

John Lewis Partnership plc

annual report and accounts

2013



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The John Lewis Partnership

The John Lewis Partnership is one of the UK's leading retail businesses with 30 John Lewis department stores, 9 John Lewis at home stores, johnlewis.com, 255 Waitrose supermarkets, 35 Waitrose convenience stores, waitrose.com and business to business contracts in the UK and abroad.

It is also the country's largest employee co-owned business, with 84,700 employees who are all Partners. The Partnership aims to ensure that everyone who works for it enjoys the experience of ownership, by sharing in the profits, by having access to information and by sharing in decision-making through the democratic process.

The Partnership believes that the commitment of Partners to the business is a unique source of competitive advantage which has underpinned over 80 years of growth and a highly regarded reputation amongst customers and suppliers.

The Partnership's record of performance testifies to the robustness of the vision of its founder, John Spedan Lewis, to create a business dedicated to the happiness of the Partners through their worthwhile and satisfying employment in a successful business.

John Lewis Partnership plc and its subsidiary John Lewis plc have small issues of preference stock which have first claim on profits. The remaining profit is available to be used for the benefit of the business and the Partners. The share of profits allocated to Partners, the Partnership Bonus, is fixed each year by the Partnership Board and is distributed as the same percentage of gross annual pay to all Partners. All Partners received a 17% bonus for 2012/13 as their share of pre-tax profits, at a total cost of £210.8m.



Chairman's statement



The Chairman, Charlie Mayfield

This has been a good year for the Partnership with growth in sales and profit above our expectations. Both Waitrose and John Lewis gained market share for what is now the fourth consecutive year. As a result I am delighted that 84,700 Partners received a bonus of 17%, equivalent to nearly 9 weeks' pay.

We were encouraged by the acceleration in the rate of sales growth during the year, particularly in the final quarter. Although the market remains challenging, the Partnership has adapted quickly and successfully and we saw the benefits this year. We have stepped up innovation in new products, there's been a continuing focus on value and sustained and rapid growth online. This resulted in over 1.5 million more customers choosing to shop with Waitrose or John Lewis than last year.

We see this as a time of significant opportunity in a changing market. Behind the scenes, therefore, there's a quiet revolution underway in our supply chain, information technology and support functions. Our investment in these areas is up substantially and that commitment continues into 2013/14. In recent years, the Partnership has consciously invested to have the right skills, systems and organisational structures to be able to offer customers what they want in a fast-changing market.

Outlook 2013/14

Although the market remains subdued we see more stability in customer demand and further opportunities to grow market share in both John Lewis and Waitrose. We have seen a good start to 2013/14. After 11 weeks, Partnership gross sales are 9.9% higher than last year. Waitrose gross sales have increased by 8.8% (7.2% like-for-like, excluding petrol) and John Lewis gross sales are 11.9% higher than last year (9.7% like-for-like).

We expect our sales growth to continue this year, albeit less strongly than in 2012/13, and we are planning a significant step up in total investment, with a particular focus on our supply chain, technology and systems. These investments are central to our strategy of remaining at the forefront of changes in retail today whilst preparing the Partnership for tomorrow.

Charlie Mayfield

Chairman

22 April 2013



Business review

Business review

Review of performance

The John Lewis Partnership

- Gross sales of £9.54bn, up £811.8m, 9.3%
- Revenue of £8.47bn, up £706.9m, 9.1%
- Group operating profit of £452.4m up £59.1m, 15.0%
- Profit before Partnership Bonus and tax of £409.6m, up £55.8m, 15.8%
- Partnership Bonus of £210.8m; 17% of salary (equal to nearly 9 weeks' pay)
- Net debt of £371.9m, down £205.4m, 35.6%

Waitrose

- Gross sales of £5.76bn, up £363.5m, 6.7%
- Like-for-like sales (excluding petrol) up 3.4%
- Revenue of £5.42bn, up £343.8m, 6.8%
- Operating profit of £292.3m, up £31.7m, 12.2%

John Lewis

- Gross sales of £3.78bn, up £448.3m, 13.5%
- Like-for-like sales up 10.5%
- Revenue of £3.05bn, up £363.1m, 13.5%
- johnlewis.com gross sales of £959m, up £278m, 40.8%
- Operating profit of £216.7m, up £58.8m, 37.2%

Five year record – years ended January

	2013 £m	2012 £m	2011 £m	2010 £m	2009* £m
Gross sales ⁽¹⁾					
Waitrose	5,763.9	5,400.4	4,974.6	4,532.3	4,156.4
John Lewis	3,777.4	3,329.1	3,231.7	2,889.2	2,811.1
Gross sales	9,541.3	8,729.5	8,206.3	7,421.5	6,967.5
Revenue ⁽¹⁾					
Waitrose	5,416.1	5,072.3	4,699.9	4,317.2	3,940.1
John Lewis	3,049.4	2,686.3	2,661.9	2,417.4	2,327.1
Revenue	8,465.5	7,758.6	7,361.8	6,734.6	6,267.2
Operating profit ⁽²⁾					
Waitrose	292.3	260.6	274.9	266.8	214.5
John Lewis	216.7	157.9	198.4	160.4	140.6
Corporate and other ⁽³⁾	(56.6)	(25.2)	(42.3)	(37.5)	(31.8)
Operating profit	452.4	393.3	431.0	389.7	323.3
Net finance costs	(42.8)	(39.5)	(63.1)	(83.1)	(43.7)
Exceptional gain in respect of associate (Ocado)	–	–	–	–	127.4
Profit before Partnership Bonus and tax	409.6	353.8	367.9	306.6	407.0
Partnership Bonus	(210.8)	(165.2)	(194.5)	(151.3)	(125.4)
<i>As a percentage of eligible pay</i>	17%	14%	18%	15%	13%
Taxation	(47.1)	(52.4)	(46.0)	(48.8)	(48.1)
Profit for the year retained in the business	151.7	136.2	127.4	106.5	233.5
Net assets	1,901.5	2,008.9	2,072.8	1,704.5	1,722.8
Pay	1,162.3	1,096.3	1,021.7	940.4	908.0
Number of employees at year end	84,700	80,900	76,500	72,400	68,300
Average number of employees	81,900	78,700	74,800	70,000	68,700
including part-time employees	46,800	42,900	40,800	37,300	35,900
Average number of FTEs	53,200	51,100	48,500	45,900	45,100

*53 week year.

⁽¹⁾ Note 1 to the financial statements explains the difference between gross sales and revenue.⁽²⁾ The basis of allocation of pension costs to the divisions was changed in 2012 and is charged as a fixed proportion of total pay based on the estimated long-term costs of providing the benefit, with the differences between these costs and the total annual pension operating costs recognised in Corporate and other. This was income of £11.3m in 2013 (2012: £16.8m), which is principally due to market driven volatility.⁽³⁾ Corporate and other costs are principally corporate and shared service costs, transformation costs and Partnership Services.

Business review

Review of performance (continued)

Key performance indicators (KPIs)

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

	Group		Waitrose		John Lewis	
	2013	2012	2013	2012	2013	2012
Trading performance:						
Gross sales growth						
– total	9.3%	6.4%	6.7%	8.6%	13.5%	3.0%
– like-for-like ⁽¹⁾	6.2%	2.6%	3.4%	3.6%	10.5%	1.3%
Operating margin ⁽²⁾	5.3%	5.1%	5.4%	5.1%	7.1%	5.9%
Partnership profit margin ⁽³⁾	4.8%	4.6%				
Gross sales per FTE (£000)	179.2	170.7	198.2	194.2	165.3	150.3
Operating profit per FTE (£000)	8.7	7.7	10.1	9.4	9.5	7.1
Number of stores ⁽⁴⁾	329	307	290	272	39	35
Average selling space (m sq ft) ⁽⁵⁾	9.7	9.1	5.2	4.9	4.5	4.2
Gross sales per selling sq ft (£)	982	963	1,111	1,100	835	801
Operating profit per selling sq ft (£)	47	43	56	53	48	38
Cash flow and liquidity:						
Operating cash flow before						
Partnership Bonus (£m)	979.0	759.1				
Capital expenditure (£m) ⁽⁶⁾	376.9	517.8				
Interest cover ⁽⁷⁾	4.0	3.8				
Balance sheet:						
Net assets (£m)	1,901.5	2,008.9				
Net debt (£m)	371.9	577.3				
Gearing ⁽⁸⁾	19.6%	28.7%				
Return on invested capital ⁽⁹⁾	8.2%	7.2%				

⁽¹⁾ Like-for-like sales is a measure of year-on-year same stores growth and excludes the impact of branch openings and closures.

⁽²⁾ Operating margin is operating profit expressed as a percentage of revenue.

⁽³⁾ Partnership profit margin is profit before Partnership Bonus and tax expressed as a percentage of revenue.

⁽⁴⁾ The number of stores trading as at the year end date.

⁽⁵⁾ Average selling space (of all stores and branches) includes all customer facing areas and excludes offices, warehouse space and Partner facilities.

⁽⁶⁾ Capital expenditure for the group includes £34.4m (2012: £42.8m) of spending on group-wide information technology systems, vehicles, properties and other assets, not allocated to the operating businesses.

⁽⁷⁾ Interest cover is profit before net finance costs and tax, after Partnership Bonus, divided by net finance costs excluding the financing element of pensions and long leave, and IAS 39 fair value adjustments included within net finance costs.

⁽⁸⁾ Gearing is net debt divided by net assets.

⁽⁹⁾ Return on invested capital is post tax profit, adjusted for non-operating items, as a proportion of average operating net assets, adjusted to reflect a deemed capital value for property lease rentals.



The Partnership Bonus of 17% for 2013 is announced at John Lewis Cardiff

Group performance

In 2012/13 the Partnership traded strongly in a tough market, and achieved robust sales and profit growth. Sales at both Waitrose and John Lewis grew well ahead of their respective markets, increasing their market share.

Partnership gross sales (including VAT) were £9.54bn, an increase of £811.8m, or 9.3%, on last year. Revenue, which is adjusted for sale or return sales and excludes VAT, was £8.47bn, up by £706.9m or 9.1%.

Operating profit was £452.4m, an increase of £59.1m, or 15.0% on last year, and operating profit margin increased from 5.1% to 5.3%.

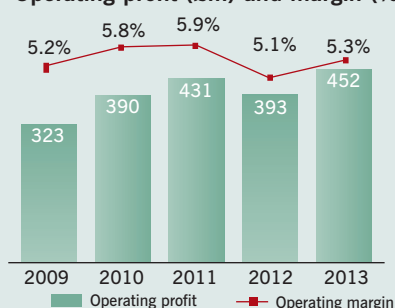
Profit before Partnership Bonus and tax was £409.6m, an increase of £55.8m, or 15.8%, on last year. As a percentage of revenue, profit before Partnership Bonus and tax increased from 4.6% to 4.8%.

These results reflect the collective hard work of our Partners who, as co-owners, each received the same percentage of annual pay as a cash bonus. Partners shared £210.8m in profit, which represents 17% of pay or the equivalent of nearly 9 weeks' pay.

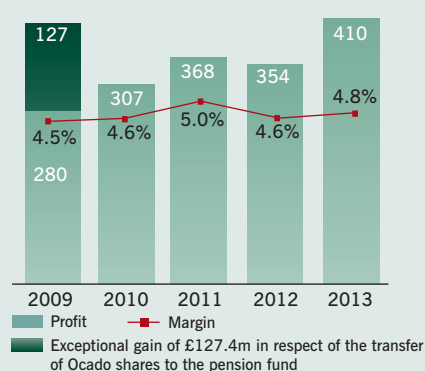
Gross sales (£m)



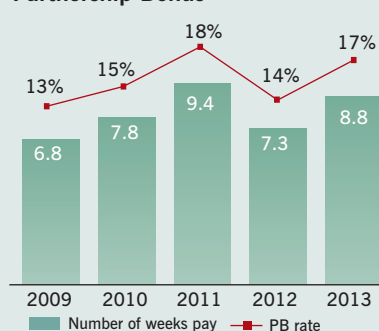
Operating profit (£m) and margin (%)



Profit before Partnership Bonus and tax (£m) and margin (%)



Partnership Bonus



Business review

Review of performance (continued)

Net finance costs

Net finance costs increased by £3.3m (8.4%) to £42.8m. Net finance costs on borrowings and investments decreased by £0.3m (0.5%) to £60.0m whilst the financing elements of pensions and long leave and non-cash fair value adjustments increased by £3.6m (17.3%). Interest cover increased to 4.0, up 0.2 on last year.

Tax

The tax charge decreased compared with last year reflecting a lower effective tax rate of 23.7% compared to last year's rate of 27.8%, due to a lower standard rate of corporation tax and tax in respect of prior years.

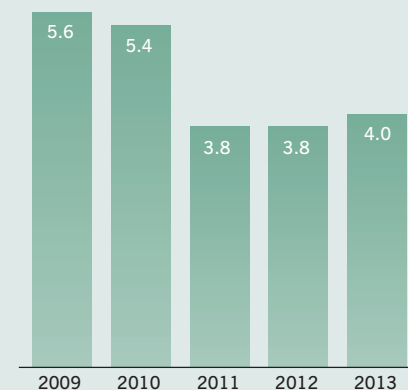
Profit for the year

Profit for the year was £151.7m, up by £15.5m, or 11.4% on last year.

Net finance costs (£m)



Interest cover (times)



Profit for the year (£m)



Investment in the future

Capital spending in 2012/13 was £376.9m, a decrease of £140.9m (27.2%). This reduction largely reflects fewer branch openings and lower spend on refurbishments. We expect capital spending in 2013/14 to return to 2011/12 levels.

Waitrose invested £198.2m, mainly on new branches opening in 2012/13 together with three extensions, branch refurbishments, investment in the implementation of a new warehouse management system to drive productivity in our supply chain, and also a number of retail systems improvements to aid efficiency and enhance the flexibility of our offer.

John Lewis invested £144.3m, with the mix of investment continuing to reflect the business strategy of opening new space, refurbishing key shops and investing in the information technology and distribution infrastructure to support omni-channel trading.

In addition, £34.4m was invested centrally, mainly in maintaining and modernising our information technology platforms, head office buildings and residential clubs

Cash flow and net debt

Cash generated from operations grew to £979.0m, an increase of £219.9m, or 29.0%.

At 26 January 2013, net debt was £371.9m, a decrease of £205.4m, or 35.6%, and gearing ratio decreased from 28.7% to 19.6%. During the year we repaid borrowings totalling £242m from available cash. In January 2013 we replaced a number of existing bilateral borrowing facilities with a new £325m five year syndicated facility, which was undrawn at year end.

Capital expenditure (£m)



Operating cash flow and net debt (£m)



Gearing⁽¹⁾ ratio %



⁽¹⁾ Gearing is net debt divided by net assets.

Business review

Review of performance (continued)

Return on invested capital

Return on invested capital increased to 8.2%, an improvement of 1.0%. This reflects increased returns from investment decisions and the improved operating performance made across the Partnership.

Net assets

Net assets decreased by £107.4m, or 5.3%, to £1,901.5m. This reflects an increase in the pension deficit of £184.0m and a decrease in working capital of £183.0m, principally through improved management of trade receivables and trade payables. This has been partially offset by a reduction in borrowings and overdrafts of £230.3m and an increase in property, plant and equipment and information technology systems of £71.9m.

Return on invested capital (%)



Net assets (£m)



Pension charge

We continue to maintain an open non-contributory final salary defined pension scheme. A defined contribution scheme is also available to Partners during the three year qualifying period before joining the defined benefit scheme.

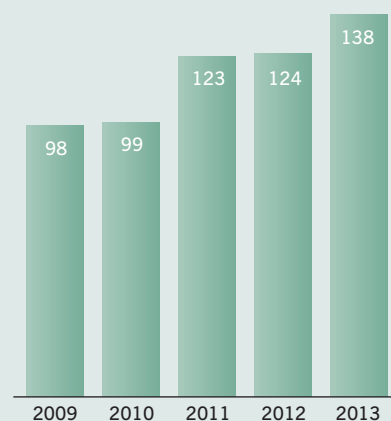
The accounting charge for pensions included within operating profit was £138.0m, an increase of £14.0m or 11.3% on the prior year reflecting the change in the financial assumptions and growth in scheme membership.

The total accounting pension deficit at 26 January 2013 was £822.1m, an increase of £184.0m (28.8%). Net of deferred tax the deficit was £652.4m. The accounting valuation of pension fund liabilities increased by £621.0m (19.6%) to £3,796.0m, while pension fund assets increased by £437.0m (17.2%) to £2,973.9m, including a £125m one-off cash contribution made by the Partnership in January 2013.

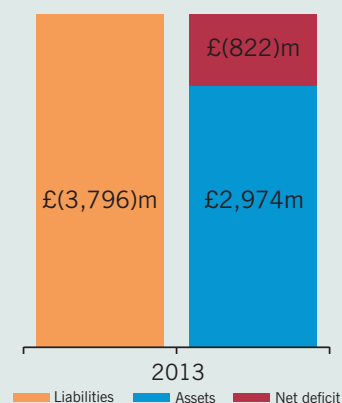
A formal actuarial valuation is carried out at least once every three years by an independent professionally qualified actuary and the next formal actuarial valuations will be as at 31 March 2013. Given that gilt yields are indicating lower returns in the future, we anticipate the actuarial funding position will have weakened. On the actuarial funding basis used in the last valuation in 2010, we estimate that our defined benefit final salary schemes would have ended the year with a surplus of approximately £280m.

The pension is one of the most important benefits offered to Partners, but also accounts for a significant investment in Partners made each year by the Partnership. During the next year the Partnership will be undertaking a review of the pension scheme to ensure that it can remain fair to Partners and sustainable from a business perspective. This review will allow the opportunity to consult extensively to make sure that any changes are right for both Partners and the longer term interests of the Partnership.

Pension charge (£m)



Pension accounting deficit (£m)
(IAS 19 basis)



Business review

Review of performance (continued)

Waitrose

Waitrose's gross sales grew strongly, up 6.7% (£363.5m) to £5.76bn in a slow market. Like-for-like sales grew by 3.4% with a noticeable acceleration in the second half of the year as the impact of our investment in lower prices kicked in. This also helped to drive volume growth in our like-for-like estate. Gross sales density rose by 1.0% to £1,111 per square foot and gross sales productivity per FTE increased to £198,200, up £4,000 (2.1%) on last year.

Operating profit grew by 12.2% to £292.3m. Operating margin was up from 5.1% to 5.4%, operating profit per selling square foot was up 5.6% from £53 to £56, as was operating profit per FTE, which increased by 7.4%, from £9,400 to £10,100.

A sustained investment in lower prices, unwavering commitment to product quality and high standards of customer service have resulted in Waitrose outperforming the industry for the fourth year running with market share up from 4.7% to 4.9%.

The combination of Brand Price Match (matching Tesco's prices on branded lines, excluding promotions), at least 1,000 promotions a week, the expansion of essential Waitrose to 1,800 lines, and sharper own-label prices across the board created an attractive value package, and continued to change consumers' views on Waitrose's price position. Overall, customer transactions grew by 6.1% in the year.

In parallel with lower prices, innovation continued apace and we introduced 4,700 new and improved products, more than ever before in a single year - all with the same commitment to the high standards of quality, sourcing integrity and fairness to suppliers for which Waitrose is known. Particularly successful new lines have been ranges of celebration cakes and desserts and the Heston from Waitrose range of ready meals. Quality and innovation will continue apace with 5,000 new products planned for 2013/14.

Our strategy has anticipated changing shopping patterns and customers now choose to shop across all our formats - full weekly shops in branches and online (including mobile), top-up shopping in Little Waitrose shops, Click & collect purchases



Our commitment to price match brands with Tesco was extended to all lines, excluding promotions



The Heston from Waitrose range was expanded into ready-meals

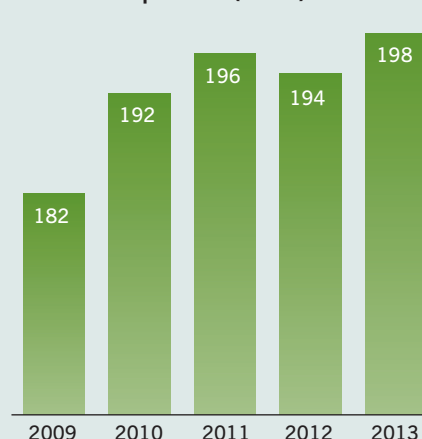
Waitrose
Gross sales (£m)



Waitrose
Gross sales per selling square foot (£)



Waitrose
Gross sales per FTE (£000)





John Lewis Click and collect orders can be picked up from Waitrose branches, driving footfall

from Waitrose and John Lewis picked up in our supermarkets and convenience shops.

Waitrose.com had a very successful year with online sales growing by 49%, compared to 19% for the online grocery market according to Kantar Worldpanel data. The grocery service is available from 199 branches and from the customer fulfilment centre in Acton, West London which handles more than 19% of all orders. John Lewis's Click & collect is proving hugely popular and has increased footfall in our Waitrose branches - for example, over the Christmas period our branches handled 300,000 such orders.

Eight Little Waitrose convenience branches and 11 new core shops were opened in the year, which together with one closure, brought the total estate to 290 branches. In addition we carried out major redevelopments on our branches in Putney, Saxmundham and Bath, with Bath doubling in size to 38,000 sq ft. Waitrose is also present in 17 Welcome Break motorway services and on two Shell forecourts.

We now have seven licensed shops in the Middle East, having opened four more during the year. We now export Waitrose products to more than 30 countries, with new markets in the last year including South Korea, Taiwan, Gibraltar and Trinidad. Export sales rose by 20% in the year.

We plan to open eight core branches, including Helensburgh, our sixth shop in Scotland. We will also open up to ten Little Waitrose convenience shops, the first of which was in Vauxhall, London in April 2013. We are also planning a substantial refurbishment programme of our existing shops.

Waitrose will open a new Regional Distribution Centre (RDC) in Leyland, Lancashire, in summer 2013 to support expansion in the north of England and Scotland. Recruitment for the 300 new jobs created is already underway. We have also invested in a new Warehouse Management System which, through increased picking accuracy, is already leading to a significant improvement in availability.

In the year ahead, Waitrose will further invest in customer service with roles for 200 specialists in fresh produce and horticulture. A further 2,000 Partners will become product advisors in their branches.



A new Waitrose distribution centre will open in Leyland in summer 2013, to support our expansion

Waitrose Operating profit (£m) and margin



Waitrose Operating profit per selling square foot (£)



Waitrose Operating profit per FTE (£000)



Business review

Review of performance (continued)



Our first new format shop opened in Exeter this year, offering a full-line assortment in a smaller space

John Lewis

John Lewis gross sales grew strongly through the year up, 13.5% (£448.3m) to £3.78bn despite a market which continued to be challenging. Total like-for-like sales grew by 10.5%. Gross sales per square foot increased by 4.1%, from £801 to £835, and gross sales per FTE increased by 10.0%, from £150,000 to £165,000.

Operating profit grew by 37.2% to £216.7m. Operating margin was up from 5.9% to 7.1% on last year. Operating profit per selling square foot increased by 26.3% from £38 to £48, and operating profit per FTE increased by 33.8%, from £7,100 to £9,500.

Exciting products, knowledgeable customer service and effective marketing, together with our commitment to be Never Knowingly Undersold, all contributed to this success, while the brand was given added impetus by our high profile support for London 2012.

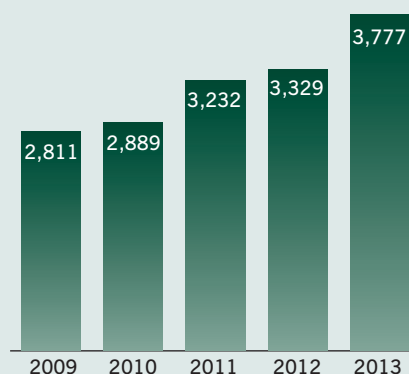
We achieved market share gains in all three of our main categories. Sales in Fashion increased by 9.1%, driven by a mix of own brand, new brand acquisitions and designer collaborations. Home saw good growth of 6.2% and John Lewis now has the second largest home market share in the UK. Electricals and Home Technology (EHT) grew very strongly, up 28.9%, achieving our highest ever market share positions in computers (including tablets), TVs, cameras and both large and small electrical goods, and reflecting the trust customers have in our price-matching position, our Partners' product knowledge and our strong supplier relationships. In April 2012, John Lewis was voted 'Britain's Favourite Electricals Retailer' by Verdict and also came top in its 'Customer Service' category.

Product innovation, quality and value at all price points were central to success in each category. Brand partnerships in EHT, new designer brands such as Grayers, Seasalt and Allegra Hicks in Fashion as well as inspirational ranges from Nick Monro, Bethan Gray and Tilly Hemingway in Home have set the pace for innovation. In own-brand, we launched highly successful ranges such as our designer collaboration with Alice Temperley and House, a wide selection of home furnishings and accessories.

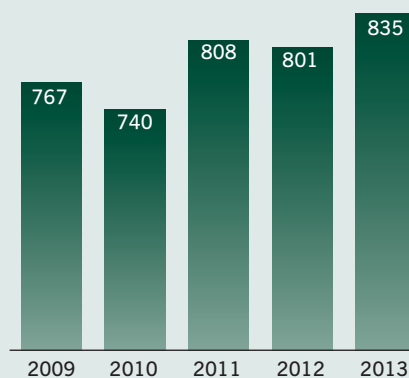


John Lewis launched a number of own-brand ranges during the year, including House

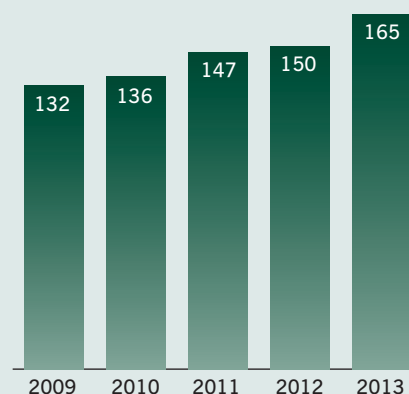
John Lewis
Gross sales (£m)



John Lewis
Gross sales per selling square foot (£)



John Lewis
Gross sales per FTE (£000)





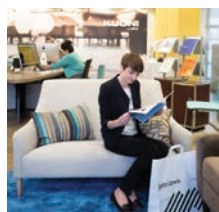
A new warehouse will be built alongside our current one at Magna Park to support the ongoing online growth

To make our brand more accessible, we made important steps in giving customers a seamless, 'omni-channel' experience. johnlewis.com gross sales were up 41% to £959m and the channel now accounts for over 25% of trade. John Lewis shops gross sales were up 6.4% with like-for-like shop sales up 2.6%. Nearly two thirds of all transactions now involve customers visiting both shops and online channels.

Click & collect, available in all John Lewis and 193 Waitrose outlets, is a key part of this change in shopping behaviour and is our fastest-growing fulfilment channel. Orders have almost doubled year-on-year, with 43% of purchases collected from Waitrose branches.

We are also strengthening our information technology and supply chain infrastructure. In February 2013, we successfully relaunched johnlewis.com on a new £40m platform to support our online growth and have announced investment in a new distribution complex to sit alongside our existing operation at Magna Park.

We opened four shops in 2012/13; three 'at home' branches in Newbury, Chichester and Ipswich and a new format shop in Exeter, providing a full-line assortment in a smaller trading space. This year we will refurbish John Lewis High Wycombe and invest in refurbishments at John Lewis Oxford Street, Kingston and Nottingham. We are planning two new shops in 2014 in York and Birmingham.



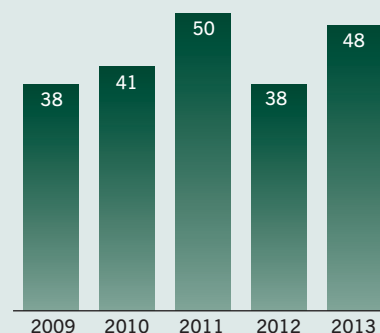
John Lewis has partnered with Kuoni, offering Kuoni concessions in branch and Kuoni holidays as part of the Gift List offer

Beyond our traditional products and services, John Lewis Insurance has seen good growth in 2012/13. We have also begun a partnership to host Kuoni travel services in our shops and, internationally, we have developed our first collaboration with Shinsegae, a South Korean department store. We will be launching French and German language websites later this year to take advantage of the two most well developed EU e-commerce markets.

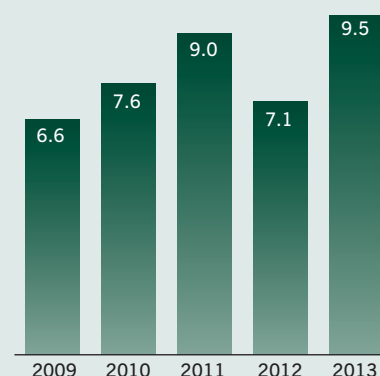
John Lewis Operating profit (£m) and margin



John Lewis Operating profit per selling square foot (£)

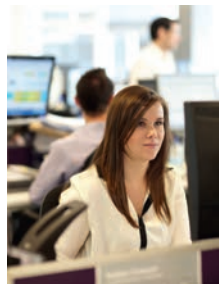


John Lewis Operating profit per FTE (£000)



Business review

Review of performance (continued)



Partnership Services continues to deliver efficiency savings

Partnership Services and Corporate

Partnership Services, which was established in 2009 as the Partnership's business services division to support John Lewis and Waitrose, made a significant contribution to our efficiency over the year helping to deliver benefits through better procurement of not-for-resale goods and services, and working capital improvements.

The cost of our process operations was held flat with productivity improvements offsetting inflation and growth in like-for-like transactions. The breadth of the processes managed by Partnership Services for both Partners and suppliers continued to increase last year to include more standardised procurement of not-for-resale goods and services, simpler electronic invoicing, more accurate expense management and travel management services for Partners.

The level of investment in a number of significant transformation programmes has increased by over £20m, which is the primary factor behind the year-on-year increase in Corporate costs. These programmes are principally within our Personnel, information technology and Partners' Counsellor's functions, and are designed to increase both the efficiency and effectiveness of our support functions, and are central to our move to build a more agile and adaptable organisation.

Business review

Business and strategy



Our Ipswich branches opened this year, the first time a Waitrose supermarket and John Lewis at home shop have opened next to each other

Purpose of the Partnership

The Partnership's reputation is founded on the uniqueness of our ownership structure and our commercial success. As set out in Principle 1 of our Constitution, *"the Partnership's ultimate purpose is the happiness of all its members, through their worthwhile and satisfying employment in a successful business"*. We measure success by our ability to sustain and to enhance our position both as an outstanding retailer and a thriving example of employee ownership. We believe our model, where commercial success is a driving force but where the needs of customers, Partners, and long-term financial ambitions are balanced, represents a sustainable, compassionate and fairer form of capitalism and a better way to do business.

Strategic development – background

The Partnership owns two of the strongest retail brands in the UK. Waitrose is renowned for the freshness, quality, safety and provenance of its food combined with the expertise and service of a specialist shop while John Lewis' reputation is built on a strong product range and excellent service, underpinned by the Never Knowingly Undersold pricing policy. Neither Waitrose nor John Lewis depends on dominant market share but on distinctive positioning which secures an exceptional degree of loyalty from customers. That loyalty has been built on customers' trust and confidence in our sourcing, pricing and quality standards and by selling our products impartially with consistently exceptional service. It has been reinforced by recognition of our long-held desire to act responsibly and to minimise our environmental impact. The Partnership is uniquely placed to do this because our social, ethical and environmental values are ingrained in our culture, and we consistently demonstrate this through our commitment to the communities we serve.

Strategic initiatives

The ongoing pressure in the UK retail landscape has affirmed our commitment to the strategic aims we set last year. To ensure we continue to deliver against the Partnership's ultimate purpose, and to emphasise our belief that our model is a better way of doing business, everything we do will be aligned with the intention to either unlock the potential of our Partners, to capture the market potential for our brands or to grow our business in an efficient manner.

Despite the challenging market conditions both Waitrose and John Lewis traded well through the year, outperforming their respective markets. Decisions taken to continue to invest through the worst of the recession have proved to be the right ones and helped to sustain this market outperformance. In response to changing customer needs, we have made important investments in value and in omni-channel to increase access to our brands. In Waitrose, the continued success of the 'essential' range, the Brand Price Match initiative and promotional pricing have reminded customers of our price/quality relationship. Likewise, John Lewis has continued to develop the value within its ranges which, when combined with widely acclaimed advertising and the commitment to remain Never Knowingly Undersold, have given customers a reason to return to us time and time again.

We remain committed to maintaining a business model which will support the Partnership in the future. We continue to manage reorganisations to ensure that the Partnership remains competitive and that our Partners remain at the heart of our service offering for many years to come.

We recognise there remain new opportunities to develop our brands. Within the UK, new stores have been opened for both brands with an emphasis on exciting new formats such as the John Lewis store at Exeter, which carries a full assortment in less selling space than a traditional Department Store, and the Little Waitrose convenience Store. Additionally we have taken our brands to new international markets through the John Lewis website and the expansion of the Waitrose export business. We continue to experience strong growth from our online operations as customers increasingly embrace a multi-channel approach to retail, and we will continue to invest in improving the ease with which our customers can interact with us through improved web and mobile presence and initiatives such as Click & collect which have underpinned our success through 2012/13.



The essentials range was extended during the year to include 1,800 lines



John Lewis highlighted its commitment to be Never Knowingly Undersold through a successful advertising campaign

Business review

Resources and relationships

Partners

Our culture

The Partnership aims to be a better and more successful business by putting the happiness of Partners at the heart of what we do and genuinely increasing their advantage. It is the embodiment of an ideal, the outcome of nearly a century of endeavour to create a different and better sort of company, owned in trust for our Partners and dedicated to serving customers with honesty, flair and fairness.

Because the Partnership is owned in trust for members, they share the responsibilities of ownership as well as its rewards – profit, knowledge and power.

Our three Partner Commitments help us to bring Principle 1 of our Constitution to life through responsibility, relationships and influence:

- Take responsibility for our business success – We take responsibility for delivering the right experience for all of our customers, generating profits for us all to share;
- Build relationships powered by our principles – We build relationships based on honesty, respect and encouragement. We expect these behaviours of each other and demonstrate them at all times; and
- Create real influence over our working lives – We take every opportunity to develop ourselves, balance work and life priorities and support each other.

Our Partners will tell you that the John Lewis Partnership feels a very special place to work. We believe our distinctive culture – our spirit – lies at the heart of this feeling. As a Partnership, we are a democracy: open, fair and transparent, and there is a true sense of belonging to something unique and highly regarded. Our profits are shared, our Partners have a voice and there is a true sense of pride. The Commitments underpin the relationships we have with customers, the communities we trade in and our suppliers.



A team of buyers are based in our new India sourcing office

We also create and nurture a culture of inclusivity by valuing the differences of those who are engaged in the Partnership, whether as Partners, customers, suppliers or as part of the wider community. Embracing inclusion and diversity shows that we are open to all who want to work, shop and trade with us. From an employment perspective it helps us to attract, retain and develop Partners while developing a creative and innovative culture and being open to new suggestions and ideas. Diversity in the Partnership is based on three values:

- Partners are treated as individuals and with respect, honesty and fairness;
- Our employment policies are fair and provide equal opportunities for all, regardless of age, gender, ethnicity, social background, religion, disability or sexuality; and
- We respect and reflect the communities within which we trade.

Talent development

The Partnership wants to provide meaningful work and careers for Partners, where they can fulfil their potential by taking on new challenges and opportunities. To achieve this the Partnership:

- Aims to promote existing Partners with the right skills and capabilities rather than recruiting externally;
- Helps Partners to learn as much as they can about the Partnership and our activities;
- Provides knowledge and training to help Partners carry out their responsibilities better; and
- Encourages and supports Partners in general education and interests in fields that are not directly work related.



The Partnership is committed to providing first class service across all retail channels



Partners helped refurbish the St John Wales' community facility near Cardiff



John Lewis shops in Scotland received a Business in the Community 'Big Tick' Award for their joint Work Inspiration Programme, an initiative run in partnership with local schools providing mentoring sessions and work experience

Partners (continued)

We aim to provide exemplary leadership that empowers Partners to deliver first class customer service in each one of our John Lewis department stores and at home stores, Waitrose supermarkets and convenience stores, online and other retail channels. Our Partners are equipped to do so through their attitude, behaviour and skills, supported by training, learning and development.

Benefits

Our reward strategy aims to provide a Total Reward Package that offers competitive pay and distinctive market leading benefits, such as our non-contributory defined benefit final salary pension scheme for those Partners who stay with us for more than three years. For those in their first three years, a defined contribution scheme is available where we match Partner contributions up to 4.5% of pensionable pay.

A significant element of Partner reward is the Partnership Bonus. This is shared as an equal percentage of annual pay amongst all Partners. In 2012/13, Partnership Bonus was 17% of pay which is equivalent to nearly 9 weeks pay at a total cost of £210.8m. This is a shared bonus for shared effort.

We also aim to provide opportunities for Partners to have a choice in benefits and leisure activities, recognising the growing diversity of the Partnership.

Corporate Social Responsibility (CSR)

Purpose and strategy

Our founder, John Spedan Lewis, built the Partnership on the principles of being a responsible business. Through our principles and Constitution we demonstrate our regard for operating in a socially, economically and environmentally sustainable way, recognising the critical role this plays in ensuring we:

- Manage risk and demonstrate legal compliance;
- Increase competitive advantage by capturing opportunities that build brand trust, customer loyalty and increase business value;
- Enhance or protect the reputation of our business and brands;
- Attract and retain Partners;

- Meet customer and other stakeholder expectations; and
- Drive cost savings and efficiencies.

We aim to manage and develop our business in a sustainable manner in the areas of:

- Our customers: We will bring sustainability to the heart of our customer communications to help to promote sustainable choices;
- Our products and suppliers: We will create sustainable supply chains through supplier partnerships based on honesty, fairness and respect and ensure that sustainability, as well as quality, characterises the products and services we sell;
- Our Partners: We will provide worthwhile and satisfying employment in a successful business, successfully harness Partners' passion and energy to achieve engagement and participation across every aspect of our sustainability agenda, and create real opportunities for Partners to live sustainably;
- Our communities: We support sustainable communities where we do business; and
- Our environment: We will deliver excellence in environmental practice across our business.

As the UK's largest example of worker co-ownership, all 84,700 of our employees are Partners and they play a crucial part in the Partnership's continued success. Partners embody the Partnership's principles of respect, integrity and courtesy – and increasingly they help our business find new and innovative ways to make our operations, products and services more sustainable.

Policy

Where there are legislative imperatives we seek to be compliant, and our policies are shaped by these legislative requirements. How we manage CSR is clearly set out in our CSR policy which is reviewed and approved by the Chairman's Committee.

Governance and risk

Effective governance and risk management are essential to ensuring we meet our stakeholders' needs in the long term. Our CSR governance arrangements are key to driving our CSR programmes forward and to continuing to

Business review

Resources and relationships (continued)



The Partnership has secured a Gold rating in the 2013 Business in the Community (BITC) Corporate Responsibility Index



Every Waitrose.com delivery helps plant new trees, in partnership with the Woodland Trust

The Waitrose way



Waitrose believes in championing British produces treading lightly on the environment, supporting responsible sourcing and treating people fairly – this is the Waitrose Way

embed CSR into our everyday business practices.

Overall responsibility for CSR continues to rest with the Director of Personnel. Operational management responsibility for CSR is delegated to the Managing Directors, who are supported by individual members of their divisional management boards.

In order to decide where to focus our efforts we assess and prioritise CSR risks, opportunities and insight by engaging with a wide range of stakeholders. This process enables us to increase our responsiveness to stakeholder concerns, find new ways to reduce our impacts and maximise opportunities, balance business efficiency with economic success and, ultimately, continue to make the Partnership more competitive, profitable and sustainable. Our CSR departments retain responsibility for identifying and prioritising CSR risks and opportunities and ensuring that appropriate controls are in place to manage these.

Our governance process informs the divisions of Corporate policy and maintains an oversight of the policy implementation, whilst allowing the divisions discretion to the extent that they require operational freedom.

Our two trading divisions use 'The Waitrose way' and John Lewis' 'Bringing Quality to Life' to share their CSR strategy and commitments with Partners, customers, suppliers, and other key audiences. They allow them to message their distinct and specific CSR propositions and activities while delivering the Partnership's overarching CSR commitments.

'The Waitrose way' is:

- **Championing British** – We believe in always bringing people home-grown food and produce at its very best, celebrating the British food season and working with the best local and regional suppliers;
- **Treading Lightly** – We believe in making the right choices for the environment by reducing packaging, waste, water and CO₂ emissions, and sourcing our food and raw materials responsibly. At Waitrose, product stewardship and maintaining the highest levels of agricultural and environmental management are our key focus at home and abroad. We look closely at our operational impact on the environment

and ask all own-label suppliers to reduce their business footprint too;

- **Treating people fairly** – We believe in treating our customers, Partners, farmers and suppliers fairly as well as supporting local charities and community groups through our Community Matters and Partner volunteering schemes; and
- **Living well** – We believe that eating well should be enjoyable. We provide a wide range of imaginative and nutritious choices to inspire people to eat more healthily and are ahead of targets for salt reduction.

John Lewis 'Bringing Quality to Life' is:

- **A better way of doing business** – Bringing quality to life through a better way of doing business, from our unique Partnership structure to our commitment to reducing our impact on the environment;
- **Encouraging sustainable living** – Bringing quality to life through the products and services we sell by ensuring they are responsibly made and by helping customers choose and use them in ways that are more sustainable; and
- **Engaging with our communities** – Bringing quality to life through the communities we touch, whether local to our shops, or to our suppliers throughout the world.

Performance

We measure the Partnership's performance and therefore our effectiveness in managing CSR through: strategic development; monitoring programme implementation and performance improvement; and external perception and benchmarking. Internal Audit and external authorities have been used to provide independent assurance on our performance.

We remain committed to openly communicating our CSR activity, achievements and challenges. Detailed information is included within our Sustainability Report which can be found on the Partnership website, www.johnlewispartnership.co.uk/sustainabilityreport.



We build long-term relationships with our farmers and suppliers, which helps our customers get the best possible products to help them to live more healthily



The Waitrose Foundation supports suppliers and their families in three African countries



Waitrose won a 'Big Society' award for its Community Matters scheme

Customers, products and suppliers

We are committed to selling responsibly sourced products, dealing fairly with suppliers, engaging with and acting in the interests of our customers and providing excellent value and unrivalled customer service.

In 2012/13:

- In Waitrose we achieved our target of sourcing 100% RSPO Certified palm oil and palm kernel oil based ingredients and derivatives in own brand products;
- The inaugural Waitrose way Supplier Awards took place in April 2012 to acknowledge the hard work and improving environmental performance of our supply base;
- To enable customers to make an informed choice about the products they buy John Lewis introduced a sustainable product identifier to highlight products that will help our customers lead more sustainable lives and launched a 'Made in UK' identifier – a small union flag symbol – for products made in this country;
- Both John Lewis and Waitrose have continued to put the tools, processes and frameworks in place to engage and manage suppliers, ensuring compliance with our Responsible Sourcing Code of Practice, which sets out requirements on labour standards, worker welfare and the environment;
- The Partnership's two supply chain foundations continued to support the communities where our products are sourced and made.

Charitable and community investment

Being a 'force for good' in the community has always been part of the Partnership's vision and our Partners offer their time to support local, regional and national initiatives that help to build more vibrant, economically sustainable communities. We exceeded our target to contribute at least 1 per cent of pre-tax profits to charitable and community activities.

Community Performance Indicators

	2013	2012	% change on last year
Total value of all charitable and community investment contributions* (£m)	11.6	10.9	6.7%
Community investment as a % of Profits before Partnership Bonus and tax (%)	2.8%	3.1%	-7.7%

** Includes cash, in-kind, time and management costs as defined by the London Benchmarking Group model and also includes the donations for charitable purposes detailed on page 34.*

Community programmes included:

- The Partnership donating over £11.6m in 2012/13 to a wide range of charities and community groups through Community Matters. Waitrose won a Big Society Award for the scheme and Community Matters was extended to all John Lewis stores;
- Community Rooms in many of our John Lewis stores and other locations make space available free of charge to local charities and community groups;
- The Partnership-wide payroll giving scheme which is well established enabling Partners to make tax-free charitable donations directly from their pay;
- Volunteering enables our Partners to get involved in our community activities and reinforces our commitment not just to our communities, but to our Partners as well. The Golden Jubilee Trust is the Partnership's flagship employee volunteering scheme where any Partner can apply for a full- or part-time volunteering secondment with a UK registered charity for up to six months. In 2012/13, this scheme saw 17,494 hours awarded to 55 Partners for 54 UK charities; and
- John Lewis shop Partners donating approximately 20,000 hours to volunteering in their local communities.

Business review

Resources and relationships (continued)



Waitrose Bracknell showcases a host of biodiversity features, including a 'living' wall

Environment

As a minimum, the Partnership meets or exceeds all relevant environmental legislation. Where no environmental legislation exists we will seek to develop and implement our own appropriate standards. We take all reasonable steps to manage our operations so as to minimise our environmental impact and to deliver excellence in environmental practice across our business.

Environment performance indicators

	2013	2012	% change on last year
Total greenhouse gas (GHG) emissions (CO ₂)	557,017	528,532	5.4%
Greenhouse gas (GHG) emissions intensity (CO ₂ tonnes/£m sales)	58.4	60.5	-3.5%
Transport related CO ₂ emissions (tonnes/£m sales)	9.17	9.45	-3.0%
Waitrose refrigeration and cooling direct emissions (CO ₂ tonnes)	67,254	61,758	8.9%
Proportion of generated waste diverted from landfill (%)	92	89	3.4%
Waitrose shop water consumption (cubic metres per sq ft trading floor area)	0.13	0.13	0%
John Lewis shop water consumption (cubic metres per sq ft trading floor area)	0.11	0.12	-8.3%

** Emissions data was revised for 2011/12 to take account of updated emission factors issued by DEFRA. Our emissions data has been calculated using Defra-DECC emission factors, with the exception of those for Pure Plant Oil being used in a small number of Waitrose distribution vehicles, certain refrigerants, and some emissions sources associated with our Leckford farm; data includes emissions resulting from UK owned and operated parts of the business and significant emissions from third-party operated distribution sites that are solely operated for Waitrose. Emissions from energy were calculated using base data collected for the CRC Energy Efficiency Scheme Order 2010.*

During 2012/13, we continued to focus on our carbon target to reduce operational carbon dioxide (CO₂) equivalent emissions by 15% by the end of 2020/21 against a 2010/11 baseline. Our operations are regulated under the CRC Energy Efficiency scheme, which requires organisations to monitor and report on their energy usage.

It was anticipated that emissions would rise for the first couple of years before decreasing in response to the implementation of a range of emissions saving projects. Our CO₂ equivalent emissions grew by 5.4% in 2012/13 to 557,017 tonnes, a period in which gross sales grew by 9.3%. Our Greenhouse Gas Emission intensity therefore decreased by 3.5% in the same period.

To reduce our operational emissions the Partnership is focussed on:

- Energy**
 We are tackling energy reduction in two key ways: introducing technology to reduce usage and supporting Partners in operating our buildings more efficiently. As an example, following successful trials, LED lighting will now be specified as standard throughout the Waitrose and John Lewis estate, delivering a 10% reduction in electricity demand.
- Transport**
 Against our target to reduce transport CO₂ equivalent emissions by 15% relative to turnover by 2013/14, we have made an improvement of 11.1% against our 2005/06 baseline. Progress has been achieved by: sharing vehicle space with our suppliers to avoid three million miles in shop deliveries in a year; using telematics to monitor driver performance and encourage more efficient driving styles; limiting the speed of our heavy goods vehicles to improve miles per gallon performance; reducing miles driven using smart scheduling; increasing the use of double deck trailers and improving loading efficiency; and using dual-fuel technology where a percentage of the diesel requirement is replaced by bio-methane or gas.



We promote the use of reusable bags, encourage sustainability and cut down on waste and litter



Waitrose Bracknell won a BREEAM Award achieving the highest score in the retail category

Environment (continued)

• **Refrigeration**

Over the last four years, new water-cooled refrigeration systems have been installed in 97 stores – the majority of these into new stores. The reason for the increase in leakage is that in 2012/13 there was a smaller investment in the existing estate than was originally planned. In 2013/14 the predicted refurbishment spend has doubled which in turn will mean a greater level of water-cooled refrigeration and therefore fewer CO₂ equivalent emissions. There has also been and will continue to be much work taking place to ensure that the leakage across the estate is contained. This will include containment work across the worst leaking stores and auditors proactively visiting branches to identify leaks and take action.

• **Waste**

We diverted 92% of our operational waste from landfill last year, by segregating more recyclable material by source, recovering energy from unavoidable food waste in an increasing number of shops, and processing general waste through Materials Recovery Facilities (MRFs) to extract recyclable elements from the residual, unsegregated waste. We recycled over 74% of our operational waste, including food waste, narrowly missing our target of 75% by January 2013. We met our target to divert all Waitrose shop-generated food waste from landfill by January 2013 (excluding Channel Islands) and expect to divert John Lewis hospitality food waste from landfill in 2013/14. In March 2012, we launched our Food Waste Hierarchy to help enable surplus food, fit for consumption, to be donated locally, rather than becoming waste.

• **Water**

The Partnership delivered an improvement of 8.3% over the prior year in John Lewis in shop water consumption per square foot of trading floor area and Waitrose water consumption per square foot of trading floor area remained the same at 0.13m³ per square foot of trading floor area.

Responsible development

Our Responsible Development Framework details our approach to the development and refurbishment of our shops, offices and warehouses which can be found on the Partnership website

www.johnlewispartnership.co.uk/csr/our-environment/responsible-development.html.

During 2012/13 we commenced work to update the framework to include social, economic and environmental impacts of our whole property portfolio rather than just construction, and cover the whole-life approach to buildings including acquisition, design, build, fit-out, operations and maintenance, setting out not only what is important to us in 2013/14, but for years to come.

John Lewis Partnership buildings represented 32 of the top 42 BREEAM (Building Research Establishment Environmental Assessment Method) rated retail buildings. The Partnership is the only retailer to have achieved a BREEAM post-construction outstanding rating.

Packaging

We place over 135,000 tonnes of product packaging on the market each year. We contribute towards investment in domestic collection and public recycling centres, promote packaging recyclability and explore ways to optimise our packaging. More information is available on our website, www.johnlewispartnership.co.uk/csr/our-latest-report/our-environment/packaging.html.

Business review

Resources and relationships (continued)

Looking ahead

We will continue to pursue own brand product innovation and development and increase the availability of sustainable products. Waitrose will continue to work towards its targets for 100% certified sustainable soya and fish. John Lewis will continue to improve the sustainability of own-brand clothing, textiles, electrical appliances, and paper and wooden products.



Waitrose is committed to only selling sustainably sourced fresh fish

We will also look to provide more environmental product information to make it easier for customers to make sustainable choices. John Lewis, for example, aims to increase the number of products that carry the Sustainable Product Identifier and the Made in UK identifier. We will actively encourage our Buying teams to increase the number of products with a sustainability story and we will work with our suppliers to measure and reduce their impact on the environment.

During the year we began to understand the ways in which we could measure the impact of our community investment activities. We intend to develop this understanding and trial methods for assessing impact.

Continuing to drive improvements through our carbon reduction programme will remain a key focus and challenge. We will also broaden our response to climate change by giving greater consideration to the possible impacts of the changing climate on our business.

Business review

Risks and uncertainties

Risks and uncertainties

Our risk management strategy is consistent with our founder's philosophy to run the Partnership on sound principles of good governance, to actively identify the risks being run in the business and mitigate them to the extent considered appropriate to safeguard the Partnership, both its business and its reputation. We therefore adopt a disciplined and proactive approach to balancing risk and reward during our annual business planning cycle. An overview of the principal risks and uncertainties facing the Partnership along with mitigating actions in place is set out below.

Economic

As a retail business based and operating predominantly in the UK, the Partnership is particularly exposed to any economic downturn in the UK which could affect consumer confidence and therefore spending.

The strength and diversity of the Waitrose and John Lewis businesses and brands, alongside our growing multi-channel and online strategy, help to mitigate our economic risk in the current retail environment. Our range and diversity of products and services bring us into competition with a wide range of UK and international retailers in largely mature market segments with low underlying growth. For this reason we continually focus on maintaining our product quality, customer service and supplier relationships, whilst retaining our competitive position, including in value and pricing.

Financial risk

The principal financial risk which we face is the ability to generate and access sufficient funds to satisfy our business needs, to meet our Partners' expectations for Partnership Bonus and to mitigate against any adverse financial impact resulting from risks crystallising. The other financial risks, together with mitigations, are covered in more detail below and in note 22 to the accounts:

- **Funding and liquidity**
Liquidity requirements are managed in line with short and long term cash flow forecasts linked to our trading patterns,

business plans and budgets and reviewed against the Partnership's debt portfolio and maturity profile. Funding levels are managed to ensure that there is adequate headroom available to mitigate the funding and liquidity risks. Details of the Partnership's borrowings, together with their interest rates and maturity profiles, are provided in note 25 to the accounts.

- **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 its treasury policy. Exposures to interest rate fluctuations are managed using interest rate derivatives. Details of the Partnership's borrowings and interest rate exposures are provided in note 25 to the accounts.

- **Foreign currency risk**

The Partnership uses derivatives 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. Details are provided in note 22 to the accounts.

- **Credit risk**

The Partnership has no significant 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 bank 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.

- **Capital risk**

The Partnership maintains a capital structure which is consistent with an investment grade credit rating and maintains a prudent level of gearing.

Business review

Risks and uncertainties (continued)

- **Energy risk**
The Partnership operates risk management processes for the procurement of energy associated with its activities including hedging energy pricing exposure.
- **Insurable risk**
The Partnership's captive insurance company, JLP Insurance Limited based in Guernsey, provides reinsurance of the Partnership's employer's, public and vehicle third party liability insurances and of the Partnership's healthcare insurance cover. It also reinsures extended warranty cover purchased by customers of John Lewis.

Pensions risk

Our pension obligation represents our longest term risk and is of critical importance. We continue to maintain an open non-contributory final salary defined benefit pension scheme.

The Partnership takes a long term view of its pensions liabilities but recognises that there are significant risks from increasing longevity and from volatility and uncertainty in the investment markets.

The Pension Fund assets are held in separate funds administered by the Trustees, who delegate day-to-day management of these funds to a number of investment managers. Our pension arrangements and funding position are explained in note 24 to the accounts. We have executed a deficit mitigation strategy over the past seven years including a one-off cash contribution made by the Partnership in January 2013. The next formal actuarial valuations of the schemes will be as at 31 March 2013. Each month, we monitor asset and liability performance against both accounting and actuarial assumptions. We also have a formal framework, agreed with the Trustees, for managing the Financial and Investment Risk of the Pension Fund proactively rather than retrospectively. The liquidity risk is managed by seeking to ensure the annual contribution to the Fund more than covers its outgoings and that income generated from the investment activities is more than adequate to cover any short fall that may occur.

Partners' trust and engagement

The commitment of Partners to the business is a unique source of competitive advantage which could be eroded by the loss of Partners' trust and engagement. The risk is mitigated by the Partnership's democratic structure as set out in the Constitution. This includes: elected councils and forums to hold senior management responsible for decisions and actions; the Partnership Council which acts as a governing authority and holds the Chairman to account; the Partners' Counsellor department which seeks to ensure that the Partnership is true to the Constitution; and the Partnership's publications which ensure that Partners, as co-owners, are given the information that they need and all their questions answered by management.

Managing change

The successful delivery of key strategic projects, such as the implementation of new systems, the re-engineering of business processes or major infrastructure development, is of paramount importance to the Partnership as such investments improve the efficiency and resilience of our operations whilst providing a strong platform for future growth. The successful delivery of these projects depends on the resources and skills sets available to the Partnership. Our Personnel strategy aims to ensure that the Partnership possesses the appropriate skills and resources required to deliver these projects. Resources are continually reviewed and aligned with the business critical priorities. Skills gaps are addressed through training and development of Partners. When the required skills are not available due to resource constraints or their highly specialised nature the Partnership will recruit these externally.

Competitor pricing

The retail landscape has become increasingly competitive and as a result one of our key risks is margin erosion due to the pricing strategies of our competitors. In response we continue to invest in innovation, service and our store environment to maintain appeal, whilst also focusing on operational improvements to help drive further growth and pricing efficiencies.

Business Interruption

The Partnership faces a number of significant risks that have the potential to interrupt business such as a major information loss, failure of information technology systems or terrorist attack. To monitor, manage and mitigate these risks and continue trading, we have an appropriate and effective Business Continuity capability with operational and information technology plans, processes, procedures and organisations. The Head of Operational Risk Management, who reports to the Finance Director, is responsible for the further development and maintenance of this capability.

Talent management

The attraction, development and retention of talent are critical to the delivery of our strategies and represents a key risk for the Partnership. Our benefits and remuneration are benchmarked annually to support competitive packages and attract talent. We also have a Leadership Development Programme that meets the succession and capability needs of the business, and we are rolling out improved performance and talent management processes to enable robust career development across the business, helping Partners realise their full potential.

Reputation

Any failure in products and service would damage our reputation resulting in a loss of customer confidence. The Partnership has rigorous Product Safety testing for suppliers and products. All suppliers of own brand product have their manufacturing sites assessed and, where product safety is relevant, an accredited third party tests these suppliers on our behalf.

Food safety is monitored throughout the supply chain. Our Food Technology department works externally with suppliers, government bodies and trade associations to ensure all issues of food safety are monitored, addressed and policies implemented. Suppliers are audited and reviewed on an ongoing basis to ensure they continue to meet both legal and Partnership criteria in terms of food safety, legality, quality and brand.

Health and safety

The Partnership is committed to going about its business in a way that avoids causing harm to people or property, so far as is reasonably practicable, and to promoting the wellbeing of its workforce through its extensive occupational health service. This commitment underpins our approach to health and safety, with Board level responsibility being carried by the Director of Personnel, supported by specialist technical advisers in safety and occupational health employed within the divisions. We cannot expect to eliminate health and safety risk totally from the workplace but our current priority is to ensure that management at all levels know and understand the risks within their areas of responsibility. We review the quality and effectiveness of our risk assessment, incident investigation processes and the completeness of our health and safety management systems. We seek to enhance our systems to support a proactive approach in meeting our commitments to the safety and well-being of our Partners, suppliers and customers.

Input cost inflation

Input cost price inflation is a risk to our businesses and as a result we closely monitor the environment to ensure that we are obtaining the best value, at a fair price, for products and raw materials that we source. We also continue to focus on delivering operational efficiencies, to help offset these increases, through a number of efficiency programmes and initiatives. In addition, input cost inflation is managed through our financial hedging strategy for future foreign exchange and energy pricing exposure.

Other significant risks and uncertainties

The Partnership also faces other, sometimes unforeseen, significant risks and uncertainties, such as criminal and public disorder incidents, and the need to comply with new legislative and regulatory requirements. The Partnership Board proactively reviews other potential risk areas and has the means to manage and mitigate these risks where feasible.

Business review

Risks and uncertainties (continued)

Compliance statement

This review has been prepared in accordance with section 417 of the Companies Act 2006. The review's intent is to provide information to Partners and shareholders. It should not be relied upon by any other party or for any other purpose.

Where this review contains forward-looking statements, these are made by the directors in good faith based on the information available to them at the time of their approval of this report. These statements should be treated with caution due to the inherent uncertainties underlying any such forward-looking information.

Other information

Additional financial and non-financial information, including press releases and year end presentations, can be accessed on our website, www.johnlewispartnership.co.uk.



Directors

Directors and advisers

†Under the Constitution of the John Lewis Partnership five of the directors hold office by triennial election of the Partnership Council.

Member of the Audit and Risk Committee

‡ Member of the Remuneration Committee

ΔMember of the Chairman's Nominations Committee

DIRECTORS



Charlie Mayfield Δ

Executive Chairman since March 2007. Member of the Partnership Board since 2001. Joined the Partnership in 2000. Also Chairman of the John Lewis Partnership Trust Limited and Chairman of the UK Commission for Employment and Skills.



David Anderson #Δ

Non-executive director since February 2011. Vice Chairman and Senior Independent Director of The National Farmers Union Mutual Insurance Society Limited, and Chairman of Reclaim Fund Limited.



David Barclay #‡Δ

Deputy Chairman since March 2007 and non-executive director since 2006. Also Deputy Chairman of John Lewis Partnership Trust Limited. Holds non-executive directorships with Wessex Water Services Limited, The British Library and Wates Group Limited.



Jane Burgess

Partners' Counsellor since October 2012. Joined the Partnership in 1975 and was previously Deputy Partners' Counsellor.



Steve Gardiner †Δ‡

Elected director since May 2012. Joined the Partnership in 1996 as a Management Trainee for Waitrose and is Branch Manager of Waitrose Cirencester.



Baroness Hogg #‡

Non-executive director since February 2011. Chairman of the Financial Reporting Council and Frontier Economics Limited and Senior Independent Director of BG Group plc. Also Lead Independent Director of HM Treasury and member of the Takeover Panel.



Tracey Killen

Director of Personnel since April 2007, when she joined the Partnership Board. Joined the Partnership in 1982.



Patrick Lewis

Managing Director, Partnership Services since October 2012. Prior to this appointment he was a member of the Partnership Board as Partners' Counsellor since February 2009. Joined the Partnership in 1994.



Kim Lowe †‡

Elected director since July 2007 and re-elected in 2009 and May 2012. Joined the Partnership in 1982 and is Managing Director of John Lewis, Glasgow.



Kevin Payne †#

Elected director since May 2012. Joined the Partnership in 1984 at Waitrose Woodley and is a Contract Manager, managing Waitrose bonded goods and Channel Islands supply chains.



Mark Price

Managing Director, Waitrose since April 2007. Member of the Partnership Board since 2005. Joined the Partnership in 1982. Also a non-executive member of Channel Four Television Corporation and a director of The Prince's Countryside Fund, Countryside Fund Trading Limited and Chairman of Business in the Community.



Noel Saunders †Δ

Elected director since May 2012. Joined the Partnership in 1979 at Peter Jones and is Managing Director of John Lewis, Stratford City.



Dan Smith †#

Elected director since May 2012. Joined the Partnership in 2004 and is a Partner at John Lewis, Kingston.



Andy Street

Managing Director, John Lewis since February 2007. Member of the Partnership Board since 2002. Joined the Partnership in 1985. Also a director of Performances Birmingham Limited, and Greater Birmingham and Solihull LEP.



Helen Weir CBE

Group Finance Director since June 2012. Joined the Partnership in April 2012. Also a non-executive director of SAB Miller plc, a member of the SAID Business School Advisory Council and a Fellow of the Chartered Institute of Management Accountants.



EXTERNAL MEMBER OF AUDIT AND RISK COMMITTEE

Margaret Ewing

Joined the Audit and Risk Committee as an external member in January 2013. Fellow of the Institute of Chartered Accountants England and Wales and the Securities Institute. Also, an independent non-executive director of Standard Chartered PLC and a member of the Financial Reporting Review Panel.

OFFICERS AND ADVISERS



Margaret Casely-Hayford

Director of Legal Services and Company Secretary since April 2006. Qualified as a Barrister and Solicitor. Also, the Partnership's representative on the Board of the British Retail Consortium and is a non-executive director to the NHS Commissioning Board, now NHS England.

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

Capita Registrars, The Registry,
34 Beckenham Road, Beckenham,
Kent BR3 4TU

Directors' Report



Margaret Casely-Hayford,
Director of Legal Services and
Company Secretary

Directors' report

The directors present their report and the audited financial statements for the year ended 26 January 2013.

Principal activity, business review and future developments

The principal activity of the Partnership is retailing with the main trading operations being the Waitrose and John Lewis businesses. The Company controls the entities listed in note 32, comprising 30 John Lewis department stores, 9 John Lewis at home stores, johnlewis.com, 255 Waitrose supermarkets, 35 Waitrose convenience stores, waitrose.com and business to business contracts in the UK and abroad and ancillary manufacturing activities (together the Partnership). A review of the business and likely future developments is included separately in the Chairman's Statement on page 2 and Business Review on pages 3 to 28 which forms part of this Directors Report.

Key performance indicators and directors' responsibilities

The key performance indicators and statement of directors' responsibilities are set out on pages 6 and 91 respectively.

Principal risks

The principal business risks are set out on pages 25 to 27 and in note 22 to the financial statements.

Corporate governance

The Company's statements on corporate governance can be found in the Governance Report which includes the Audit and Risk Committee Report and Remuneration Report on pages 36 to 50 of these financial statements. The Governance Report forms part of this Directors' Report.

Going concern

The directors, after reviewing the Partnership's operating budgets, investment plan, financing arrangements and possible downsides, consider that the Company and the Partnership have 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 Business Review. The

Company and Partnership have, at the date of this report, sufficient financing available for their 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

Dividends on Preference stocks were £222,000 (2012: £222,000). Dividends on SIP Shares (issued in connection with BonusSave) were £1,857,000 (2012: £1,663,000).

Directors

The following directors served during the year ended 26 January 2013.

	Date of Appointment	Date of Resignation
Executive directors:		
Charlie Mayfield (Executive Chairman)		
Marisa Cassoni		1 June 2012
Tracey Killen		
Patrick Lewis	1 October 2012	
Mark Price		
Andy Street		
Helen Weir	1 June 2012	
Partners' Counsellor:		
Patrick Lewis		1 October 2012
Jane Burgess	11 October 2012	
Elected directors:		
Johnny Aisher		3 May 2012
Anne Buckley		3 May 2012
Simon Fowler		3 May 2012
Steve Gardiner	3 May 2012	
Kim Lowe		
Kevin Payne	3 May 2012	
Tony Probert		3 May 2012
Noel Saunders	3 May 2012	
Dan Smith	3 May 2012	
Independent non-executive directors:		
David Anderson		
David Barclay (Deputy Chairman)		
Baroness Hogg		

The Partnership Board is constituted in accordance with the Constitution of the Partnership and the Company's Articles of Association and comprises the Chairman, Deputy Chairman, executive directors, the Partners' Counsellor, elected directors and non-executive directors. Elections were held during the year for elected director positions. Details of the election process and the role of the five elected directors are set out in the Governance Report.

Patrick Lewis resigned his position as Partners' Counsellor and was appointed an executive director and Managing Director, Partnership Services on 1 October 2012. Jane Burgess, who was previously Deputy Partners' Counsellor, was appointed as Partners' Counsellor and joined the Partnership Board on 11 October 2012.

Marisa Cassoni retired as Finance Director on 1 June 2012 and Helen Weir was appointed as an executive director and Group Finance Director on the same date.

Elections to appoint five elected directors to the Partnership Board were held during the year. Following those elections, Johnny Aisher, Anne Buckley, Simon Fowler and Tony Probert retired as elected directors. Kim Lowe was re-elected as an elected director and four new elected directors, Steve Gardiner, Kevin Payne, Noel Saunders and Dan Smith joined the Partnership Board.

The Company's Articles of Association provide that any director appointed during the year be re-elected by the Company's shareholders at the next general meeting of the Company. Jane Burgess, Steve Gardiner, Kevin Payne, Noel Saunders, Dan Smith and Helen Weir will stand for election at the next annual general meeting to be held on 6 June 2013. Biographical details of all the directors and their experience is set out on page 30 to 31.

Directors' interests

Under the Constitution of the Partnership, the executive and 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 40 and details of the directors' service agreements and notice periods are given on page 50

Employees

The Constitution of the Partnership provides for the democratic involvement of Partners, or employees, as co-owners of the business. Partners are provided with extensive information on all aspects of business operations and are encouraged to take an active interest in promoting its commercial success.

The aim is to ensure that the co-owners are given the information they need to be able to decide whether the Chairman, the Partnership Board and management are being effective.

The Partnership's democratically elected bodies, including the Partnership Council and other elected councils and forums, provide regular opportunities at all levels of the business for management to report to Partners and for Partners to question management. Additionally, there is an open system of journalism, including the weekly Gazette, which provides a means of sharing information extensively with all Partners and contributes to effective accountability.

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

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 Company, in a class created specifically for this purpose known as SIP Shares. Details of SIP Shares can be found in note 17. 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.

Diversity

The Partnership seeks to embrace diversity and is committed to providing equal opportunities for all in employment at all levels of the

Directors' Report

continued

organisation, regardless of individual differences such as gender, age and ethnic origin.

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 Board recognises that balanced and diverse boards are effective boards. One third of the Partnership Board's 15 directors are women.

Corporate social responsibility

The terms of the Partnership's Constitution clearly define the behaviour expected towards customers, suppliers, the environment, the wider community and its Partners. Corporate Social Responsibility (CSR) programmes and governance structures have been developed based on these provisions. The principal responsibility for managing and coordinating social, ethical and environmental issues rests with the Director of Personnel. More detailed information on the Partnership's CSR policies and procedures is set out in the Business Review, and copies of its published CSR reports can be found on the Partnership website, www.johnlewispartnership.co.uk.

Social and community involvement and political donations

The Partnership donated £5,745,000 (2012: £4,494,000) for charitable purposes during the year, comprising £5,272,000 (2012: £4,049,000) for welfare causes and £473,000 (2012: £445,000) for music and the arts, learning and the environment. In addition, the Partnership provided substantial financial and practical support to causes in the communities where it trades, as set out on page 21 of the Business Review. The Partnership made no political donations.

Supplier payment policy

The Partnership's policy on the payment of its suppliers is to agree terms of payment in advance and, provided a supplier fulfils the agreement, to pay promptly in accordance with those terms. The Partnership's trade creditors at 26 January 2013 were equivalent to 34 days of average purchases (2012: 27 days).

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

Waitrose continues to comply with the Order and GSCoP. Waitrose's Code Compliance Officer continues to ensure that its comprehensive Partner training, including annual refresher programmes and new starter training, together with its ongoing monitoring of supplier contracts ensures compliance.

As part of Waitrose's ongoing compliance with the Order and GSCoP, Waitrose is required to submit a report detailing its compliance to the Company's Audit and Risk Committee for approval and to the Office of Fair Trading.

The Audit and Risk Committee, which met on 16 April 2013, approved the Code Compliance Officer's report on Waitrose's compliance between 29 January 2012 and 26 January 2013. The Audit and Risk Committee was pleased to note that Waitrose has not been the subject of any supplier or supply chain disputes under the Order or GSCoP. In concluding that Waitrose was fully compliant with the Order and with GSCoP, the Audit and Risk Committee noted that Waitrose continues to invest significant resources in training, processes and documentation ensuring that its compliance programme would be consistent both with the requirements of the Order and GSCoP and reflect 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 26 January 2013, the Company had in issue 3,696,995 5% Cumulative Preference stock, 500,000 7.5% Cumulative Preference stock, 612,000 Deferred Ordinary Shares and 84,750,000 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 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 31 May 2012, the Company was authorised to make market purchases of up to £3,696,995 in

nominal amount of the 5% Cumulative Preference stock and up to £500,000 in nominal amount 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 96. The Partnership Board considers that these stocks are an inefficient form of fixed interest finance and that it would be advantageous to the Company to acquire them over time as suitable opportunities arise.

Annual General Meeting

The Annual General Meeting will be held at 12.30pm on 6 June 2013 at Partnership Services Division head office, Spedan House, Doncastle Road, Bracknell, Berkshire RG12 8YA.

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 steps that they each ought to have taken as directors in order 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. So far as the directors are aware there is no such information of which the Partnership's auditors are unaware.

Approved by the directors and signed on behalf of the Partnership Board

Margaret Casely-Hayford
Director of Legal Services and
Company Secretary
22 April 2013

Governance Report



Charlie Mayfield
Executive Chairman

Governance Report

The Partnership was founded by John Spedan Lewis in 1929 and exists because of his extraordinary vision and ideals. He transferred ownership of the Company 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. The Deferred Ordinary Shares in the capital of the Company are held by the trustee, John Lewis Partnership Trust Limited (the “Trustee” or “Trust Company”) which is the ultimate holding company of the Partnership and has as its main purpose the protection of the Constitution and democracy of the Partnership. The directors of the Trustee are known as the Trustees of the Constitution.

The Partnership is governed by its written Constitution (the Constitution), its Articles of Association and the Companies Act. It also complies with the Listing Rules and Disclosure and Transparency Rules applicable to a Standard Listed company on the London Stock Exchange (LSE). As the Company has no equity share capital listed on the LSE it is eligible for exemption from the Financial Services Authority’s requirements relating to corporate governance disclosures. However, as the Partnership Board seeks to maintain its reputation and standing in its dealing with external stakeholders, the Partnership Board aims to apply the highest standards of corporate governance in accordance with the Partnership’s Constitution and voluntarily seeks to apply the UK Corporate Governance Code (the Code). This report seeks to set out the Partnership’s governance procedures in compliance with its Constitution and the Code.

Compliance with the Code

Throughout the year ended 26 January 2013, the Company has voluntarily applied and has been in compliance with the provisions set out in the Code, published by the Financial Reporting Council and available at www.frc.org, except where the Partnership’s co-ownership model establishes its own accountability and governance mechanisms which the Partnership Board believes to be appropriate and offer the necessary level of protection as set out below.

The Partnership’s Constitution

John Spedan Lewis’ vision was set out in a written Constitution, which provided a framework to define the Partnership’s principles and the way in which it should operate. The Constitution has been revised and refreshed over the years, but retains a direct connection with the fundamental principles of the Constitution established in 1929. The Constitution has mechanisms in place that the Partnership Board considers provide an appropriate level of accountability, transparency and probity and requires the Chairman, on behalf of the Partnership Board to report regularly and provide continuing information to Partners on its stewardship.

The Partnership’s ultimate purpose is set out as Principle 1 of the Constitution as:

“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.”

The purpose enshrines the democratic principle of co-ownership within the Partnership and differentiates the Partnership from other corporate bodies.

The Constitution established three governing authorities to share the responsibilities of ownership: the Partnership Council, the Partnership Board and the Chairman. It also created special roles, such as elected directors to the Partnership Board and the role of Partners’ Counsellor, whose roles are explained in greater detail below.

The governing authorities’ power to direct the Partnership’s affairs depends on the consent of the Partners, whose opinion is expressed through formal representative bodies. These representative bodies include the Partnership Council, local forums and through the work of the Partners’ Counsellor and the Registry.

The Constitution is available to all Partners on the Company’s intranet and on www.johnlewispartnership.co.uk. The shared aims of the three governing authorities are to safeguard the Partnership’s future, enhance its prosperity and ensure its integrity.

The Three Governing Authorities

The Partnership Council

Unique to the Partnership, the Partnership Council 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 entrusts management of the Partnership to the Partnership Board and holds the Chairman to account.

The Partnership Council met four times during the year and held one conference. All directors, including the non-executive directors, are non-voting members of the Partnership Council and attend its meetings. It has 64 elected Partners as members. The Chairman also appoints three non-elected members. It makes recommendations on the development of policy and can make recommendations to the Chairman on any subject. It may ask the Partnership Board or the Chairman anything it wishes, and they must answer unless doing so would in their opinion damage the Partnership's interests.

Elections to the Partnership Council are held every three years and any Partner may stand for election, to represent the Constituency in which he or she works. Elections were held during the year under review and 23 members were re-appointed and 41 new members were appointed to the Council. All were elected for a three year term.

The Partnership Council holds the Chairman to account for running the business in line with Partnership principles and in particular Principle 1. The Partnership Council delegates its work for holding Divisional Managing Directors responsible for delivery of divisional business plans to the John Lewis and Waitrose Divisional Councils and Partnership Services and Corporate Forums. Any concerns arising from Divisional Councils are escalated to the Partnership Council to the Chairman, who also holds the Divisional Managing Directors to account. The Partnership Council's democratic function at local level is conducted within Local Forums which are also democratically elected.

During its term the Partnership Council elects one Partner to be its President and three Partners to be Trustees of the Constitution. The Partnership Council also elects five Partners to be members of the Partnership Board, known as elected directors.

The Partnership Board

The Partnership Council entrusts management of the Partnership to the Partnership Board. The Partnership Board has ultimate responsibility for issues of major policy and strategy and for 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 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 Company and operates within a framework of reserved matters, delegations and assurance.

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.

During the year, the Partnership Board undertook an externally facilitated evaluation of its own effectiveness. The review recognised the diverse skills, experience and perspectives of the directors and the spirit of the Partnership Board. It confirmed that the elected directors are fundamental to the Partnership Board and fulfil their role with commitment and distinction, providing valuable contributions to boardroom debate. The review also identified that the addition of non-executive directors had injected a higher degree of challenge. Following the review the Partnership Board has sought to further clarify its purpose, by concisely defining its role, formally recognising the concept of the "critical friend" at its meetings, and by introducing software to improve the Partnership Board's access to information. Board Intelligence, who facilitated the review, has no other connection with the Partnership. This year's evaluation will focus on the Partnership Board's Committees including a review of their respective terms of reference.

Governance Report

continued

The Partnership Board is assisted in carrying out its supervisory and assurance responsibilities by its Committees: the Audit and Risk Committee, the Remuneration Committee and the Chairman's Nominations Committee. The responsibilities of these Committees are described below and their respective terms of reference are available at www.johnlewispartnership.co.uk.

From time to time, the Partnership Board also delegates authority to ad hoc committees to help finalise matters within agreed parameters and consults with the Partnership Council the senior body representing Partner opinion through the democracy.

The Partnership Board has met 10 times during the year ended 26 January 2013 and directors' attendance at those meetings is shown on the table on page 42.

The Chairman

The Chairman of the Trust Company, is also appointed as Chairman of the Partnership and the Partnership Board. The Partnership Board delegates management of the Partnership's business to the Chairman. The Chairman's role and responsibilities are defined in the Constitution. He is accountable to the Partnership Council and the Partnership Board.

As Executive Chairman, Charlie Mayfield fulfills the role defined in the Constitution. It differs from the separation of the roles of Chairman and Chief Executive as described in Code Provision A.2.1. He is the senior executive in the Partnership and is ultimately responsible for its strategy and commercial performance, whilst ensuring that the Partnership develops its distinctive character and vitality.

The Chairman is accountable to the Partnership Board, in accordance with the Companies Act, and to the Partnership Council, in accordance with the Partnership's governance model. The Partnership Council has a constitutional role to hold the Chairman to account in respect of running the business in line with Partnership principles and in particular Principle 1, as detailed above. The Chairman attended four Partnership Council meetings during the year and one conference, to explain the Partnership's performance and strategy. If the Council judges that the

Chairman has failed to fulfil, or is no longer a suitable person to fulfil the responsibilities of his office, it may propose a Resolution upon the Constitution to dismiss the Chairman.

The Chairman further delegates authority for the management and development of the core businesses to the Divisional Managing Directors. There are clear divisions of responsibilities and delegated authorities within the Partnership and a distinction between the executive and the assurance processes conducted by the Partnership Board and the Partnership Council.

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 as an informal committee to develop strategy, business plans and budgets and to review major operational and management issues, financial results and forecasts as well as plans for investment and 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 senior leadership group of Partners.

The Partnership Board

The Partnership Board meets regularly and 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 the 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 maintenance and development of the Partnership's business, and hence the rate at which Partnership Bonus may be paid. It also monitors performance, including that of the divisions, against business plans, budgets and forecasts.

The Partnership's values and standards are defined by the Constitution and all directors must act in what they consider to be the best interests of the Company, consistent with their statutory duties and the Constitution. The

Partners' Counsellor seeks to ensure that the Partnership's values and standards are at the forefront of deliberations and decisions made by the Partnership Board.

The directors of the Company who have served during the year, and at the date of this report, are listed on page 32. Details of directors' interests in the Deferred Ordinary Shares are set out in the Directors' Report on page 33 and directors' remuneration, service agreements and notice periods are set out in the Remuneration Report.

The Partnership Board comprises the Chairman and the following members:

Deputy Chairman

David Barclay 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 independent non-executive director of the Company.

Executive directors

The executive directors at the date of this report are Tracey Killen, Patrick Lewis, 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, amongst other things, the make-up of the Partnership Board, its balance of skills, experience and diversity.

Partners' Counsellor

The Partners' Counsellor is appointed as a director of the Partnership Board in accordance with the Constitution. Patrick Lewis served as the Partners' Counsellor until 1 October 2012 and Jane Burgess was appointed on 11 October 2012. 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 and is responsible for the Registry function, whose Registrars are appointed by the Partners' Counsellor. The Registrars work in all Partnership operations to ensure that the Partnership's principles and policies are applied consistently and to act as a channel of communication between Partners and the Partners' Counsellor.

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 develop a balanced understanding of the issues and concerns of Partners.

Elected Directors

The Constitution provides that the Partnership Council elects five Partners to the Partnership Board. The elected directors at the date of this report are Steve Gardiner, Kim Lowe, Kevin Payne, Noel Saunders and Dan Smith.

Elected directors are not appointed or selected by the Partnership Board, they are appointed in accordance with the democratic process, organised by the Partnership Council, that reflects the co-ownership nature of the Partnership. Elections took place during 2012 and Kim Lowe was re-elected and four newly elected directors were appointed to the Partnership Board.

Elected directors are neither executive nor non-executive directors. They have no executive responsibilities relating to the work of the Partnership Board, nor do they hold directors' service contracts. They are not independent non-executive directors as strictly defined in Code Provision B.1.1. However, as Partners and co-owners they are expected to test decisions and proposals by the executive directors from that perspective. Whilst elected directors must act in accordance with their statutory duties in the best interests of the Company, they are also, through their Constitutional position, mindful of the Partners' best interests as a whole.

The Partnership Board determines that the elected directors are independent for the purpose of considering matters reserved to the Board for decision notwithstanding that they are Partners.

The elected directors have met together without the executive directors, led by the Partners' Counsellor.

Non-executive directors

The non-executive directors at the date of this report are David Barclay (Deputy Chairman), David Anderson and Baroness Hogg.

Non-executive directors are appointed for an initial term of three years, which may be extended subject to satisfaction on the part of both the director concerned and the

Governance Report

continued

Partnership Board. Together they bring external independent and objective judgment to the Partnership Board.

David Anderson and Baroness Hogg were appointed for an initial term of three years and David Barclay has served for six years and is in his third term of office. 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 have met together without the executive directors as required by the Code, led by the Deputy Chairman, as have the elected directors.

The Partnership Board reviews the interests of all non-executive directors annually and has determined that David Barclay, David Anderson and Baroness Hogg continue to be independent of the management of the Partnership and have no cross-directorships or significant links which adversely interfere with the exercise of their independent judgment.

Non-executive directors are not Partners and are not afforded voting rights in relation to Board decisions. 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

Code Provision A.4.1 recommends a single individual be appointed as senior non-executive director. The role of senior non-executive director for the Partnership Board is split between the Deputy Chairman, David Barclay, and the Partners' Counsellor, Jane Burgess. The Deputy Chairman acts as a sounding board for the Chairman, an intermediary for the other directors where necessary and leads the Chairman's performance evaluation as required by Code Provisions A.4.1, A.4.2 and B.6.3. The Partners' Counsellor holds a unique position under the terms of the Constitution. She has specific duties in relation to Partners' interests and must be alert to anything which might reasonably impact Partners. The relationship between the Partners' Counsellor and Partners goes beyond the senior independent director role contemplated by the Code in relation to shareholders.

Board independence

The Partnership Board has determined that the unique composition of the Board provides a balanced board, appropriate to the Partnership's unique Constitution, which is able to provide an independent and objective review of executive decisions, as required by Code Provision B.1.2. Together elected directors and non-executive directors form a majority of the Partnership Board.

Retirement by rotation

The Company does not operate a system of retirement by rotation or annual election by shareholders, as required by Code Provision B.7.1. 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 has maintained procedures whereby potential conflicts of interest are reviewed regularly. All directors are required to declare pertinent interests and absent themselves from any discussion that might give rise to a conflict of interest.

At no time during the year did any director hold a material interest in any contract of significance with the Company or any of its subsidiary undertakings, other than a third-party indemnity between each director and the Company, service contracts between each executive director and the Company, and terms and conditions of employment between each elected director and the Company.

The Partnership Board has considered the other appointments held by directors, details of which are contained in their biographies on pages 30 to 31. The Partnership Board considers that the Chairman and each director is 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 Company has purchased and maintained throughout the year Directors' and Officers liability insurance in respect of itself and its directors.

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 respect of their duties. The Company 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.

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, ensuring good information flows, facilitating induction programmes for directors and assisting with directors' continuing professional development.

Relations with Partners

The Main Principle of the Code provides 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. 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 such meetings and through the Gazette the executive directors are able to put forward the Company's objectives and discuss performance against those objectives. Non-executive and elected directors also attend Partnership Council meetings and such information sharing opportunities, as described above, enable all directors to develop an understanding of the views of Partners. The AGM of the Company is held and conducted in accordance with the Companies Act and the Company's Articles of Association. Voting is conducted by way of a show of hands, unless a poll is demanded. All the directors attended the AGM in 2012 and all directors are due to attend the AGM to be held on 6 June 2013.

Audit and Risk Committee

Full details of the composition, role and work performed by the Audit and Risk Committee is set out in the Audit and Risk Committee Report on pages 44 to 46.

Remuneration Committee

Full details of the composition and work performed by the Remuneration Committee and remuneration in the Partnership is set out in the Remuneration Report on pages 47 to 50.

The Remuneration Committee operates in accordance with its terms of reference which are available at www.johnlewispartnership.co.uk. The Committee's Terms of Reference, do not comply with part of Code Provision D.2.2 in that the Committee does not have delegated responsibility for setting the Chairman's remuneration. Instead it submits a recommendation on the Chairman's pay to the Partnership Board and the decision is reserved under the Constitution to the Partnership Board. In addition, in accordance with Code Provision D.2.3, the Partnership Board has delegated to the Committee responsibility to determine non-executive director remuneration, which is considered and determined by the elected directors of the Committee. The Committee's Terms of Reference ensure that no member of the Committee takes part in any deliberations affecting their own remuneration.

Chairman's Nominations Committee

The Chairman's Nominations Committee is chaired by Charlie Mayfield and comprises David Anderson, David Barclay, Steve Gardiner and Noel Saunders. The elected directors on the Committee are chosen by the elected directors of the Partnership Board and in consultation with the Chairman. Johnny Aisher and Kim Lowe served as members until May 2012 and Steve Gardiner and Noel Saunders joined the Committee in May 2012.

The Partnership Board considers that a majority of members of the Committee are independent for the purpose of reviewing nomination matters. As Chairman of the Committee, Charlie Mayfield is not independent but as Chairman of the Partnership, he has a duty under the Constitution to coordinate executive responsibilities in the Partnership.

Governance Report

continued

Three members constitute a quorum and must include the Chairman of the Committee and at least one non-executive director.

There have been four meetings during the year and directors' attendance at meetings is shown in the table on page 42.

Role of the Chairman's Nominations Committee

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

- evaluates and considers the mix of skills, experience and diversity on the Partnership Board;
- oversees the process for executive director and non-executive director board appointments and makes recommendations to the Partnership Board;
- oversees the process of nominating and appointing the Chairman and Deputy Chairman in accordance with the Articles of Association of the Trustee;
- oversees the Chairman's proposals for the succession planning process for executive directors and senior management;
- regularly reviews and agrees with each director their training and development needs; and
- reviews and arranges ongoing training and development requirements for the Partnership Board, both individually and as a whole.

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

Work performed by the Chairman's Nominations Committee

The Committee is satisfied that the mix of skills, experience and diversity on the Partnership Board are appropriate to achieve the Partnership's purpose and in particular Principle 1. The Committee has overseen a busy year, including the recruitment and appointment of Helen Weir as Group Finance Director, the appointment of Jane Burgess as Partners' Counsellor and the change in Patrick Lewis' responsibilities from Partners' Counsellor to Managing Director, Partnership

Services. Helen Weir was recruited externally with the support of an external executive research consultancy. No open advertising or external search consultancy were required to fulfil the roles of Partners' Counsellor or Managing Director, Partnership Services.

Six new directors have joined the Partnership Board and one new external member has been appointed to the Audit and Risk Committee. The Committee has arranged full, formal and tailored inductions for these seven individuals including opportunities to meet with relevant Partners. The newly elected directors have received additional support and training to fulfil their duties in their board roles and ensure they are aware of their statutory responsibilities. Appropriate time is set aside during the year for training on relevant topics concerning the functioning of the Partnership Board and the obligations of directors. Training topics this year have included directors' duties, corporate governance and pensions. External training is arranged as appropriate.

Director attendance

Director attendance statistics for the year ended 26 January 2013 were:

Name	Board	Audit & Risk	Remuneration	Nomination
Maximum Nos of Meetings	10	5	7	4
Charlie Mayfield	10			4
David Barclay [#]	10	5	5	4
Johnny Aisher [^]	2	2		
David Anderson	9	5		4
Anne Buckley [^]	2		2	
Jane Burgess ^{**}	4	1		
Marisa Cassoni [^]	4			
Simon Fowler [^]	2	2		
Steve Gardiner [†]	8		4	4
Baroness Hogg [#]	8	5	4	
Tracey Killen	10			
Patrick Lewis ^{***}	10	4		
Kim Lowe [^]	10		4	
Kevin Payne [†]	8	3		
Mark Price	10			
Tony Probert [^]	2		2	
Noel Saunders [†]	8			4
Dan Smith [†]	8	3		
Andy Street	10			
Helen Weir [*]	5			

In addition to the Partnership Board meetings above, there were four board meetings which 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.

√ Johnny Aisher, Anne Buckley, Marisa Cassoni, Simon Fowler and Tony Probert retired from the Partnership Board during the year under review and so were only eligible to attend Board and Committee meetings up to the date of their resignation

*Helen Weir joined the Partnership Board in June 2012, so was only eligible to attend six board meetings

**Jane Burgess joined the Partnership Board and the Audit and Risk Committee in October 2012, so was only eligible to attend four board meetings and one Audit and Risk Committee meeting

***Patrick Lewis resigned his position as Partners' Counsellor and his membership of the Audit and Risk Committee, so was only eligible to attend four Audit and Risk Committee meetings

^Kim Lowe joined the Remuneration Committee in May 2012, so was only eligible to attend four

Remuneration Committee meetings. From 29 January 2012 to April 2012, Kim was a member of the Chairman's Nominations Committee, but no meetings were held during this period

‡Steve Gardiner, Kevin Payne, Noel Saunders and Dan Smith joined the Partnership Board in May 2012, so were only eligible to attend eight board meetings; Steve Gardiner was only eligible to attend four Remuneration Committee meetings; Kevin Payne and Dan Smith were only eligible to attend three Audit and Risk Committee meetings

#Under the terms of reference for 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 five Remuneration Committee meetings

On behalf of the Partnership Board

Charlie Mayfield

Executive Chairman and
Chairman of the Chairman's Nominations
Committee

Audit and Risk Committee Report



David Anderson
Non-Executive Director and
Chairman of the Audit and
Risk Committee

Composition

David Anderson was appointed as Committee Chairman on 1 August 2012, following Jeff Hewitt's retirement on 31 July 2012 and has been a member of the Committee throughout the year. The Committee also comprises David Barclay, Jane Burgess, Margaret Ewing, Baroness Hogg, Kevin Payne and Dan Smith.

The elected directors on the Committee are chosen by the elected directors of the Partnership Board in consultation with the Chairman. Johnny Aisher and Simon Fowler served as members until May 2012 and Kevin Payne and Dan Smith joined the Committee in May 2012.

The Committee's terms of reference require the Partners' Counsellor to be a member of the Committee. The change in Partners' Counsellor during the year, as noted on page 33, meant that Patrick Lewis resigned as a member of the Committee and was succeeded by Jane Burgess.

Following Jeff Hewitt's retirement as Chairman and member of the Committee on 31 July 2012, there followed a period during which the Company was actively seeking to recruit a new member of the Committee with recent and relevant financial experience. Margaret Ewing joined the Committee on 27 January 2013 as an external Committee member. She is a Fellow of the Institute of Chartered Accountants England and Wales and a Fellow of The Securities Institute and has recent and relevant financial experience in compliance with Code Provision 3.1. Margaret Ewing is regarded by the Partnership Board as independent of management and free from any business or other relationship that could materially interfere with the exercise of her independent and objective judgement.

In accordance with the Code Provision C.3.1, the Committee comprises three non-executive directors, as well as an independent external member. In addition, the Committee members include three elected directors and the Partners' Counsellor, who are independent of the executive and are therefore independent for the purpose of reviewing Audit and Risk Committee matters.

Three members of the Committee, including at least one elected director and one non-executive director constitute a quorum.

An induction programme is provided for new Committee members, tailored for individual

directors and the external member. On-going training enables all of the Committee members to carry out their duties. The induction programme covers the role of the Committee and an overview of the Partnership's governance mechanisms, including the main business operations and financial risks, together with further training for elected directors in relation to financial reporting. Each director's experience and qualifications are noted on page 30 to 31.

Meetings

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.

The external auditors attend the meetings of the Committee, as does the Group Finance Director, the Director, Finance, the Group Financial Controller, the Head of Internal Audit and Risk Management, and other executives, as appropriate. The Chairman may ask any attendee to leave the meeting. 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.

There have been five Audit and Risk Committee meetings during the year and Directors' attendance at those meetings is shown in the table on page 42.

Role of the Committee

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

The Committee's principal duties are assisting the Partnership Board in the discharge of its responsibilities in respect of:

- monitoring the integrity of the Company's financial statements and announcements relating to financial performance and reviewing significant financial reporting judgements contained in them;
- reviewing and monitoring the effectiveness of the Partnership's financial and non-financial internal controls and risk management systems;

- monitoring the effectiveness of the group's internal audit function;
- making recommendations to the Partnership Board relating to the appointment, reappointment and removal of the external auditors following an annual evaluation of their performance;
- approving the remuneration and terms of engagement of the external auditors;
- reviewing the scope and results of the external audit during the year; and
- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process, taking into account professional and regulatory requirements.

External auditors

Re-appointment of auditors

As part of the approval process for the reappointment of the external auditors, the Committee is responsible for the evaluation of the auditors' performance. The members of the Committee and senior finance executives were provided with an opportunity, through an evaluation questionnaire, to comment on the effectiveness of the external audit process. The outcome of the evaluation was reviewed by the Committee which concluded the effectiveness of the external auditors and the audit process was satisfactory.

Audit 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 26 January 2013 is the second year of the current audit engagement partner's appointment. The Committee has adopted a policy in line with the Code relating to tendering external audit contracts at least every ten years. In determining the timing of the audit tender, the Committee will consider the date of rotation of the audit engagement partner and other factors.

Auditors' independence and objectivity

The Committee keeps under review 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 judgment 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. During the year, the Committee has agreed a new policy under which the external auditors may only perform non-audit services in exceptional circumstances. Certain categories of non-audit services are prohibited and there is a specific approval process for any work that is proposed to be undertaken by the external auditor.

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. The Committee reviews the nature of all non-audit engagements with the external auditor and the related costs. It also reviews the assurance provided by them regarding their independence and objectivity. Details of the amounts paid to the external auditors are given in note 5 to the accounts. Having undertaken a review of the non-audit services provided during the year, the Committee is satisfied that these services did not prejudice the external auditors' independence.

Internal audit

The Head of Internal Audit and Risk Management reports functionally to the Committee and operationally to the Group Finance Director. The Committee approves the Internal Audit work programme for each year. At each meeting, the Committee receives a report from the Head of Internal Audit and Risk Management on the work undertaken by internal audit and management responses to proposals made in the audit reports issued by the function.

During the year the Committee reviewed the resourcing, qualifications and experience of the internal audit team and agreed to strengthen the information technology resources within Internal Audit, reflecting the ongoing information technology change programmes.

Internal control and risk management

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. 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 through the business planning process.

Audit and Risk Committee Report

continued

In recognition of that responsibility, the directors set policies and seek regular assurance that the systems of internal control are operating effectively. 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. The Committee has recently reviewed the effectiveness of the Partnership's systems of internal control for the accounting year covered by this report.

The Committee monitors the development of policies and systems for identifying, evaluating and managing significant risk throughout the Group. It also monitors management's actions to manage those risks and reports regularly to the Partnership Board. The John Lewis, Waitrose, Partnership Services and Corporate divisions, include risk assessments as part of their business plans. The Partnership whistleblowing procedure is monitored by the Committee and allows Partners to raise, in confidence, any concerns about possible improprieties including matters of financial reporting, risk issues, fraud, internal controls and auditing issues.

Work performed by the Committee

Apart from performing the routine tasks laid out in the Committee's terms of reference, and the activities summarised above, the Committee has:

- reviewed the September 2012 half yearly report and the January 2013 annual report and accounts;
- reviewed and agreed the scope of the audit work to be undertaken by the internal and external auditors;
- agreed the fees to be paid to the external auditors for their audit of the January 2013 financial statements;
- overseen the strengthening and embedding of risk management procedures, as part of a continuous improvement programme. This follows a robust compliance risk identification, assessment and reporting analysis of significant risks faced by the Partnership;
- reviewed the measures for mitigating risks through appropriate internal controls and

assurance mechanisms, and for developing risk analysis processes and methodology across the business;

- overseeing the 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;
- reviewed and followed up with management on operational risks within the Partnership, in particular those relating to data security, business continuity and disaster recovery, the Olympic Games, profit protection, food safety, health and safety and various external threats;
- reviewed 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 29 May 2013; and
- reviewed the output from whistleblowing arrangements.

The significant issues that the Committee considered and discussed in relation to the financial statements included: assumptions in relation to the retirement benefit obligations; provisions in relation to long leave, service guarantee costs, customer refunds, insurance claims, reorganisation costs and property related costs; liability for unredeemed gift vouchers; and impairment of assets. The Committee considers that the financial statements present these items on a fair and balanced basis.

Committee evaluation

Members of the Committee and regular attendees of the Committee's meetings were provided with an opportunity, through an evaluation questionnaire, to comment on the effectiveness of the Committee. The outcome of the evaluation was reviewed by the Committee and showed a general consensus that the Committee was performing well.

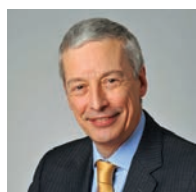
As a result of its work during the year, the Committee has concluded that it has acted in accordance with its terms of reference and has reviewed the independence and objectivity of the external auditors.

On behalf of the Audit and Risk Committee

David Anderson

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

Remuneration Report



David Barclay
Chairman,
Remuneration Committee

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' emoluments section on pages 48 and 49 is cross referenced from note 8 of the financial statements and forms part of the audited financial statements.

Remuneration in the Partnership

The Partnership's remuneration policy is based on Rule 61 (which was amended during the year with the consent of the Partnership Council) and Rule 63 of the Constitution:

"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 61)

and

"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." (Rule 63)

The Partnership Board each year determines the level of Partnership Bonus, which is distributed as the same percentage of gross pay to all Partners. In exceptional circumstances, outstanding performance is recognised and discretionary awards of up to 10% of salary may be paid. There are no annual incentive bonuses related to individual or company performance.

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.

Senior reward policy

In applying the Partnership's remuneration policy to the Chairman, executive directors and the Partners' Counsellor, the Remuneration Committee takes into account:

- individual performance, including the achievement of specified personal objectives and the behaviours demonstrated in achieving those objectives;
- the performance of the function or division for which the individual 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, set out above.

In making pay comparisons with the market, the Remuneration Committee considers and reviews each individual's overall package for the year, that is the sum of base pay, pension arrangements and other benefits. The overall package is benchmarked against upper quartile total cash in the external market, including salary, target annual bonus, benefits and pension value, but excluding the value of long term incentives, share and share option schemes, which are widely available in the market at these levels.

In relation to Rule 63, the pay of the highest paid Partner, who was the Chairman, was £825,000, which was 60 times the average basic pay of non-management Partners calculated on an hourly basis.

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

Remuneration Report

continued

It values defined benefit pension benefits on the “buy-out” basis, that is the cost of obtaining similar benefits in the market. On this basis, the total reward excluding Partnership Bonus of the highest paid Partner in the year ended 26 January 2013 was £1,338,000, which was 67 times the average total reward, excluding Partnership Bonus, of non-management Partners with three or more years’ service.

The Remuneration Committee

Composition

The Remuneration Committee consists of at least four members including two non-executive directors and two elected directors. The elected members of the Committee are chosen by the elected directors of the Partnership Board in consultation with the Chairman. The non-executive member and the Chairman of the Committee are appointed by the Partnership Board. A non-executive director and an elected director constitute a quorum, apart from when considering non-executive directors’ remuneration, when the quorum is two elected directors.

The Committee is chaired by David Barclay and comprises Steve Gardiner, Baroness Hogg and Kim Lowe. Anne Buckley and Tony Probert served as members until May 2012. David Barclay and Baroness Hogg served as members throughout the year and Steve Gardiner and Kim Lowe joined the Committee in May 2012.

The Board considers that all members of the Committee are independent for the purpose of reviewing remuneration matters. There have been seven meetings during the year, and directors’ attendance at meetings is shown in the table on page 42.

Work of the Committee

During the year the Committee has:

- submitted a recommendation on the Chairman’s pay to the Partnership Board;
- determined the remuneration of the executive directors based on appropriate market data supplied by the independent remuneration consultant and the recommendations of the Chairman;
- considered, as and when required in the course of the year, remuneration proposals for new appointments which fall within its terms of reference;
- reviewed senior management reward policy;

- reviewed the operation of Rule 63 and the application of its underlying principle to total reward; and
- reviewed its own terms of reference.

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

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

Advice to the Remuneration Committee

The Committee is supported by Tracey Killen, Director of Personnel, and Andrew Clark, Head of Reward.

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

Directors’ emoluments (audited)

The remuneration table below shows the number of directors and their remuneration, including both Partnership Bonus and the pension supplements described below, for all directors except the elected directors:

	2013	2012
£1 - £50,000	1	2
£50,001 - £100,000	3*	1
£300,001 - £350,000	1*	–
£600,001 - £650,000	–	1
£650,001 - £700,000	–	1
£700,001 - £750,000	3*	–
£1,000,001 - £1,050,000	–	1
£1,100,001 - £1,150,000	1	2
£1,200,001 - £1,250,000	1	–
£1,400,001 - £1,450,000	–	1
£1,450,001 - £1,500,000	1	–

* includes a director who did not serve for the full year. Emoluments are only included for their time on the Partnership Board.

Elected directors are not remunerated for their service on the Partnership Board as their remuneration is determined by their respective roles and responsibilities in the Partnership. Accordingly, their remuneration is not considered by the Committee or the Partnership Board.

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.

Non-executive directors receive fixed annual fees, which are reviewed periodically and set at levels which 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 emoluments or benefits from the Partnership.

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.

Highest paid director

The total emoluments for the year ended 26 January 2013 and 28 January 2012 of the Chairman, who was also the highest paid director, were £1,478,000 (2012: £1,447,000), comprising pay of £825,000 (2012: £821,000), Partnership Bonus of £140,000 (2012: £115,000), pension supplement in lieu of further defined pension accrual of £495,000 (2012: £493,000) and benefits with a cash value of £18,000 (2012: £18,000).

Total emoluments paid to the Chairman, executive directors, Partners' Counsellor and non-executive directors, excluding elected directors, were £6,590,000 (2012: £6,258,000).

Pension arrangements

During the year, the Chairman, executive directors and Partners' Counsellor each received a monthly pension supplement in lieu of further defined benefit pension accrual for current service and, for part of the year, one director accrued further defined benefit pension. These supplements are cash payments which 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.

During the year ended 26 January 2013, the total pension supplement paid to the

Chairman, executive directors and Partners' Counsellor was £2,066,000 (2012: £2,042,000).

The Chairman, executive directors and Partners' Counsellor have all ceased to accrue further pension benefits in the Partnership's pension schemes including the senior pension scheme. Their accrued pensions increase in line with either price inflation or future pay increases, depending on their individual arrangements. Where there are any accrued defined benefit pensions remaining on an unfunded basis, the Partnership has made provision for the associated liability.

The 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 served on the Partnership Board during any part of the year, were as follows:

	2013	2012
£50,001 - £100,000	1	–
£100,001 - £150,000	2	2
£150,001 - £200,000	1	1
£200,001 - £250,000	2	2
Total	6	5

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 £930,000 per annum for six individuals (2012: £851,000 for five individuals). 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 £34,000 per annum for four individuals (2012: £22,000 for three 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 £135,000, including temporary pensions.

The Chairman's aggregate defined benefit pension entitlement from the age of 60 accrued at the end of the year was £224,000 per annum (2012: £223,000 per annum). There was no increase in the accrued entitlement above consumer price inflation during the year.

Remuneration Report

continued

Contractual notice periods

Contracts of employment for the Chairman and the executive directors provide for a notice period of between six months and one year. Contracts for all other directors provide for between three and six months' notice. No contract contains a provision regarding early termination compensation.

Effectiveness and evaluation

As a result of its work during the year, the Committee has concluded that it has acted in accordance with its terms of reference. As already noted in the Governance Report, the Committee proposes to undertake a detailed review during 2013/14 of its terms of reference as part of the Committee evaluation process and any recommended changes will be considered by the Committee and referred to the Partnership Board for approval.

On behalf of the Remuneration Committee

David Barclay

Deputy Chairman, Non-Executive Director and
Chairman of the Remuneration Committee



Financials

Consolidated income statement

for the year ended 26 January 2013

Notes		Year to 26 January 2013 £m	Year to 28 January 2012 £m
2	Gross sales	9,541.3	8,729.5
2	Revenue	8,465.5	7,758.6
	Cost of sales	(5,640.1)	(5,166.5)
	Gross profit	2,825.4	2,592.1
	Other operating income	64.1	59.6
3	Operating expenses	(2,437.1)	(2,258.4)
2	Operating profit	452.4	393.3
4	Finance costs	(82.9)	(72.3)
4	Finance income	40.1	32.8
	Profit before Partnership Bonus and tax	409.6	353.8
	Partnership Bonus	(210.8)	(165.2)
5	Profit before tax	198.8	188.6
6	Taxation	(47.1)	(52.4)
	Profit for the year	151.7	136.2

Consolidated statement of comprehensive expense

for the year ended 26 January 2013

Notes		Year to 26 January 2013 £m	Year to 28 January 2012 £m
	Profit for the year	151.7	136.2
	Other comprehensive expense:		
24	Actuarial losses on defined benefit pension schemes	(326.3)	(254.8)
6	Movement in deferred tax on pension schemes	28.9	48.4
6	Movement in current tax on pension schemes	34.6	6.5
	Net gain on cash flow hedges	3.7	0.2
	Total comprehensive expense for the year	(107.4)	(63.5)

Consolidated balance sheet

as at 26 January 2013

Notes	2013 £m	2012 £m
Non-current assets		
10 Intangible assets	213.7	164.3
11 Property, plant and equipment	3,820.9	3,798.4
14 Trade and other receivables*	55.8	51.3
21 Deferred tax assets	25.6	–
	4,116.0	4,014.0
Current assets		
13 Inventories	514.0	465.2
14 Trade and other receivables*	192.1	213.3
Current tax receivable	2.9	–
23 Derivative financial instruments	4.2	2.7
15 Cash and cash equivalents	534.4	550.8
	1,247.6	1,232.0
Total assets	5,363.6	5,246.0
Current liabilities		
17 Borrowings and overdrafts	(156.3)	(302.1)
18 Trade and other payables	(1,364.0)	(1,134.8)
Current tax payable	–	(9.3)
19 Finance lease liabilities	(3.0)	(0.6)
20 Provisions	(110.0)	(90.6)
23 Derivative financial instruments	(0.6)	(2.5)
	(1,633.9)	(1,539.9)
Non-current liabilities		
17 Borrowings	(714.7)	(799.2)
18 Trade and other payables	(119.3)	(85.8)
19 Finance lease liabilities	(35.9)	(26.4)
20 Provisions	(136.2)	(115.6)
21 Deferred tax liabilities	–	(32.1)
24 Retirement benefit obligations	(822.1)	(638.1)
	(1,828.2)	(1,697.2)
Total liabilities	(3,462.1)	(3,237.1)
Net assets	1,901.5	2,008.9
Equity		
26 Share capital	0.6	0.6
Other reserves	10.3	6.6
Retained earnings	1,890.6	2,001.7
Total equity	1,901.5	2,008.9

*The comparatives have been re-presented in respect of current and non-current trade and other receivables as explained in note 1.

The financial statements on pages 52 to 90 were approved by the Board of Directors on 22 April 2013 and signed on its behalf by

Charlie Mayfield

Helen Weir

Directors

John Lewis Partnership plc

Registered number: 00238937

Balance sheet of the company

as at 26 January 2013

Notes	2013 £m	2012 £m
Non-current assets		
12 Investments	102.3	87.4
Total assets	102.3	87.4
Current liabilities		
18 Trade and other payables	(2.0)	(1.8)
Non-current liabilities		
17 Borrowings	(88.9)	(74.4)
Total liabilities	(90.9)	(76.2)
Net assets	11.4	11.2
Equity		
26 Share capital	0.6	0.6
Other reserves	5.0	5.0
Retained earnings	5.8	5.6
Total equity	11.4	11.2

The financial statements on pages 52 to 90 were approved by the Board of Directors on 22 April 2013 and signed on its behalf by

Charlie Mayfield

Helen Weir

Directors

Consolidated and company statements of changes in equity

for the year ended 26 January 2013

Notes	Consolidated	Share capital £m	Capital redemption reserve £m	Capital reserve £m	Hedging reserve £m	Retained earnings £m	Non- controlling interest £m	Total equity £m
	Balance at 29 January 2011	0.6	5.0	1.4	–	2,065.4	0.4	2,072.8
	Profit for the year	–	–	–	–	136.2	–	136.2
24	Actuarial loss on defined benefit pension schemes	–	–	–	–	(254.8)	–	(254.8)
6	Tax on above items recognised in other comprehensive expense	–	–	–	–	54.9	–	54.9
	Reclassification to borrowings	–	–	–	–	–	(0.4)	(0.4)
	Fair value gains on cash flow hedges	–	–	–	0.4	–	–	0.4
	– Transfers to inventories	–	–	–	(0.2)	–	–	(0.2)
	Balance at 28 January 2012	0.6	5.0	1.4	0.2	2,001.7	–	2,008.9
	Profit for the year	–	–	–	–	151.7	–	151.7
24	Actuarial loss on defined benefit pension schemes	–	–	–	–	(326.3)	–	(326.3)
6	Tax on above items recognised in other comprehensive expense	–	–	–	–	63.5	–	63.5
	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

Retained earnings comprise £1,483.2m (2012: £1,592.2m) of distributable and £407.4m (2012: £409.5m) of non distributable reserves, arising on the revaluation of freehold and long leasehold properties prior to 31 January 2004.

Notes	Company	Share capital £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
	Balance at 29 January 2011	0.6	5.0	5.5	11.1
7	Profit for the year	–	–	0.1	0.1
	Balance at 28 January 2012	0.6	5.0	5.6	11.2
7	Profit for the year	–	–	0.2	0.2
	Balance at 26 January 2013	0.6	5.0	5.8	11.4

Statement of consolidated cash flows

for the year ended 26 January 2013

Notes	Year to 26 January 2013 £m	Year to 28 January 2012 £m
27 Cash generated from operations	979.0	759.1
Net taxation paid	(53.5)	(33.7)
Partnership Bonus paid	(164.3)	(194.5)
Additional contribution to the Pension Scheme	(125.0)	–
Finance costs paid	(4.9)	(2.3)
Net cash generated from operating activities	631.3	528.6
Cash flows from investing activities		
Purchase of property, plant and equipment	(261.5)	(425.7)
Purchase of intangible assets	(96.5)	(88.4)
Proceeds from sale of property, plant and equipment	1.9	11.8
Finance income received	1.9	2.4
Net cash used in investing activities	(354.2)	(499.9)
Cash flows from financing activities		
Finance costs in respect of bonds	(56.8)	(54.7)
Payment of capital element of finance leases	(3.5)	(0.7)
Payments to preference shareholders	(0.2)	(0.2)
Payments to SIP shareholders	(1.7)	(1.3)
Cash inflow from borrowings	14.5	71.5
Cash outflow from borrowings	(242.0)	–
Net cash (used in)/generated from financing activities	(289.7)	14.6
(Decrease)/increase in net cash and cash equivalents	(12.6)	43.3
Net cash and cash equivalents at beginning of year	490.7	447.4
Net cash and cash equivalents at end of year	478.1	490.7
15 Net cash and cash equivalents comprise:		
Cash	120.0	83.6
Short-term investments	414.4	467.2
Bank overdraft	(56.3)	(60.1)
	478.1	490.7

There are no cash movements for the parent company and, accordingly, no cash flow statement is presented.

Notes to the accounts

1 Accounting policies

Accounting convention and basis of consolidation

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

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards 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 comparatives have been re-presented in respect of the split of receivables on credit sale agreements for the Partnership's car finance scheme for Partners between current trade and other receivables and non-current trade and other receivables, to be on a consistent basis to the current year end. For the year ended 28 January 2012 £9.5m has been reported in non-current trade and other receivables. This was previously reported in current trade and other receivables.

These policies have been consistently applied to all the years presented unless otherwise stated.

The following standards, amendments and interpretations were adopted by the group from 29 January 2012 and have not had a significant impact on the group's profit for the year, equity or disclosures:

- Amendment to IAS 12 'Income taxes' on deferred tax.

There are a number of new accounting standards and amendments to existing standards that have been published and are applicable for the group's accounting periods beginning on or after 27 January 2013 or later periods, and which the group has not adopted early. These are as follows:

- IFRS 10 'Consolidated financial statements';
- IFRS 11 'Joint arrangements';
- IFRS 12 'Disclosure of interests in other entities';
- IFRS 13 'Fair value measurement';
- Amendment to IFRS 7 'Financial instruments: Disclosures' on derecognition';
- Amendment to IAS 1 'Presentation of financial statements';
- Amendment to IAS 19 'Employee Benefits'; and
- Amendment to IAS 32 'Financial instruments: presentation'.

Except for the Amendment to IAS 19, these are not expected to have a material impact on the group's profit or equity for future years, but may affect disclosures. The Amendment to IAS 19 will replace the expected return on pension scheme assets and the interest cost on pension scheme liabilities with a net interest expense or income calculated by applying the liability discount rate to the net defined benefit asset or liability. This will result in an increase in finance costs but will not impact total equity. For 2013, had the Amendment been applied, the net finance income recognised on defined benefit retirement schemes of £38.2m would have been a net finance cost of £31.6m.

Notes to the accounts

continued

1 Accounting policies (continued)

Gross sales and revenue

Gross sales are the amounts receivable by the group for goods and services supplied to customers, net of discounts but including sale or return sales and VAT. Revenue is gross sales excluding sale or return sales and VAT.

Sales of goods and services are recognised as revenue when the goods have been delivered or the services rendered. Revenue in respect of 'sale or return sales' which represents concession income is stated at the value of the margin that the group receives on the transaction. Revenue is also net of Partner discounts and VAT. Revenue is recognised in respect of sales under bill and hold arrangements when the goods are segregated for the customer's benefit at their request, and made available for delivery. Sales of gift vouchers are treated as future liabilities, and revenue is recognised when the gift vouchers are redeemed against a later transaction. Certain companies within the group sell products with a right of return, and experience is used to estimate and provide for the value of such returns at the time of sale.

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

Inventory valuation

Inventory is stated at the lower of cost, which is computed on the basis of average unit cost, and net realisable value. Inventory excludes merchandise purchased by the group on a sale or return basis, where the group does not have the risks and rewards of ownership.

Employee benefits

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

The expected return on assets of funded defined benefit pension plans and the imputed interest on pension plan liabilities are included in net finance costs.

Differences between the actual and expected return on assets, changes in the retirement benefit obligation due to experience and changes in actuarial assumptions are included as actuarial gains or losses in the consolidated statement of comprehensive expense in full in the period in which they arise.

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

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

The group has a scheme to provide up to six months paid leave after 25 years' service (long leave). The costs of providing the benefits under the scheme is determined actuarially. The current service cost is included within operating profit in the consolidated income statement. The financing elements of long leave are included in finance costs in the consolidated income statement.

Property valuation

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

Other assets are held at cost.

Depreciation

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

Freehold and long leasehold buildings – 2% to 4%

Other leaseholds – over the shorter of the useful economic life and the remaining period of the lease

Building fixtures – 2.5% to 10%

Fixtures and fittings (including vehicles and information technology equipment) – 10% to 33%

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

Leased assets

Assets used by the group which have been funded through finance leases on terms that transfer to the group substantially all the risks and rewards of ownership are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The interest element of finance lease rentals is charged to the income statement. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

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

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

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

Taxation

The charge for corporation tax is based on the results for the year as 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.

Notes to the accounts

continued

1 Accounting policies (continued)

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.

Financial instruments

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

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

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

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

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.

Loan arrangement costs 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.

Insurance

The group's captive insurance company, JLP Insurance Limited, provides reinsurance of the group's employer's, public and vehicle third party liability insurances, and of the group's healthcare insurance cover. It also insures ServicePlan Limited, and reinsures Landmark Insurance Company Limited, third party providers of extended warranty products to customers of John Lewis. For the liability insurances, the results of each underwriting year are estimated at the year end using independent actuarial assessments, when any profits or losses arising are recognised. Other classes are also accounted for on an annual basis, with unearned premiums attributed to unexpired periods of insurance at the year end.

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. 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 sell and value in use. Value in use calculations are performed using cash flow projections, discounted at a pre-tax rate which reflects the asset specific risks and the time value of money.

Provisions

Provisions are recognised when the group has an obligation in respect of a past event, it is more likely than not that payment (or a non cash settlement) will be required to settle the obligation and where the amount can be reliably estimated. Provisions are discounted when the time value of money is considered material.

Partnership Bonus

Partnership Bonus, determined in relation to the results for the previous financial year, is paid to Partners each March. No liability is recorded for Partnership Bonus at the half year as the majority of the group's profit is earned in the second half year and, until the annual profit is known, it is not possible to make an estimate of the liability. A liability for this bonus is included in the year end accounts, with the amount confirmed by the Partnership Board shortly after the year end.

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.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with 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.

Net debt

Net debt incorporates the group's borrowings, bank overdrafts, fair value of derivatives and obligations under finance leases, less cash and cash equivalents.

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.

Investments

Investments are valued at cost, less allowances for impairment. Impairment reviews are performed annually.

Trade payables

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

Notes to the accounts

continued

1 Accounting policies (continued)

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:

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, inflation rates and expected long-term rates of return on assets. Details of assumptions are given in note 24.

Provisions and liabilities

Provisions and liabilities recognised at the balance sheet date are detailed in notes 18 and 20 and include amounts for long leave, unredeemed gift vouchers, 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.

Impairment

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

2 Segmental reporting

In accordance with IFRS 8 'Operating Segments', an operating segment is defined as a business activity whose operating results are reviewed by the chief operating decision maker ('CODM') and for which discrete information is available. The group's CODM is the Partnership Board.

The group's operating segments have been identified as John Lewis, Waitrose and Corporate and other. Corporate and other principally includes corporate overheads, transformation costs and Partnership Services. The operating profit of each segment is reported after charging relevant corporate and shared service costs based on the business segments' usage of corporate and shared service facilities and services.

2 Segmental reporting (continued)

2013	Waitrose £m	John Lewis £m	Corporate and other £m	Group £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 excluding property profits	292.3	216.7	(56.6)	452.4
Property profits	–	–	–	–
Operating profit	292.3	216.7	(56.6)	452.4
Finance costs	–	–	(82.9)	(82.9)
Finance income	–	–	40.1	40.1
Partnership Bonus	–	–	(210.8)	(210.8)
Profit before tax	292.3	216.7	(310.2)	198.8
Taxation	–	–	(47.1)	(47.1)
Profit after tax	292.3	216.7	(357.3)	151.7
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	4.2	6.3	29.5	40.0

Notes to the accounts

continued

2 Segmental reporting (continued)

2012	Waitrose £m	John Lewis £m	Corporate and other £m	Group £m
Gross sales	5,400.4	3,329.1	–	8,729.5
Adjustment for sale or return sales	–	(120.7)	–	(120.7)
Value added tax	(328.1)	(522.1)	–	(850.2)
Revenue	5,072.3	2,686.3	–	7,758.6
Operating profit excluding property profits	260.6	156.4	(25.2)	391.8
Property profits	–	1.5	–	1.5
Operating profit	260.6	157.9	(25.2)	393.3
Finance costs	–	–	(72.3)	(72.3)
Finance income	–	–	32.8	32.8
Partnership Bonus	–	–	(165.2)	(165.2)
Profit before tax	260.6	157.9	(229.9)	188.6
Taxation	–	–	(52.4)	(52.4)
Profit after tax	260.6	157.9	(282.3)	136.2
Segment assets	2,713.9	1,648.5	883.6	5,246.0
Segment liabilities	(591.6)	(538.8)	(2,106.7)	(3,237.1)
Net assets	2,122.3	1,109.7	(1,223.1)	2,008.9
Other segment items:				
– Depreciation	134.0	91.4	15.6	241.0
– Amortisation	14.3	10.7	7.3	32.3
– Capital expenditure – property, plant and equipment	247.6	153.8	28.0	429.4
– Capital expenditure – intangible assets	45.0	28.6	14.8	88.4
– Movement in provisions	1.4	(1.4)	8.3	8.3

3 Operating expenses

	2013 £m	2012 £m
Branch operating expenses	1,901.7	1,796.9
Administrative expenses	535.4	461.5
	2,437.1	2,258.4

4 Net finance costs

	2013 £m	2012 £m
Finance costs		
Interest payable on:		
Bank loans and overdrafts	2.1	2.6
Other loans repayable within 5 years	13.6	12.2
Other loans repayable in more than 5 years	41.3	43.8
Finance lease interest payable	1.7	1.2
Amortisation of issue costs of bonds	1.1	1.0
Preference dividends	0.3	0.3
SIP dividends	1.8	1.6
Finance costs in respect of borrowings	61.9	62.7
Fair value measurements and other	0.6	3.1
Net finance costs arising on other employee benefit schemes	20.4	6.5
Total finance costs	82.9	72.3
Finance income		
Interest receivable	(1.9)	(2.4)
Finance income in respect of cash and short term investments	(1.9)	(2.4)
Fair value measurements and other	–	(0.1)
Net finance income arising on defined benefit retirement schemes (note 24)	(38.2)	(30.3)
Total finance income	(40.1)	(32.8)
Net finance costs	42.8	39.5

Notes to the accounts

continued

4 Net finance costs (continued)

	2013 £m	2012 £m
Finance costs in respect of borrowings	61.9	62.7
Finance income in respect of investments	(1.9)	(2.4)
Net finance costs in respect of borrowings and investments	60.0	60.3
Net fair value measurements and other	0.6	3.0
Net finance income arising on defined benefit retirement schemes	(38.2)	(30.3)
Net finance costs arising on other employee benefit schemes	20.4	6.5
Net finance costs	42.8	39.5

5 Profit before tax

	2013 £m	2012 £m
Profit before tax is stated after charging/(crediting) the following:		
Staff costs (note 9)	1,605.0	1,475.9
Depreciation – owned assets	251.7	240.4
Depreciation – assets held under finance leases	3.4	0.6
Amortisation of intangible assets	41.9	32.3
Profit on sale of property	–	(1.5)
Loss on disposal of other plant and equipment and intangible assets	6.1	5.4
Inventory – cost of inventory recognised as an expense	5,640.1	5,166.5
Reorganisation costs	16.2	2.1
Operating lease rentals:		
– land and buildings	127.9	113.4
– plant and machinery	0.2	0.4
Sub lease income:		
– land and buildings	(6.1)	(5.9)
Fees payable to group's auditors and its associates for the audit of parent company and consolidated financial statements	0.4	0.3
Fees payable to group's auditors and its associates for other services:		
– the audit of the company's subsidiaries	0.4	0.4
– tax advisory services	0.1	–
– other non-audit services	0.1	0.2

In addition to the above, the group's auditors also acted as auditors to the group's pension schemes. The aggregate fee for audit services to the pension schemes during the year was £53,900 (2012: £49,500).

Contingency rents expensed during the year were £2.7m (2012: £2.6m). Contingency rents are determined based on store revenues.

6 Taxation

	2013 £m	2012 £m
Analysis of tax charge		
Corporation tax – current year	77.7	67.4
Corporation tax – prior years	(1.8)	(0.8)
Total current tax charge	75.9	66.6
Deferred tax – current year	(28.6)	(18.0)
Deferred tax – prior years	(0.2)	3.8
	47.1	52.4
Tax credited to other comprehensive expense		
Movement in current tax on pension schemes	(34.6)	(6.5)
Movement in deferred tax on pension schemes	(28.9)	(48.4)
	(63.5)	(54.9)

The tax charge for the year is lower (2012: higher) than the standard corporation tax rate of 24.33% (2012: 26.33%). The differences are explained below:

	2013 £m	2012 £m
Profit before tax	198.8	188.6
Profit before tax multiplied by standard rate of corporation tax in the UK of 24.33% (2012: 26.33%)	48.4	49.6
Effects of:		
Adjustment to current tax in respect of prior years	(1.8)	(0.8)
Restatement of deferred tax balances for reduction in the corporation tax rate to 23% (2012: 25%)	(13.6)	(14.4)
Depreciation on assets not qualifying for tax relief	13.6	12.8
Difference between accounting and tax base for land and buildings	(2.0)	(1.9)
Adjustment to deferred tax in respect of prior years	(0.2)	3.8
Sundry disallowables	2.7	3.3
Total tax charge	47.1	52.4

The Finance Act 2013 reduced the main rate of corporation tax from 25% to 23% from 1 April 2013. Further reductions to the main rate are proposed in the Finance Bill 2013 to reduce the rate by 2% in 2014 and 1% in 2015 to 20% from 1 April 2015. The 2% reduction to 23% has been substantively enacted at the end of the year, and therefore is reflected in the consolidated financial statements.

The effect of the 2% rate change on the current year (2012: 2% rate change) was to increase the deferred tax liability by £0.5m (2012: £4.0m decrease) with a £14.2m charge (2012: £10.4m charge) being taken directly to reserves and a £13.6m tax credit (2012: £14.4m credit) to the income statement. Adjustments in future years are expected to be higher than the year ended 26 January 2013, assuming reductions proposed are substantively enacted annually and a comparable level of deferred tax.

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7 Profit and loss of the company for the financial year

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 £0.2m profit (2012: £0.1m profit).

8 Directors' emoluments

Details of the remuneration of Directors are given in the part of the Remuneration Report noted as audited on pages 48 to 49.

9 Employees

During the year the average number of employees of the group was as follows:

Consolidated	2013	2012
John Lewis	29,300	28,200
Waitrose	51,000	48,400
Other	1,600	2,100
	81,900	78,700

Employment and related costs were as follows:

Consolidated	2013 £m	2012 £m
Staff costs:		
Wages and salaries	1,162.3	1,096.3
Social security costs	88.5	85.5
Partnership Bonus	187.4	146.9
Employers' national insurance on Partnership Bonus	23.4	18.3
Pension costs (note 24)	138.0	124.0
Long leave cost	5.4	4.9
Total before partner discounts	1,605.0	1,475.9
Partner discounts (deducted from revenue)	57.4	50.1
	1,662.4	1,526.0
Included above are the following amounts in respect of key management compensation:		
Salaries and short-term benefits	13.5	12.4
Post-employment benefits*	4.6	4.9

* Includes pension supplements in lieu of future pension accrual.

All Partners engaged in the service of the company are employees of the group. No costs or employee numbers are shown for the company.

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

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

10 Intangible assets

Consolidated	Computer software			
	Purchased £m	Internally developed £m	Work in progress £m	Total £m
Cost				
At 29 January 2011	44.3	149.2	45.2	238.7
Additions	–	–	88.4	88.4
Transfers	21.8	36.9	(58.7)	–
Disposals	(6.5)	(17.7)	(2.5)	(26.7)
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
Accumulated amortisation				
At 29 January 2011	31.9	95.4	–	127.3
Charge for the year	8.5	23.8	–	32.3
Disposals	(6.5)	(17.0)	–	(23.5)
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
Net book value at 28 January 2012	25.7	66.2	72.4	164.3
Net book value at 26 January 2013	36.9	66.8	110.0	213.7

For the year to 26 January 2013 computer systems valued at £53.7m (2012: £58.7m) 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.

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11 Property, plant and equipment

Consolidated	Land and buildings £m	Fixtures and fittings £m	Assets in course of construction £m	Total £m
Cost				
At 29 January 2011	3,391.0	1,575.0	230.9	5,196.9
Additions	–	1.5	427.9	429.4
Transfers	373.2	194.0	(567.2)	–
Disposals	(21.5)	(174.6)	(2.7)	(198.8)
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
Accumulated depreciation				
At 29 January 2011	582.2	992.1	–	1,574.3
Charges for the year	81.9	159.1	–	241.0
Disposals	(12.5)	(173.7)	–	(186.2)
At 28 January 2012	651.6	977.5	–	1,629.1
Charges 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
Net book values at 28 January 2012	3,091.1	618.4	88.9	3,798.4
Net book values at 26 January 2013	3,150.8	558.0	112.1	3,820.9

Included above are land and buildings assets held under finance leases with a net book value of £30.9m (2012: £19.0m).

12 Investments

Company	Subsidiary		Other	Total £m
	Shares in John Lewis plc £m	Loan to John Lewis plc £m	Shares in John Lewis Partnership Trust Limited £m	
At 28 January 2012	13.0	74.3	0.1	87.4
Movements	–	14.9	–	14.9
At 26 January 2013	13.0	89.2	0.1	102.3

13 Inventories

	2013 £m	2012 £m
Consolidated		
Raw materials	3.1	3.6
Work in progress	0.9	0.8
Finished goods and goods for resale	510.0	460.8
	514.0	465.2

The cost of inventory recognised as an expense by the group in the year was £5,640.1m (2012: £5,166.5m). Provisions against inventories of £12.7m were charged (2012: £3.2m charged) in operating expenses.

14 Trade and other receivables

	2013 £m	2012 £m
Consolidated		
Current:		
Trade receivables	49.5	77.0
Other receivables	46.4	37.9
Prepayments and accrued income	96.2	98.4
	192.1	213.3
Non-current:		
Other receivables	12.6	9.5
Prepayments and accrued income	43.2	41.8
	55.8	51.3

Trade receivables are non interest bearing and generally on credit terms of less than 90 days. Concentrations of credit risk are considered to be very limited. The carrying amount of trade and other receivables approximates to fair value and is denominated in sterling.

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14 Trade and other receivables (continued)

As of 26 January 2013, trade and other receivables of £2.3m (2012: £1.2m) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

Consolidated	2013 £m	2012 £m
At start of year	(1.2)	(1.0)
Charged to income statement	(1.4)	(0.5)
Utilised	–	0.1
Released to income statement	0.3	0.2
At end of year	(2.3)	(1.2)

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

As of 26 January 2013, trade and other receivables of £21.0m (2012: £20.4m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

Consolidated	2013 £m	2012 £m
Up to 3 months past due	18.1	18.0
3 to 12 months past due	2.0	1.8
Over 12 months past due	0.9	0.6
	21.0	20.4

15 Cash and cash equivalents

Consolidated	2013 £m	2012 £m
Cash at bank and in hand	120.0	83.6
Short-term investments	414.4	467.2
	534.4	550.8

For the year ended 26 January 2013, the effective interest rate on short-term investments was 0.5% (2012: 0.6%) and these deposits had an average maturity of 1 day (2012: 2 days).

At 26 January 2013, £34.4m (2012: £32.1m) of the Group's cash balance and £0.1m (2012: £0.1m) of the Group'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 the third parties.

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

Consolidated	2013 £m	2012 £m
Cash and cash equivalents, as above	534.4	550.8
Less bank overdrafts	(56.3)	(60.1)
Net cash and cash equivalents	478.1	490.7

16 Analysis of financial assets

The currency and interest rate exposures of the group's financial assets are as set out below. Short-term receivables 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	0.5%	520.0	14.3	534.3
Other	0.0%	0.1	–	0.1
At 26 January 2013		520.1	14.3	534.4
Sterling	0.6%	537.0	13.5	550.5
Other	0.0%	0.3	–	0.3
At 28 January 2012		537.3	13.5	550.8

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

17 Borrowings and overdrafts

Consolidated	2013 £m	2012 £m
Current:		
Bank overdraft	56.3	60.1
Loans	–	100.0
6¾% Bonds, 2012	–	142.0
10½% Bonds, 2014	100.0	–
	156.3	302.1
Non-current:		
10½% Bonds, 2014	–	100.0
Partnership Bond, 2016*	56.1	55.6
8¾% Bonds, 2019	275.0	275.0
6½% Bonds, 2025	300.0	300.0
Unamortised bond transaction costs	(5.7)	(6.2)
5% Cumulative Preference Stock	3.7	3.7
7½% Cumulative Preference Stock	0.5	0.5
Cumulative Preference Stock of subsidiary undertakings	0.4	0.4
SIP Shares	84.7	70.2
	714.7	799.2

* The Partnership Bond is a five year investment product offering a fixed annual return of 4.5% in cash and a further 2% in John Lewis Partnership gift vouchers.

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17 Borrowings and overdrafts (continued)

Company	2013 £m	2012 £m
Non-current:		
5% Cumulative Preference Stock	3.7	3.7
7½% Cumulative Preference Stock	0.5	0.5
SIP Shares	84.7	70.2
	88.9	74.4

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.

18 Trade and other payables

Consolidated	2013 £m	2012 £m
Current:		
Trade payables	698.1	530.1
Other payables	117.0	102.9
Other taxation and social security	174.0	143.1
Accruals	151.5	185.1
Deferred income	33.4	25.0
Partnership Bonus	190.0	148.6
	1,364.0	1,134.8
Non-current:		
Accruals	–	0.9
Other payables	0.7	0.8
Deferred income	118.6	84.1
	119.3	85.8

Company	2013 £m	2012 £m
Current:		
Other payables	2.0	1.8
	2.0	1.8

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

19 Finance lease liabilities

	2013 £m	2012 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	4.6	1.8
Later than one year but not more than five	16.0	6.8
More than five years	46.6	46.2
	67.2	54.8
Future finance charge on finance leases	(28.3)	(27.8)
Present value of finance lease liabilities	38.9	27.0
Of which:		
Current	3.0	0.6
Non-current	35.9	26.4

The group's finance lease liabilities relate to buildings and plant, property and equipment that have been classified as finance leases in accordance with IAS 17 Leases.

20 Provisions

	Long leave £m	Service guarantee costs £m	Customer refunds £m	Insurance claims £m	Other £m	Total £m
Consolidated						
At 28 January 2012	92.9	49.4	22.1	20.5	21.3	206.2
Charged to income statement	25.8	26.4	45.4	10.7	23.2	131.5
Released to income statement	–	(6.1)	–	–	(3.1)	(9.2)
Utilised	(6.5)	(17.0)	(41.2)	(9.7)	(7.9)	(82.3)
At 26 January 2013	112.2	52.7	26.3	21.5	33.5	246.2
Of which:						
Current	33.7	19.2	26.3	4.8	26.0	110.0
Non-current	78.5	33.5	–	16.7	7.5	136.2

The Partnership has a long leave scheme, open to all employees, that 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 employees' expected service profiles, and using economic assumptions consistent with those used for the group's retirement benefit obligations (note 24), 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 employees' service periods.

Provisions for service guarantee costs reflect the group's expected liability for future repair costs based on expected failure rates and unit repair costs for the classes of goods sold.

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

Provisions for insurance claims are in respect of the group's employer's, public and vehicle third party liability insurances and extended warranty products. Liabilities have been assessed on an actuarial basis.

Notes to the accounts

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20 Provisions (continued)

Other provisions include reorganisation costs, accrued holiday pay and property related costs.

The exact timing of utilisation of these provisions will vary according to the individual circumstances. However, the group's best estimate of utilisation is provided above.

21 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 23% (2012: 25%).

The movement on the deferred tax account is shown below:

Consolidated	2013 £m	2012 £m
Opening liability	32.1	94.7
Credited to income statement	(28.8)	(14.2)
Credited to other comprehensive expense	(28.9)	(48.4)
Closing (asset)/liability	(25.6)	32.1

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

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Rollover gains £m	Other £m	Total £m
Deferred tax liabilities					
At 29 January 2011	179.0	4.9	21.8	1.8	207.5
(Credited)/charged to income statement	(13.0)	0.8	0.7	1.8	(9.7)
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

	Capital gains tax on land and buildings £m	Pensions and provisions £m	Total £m
Deferred tax assets			
At 29 January 2011	(2.3)	(110.5)	(112.8)
Credited to income statement	(4.2)	(0.3)	(4.5)
Credited to other comprehensive expense	–	(48.4)	(48.4)
At 28 January 2012	(6.5)	(159.2)	(165.7)
Credited to income statement	(0.8)	(4.2)	(5.0)
Credited to other comprehensive expense	–	(28.9)	(28.9)
At 26 January 2013	(7.3)	(192.3)	(199.6)

21 Deferred tax (continued)

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 26 January 2013 (2012: £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 24).

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax asset at 26 January 2013 was £25.6m (2012: £32.1m liability). The net deferred tax asset is recoverable after more than one year.

22 Management of financial risks

The principal financial risks to which the Partnership is exposed are liquidity risk, interest rate risk, foreign currency risk, credit risk, capital risk and energy risk. These risks are managed as follows:

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. During the year, the group refinanced £310m bilateral borrowing facilities with a £325m five year syndicated revolving borrowing facility. At the year end the Partnership had undrawn committed revolving borrowings facilities of £325m (2012: £310m). In addition to these facilities, the Partnership has listed bonds totalling £675m of which £100m mature in 2014, £275m 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 25.

The Partnership's bank borrowing facility contains one financial covenant, based on fixed charge cover. The minimum covenant that applies is that consolidated EBITDAR shall not be less than 2.5 times rent adjusted total net interest costs. Throughout the year the Partnership maintained comfortable headroom against this covenant and is expected to do so into the foreseeable future.

During the year, a term loan of £100m was repaid at maturity in December 2012 and £142m of bonds were repaid in January 2012.

The Partnership's total committed sources of funds at the date of signing these accounts are £1,058m.

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22 Management of financial risks (continued)

The following analysis shows the contractual undiscounted cash flows payable under financial liabilities and derivative financial liabilities at the balance sheet date:

	Due within 1 year £m	Due between 1 and 2 years £m	Due 2 years and beyond £m
Non-derivative financial liabilities			
Borrowings and overdrafts	(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)
Non-derivative financial liabilities			
Borrowings and overdrafts	(302.1)	(100.0)	(707.6)
Interest payments on borrowings*	(64.2)	(54.5)	(358.6)
Finance lease liabilities	(1.8)	(1.8)	(51.2)
Trade and other payables	(966.7)	(1.7)	–
Derivative financial liabilities			
Derivative contracts – receipts	152.9	–	–
Derivative contracts – payments	(153.2)	–	–
At 28 January 2012	(1,335.1)	(158.0)	(1,117.4)

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

Interest on borrowings is calculated based on the borrowing position 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.

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 25. 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.

22 Management of financial risks (continued)

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, forward currency contracts of £163.0m (2012: £152.9m) had been entered into to hedge purchases in foreign currencies which will mature over the next 18 months.

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:

	2013 £m	2012 £m
Trade and other receivables	108.5	124.4
Cash and cash equivalents	534.4	550.8
Derivative financial instruments	4.2	2.7
	647.1	677.9

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 SIP shares as part of the BonusSave scheme and a small amount of cumulative preference stock.

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 accounts

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22 Management of financial risks (continued)

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, euro and Hong Kong dollar 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, euro and Hong Kong dollar, 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.

	2013		2012	
	Income statement +/- £m	Equity +/- £m	Income statement +/- £m	Equity +/- £m
UK interest rates +/- 1% (2012: +/- 2%)	3.6	–	2.9	–
US dollar exchange rate +/- 10% (2012: +/- 10%)	0.4	9.3	0.6	6.5
Euro exchange rate +/- 10% (2012: +/- 10%)	0.5	4.9	0.5	6.0
Hong Kong dollar exchange rate +/- 10% (2012: +/- 10%)	–	0.1	–	0.3

23 Derivative financial instruments

All financial assets and liabilities are held at amortised cost with the exception of derivative financial instruments which are held at fair value.

Details of the Partnership's derivative financial instruments, used to manage the financial risks as identified in note 22, are as follows:

	2013	2013	2012	2012
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Fair value of derivative financial instruments				
Currency derivatives – cash flow hedge	4.2	0.6	2.7	2.5
	4.2	0.6	2.7	2.5

23 Derivative financial instruments (continued)

The fair value of the derivative financial instruments held by the Partnership are classified as level 2 under the IFRS 7 fair value hierarchy as all significant inputs to the valuation model used are based on observable market data.

The fair values of the Partnership's listed bonds and preference stock, which have been determined by reference to market price quotations, are shown below. For cash and other financial liabilities, book values approximate to fair value.

	2013 £m	2012 £m
Bonds	826.8	914.3
Preference stock	3.3	3.7

24 Retirement benefit obligations

The principal pension scheme operated by the Partnership is a defined benefit scheme, providing benefits based on final pensionable pay. The assets of this scheme are held in a separate, trustee administered fund.

The fund was last valued by an independent professionally qualified actuary as at 31 March 2010 using the projected unit method, which resulted in a funding surplus of £83m. The market value of the assets of the fund as at 31 March 2010 was £2,341m. The actuarial valuation of these assets showed that they were sufficient to cover 104% of the benefits which had accrued to members.

The actuaries recommended a normal future annual contribution rate of 12.2% of gross taxable pay of members. The next triennial actuarial valuation of the fund will take place as at 31 March 2013.

The senior pension scheme provided additional benefits to certain members of senior management. The senior pension scheme intended to produce a total pension worth two-thirds of pensionable pay at retirement at aged 60, after at least 20 or at least 30 years service, depending on the level of the benefit. The actuaries recommended an annual contribution rate of £1.5m. The senior pension scheme was merged into the main scheme on 31 March 2013.

In January 2013, the Partnership made a one-off contribution of £125m into the pension scheme. The ongoing contributions expected to be paid to the pension schemes during the year to 25 January 2014 amount to £115m.

Pension commitments have been calculated based on the most recent actuarial valuations, as at 31 March 2010, which have been updated by the actuaries to reflect the assets and liabilities of the schemes as at 26 January 2013.

Notes to the accounts

continued

24 Retirement benefit obligations (continued)

Scheme assets are stated at market values at 26 January 2013. The following financial assumptions have been used:

	2013	2012
Future retail price inflation	3.20%	2.80%
Future consumer price inflation	2.30%	2.00%
Discount rate	4.60%	4.95%
Expected return on assets	7.50%	7.60%
Increases in earnings	3.70%	3.30%
Increases in pensions – in payment	3.00%	2.60%
Increases in pensions – deferred	2.30%	2.00%

The expected return on assets is a weighted average of the individual asset categories and their expected rates of return, which are determined by consideration of historical experience and current market factors. Increases in earnings are projected at 0.5% above retail price inflation, with increases in pensions in payment being 0.2% below retail price inflation, reflecting the impact of a cap on the level of pension increases, and increases in deferred pensions being in line with consumer price inflation.

The financial assumption which has the most significant effect on the valuation of scheme liabilities and the current service cost is the real discount rate, i.e. the discount rate less the rate of future retail price inflation. A movement in the real discount rate of 0.10% would have the effect of increasing or decreasing the IAS 19 defined benefit obligation by circa £65m, and would increase or decrease the current service cost by circa £3.5m.

The post-retirement mortality assumptions used in valuing the pensions liabilities were based on the “S1 Light” series standard tables for all retirements, together with medium cohort improvement factors, and reflecting anticipated future improvements in mortality rates.

The average life expectancies assumed were as follows:

	2013		2012	
	Men	Women	Men	Women
Average life expectancy (in years) for a 60-year-old	26.2	28.5	26.2	28.4
Average life expectancy (in years) at age 60, for a 40-year-old	27.6	29.9	27.5	29.8

Amounts recognised in the balance sheet	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Defined benefit obligation for funded arrangements	(3,781.0)	(3,164.0)	(2,869.0)	(2,824.0)	(2,334.0)
Defined benefit obligation for unfunded arrangements	(15.0)	(11.0)	(11.0)	(29.0)	(18.0)
Total defined benefit obligation	(3,796.0)	(3,175.0)	(2,880.0)	(2,853.0)	(2,352.0)
Total value of assets	2,973.9	2,536.9	2,466.0	1,948.4	1,622.0
Defined benefit liability at end of year	(822.1)	(638.1)	(414.0)	(904.6)	(730.0)

24 Retirement benefit obligations (continued)

	Year ended 26 January 2013 £m	Year ended 28 January 2012 £m
Amounts recognised in the income statement		
Current service cost	129.0	117.4
Contribution expense*	6.4	4.9
Administrative expenses	2.6	1.7
Operating expenses	138.0	124.0
Interest cost on liabilities	154.8	160.2
Expected return on assets	(193.0)	(190.5)
Finance income	(38.2)	(30.3)
Total pension charge	99.8	93.7

* Includes Partnership contributions to the defined contribution scheme and contributions to a separate plan managed by a third party, together with pension supplements in respect of certain Partners in lieu of future pension accrual.

	Year ended 26 January 2013 £m	Year ended 28 January 2012 £m
Amounts recognised in equity		
Actuarial (gains)/losses on assets	(108.3)	145.1
Actuarial losses on defined benefit obligation	434.6	109.7
Total losses recognised in equity	326.3	254.8
Cumulative loss recognised in equity	811.9	485.6

	2013 £m	2012 £m
Reconciliation of net defined benefit liability		
Net defined benefit liability at beginning of year	(638.1)	(414.0)
Pension expense	(90.8)	(87.1)
Contributions	233.1	117.8
Total losses recognised in equity	(326.3)	(254.8)
Net defined benefit liability at end of year	(822.1)	(638.1)

Notes to the accounts

continued

24 Retirement benefit obligations (continued)

	2013 £m	2012 £m
Reconciliation of defined benefit obligation		
Defined benefit obligation at the beginning of year	3,175.0	2,880.0
Current service cost	129.0	117.4
Interest on pension liabilities	154.8	160.2
Actuarial losses	434.6	109.7
Benefits paid	(97.4)	(92.3)
Defined benefit obligation at the end of year	3,796.0	3,175.0

	2013 £m	2012 £m
Reconciliation of value of assets		
Value of assets at the beginning of year	2,536.9	2,466.0
Expected return on assets	193.0	190.5
Actuarial gains/(losses)	108.3	(145.1)
Benefits paid	(97.4)	(92.3)
Contributions	233.1	117.8
Value of assets at the end of year	2,973.9	2,536.9

	2013 %	2013 £m	2012 %	2012 £m
Analysis of assets				
Equities	73	2,168.3	77	1,958.6
Bonds	12	363.0	12	309.8
Properties	6	181.6	8	191.0
Other	9	261.0	3	77.5
		2,973.9		2,536.9

	2013 £m	2012 £m
Actual return on assets		
Expected return on assets	193.0	190.5
Actuarial gains/(losses)	108.3	(145.1)
Actual return on assets	301.3	45.4

24 Retirement benefit obligations (continued)

	2013	2012	2011	2010	2009
History of experience of gains and losses	£m	£m	£m	£m	£m
Gains/(losses) on assets	108.3	(145.1)	179.2	164.7	(514.5)
% of assets at the end of the year	4%	6%	7%	8%	32%
Experience gains/(losses) on defined benefit obligation	30.3	(33.4)	106.5	28.0	17.4
% of defined benefit obligation at the end of the year	1%	1%	4%	1%	1%

Contributions will be as follows until the next actuarial valuation, due as at 31 March 2013:

The John Lewis Partnership Trust for Pensions – 12.2% of scheme members' gross taxable pay (excluding Partnership Bonus).

For the John Lewis Partnership Senior Pension Scheme – £1.5m, or such other amount as certified by the scheme actuary based upon an analysis of the membership data at the start of the scheme year.

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, 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 £108.0m (2012: £94.6m) 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 accounts

continued

25 Analysis of financial liabilities

The currency and interest rate exposure of the group's financial liabilities is as set out below. 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 26 January 2013		768.9	141.0	909.9
At 28 January 2012		756.0	372.3	1,128.3

Maturity of financial liabilities	2013 Effective interest rate	2013 £m	2012 Effective interest rate	2012 £m
Repayable within one year				
Bank overdrafts	1.8%	56.3	1.8%	60.1
Property finance leases	7.6%	3.0	7.6%	0.6
Loans	–	–	1.5%	100.0
Bonds	10.5%	100.0	6.4%	142.0
		159.3		302.7
Repayable between one and two years				
Property finance leases	7.6%	3.3	7.6%	0.6
Bonds	–	–	10.5%	100.0
		3.3		100.6
Repayable between two and five years				
Property finance leases	7.6%	7.9	7.6%	2.1
Bonds	5.5%	56.1	5.5%	55.6
Unamortised bond transaction costs		(0.4)		(0.5)
		63.6		57.2
Repayable in more than five years				
Property finance leases	7.6%	24.7	7.6%	23.7
Bonds	7.2%	575.0	7.2%	575.0
Unamortised bond transaction costs		(5.3)		(5.7)
Preference stock	5.3%	4.2	5.3%	4.2
Preference stock of subsidiary undertaking	5.9%	0.4	5.9%	0.4
SIP shares	2.0%	84.7	2.5%	70.2
		683.7		667.8
		909.9		1,128.3

26 Share capital

	2013	2013	2012	2012
	Authorised	Issued and	Authorised	Issued and
	£m	fully paid	£m	fully paid
		£m		£m
Equity				
Deferred Ordinary Shares				
612,000 of £1 each	0.6	0.6	0.6	0.6
	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.

27 Reconciliation of profit before tax to cash generated from operations

	Year to	Year to
	26 January	28 January
	2013	2012
	£m	£m
Consolidated		
Profit before tax	198.8	188.6
Amortisation of intangible assets	41.9	32.3
Depreciation	255.1	241.0
Net finance costs	42.8	39.5
Partnership Bonus	210.8	165.2
Loss on disposal of other plant and equipment and intangible assets	6.1	3.9
Increase in inventories	(48.8)	(43.2)
Decrease/(increase) in receivables	16.8	(12.6)
Increase in payables	215.0	143.1
Increase/(decrease) in retirement benefit obligations	20.9	(0.4)
Increase in provisions	19.6	1.7
Cash generated from operations	979.0	759.1

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.

Notes to the accounts

continued

28 Analysis of net debt

	28 January 2012 £m	Cash flow £m	Other non-cash movements £m	26 January 2013 £m
Current assets				
Cash and cash equivalents	550.8	(16.4)	–	534.4
Derivative financial instruments	2.7	–	1.5	4.2
	553.5	(16.4)	1.5	538.6
Current liabilities				
Borrowings and overdrafts	(302.1)	245.8	(100.0)	(156.3)
Finance leases	(0.6)	3.5	(5.9)	(3.0)
Derivative financial instruments	(2.5)	–	1.9	(0.6)
	(305.2)	249.3	(104.0)	(159.9)
Non-current liabilities				
Borrowings	(805.4)	(14.5)	99.5	(720.4)
Unamortised bond transaction costs	6.2	–	(0.5)	5.7
Finance leases	(26.4)	–	(9.5)	(35.9)
	(825.6)	(14.5)	89.5	(750.6)
Total net debt	(577.3)	218.4	(13.0)	(371.9)

Reconciliation of net cash flow to net debt

	Year to 26 January 2013 £m	Year to 28 January 2012 £m
Consolidated		
(Decrease)/increase in cash in the year	(12.6)	43.3
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	231.0	(70.8)
Movement in debt for the year	218.4	(27.5)
Opening net debt	(577.3)	(548.4)
Non-cash movements	(13.0)	(1.4)
Closing net debt	(371.9)	(577.3)

29 Commitments and contingent liabilities

At 26 January 2013 contracts had been entered into for future capital expenditure of £11.1m (2012: £24.0m).

John Lewis plc continues to provide lease guarantees in favour of the group's former associate company, Ocado Limited, of £6.8m (2012: £6.8m).

30 Operating lease commitments

Future aggregate minimum lease payments under non-cancellable operating leases, payable:	2013 Land and buildings £m	2012 Land and buildings £m
Within one year	138.4	117.0
Later than one year and less than five years	503.4	441.0
After five years	2,299.3	1,890.1

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years comprise the following:	2013 Land and buildings £m	2012 Land and buildings £m
Later than five years and less than ten years	529.5	450.5
Later than ten years and less than twenty years	677.5	571.5
Later than twenty years and less than forty years	323.0	250.7
Later than forty years and less than eighty years	296.6	258.4
After eighty years	472.7	359.0
	2,299.3	1,890.1

Total future sub-lease payments receivable relating to the above operating leases amounted to £11.8m (2012: £13.6m).

31 Related party transactions

The group entered into an arrangement with the Pension Scheme Trustee on 30 January 2010 to address an element of the scheme deficit that existed at that time. Details of this arrangement and changes made in September 2011 are set out in note 24.

In December 2011 the group sold a property to the main pension scheme for £10.6m and entered into an operating lease in respect of the property. These transactions were at market values.

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 SIP 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 £84.7m.

Key management compensation has been disclosed in note 9.

The loan by the Company to John Lewis plc has been disclosed in note 12.

Notes to the accounts

continued

32 Subsidiary and associated undertakings

Principal subsidiary undertakings as at 26 January 2013 were as follows:

John Lewis plc (*Department store retailing, corporate, and shared services*)

Ordinary shares – 100%

5% First Cumulative Preference Stock – 83.3%

7% Cumulative Preference Stock – 75.6%

Subsidiary undertakings of John Lewis plc:

Herbert Parkinson Limited (*Weaving and making up*)

JLP Insurance Limited (*Insurance; incorporated and operating in Guernsey*)

JLP Scottish Limited Partnership (*Investment holding undertaking*)

JLP Scottish Partnership (*Investment holding undertaking*)

John Lewis Car Finance Limited (*Car finance*)

John Lewis Delivery Limited (*International delivery*)

John Lewis Properties plc (*Property holding company*)

Waitrose (Jersey) Limited (*Food retailing; incorporated and operating in Jersey*)

Waitrose (Guernsey) Limited (*Food retailing; incorporated and operating in Guernsey*)

Waitrose Limited (*Food retailing*)

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

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

Statement of directors' responsibilities for the annual report and accounts

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) 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 group and the company and of the profit or loss of the group 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 IFRSs 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 group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the directors, whose names and functions are listed in the directors and advisers section of the annual report confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group; and
- the business review includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Charlie Mayfield
Helen Weir

Directors

22 April 2013

Independent auditors' report to the members of John Lewis Partnership plc

We have audited the group and parent company financial statements (the “financial statements”) of John Lewis Partnership plc for the year ended 26 January 2013 which comprise the consolidated income statement, the consolidated statement of comprehensive expense, the consolidated balance sheet, the balance sheet of the company, the consolidated and company statements of changes in equity, the statement of consolidated cash flows and the related notes to the accounts. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) 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.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 91, 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 International Standards on Auditing (UK and 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 26 January 2013 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

*Independent auditors' report
to the members of
John Lewis Partnership plc
continued*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ranjan Sriskandan (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 April 2013

Retail branches

John Lewis Stores

London	Southern England	Midlands, East Anglia, Northern England, Wales and Scotland	
John Lewis, Oxford Street John Lewis, Brent Cross Peter Jones, Sloane Square John Lewis, Kingston John Lewis, Stratford City John Lewis at home, Croydon	John Lewis, Bluewater John Lewis, Cribbs Causeway John Lewis, Exeter John Lewis, High Wycombe John Lewis, Milton Keynes John Lewis, Reading John Lewis, Southampton John Lewis, Watford John Lewis, Welwyn Knight & Lee, Southsea John Lewis at home, Chichester John Lewis at home, Newbury John Lewis at home, Poole John Lewis at home, Swindon John Lewis at home, Tunbridge Wells	John Lewis, Aberdeen John Lewis, Cambridge John Lewis, Cardiff John Lewis, Cheadle John Lewis, Edinburgh John Lewis, Glasgow John Lewis, Leicester John Lewis, Liverpool John Lewis, Newcastle	John Lewis, Norwich John Lewis, Nottingham John Lewis, Peterborough John Lewis, Sheffield John Lewis, Solihull John Lewis, Trafford John Lewis at home, Chester John Lewis at home, Ipswich John Lewis at home, Tamworth

Waitrose Supermarkets and Stores

London					
Balham Barbican Barnet Bayswater Beckenham Belgravia Biggin Hill Bloomsbury Brent Cross Bromley Bromley South Canary Wharf	Cheam Chelsea Chiswick Clapham Clapham Common Clerkenwell Coulson Crouch End Croydon East Sheen Edgware Road Enfield Chase	Enfield Finchley Fulham Fulham Palace Road Gloucester Road Green Street Green Hampton Harrow Weald Highbury Corner High Holborn Holloway Road Islington	Kensington Kingston Knightsbridge Marylebone Mill Hill Muswell Hill New Malden Northwood Old Brompton Road Palmer's Green Parsons Green Putney	Raynes Park Richmond Ruislip Sanderstead South Harrow South Woodford Staines Stratford City St Katharine Docks Surbiton Swiss Cottage Temple Fortune	Tottenham Court Road Twickenham Upminster Vauxhall Wandsworth West Ealing Westfield Whetstone Wimbledon Wimbledon Hill Worcester Park
Southern England					
Abingdon Allington Park Alton Amersham Amptill Andover Ashford Banstead Bath Beaconsfield Bedford Berkhamsted Billerica Bishop's Stortford Bracknell Bridport Brighton Buckhurst Hill Buckingham Burgess Hill Canterbury Caterham Caversham	Chandlers Ford Cheltenham Chesham Chichester Chippenham Christchurch Cirencester Clifton Cobham Colchester Crewkerne Crowborough Dartford Dibden Dorchester Dorking Eastbourne East Cowes East Grinstead Epsom Esher Exeter Farnham	Fleet Frimley Gerrards Cross Gillingham Godalming Goldsworth Park Gosport Hailsham Harpenden Haslemere Havant Headington Henley Hersham Hertford Hitchin Holsworthy Horley Horsham Hythe Kings Hill Leigh on Sea Leighton Buzzard	Lewes Littlehampton Longfield Lymington Maidenhead Marlborough Marlow Melksham Milton Keynes Nailsea Newbury Okehampton Oxted Paddock Wood Parkstone Petersfield Portsmouth Poundbury Ramsgate Reading Rickmansworth Ringwood Romsey	Saffron Walden Salisbury Saltash Sandhurst Sevenoaks Sidmouth Southampton Southend Southsea St Albans Stevenage Storrington Stroud Sunningdale Tenterden Thame Thatcham Tonbridge Torquay Twyford Uckfield Wallingford Walton on Thames	Wantage Warminster Waterlooville Wellington Welwyn Garden City Westbury Park Weston Super Mare West Byfleet Weybridge Wimborne Winchester Windsor Winton Witney Wokingham Woodley Worthing Yateley

Retail branches

continued

Midlands, East Anglia, Wales, Northern England and Scotland

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

Channel Islands

Admiral Park	Rohais	Red Houses	St. Helier	St. Saviour
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In addition to the shops listed above, 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*

Notice of AGM

Notice is hereby given that the eighty-fourth annual general meeting of the company will be held at 12.30pm on 6 June 2013 at Partnership Services Division head office, Spedan House, Doncastle Road, Bracknell, Berkshire RG12 8YA:

- To receive the Company's annual accounts, together with the Directors' Report, and the Auditor's Report on those accounts for the year ended 26 January 2013.
- To re-elect, as separate resolutions, Jane Burgess, Steve Gardiner, Dan Smith, Kevin Payne, Noel Saunders and Helen Weir as directors of the Company.

Biographical details of the directors and their experience is set out on pages 30 to 31.

- 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 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 2014 or 30 August 2014.

By Order of the Board
Margaret Casely-Hayford
Company Secretary
171 Victoria Street, London SW1E 5NN
22 April 2013

* Copies of the Articles of Association to be presented at the meeting are available on request from the Company Secretary.

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.



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