These values have been incorporated as deemed cost, subject to the requirement to test for impairment in accordance with IAS 36. The Partnership decided not to adopt a policy of revaluation since 31 January 2004.

Other assets are held at cost.

Depreciation

No depreciation is charged on freehold land and assets in the course of construction. Depreciation is calculated for all other assets to write off the cost or valuation, less residual value, on a straight line basis over their expected useful life, at the following rates:

- Freehold and long leasehold buildings – 2% to 4%;
- Other leaseholds – over the shorter of the useful economic life and the remaining period of the lease;
- Building fixtures – 2.5% to 10%;
- Fixtures 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 Partnership which have been funded through finance leases on terms that transfer to the Partnership substantially all the risks and rewards of ownership are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The interest element of finance lease rentals is charged to the income statement. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the Partnership does not retain substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease rental payments, other than contingent rentals, are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rentals are recognised as an expense in the income statement when incurred.

Lease premia and inducements are recognised in current and non-current assets or liabilities as appropriate, and amortised or released on a straight-line basis over the lease term.

Sub-lease income is recognised as other operating income on a straight-line basis over the sub-lease term, less allowances for situations where recovery is doubtful.

Segmental Reporting

Operating segments are determined based on business activities for which operating results are reviewed by the chief operating decision maker ('CODM'). The Partnership's CODM is the Partnership Board and the operating segments reflect the management structure of the Partnership. The Partnership'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. 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 Partnership uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates and interest rates. Derivative financial instruments used by the Partnership include forward currency contracts. Hedge accounting has been adopted for derivative financial instruments where possible. Such derivative financial instruments are measured at fair value. The fair value of a derivative financial instrument represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the forward rates of exchange and interest rates prevailing at the balance sheet date.

In order to qualify for hedge accounting, the relationship between the item being hedged and the hedging instrument is documented in advance of entering into the hedge, and assessed to show that the hedge will be highly effective on an ongoing basis. This effectiveness testing is 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 Partnership'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 Partnership has an obligation in respect of a past event, it is more likely than not that payment (or a non-cash settlement) will be required to settle the obligation and where the amount can be reliably estimated. Provisions are discounted when the time value of money is considered material.

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

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

It is recorded in the year it relates to rather than the year it was declared because there is a constructive obligation to pay a Partnership Bonus and it can be reliably estimated, once the results for the year are known and prior to the sign off of the Partnership'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 cash flow statement, net cash and cash equivalents comprise cash and cash equivalents, as defined above, net of bank overdrafts.

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

Trade payables
Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

1.6 Critical accounting estimates and judgements
Estimates and judgements are continually evaluated and are based on historical experience and other relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

i. Retirement benefits
Pension accounting requires certain assumptions to be made in order to value our obligations and to determine the charges to be made to the income statement. These figures are particularly sensitive to assumptions for discount rates, mortality and inflation rates. Details of assumptions are given in note 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 Partnership is required to test whether assets in use in operations have suffered any impairment. The recoverable amounts of cash generating units have been determined based on the higher of fair value less costs to sell and value in use. The calculation of value in use requires the estimation of future cash flows expected to arise from the continuing operation of the cash generating unit and the selection of a suitable discount rate in order to calculate the present value. Given the degree of subjectivity involved, actual outcomes could vary significantly from these estimates.

2 Non-GAAP measures

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

2.1 Gross sales

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

2.3 Net debt

Net debt incorporates the Partnership's consolidated borrowings, bank overdrafts, fair value of derivative financial instruments and obligations under finance leases, less cash and cash equivalents and unamortised bond transaction costs. This measure indicates the 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 Partnership. We believe these exceptional items are relevant for an understanding of our underlying financial performance, and are highlighted separately on the face of the income statement. This note provides detail of the exceptional item reported.

On 22 August 2013, the Partnership made an announcement regarding holiday pay payments. Following a recent review of the Partnership's holiday pay policy, it became clear that Partners who receive certain additions to pay, such as premiums for working on Sunday or bank holidays, had not been paid correctly under the Working Time Regulations legislation. The Partnership Board therefore decided to make one-off additional payments to those affected.

An exceptional operating expense 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 Partnership 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	(65.3)	470.9
Exceptional item	–	–	(47.3)	(47.3)
Operating profit	310.1	226.1	(112.6)	423.6
Finance costs	–	–	(97.5)	(97.5)
Finance income	–	–	3.0	3.0
Partnership Bonus	–	–	(202.5)	(202.5)
Profit before tax	310.1	226.1	(409.6)	126.6
Taxation	–	–	(25.0)	(25.0)
Profit for the year	310.1	226.1	(434.6)	101.6

Reconciliation of Profit before Partnership Bonus, tax and exceptional item to Profit before tax:

Profit before Partnership Bonus, tax and exceptional item	310.1	226.1	(159.8)	376.4
Partnership Bonus	–	–	(202.5)	(202.5)
Exceptional item	–	–	(47.3)	(47.3)
Profit before tax	310.1	226.1	(409.6)	126.6

Segment assets	2,844.4	1,868.9	810.7	5,524.0
Segment liabilities	(610.2)	(730.1)	(2,402.0)	(3,742.3)
Net assets	2,234.2	1,138.8	(1,591.3)	1,781.7

Other segment items:				
– Depreciation	(141.6)	(95.7)	(17.3)	(254.6)
– Amortisation	(24.3)	(19.2)	(11.0)	(54.5)
– Capital expenditure – property, plant and equipment	(283.8)	(126.3)	(15.1)	(425.2)
– Capital expenditure – intangible assets	(32.8)	(48.5)	(26.6)	(107.9)
– Movement in provisions – 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	(55.6)	453.4
Exceptional item	–	–	–	–
Operating profit	292.3	216.7	(55.6)	453.4
Finance costs	–	–	(112.0)	(112.0)
Finance income	–	–	1.9	1.9
Partnership Bonus	–	–	(210.8)	(210.8)
Profit before tax	292.3	216.7	(376.5)	132.5
Taxation	–	–	(31.5)	(31.5)
Profit for the year	292.3	216.7	(408.0)	101.0

Reconciliation of Profit before Partnership Bonus and tax to Profit before tax:

Profit before Partnership Bonus and tax	292.3	216.7	(165.7)	343.3
Partnership Bonus	–	–	(210.8)	(210.8)
Profit before tax	292.3	216.7	(376.5)	132.5

Segment assets	2,624.7	1,770.2	968.7	5,363.6
Segment liabilities	(553.7)	(648.1)	(2,260.3)	(3,462.1)
Net assets	2,071.0	1,122.1	(1,291.6)	1,901.5
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	**(608.8)**	(534.4)
	(2,622.2)	(2,436.1)

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)**	(1.1)
Preference dividends	**(0.3)**	(0.3)
Share Incentive Plan dividends	**(1.7)**	(1.8)
Finance costs in respect of borrowings	**(60.4)**	(61.9)
Fair value measurements and other	**–**	(0.6)
Net finance costs arising on defined benefit and other employee benefit schemes	**(37.1)**	(49.5)
Total finance costs	**(97.5)**	(112.0)
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	**(94.5)**	(110.1)

	2014 £m	2013 (restated) £m
Total finance costs in respect of borrowings	**(60.4)**	(61.9)
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	**(58.8)**	(60.0)
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	**(94.5)**	(110.1)

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 Partnership's auditors also acted as auditors to the Partnership'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	**(61.2)**	(77.7)
Corporation tax – adjustment in respect of prior years	**(1.4)**	1.8
Total current tax charge	**(62.6)**	(75.9)
Deferred tax – current year	**35.0**	44.2
Deferred tax – adjustment in respect of prior years	**2.6**	0.2
	(25.0)	(31.5)

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	**126.6**	132.5
Profit before tax multiplied by standard rate of corporation tax in the UK of 23.17% (2013: 24.33%)	**(29.3)**	(32.2)
Effects of:		
Changes in tax rate	**14.6**	12.7
Adjustment to current tax in respect of prior years	**(1.4)**	1.8
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	**(25.0)**	(31.5)
Effective tax rate (%)	**19.8**	23.8

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 Partnership 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 Partnership 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.

9.3 Directors' emoluments

Directors' emoluments have been summarised below. Further details of the remuneration of Directors is given in the part of the Remuneration Report noted as audited on pages 74 to 77.

	2014 £m	2013 £m
Aggregate emoluments	**(6.9)**	(6.6)

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

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

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 Partnership 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 Partnership'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 Partnership for providing a product or service which has not yet been invoiced.

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

	2014 £m	2013 £m
Current:		
Trade receivables	**55.1**	49.5
Other receivables	**48.3**	46.4
Prepayments and accrued income	**122.5**	96.2
	225.9	192.1
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 Partnership's cash balance and £0.3m (2013: £0.1m) of the Partnership's accrued interest balance was pledged as collateral. This is part of the Partnership's insurance arrangements and the release of these funds is subject to approval from third parties.

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

	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 Share Incentive Plan shares, which are held in Trust for the benefit of Partners.

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% Cumulative Preference Stock	**(3.7)**	(3.7)
7½% Cumulative Preference Stock	**(0.5)**	(0.5)
Cumulative Preference Stock of subsidiary undertakings	**(0.4)**	(0.4)
Share Incentive Plan shares (SIP)	**(97.2)**	(84.7)
	(728.2)	(714.7)

* 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.

Unless the preference dividends are in arrears, the 5% and 7½% Cumulative Preference Stock only have voting rights in relation to a variation of their class rights. The amounts receivable in a winding up would be limited to the amounts paid up, for the 5% Cumulative Preference Stock, and to one and a half times the amounts paid up for the 7½% Cumulative Preference Stock.

SIP shares are issued as part of the BonusSave scheme. The SIP shares that are allocated to Partners are entitled to a dividend, the amount of which is determined from year to year by the Partnership Board. The amounts receivable in a winding up would be limited to the amounts that have been paid on the SIP shares.

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)
Other payables	**(124.6)**	(117.0)
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)
	(1,499.7)	(1,364.0)
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 Partnership. 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 Partnership's finance lease liabilities relate to buildings and plant, property and equipment that have been classified as finance leases in accordance with IAS 17 'Leases'.

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 Partnership has a long leave scheme, open to all Partners, which provides up to six months' paid leave after 25 years' service. There is no proportional entitlement for shorter periods of service. The provision for the liabilities under the scheme is assessed on an actuarial basis, reflecting Partners' expected service profiles, and using economic assumptions consistent with those used for the Partnership's retirement benefit obligations (note 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 Partnership'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 Partnership's expected liability for returns of goods sold based on experience of rates of return.

Provisions for insurance claims are in respect of the Partnership's employer's, public and vehicle third party liability insurances and extended warranty products.

Provisions for insurance claims are based on reserves held in the Partnership's captive insurance company, JLP Insurance Limited. These reserves are established using independent actuarial assessments wherever possible, or 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 Partnership'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 Partnership'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 Partnership repaid a £100m bond and entered into an 18 month £150m bilateral borrowing facility. At the year end the Partnership had undrawn committed revolving borrowings facilities of £475m (2013: £325m). In addition to these facilities, the Partnership has listed bonds totalling £575m (2013: £675m) of which £275m mature in 2019 and £300m in 2025 and the Partnership bond issued in April 2011 and maturing in 2016, which raised gross proceeds of £58m. The bonds are not subject to repricing, and their interest rates and maturity profiles are set out in note 23.

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

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

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)	–	(734.6)
Interest payments on borrowings*	(44.0)	(44.0)	(260.1)
Finance lease liabilities	(4.8)	(4.4)	(53.3)
Trade and other payables	(1,285.4)	(0.6)	–
Derivative financial liabilities			
Derivative contracts – receipts	185.0	28.7	–
Derivative contracts – payments	(190.8)	(29.1)	–
At 25 January 2014	**(1,415.6)**	**(49.4)**	**(1,048.0)**

	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)	–	(722.2)
Interest payments on borrowings*	(54.5)	(44.0)	(304.1)
Finance lease liabilities	(4.6)	(4.6)	(58.0)
Trade and other payables	(1,156.6)	(0.7)	–
Derivative financial liabilities			
Derivative contracts – receipts	163.0	–	–
Derivative contracts – payments	(166.7)	–	–
At 26 January 2013	(1,375.7)	(49.3)	(1,084.3)

* Excludes annual interest of £0.3m on cumulative preference stock which have no fixed redemption date.

Interest on borrowings is calculated based on the borrowing position 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 Partnership targets a ratio of fixed and floating rate debt in line with the Partnership Board approved treasury policy. An analysis of the Partnership's financial liabilities is detailed in note 23. Exposures to interest rate fluctuations are managed using interest rate derivatives.

As authorised by the Partnership 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 Partnership 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 Partnership 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 Partnership considers its maximum exposure to credit risk is as follows:

	2014 £m	2013 £m
Trade and other receivables	**116.5**	108.5
Cash and cash equivalents	**358.9**	534.4
Derivative financial instruments	**0.7**	4.2
	476.1	647.1

20.5 Capital risk

The Partnership's objectives when managing capital (defined as net debt plus equity) are to safeguard its ability to continue as a going concern, provide returns for its Partners and to maintain a prudent level of debt funding. The Partnership is a long-term business, held in trust for the benefit of its Partners. The co-ownership model means that it is not able to raise equity externally.

The Partnership manages capital to ensure an appropriate balance between investing in Partner, customer and profit. The policy is to maintain a capital structure consistent with an investment grade credit rating. Although the Partnership does not have an external credit rating, it routinely monitors its capital and liquidity requirements using 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 Partnership borrows centrally to meet the requirements of its divisions using a mix of funding including capital market issues and bank facilities. The Partnership further diversified its funding sources through the issue of a Partnership bond to its Partners and customers in April 2011. Other forms of borrowing include Share Incentive Plan shares as part of the BonusSave scheme and a small amount of cumulative preference stock.

20.6 Energy risk

The Partnership operates risk management processes for the Partnership's energy costs associated with its activities. The Partnership's energy policy is reviewed by an energy committee which meets regularly to review pricing exposure to electricity and gas consumption and determines strategy for forward purchasing and hedging of energy costs using flexible purchase contracts.

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 Partnership's financial instruments to changes in market variables, namely UK interest rates and the US dollar and euro to sterling exchange rates. The level of sensitivities chosen, being 1% movement in Sterling interest rates and a 10% movement in sterling when compared to the US dollar and euro, reflects the Partnership'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%)	**1.7**	**–**	3.6	–
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 Partnership are classified as level 2 under the IFRS 13 fair value hierarchy, as all significant inputs to the valuation model used are based on observable market data and are not traded in an active market.

Specific valuation techniques used to value the financial instruments include quoted market prices. There have been no changes in valuation techniques from the prior year.

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

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

	2014 £m		2013 £m	
	CV	**FV**	CV	FV
Financial liabilities				
Listed bonds	**(569.8)**	**(695.4)**	(669.3)	(826.8)
Preference stock	**(4.6)**	**(3.9)**	(4.6)	(3.3)

The fair values of the Partnership's listed bonds and preference stock have been determined by reference to market price quotations and are classified as Level 1 under the IFRS 13 fair value hierarchy.

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

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 Partnership is the John Lewis Partnership Trust for Pensions. The scheme is a funded final salary defined benefit pension scheme, providing pensions and death benefits to members, and is open to new members. All contributions to the scheme are funded by the Partnership.

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

The scheme is subject to a full actuarial valuation every three years on assumptions agreed between the Trustee and the Partnership. The most recent valuation was carried out by an independent professionally qualified actuary as at 31 March 2013 and resulted in a funding deficit of £840.0m. The market value of the assets of the scheme as at 31 March 2013 was £3,169.0m. The actuarial valuation showed that these assets were sufficient to cover 79% of the benefits which had accrued to members.

Following this valuation, the Partnership and the Trustee agreed to increase the normal future annual contribution rate to 16.4% of gross taxable pay of members and put in place a plan to eliminate the deficit over a 10 year period through deficit reduction contributions of £44.3m per year, 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. 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 Partnership depends upon a number of assumptions about future events. Future contributions may be higher (or lower) than those currently agreed if these assumptions are not borne out in practice or if different assumptions are appropriate in the future.

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 Partnership 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 Partnership contributions to the defined contribution scheme, together with cash supplements in respect of certain Partners in lieu of future pension accrual.

The past service cost of £8.0m relates to additional pension liabilities arising from the correction of pensionable pay for certain members arising from the review of the Partnership's holiday pay policy. 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 Partnership entered into an arrangement with the Pension Scheme Trustees to address an element of the scheme deficit that existed at that time.

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

Together with another Partnership company, JLP Scottish Limited Partnership provided sufficient capital to JLP Scottish Partnership to enable it to procure property assets with a market value of £150.9m from other Partnership companies. The Partnership retains control over these properties, including the flexibility to substitute alternative properties. The Properties held in JLP Scottish Partnership have been leased back to John Lewis plc and Waitrose Limited. In September 2011, the Partnership 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 partnership capital allocated to the pension scheme will be reassessed, depending on the funding position of the pension scheme at that time, with a potential value in the range £0.5m to £99.5m. At that point, the Partnership may be required to transfer this amount in cash to the scheme.

Under IAS 19 (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 Partnership'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.

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	**(666.7)**	**(172.8)**	**(839.5)**
At 26 January 2013	(768.9)	(141.0)	(909.9)

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	**5.3%**	**(4.2)**	5.3%	(4.2)
Cumulative Preference Stock of subsidiary undertakings	**5.9%**	**(0.4)**	5.9%	(0.4)
Share Incentive Plan shares	**1.4%**	**(97.2)**	2.0%	(84.7)
		(695.7)		(683.7)
		(839.5)		(909.9)

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				
612,000 of £1 each	**0.6**	**0.6**	0.6	0.6

The Deferred Ordinary Shares rank in all respects as equity shares except that each share has 1,000 votes in a vote taken on a poll.

The Deferred Ordinary Shares are held by John Lewis Partnership Trust Limited, with whom ultimate control rests.

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	**126.6**	132.5
Amortisation of intangible assets	**54.5**	41.9
Depreciation	**254.6**	255.1
Net finance costs	**94.5**	110.1
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)**	16.8
Increase in payables	**122.4**	215.0
(Decrease)/Increase in retirement benefit obligations	**(14.2)**	19.9
Increase in provisions	**10.1**	19.6
Cash generated from operations	**773.3**	979.0

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	(720.4)	(12.5)	(0.5)	**(733.4)**
Unamortised bond transaction costs	5.7	–	(0.5)	**5.2**
Finance leases	(35.9)	–	3.5	**(32.4)**
	(750.6)	(12.5)	2.5	**(760.6)**
Total net debt	(371.9)	(104.2)	(9.7)	**(485.8)**

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	**90.6**	231.0
Movement in debt for the year	**(104.2)**	218.4
Opening net debt	**(371.9)**	(577.3)
Non-cash movements	**(9.7)**	(13.0)
Closing net debt	**(485.8)**	(371.9)

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 Partnership'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).

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 Partnership and its subsidiaries are eliminated upon consolidation, and therefore do not need to be disclosed separately. A list of subsidiaries within the Partnership are included within note 36.

28.2 Arrangements with Pension Scheme trustees

The Partnership entered into an arrangement with the Pension Scheme Trustee on 30 January 2010 to address an element of the scheme deficit that existed at that time. Details of this arrangement and changes made in September 2011 are set out in note 22.

In December 2011 the Partnership sold a property to the main pension scheme for £10.6m and entered into an operating lease in respect of the property. These transactions were at market values. In the year to 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 Partnership on behalf of the Partners. The John Lewis Partnership Trust Limited facilitates the approval and payment of the Partnership Bonus and BonusSave. At the year end, the Share Incentive Plan shares issued to the John Lewis Partnership Trust Limited as part of the BonusSave scheme are recorded in the Company's balance sheet within borrowings of £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		
31	Investments	**115.3**	102.3
	Total assets	**115.3**	102.3
	Current liabilities		
33	Trade and other payables	**(1.9)**	(2.0)
	Non-current liabilities		
32	Borrowings	**(101.4)**	(88.9)
	Total liabilities	**(103.3)**	(90.9)
	Net assets	**12.0**	11.4
	Equity		
34	Share capital	**0.6**	0.6
	Capital redemption reserve	**5.0**	5.0
	Retained earnings	**6.4**	5.8
	Total equity	**12.0**	11.4

The financial statements on pages 117 to 120 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 Partnership plc

Company statement of changes in equity
for the year ended 25 January 2014

Notes		Share capital £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
	Balance at 28 January 2012	0.6	5.0	5.6	11.2
30	Profit for the year and total comprehensive income	–	–	0.2	0.2
	Balance at 26 January 2013	0.6	5.0	5.8	11.4
30	Profit for the year and total comprehensive income	–	–	0.6	0.6
	Balance at 25 January 2014	**0.6**	**5.0**	**6.4**	**12.0**

29 Accounting policies

John Lewis Partnership 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 Partnership. The accounting policies are set in line with the requirements of IFRS and there have been no changes in accounting policies in the year other than those set out under '1.4 Amendments to accounting standards' in note 1 of the Partnership's consolidated financial statements.

The separate financial statements of the Company are drawn up in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and with the Companies Act 2006.

The Company's accounting policies are aligned with the Partnership's accounting policies as described in note 1. Additional accounting policies are noted below.

Basis of preparation
John Lewis plc settles transactions on behalf of John Lewis Partnership plc for administrative convenience, including amounts in respect of subscription for BonusSave, dividend payments and amounts owed to tax authorities. As a result no cash flows through John Lewis Partnership plc and no cash is generated from its operations so a Company cash flow statement is not required.

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

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 Partnership plc has not presented its own income statement or statement of comprehensive expense.

The result dealt with in the Accounts of the Company amounted to £0.6m profit (2013: £0.2m profit).

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

31 Investments

This note sets out the value of the shares owned or amounts loaned to subsidiary companies directly invested in by the Company, which, together with their own subsidiaries, consolidate to form the Partnership.

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

	Subsidiary		Other	
	Shares in John Lewis plc £m	Loan to John Lewis plc £m	Shares in John Lewis Partnership Trust Limited £m	Total £m
At 26 January 2013	13.0	89.2	0.1	102.3
Movements	–	13.0	–	13.0
At 25 January 2014	**13.0**	**102.2**	**0.1**	**115.3**

The intercompany loan from the Company to John Lewis plc is non-interest bearing with no specific repayment terms.

32 Borrowings

Borrowings primarily consist of Cumulative Preference Stock and Share Incentive Plan shares, which are allocated to Partners who are entitled to a dividend.

	2014 £m	2013 £m
Non-current:		
5% Cumulative Preference Stock	**(3.7)**	(3.7)
7½% Cumulative Preference Stock	**(0.5)**	(0.5)
Share Incentive Plan shares	**(97.2)**	(84.7)
	(101.4)	(88.9)

33 Trade and other payables

	2014 £m	2013 £m
Other payables	**(1.9)**	(2.0)

All of the Company's trade and other payables are current. The carrying amount of trade and other payables approximates to fair value.

34 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				
612,000 of £1 each	**0.6**	**0.6**	0.6	0.6

The Deferred Ordinary Shares rank in all respects as equity shares except that each share has 1,000 votes in a vote taken on a poll.

The Deferred Ordinary Shares are held by John Lewis Partnership Trust Limited, with whom ultimate control rests.

NOTES TO THE COMPANY FINANCIAL STATEMENTS *CONTINUED*

35 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.

35.1 Loan to John Lewis plc

The loan to John Lewis plc has been disclosed in note 31.

35.2 Other transactions

Arrangements with Pension Scheme trustees and John Lewis Partnership Trust Limited are disclosed within note 28 of the consolidated Partnership accounts.

36 Subsidiary undertakings

This note sets out the principal subsidiaries of the Company, along with the principal activities, country of incorporation and percentage of shares owned of each subsidiary.

The Partnership has a number of subsidiaries which contribute to the overall profitability of the Partnership. The principal subsidiaries are disclosed below. A schedule of interests in all subsidiary undertakings is filed with the Annual Return.

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

Name	Principal activity	Country of incorporation	Percentage shareholdings
John Lewis plc	Department store retailing, corporate and shared services	England	100%

Shareholdings in John Lewis plc are analysed as follows:

Class of share	Percentage shareholding
Ordinary shares	100%
5% First Cumulative Preference Stock	83.3%
7% Cumulative Preference Stock	75.6%

Subsidiary undertakings of John Lewis plc:

Name	Principal activity	Country of Incorporation	Percentage shareholdings
Herbert Parkinson Limited	Weaving and making up	England	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 Partnership. The list excludes non-trading subsidiary undertakings which have no material effect on the accounts of the Partnership. Except as noted above, all of these subsidiary undertakings operate wholly or mainly in the United Kingdom.

The Partnership has taken advantage of the exemption conferred by regulation 7 of the Partnerships (Accounts) Regulations 2008 and has therefore not appended the accounts of JLP Scottish Partnership and JLP Scottish Limited Partnership to these accounts. Separate accounts for these partnerships are not required to be filed with the Registrar of Companies.

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE ANNUAL REPORT AND ACCOUNTS

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Partnership and parent company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Partnership and the Company and of the profit or loss of the Partnership for that period. In preparing these financial statements, the Directors are required to:

– Select suitable accounting policies and then apply them consistently;
– Make judgements and accounting estimates that are reasonable and prudent; and
– State whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Partnership and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Partnership financial statements, Article 4 of the IAS Regulation.

They are also responsible for safeguarding the assets of the Company and the Partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed on page 62, 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 PARTNERSHIP 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 Partnership's and of the Parent Company's affairs as at 25 January 2014 and of the Partnership's and Parent Company's profit and Partnership's cash flows for the year then ended;
- The Partnership financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union;
- The Parent Company financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Partnership financial statements, Article 4 of the IAS Regulation.

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

What we have audited

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

- The consolidated balance sheet and balance sheet of the Company as at 25 January 2014;
- The consolidated income statement and statement of comprehensive expense for the year then ended;
- The consolidated and Company statements of changes in equity and consolidated statement of cash flows for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

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 Partnership's and the Parent 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 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.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Partnership financial statements as a whole to be £18.5 million. This represents approximately 5% of Profit before Partnership Bonus, tax and exceptional item because, in our view, this is the most relevant measure of underlying performance.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £0.5 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of the audit

The Partnership is structured along three business lines being Waitrose, John Lewis, and Partnership Services and Corporate. The Partnership financial statements are a consolidation of 15 reporting units within these business lines, each of which is a statutory entity based in the UK or Channel Islands, comprising the Partnership's operating businesses and centralised functions.

In establishing the overall approach to the Partnership audit, we determined the type of work that needed to be performed at the reporting units by us, as the Partnership engagement team, or component auditors within PwC UK and from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Partnership financial statements as a whole.

Accordingly, of the Partnership's 15 reporting units, we have audited the complete financial information of 12 reporting units, providing us with coverage of 96.1% of Profit before exceptional item, Partnership Bonus and tax. The audits of these reporting units were performed using materiality levels lower than that of the Partnership as a whole, established by reference to the size of, and risks associated with, the businesses concerned.

Areas of particular audit focus

In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focussed our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit and Risk Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on pages 70 to 73.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC
CONTINUED

Post-retirement benefit liability

Area of focus

We focussed on this area because of the impact of the defined benefit pension plan liability in the context of the overall balance sheet and the result of the Partnership. Valuation of the liability balance requires significant levels of judgement and technical expertise in choosing appropriate assumptions to measure the liabilities. Changes in key assumptions (including pension increase, salaries increase, inflation, discount rates, and mortality) can have a material impact on the calculation of the liabilities. Refer to note 22 to the financial statements.

How the scope of our audit addressed the area of focus

We considered and challenged the reasonableness of actuarial assumptions and the overall pension liability calculations by comparing the key assumptions to benchmark ranges, performing sensitivity analysis and confirming whether methods had been consistently applied. We compared the membership census data used in the actuarial models to the payroll data held by the Partnership.

Impairment of property, plant and equipment and finite-lived intangible assets

Area of focus

For each cash generating unit ("CGU"), the directors assess on an annual basis whether there are any impairment triggers that would indicate that the asset is overvalued.

We focussed on this area because of the materiality of these assets and because of the judgement required in determining whether there are any impairment triggers. In addition, where triggers have been identified for certain CGUs, calculating the value in use of those CGUs involves subjective judgements by the Directors about growth rates and operating margins.

How the scope of our audit addressed the area of focus

We have assessed the Directors' process for identifying impairment triggers, as well as carrying out our own assessment of internal and external factors that may indicate an impairment.

Where impairment triggers were identified, we assessed the directors' future cash flow forecasts, including comparing them to the latest approved budgets, which we tested against historical results. We challenged the Directors' key assumptions, including the long term strategic growth rate, and performed sensitivity analysis around the key drivers being the discount rate and long term growth rates of the cash flow forecasts to ascertain the extent of change in those assumptions that either individually or collectively would be required for the relevant asset to be impaired. We then considered the likelihood of such movement in those key assumptions arising based on our knowledge of the Partnership and of the retail industry amongst other factors.

Provisions

Area of focus

The financial statements contain several provisions, principally long leave, unredeemed gift vouchers, service guarantee costs, restructuring and inventory obsolescence.

We focussed on this area due to the number and magnitude of potential exposures across the Partnership, and the inherent complexity and judgement in determining the appropriate valuation of the provision for each exposure.

How the scope of our audit addressed the area of focus

We tested the Directors' policies for calculating these provisions, challenged the appropriateness of management's judgements and assumptions, and considered the nature and suitability of any historic data used in support of the judgements and assumptions made, in estimating the provisions.

We have also considered the completeness of provisions, by assessing whether management has taken all known exposures into account, and the related disclosures.

Exceptional item for holiday pay

Area of focus

Following a review of the Partnership's pay policy, it became clear to the Directors that certain Partners had not received the correct amount of holiday pay under the Working Time Regulations legislation. As a result, a charge of £47.3m has been recorded, which includes payments to Partners, associated expenses and an increase in the pension obligation.

We focussed on this area because of the complexity of the legislation and the judgements involved in determining both the amounts to be charged and the appropriate disclosure in the Annual Report and Accounts. Refer to note 3 of the financial statements.

How the scope of our audit addressed the area of focus

We understood the legal advice received by the Directors and we assessed the appropriateness of the conclusions reached by the Directors.

We tested the basis for determining the amounts paid to Partners and compared this to the legal advice received by the Directors.

We also challenged the completeness of the provision for further expenses based on this advice.

We assessed the appropriateness of the calculations for the increase in the pension obligation and for the associated expenses.

We considered the appropriateness of the disclosures made by the Directors.

Risk of fraud in revenue recognition

Area of focus

Auditing standards require that we consider the risk of fraud arising in revenue recognition. Whilst revenue recognition and measurement is not complex for the Partnership, revenue targets form part of the Partnership's key performance measures which could create an incentive to record revenue incorrectly.

We focussed on this area given the magnitude of revenue transactions that occur, and the presence of manual adjustments to revenue for potential future returns and goods in transit over the year end. These adjustments involve subjective judgements by the directors in determining their accuracy.

How the scope of our audit addressed the area of focus

We tested the reconciliations between the revenue systems used by the Partnership and the cash received. We also tested the directors' calculations for the manual adjustments for future returns and for the amount of goods in transit over the year end. In doing so we challenged the appropriateness of assumptions used and considered the suitability of historical data on which the calculations are based.

Risk of management override of internal controls

Area of focus

Auditing standards require that we consider this.

How the scope of our audit addressed the area of focus

We tested key reconciliations and manual journal entries. We considered whether there was evidence of bias by the Directors in the significant accounting estimates and judgements relevant to the financial statements. We also assessed the overall control environment of the Partnership, including the arrangements for staff to "whistle-blow" inappropriate actions, and interviewed senior management and the Partnership's internal audit function.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC
CONTINUED

Going concern

The Directors have voluntarily complied with Listing Rule 9.8.6(R)(3) of the Financial Conduct Authority and provided a statement in relation to going concern, set out on page 78, required for companies with a premium listing on the London Stock Exchange.

The Directors have requested that we review the statement on going concern as if the Parent Company were a premium listed company. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Partnership and Parent Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed.

As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Partnership's and Parent Company's ability to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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 accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Parent Company financial statements are not in agreement with the accounting records and returns.

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.

Corporate governance statement

The directors have chosen to voluntarily comply with the UK Corporate Governance Code ("the Code") as if the Parent Company were a premium listed company. On page 121 of the Annual Report, as required by the Code Provision C.1.1, the Directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Partnership's and Parent Company's performance, business model and strategy. On pages 70 to 73, as required by C.3.8 of the Code, the Audit and Risk Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- The statement given by the directors is materially inconsistent with our knowledge of the Partnership and Parent Company acquired in the course of performing our audit; or
- The section of the Annual Report describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion, information in the Annual Report is:

– Materially inconsistent with the information in the audited financial statements; or
– Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Partnership and Parent Company acquired in the course of performing our audit; or
– Is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Matter on which we have agreed to report by exception

Corporate governance statement

The Parent Company prepares a corporate governance statement in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority and has chosen voluntarily to comply with the UK Corporate Governance Code. The Directors have requested that we review the parts of the Corporate Governance Statement relating to the Parent Company's compliance with the nine provisions of the UK Corporate Governance Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the Parent Company were a premium listed company. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement, 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-fifth Annual General Meeting of the Company will be held at 13.45 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, Kate Brewer, Denis Hennequin and Keith Williams. Biographical details of the Directors and their experience are set out on page 62.
- 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
- To consider the following, which will be proposed as an Ordinary Resolution;

That pursuant to the Company's Articles of Association;*

(a) The Company be and is hereby authorised to purchase by way of market purchase on a recognised stock exchange;
  (i) Up to £3,696,995 in nominal amount of 5 per cent Cumulative Preference stock ('the 5 per cent stock') in the Company at a minimum price of 60p and a maximum price of £1 per £1 nominal of the 5 per cent stock; and
  (ii) Up to £500,000 in nominal amount of 7½ per cent Cumulative Preference stock ('the 7½ per cent stock') in the Company at a minimum price of 80p and a maximum price of 125p per £1 nominal of the 7½ per cent stock; and

(b) This authority shall expire on the earlier of the close of the Annual General Meeting of the Company to be held in 2015 or 30 August 2015.

By Order of the Board

Margaret Casely-Hayford,
Company Secretary

171 Victoria Street, London SW1E 5NN

10 April 2014

The Report and Accounts are sent to all members, but only the members holding Deferred Ordinary Shares are entitled to attend and vote at this meeting.

A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member.

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. 238937

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

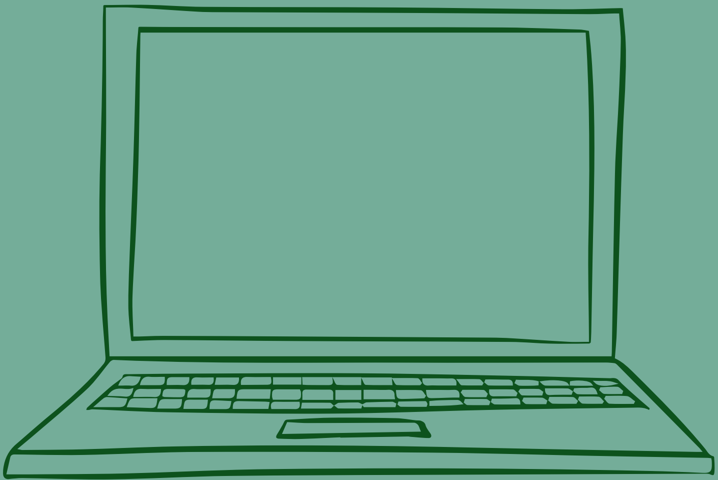
Contact information:

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.

Designed and produced by Radley Yeldar.

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**