John Lewis Partnership

John Lewis Partnership plc
Unaudited results for 53 weeks ended 31 January 2015
[This does not constitute a preliminary announcement]
Strict Stock Exchange Embargo, 9.15am
Thursday 12 March 2015

93,800 Partners share 11% Bonus

Financial Summary

	Waitrose			John Lewis				Partnership		
	£m	Change	52 week change(1)	£m	Change	52 week change(1)		£m	Change	52 week change(1)
Gross sales	**6,508.9**	*6.5%*	*4.6%*	**4,433.7**	*9.2%*	*7.5%*		**10,942.6**	*7.6%*	*5.7%*
LFL sales(2)	**1.4%**			**6.5%**						
Revenue	**6,135.3**	*6.6%*	*4.7%*	**3,565.7**	*8.9%*	*7.3%*		**9,701.0**	*7.5%*	*5.6%*
Operating profit before exceptional items(3)(4)	**237.4**	*(23.4)%*	*(24.4)%*	**250.5**	*10.8%*	*10.4%*	(5)	**442.3**	*(6.1)%*	*(7.5)%*
Operating profit(4)								**450.2**	*6.3%*	*4.7%*
PBT(6) before exceptional items(3)(4)								**342.7**	*(9.0)%*	*(10.5)%*
PBT(4)(6)								**350.6**	*6.5%*	*4.7%*

(1) The results for 2014/15 comprise 53 weeks. To provide meaningful comparison, 52 week changes have been provided which exclude the impact of the final trading week of 2014/15
(2) Waitrose like-for-like sales excludes petrol
(3) Exceptional income of £7.9m (2013/14: charge of £47.3m) following last year review of holiday pay policy
(4) Includes property profits of £10.5m in Waitrose, £2.8m in John Lewis and £0.9m in Group (2013/14: £0.3m)
(5) Includes restructuring costs of £14.4m in 2013/14
(6) Profit before Partnership Bonus and tax

Partnership

- Strong sales performance and increased market share in both Waitrose and John Lewis
- Continued growth in customer numbers, up 6% in Waitrose and 4% in John Lewis
- PBT before exceptional items down 9.0% as Waitrose operating profit impacted by trading in a highly competitive and deflationary market, significantly higher level of investment and one-off items
- Net debt of £780.2m, up £294.4m (60.6%) following issue of £300m bond, with net proceeds used for additional one-off pension contribution
- Pension deficit of £1,249.3m, up £245.9m (24.5%)
- Partnership Bonus of £156.2m; 11% of salary (equivalent to nearly 6 weeks' pay for Partners with us for the whole year)

Waitrose

- Volume growth as customer transactions rise by average of 400,000 a week
- Online grocery sales up by 31.2%(7), average order value increased by 5%
- 13 new core supermarkets and 20 convenience shops opened
- myWaitrose membership up to 5.4 million customers
- 4,900 new or improved products

(7) On a 52 week basis

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John Lewis

- Growth across online and shops reflecting the strength of our omnichannel model
- Sales growth and market share gains across all three categories
- Click & Collect grown by 47%[8]
- Robust distribution operations allowed us to deliver on customer expectations
- Innovation and investment will give us the platform for growth in 2015

Sir Charlie Mayfield, Chairman of John Lewis Partnership, commented:

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

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

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

Our 93,800 Partners will receive a Bonus of 11%, equivalent to nearly 6 weeks' pay. And for the first time in 15 years, thanks to the new legislation that puts Employee Ownership on a similar footing to other forms of ownership, no Partner will pay tax on their Bonus up to £3,600.

Outlook 2015/16

Gross sales after the first five weeks of the current year are up by 1.9% against last year. In grocery, the market remains challenging, with Waitrose gross sales up 0.9% (-2.8% like-for-like, excluding petrol). In John Lewis gross sales are 3.7% higher than last year (2.6% like-for-like).

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

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

(8) On a 52 week basis

Financial Results

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

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

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

Our Partners, as co-owners, each receive the same percentage of pay as Partnership Bonus, which flexes from year to year reflecting the performance of our business. Partners will share £156.2m in profit, which represents 11% of pay or the equivalent of nearly 6 weeks' pay.

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

Waitrose

Gross sales for the year grew by 6.5% to £6.51bn (4.6% on a 52 week basis), with like-for-like sales up 1.4%. We had, on average, 400,000 more customer transactions a week compared to last year and our market share(9) grew to 5.4%.

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

Against the backdrop of a tough market where prices are falling and customer shopping patterns are changing, our strategy of investing to create the modern Waitrose has supported us in increasing sales, growing customer transactions and gaining market share.

As a co-owned business we are able to take the long-term view and so we have invested in new and existing space, improving our IT capability and strengthening our supply chain. In addition we continued to build our online business, convenience offer, hospitality and services in our branches and – through the myWaitrose card – our understanding of our customers.

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

(9) Source: Kantar

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

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

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

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

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

Quality, innovation and trusted provenance are at the heart of our brand. We launched 4,900 new or improved lines last year. Waitrose own brand grew sales by 5.6%, outperforming the market[10]. One of the highlights was the Horticulture and Garden range with impressive growth driven from the new outdoor pods in 167 branches.

John Lewis

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

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

We saw the significance of new ways to shop and changing customer expectations in two key shifts in consumer behaviour. First, Click & Collect overtook home deliveries this year, now accounting for 54% of online orders; and secondly, a new shape of peak trade was firmly established with Black Friday marking our busiest single day. Our distribution and online operations stood up well to the challenges and allowed us to deliver on a 'logistics Christmas'.

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

- Fashion had a particularly strong performance, up 8.3%, with growth from nursery at 16.3%, childrenswear at 8.2%, women's accessories at 8.5% and our own-brand Kin range at 46.6%.

(10) Source: Kantar

- Home was up 7.2% with furniture the highlight at 12.8%, floor covering up 6.1% and our House range continuing to grow at 24.2%. We also signed up to WWF's Forest Campaign, joining other retailers in a collaborative effort to support responsible forest trade.

- EHT was up 7.9%, performing well across the year, despite a challenging market, with large electrical at 12.5% and audio at 23.4%.

In our physical estate, we opened two convenience-driven shop formats at London's St Pancras station and Heathrow Terminal 2, and our new flexible format shop in York has seen trade exceed expectations. In our existing shops, we further enhanced the in-store customer experience by opening Opticians and expanding our third party catering offer, and completed a major refurbishment of our Southampton shop, which now includes a Little Waitrose within the branch.

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

In our 150th anniversary year we took time to mark the history of our business at a one-off celebratory event for Partners from across the UK, as well as creating a range of innovative products through brand and designer collaborations. Our 150th anniversary year saw us raise over £0.6m through our charity partnership with Barnardo's.

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

Partnership Services Group

Partnership Services and Group includes the operating costs for our Group offices and shared services, as well as the costs for transformation programmes and certain pension operating costs. Partnership Services and Group net operating costs decreased by £19.7m to £45.6m reflecting an increase in the share of pension and shared service costs charged to Waitrose and John Lewis.

Investment in the future

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

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

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

Pensions

The pension operating cost before exceptional items was £194.5m, an increase of £26.8m or 16.0% on the prior year costs. The increase reflects changes to financial assumptions, growth in scheme membership and a one-off cost in the year of £6.5m for an increase in future pension liabilities following our decision to take all paid overtime into account when calculating holiday pay for Partners, for holiday taken from 1 November 2014. Pension finance costs were £37.6m, an increase of £2.3m or 6.5% on the prior year, reflecting a higher accounting pension deficit at the beginning of the year than at the beginning of the previous year. As a result, total pension costs before exceptional items were £232.1m, an increase of £29.1m or 14.3%.

Following the conclusion of the triennial actuarial valuation of our defined benefit pension scheme as at 31 March 2013, we agreed to increase the ongoing contribution rate to 16.4% of members' gross taxable pay and put in place a plan to eliminate the deficit over a 10 year period through a one-off contribution and annual deficit reduction contributions. However, to secure long term debt at low interest rates, we issued a £300m bond in December 2014 and used the net proceeds of the issue to prepay almost 7 years of the previously-agreed deficit reduction contributions to the pension scheme. In the year, total contributions to the pension scheme therefore totalled £492.8m, an increase of £229.9m or 87.4% on the prior year.

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

The pension continues to be one of the most important benefits offered to Partners, but it also accounts for the greatest single investment made each year by the Partnership. We undertook a review of the pension scheme to ensure that it remains fair to Partners and affordable from a business perspective. This review has taken two years and encapsulated significant communication, discussion and debate across the Partnership. The final proposal, which was unanimously approved by Partnership Council, moves to a hybrid scheme combining defined benefit and defined contribution pensions, where future pension risk is shared between Partners and the Partnership.

Financing

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

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

Sustainability

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

Existing initiatives have continued to deliver tangible benefits to our business, the environment and the wider community. For example, our new John Lewis store in York was awarded BREEAM Outstanding status, the only department store in the world to achieve this benchmark for environmental construction. Waitrose was placed at the top of Compassion in World Farming's Business Benchmark on Animal Welfare. Finally, more than 3.5% of our pre-tax profits were invested in our communities through partnerships, donations, fundraising and volunteering.

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Unaudited results for 53 weeks ended 31 January 2015

Enquiries

For further information please contact:

John Lewis Partnership
Andrew Moys, Director of Communications 07525 272377

Citigate Dewe Rogerson
Simon Rigby / Jos Bieneman 020 7638 9571

John Lewis
Peter Cross, Director, Communications 07764 697674
Ann Bryon, Head of External Communications 07767 304853
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Waitrose
Christine Watts, Communications Director 07764 676414
Gill Smith, Senior Manager, Corporate PR 07887 898133

Notes to editors

The John Lewis Partnership - The John Lewis Partnership operates 43 John Lewis shops across the UK (31 department stores, 10 John Lewis at home and shops at St Pancras International and Heathrow Terminal 2), johnlewis.com, 336 Waitrose shops, waitrose.com and business to business contracts in the UK and abroad. The business has annual gross sales of over £10bn. It is the UK's largest example of an employee-owned business where all 93,800 staff are Partners in the business.

Waitrose - the Nation's Favourite Supermarket[1] and winner of the Best Supermarket[2] and Best Food and Grocery Retailer[3] awards - currently has 336 shops in England, Scotland, Wales and the Channel Islands, including 60 convenience branches, and another 28 shops at Welcome Break locations. It combines the convenience of a supermarket with the expertise and service of a specialist shop - dedicated to offering quality food that has been responsibly sourced, combined with high standards of customer service. Waitrose also exports its products to 50 countries worldwide and has seven shops in the Middle East.

[1] Conlumino Awards, 2014
[2] Good Housekeeping Best Supermarket 2014, *Which?* Best Supermarket 2014
[3] Verdict Best Food and Grocery Retailer 2014

John Lewis - John Lewis, 'Multichannel Retailer of the Year 2014'[4], 'Best Overall Retailer'[5] and 'Best Retailer 2014'[6], typically stocks more than 350,000 separate lines in its department stores across fashion, home and technology. Johnlewis.com stocks over 280,000 products, and is consistently ranked one of the top online shopping destinations in the UK (www.johnlewis.com). John Lewis Insurance offers a range of comprehensive insurance products - home, car, wedding and event, travel and pet insurance and life cover - delivering the values of expertise, trust and customer service expected from the John Lewis brand.

[4] Oracle Retail Week Awards 2014
[5] Verdict Consumer Satisfaction Awards 2014
[6] *Which?* Awards 2014

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John Lewis Partnership plc

UNAUDITED RESULTS FOR THE 53 WEEKS TO 31 JANUARY 2015

	2014/15	**2013/14**	***Change***
	£m	**£m**	***%***
GROSS SALES (including VAT)			
Waitrose	6,508.9	6,111.9	*6.5*
John Lewis	4,433.7	4,059.6	*9.2*
Gross sales	**10,942.6**	**10,171.5**	***7.6***
REVENUE			
Waitrose	6,135.3	5,753.7	*6.6*
John Lewis	3,565.7	3,274.1	*8.9*
Revenue	**9,701.0**	**9,027.8**	***7.5***
OPERATING PROFIT			
Waitrose	237.4	310.1	*(23.4)*
John Lewis	250.5	226.1	*10.8*
	487.9	536.2	*(9.0)*
Partnership Services and Group	(45.6)	(65.3)	*30.2*
Operating profit before exceptional item	**442.3**	**470.9**	***(6.1)***
Exceptional item	7.9	(47.3)	**-**
Operating profit	**450.2**	**423.6**	***6.3***
Net finance costs	(99.6)	(94.5)	*(5.4)*
Profit before Partnership Bonus and tax	**350.6**	**329.1**	***6.5***
Partnership Bonus	(156.2)	(202.5)	*22.9*
Profit before tax	**194.4**	**126.6**	***53.6***
Profit before Partnership Bonus, tax and exceptional item	**342.7**	**376.4**	***(9.0)***

Notes

1. 2014/15 is a 53 week reporting period whereas 2013/14 was a 52 week reporting period.
2. This statement does not constitute a preliminary announcement. These results are subject to audit. The Annual Report & Accounts for 2014/15 will be published in April 2015.