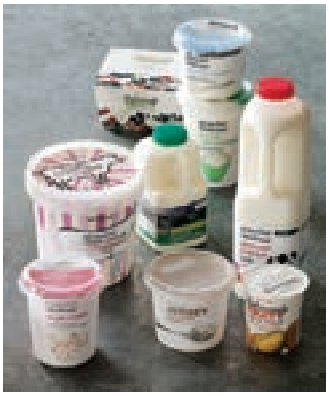
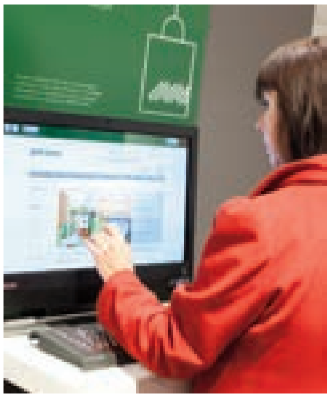
John Lewis

annual report and accounts

2012





Contents

John Lewis Partnership,
171 Victoria Street
London SW1E 5NN
www.johnlewispartnership.co.uk

The John Lewis Partnership

The John Lewis Partnership is one of the UK's leading retail businesses with 29 John Lewis department stores, 8 John Lewis at home stores, johnlewis.com, 246 Waitrose supermarkets, 31 Waitrose convenience stores, waitrose.com and business to business contracts in the UK and abroad.

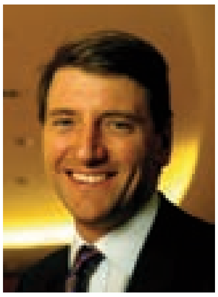
It is also the country's largest employee co-owned business, with 81,000 employees who are all Partners. The Partnership aims to ensure that everyone who works for it enjoys the experience of ownership, by sharing in the profits, by having access to information and by sharing in decision making through influencing and making recommendations to the Chairman on any subject.

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 reputation amongst customers and suppliers highly regarded in the UK retail industry.

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 staff 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 the profits. The whole of 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 for all Partners. All Partners received a 14% bonus for 2011/12 as their share of profits at a total cost of £165.2m.

Chairman's statement



The Chairman, Charlie Mayfield

We have achieved a good sales performance in a tough year for the economy. Profits are lower than last year, but better than expected and I'm delighted that all 81,000 Partners received a bonus equivalent to over 7 weeks' pay.

Profound changes are taking place in the retail sector and importantly this was a year when we upped the pace of innovation and investment. That came at the price of some short-term profit but leaves us in a good place at the start of this year.

Pretty much anything can now be sold online, and our ability to originate and source unique products that our customers want and only we can sell will become more and more important. In Waitrose we increased the number of new products launched by 76%, and in John Lewis, from fashion through to home, we saw the launch of ranges such as John Lewis & Co through to the Design Collective. We also increased our reputation for value with harder hitting promotions in Waitrose, and a total commitment to Never Knowingly Undersold in John Lewis.

Customers also want more convenience from shops and online and we pushed on with growth, opening more shops in a single year than ever before with 29 Waitrose shops and three for John Lewis. Simultaneously we made it easier to shop across Waitrose and John Lewis - Click & collect has been a huge hit with customers. By the end of the year it was available in 129 shops, up from 55 at the start of the year. Over a fifth of all sales in John Lewis are now online and waitrose.com was relaunched and extended across London.

To meet the challenges presented by a rapidly developing retail sector, we've made some significant changes to how the Partnership operates. Examples include overhauling how we run Waitrose shops and expanding our new internal shared services division, Partnership Services, as well as the largest programme of investment we have ever mounted in systems and supply chain.

We start 2012/13 leaner and fitter and have initiatives underway which will deliver key benefits in the coming years. We have first-class brands that are well placed to succeed in a changing market.

2012/13 Outlook
After 11 weeks, Partnership sales excluding VAT[1] are 9.0% higher than last year. Waitrose sales excluding VAT have increased by 8.4% (2.9% like-for-like) and John Lewis sales excluding VAT are 10.1% higher than last year (7.0% like-for-like). The 2012/13 sales include those for the Easter weekend, which have a beneficial impact on sales, whereas in 2011/12 Easter fell later in April.

Current trading conditions are still difficult and consumer confidence remains subdued. Despite that we are continuing to grow faster than the market. We are prepared and have shown that we can trade well through these conditions. The Queen's Diamond Jubilee and the London 2012 Olympic and Paralympic Games will provide a lift for consumers and I am cautiously optimistic that trading conditions may improve later this year.

Charlie Mayfield
Chairman
23 April 2012

[1] Sales excluding VAT are gross sales net of value added tax.

Business review

Business review

Review of performance

The John Lewis Partnership

- Gross sales up £523.2m, 6.4%, to £8.73bn
- Sales excluding VAT[1] up £400.5m, 5.4% to £7.86bn
- Group operating profit down £38.3m, 8.9%, to £391.0m
- Profit before Partnership bonus and tax down £14.3m, 3.9%, to £353.3m
- Partnership Bonus of £165.2m; 14% of salary (equal to over 7 weeks' pay)

Waitrose

- Gross sales up £425.8m, 8.6%, to £5.40bn
- Sales excluding VAT[1] up £372.4m, 7.9% to £5.07bn
- Food only like-for-like sales up 3.6% (up 3.0% excluding VAT)
- Operating profit down £14.3m, 5.2%, to £260.6m

John Lewis

- Gross sales up £97.4m, 3.0%, to £3.33bn
- Sales excluding VAT[1] up £28.1m, 1.0% to £2.79bn
- Like-for-like sales up 1.3% (down 0.6% excluding VAT)
- johnlewis.com sales up £141.7m, 26.3%, to £680.8m (up £111.2m, 24.2% excluding VAT)
- Operating profit down £40.5m, 20.4%, to £157.9m

[1] Sales excluding VAT are gross sales net of value added tax.

Five year record – years ended January

	2012 £m	2011 £m	2010 £m	2009* £m	2008 £m
Gross sales					
Waitrose	**5,400.4**	4,974.6	4,532.3	4,156.4	3,950.1
John Lewis	**3,329.1**	3,231.7	2,889.2	2,811.1	2,812.7
Gross sales	**8.729.5**	8,206.3	7,421.5	6.967.5	6,762.8
Sales excluding VAT[1]					
Waitrose	**5,072.3**	4,699.9	4,317.2	3,940.1	3,737.2
John Lewis	**2,792.0**	2,763.9	2,519.5	2,415.8	2,404.9
Sales excluding VAT	**7,864.3**	7,463.8	6,836.7	6,355.9	6,142.1
Revenue					
Waitrose	**5,072.3**	4,699.9	4,317.2	3,940.1	3,737.2
John Lewis	**2,686.3**	2,661.9	2,417.4	2,327.1	2,315.0
Revenue	**7,758.6**	7,361.8	6,734.6	6,267.2	6,052.2
Operating profit[2][3]					
Waitrose	**260.6**	274.9	266.8	214.5	226.2
John Lewis	**157.9**	198.4	160.4	140.6	192.0
Corporate and other[4]	**(27.5)**	(44.0)	(39.2)	(33.9)	(27.7)
Operating profit	**391.0**	429.3	388.0	321.2	390.5
Net finance costs	**(37.7)**	(61.7)	(81.8)	(42.2)	(10.8)
Share of post tax losses of associate (Ocado)	**–**	–	–	–	(8.0)
Exceptional gain in respect of associate (Ocado)	**–**	–	–	127.4	8.0
Profit before Partnership bonus and tax	**353.3**	367.6	306.2	406.4	379.7
Taxation	**(51.9)**	(45.6)	(48.3)	(47.7)	(59.4)
Net profit available for profit sharing and retention in the business	**301.4**	322.0	257.9	358.7	320.3
Partnership bonus	**(165.2)**	(194.5)	(151.3)	(125.4)	(181.1)
As a percentage of eligible pay	***14%***	*18%*	*15%*	*13%*	*20%*
Discontinued operations	**–**	–	–	–	(9.1)
Profit for the year retained in the business	**136.2**	127.5	106.6	233.3	130.1
Net assets	**2,008.9**	2,072.5	1,704.2	1,722.5	1,683.9
Pay	**1,096.3**	1,021.7	940.4	908.0	864.8
Number of employees at year end	**80,900**	76,500	72,400	68,300	69,300
Average number of employees	**78,700**	74,800	70,000	68,700	68,200
including part-time employees	**42,900**	40,800	37,300	35,900	36,700
Average number of FTEs	**51,100**	48,500	45,900	45,100	44,900

*53 week year.

(1) Sales excluding VAT are gross sales net of value added tax.
(2) The comparatives have been re-presented in respect of John Lewis Insurance operations to be on a consistent basis to the current year.
(3) The basis of allocation of pension costs to the divisions was changed for 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 £16.8m in 2012, which is principally due to market driven volatility.
(4) Corporate and other costs are principally corporate and shared service overheads, transformation costs and the Partnership Services division set up costs.

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 2012	**Waitrose 2012**	**John Lewis 2012**	Group 2011	Waitrose 2011	John Lewis 2011
Trading performance:						
Gross sales growth						
– total continuing operations	**6.4%**	**8.6%**	**3.0%**	10.6%	9.8%	11.9%
– like-for-like[1]	**2.6%**	**3.6%**	**1.3%**	6.4%	4.0%	10.0%
Growth in sales excluding VAT						
– total continuing operations	**5.4%**	**7.9%**	**1.0%**	9.2%	8.9%	9.7%
– like-for-like[1]	**1.6%**	**3.0%**	**(0.6)%**	5.1%	3.3%	7.9%
Operating margin[2]	**5.0%**	**5.1%**	**5.7%**	5.8%	5.8%	7.2%
Sales excluding VAT per selling FTE (£000s)		**211.7**	**163.2**		214.1	157.1
Operating profit per FTE (£000s)[2]	**7.6**	**9.4**	**7.1**	8.9	10.8	9.0
Number of stores[3]		**272**	**35**		243	32
Average selling space (m sq ft)[4]	**9.1**	**4.9**	**4.2**	8.6	4.6	4.0
Sales excluding VAT per selling sq ft (£)	**867**	**1,033**	**672**	873	1,032	691
Operating profit per selling sq ft (£)[2]	**43**	**53**	**38**	50	60	50
Cash flow and liquidity:						
Operating cash flow before Partnership bonus (£m)	**774.1**			757.4		
Capital expenditure (£m)[5]	**517.8**	**292.6**	**182.4**	492.7	354.0	119.5
Interest cover[6]	**3.9**			3.9		
Balance sheet:						
Net assets (£m)	**2,008.9**			2,072.5		
Net debt (£m)	**504.8**			493.0		
Gearing[7]	**25.1%**			23.8%		
Return on invested capital[8]	**7.2%**			7.9%		

(1) Like-for-like sales exclude the impact of branch openings and closures.
(2) Operating margin is expressed as a % of sales excluding VAT.
(3) The number of stores trading as at the year end date.
(4) Average selling space (of all stores and branches) includes all customer facing areas and excludes offices, warehouse space and staff facilities.
(5) Capital expenditure for the group includes £42.8m (2011: £19.2m) of spending on group-wide information technology systems, vehicles, properties and other assets, not allocated to the operating businesses.
(6) 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 service leave, and IAS 39 fair value adjustments included within finance costs.
(7) Gearing is net debt divided by net assets.
(8) 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 14% for 2012 is announced at John Lewis Southampton

Group performance

2011/12 saw the Partnership navigate through a period of difficult economic conditions, and deliver good sales growth. Both Waitrose and John Lewis traded ahead of their respective markets, increasing their market share.

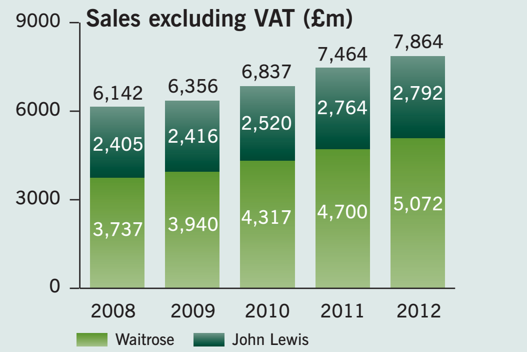
The Partnership's gross sales were £8.73bn, an increase of £523.2m, or 6.4%, on last year. Waitrose gross sales were £5.40bn, up 8.6%, while John Lewis gross sales were £3.33bn, up 3.0%.

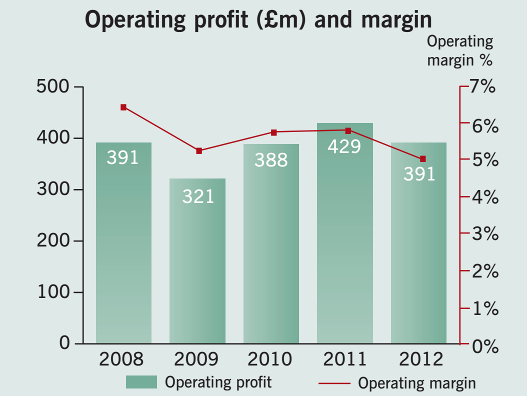
Sales excluding VAT were £7.86bn, up £400.5m or 5.4%. Waitrose sales excluding VAT were £5.07bn, up 7.9%, and John Lewis sales excluding VAT were £2.79bn, up 1.0%.

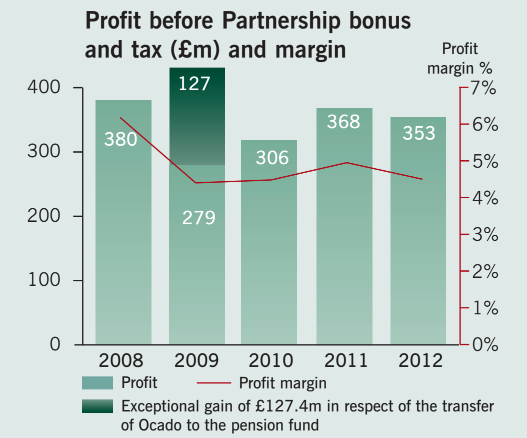
Operating profit was £391.0m (2010/11 £429.3m), a decrease of £38.3m, or 8.9% on last year, representing an operating profit margin (excluding VAT) of 4.97% (2010/11 5.75%).

Profit before Partnership bonus and tax was £353.3m, a decrease of £14.3m, or 3.9%, on last year. Profit before Partnership bonus and tax as a percentage of sales excluding VAT decreased from 4.93% to 4.49%.

Partnership bonus was £165.2m, which equates to 14% of pay or the equivalent of 7.3 weeks' pay, compared to £194.5m or 18% of pay, the equivalent of 9.4 weeks' pay last year.







Business review

Review of performance (continued)

Net finance costs

Net finance costs decreased by £24.0m (38.9%) to £37.7m. Changes to the financing element of pension costs, which is the difference between the expected return on scheme assets and the interest cost on the scheme liabilities, and the financing element of long service leave are driven by changes in the external investment market, including rates for corporate bonds, which means these costs can change materially from one year to the next, driven by market volatility. The financing elements of pensions and long service leave was a net credit of £23.8m, compared to a charge of £2.2m last year. Excluding pensions, long service leave and other non-cash fair value adjustments, net finance costs have reduced slightly, by £1.8m (3.0%), from £60.3m to £58.5m.

Pension charge

We continue to maintain an open non-contributory final salary defined benefit pension scheme. We now have about 46,500 active members, 25,500 pensioners and dependants and 32,000 deferred pensioners in the Scheme.

Day-to-day management of the funds is delegated to a number of investment managers under the guidance of the Trustees. The assets of the schemes are held in separate funds administered by the Trustees. The Partnership takes a long term view of its pensions liabilities but recognises that there are significant risks from increasing longevity, the effect of age discrimination legislation, and from volatility and uncertainty in the investment markets.

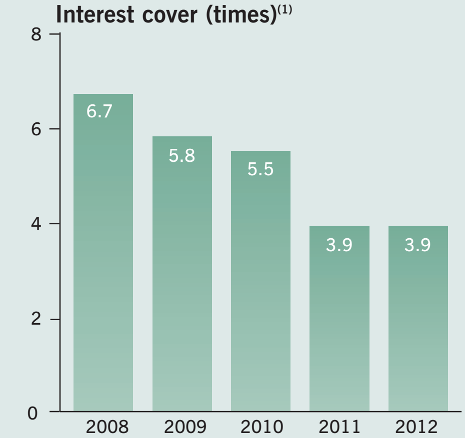
The pension accounting charge included within operating profit of £124.0m for the year to 28 January 2012, was up 0.9% or £1.1m on last year. Actual pension cash contributions in respect of the year were £117.8m, compared to £267.0m for last year, or £117.0m excluding the £150.0m one-off special cash contribution made in March 2010.

A defined contribution scheme is also available in the three year period for Partners waiting to enter the defined benefit scheme, to provide pension benefits during the waiting period. The Partnership matches contributions made by Partners, up to 6% of pensionable pay.

During the year 2,700 Partners contributed £1.8m to the defined contribution scheme and the Partnership provided contributions of £1.4m. Partners are also able to top up their pension provision with Additional Voluntary Contributions (AVCs). During the year 18,800

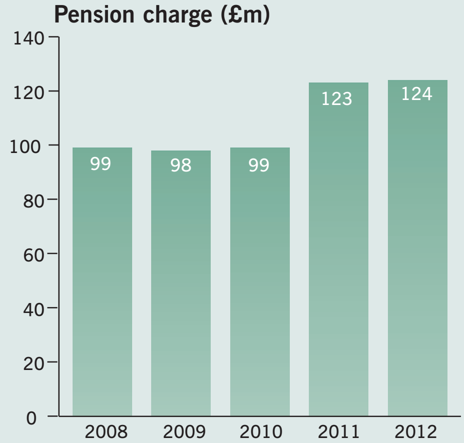
Net finance costs (£m)

Interest cover (times)[1]



[1] Interest cover is based on net finance costs excluding pensions, long service leave and IAS 39 non-cash fair value adjustments included within finance costs.

Pension charge (£m)



Partners contributed £21.0m in AVCs. At the year end the combined defined contribution and AVC funds stood at £236.3m.

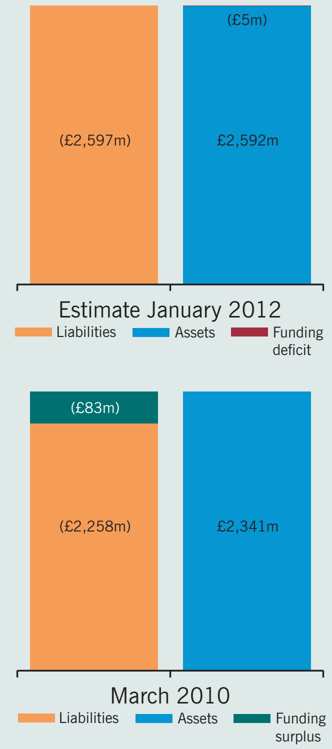
Actuarial valuation of the pension funds
A formal actuarial valuation is carried out at least once every three years by an independent professionally qualified actuary. This assesses, on a prudent basis, the amount of assets to be set aside to meet the pension promises made to the valuation date, taking into account future expected investment returns, and determines the future level of funding, estimated on prudent assumptions, that the Partnership needs to put into the schemes. For the main pension scheme, the last formal valuation was carried out as at 31 March 2010. This 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. As at 28 January 2012 the main pension scheme is estimated to have a funding deficit of £5m, and therefore the assets are sufficient to cover 100% of the benefits which had accrued to members.

In addition to the main scheme there is also a senior pension top up scheme. The last formal valuation of this scheme was also carried out as at 31 March 2010 and resulted in a funding deficit of £6m. Deficit reduction contributions totalling £6m were made in January and February 2011 to eliminate this deficit. As at 28 January 2012, the senior pension top up scheme is estimated to have a funding deficit of £5m.

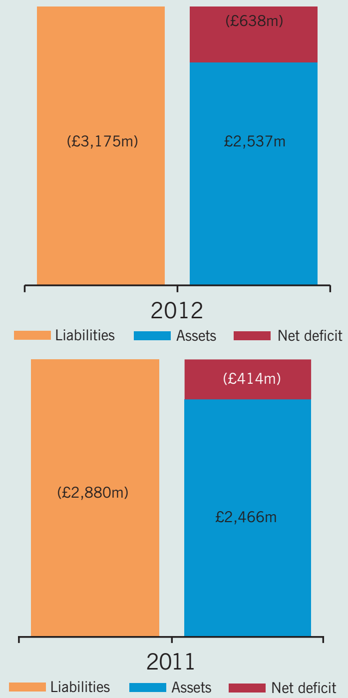
The next formal actuarial valuation of both pension schemes will take place as at 31 March 2013.

Accounting valuation under IAS 19
IAS 19, the International Accounting Standard on employee benefits, requires the financial position of the Partnership's pension funds to be reassessed at each balance sheet reporting date following a prescribed methodology. This produces results that are different from, and more volatile than, the actuarial valuation, as members' liabilities at the balance sheet date are valued using market rates of corporate bonds and do not reflect expected future returns on the assets the fund owns. Other key assumptions for the IAS 19 accounting valuation have been based on those used for the most recent actuarial valuation, adjusted to represent a best estimate rather than a prudent view, where appropriate. These have been updated to assess the assets and liabilities of the schemes as at 28 January 2012.

Main pension fund actuarial valuation
(funding basis)



Pension liabilities and accounting deficit
(IAS 19 basis)



Business review

Review of performance (continued)

The assets of the pension funds as at 28 January 2012 were £2,537m (2011: £2,466m) and the accounting liabilities were calculated to be £3,175m (2011: £2,880m). Together, this resulted in an IAS 19 pension fund deficit of £638m (2011: £414m), an increase of £224m (54.1%).

The increase in the pension asset values of 2.9% since last year reflects improving market conditions and the increase in value to the date of sale, in February 2011, of the remaining shares in the Ocado business, which realised £150m. In total £250m was realised from the sale of the Ocado shares for the pension fund.

The main differences between the estimated funding valuation deficit at 28 January 2012 of £10m, for both schemes, and the IAS 19 pension fund deficit of £638m relate to different economic assumptions, principally the rates used to reflect the current value of the scheme's future liabilities (the discount rate) of £540m, and the exclusion of the fund's £95m investment in JLP Scottish Limited Partnership for IAS 19 purposes.

Tax

The tax charge increased compared with last year reflecting a higher profit before tax and a higher effective tax rate of 27.8% compared to last year's rate of 26.5% due to an increase in disallowable expenses.

Capital expenditure

Capital spending in 2011/12 increased by £25m to £518m, an increase of 5.1%.

Waitrose invested £293m, mainly on 29 new branches acquired or built in the year and one relocation, together with 13 refurbishments and one extension. Waitrose has invested in a replacement technology platform for its online business at a total cost of £20m, with £8m of this spent in 2011/12.

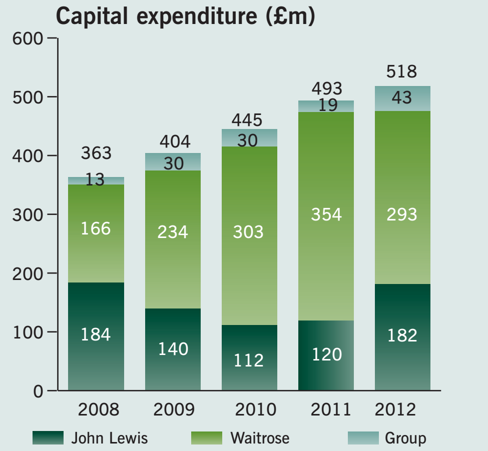
A new smaller-format Little Waitrose in Poundbury was one of the 29 new Waitrose branches opened in 2011/12

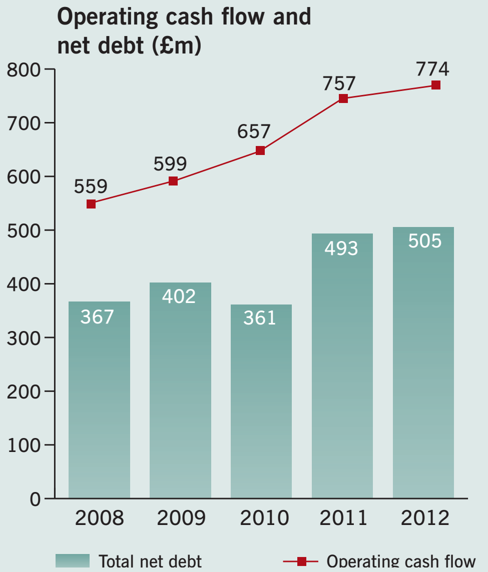
John Lewis invested £182m. The mix of investment reflected the business strategy of opening new space, refurbishing key regional shops and investing heavily in the IT and distribution infrastructure to support multi-channel trading. Recent strengthening of the supply chain enabled the business to deliver a particularly strong Christmas online.

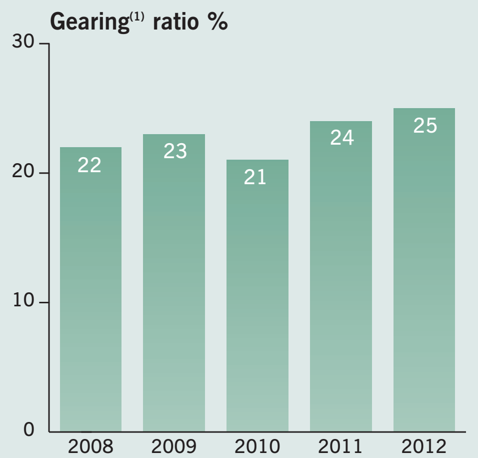
In addition, £43m was invested centrally, mainly in maintaining and modernising IT platforms, head office buildings and refurbishing holiday centres.

Cash flow and net debt

We generated £774.0m in operating cash flow (before Partnership bonus) up £16.6m or 2.2% on the prior year. Our gearing ratio increased from 23.8% to 25.1% with year-end net debt increasing by £11.8m to £504.8m.







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

Return on invested capital
Return on invested capital (note 8, page 6) was 7.2% a reduction of 0.7% on last year's 7.9% and reflects increased investment made across the Partnership in new and refurbished stores, extensions and in distribution and information technology systems, which will deliver benefits in future years, as well as in investment in improving our operating structures to secure future efficiency gains.

Profit for the year
Profit for the year was £136.2m, up by £8.8m (6.9%) on last year.

Net assets
Net assets decreased by £63.6m, 3.1%, to £2,008.9m. This reflects significant investments totalling £517.6m, including £344m in new stores, extensions and refurbishments, £38m in distribution and £98m in new information technology systems, offset by depreciation and amortisation of £273.3m, an increase in the pension fund deficit of £224.1m and an increase in net debt of £11.8m.

Business review

Review of performance (continued)

Waitrose

Waitrose achieved sustained sales growth throughout 2011/12, increasing its market share by 0.2% to 4.1% and its profits in the second half of the year.

Gross sales were up by £425.8m, 8.6% to £5.40bn, and food only like-for-like sales grew by 3.6%.

Sales excluding VAT were up £372.4m, 7.9% to £5.07bn, and food only like-for-like sales grew by 3.0% on an excluding VAT basis.

Sales density rose by 0.1% to £1,033 per square foot but sales productivity per selling FTE decreased to £211,700, down by £2,400 (1.1%) on last year.

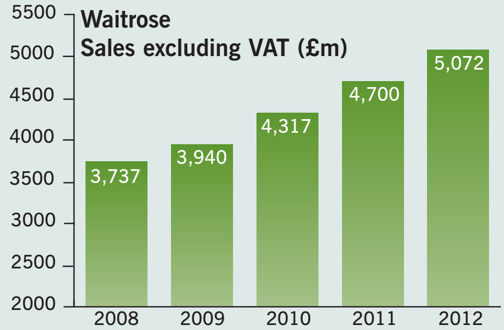
Customers' perception of value in Waitrose has risen markedly in response to the investments made over the past three years: essential Waitrose, Brand Price Match and increased promotional participation, up by 4% to 27.8%. In December 2011 Waitrose came top for the third year running in the Which? Magazine supermarket satisfaction survey.

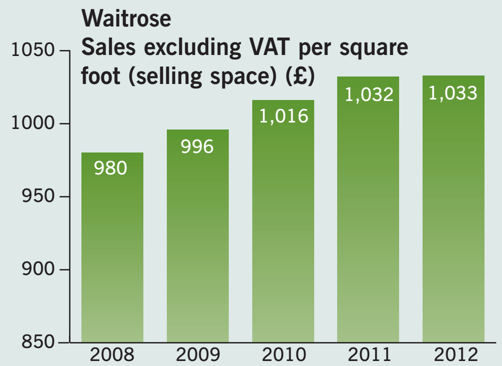
The Love Life range of healthy foods was part of Waitrose's drive for product innovation

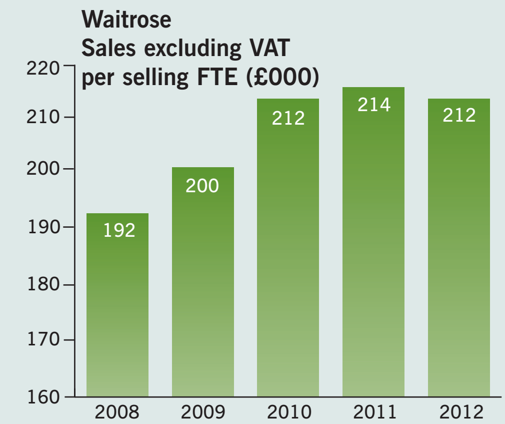
Product innovation was particularly strong in the year with three new ranges launched: Love Life (the biggest launch since essential Waitrose), Good to Go and Love Life You Count. The essential Waitrose range grew by 10% and Waitrose own label products accounted for 54% of sales.

There were 400,000 more transactions a week compared to last year as customers shopped across all formats: full weekly shops in core branches and online, supplemented by top-up shopping in convenience shops. This confirms that the strategy of opening new branches alongside the development of online and convenience is the right approach.

Waitrose.com orders rose by 34.5% in the year. At the year end, the service was available in 152 branches. Kantar Worldpanel data for the 52 weeks to 22 January 2012 showed Waitrose to be the fastest-growing online grocery retailer.







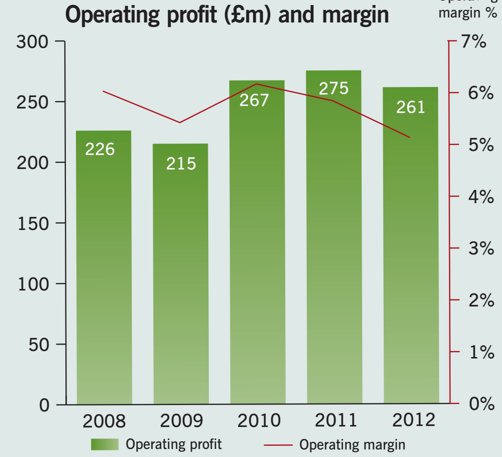
Two Little Waitrose convenience stores were opened on a trial basis on Shell petrol station forecourts

Waitrose opened 29 new branches (14 supermarkets, 15 convenience) and the Acton 'dark store' for online deliveries only. 13 new branches were opened in the second half year. At the year end, the branch estate totalled 272, of which 28 are convenience shops. In September 2011 a two-site trial of Little Waitrose convenience shops started on Shell Petrol forecourts in Watford and Kensington Gardens. Four more Waitrose outlets opened at Welcome Break motorway services during 2011, bringing the total to 16. These strategic partnerships play an important role in the drive to make Waitrose accessible to more people in more places.

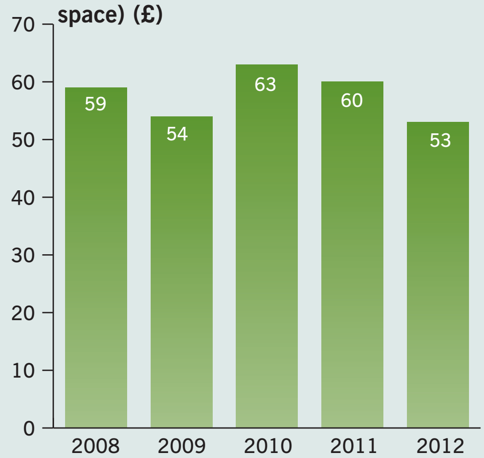
The growth of the branch network is supported by a new 300,000 square foot warehouse in Milton Keynes which started delivering to branches at the end of March 2011. A new distribution centre in Leyland, Lancashire, will open in 2013 and will service the planned expansion in the North of England and Scotland.

Planned investments in future growth, including immature space and new formats, have held back profit for the year by £15m. This together with a £1.9m impact relating to a change in the basis of allocation of pension costs, as explained in note 2 to the accounts, resulted in operating profit for the year of £260.6m, being down £14.3m, or 5.2% on last year. Operating margin (excluding VAT) was down from 5.85% to 5.14%, operating profit per square foot was down 11.7%, from £60 to £53, as was operating profit per FTE which decreased by 13.0%, from £10,800 to £9,400.

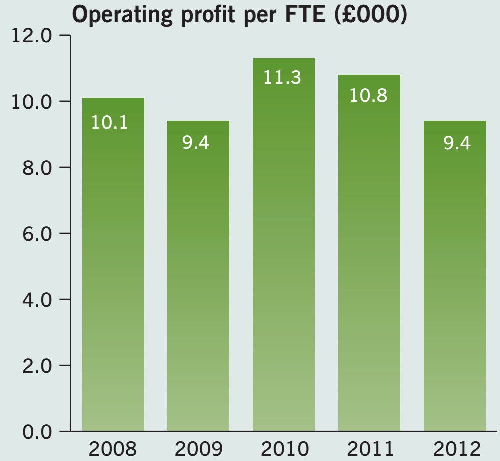
Waitrose
Operating profit (£m) and margin



Waitrose
Operating profit per square foot (selling space) (£)

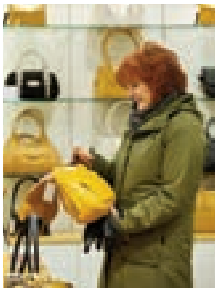


Waitrose
Operating profit per FTE (£000)



Business review

Review of performance (continued)



Growth was evident in all three buying directorates

John Lewis

John Lewis grew sales against the background of a challenging market and a changing retail non-food environment.

Gross sales were up by £97.4m, 3.0% to £3.33bn and like-for-like sales grew by 1.3%.

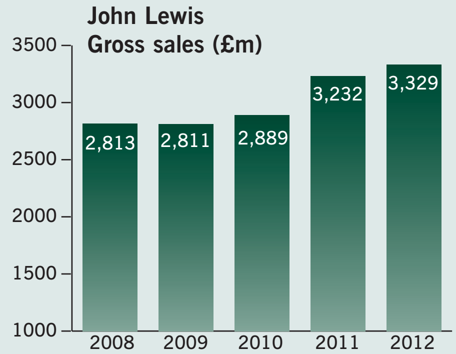
Sales excluding VAT were up £28.1m (1.0%) to £2.79bn, while like-for-like sales excluding VAT were 0.6% down. During 2011/12 all three Directorates, Fashion, Home and Electrical & Home Technology (EHT), improved their performance on the previous year's results.

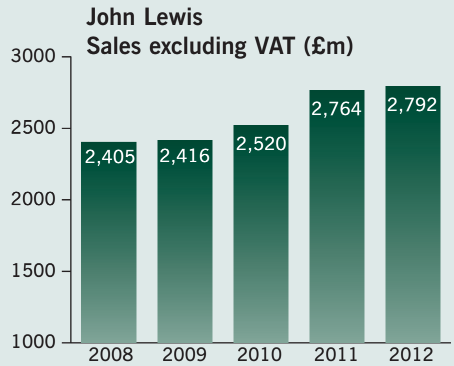
Sales per square foot decreased by 2.8%, from £691 to £672, but sales per selling FTE increased by 3.9%, from £157,100 to £163,200.

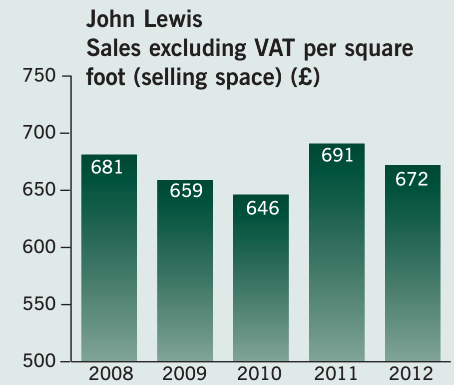
The success of "bricks and clicks" has been an important element of the John Lewis total sales growth. Online trade continued to perform strongly, up +24.2% excluding VAT against a market that is estimated to have grown by 13.5% excluding VAT, and is now fully integrated into the John Lewis multi channel operations. At the year end, 'Click & collect' was available in all 35 John Lewis shops and 94 Waitrose branches, and is the fastest growing fulfilment route as customers appreciate the convenience it offers. Shopping by mobile phone is growing rapidly and currently two thirds of our shops have free WiFi to enable customers to check prices as they shop.

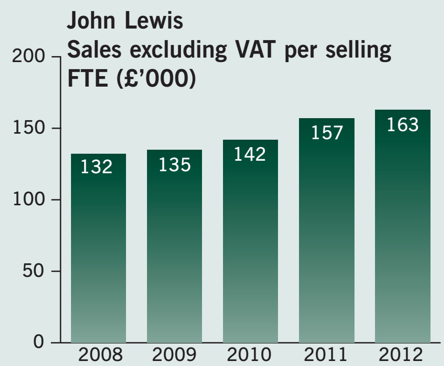
During the year John Lewis launched more new products than ever before, spanning over 30 new brand introductions, new own brand ranges, and more designer collaborations. John Lewis also continued to transform presentation in Fashion, Home and EHT. Three quarters of the shop fit in Stratford was new concept and John Lewis extended this to the 'at home' stores that opened in Newbury and Chichester in April 2012 and will be extending this to existing shops and to the first smaller format department store opening in Exeter in October 2012, which will be our most integrated multi-channel shop. The johnlewis.com website will be fully upgraded during 2012.

John Lewis is the Official Department Store Provider to this year's London 2012 Olympic and Paralympic Games and is looking forward to the important part to be played in the future of Stratford as a vibrant retail centre in London.









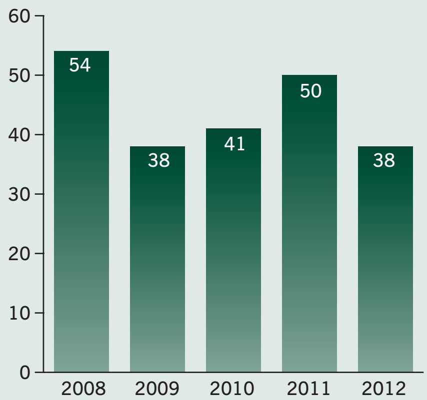
John Lewis launched more new products than ever before, including own brand

Operating profit was £157.9m, down £40.5m, or 20.4%. This includes a £6.4m impact relating to the change in the basis of allocation of pension costs as explained in note 2 to the accounts. The remaining £34.1m of decline was a result of the decision to ensure there was absolutely no compromise on quality, service or value for customers. While an additional £23.8m was invested in "Never Knowingly Undersold", gross margin was substantially maintained. The opening of a new department store in Stratford City and two 'at home' stores in Tamworth and Chester has impacted profit in the short term through higher opening costs and lower profitability on immature space. Although sales were lower in nearly all our established shops, it is the same customer shopping with us online and in our shops and the investment made in service and logistics drives sales in both channels. Therefore, while the profit impact was in part mitigated by reducing costs, the priority was to serve the multi-channel customer better than anyone else which, together with innovation, will ensure our future success and therefore our priority remains focussed on innovation in product and in formats.

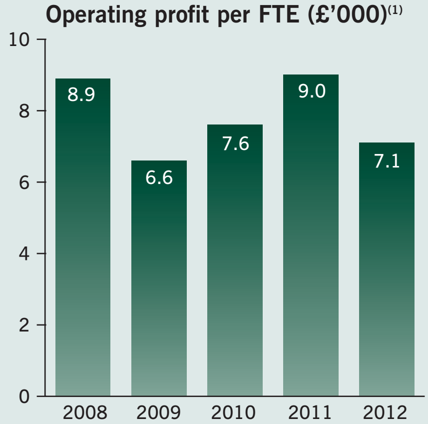
Operating margin (excluding VAT) was down from 7.18% to 5.66% on last year. Operating profit per square foot decreased by 24.0%, from £50 to £38, and operating profit per FTE decreased by 21.1%, from £9,000 to £7,100.

John Lewis
Operating profit (£m) and margin[(1)]

John Lewis
Operating profit per square foot (selling space) (£)[(1)]



John Lewis
Operating profit per FTE (£'000)[(1)]



(1) Operating profit has been re-presented in respect of John Lewis Insurance operations to be on a consistent basis to the current year.

Business review

Business and strategy

The Partnership's two strong brands are sited in one place at Stratford City's new development next to the Olympic site

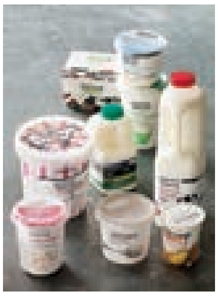
John Lewis plc is the trading company of the John Lewis Partnership and consequently its business and strategy are consistent with the strategy of the John Lewis Partnership (the 'Partnership') set out below.

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 our ultimate purpose is the happiness of all our members, through their worthwhile and satisfying employment in a successful business, with success measured 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. 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.



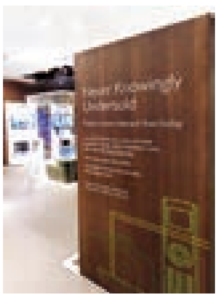
Our supermarkets' own-brand range, essential Waitrose, has continued to do well

2011 has proven to be a very challenging year for all parts of the UK economy, filtering through to a weakened consumer outlook. Rising unemployment, subdued wage settlements and persistent levels of inflation have continued to undermine consumer confidence. We expect 2012 to continue to be difficult, in line with many external commentators, with a continuation of the negative factors impacting consumers and exerting pressure on household spending, and against the backdrop of an uncertain Eurozone. However, the Partnership retains a long term outlook and we remain committed to providing a distinctive offer and experience to our customers which builds upon their trust and loyalty.

Strategic initiatives

To reflect the changing external economic and retail landscape, and the ambitions of the Partnership, we have refreshed our strategic intent during the 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, we have developed three key strategic aims. Going forward everything we do will be aligned with the intention to either unlock the potential of our Partners, to increase the market potential for our brands or to grow our business in an efficient manner.

Despite the tough market conditions both Waitrose and John Lewis traded well through 2011, outperforming their respective markets, although progress in the non-food sector was particularly hard fought. In response to changing customer needs the investments we made in value have been especially important. 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 emphasise 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.



Customers appreciate John Lewis's commitment, since 1925, to be 'Never Knowingly Undersold"

We have not allowed economic uncertainty to deflect us and have taken the important decision to reorganise our business in ways which better support the multi-channel business we are today. We are currently managing substantial 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 smaller footprint John Lewis 'at home' and Waitrose convenience. Additionally we have taken our brands to new markets through the John Lewis international 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.

Business review

Resources and relationships

Partners

Excellent customer service is key to our success

Our culture

Our key aim is to be a better and successful way of doing 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 also have and share the responsibilities of ownership as well as its rewards – profit, knowledge and power.

Our three Partner Commitments set out below 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 to deliver the right experience for all of our customers and generate 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.
- Create real influence over our working lives – We take every opportunity to develop ourselves, balance work and life priorities and support each other.

The Partnership Council is at the heart of the business's democratic system

Our Partners will tell you that the John Lewis Partnership feels like 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 so 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.

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.
- We respect and reflect the communities within which we trade.

Our leisure learning subsidy allows Partners to pursue their interests outside work

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.
- Encourages and supports Partners in general education and interests in fields that are not directly work related.

Business review

Resources and relationships (continued)

Partners *(continued)*

We employ Partners with the right attitude and train them in excellent customer service

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 first-class 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 will match Partner contributions up to 6%.

A significant element of Partner reward is the Partnership bonus. This is shared equally as a percentage of annual pay amongst all Partners at all levels up to and including the Chairman. In 2011/12, this was 14% of pay which is equivalent to over 7 weeks pay at a total cost of £165.2m. 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)

The Partnership is committed to responsible growth and conducting its day to day business in a responsible manner. The Partnership spirit, its intrinsic values and culture, allow us to balance environmental, social and ethical principles with the sound business practices needed for sustainable commercial success. This, we believe, amounts to a better way of doing business. Find out more about the Partnership Spirit at *www.johnlewispartnership.co.uk/about/the-partnership-spirit.html*.

As the UK's largest example of worker co-ownership, people come first. All 81,000 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.

Two awards at the People and Environment Business Awards in 2012 reinforced the Partnership's green credentials as a responsible business

We retained our platinum level status in Business in the Community (BITC) 2012 Corporate Responsibility Index. We also won the CSR and sustainable construction awards at the inaugural People and Environment Business Awards in January 2012.

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

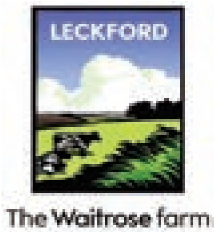
Governance and risk

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 embed CSR into our everyday business practices.

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.

Sustainable retailing

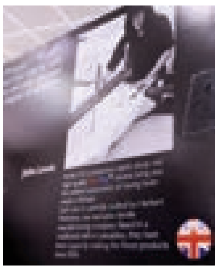
'The Waitrose way' and John Lewis' 'Bringing Quality to Life' are the banners our two trading divisions use to share their CSR strategy and commitments with Partners, customers, suppliers, and other key audiences. They allow them to message their distinct and specific CSR propositions and activities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



Our own farm on the Leckford Estate in Hampshire is championing sustainable farming

'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 CO_2 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.
- 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.



In 2012 John Lewis is drawing customers' attention to its commitment to UK-made products and to sustainability

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.
- Community links – Bringing quality to life through the communities we touch, whether local to our shops or to our suppliers throughout the world.

These areas of 'The Waitrose way' and 'Bringing Quality to Life' collectively address the areas which matter most to the Partnership and its stakeholders:

- Our people (our Partners);
- Our customers, products and suppliers;
- Our communities;
- Our environment.

Customers, products and suppliers

In 2011 Waitrose came first in Which? Magazine's supermarket survey

The Partnership's vision is for long term sustainable trading. 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 2011 Waitrose came first in *Which?* magazine's supermarket survey of over 12,000 shoppers and John Lewis was voted Britain's favourite retailer for the fourth year running by retail analysts Verdict.

The Partnership works with over 5,000 suppliers to sell quality products, supported by ethical and environmental standards and policies, paying them a fair price and helping them to reinvest in their businesses.

Business review

Resources and relationships (continued)

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

Customers, products and suppliers (continued)

In June 2011, the Partnership joined the Ethical Trading Initiative (ETI), a collaborative arrangement between businesses, trade unions and NGOs which aims to improve the lives of workers internationally.

The Partnership has two supply chain foundations: the Waitrose Foundation established in 2005, which contributed £550,000 to projects supporting communities in Waitrose's supply chain in Africa in 2011/12; and the John Lewis Foundation which has invested £58,500 in 2011/12 in projects which support and service the communities where John Lewis products are sourced.

Community

Local investment

The Partnership believes it can play a vital role in creating vibrant and sustainable town centres and aims to create comfortable, attractive environments for customers, build stronger relationships with our neighbours and attract, train and recruit local people. The Waitrose Effect and John Lewis Effect documents (available on *www.johnlewispartnership.co.uk*) provide further detail on this approach.

The Community Matters scheme donates to charities in the communities in which we trade

Charitable and community investment

	2010-11	2011-12	% change on last year
Total value of all charitable and community investment contributions* (£m)	8.8	10.9	23.9%
Community investment as a % of Profits before Partnership bonus and tax (%)	2.40%	3.07%	27.9%

** 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 30.*

Community programmes included:

- The Partnership donating over £3m in 2011/12 to a wide range of charities and community groups through Community Matters.
- Providing Community Rooms which was launched in 2011 whereby Waitrose and John Lewis shops make their meeting and training rooms 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.
- The Golden Jubilee Trust which 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 2011/12, this scheme saw 21,000 hours awarded to 58 Partners for 57 UK charities.

Each year Partners contribute thousands of hours to charity while on secondment to the Golden Jubilee Trust

The Partnership encourages all Partners to engage in sustainability

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 to deliver excellence in environmental practice across our business.

Environment Performance Indicators

	2010-11	2011-12	% change on last year
Total Greenhouse gas (GHG) emissions (CO_2e)	517,018*	530,147	2.5%
Transport related CO_2e emissions (tonnes/ £m sales)	8.8*	8.7	(1.1)%
Waitrose refrigeration and cooling direct emissions (CO_2e tonnes)	64,385*	60,963	(5.3)%
Proportion of generated waste diverted from landfill (%)	81	89	9.9%
Waitrose shop water consumption (cubic metres per sq ft trading floor area)	0.17	0.13	(23.5)%
John Lewis shop water consumption (cubic metres per sq ft trading floor area)	0.11	0.12	9.1%

** Emissions data was revised for 2010/11 to take account of updated emission factors issued by DEFRA.*

During 2011, we focussed our efforts on embedding our carbon footprint reduction programme. This includes a target to reduce operational carbon dioxide (CO_2) equivalent emissions by 15% by the end of 2020/21 against a 2010/11 baseline.

At Bracknell energy for the Waitrose store will be provided by biomass-fuelled combined cooling, heating and power plants

It was anticipated that emissions would rise for a couple of years before decreasing in response to the implementation of a range of emissions saving projects. Our CO_2 equivalent emissions grew by 2.5% in 2011/12 to 530,147 tonnes, a period in which gross sales grew by 6.4%.

In order to reduce our operational emissions the Partnership is focussed on:

- **Energy**
  In 2011/12 energy efficiency of our shops improved by 8.0% in Waitrose and by 2.8% in John Lewis. During 2011, we built two pilot energy centres at East Cowes on the Isle of Wight and at Bracknell, Berkshire where biomass fuelled combined cooling, heating and power plants will provide energy to the adjacent Waitrose stores.
- **Transport**
  Against our target to reduce transport CO_2 equivalent emissions by 15% relative to turnover by 2013, we have made an improvement of 7.9% against our 2005/06 baseline. Progress has been achieved by: reducing miles driven using smart scheduling; minimising empty vehicle journeys; increasing the use of double deck trailers and improving loading efficiency; improving fuel consumption by optimising driving styles; reducing drag through the widespread use of aerodynamic aids; and using alternative fuels such as pure plant oil, bio-methane, natural gas and electricity which reduce emissions and improve local air quality.

Business review

Resources and relationships (continued)

Environment *(continued)*

We continue to divert waste from landfill and segregate more of our recyclable material

- **Refrigeration**
  Waitrose stopped using hydrofluorocarbons (HFCs) for refrigeration in all new and refitted shops from 2010. 74 shops had our new low carbon refrigeration system installed by the end of 2011/12. As a result of this new system and our leakage reduction programme, Waitrose's direct refrigeration and cooling CO_2 equivalent emissions have been reduced by 5.3% since last year and 24.5% since our 2008/09 baseline.
- **Waste**
  We diverted 89% 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. During 2011, a suite of new recycling bins were installed in most Partner dining rooms to capture a larger proportion of recyclable waste such as vending drinks bottles, disposable cups, newspapers and magazines.
- **Water**
  We continue to introduce automatic metering; the majority of our retail and non-trading sites now have this technology. The Partnership delivered an improvement of 23.5% over the prior year in Waitrose in shop water consumption per square foot of trading floor area. However John Lewis water consumption increased by 9.1% to $0.12m^3$ 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.*

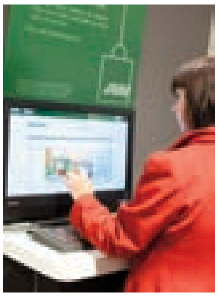
New construction sites continue to be registered and regularly assessed under the Considerate Constructors Scheme. Our new Waitrose shop in Stratford City was awarded BREEAM 'Outstanding'; the first BREEAM post construction 'Outstanding' rated retail building in the world.

Packaging
We place over 130,000 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-environment/minimising-packaging.html.*

Business review

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. An overview of the principal risks and uncertainties facing the Partnership along with mitigating actions in place is set out below.



Waitrose and John Lewis continue to further their multi channel strategy

Economic

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

The strength and diversity of the Waitrose and John Lewis businesses and brands, alongside our growing multi-channel and online strategy and together with developing adjacent services businesses, forms an effective means of managing 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 pre-eminent product quality, customer service and supplier relationships, whilst retaining our competitive position, including in value and pricing, enabling us to maintain our appeal.

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, including those identified in our business planning process. The other financial risks, together with mitigations, are covered in more detail below and in note 23 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. Details of the Partnership's borrowings, together with their interest rates and maturity profiles, are provided in note 26 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 swaps. Details of the Partnership's borrowings and interest rate exposures are provided in note 26 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 23 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.
- **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. 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 25 to the accounts. We have executed a deficit mitigation strategy over the past six years which means our Pension Fund on an actuarial basis was in surplus at the time of the most recent actuarial valuation in March 2010 and is estimated to be in balance currently. We actively monitor the outlook of asset and liabilities performance against the assumptions set both on an accounting and actuarial basis on a monthly basis and are finalising a formal framework for managing the Financial and Investment Risk of the Pension Fund proactively rather than retrospectively. The liquidity risk is managed by ensuring 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 shortfall that may occur in exceptable circumstances.

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, which will help offset these increases, through a number of efficiency programmes and initiatives as well as through our financial hedging strategy for future foreign exchange and energy pricing exposure.

Human resources
The successful delivery of key strategic projects, such as the implementation of new systems, the reengineering of business processes or major infrastructure development, is of paramount importance to the Partnership as they 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 first-class training and development of Partners. When the required skills are not available due to resources constraints or their highly specialised nature the Partnership will recruit these externally.

Customer offer
Broadening our multi-channel offer and extending our customer base are key to the Partnership's growth ambitions. We also recognise that the pre-eminent quality of our products and customer service is critical to the Partnership's success, and a deterioration of these would impact our business. The Partnership has a clear multi-channel strategy to extend its reach whilst leveraging our online position with our established footprint. In addition, we regularly review our customer and service strategies that include ongoing category and range reviews, whilst continuing to invest in our store environments and our multi-channel offer.

Health and safety

The Partnership is committed to going about its business in a way that avoids, so far as is reasonably practicable, causing harm to people or property, and to promoting, through its extensive occupational health service, the wellbeing of its workforce. 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, across the business, the quality and effectiveness of our risk assessment and incident investigation processes and the completeness of our health and safety management systems, and enhance our systems and measures to support a proactive approach to meeting our commitments to the safety and well being of our Partners, suppliers and customers.

Business continuity and disaster recovery

Any significant incident, such as a terrorist attack, pandemic flu outbreak, information loss, e-crime, or an event which impacts upon our mainframe systems or key support functions, could severely compromise our ability to trade. Reporting to the Finance Director, the Head of Operational Risk Management keeps our Business Continuity capability under review and continues to refine it for all significant business areas.

Other significant risks and uncertainties

Regulatory, political, fraud, compliance (including tax compliance) and operational risks are other significant risks and uncertainties that face the Partnership for which mitigating actions are in place, under the oversight of the Head of Operational Risk Management, the Director of Tax, Treasury and Insurance and Director of Legal Services and Company Secretary.

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

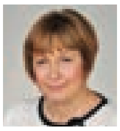
DIRECTORS

Charlie Mayfield

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

Marisa Cassoni

Finance Director since 2006 when she joined the Board and the Partnership. Also holds non-executive directorship with GFI Group Inc and is a Trustee Governor and director of The Peabody Trust, Nuffield Health and the Canal and River Trust. Was a member of the Accounting Standards Board until March 2011 and is a member of the CBI Economic Affairs Committee.



Tracey Killen

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

Mark Price

Managing Director, Waitrose since April 2007. Joined the Board 2005. Joined the Partnership 1982. Also a director of Channel Four Television Company Limited and Chairman of Business in the Community.

Andy Street

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

OFFICERS AND ADVISERS

Director of Legal Services and Company Secretary

Margaret Casely-Hayford

Auditors

PricewaterhouseCoopers LLP

Solicitors

Hogan Lovells

Bankers

Royal Bank of Scotland PLC

Registered Office

171 Victoria Street, London SW1E 5NN, Incorporated and registered in England No. 233462

Transfer Office

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

Directors' report

Margaret Casely-Hayford, Director of Legal Services

Principal activity and business review
The principal activity of the group is retailing with the main trading operations being the Waitrose and John Lewis businesses. The company controls the entities listed in note 33, comprising 29 John Lewis department stores, 8 John Lewis at home stores, johnlewis.com, 246 Waitrose supermarkets, 31 Waitrose convenience stores, waitrose.com and business to business contracts in the UK and abroad and ancillary manufacturing activities. A review of the business and likely future developments is included separately in the Chairman's Statement and Business Review on pages 2 to 25, which forms part of this Directors' report.

Governance of John Lewis plc within the John Lewis Partnership
John Lewis plc, as the principal trading subsidiary of John Lewis Partnership plc, falls within the governance auspices of the Partnership, details of which can be found on pages 29 to 38 of the annual report and accounts of John Lewis Partnership plc.

Employees
The constitution of the John Lewis Partnership provides for the democratic involvement of employees, known as Partners, as 'co-owners' of the business. They are therefore provided with full information on all aspects of the business operations and are encouraged to have an active interest in promoting its commercial success. Elected councils and forums at all levels of the business provide regular opportunities for management to report to Partners. This provides opportunities to question management on any subject, while an open system of journalism both contributes to effective accountability and provides a means of sharing information extensively with all Partners.

The aim is to ensure that co-owners are given the information they need to be able to decide whether the Chairman, the Partnership Board and the management are being effective. This is through the Partnership publications, including the weekly Gazette, and through its democratic elected bodies, in particular the Partnership Council.

Partners also receive an annual distribution of the profits of the business through Partnership bonus.

All employees can benefit from the Partnership's training and development policies. 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 John Lewis Partnership seeks to embrace diversity and this is reflected in all we do. The Board is therefore committed to providing equal opportunities for all in employment at all levels of the organisation, regardless of individual differences such as gender and ethnic origin.

Directors
Directors of the company at the date of this report are listed on page 28.

Directors' responsibilities
The Statement of directors' responsibilities in relation to the financial statements is set out on page 85.

Directors' interests
Under the constitution of the Partnership, the directors, as employees of John Lewis plc, are necessarily interested in the 612,000 Deferred Ordinary Shares in John Lewis Partnership plc which are held in trust for the benefit of employees of John Lewis plc and of certain other companies.

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

Financial risk management and insurance, treasury and tax policies
The Partnership Board approves the group's financial risk management, insurance, treasury and tax policies, which are delegated to the Partnership's Finance Director to implement and control. Further details of the group's financial risk management arrangements are provided in the Business Review and note 23 to the financial statements.

Directors' report

continued

Payments to suppliers
The group'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 group's trade creditors at 28 January 2012 were equivalent to 27 days of average purchases (2011: 24 days).

Charitable and political donations
The Partnership donated £4,494,000 (2011: £4,695,000) for charitable purposes during the year, comprising £4,049,000 (2011: £4,170,000) for welfare causes and £445,000 (2011: £525,000) for music and arts, learning and the environment. In addition, we provided substantial financial and practical support to causes in the communities where we trade, as detailed on page 20 of the Business Review. The Partnership made no political donations.

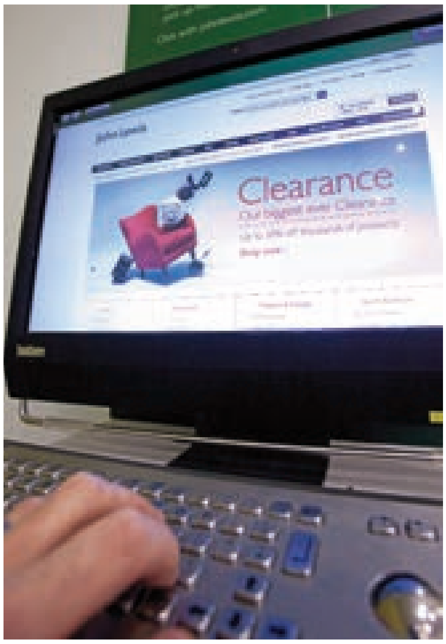
Dividends
Dividends on Preference Shares for 2012 were £125,000 (2011: £125,000) and a dividend of £125,000 (2011: £125,000) was paid on ordinary shares.

Going concern
The Directors, after reviewing the group's operating budgets, investment plans and financing arrangements, consider that the company and the group have adequate resources to continue in operation for the foreseeable future. A full description of the group's business activities, financial position, cash flows, liquidity position, committed facilities and borrowing position, together with the factors likely to affect its future development and performance, is set out in the Business Review and in the notes to the accounts. The company and group 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.

Auditors and disclosure of information to auditors
A resolution to reappoint PricewaterhouseCoopers LLP as auditors and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

The directors of the group 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 group'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 group's auditors are unaware.

For and by Order of the Board
Margaret Casely-Hayford
Secretary
23 April 2012


Financials

Consolidated income statement

for the year ended 28 January 2012

Notes	Continuing operations	Year to 28 January 2012 £m	Year to 29 January 2011 £m
2	**Gross sales**	**8,729.5**	8,206.3
2	**Revenue**	**7,758.6**	7,361.8
	Cost of sales	**(5,166.5)**	(4,878.7)
	Gross profit	**2,592.1**	2,483.1
	Other operating income	**59.6**	53.7
3	Operating expenses	**(2,260.7)**	(2,107.5)
2	**Operating profit**	**391.0**	429.3
4	Finance costs	**(70.5)**	(67.8)
4	Finance income	**32.8**	6.1
	Profit before Partnership bonus and tax	**353.3**	367.6
	Partnership bonus	**(165.2)**	(194.5)
5	**Profit before tax**	**188.1**	173.1
6	Taxation	**(51.9)**	(45.6)
	Profit for the year	**136.2**	127.5

The notes on pages 39 to 84 form part of these financial statements.

Consolidated statement of comprehensive (expense)/income

for the year ended 28 January 2012

Notes		Year to 28 January 2012 £m	Year to 29 January 2011 £m
	Profit for the year	**136.2**	127.5
	Other comprehensive (expense)/income:		
25	Actuarial (losses)/gains on defined benefit pension schemes	**(254.8)**	338.7
6	Movement of deferred tax on pension schemes	**48.4**	(141.4)
6	Movement of current tax on pension schemes	**6.5**	42.0
	Net gain on cash flow hedges	**0.2**	1.6
	Total comprehensive (expense)/income for the year	**(63.5)**	368.4

Consolidated balance sheet

as at 28 January 2012

Notes		2012 £m	2011 £m
	Non-current assets		
11	Intangible assets	**164.3**	111.4
12	Property, plant and equipment	**3,798.4**	3,622.6
15	Trade and other receivables	**41.8**	41.4
		4,004.5	3,775.4
	Current assets		
14	Inventories	**465.2**	422.0
15	Trade and other receivables	**222.7**	210.7
	Current tax receivable	**–**	17.1
24	Derivative financial instruments	**2.7**	8.6
16	Cash and cash equivalents	**550.8**	512.7
		1,241.4	1,171.1
	Total assets	**5,245.9**	4,946.5
	Current liabilities		
18	Borrowings and overdrafts	**(302.1)**	(165.3)
19	Trade and other payables	**(1,207.3)**	(1,087.5)
	Current tax payable	**(9.2)**	–
20	Finance lease liabilities	**(0.6)**	(0.8)
21	Provisions	**(90.6)**	(85.0)
24	Derivative financial instruments	**(2.5)**	(1.0)
		(1,612.3)	(1,339.6)
	Non-current liabilities		
18	Borrowings	**(726.7)**	(819.2)
19	Trade and other payables	**(85.8)**	(65.6)
20	Finance lease liabilities	**(26.4)**	(28.0)
21	Provisions	**(115.6)**	(112.9)
	Deferred tax liabilities	**(32.1)**	(94.7)
25	Retirement benefit obligations	**(638.1)**	(414.0)
		(1,624.7)	(1,534.4)
	Total liabilities	**(3,237.0)**	(2,874.0)
	Net assets	**2,008.9**	2,072.5
	Equity		
27	Share capital	**6.7**	6.7
	Share premium	**0.3**	0.3
	Other reserves	**1.6**	1.4
	Retained earnings	**2,000.3**	2,064.1
	Total equity	**2,008.9**	2,072.5

Approved by the Board on 23 April 2012
Charlie Mayfield
Marisa Cassoni
Directors

John Lewis plc — Registered number: 00233462

Balance sheet of the company

as at 28 January 2012

Notes		2012 £m	2011 £m
	Non-current assets		
11	Intangible assets	**137.7**	102.2
12	Property, plant and equipment	**879.9**	851.0
13	Investments	**966.7**	1,053.9
15	Trade and other receivables	**41.0**	41.4
22	Deferred tax asset	**129.1**	77.8
		2,154.4	2,126.3
	Current assets		
14	Inventories	**263.5**	245.5
15	Trade and other receivables	**84.5**	87.7
	Current tax receivable	**50.8**	36.8
24	Derivative financial instruments	**2.7**	8.6
16	Cash and cash equivalents	**459.5**	424.6
		861.0	803.2
	Total assets	**3,015.4**	2,929.5
	Current liabilities		
18	Borrowings and overdrafts	**(301.0)**	(164.1)
19	Trade and other payables	**(993.7)**	(1,081.5)
20	Finance lease liabilities	**(0.2)**	(0.2)
21	Provisions	**(80.3)**	(77.3)
24	Derivative financial instruments	**(2.5)**	(1.0)
		(1,377.7)	(1,324.1)
	Non-current liabilities		
18	Borrowings	**(726.7)**	(819.2)
19	Trade and other payables	**(75.9)**	(60.0)
20	Finance lease liabilities	**(14.5)**	(14.7)
21	Provisions	**(100.0)**	(98.2)
25	Retirement benefit obligations	**(543.5)**	(316.0)
		(1,460.6)	(1,308.1)
	Total liabilities	**(2,838.3)**	(2,632.2)
	Net assets	**177.1**	297.3
	Equity		
27	Share capital	**6.7**	6.7
	Share premium	**0.3**	0.3
	Other reserves	**0.2**	–
	Retained earnings	**169.9**	290.3
	Total equity	**177.1**	297.3

Approved by the Board on 23 April 2012
Charlie Mayfield
Marisa Cassoni
Directors

Consolidated statement of changes in equity

for the year ended 28 January 2012

Notes	Consolidated	Share capital £m	Share premium £m	Capital reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
	Balance at 30 January 2010	6.7	0.3	1.4	(1.6)	1,697.4	1,704.2
	Profit for the year	–	–	–	–	127.5	127.5
25	Actuarial gain on defined benefit pension schemes	–	–	–	–	338.7	338.7
6	Tax on above items recognised in equity	–	–	–	–	(99.4)	(99.4)
	Fair value losses on cash flow hedges	–	–	–	(1.1)	–	(1.1)
	– Transfers to inventories	–	–	–	2.7	–	2.7
	Dividends	–	–	–	–	(0.1)	(0.1)
	Balance at 29 January 2011	6.7	0.3	1.4	–	2,064.1	2,072.5
	Profit for the year	–	–	–	–	136.2	136.2
25	Actuarial loss on defined benefit pension schemes	–	–	–	–	(254.8)	(254.8)
6	Tax on above items recognised in equity	–	–	–	–	54.9	54.9
	Fair value gains on cash flow hedges	–	–	–	0.4	–	0.4
	– Transfers to inventories	–	–	–	(0.2)	–	(0.2)
	Dividends	–	–	–	–	(0.1)	(0.1)
	Balance at 28 January 2012	**6.7**	**0.3**	**1.4**	**0.2**	**2,000.3**	**2,008.9**

Retained earnings comprise £1,590.8m (2011: £1,648.6m) of distributable and £409.5m (2011: £415.5m) of non distributable reserves, arising on the revaluation of freehold and long leasehold properties prior to 31 January 2004.

Company statement of changes in equity

for the year ended 28 January 2012

Notes	Company	Share capital £m	Share premium £m	Hedging reserve £m	Retained earnings £m	Total equity £m
	Balance at 30 January 2010	6.7	0.3	(1.6)	49.5	54.9
	Loss for the year	–	–	–	(3.8)	(3.8)
25	Actuarial gain on defined benefit pension schemes	–	–	–	344.9	344.9
6	Tax on above items recognised in equity	–	–	–	(100.2)	(100.2)
	Fair value losses on cash flow hedges	–	–	(1.1)	–	(1.1)
	– Transfers to inventories	–	–	2.7	–	2.7
	Dividends	–	–	–	(0.1)	(0.1)
	Balance at 29 January 2011	6.7	0.3	–	290.3	297.3
	Profit for the year	–	–	–	75.4	75.4
25	Actuarial loss on defined benefit pension schemes	–	–	–	(251.5)	(251.5)
6	Tax on above items recognised in equity	–	–	–	55.8	55.8
	Fair value gains on cash flow hedges	–	–	0.4	–	0.4
	– Transfers to inventories	–	–	(0.2)	–	(0.2)
	Dividends	–	–	–	(0.1)	(0.1)
	Balance at 28 January 2012	**6.7**	**0.3**	**0.2**	**169.9**	**177.1**

Statement of consolidated cash flows

for the year ended 28 January 2012

Notes		Year to 28 January 2012 £m	Year to 29 January 2011 £m
28	**Cash generated from operations**	**774.0**	757.4
	Net taxation paid	**(33.2)**	(27.1)
	Partnership bonus paid	**(194.5)**	(151.2)
	Special contribution to the Pension Scheme	**–**	(150.0)
	Finance costs paid	**(2.3)**	(2.0)
	Net cash generated from operating activities	**544.0**	427.1
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(425.7)**	(447.9)
	Purchase of intangible assets	**(88.4)**	(43.5)
	Proceeds from sale of property, plant and equipment	**11.8**	3.7
	Finance income received	**2.4**	3.0
	Net cash used in investing activities	**(499.9)**	(484.7)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	**(54.7)**	(76.7)
	Payment of capital element of finance leases	**(0.7)**	(0.4)
	Payments to preference shareholders	**(0.1)**	(0.1)
	Cash inflow from borrowings	**54.7**	137.8
	Net cash (used in)/generated from financing activities	**(0.8)**	60.6
	Increase in net cash and cash equivalents	**43.3**	3.0
	Net cash and cash equivalents at beginning of period	**447.4**	444.4
	Net cash and cash equivalents at end of period	**490.7**	447.4
16	**Net cash and cash equivalents comprise:**		
	Cash	**83.6**	84.2
	Short term deposits	**467.2**	428.5
	Bank overdrafts	**(60.1)**	(65.3)
		490.7	447.4

Statement of company cash flows

for the year ended 28 January 2012

Notes		Year to 28 January 2012 £m	Year to 29 January 2011 £m
28	**Cash generated from operations**	**319.3**	307.6
	Net taxation (paid)/received	**(15.1)**	23.3
	Partnership bonus paid	**(94.2)**	(74.5)
	Special contribution to the Pension Scheme	**–**	(150.0)
	Finance costs paid	**(1.4)**	(1.0)
	Net cash generated from operating activities	**208.6**	105.4
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(142.4)**	(111.2)
	Purchase of intangible assets	**(66.7)**	(37.8)
	Proceeds from sale of property, plant and equipment	**15.7**	0.7
	Dividends received	**1.2**	2.0
	Loans advanced to group companies	**21.5**	(24.3)
	Finance income received	**2.4**	3.0
	Net cash used in investing activities	**(168.3)**	(167.6)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	**(54.7)**	(76.7)
	Payment of capital element of finance leases	**(0.2)**	(0.1)
	Payments to preference shareholders	**(0.1)**	(0.1)
	Cash inflow from borrowings	**54.7**	137.8
	Net cash (used in)/generated from financing activities	**(0.3)**	60.9
	Increase/(decrease) in net cash and cash equivalents	**40.0**	(1.3)
	Net cash and cash equivalents at beginning of period	**360.5**	361.8
	Net cash and cash equivalents at end of period	**400.5**	360.5
16	**Net cash and cash equivalents comprise:**		
	Cash	**24.5**	28.0
	Short term deposits	**435.0**	396.6
	Bank overdraft	**(59.0)**	(64.1)
		400.5	360.5

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 income statement and balance sheet include the accounts of the company and all its subsidiary undertakings.

Business components that represent major lines of business or geographical areas of operations are recognised as discontinued if the operations have been disposed of, are being abandoned or meet the criteria to be classified as held for sale.

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 reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

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 30 January 2011 and have not had a significant impact on the group's profit for the year, equity or disclosures:

– IAS 24 (revised) 'Related party disclosures'.
– Amendment to IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'.
– Annual improvements 2010.

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 29 January 2012 or later periods, but which the group has not adopted early. These are as follows:

– IFRS 9 'Financial Instruments'.
– 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 12 'Income taxes' on deferred tax.
– Amendment to IAS 1 'Presentation of financial statements'.
– Amendment to IAS 19 'Employee Benefits'.

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 disclosure rate to the net defined benefit asset or liability. This will result in an increase in finance costs but will not impact on total equity.

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.

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 staff 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 in operating expenses 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 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 and income 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 income statement. There are no assets supporting these arrangements.

The group also operates a defined contribution scheme. Contributions are charged to the income statements 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 service leave). The costs of providing the benefits under the scheme is determined actuarially. The current service cost is included in operating expenses in the consolidated income statement. The financing elements of long service 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, leasehold land with over 100 years to expiry, 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 remaining period of the lease
Buildings fixtures – 2.5% to 10%
Fixtures and fittings (including vehicles and IT 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 current income 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 directly to shareholder's equity, in which case the deferred tax is also dealt with in shareholder's equity.

Goodwill
Goodwill represents the excess of the cost of a business combination over the group's share of the fair value of identifiable net assets of the business acquired at the date of acquisition. Prior to February 1998 goodwill arising on the acquisition of subsidiaries was written off to reserves at the time of acquisition. The group has taken the IFRS 1 exemption in respect of the treatment of goodwill and, accordingly, goodwill on previous acquisitions has not been restated.

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 7 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 interest rate swaps, forward currency contracts and foreign currency swaps. 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 fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability. Derivative financial instruments qualifying for fair value hedge accounting are principally interest rate swaps.

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 with 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 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.

Exceptional items
Items which are both material and non-recurring are presented as exceptional items within their relevant consolidated income statement category. The separate reporting of exceptional items helps provide an indication of the group's underlying business performance. Events which may give rise to the classification of items as exceptional include gains or losses on the disposal of properties or investments, individually significant restructuring costs and asset impairments.

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 provision is made 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 provision 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 settlements of such transactions and from the translation of year end and 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 stated 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.

Trade payables
Trade payables are 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 25.

Provisions
Provisions recognised at the balance sheet date are detailed in note 21 and include amounts for long leave, insurance claims, service guarantee costs, customer refunds, reorganisation costs, accrued holiday pay and property related costs.

Although provisions are reviewed on a regular basis and adjusted to reflect management's best current estimates the judgemental nature of these items means that future amounts settled may be different from those provided.

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 and shared service overheads, transformation costs and the Partnership Services division set up costs. The operating profit of each segment is reported after charging relevant corporate and shared service costs based on the business segments' usage of corporate facilities and services.

2 Segmental reporting (continued)

28 January 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[1]	260.6	156.4	(27.5)	389.5
Property profits	–	1.5	–	1.5
Operating profit	260.6	157.9	(27.5)	391.0
Finance costs	–	–	(70.5)	(70.5)
Finance income	–	–	32.8	32.8
Partnership bonus	–	–	(165.2)	(165.2)
Profit before tax	260.6	157.9	(230.4)	188.1
Taxation	–	–	(51.9)	(51.9)
Profit after tax	260.6	157.9	(282.3)	136.2
Segment assets	2,713.9	1,648.5	883.5	5,245.9
Segment liabilities	(591.6)	(538.8)	(2,106.6)	(3,237.0)
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 of intangible assets	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

[1] The basis of allocation of pension costs to the divisions was changed for 2011/12 and is charged as a fixed proportion of total pay based on the estimated long-term costs of providing the benefit, with the difference between these costs and the total annual pension operating costs recognised in Corporate and other. This was income of £16.8m in 2011/12, which is principally due to market driven volatility.

Notes to the accounts

continued

2 Segmental reporting (continued)

29 January 2011	Waitrose £m	John Lewis £m	Corporate and other £m	Group £m
Gross sales	4,974.6	3,231.7	–	8,206.3
Adjustment for sale or return sales	–	(116.0)	–	(116.0)
Value added tax	(274.7)	(453.8)	–	(728.5)
Revenue	4,699.9	2,661.9	–	7,361.8
Operating profit excluding property profits	273.0	198.4	(44.0)	427.4
Property profits	1.9	–	–	1.9
Operating profit	274.9	198.4	(44.0)	429.3
Finance costs	–	–	(67.8)	(67.8)
Finance income	–	–	6.1	6.1
Partnership bonus	–	–	(194.5)	(194.5)
Profit before tax	274.9	198.4	(300.2)	173.1
Taxation	–	–	(45.6)	(45.6)
Profit after tax	274.9	198.4	(345.8)	127.5
Segment assets	2,520.2	1,597.9	828.4	4,946.5
Segment liabilities	(490.8)	(467.7)	(1,915.5)	(2,874.0)
Net assets	2,029.4	1,130.2	(1,087.1)	2,072.5
Other segment items:				
– Depreciation	122.1	81.2	12.2	215.5
– Amortisation of intangible assets	8.4	8.6	7.0	24.0
– Capital expenditure – property, plant and equipment	333.8	97.5	17.9	449.2
– Capital expenditure – intangible assets	20.2	22.0	1.3	43.5
– Movement in provisions	(2.0)	9.4	5.7	13.1

The comparatives have been re-presented in respect of John Lewis Insurance operations to be on a consistent basis to the current year. These were previously reported within Corporate and other and are now included within John Lewis.

3 Operating expenses

	2012 £m	2011 £m
Branch operating expenses	**1,796.9**	1,643.7
Administrative expenses	**463.8**	463.8
	2,260.7	2,107.5

4 Net finance costs

	2012 £m	2011 £m
Finance costs		
Interest payable on:		
Bank loans and overdrafts	**2.6**	2.0
Other loans repayable within 5 years	**12.2**	16.7
Loans repayable in more than 5 years	**43.8**	32.6
Finance lease interest payable	**1.2**	1.3
Amortisation of issue costs of bonds	**1.0**	1.1
Preference dividends	**0.1**	0.1
Finance costs in respect of borrowings	**60.9**	53.8
Premium paid on bond redemption	**–**	9.2
Total finance costs in respect of borrowings	**60.9**	63.0
Fair value measurements and other	**3.1**	0.1
Net finance costs arising on other employee benefit schemes	**6.5**	4.7
Total finance costs	**70.5**	67.8
Finance income		
Interest receivable	**(2.4)**	(2.7)
Finance income in respect of investments	**(2.4)**	(2.7)
Fair value measurements and other	**(0.1)**	(0.9)
Net finance income arising on defined benefit retirement schemes (note 25)	**(30.3)**	(2.5)
Total finance income	**(32.8)**	(6.1)
Net finance costs	**37.7**	61.7

Notes to the accounts

continued

4 Net finance costs (continued)

	2012 £m	2011 £m
Finance costs in respect of borrowings	**60.9**	53.8
Premium paid on bond redemption	**–**	9.2
Finance income in respect of investments	**(2.4)**	(2.7)
Net finance costs in respect of borrowings and investments	**58.5**	60.3
Net fair value measurements and other	**3.0**	(0.8)
Net finance (income)/costs arising on defined benefit retirement schemes	**(30.3)**	(2.5)
Net finance costs arising on other employee benefit schemes	**6.5**	4.7
Net finance costs	**37.7**	61.7

5 Profit on ordinary activities before taxation

	2012 £m	2011 £m
Profit on ordinary activities before taxation is stated after charging/(crediting) the following:		
Staff costs (note 10)	**1,475.9**	1,425.8
Depreciation – owned assets	**240.4**	214.9
Depreciation – assets held under finance leases	**0.6**	0.6
Amortisation of intangible assets	**32.3**	24.0
Profit on sale of property	**(1.5)**	(1.9)
Loss on disposal of tangible and intangible fixed assets	**5.4**	0.9
Inventory – cost of inventory recognised as an expense	**5,166.5**	4,878.7
Restructuring costs	**2.1**	9.0
Operating lease rentals		
– land and buildings	**113.4**	106.7
– plant and machinery	**0.4**	0.3
Sub lease income		
– land and buildings	**(5.9)**	(4.7)
Fees payable to the group's auditors for audit services pursuant to legislation:		
– parent company and group audit	**0.3**	0.3
– subsidiary audits	**0.4**	0.4
Fees payable to the group's auditors and its associates for other services:		
– taxation services	**–**	0.1
– other non audit services	**0.2**	0.3

In addition to the above, the group's auditors also acted as auditors to the group's pension schemes. The aggregate fee for audit services to the pension schemes during the year was £49,500 (2011: £50,600).

Contingency rents expensed during the year were £2.6m (2011: £3.6m). Contingency rents are determined based on store revenues.

6 Tax on profit on ordinary activities

Analysis of tax charge	2012 £m	2011 £m
Corporation tax – current year	**67.3**	62.1
Corporation tax – prior years	**(1.2)**	(11.7)
Total current tax charge	**66.1**	50.4
Deferred tax – current year	**(18.0)**	(10.7)
Deferred tax – prior years	**3.8**	5.9
	51.9	45.6

Tax (credited)/charged to equity	2012 £m	2011 £m
Deferred tax on pension liability	**(48.4)**	141.4
Current tax on pension liability	**(6.5)**	(42.0)
	(54.9)	99.4

The tax charge for the period is higher (2011: lower) than the standing corporation tax rate of 26.3% (2011: 28.0%). The differences are explained below:

	2012 £m	2011 £m
Profit before tax	**188.1**	173.1
Profit before tax multiplied by standard rate of corporation tax in the UK of 26.3% (2011: 28%)	**49.5**	48.5
Effects of:		
Adjustment to current tax in respect of prior years	**(1.2)**	(11.7)
Restatement of deferred tax balances for reduction in the corporation tax rate to 25%	**(14.4)**	(7.2)
Depreciation on assets not qualifying for tax relief	**12.8**	12.3
Difference between accounting and tax base for land and buildings	**(1.9)**	(2.8)
Adjustment to deferred tax in respect of prior years	**3.8**	5.9
Sundry disallowables	**3.3**	0.6
Total tax charge	**51.9**	45.6

The Finance (No. 3) Act reduced the main rate of corporation tax from 26% to 25% from 1 April 2012. In his budget dated 21 March 2012, the Chancellor announced a further 1% reduction to the main rate of corporation tax from 25% to 24% effective 1 April 2012. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 22% by 1 April 2014. The further 1% reduction announced on 21 March 2012 and the remaining rate changes had not be substantively enacted at the end of the reporting period, and therefore are not reflected in the consolidated financial statements.

The effect of the 2% rate change on the current year (2011: 1% rate change) was to reduce the deferred tax liability by £4.0m (2011: £3.5m) with a £10.4m charge (2011: £3.7m charge) being taken directly to reserves and a £14.4m tax credit (2011: £7.2m credit) to the income statement. The impact of the rate change is expected to be a similar amount in the year ending 26 January 2013, reflecting a 2% reduction in that year, assuming the 1% per annum reductions are substantively enacted annually and a comparable level of deferred tax. Adjustments in future years are expected to be of a lower amount to the year ended 28 January 2012, assuming the 1% per annum reductions proposed are substantively enacted annually and a comparable level of deferred tax.

Notes to the accounts

continued

7 Profit and loss of the company for the financial year

As permitted by Section 408 of the Companies Act 2006, John Lewis plc has not presented its own income statement. The result dealt with in the accounts of the company amounted to £75.4m profit (2011: £3.8m loss), including an exceptional gain of £78.4m on the liquidation of subsidiary undertakings.

8 Dividends

	2012 **£m**	2011 £m
Equity interests		
Ordinary shares		
(20 pence per share, 2011, 20 pence per share)	**0.1**	0.1

The ordinary shares are all held by the parent company John Lewis Partnership plc which is registered in England and Wales.

9 Directors' emoluments

	2012 **£000**	2011 £000
Directors' remuneration including Partnership bonus* of 14% (2011: 18%)	**3,577**	3,440

* Excludes pension supplements in lieu of future pension accrual which are explained below.

The emoluments of the Chairman, who was also the highest paid director, were £954,000 (2011: £950,000), including Partnership bonus of £115,000 (2011: £142,000). The Chairman's aggregate pension entitlement from the age of 60 accrued at the end of the year was £223,000 per annum (2011: £214,000 per annum). There was no increase in the accrued entitlement above consumer price inflation during the year.

Excluding pension fund contributions and pension supplements in lieu of future pension accrual, but including Partnership bonus, the emoluments of the individual directors, excluding the Chairman, who served on the Board during any part of the year, were as follows:

	2012	2011		**2012**	2011
£450,001 - £500,000	**1**	1	£700,001 - £750,000	**1**	1
£600,001 - £650,000	**–**	1	£750,001 - £800,000	**1**	–
£650,001 - £700,000	**1**	1			

Contracts of employment for all members of the Board provide for a notice period of one year.

All members of the Board qualify for the annual distribution of profit in Partnership bonus, paid at the same percentage of pay as for any Partner in employment on 31 January. They are also entitled to the use of a company car, or its cash equivalent, and private medical insurance paid by the group.

There were changes to the pensions arrangements for all members of the Board during the year ended 29 January 2011, as explained below.

Four directors belong to the group's non-contributory pension scheme and also to the senior pension scheme, which provides additional benefits intended to produce a total pension worth two-thirds of pensionable pay on retirement at age 60, after at least 20 or 30 years' service, depending on the level of benefit. From April 2010, these four directors became deferred members of both schemes and therefore accrue no further pension benefit in those schemes. One other director did not participate in the group's non-contributory pension scheme, but had an unfunded defined contribution arrangement

9 Directors' emoluments (continued)

under which the group accrued contributions. During the year ended 29 January 2011, the contributions for the period to 31 March 2010 were £88,000.

Following changes to pension legislation in April 2006, four directors opted to have part of their pension benefit provided on an unfunded basis, and the Partnership gave undertakings that these directors would have their pension made up to the same level as that provided by the senior pension scheme. In April 2010, the unfunded pension accrued for two directors was settled through a cash settlement. One director retained their unfunded pension accrued as at that date and provision has been made for this liability. During the year the unfunded pension accrued as at April 2010 in respect of the remaining two directors was contributed by the Partnership to a separate plan managed by a third party.

From April 2010, five directors no longer accrue pension benefits within the Partnership's pension funds and instead either receive a pension supplement, being a percentage of salary, or contributions are made by the Partnership to the separate plan explained above. During the year ended 28 January 2012, the total pension supplement in lieu of future pension accrual and contributions made by the Partnership for all directors was £1,816,000 (2011: £1,457,000 for the 10 months from April 2010), which includes £493,000 (2011: £400,000) in respect of the Chairman.

The annual pension entitlements from the age of 60, accrued at the end of the year for individual directors, excluding the Chairman, who served on the Board during any part of the year, and the prior year amounts for the same individuals, were as follows:

	2012	2011		**2012**	2011
£100,001 - £150,000	**1**	1	£200,001 - £250,000	**1**	–
£150,001 - £200,000	**1**	2			

The aggregate pension entitlement accrued at the end of the year for all directors, excluding the Chairman, who served on the Board during any part of the year, and the prior year amount for the same individuals, was £517,000 per annum (2011: £493,000 per annum). In addition, all directors are entitled to temporary pensions payable from age 60 until their State pension starts. The aggregate entitlement to temporary pensions was £22,000 per annum (2011: £21,000 per annum). There was no increase in the transfer value of the accrued entitlement above consumer price inflation, including temporary pensions, during the year.

10 Employees

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

Consolidated	**2012**	2011
John Lewis	**28,200**	28,100
Waitrose	**48,400**	44,800
Other	**2,100**	1,900
	78,700	74,800

Notes to the accounts

continued

10 Employees (continued)

Employment and related costs were as follows:

Consolidated	2012 £m	2011 £m
Staff costs:		
Wages and salaries	**1,096.3**	1,021.7
Social security costs	**85.5**	82.0
Partnership bonus	**146.9**	174.2
Employers' national insurance on Partnership bonus	**18.3**	20.3
Pension costs (note 25)	**124.0**	122.9
Long service leave cost	**4.9**	4.7
Total before partner discounts	**1,475.9**	1,425.8
Partner discounts (deducted from revenue)	**50.1**	44.6
	1,526.0	1,470.4
Included above are the following amounts in respect of key management compensation:		
Salaries and short-term benefits	**12.4**	10.6
Pension benefits*	**4.9**	4.3
Termination benefits	**–**	0.7

* Includes pension supplements in lieu of future pension accrual.

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.

Key management participate in the group's long service leave scheme, which is open to all employees and provides up to 6 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 Employees (continued)

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

Company	2012	2011
John Lewis	**28,200**	28,100
Other	**2,100**	1,900
	30,300	30,000

Employment and related costs were as follows:

Company	2012 £m	2011 £m
Staff costs:		
Wages and salaries	**500.8**	485.4
Social security costs	**44.0**	43.9
Partnership bonus	**66.1**	83.1
Employers national insurance on Partnership bonus	**8.2**	9.7
Pension costs	**59.9**	65.5
Long service leave cost	**2.3**	2.5
Total before partner discounts	**681.3**	690.1
Partner discounts	**28.0**	25.7
	709.3	715.8
Included above are the following amounts in respect of key management compensation:		
Salaries and short term benefits	**8.3**	6.8
Pension benefits*	**3.4**	2.9
Termination benefits	**–**	0.3

* Includes pension supplements in lieu of future pension accrual.

Notes to the accounts

continued

11 Intangible assets

Consolidated	Computer software Purchased £m	Internally developed £m	Work in progress £m	Total £m
Cost				
At 30 January 2010	35.9	134.5	25.5	195.9
Additions	–	–	43.5	43.5
Transfers	8.6	15.2	(23.8)	–
Disposals	(0.2)	(0.5)	–	(0.7)
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**
Aggregate amortisation				
At 30 January 2010	27.4	76.0	–	103.4
Charge for the year	4.6	19.4	–	24.0
Disposals	(0.1)	–	–	(0.1)
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**
Net book value at 29 January 2011	12.4	53.8	45.2	111.4
Net book value at 28 January 2012	**25.7**	**66.2**	**72.4**	**164.3**

For the year to 28 January 2012 computer systems totalling £58.7m (2011: £23.8m) were brought into use. This covered a range of selling, support, administration and IT infrastructure applications, with asset lives ranging from three to seven years.

Amortisation of intangible assets is charged within operating expenses.

11 Intangible assets (continued)

Company	Computer software Purchased £m	Internally developed £m	Work in progress £m	Total £m
Cost				
At 30 January 2010	21.3	134.2	24.1	179.6
Additions	–	–	37.8	37.8
Transfers	3.4	15.2	(18.6)	–
Disposals	(0.1)	(0.5)	–	(0.6)
At 29 January 2011	24.6	148.9	43.3	216.8
Additions	–	–	66.7	66.7
Transfers	11.3	36.9	(48.2)	–
Disposals	(2.7)	(17.7)	(2.5)	(22.9)
At 28 January 2012	**33.2**	**168.1**	**59.3**	**260.6**
Aggregate amortisation				
At 30 January 2010	16.4	75.8	–	92.2
Charge for the year	3.1	19.4	–	22.5
Disposals	(0.1)	–	–	(0.1)
At 29 January 2011	19.4	95.2	–	114.6
Charge for the year	4.3	23.7	–	28.0
Disposals	(2.7)	(17.0)	–	(19.7)
At 28 January 2012	**21.0**	**101.9**	**–**	**122.9**
Net book value at 29 January 2011	5.2	53.7	43.3	102.2
Net book value at 28 January 2012	**12.2**	**66.2**	**59.3**	**137.7**

For the year to 28 January 2012 computer systems totalling £48.2m (2011: £18.6m) were brought into use. This covered a range of selling, support, administration and IT infrastructure applications, with asset lives ranging from three to seven years.

Amortisation of intangible assets is charged within operating expenses.

Notes to the accounts

continued

12 Property, plant and equipment

Consolidated	Land and buildings £m	Fixtures and fittings £m	Assets in course of construction £m	Total £m
Cost				
At 30 January 2010	3,196.2	1,489.1	89.5	4,774.8
Additions	–	0.6	448.6	449.2
Transfers	203.7	103.5	(307.2)	–
Disposals	(8.9)	(18.2)	–	(27.1)
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**
Accumulated depreciation				
At 30 January 2010	517.6	866.2	–	1,383.8
Charges for the year	72.3	143.2	–	215.5
Disposals	(7.7)	(17.3)	–	(25.0)
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**
Net book values at 29 January 2011	2,808.8	582.9	230.9	3,622.6
Net book values at 28 January 2012	**3,091.1**	**618.4**	**88.9**	**3,798.4**

Included above are land and buildings assets held under finance leases with a net book value of £19.0m (2011: £19.6m).

12 Property, plant and equipment (continued)

Company	Land and buildings £m	Fixtures and fittings £m	Assets in course of construction £m	Total £m
Cost				
At 30 January 2010	588.8	754.7	15.4	1,358.9
Additions	–	0.1	105.4	105.5
Transfers	53.9	42.1	(96.0)	–
Disposals	–	(4.4)	–	(4.4)
At 29 January 2011	642.7	792.5	24.8	1,460.0
Additions	–	1.1	146.7	147.8
Transfers	60.3	85.7	(146.0)	–
Disposals	(23.6)	(123.8)	(2.7)	(150.1)
At 28 January 2012	**679.4**	**755.5**	**22.8**	**1,457.7**
Accumulated depreciation				
At 30 January 2010	98.6	427.2	–	525.8
Charges for the year	15.4	71.5	–	86.9
Disposals	–	(3.7)	–	(3.7)
At 29 January 2011	114.0	495.0	–	609.0
Charges for the year	17.9	79.8	–	97.7
Disposals	(6.0)	(122.9)	–	(128.9)
At 28 January 2012	**125.9**	**451.9**	**–**	**577.8**
Net book values at 29 January 2011	528.7	297.5	24.8	851.0
Net book values at 28 January 2012	**553.5**	**303.6**	**22.8**	**879.9**

Included above are land and buildings assets held under finance leases with a net book value of £13.0m (2011: £13.2m).

Notes to the accounts

continued

13 Investments

Company	Shares in group companies £m	Loans to group companies £m	Total £m
At 29 January 2011	83.4	970.5	1,053.9
Movements	(41.8)	(45.4)	(87.2)
At 28 January 2012	**41.6**	**925.1**	**966.7**

A list of subsidiary undertakings is provided in note 33.

The movements in shares in group companies relate to the liquidation of the company's 100% subsidiary undertakings, Bainbridge & Co Limited, Bonds (Norwich) Limited, Cavendish Textiles Limited, Cole Brothers Limited, JLP Victoria Limited, John Lewis Card Services Limited, John Lewis Construction Limited, John Lewis Overseas Limited, John Lewis Transport Limited, Leckford Mushrooms Limited, Suburban & Provincial Contracts Limited and Suburban & Provincial Stores Limited.

14 Inventories

Consolidated	2012 £m	2011 £m
Raw materials	**3.6**	5.1
Work in progress	**0.8**	0.8
Finished goods and goods for resale	**460.8**	416.1
	465.2	422.0
Company		
Raw materials	**0.3**	2.7
Finished goods and goods for resale	**263.2**	242.8
	263.5	245.5

The cost of inventory recognised as an expense by the group in the period was £5,166.5m (2011: £4,878.7m). Provisions against inventories of £3.2m were charged (2011: £1.0m charged) in operating expenses.

15 Trade and other receivables

Consolidated	2012 £m	2011 £m
Current:		
Trade receivables	**77.1**	78.6
Other receivables	**47.2**	54.1
Prepayments and accrued income	**98.4**	78.0
	222.7	210.7
Non-current:		
Prepayments and accrued income	**41.8**	41.4

Company		
Current:		
Trade receivables	**11.3**	14.2
Other receivables	**19.6**	27.9
Prepayments and accrued income	**53.6**	45.6
	84.5	87.7
Non-current:		
Prepayments and accrued income	**41.0**	41.4

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

As of 28 January 2012, group trade receivables of £1.2m (2011: £1.0m) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

Consolidated	2012 £m	2011 £m
At start of period	**(1.0)**	(0.8)
Charged to income statement	**(0.5)**	(0.4)
Utilised	**0.1**	–
Released	**0.2**	0.2
At end of period	**(1.2)**	(1.0)

As at 28 January 2012, company trade receivables of £0.7m (2011: £0.5m) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

Company	2012 £m	2010 £m
At start of period	**(0.5)**	(0.3)
Charged to income statement	**(0.3)**	(0.2)
Utilised	**0.1**	–
Released	**–**	–
At end of period	**(0.7)**	(0.5)

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

Notes to the accounts

continued

15 Trade and other receivables (continued)

As of 28 January 2012, group trade and other receivables of £20.4m (2011: £18.1m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

Consolidated	2012 £m	2011 £m
Up to 3 months past due	**18.0**	16.6
3 to 12 months past due	**1.8**	1.1
Over 12 months past due	**0.6**	0.4
	20.4	18.1

As of 28 January 2012, company trade and other receivables of £11.9m (2011: £13.8m) were past due but not impaired. The ageing analysis of past due amounts is as follows:

Company	2012 £m	2011 £m
Up to 3 months past due	**11.3**	13.1
3 to 12 months past due	**0.4**	0.4
Over 12 months past due	**0.2**	0.3
	11.9	13.8

16 Cash and cash equivalents

Consolidated	2012 £m	2011 £m
Cash at bank and in hand	**83.6**	84.2
Short-term investments	**467.2**	428.5
	550.8	512.7
Company		
Cash at bank and in hand	**24.5**	28.0
Short-term investments	**435.0**	396.6
	459.5	424.6

For the year ended 28 January 2012, the effective interest rate on short-term investments was 0.6% (2011: 0.7%) and these deposits had an average maturity of 2 days (2011: 3 days).

16 Cash and cash equivalents (continued)

In the group and company cash flow statements, net cash and cash equivalents are shown after deducting bank overdrafts, as follows:

Consolidated	2012 £m	2011 £m
Cash and cash equivalents, as above	**550.8**	512.7
Less bank overdrafts	**(60.1)**	(65.3)
Net cash and cash equivalents	**490.7**	447.4
Company		
Cash and cash equivalents, as above	**459.5**	424.6
Less bank overdrafts	**(59.0)**	(64.1)
Net cash and cash equivalents	**400.5**	360.5

17 Analysis of financial assets

The currency and interest rate exposures of the group's and company's financial assets are as set out below. Short-term receivables and investments in subsidiary companies are excluded from this analysis, on the basis that they are all non-interest bearing and denominated in sterling.

Interest rate and currency analysis Consolidated	Effective interest rate	Floating rate £m	Non interest bearing £m	Total £m
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**
Sterling	0.7%	500.1	12.3	512.4
Other	0.1%	0.3	–	0.3
At 29 January 2011		500.4	12.3	512.7

Interest rate and currency analysis Company	Effective interest rate %	Floating rate £m	Non interest bearing £m	Total £m
Sterling	0.6%	455.9	3.3	459.2
Other	0.0%	0.3	–	0.3
At 28 January 2012		**456.2**	**3.3**	**459.5**
Sterling	0.7%	421.2	3.1	424.3
Other	0.1%	0.3	–	0.3
At 29 January 2011		421.5	3.1	424.6

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.

Notes to the accounts

continued

18 Borrowings and overdrafts

Consolidated	2012 £m	2011 £m
Current:		
Bank overdraft	**60.1**	65.3
Loans	**100.0**	100.0
6⅜% Bonds, 2012	**142.0**	–
	302.1	165.3
Non-current:		
6⅜% Bonds, 2012	**–**	142.0
Fair value adjustment for hedged risk on bonds	**–**	6.2
10½% Bonds, 2014	**100.0**	100.0
Partnership Bond, 2016*	**55.6**	–
8⅜% Bonds, 2019	**275.0**	275.0
6⅛% Bonds, 2025	**300.0**	300.0
Unamortised bond transaction costs	**(6.2)**	(6.3)
5% First Cumulative Preference Stock	**1.5**	1.5
7% Cumulative Preference Stock	**0.8**	0.8
	726.7	819.2
Company		
Current:		
Bank overdraft	**59.0**	64.1
Loans	**100.0**	100.0
6⅜% Bonds, 2012	**142.0**	–
	301.0	164.1
Non-current:		
6⅜% Bonds, 2012	**–**	142.0
Fair value adjustment for hedged risk on above	**–**	6.2
10½% Bonds, 2014	**100.0**	100.0
Partnership Bond, 2016*	**55.6**	–
8⅜% Bonds, 2019	**275.0**	275.0
6⅛% Bonds, 2025	**300.0**	300.0
Unamortised bond transaction costs	**(6.2)**	(6.3)
5% First Cumulative Preference Stock	**1.5**	1.5
7% Cumulative Preference Stock	**0.8**	0.8
	726.7	819.2

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

All borrowings are unsecured, denominated in sterling, and are repayable on the dates shown, at par.

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

19 Trade and other payables

Consolidated	2012 £m	2011 £m
Current:		
Trade payables	**530.1**	424.5
Amounts owed to parent undertaking	**74.2**	57.1
Other payables	**101.2**	95.2
Other taxation and social security	**143.1**	141.4
Accruals	**185.1**	167.5
Deferred income	**25.0**	25.7
Partnership bonus	**148.6**	176.1
	1,207.3	1,087.5
Non-current:		
Accruals	**0.9**	1.1
Other payables	**0.8**	–
Deferred income	**84.1**	64.5
	85.8	65.6
Company		
Current:		
Trade payables	**202.0**	162.2
Amounts owed to parent undertaking	**74.2**	57.1
Amounts owed to group companies	**209.3**	358.2
Other payables	**80.1**	69.1
Other taxation and social security	**125.0**	118.9
Accruals	**134.2**	115.4
Deferred income	**23.5**	25.3
Partnership bonus	**145.4**	175.3
	993.7	1,081.5
Non-current:		
Accruals	**0.9**	1.1
Deferred income	**75.0**	58.9
	75.9	60.0

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

Notes to the accounts

continued

20 Finance lease liabilities

Consolidated	2012 £m	2011 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	**1.8**	2.0
Later than one year but not more than five	**6.8**	7.4
More than five years	**46.2**	48.3
	54.8	57.7
Future finance charge on finance leases	**(27.8)**	(28.9)
Present value of finance lease liabilities	**27.0**	28.8
Of which:		
Current	**0.6**	0.8
Non-current	**26.4**	28.0
Company		
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	**0.5**	0.5
Later than one year but not more than five	**2.0**	2.0
More than five years	**24.9**	25.4
	27.4	27.9
Future finance charge on finance leases	**(12.7)**	(13.0)
Present value of finance lease liabilities	**14.7**	14.9
Of which:		
Current	**0.2**	0.2
Non-current	**14.5**	14.7

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

21 Provisions

Consolidated	Long service leave £m	Service guarantee costs £m	Customer refunds £m	Insurance £m	Other £m	Total £m
At 29 January 2011	85.4	52.6	10.1	18.4	31.4	197.9
Charged to income statement	11.4	16.7	32.9	11.7	10.7	83.4
Released to income statement	–	(3.8)	–	–	(5.8)	(9.6)
Utilised	(3.9)	(16.1)	(20.9)	(9.6)	(15.0)	(65.5)
At 28 January 2012	**92.9**	**49.4**	**22.1**	**20.5**	**21.3**	**206.2**
Of which:						
Current	30.6	17.7	22.1	6.1	14.1	90.6
Non-current	62.3	31.7	–	14.4	7.2	115.6

Company	Long service leave £m	Service guarantee costs £m	Customer refunds £m	Other £m	Total £m
At 29 January 2011	85.4	52.6	10.1	27.4	175.5
Charged to income statement	11.4	16.7	32.9	8.2	69.2
Released to income statement	–	(3.8)	–	(5.7)	(9.5)
Utilised	(3.9)	(16.1)	(20.9)	(14.0)	(54.9)
At 28 January 2012	**92.9**	**49.4**	**22.1**	**15.9**	**180.3**
Of which:					
Current	30.6	17.7	22.1	9.9	80.3
Non-current	62.3	31.7	–	6.0	100.0

The Partnership has a long service 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 25) with the exception of the discount rate, where a rate appropriate to 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.

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

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

Notes to the accounts

continued

22 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 25% (2011: 27%).

The movement on the deferred tax account is shown below:

Consolidated	2012 £m	2011 £m
Opening liability/(asset)	**94.7**	(41.9)
Credited to income statement	**(14.2)**	(4.8)
(Credited)/charged to equity	**(48.4)**	141.4
Closing liability	**32.1**	94.7

Company	2012 £m	2011 £m
Opening asset	**(77.8)**	(199.1)
Credited to income statement	**(2.0)**	(20.9)
(Credited)/charged to equity	**(49.3)**	142.2
Closing asset	**(129.1)**	(77.8)

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

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

Deferred tax liabilities – consolidated	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Rollover gains £m	Other £m	Total £m
At 30 January 2010	180.7	6.7	23.4	2.2	213.0
Credited to income statement	(1.7)	(1.8)	(1.6)	(0.4)	(5.5)
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**

22 Deferred tax (continued)

Deferred tax assets – consolidated	Capital gains tax on land and buildings £m	Pensions and provisions £m	Capital losses £m	Total £m
At 30 January 2010	(2.0)	(252.8)	(0.1)	(254.9)
(Credited)/charged to income statement	(0.3)	0.9	0.1	0.7
Charged to equity	–	141.4	–	141.4
At 29 January 2011	(2.3)	(110.5)	–	(112.8)
Credited to income statement	(4.2)	(0.3)	–	(4.5)
Credited to equity	–	(48.4)	–	(48.4)
At 28 January 2012	**(6.5)**	**(159.2)**	**–**	**(165.7)**

Deferred tax liabilities – company	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Rollover gains £m	Other £m	Total £m
At 30 January 2010	77.4	0.1	8.8	2.0	88.3
Credited to income statement	(0.9)	–	(0.6)	(0.5)	(2.0)
At 29 January 2011	76.5	0.1	8.2	1.5	86.3
(Credited)/charged to income statement	(5.5)	–	0.3	0.3	(4.9)
At 28 January 2012	**71.0**	**0.1**	**8.5**	**1.8**	**81.4**

Deferred tax assets – company	Capital gains tax on land and buildings £m	Pensions and provisions £m	Total £m
At 30 January 2010	(12.1)	(275.3)	(287.4)
Credited to income statement	(0.1)	(18.8)	(18.9)
Charged to equity	–	142.2	142.2
At 29 January 2011	(12.2)	(151.9)	(164.1)
Charged to income statement	–	2.9	2.9
Credited to equity	–	(49.3)	(49.3)
At 28 January 2012	**(12.2)**	**(198.3)**	**(210.5)**

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 group or the company, for the year ended 28 January 2012 (2011: nil).

Notes to the accounts

continued

22 Deferred tax (continued)

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 25).

All of the deferred tax assets for the group were available for offset against deferred tax liabilities and hence the net deferred tax liability at 28 January 2012 was £32.1m (2011: liability of £94.7m). The net deferred tax liability for the group is due after more than one year.

All of the deferred tax liabilities for the company were available for offset against deferred tax assets and hence the net deferred tax asset at 28 January 2012 was £129.1m (2011: asset of £77.8m). The net deferred tax asset for the company is recoverable after more than one year.

23 Management of financial risks

The principal financial risks to which the group 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 group's debt portfolio and maturity profile. At the year end the group had undrawn committed revolving borrowings facilities of £310m (2011: £310m), £40m to October 2012, £30m, which was extended from August 2012 to August 2013, and £240m to September 2013. In addition to these facilities, the group has listed bonds totalling £817m, £142m of which mature on 30 January 2012, £100m in 2014, £275m in 2019 and £300m in 2025, together with a term loan of £100m, which was extended from March 2011 to December 2012, 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 26.

The Partnership's bank borrowing facilities each contain 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.

The group's total committed sources of funds at the date of signing these accounts are £1,143m.

23 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:

Consolidated	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	(302.1)	(100.0)	(635.1)
Interest payments on borrowings*	(64.2)	(54.5)	(358.6)
Finance lease liabilities	(1.8)	(1.8)	(51.2)
Trade and other payables	(1,039.2)	(1.7)	–
Derivative financial liabilities			
Derivative contracts – receipts	152.9	–	–
Derivative contracts – payments	(153.2)	–	–
At 28 January 2012	**1,407.6**	**(158.0)**	**(1,044.9)**
Non-derivative financial liabilities			
Borrowings and overdrafts	(165.3)	(142.0)	(677.3)
Interest payments on borrowings*	(61.1)	(51.9)	(392.2)
Finance lease liabilities	(2.0)	(1.9)	(53.8)
Trade and other payables	(920.4)	(1.1)	–
Derivative financial liabilities			
Derivative contracts – receipts	112.3	–	–
Derivative contracts – payments	(106.0)	–	–
At 29 January 2011	(1,142.5)	(196.9)	(1,123.3)

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

Notes to the accounts

continued

23 Management of financial risks (continued)

Company	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	(302.1)	(100.0)	(635.1)
Interest payments on borrowings*	(64.2)	(54.5)	(358.6)
Finance lease liabilities	(0.5)	(0.5)	(26.4)
Trade and other payables	(845.2)	(0.9)	–
Derivative financial liabilities			
Derivative contracts – receipts	152.9	–	–
Derivative contracts – payments	(153.2)	–	–
At 28 January 2012	**(1,212.3)**	**(155.9)**	**(1,020.1)**
Non-derivative financial liabilities			
Borrowings and overdrafts	(165.3)	(142.0)	(677.3)
Interest payments on borrowings*	(61.1)	(51.9)	(392.2)
Finance lease liabilities	(0.5)	(0.5)	(26.9)
Trade and other payables	(937.3)	(1.1)	–
Derivative financial liabilities			
Derivative contracts – receipts	112.3	–	–
Derivative contracts – payments	(106.0)	–	–
At 29 January 2011	(1,157.9)	(195.5)	(1,096.4)

* Excludes annual interest of £0.1m on cumulative preference stock which has 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. Future floating rate interest liabilities are estimated using the forward interest rate curve as at the relevant year end date.

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 26. Exposures to interest rate fluctuations are managed using interest rate swaps. 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 and the sustained uncertainty within the global economy. On 30 January 2012, the interest rate swaps used to convert £142.0m (2011: £142.0m) of fixed rate bond debt to floating rate, which were accounted for as fair value hedges under IAS 39, matured in line with the maturity of the underlying 6.375% 2012 bond. The movement in the fair value of the swaps and of the underlying hedged item attributable to the hedged risk is £7.0m (2011: £5.7m).

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

23 Management of financial risks (continued)

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 £152.9m (2011: £103.1m) have been entered into to hedge purchases in foreign currencies which will mature over the next 18 months. At the year end £12.0m (2011: £9.0m) of a total of £12.0m (2011: £9.1m) of liabilities denominated in foreign currency were covered in this way.

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 and company consider their maximum exposure to credit risk is as follows:

Consolidated	2012 £m	2011 £m
Trade and other receivables	**124.3**	132.7
Cash and cash equivalents	**550.8**	512.7
	675.1	645.4

Company	2012 £m	2011 £m
Trade and other receivables	**30.9**	42.1
Cash and cash equivalents	**459.5**	424.6
	490.4	466.7

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 and equity 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. During the year, the Partnership diversified its funding sources through the issue of a Partnership bond to its Partners and customers. Other forms of borrowing include SIP shares issued by John Lewis Partnership plc as part of the BonusSave scheme and a small amount of cumulative preference stock.

Notes to the accounts

continued

23 Management of financial risks (continued)

Energy risk

The Partnership operates risk management processes for the Partnership's energy costs associated with its activities. The group's energy policy is set out and 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.

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 2% 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 reasonably 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 designated as fair value hedges arising from movements in interest rates are assumed to have no effect on net assets;
- 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.

	2012		2011	
	Income statement +/– £m	**Equity +/– £m**	Income statement +/– £m	Equity +/– £m
UK interest rates +/– 2% (2011: +/– 5%)	**3.1**	–	6.1	–
US dollar exchange rate +/– 10% (2011: +/– 15%)	**0.4**	**0.2**	0.4	–
Euro exchange rate +/– 10% (2011: +/– 10%)	**0.6**	**0.2**	0.5	–
Hong Kong dollar exchange rate +/– 10% (2011: +/– 15%)	**–**	**–**	–	–

24 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 group's derivative financial instruments, used to manage the financial risks as identified in note 23, are shown below.

The fair values of derivative financial instruments are as follows:

Fair value of derivative financial instruments Consolidated and Company	**2012 Assets £m**	**2012 Liabilities £m**	2011 Assets £m	2011 Liabilities £m
Interest rate swap – fair value hedge	**–**	**–**	7.0	–
Currency derivatives – cash flow hedge	**2.7**	**2.5**	1.6	1.0
	2.7	**2.5**	8.6	1.0

The fair value of the derivative financial instruments held by the group 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 group'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.

Consolidated and Company	**2012 £m**	2011 £m
Bonds	**914.3**	895.7
Preference stock	**2.0**	1.8

25 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 annual contribution rate applicable for the year to 31 March 2011 was 12.8% of gross taxable pay of members, together with an additional £8.1m per year in respect of the past-service deficit arising from the actuarial valuation at 31 March 2007. As a result of the March 2010 valuation, the actuaries recommended a normal future annual contribution rate of 12.2% of gross taxable pay of members from 1 April 2011 onwards. The next triennial actuarial valuation of the fund will take place as at 31 March 2013.

As explained in note 9, there is also a senior pension scheme which provides additional benefits to certain members of senior management. The actuaries recommended an annual contribution rate of £1.6m. In addition, deficit reduction contributions totalling £6.0m were made in January and February 2011 to discharge the deficit.

The ongoing contributions expected to be paid to the pension schemes during the year to 26 January 2013 amount to £111m.

Notes to the accounts
continued

25 Retirement benefit obligations (continued)

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 assess the assets and liabilities of the schemes as at 28 January 2012.

Scheme assets are stated at market values at 28 January 2012. The following financial assumptions have been used:

	2012	2011
Future retail price inflation	**2.80%**	3.35%
Future consumer price inflation	**2.00%**	2.65%
Discount rate	**4.95%**	5.65%
Expected return on assets	**7.60%**	7.70%
Increases in earnings	**3.30%**	3.85%
Increases in pensions – in payment	**2.60%**	3.15%
Increases in pensions – deferred	**2.00%**	2.65%

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 increase 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 £50m, and would increase or decrease the current service cost by circa £3.0m.

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:

	2012		2011	
	Men	**Women**	Men	Women
Average life expectancy (in years) for a 60-year-old	**26.2**	**28.4**	26.1	28.2
Average life expectancy (in years) at age 60, for a 40-year-old	**27.5**	**29.8**	27.3	29.7

Amounts recognised in the balance sheet	**2012 £m**	2011 £m	2010 £m	2009 £m	2008 £m
Defined benefit obligation for funded arrangements	**(3,164.0)**	(2,869.0)	(2,824.0)	(2,334.0)	(2,397.0)
Defined benefit obligation for unfunded arrangements	**(11.0)**	(11.0)	(29.0)	(18.0)	(16.0)
Total defined benefit obligation	**(3,175.0)**	(2,880.0)	(2,853.0)	(2,352.0)	(2,413.0)
Total value of assets	**2,536.9**	2,466.0	1,948.4	1,622.0	1,859.0
Defined benefit liability at end of year	**(638.1)**	(414.0)	(904.6)	(730.0)	(554.0)

25 Retirement benefit obligations (continued)

Amounts recognised in the income statement	Year ended 28 January 2012 £m	Year ended 29 January 2011 £m
Current service cost	**117.4**	120.0
Curtailment gain	**–**	(2.4)
Contribution expense*	**4.9**	3.5
Administrative costs	**1.7**	1.8
Operating cost	**124.0**	122.9
Interest cost on liabilities	**160.2**	159.6
Expected return on assets	**(190.5)**	(162.1)
Finance income	**(30.3)**	(2.5)
Total pension charge	**93.7**	120.4

* 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.

Amounts recognised in equity	Year ended 28 January 2012 £m	Year ended 29 January 2011 £m
Actuarial losses/(gains) on assets	**145.1**	(179.2)
Actuarial losses/(gains) on defined benefit obligation	**109.7**	(159.5)
Total losses/(gains) recognised in equity	**254.8**	(338.7)
Cumulative loss recognised in equity	**485.6**	230.8

Reconciliation of net defined benefit liability	2012 £m	2011 £m
Net defined benefit liability at beginning of year	**(414.0)**	(904.6)
Pension expense	**(87.1)**	(115.1)
Contributions	**117.8**	267.0
Total (losses)/gains recognised in equity	**(254.8)**	338.7
Net defined benefit liability at end of year	**(638.1)**	(414.0)

Notes to the accounts

continued

25 Retirement benefit obligations (continued)

Reconciliation of defined benefit obligation	2012 £m	2011 £m
Defined benefit obligation at the beginning of year	2,880.0	2,853.0
Current service cost	117.4	120.0
Curtailment gain	–	(2.4)
Interest on pension liabilities	160.2	159.6
Actuarial losses/(gains)	109.7	(159.5)
Benefits paid	(92.3)	(90.7)
Defined benefit obligation at the end of year	3,175.0	2,880.0

Reconciliation of value of assets	2012 £m	2011 £m
Value of assets at the beginning of year	2,466.0	1,948.4
Expected return on assets	190.5	162.1
Actuarial (losses)/gains	(145.1)	179.2
Benefits paid	(92.3)	(90.7)
Contributions	117.8	267.0
Value of assets at the end of year	2,536.9	2,466.0

Analysis of assets	2012 %	2012 £m	2011 %	2011 £m
Equities	77	1,958.6	74	1,818.1
Bonds	12	309.8	13	324.9
Properties	8	191.0	8	193.8
Other	3	77.5	5	129.2
		2,536.9		2,466.0

Actual return on assets	2012 £m	2011 £m
Expected return on assets	190.5	162.1
Actuarial (losses)/gains	(145.1)	179.2
Actual return on assets	45.4	341.3

25 Retirement benefit obligations (continued)

History of experience of gains and losses	**2012 £m**	2011 £m	2010 £m	2009 £m	2008 £m
Losses/(gains) on assets	**145.1**	(179.2)	(164.7)	514.5	110.3
% of assets at the end of the year	**6%**	7%	8%	32%	6%
Experience losses/(gains) on defined benefit obligation	**33.4**	(106.5)	(28.0)	(17.4)	60.6
% of defined benefit obligation at the end of the period	**1%**	4%	1%	1%	3%

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 – £1.6m, 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 group entered into an arrangement with the Pension Scheme Trustees to address an element of the scheme deficit that existed at that time.

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

Together with another group company, JLP Scottish Limited Partnership provided sufficient capital to JLP Scottish Partnership to enable it to procure property assets with a market value of £150.9m from other group companies. The group retains control over these properties, including the flexibility to substitute alternative properties. The Properties held in JLP Scottish Partnership have been leased back to John Lewis plc and Waitrose Limited. In September 2011, the 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 group 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 group's consolidated accounts. Accordingly, the pension deficit position presented in these consolidated accounts does not reflect the £94.6m (2011: £98.0m) investment in JLP Scottish Limited Partnership held by the pension scheme. The distribution of JLP Scottish Limited Partnership profits to the pension scheme is reflected as pension contributions in these consolidated accounts on a cash basis.

The investment does represent a plan asset for the purpose of the company accounts. The retirement benefit obligation for the company as at 28 January 2012 was £543.5m (2011: £316.0m).

Notes to the accounts

continued

26 Analysis of financial liabilities

The currency and interest rate exposure of the group's and company's financial liabilities, after taking account of £142m (2011: £142m) of swaps from fixed rate to floating rate, 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 Consolidated	Fixed rate £m	Floating rate £m	Total £m
All sterling			
At 28 January 2012	**753.7**	**302.1**	**1,055.8**
At 29 January 2011	706.0	307.3	1,013.3

Maturity of financial liabilities Consolidated	2012 Effective interest rate	2012 £m	2011 Effective interest rate	2011 £m
Repayable within one year				
Bank overdrafts and other borrowing	**1.8%**	**60.1**	1.7%	65.3
Property finance leases	**7.6%**	**0.6**	7.6%	0.8
Loans	**1.5%**	**100.0**	0.9%	100.0
Bonds	**6.4%**	**142.0**	–	–
		302.7		166.1
Repayable between one and two years				
Property finance leases	**7.6%**	**0.6**	7.6%	0.8
Bonds	**10.5%**	**100.0**	6.4%	142.0
Unamortised bond transaction costs		**–**		(0.2)
Fair value adjustment for hedged risk on bonds		**–**		6.2
		100.6		148.8
Repayable between two and five years				
Property finance leases	**7.6%**	**2.1**	7.6%	2.5
Bonds	**5.5%**	**55.6**	10.5%	100.0
Unamortised bond transaction costs		**(0.5)**		–
		57.2		102.5
Repayable in more than five years				
Property finance leases	**7.6%**	**23.7**	7.6%	24.7
Bonds	**7.2%**	**575.0**	7.2%	575.0
Unamortised bond transaction costs		**(5.7)**		(6.1)
Preference stock	**5.6%**	**2.3**	5.6%	2.3
		595.3		595.9
		1,055.8		1,013.3

26 Analysis of financial liabilities (continued)

Interest rate and currency analysis Company	Fixed rate £m	Floating rate £m	Total £m
All sterling			
At 28 January 2012	**741.4**	**301.0**	**1,042.4**
At 29 January 2011	692.1	306.1	998.2

Maturity of financial liabilities Company	2012 Effective interest rate	2012 £m	2011 Effective interest rate	2011 £m
Repayable within one year				
Bank overdrafts	**1.8%**	**59.0**	1.7%	64.1
Property finance leases	**7.6%**	**0.2**	7.6%	0.2
Loans	**1.5%**	**100.0**	0.9%	100.0
Bonds	**6.4%**	**142.0**	–	–
		301.2		164.3
Repayable between one and two years				
Property finance leases	**7.6%**	**0.2**	7.6%	0.2
Bonds	**10.5%**	**100.0**	6.4%	142.0
Unamortised bond transaction costs		**–**		(0.2)
Fair value adjustment for hedged risk on bonds		**–**		6.2
		100.2		148.2
Repayable between two and five years				
Property finance leases	**7.6%**	**0.6**	7.6%	0.6
Bonds	**5.5%**	**55.6**	10.5%	100.0
Unamortised bond transaction costs		**(0.5)**		–
		55.7		100.6
Repayable in more than five years				
Property finance leases	**7.6%**	**13.7**	7.6%	13.9
Bonds	**7.2%**	**575.0**	7.2%	575.0
Unamortised bond transaction costs		**(5.7)**		(6.1)
Preference stock	**5.6%**	**2.3**	5.6%	2.3
		585.3		585.1
		1,042.4		998.2

Notes to the accounts

continued

27 Share capital

	2012 £m	2011 £m
Authorised, issued and fully paid:		
Equity		
Ordinary shares		
6,750,000 of £1 each	**6.7**	6.7
	6.7	6.7

28 Reconciliation of profit before tax to cash generated from operations

Consolidated	Year to 28 January 2012 £m	Year to 30 January 2011 £m
Profit before tax	**188.1**	173.1
Amortisation of intangible assets	**32.3**	24.0
Depreciation	**241.0**	215.5
Net finance costs	**37.7**	61.7
Partnership bonus	**165.2**	194.5
Loss/(profit) on disposal of tangible and intangible assets	**3.9**	(1.0)
Increase in inventories	**(43.2)**	(23.0)
Increase in receivables	**(12.6)**	(42.5)
Increase in payables	**160.3**	146.1
(Decrease)/increase in retirement benefit obligations	**(0.4)**	0.6
Increase in provisions	**1.7**	8.4
Cash generated from operations	**774.0**	757.4

Company	Year to 28 January 2012 £m	Year to 30 January 2011 £m
Profit/(loss) before tax	**79.9**	(12.1)
Amortisation of intangible assets	**28.0**	22.5
Depreciation	**97.7**	86.9
Net finance costs	**36.9**	60.8
Partnership bonus	**74.4**	92.7
Exceptional gain on liquidation of subsidiaries	**(78.4)**	–
Loss on disposal of tangible and intangible assets	**8.7**	0.5
Increase in inventories	**(18.0)**	(12.0)
Decrease/(increase) in receivables	**3.6**	(21.0)
Increase in payables	**82.0**	76.0
Increase in retirement benefit obligations	**6.3**	3.8
(Decrease)/increase in provisions	**(1.8)**	9.5
Cash generated from operations	**319.3**	307.6

29 Analysis of net debt

Consolidated	29 January 2011 £m	Cash flow £m	Other non-cash movements £m	**28 January 2012 £m**
Current assets				
Cash and cash equivalents	512.7	38.1	–	**550.8**
Derivative financial instruments	8.6	–	(5.9)	**2.7**
	521.3	38.1	(5.9)	**553.5**
Current liabilities				
Borrowings and overdrafts	(165.3)	5.2	(142.0)	**(302.1)**
Finance leases	(0.8)	0.7	(0.5)	**(0.6)**
Derivative financial instruments	(1.0)	–	(1.5)	**(2.5)**
	(167.1)	5.9	(144.0)	**(305.2)**
Non-current liabilities				
Borrowings	(819.3)	(55.3)	141.7	**(732.9)**
Unamortised bond transaction costs	6.3	0.6	(0.7)	**6.2**
Fair value adjustment for hedged risk on bonds	(6.2)	–	6.2	–
Finance leases	(28.0)	–	1.6	**(26.4)**
	(847.2)	(54.7)	148.8	**(753.1)**
Total net debt	(493.0)	(10.7)	(1.1)	**(504.8)**

Reconciliation of net cash flow to net debt

Consolidated	**Year to 28 January 2012 £m**	Year to 29 January 2011 £m
Increase in cash in the year	**43.3**	3.0
Cash inflow from increase in debt and lease financing	**(54.0)**	(137.4)
Movement in debt for the year	**(10.7)**	(134.4)
Opening net debt	**(493.0)**	(360.8)
Non-cash movements	**(1.1)**	2.2
Closing net debt	**(504.8)**	(493.0)

Notes to the accounts
continued

30 Commitments and contingent liabilities

At 28 January 2012 contracts had been entered into for future capital expenditure of £24.0m (2011: £53.6m) for the group, and £18.9m (2011: £27.6m) for the company.

John Lewis plc continues to provide lease guarantees in favour of the group's former associate company, Ocado Limited, of £6.8m (2011: £6.8m).

31 Operating lease commitments

Future aggregate minimum lease payments under non-cancellable operating leases, payable:	2012 Land and buildings £m	2011 Land and buildings £m
Consolidated:		
Within one year	**117.0**	104.7
Later than one year and less than five years	**441.0**	394.0
After five years	**1,890.1**	1,686.5
Company:		
Within one year	**39.4**	36.7
Later than one year and less than five years	**145.8**	135.8
After five years	**968.6**	824.6

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years comprise the following:	2012 Land and buildings £m	2011 Land and buildings £m
Consolidated:		
Later than five years and less than ten years	**450.5**	408.2
Later than ten years and less than twenty years	**571.5**	527.6
Later than twenty years and less than forty years	**250.7**	232.4
Later than forty years and less than eighty years	**258.4**	229.2
After eighty years	**359.0**	289.1
	1,890.1	1,686.5
Company:		
Later than five years and less than ten years	**142.0**	134.6
Later than ten years and less than twenty years	**219.9**	207.3
Later than twenty years and less than forty years	**136.6**	119.4
Later than forty years and less than eighty years	**144.8**	114.1
After eighty years	**325.3**	249.2
	968.6	824.6

Total future sub-lease payments receivable relating to the above operating leases amounted to £13.6m (2011: £16.0m) for the group, and £3.1m (2011: £3.9m) for the company.

32 Related party transactions

During the year John Lewis plc entered into transactions with other group companies in respect of the supply of goods for resale and associated services totalling £24.3m (2011: £28.8m), purchase of goods for resale totalling £45.2m (2011: £44.4m), the supply of IT and related services totalling £44.5m (2011: £39.2m), the supply of administrative and other shared services totalling £25.3m (2011: £19.3m) and the hire of vehicles totalling £13.9m (2011: £11.9m).

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

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 25.

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

Key management compensation has been disclosed in note 9.

Notes to the accounts

continued

33 Subsidiary and associated undertakings

Principal subsidiary undertakings as at 28 January 2012 were as follows:

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.

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

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

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

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

Statement of directors' responsibilities for the annual report and the financial statements

The directors are responsible for preparing the Annual Report and the financial statements 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
Marisa Cassoni

Directors

23 April 2012

Independent auditors' report to the members of John Lewis plc

We have audited the group and parent company financial statements (the ‘‘financial statements’’) of John Lewis plc for the year ended 28 January 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive (expense)/income, the consolidated balance sheet, the balance sheet of the company, the consolidated and company statements of changes in equity, the consolidated and company statements of cash flows and the related notes. 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 85, 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 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 28 January 2012 and of the group's profit and group's and parent company's 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 lAS 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.

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
23 April 2012

Retail branches

John Lewis Stores

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

Waitrose Supermarkets and Stores

London

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

Southern England

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

Retail branches

continued

Midlands, East Anglia, Wales, Northern England and Scotland

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

Channel Islands

Admiral Park	Rohais	Red Houses	St. Helier	St. Saviour

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 31 May 2012 at Partnership House, Carlisle Place, London SW1P 1BX:

- To receive the directors' report and accounts for the year 2011/12.
- To consider the final dividend.
- To consider the re-election of directors.
- To consider the re-appointment of the auditors.
- To consider the remuneration of the auditors.

By Order of the Board
Margaret Casely-Hayford
Company Secretary
171 Victoria Street, London SW1E 5NN
23 April 2012

A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote instead of him.

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

Printed by Perivan 222955

This report is printed on Revive 75 Silk. The paper consists of 50% de-inked post consumer waste, 25% pre-consumer waste and 25% virgin wood fibre. The pulp used is a combination of Elemental Chlorine Free (ECF) and Totally Chlorine Free (TCF). The mill is certified to environmental management standard ISO 14001. This product has been awarded the NAPM 75% Recycled Mark.

John Lewis
Waitrose