Annual Accounts

Following
publication of official records in the area of the borough of Westminster, London, England dated Friday, June 28, 2013 agreed the act of filing a the group of companies accounts made up to saturday january 26 2013 with regard to annual accounts

Annual Accounts

GROUP OF COMPANIES' ACCOUNTS MADE UP TO 26/01/13

Source	Companies House
Inscription Date	Jun 28, 2013
Publication date	Jun 28, 2013
Request Date	Feb 21, 2014

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Company Nos: 233462

John Lewis plc

annual report and accounts

2013

Contents

John Lewis Partnership,
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John Lewis Partnership plc

John Lewis plc is the principal trading subsidiary of the John Lewis Partnership plc

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

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

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

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

John Lewis Partnership plc and its subsidiary John Lewis plc have small issues of preference stock which have first claim on profits The remaining profit is available to be used for the benefit of the business and the Partners The share of profits allocated to Partners, the Partnership Bonus, is fixed each year by the Partnership Board and is distributed as the same percentage of gross annual pay to all Partners All Partners received a 17% bonus for 2012/13 as their share of pre-tax profits, at a total cost of £210 8m

In this annual report and accounts, references are made to the Partnership and its governance structures These apply to John Lewis Partnership plc and its subsidiaries, including John Lewis plc

Chairman's statement

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

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

The Chairman, Charlie Mayfield

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

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

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

Charlie Mayfield
Chairman
22 April 2013

Business review

Review of performance

The John Lewis Partnership

- Gross sales of £9 54bn, up £811 8m, 9 3%
- Revenue of £8 47bn, up £706 9m, 9 1%
- Group operating profit of £449 7m up £58 7m, 15 0%
- Profit before Partnership Bonus and tax of £408 8m, up £55 5m, 15 7%
- Partnership Bonus of £210 8m, 17% of salary (equal to nearly 9 weeks' pay)
- Net debt of £284 9m, down £219 9m, 43 6%

Waitrose

- Gross sales of £5 76bn, up £363 5m, 6 7%
- Like-for-like sales (excluding petrol) up 3 4%
- Revenue of £5 42bn, up £343 8m, 6 8%
- Operating profit of £292 3m, up £31 7m, 12 2%

John Lewis

- Gross sales of £3 78bn, up £448 3m, 13 5%
- Like-for-like sales up 10 5%
- Revenue of £3 05bn, up £363 1m, 13 5%
- johnlewis com gross sales of £959m, up £278m, 40 8%
- Operating profit of £216 7m, up £58 8m, 37 2%

Five year record – years ended January

	2013 £m	2012 £m	2011 £m	2010 £m	2009* £m
Gross sales[1]					
Waitrose	**5,763 9**	5,400 4	4,974 6	4,532 3	4,156 4
John Lewis	**3,777 4**	3,329 1	3,231 7	2,889 2	2,811 1
Gross sales	**9,541 3**	8,729 5	8,206 3	7,421 5	6,967 5
Revenue[1]					
Waitrose	**5,416 1**	5,072 3	4,699 9	4,317 2	3,940 1
John Lewis	**3,049 4**	2,686 3	2,661 9	2,417 4	2,327 1
Revenue	**8,465 5**	7,758 6	7,361 8	6,734 6	6,267 2
Operating profit[2]					
Waitrose	**292 3**	260 6	274 9	266 8	214 5
John Lewis	**216 7**	157 9	198 4	160 4	140 6
Corporate and other[3]	**(59 3)**	(27 5)	(44 0)	(39 2)	(33 9)
Operating profit	**449 7**	391 0	429 3	388 0	321 2
Net finance costs	**(40 9)**	(37 7)	(61 7)	(81 8)	(42 2)
Exceptional gain in respect of associate (Ocado)	**–**	–	–	–	127 4
Profit before Partnership Bonus and tax	**408 8**	353 3	367 6	306 2	406 4
Partnership Bonus	**(210 8)**	(165 2)	(194 5)	(151 3)	(125 4)
As a percentage of eligible pay	***17%***	*14%*	*18%*	*15%*	*13%*
Taxation	**(46 5)**	(51 9)	(45 6)	(48 3)	(47 7)
Profit for the year retained in the business	**151 5**	136 2	127 5	106 6	233 3
Net assets	**1,901 2**	2,008 9	2,072 5	1,704 2	1,722 5
Pay	**1,162 3**	1,096 3	1,021 7	940 4	908 0
Number of employees at year end	**84,700**	80,900	76,500	72,400	68,300
Average number of employees	**81,900**	78,700	74,800	70,000	68,700
including part-time employees	**46,800**	42,900	40,800	37,300	35,900
Average number of FTEs	**53,200**	51,100	48,500	45,900	45,100

*53 week year

[1] Note 1 to the financial statements explains the difference between gross sales and revenue

[2] The basis of allocation of pension costs to the divisions was changed in 2012 and is charged as a fixed proportion of total pay based on the estimated long-term costs of providing the benefit, with the differences between these costs and the total annual pension operating costs recognised in Corporate and other This was income of £11 3m in 2013 (2012 £16 8m), which is principally due to market driven volatility

[3] Corporate and other costs are principally corporate and shared service costs, transformation costs and Partnership Services

Business review

Review of performance (continued)

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

	Group		Waitrose		John Lewis	
	2013	2012	2013	2012	2013	2012
Trading performance						
Gross sales growth						
– total	**9.3%**	6 4%	**6 7%**	8 6%	**13 5%**	3 0%
– like-for-like[1]	**6 2%**	2 6%	**3 4%**	3 6%	**10 5%**	1 3%
Operating margin[2]	**5 3%**	5 0%	**5 4%**	5 1%	**7 1%**	5 9%
Partnership profit margin[3]	**4.8%**	4 6%				
Gross sales per FTE (£000)	**179 2**	170 7	**198 2**	194 2	**165 3**	150 3
Operating profit per FTE (£000)	**8 4**	7 7	**10 1**	9 4	**9 5**	7 1
Number of stores[4]	**329**	307	**290**	272	**39**	35
Average selling space (m sq ft)[5]	**9 7**	9 1	**5 2**	4 9	**4 5**	4 2
Gross sales per selling sq ft (£)	**982**	963	**1,111**	1,100	**835**	801
Operating profit per selling sq ft (£)	**46**	43	**56**	53	**48**	38
Cash flow and liquidity						
Operating cash flow before Partnership Bonus (£m)	**979 0**	774 1				
Capital expenditure (£m)[6]	**376 9**	517 8				
Interest cover[7]	**4 1**	3 9				
Balance sheet						
Net assets (£m)	**1,901 2**	2,008 9				
Net debt (£m)	**284 9**	504 8				
Gearing[8]	**15 0%**	25 1%				
Return on invested capital[9]	**8 2%**	7 2%				

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

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

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

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

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

(6) Capital expenditure for the group includes £34 4m (2012 £42 8m) of spending on group-wide information technology systems, vehicles, properties and other assets, not allocated to the operating businesses

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

(8) Gearing is net debt divided by net assets

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

Group performance

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

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

Partnership gross sales (including VAT) were £9 54bn, an increase of £811 8m, or 9 3%, on last year Revenue, which is adjusted for sale or return sales and excludes VAT, was £8 47bn, up by £706 9m or 9 1%

Gross sales (£m)

Operating profit was £449 7m, an increase of £58 7m, or 15 0% on last year, and operating profit margin increased from 5 0% to 5 3%

Operating profit (£m) and margin (%)

Profit before Partnership Bonus and tax was £408 8m, an increase of £55 5m, or 15 7%, on last year As a percentage of revenue, profit before Partnership Bonus and tax increased from 4 6% to 4 8%

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

These results reflect the collective hard work of our Partners who, as co-owners, each received the same percentage of annual pay as a cash bonus Partners shared £210 8m in profit, which represents 17% of pay or the equivalent of nearly 9 weeks' pay

Partnership Bonus

Business review

Review of performance (continued)

Net finance costs

Net finance costs increased by £3 2m (8 5%) to £40 9m Net finance costs on borrowings and investments decreased by £0 4m (0 7%) to £58 1m whilst the financing elements of pensions and long leave and non-cash fair value adjustments increased by £3 6m (17 3%) Interest cover increased to 4 1, up 0 2 on last year

Net finance costs (£m)

Interest cover (times)

Tax

The tax charge decreased compared with last year reflecting a lower effective tax rate of 23 5% compared to last year's rate of 27 6%, due to a lower standard rate of corporation tax and tax in respect of prior years

Profit for the year (£m)

Profit for the year

Profit for the year was £151 5m, up by £15 3m, or 11 2% on last year

Investment in the future

Capital spending in 2012/13 was £376 9m, a decrease of £140 9m (27 2%) This reduction largely reflects fewer branch openings and lower spend on refurbishments We expect capital spending in 2013/14 to return to 2011/12 levels

Waitrose invested £198 2m, mainly on new branches opening in 2012/13 together with three extensions, branch refurbishments, investment in the implementation of a new warehouse management system to drive productivity in our supply chain, and also a number of retail systems improvements to aid efficiency and enhance the flexibility of our offer

John Lewis invested £144 3m, with the mix of investment continuing to reflect the business strategy of opening new space, refurbishing key shops and investing in the information technology and distribution infrastructure to support omni-channel trading

In addition, £34 4m was invested centrally, mainly in maintaining and modernising our information technology platforms, head office buildings and residential clubs

Capital expenditure (£m)

Cash flow and net debt

Cash generated from operations grew to £991 1m, an increase of £217 1m, or 28 0%

At 26 January 2013, net debt was £284 9m, a decrease of £219 9m, or 43 6%, and gearing ratio decreased from 25 1% to 15 0% During the year we repaid borrowings totalling £242m from available cash In January 2013 we replaced a number of existing bilateral borrowing facilities with a new £325m five year syndicated facility, which was undrawn at year end

Operating cash flow and net debt (£m)

Gearing[1] ratio %

Business review

Review of performance (continued)

Return on invested capital

Return on invested capital increased to 8 2%, an improvement of 1 0% This reflects increased returns from investment decisions and the improved operating performance made across the Partnership

Return on invested capital (%)

Net assets

Net assets decreased by £107 7m, or 5 4%, to £1,901 2m This reflects an increase in the pension deficit of £184 0m and a decrease in working capital of £197 8m, principally through improved management of trade receivables and trade payables This has been partially offset by a reduction in borrowings and overdrafts of £244 8m and an increase in property, plant and equipment and information technology systems of £71 9m

Net assets (£m)

Pension charge

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

The accounting charge for pensions included within operating profit was £138 0m, an increase of £14 0m or 11 3% on the prior year reflecting the change in the financial assumptions and growth in scheme membership

The total accounting pension deficit at 26 January 2013 was £822 1m, an increase of £184 0m (28 8%) Net of deferred tax the deficit was £652 4m The accounting valuation of pension fund liabilities increased by £621 0m (19 6%) to £3,796 0m, while pension fund assets increased by £437 0m (17 2%) to £2,973 9m, including a £125m one-off cash contribution made by the Partnership in January 2013

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

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

Pension charge (£m)

Pension accounting deficit (£m)

Business review

Review of performance (continued)

Waitrose

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

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

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

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

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

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

The Heston from Waitrose range was expanded into ready-meals

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

Waitrose
Gross sales (£m)

Waitrose
Gross sales per selling square foot (£)

Waitrose
Gross sales per FTE (£000)

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

Waitrose
Operating profit (£m) and margin

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

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

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

Waitrose
Operating profit per selling square foot (£)

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

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

Waitrose
Operating profit per FTE (£000)

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

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

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

Business review

Review of performance (continued)

John Lewis

John Lewis gross sales grew strongly through the year up, 13 5% (£448 3m) to £3 78bn despite a market which continued to be challenging Total like-for-like sales grew by 10 5% Gross sales per square foot increased by 4 1%, from £801 to £835, and gross sales per FTE increased by 10 0%, from £150,000 to £165,000

Operating profit grew by 37 2% to £216 7m Operating margin was up from 5 9% to 7 1% on last year Operating profit per selling square foot increased by 26 3% from £38 to £48, and operating profit per FTE increased by 33 8%, from £7,100 to £9,500

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

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

We achieved market share gains in all three of our main categories Sales in Fashion increased by 9 1%, driven by a mix of own brand, new brand acquisitions and designer collaborations Home saw good growth of 6 2% and John Lewis now has the second largest home market share in the UK. Electricals and Home Technology (EHT) grew very strongly, up 28 9%, achieving our highest ever market share positions in computers (including tablets), TVs, cameras and both large and small electrical goods, and reflecting the trust customers have in our price-matching position, our Partners' product knowledge and our strong supplier relationships In April 2012, John Lewis was voted 'Britain's Favourite Electricals Retailer' by Verdict and also came top in its 'Customer Service' category

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

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

John Lewis
Gross sales (£m)

John Lewis
Gross sales per selling square foot (£)

John Lewis
Gross sales per FTE (£000)

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

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

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

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

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

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

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

John Lewis
Operating profit (£m) and margin

John Lewis
Operating profit per selling square foot (£)

John Lewis
Operating profit per FTE (£000)

Business review

Review of performance (continued)

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

Partnership Services continues to deliver efficiency savings

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

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

Business review

Business and strategy

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

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

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

Purpose of the Partnership

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

Strategic development – background

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

Strategic initiatives

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

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

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

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

Business review

Resources and relationships

Partners

Our culture

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

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

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

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

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

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

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

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

Talent development

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

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

Partners (continued)

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

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

Benefits
Our reward strategy aims to provide a Total Reward Package that offers competitive pay and distinctive market leading benefits, such as our non-contributory defined benefit final salary pension scheme for those Partners who stay with us for more than three years For those in their first three years, a defined contribution scheme is available where we match Partner contributions up to 4 5% of pensionable pay

A significant element of Partner reward is the Partnership Bonus This is shared as an equal percentage of annual pay amongst all Partners In 2012/13, Partnership Bonus was 17% of pay which is equivalent to nearly 9 weeks pay at a total cost of £210 8m This is a shared bonus for shared effort

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

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

Corporate Social Responsibility (CSR)

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

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

- Manage risk and demonstrate legal compliance,
- Increase competitive advantage by capturing opportunities that build brand trust, customer loyalty and increase business value,
- Enhance or protect the reputation of our business and brands,
- Attract and retain Partners,
- Meet customer and other stakeholder expectations, and
- Drive cost savings and efficiencies

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

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

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

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

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

Business review

Resources and relationships (continued)

embed CSR into our everyday business practices.

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

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

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

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

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

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

'The Waitrose way' is:

- Championing British – We believe in always bringing people home-grown food and produce at its very best, celebrating the British food season and working with the best local and regional suppliers;
- Treading Lightly – We believe in making the right choices for the environment by reducing packaging, waste, water and 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; and
- Living well – We believe that eating well should be enjoyable. We provide a wide range of imaginative and nutritious choices to inspire people to eat more healthily and are ahead of targets for salt reduction.

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

John Lewis 'Bringing Quality to Life' is:

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

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

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

Customers, products and suppliers

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

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

In 2012/13

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

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

Charitable and community investment

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

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

Community Performance Indicators

	2013	2012	% change on last year
Total value of all charitable and community investment contributions* (£m)	11 6	10 9	6 7%
Community investment as a % of Profits before Partnership Bonus and tax (%)	2 8%	3 1%	-7 7%

** Includes cash, in-kind, time and management costs as defined by the London Benchmarking Group model and also includes the donations for charitable purposes detailed on page 32*

Community programmes included

- The Partnership donating over £11 6m in 2012/13 to a wide range of charities and community groups through Community Matters Waitrose won a Big Society Award for the scheme and Community Matters was extended to all John Lewis stores,
- Community Rooms in many of our John Lewis stores and other locations make space available free of charge to local charities and community groups,
- The Partnership-wide payroll giving scheme which is well established enabling Partners to make tax-free charitable donations directly from their pay,
- Volunteering enables our Partners to get involved in our community activities and reinforces our commitment not just to our communities, but to our Partners as well The Golden Jubilee Trust is the Partnership's flagship employee volunteering scheme where any Partner can apply for a full- or part-time volunteering secondment with a UK registered charity for up to six months In 2012/13, this scheme saw 17,494 hours awarded to 55 Partners for 54 UK charities, and
- John Lewis shop Partners donating approximately 20,000 hours to volunteering in their local communities

Business review

Resources and relationships (continued)

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

Environment

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

Environment performance indicators

	2013	2012	% change on last year
Total greenhouse gas (GHG) emissions (CO_2)	557,017	528,532	5 4%
Greenhouse gas (GHG) emissions intensity (CO_2 tonnes/£m sales)	58 4	60 5	-3 5%
Transport related CO_2 emissions (tonnes/£m sales)	9 17	9 45	-3 0%
Waitrose refrigeration and cooling direct emissions (CO_2 tonnes)	67,254	61,758	8 9%
Proportion of generated waste diverted from landfill (%)	92	89	3 4%
Waitrose shop water consumption (cubic metres per sq ft trading floor area)	0 13	0 13	0%
John Lewis shop water consumption (cubic metres per sq ft trading floor area)	0 11	0 12	-8 3%

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

During 2012/13, we continued to focus on our carbon target to reduce operational carbon dioxide (CO_2) equivalent emissions by 15% by the end of 2020/21 against a 2010/11 baseline Our operations are regulated under the CRC Energy Efficiency scheme, which requires organisations to monitor and report on their energy usage

It was anticipated that emissions would rise for the first couple of years before decreasing in response to the implementation of a range of emissions saving projects Our CO_2 equivalent emissions grew by 5 4% in 2012/13 to 557,017 tonnes, a period in which gross sales grew by 9 3% Our Greenhouse Gas Emission intensity therefore decreased by 3 5% in the same period

To reduce our operational emissions the Partnership is focussed on

- **Energy**
  We are tackling energy reduction in two key ways introducing technology to reduce usage and supporting Partners in operating our buildings more efficiently As an example, following successful trials, LED lighting will now be specified as standard throughout the Waitrose and John Lewis estate, delivering a 10% reduction in electricity demand
- **Transport**
  Against our target to reduce transport CO_2 equivalent emissions by 15% relative to turnover by 2013/14, we have made an improvement of 11 1% against our 2005/06 baseline Progress has been achieved by sharing vehicle space with our suppliers to avoid three million miles in shop deliveries in a year, using telematics to monitor driver performance and encourage more efficient driving styles, limiting the speed of our heavy goods vehicles to improve miles per gallon performance, reducing miles driven using smart scheduling, increasing the use of double deck trailers and improving loading efficiency, and using dual-fuel technology where a percentage of the diesel requirement is replaced by bio-methane or gas

Environment (continued)

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

- **Refrigeration**
  Over the last four years, new water-cooled refrigeration systems have been installed in 97 stores – the majority of these into new stores The reason for the increase in leakage is that in 2012/13 there was a smaller investment in the existing estate than was originally planned In 2013/14 the predicted refurbishment spend has doubled which in turn will mean a greater level of water-cooled refrigeration and therefore fewer CO_2 equivalent emissions There has also been and will continue to be much work taking place to ensure that the leakage across the estate is contained This will include containment work across the worst leaking stores and auditors proactively visiting branches to identify leaks and take action

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

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

- **Water**
  The Partnership delivered an improvement of 8 3% over the prior year in John Lewis in shop water consumption per square foot of trading floor area and Waitrose water consumption per square foot of trading floor area remained the same at 0 13m³ per square foot of trading floor area

Responsible development

Our Responsible Development Framework details our approach to the development and refurbishment of our shops, offices and warehouses which can be found on the Partnership website
www johnlewispartnership co uk/csr/our-environment/responsible-development html

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

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

Packaging

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

Business review

Resources and relationships (continued)

Looking ahead

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

Waitrose is committed to only selling sustainably sourced fresh fish

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

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

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

Business review

Risks and uncertainties

Risks and uncertainties

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

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

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

Financial risk
The principal financial risk which we face is the ability to generate and access sufficient funds to satisfy our business needs, to meet our Partners' expectations for Partnership Bonus and to mitigate against any adverse financial impact resulting from risks crystallising The other financial risks, together with mitigations, are covered in more detail below and in note 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 Funding levels are managed to ensure that there is adequate headroom available to mitigate the funding and liquidity risks Details of the Partnership's borrowings, together with their interest rates and maturity profiles, are provided in note 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 derivatives 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
- **Energy risk**
  The Partnership operates risk management processes for the

Business review

Risks and uncertainties (continued)

procurement of energy associated with its activities including hedging energy pricing exposure

- **Insurable risk**
  The Partnership's captive insurance company, JLP Insurance Limited based in Guernsey, provides reinsurance of the Partnership's employer's, public and vehicle third party liability insurances and of the Partnership's healthcare insurance cover It also reinsures extended warranty cover purchased by customers of John Lewis

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

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

The Pension Fund assets are held in separate funds administered by the Trustees, who delegate day-to-day management of these funds to a number of investment managers Our pension arrangements and funding position are explained in note 25 to the accounts We have executed a deficit mitigation strategy over the past seven years including a one-off cash contribution made by the Partnership in January 2013 The next formal actuarial valuations of the schemes will be as at 31 March 2013 Each month, we monitor asset and liability performance against both accounting and actuarial assumptions We also have a formal framework, agreed with the Trustees, for managing the Financial and Investment Risk of the Pension Fund proactively rather than retrospectively The liquidity risk is managed by seeking to ensure the annual contribution to the Fund more than covers its outgoings and that income generated from the investment activities is more than adequate to cover any short fall that may occur

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

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

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

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

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

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

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

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

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

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

Business review

Risks and uncertainties (continued)

Compliance statement

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

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

Other information

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

Directors and advisers

DIRECTORS

Charlie Mayfield

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

Tracey Killen

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

Rachel Osborne

Finance Director, John Lewis Division since July 2011 Member of the Board since January 2013 Joined the Partnership in July 2011

Mark Price

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

Andy Street

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

Helen Weir CBE

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

OFFICERS AND ADVISERS

Margaret Casely-Hayford

Director of Legal Services and Company Secretary

Independent Auditors

PricewaterhouseCoopers LLP

Solicitors

Hogan Lovells International LLP

Bankers

Royal Bank of Scotland PLC

Registered Office

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

Transfer Office

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

Directors' report

Margaret Casely-Hayford
Director of Legal Services and Company Secretary

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

Principal activity, business review and future developments
The principal activity of John Lewis plc is retailing with the main trading operations being the Waitrose and John Lewis businesses

The Company controls the entities listed in note 33, comprising 30 John Lewis department stores, 9 John Lewis at home stores, johnlewis com, 255 Waitrose supermarkets, 35 Waitrose convenience stores, waitrose com and business to business contracts in the UK and abroad and ancillary manufacturing activities A review of the business and likely future developments is included and the Business Review on pages 3 to 28, which forms part of this Directors' report

Key performance indicators and directors' responsibilities
The key performance indicators and statement of directors' responsibilities are set out on pages 6 and 88 respectively

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 36 to 50 of the annual report and accounts of John Lewis Partnership plc

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

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

Dividends
Dividends on Preference Stocks for 2013 were £125,000 (2012 £125,000) The directors do not recommend the payment of a dividend (2012 £125,000)

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

Name	Date of Appointment	Date of Resignation
Charlie Mayfield		
Marisa Cassoni		1 June 2012
Tracey Killen		
Rachel Osborne	23 January 2013	
Mark Price		
Andy Street		
Helen Weir	1 June 2012	

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

Employees
The Constitution of the Partnership provides for the democratic involvement of Partners, or employees, as co-owners of the business Partners are provided with extensive information on all aspects of business operations and are encouraged to take an active interest in promoting its commercial success The aim is to ensure that the co-owners are given the information they need to be able to decide whether the Chairman, the Partnership Board and management are being effective The Partnership's democratically elected bodies, including the Partnership

Directors' report

continued

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

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

Diversity

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

The Partnership recruits people with disabilities to suitable vacancies on merit. Where disability occurs during the period of employment, every effort is made to continue to provide suitable employment with the provision of appropriate training.

The Partnership Board of John Lewis Partnership plc recognises that balanced and diverse boards are effective boards. One half of the John Lewis plc board are women.

Corporate social responsibility

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

Social and community involvement and political donations

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

Supplier payment policy

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

Capital Structure

At 26 January 2013, the Company has in issue 1,457,500 5% First Cumulative Preference Stock, 750,000 7% Cumulative Preference Stock and bonds and 6,750,000 ordinary shares of £1 each. The rights attaching to the preference stock are set out in note 18 of the these accounts.

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

Annual General Meeting

The Annual General Meeting will be held at 12.45pm on 6 June 2013 at Partnership Services Division head office, Spedan House, Doncastle Road, Bracknell, Berkshire, RG12 8YA.

Auditors and disclosure of information to auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the Annual General Meeting, together with a resolution to authorise the directors to determine the auditors' remuneration.

The directors of John Lewis plc have taken all the steps that they each ought to have taken as directors in order to make themselves aware of any information needed by the Partnership's auditors in connection with preparing their report and to establish that the auditors are aware of that information. So far as the directors are aware there is no such information of which the Partnership's auditors are unaware.

Approved by the directors and signed on behalf of the Board

Margaret Casely-Hayford

Director of Legal Services and Company Secretary

22 April 2013

Consolidated income statement

for the year ended 26 January 2013

Notes		Year to 26 January 2013 £m	Year to 28 January 2012 £m
2	**Gross sales**	**9,541 3**	8,729 5
2	**Revenue**	**8,465 5**	7,758 6
	Cost of sales	**(5,640 1)**	(5,166 5)
	Gross profit	**2,825 4**	2,592 1
	Other operating income	**64 1**	59 6
3	Operating expenses	**(2,439 8)**	(2,260 7)
2	**Operating profit**	**449 7**	391 0
4	Finance costs	**(81 0)**	(70 5)
4	Finance income	**40 1**	32 8
	Profit before Partnership Bonus and tax	**408 8**	353 3
	Partnership Bonus	**(210 8)**	(165 2)
5	**Profit before tax**	**198 0**	188 1
6	Taxation	**(46 5)**	(51 9)
	Profit for the year	**151 5**	136 2

Consolidated statement of comprehensive expense

for the year ended 26 January 2013

Notes		Year to 26 January 2013 £m	Year to 28 January 2012 £m
	Profit for the year	**151 5**	136 2
	Other comprehensive expense		
25	Actuarial losses on defined benefit pension schemes	**(326 3)**	(254 8)
6	Movement in deferred tax on pension schemes	**28 9**	48 4
6	Movement in current tax on pension schemes	**34 6**	6 5
	Net gain on cash flow hedges	**3 7**	0 2
	Total comprehensive expense for the year	**(107 6)**	(63 5)

Consolidated balance sheet

as at 26 January 2013

Notes		2013 £m	2012 £m
	Non-current assets		
11	Intangible assets	**213 7**	164 3
12	Property, plant and equipment	**3,820 9**	3,798 4
15	Trade and other receivables*	**55 8**	51 3
22	Deferred tax assets	**25 6**	–
		4,116 0	4 014 0
	Current assets		
14	Inventories	**514 0**	465 2
15	Trade and other receivables*	**191 9**	213 2
	Current tax receivable	**3 1**	–
24	Derivative financial instruments	**4 2**	2 7
16	Cash and cash equivalents	**534 4**	550 8
		1,247 6	1,231 9
	Total assets	**5,363 6**	5,245 9
	Current liabilities		
18	Borrowings and overdrafts	**(156 3)**	(302 1)
19	Trade and other payables	**(1,451 3)**	(1,207 3)
	Current tax payable	**–**	(9 2)
20	Finance lease liabilities	**(3 0)**	(0 6)
21	Provisions	**(110 0)**	(90 6)
24	Derivative financial instruments	**(0 6)**	(2 5)
		(1,721 2)	(1,612 3)
	Non-current liabilities		
18	Borrowings	**(627 7)**	(726 7)
19	Trade and other payables	**(119 3)**	(85 8)
20	Finance lease liabilities	**(35 9)**	(26 4)
21	Provisions	**(136 2)**	(115 6)
	Deferred tax liabilities	**–**	(32 1)
25	Retirement benefit obligations	**(822 1)**	(638 1)
		(1,741 2)	(1,624 7)
	Total liabilities	**(3,462 4)**	(3,237 0)
	Net assets	**1,901 2**	2,008 9
	Equity		
27	Share capital	**6 7**	6 7
	Share premium	**0 3**	0 3
	Other reserves	**5 3**	1 6
	Retained earnings	**1,888 9**	2,000 3
	Total equity	**1,901 2**	2,008 9

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

The financial statements on pages 34 to 87 were approved by the Board of Directors on 22 April 2013 and signed on its behalf by

Charlie Mayfield
Helen Weir
Directors

John Lewis plc

Registered number 00233462

Balance sheet of the company

as at 26 January 2013

Notes		2013 £m	2012 £m
	Non-current assets		
11	Intangible assets	**128 7**	137 7
12	Property, plant and equipment	**877 0**	879 9
13	Investments	**854 3**	966 7
15	Trade and other receivables	**46 4**	41 0
22	Deferred tax asset	**177 9**	129 1
		2,084 3	2,154 4
	Current assets		
14	Inventories	**293 9**	263 5
15	Trade and other receivables	**86 3**	84 5
	Current tax receivable	**47 7**	50 8
24	Derivative financial instruments	**4 2**	2 7
16	Cash and cash equivalents	**424 9**	459 5
		857 0	861 0
	Total assets	**2,941 3**	3,015 4
	Current liabilities		
18	Borrowings and overdrafts	**(154 7)**	(301 0)
19	Trade and other payables	**(1,154 3)**	(993 7)
20	Finance lease liabilities	**(0 2)**	(0 2)
21	Provisions	**(96 9)**	(80 3)
24	Derivative financial instruments	**(0.6)**	(2 5)
		(1,406.7)	(1,377 7)
	Non-current liabilities		
18	Borrowings	**(627 7)**	(726 7)
19	Trade and other payables	**(104 2)**	(75 9)
20	Finance lease liabilities	**(14 3)**	(14 5)
21	Provisions	**(118 2)**	(100 0)
25	Retirement benefit obligations	**(714 1)**	(543 5)
		(1,578 5)	(1,460 6)
	Total liabilities	**(2,985 2)**	(2,838 3)
	Net (liabilities)/assets	**(43 9)**	177 1
	Equity		
27	Share capital	**6 7**	6 7
	Share premium	**0 3**	0 3
	Other reserves	**3 9**	0 2
	(Accumulated losses)/retained earnings	**(54 8)**	169 9
	Total equity	**(43 9)**	177 1

The financial statements on pages 34 to 87 were approved by the Board of Directors on 22 April 2013 and signed on its behalf by

Charlie Mayfield
Helen Weir
Directors

Consolidated statement of changes in equity

for the year ended 26 January 2013

Notes	Consolidated	Share capital £m	Share premium £m	Capital reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
	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 other comprehensive expense	–	–	–	–	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
	Profit for the year	–	–	–	–	151 5	151 5
25	Actuarial loss on defined benefit pension schemes	–	–	–	–	(326 3)	(326 3)
6	Tax on above items recognised in other comprehensive expense	–	–	–	–	63 5	63 5
	Fair value gains on cash flow hedges	–	–	–	0 3	–	0 3
	– Transfers to inventories	–	–	–	3 4	–	3 4
	Dividends	–	–	–	–	(0 1)	(0 1)
	Balance at 26 January 2013	6 7	0 3	1 4	3 9	1,888 9	1,901 2

Retained earnings comprise £1,481 5 (2012 £1,590 8m) of distributable and £407 4m (2012 £409 5m) of non distributable reserves, arising on the revaluation of freehold and long leasehold properties prior to 31 January 2004

Company statement of changes in equity

for the year ended 26 January 2013

Notes	Company	Share capital £m	Share premium £m	Hedging reserve £m	Retained earnings £m	Total equity £m
	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 other comprehensive expense	–	–	–	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
	Profit for the year	–	–	–	15 0	15 0
25	Actuarial loss on defined benefit pension schemes	–	–	–	(306 2)	(306 2)
6	Tax on above items recognised in other comprehensive expense	–	–	–	66 6	66 6
	Fair value gains on cash flow hedges	–	–	0 3	–	0 3
	– Transfers to inventories	–	–	3 4	–	3 4
	Dividends	–	–	–	(0 1)	(0 1)
	Balance at 26 January 2013	**6 7**	**0 3**	**3 9**	**(54 8)**	**(43 9)**

Statement of consolidated cash flows

for the year ended 26 January 2013

Notes		Year to 26 January 2013 £m	Year to 28 January 2012 £m
28	**Cash generated from operations**	**991 1**	774 0
	Net taxation paid	**(52 9)**	(33 2)
	Partnership Bonus paid	**(164 3)**	(194 5)
	Additional contribution to the Pension Scheme	**(125 0)**	–
	Finance costs paid	**(4 9)**	(2 3)
	Net cash generated from operating activities	**644 0**	544 0
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(261 5)**	(425 7)
	Purchase of intangible assets	**(96 5)**	(88 4)
	Proceeds from sale of property, plant and equipment	**1 9**	11 8
	Finance income received	**1 9**	2 4
	Net cash used in investing activities	**(354 2)**	(499 9)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	**(56 8)**	(54 7)
	Payment of capital element of finance leases	**(3 5)**	(0 7)
	Payments to preference shareholders	**(0 1)**	(0 1)
	Cash inflow from borrowings	–	54 7
	Cash outflow from borrowings	**(242 0)**	–
	Net cash used in financing activities	**(302 4)**	(0 8)
	(Decrease)/increase in net cash and cash equivalents	**(12 6)**	43 3
	Net cash and cash equivalents at beginning of year	**490 7**	447 4
	Net cash and cash equivalents at end of year	**478 1**	490 7
16	**Net cash and cash equivalents comprise**		
	Cash	**120 0**	83 6
	Short term deposits	**414 4**	467 2
	Bank overdrafts	**(56 3)**	(60 1)
		478 1	490 7

Statement of company cash flows

for the year ended 26 January 2013

Notes		Year to 26 January 2013 £m	Year to 28 January 2012 £m
28	**Cash generated from operations**	**457 8**	319 3
	Net taxation received/(paid)	**11 8**	(15 1)
	Partnership Bonus paid	**(73 8)**	(94 2)
	Additional contribution to the Pension Scheme	**(125 0)**	–
	Finance costs paid	**(3 5)**	(1 4)
	Net cash generated from operating activities	**267 3**	208 6
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(101 5)**	(142 4)
	Purchase of intangible assets	**(64 8)**	(66 7)
	Proceeds from sale of property, plant and equipment	**1 1**	15 7
	Investment in subsidiary	**(0 1)**	–
	Dividends (paid)/received	**(0 1)**	1 2
	Loans advanced to group companies	**165 1**	21 5
	Finance income received	**1 8**	2 4
	Net cash generated from/(used in) investing activities	**1 5**	(168 3)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	**(56 8)**	(54 7)
	Payment of capital element of finance leases	**(0 2)**	(0 2)
	Payments to preference shareholders	**(0 1)**	(0 1)
	Cash inflow from borrowings	**–**	54 7
	Cash outflow from borrowings	**(242 0)**	–
	Net cash used in from financing activities	**(299 1)**	(0 3)
	(Decrease)/increase in net cash and cash equivalents	**(30 3)**	40 0
	Net cash and cash equivalents at beginning of year	**400 5**	360 5
	Net cash and cash equivalents at end of year	**370 2**	400 5
16	**Net cash and cash equivalents comprise**		
	Cash	**45 6**	24 5
	Short term deposits	**379 3**	435 0
	Bank overdraft	**(54 7)**	(59 0)
		370 2	400 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 financial statements include the accounts of the company and all its subsidiary undertakings

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates

The comparatives have been re-presented in respect of the split of receivables on credit sale agreements for the Partnership's car finance scheme for Partners between current trade and other receivables and non-current trade and other receivables, to be on a consistent basis to the current year end For the year ended 28 January 2012 £9 5m has been reported in non-current trade and other receivables This was previously reported in current trade and other receivables

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

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

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

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

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

Except for the Amendment to IAS 19, these are not expected to have a material impact on the group's profit or equity for future years, but may affect disclosures The Amendment to IAS 19 will replace the expected return on pension scheme assets and the interest cost on pension scheme liabilities with a net interest expense or income calculated by applying the liability discount rate to the net defined benefit asset or liability This will result in an increase in finance costs but will not impact total equity For 2013, had the Amendment been applied, the net finance income recognised on defined benefit retirement schemes of £38 2m would have been a net finance cost of £31 6m

Notes to the accounts

continued

1 Accounting policies (continued)

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

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

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

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

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

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

Differences between the actual and expected return on assets, changes in the retirement benefit obligation due to experience and changes in actuarial assumptions are included as actuarial gains or losses in the consolidated statement of comprehensive expense 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 in the income statement as they fall due The group has no further obligations once the contributions have been made

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

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

Other assets are held at cost

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

Freehold and long leasehold buildings – 2% to 4%
Other leaseholds – over the shorter of the useful economic life and the remaining period of the lease
Building fixtures – 2 5% to 10%
Fixtures and fittings (including vehicles and information technology equipment) – 10% to 33%

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

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

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

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

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

Taxation
The charge for corporation tax is based on the results for the year as adjusted for items which are not taxed or are disallowed It is calculated using tax rates in legislation that has been enacted or substantively enacted by the balance sheet date

Deferred income tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements Deferred tax arising from the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, is not recognised In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged to other comprehensive expense, in which case the deferred tax is also dealt with in other comprehensive expense

Notes to the accounts

continued

1 Accounting policies (continued)

Intangible assets

Intangible assets, comprising both purchased and internally developed computer software, are carried at cost less accumulated amortisation and impairments The cost of internally developed software, including all directly attributable costs necessary to create, produce and prepare the software for use, is capitalised where the development meets the criteria for capitalisation required by IAS 38 Internally developed software assets that are not yet in use are reviewed at each reporting date to ensure that the development still meets the criteria for capitalisation, and is not expected to become impaired or abortive Once available for use, the purchased or internally developed software is amortised on a straight line basis over its useful economic life, which is deemed to be between 3 and 10 years

Financial instruments

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

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

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

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

Borrowings

Borrowings are initially recognised at fair value net of transaction costs and subsequently measured at amortised cost Where there is an effective related fair value hedge, the movement in the fair value attributable to the hedged risk is separately disclosed

Loan arrangement costs in respect of debt are capitalised and amortised over the life of the debt at a constant rate Finance costs are charged to the income statement, based on the effective interest rate of the associated borrowings

Insurance

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

Impairment
Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to sell and value in use Value in use calculations are performed using cash flow projections, discounted at a pre-tax rate which reflects the asset specific risks and the time value of money

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

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

Offsetting
Balance sheet netting only occurs to the extent that there is the legal ability and intention to settle net As such, bank overdrafts are presented in current liabilities to the extent that there is no intention to offset with any cash balances

Foreign currencies
Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges

Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with maturities of less than 90 days In the consolidated cash flow statement, net cash and cash equivalents comprise cash and cash equivalents, as defined above, net of bank overdrafts

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

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

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

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

Notes to the accounts

continued

1 Accounting policies (continued)

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

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

Retirement benefits
Pension accounting requires certain assumptions to be made in order to value our obligations and to determine the charges to be made to the income statement These figures are particularly sensitive to assumptions for discount rates, mortality, inflation rates and expected long-term rates of return on assets Details of assumptions are given in note 25

Provisions and liabilities
Provisions and liabilities recognised at the balance sheet date are detailed in notes 19 and 21 include amounts for long leave, unredeemed gift vouchers, service guarantee costs, customer refunds, insurance claims, reorganisation costs, accrued holiday pay and property related costs

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

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

2 Segmental reporting

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

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

2 Segmental reporting (continued)

2013	Waitrose £m	John Lewis £m	Corporate and other £m	Group £m
Gross sales	5,763 9	3,777 4	–	9,541 3
Adjustment for sale or return sales	–	(134 6)	–	(134 6)
Value added tax	(347 8)	(593 4)	–	(941 2)
Revenue	5,416 1	3,049 4	–	8,465 5
Operating profit excluding property profits	292 3	216 7	(59 3)	449 7
Property profits	–	–	–	–
Operating profit	292 3	216 7	(59 3)	449 7
Finance costs	–	–	(81 0)	(81 0)
Finance income	–	–	40 1	40 1
Partnership Bonus	–	–	(210 8)	(210 8)
Profit before tax	292 3	216 7	(311 0)	198 0
Taxation	–	–	(46 5)	(46 5)
Profit after tax	292 3	216 7	(357 5)	151 5

Segment assets	2,624 7	1,770 2	968 7	5,363 6
Segment liabilities	(553 7)	(648 1)	(2,260 6)	(3,462 4)
Net assets	2,071 0	1,122 1	(1,291 9)	1,901 2
Other segment items				
– Depreciation	142 7	96 7	15 7	255 1
– Amortisation	19 4	7 9	14 6	41 9
– Capital expenditure – property, plant and equipment	166 9	102 9	11 0	280 8
– Capital expenditure – intangible assets	31 3	41 4	23 4	96 1
– Movement in provisions	4 2	6 3	29 5	40 0

Notes to the accounts

continued

2 Segmental reporting (continued)

2012	Waitrose £m	John Lewis £m	Corporate and other £m	Group £m
Gross sales	5,400 4	3,329 1	–	8,729 5
Adjustment for sale or return sales	–	(120 7)	–	(120 7)
Value added tax	(328 1)	(522 1)	–	(850 2)
Revenue	5,072 3	2,686 3	–	7,758 6
Operating profit excluding property profits	260 6	156 4	(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	14 3	10 7	7 3	32 3
– Capital expenditure – property, plant and equipment	247 6	153 8	28 0	429 4
– Capital expenditure – intangible assets	45 0	28 6	14 8	88 4
– Movement in provisions	1 4	(1 4)	8 3	8 3

3 Operating expenses

	2013 £m	2012 £m
Branch operating expenses	**1,901 7**	1,796 9
Administrative expenses	**538 1**	463 8
	2,439 8	2,260 7

4 Net finance costs

	2013 £m	2012 £m
Finance costs		
Interest payable on		
Bank loans and overdrafts	**2 1**	2 6
Other loans repayable within 5 years	**13 6**	12 2
Other loans repayable in more than 5 years	**41 3**	43 8
Finance lease interest payable	**1 7**	1 2
Amortisation of issue costs of bonds	**1 2**	1 0
Preference dividends	**0 1**	0 1
Finance costs in respect of borrowings	**60 0**	60 9
Fair value measurements and other	**0 6**	3 1
Net finance costs arising on other employee benefit schemes	**20 4**	6 5
Total finance costs	**81 0**	70 5
Finance income		
Interest receivable	**(1 9)**	(2 4)
Finance income in respect of cash and short term investments	**(1 9)**	(2 4)
Fair value measurements and other	**–**	(0 1)
Net finance income arising on defined benefit retirement schemes (note 25)	**(38 2)**	(30 3)
Total finance income	**(40 1)**	(32 8)
Net finance costs	**40 9**	37 7

Notes to the accounts

continued

4 Net finance costs (continued)

	2013 £m	2012 £m
Finance costs in respect of borrowings	**60 0**	60 9
Finance income in respect of investments	**(1 9)**	(2 4)
Net finance costs in respect of borrowings and investments	**58 1**	58 5
Net fair value measurements and other	**0 6**	3 0
Net finance income arising on defined benefit retirement schemes	**(38 2)**	(30 3)
Net finance costs arising on other employee benefit schemes	**20 4**	6 5
Net finance costs	**40 9**	37 7

5 Profit before tax

	2013 £m	2012 £m
Profit before tax is stated after charging/(crediting) the following		
Staff costs (note 10)	**1,605 0**	1,475 9
Depreciation – owned assets	**251 7**	240 4
Depreciation – assets held under finance leases	**3 4**	0 6
Amortisation of intangible assets	**41 9**	32 3
Profit on sale of property	**–**	(1 5)
Loss on disposal of other plant and equipment and intangible assets	**6 1**	5 4
Inventory – cost of inventory recognised as an expense	**5,640 1**	5,166 5
Reorganisation costs	**16 2**	2 1
Operating lease rentals		
– land and buildings	**127 9**	113 4
– plant and machinery	**0 2**	0 4
Sub lease income		
– land and buildings	**(6 1)**	(5 9)
Fees payable to group's auditors and its associates for the audit of parent company and consolidated financial statements	**0 4**	0 3
Fees payable to group's auditors and its associates for other services		
– the audit of the company's subsidiaries	**0 4**	0 4
– tax advisory services	**0 1**	–
– other non-audit services	**0 1**	0 2

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

Contingency rents expensed during the year were £2 7m (2012 £2 6m) Contingency rents are determined based on store revenues

6 Taxation

Analysis of tax charge	2013 £m	2012 £m
Corporation tax – current year	**77 5**	67 3
Corporation tax – prior years	**(2 2)**	(1 2)
Total current tax charge	**75 3**	66 1
Deferred tax – current year	**(28 6)**	(18 0)
Deferred tax – prior years	**(0 2)**	3 8
	46 5	51 9

Tax credited to other comprehensive expense	2013 £m	2012 £m
Movement in current tax on pension schemes	**(34 6)**	(6 5)
Movement in deferred tax on pension schemes	**(28 9)**	(48 4)
	(63 5)	(54 9)

The tax charge for the year is lower (2012 higher) than the standard corporation tax rate of 24 33% (2012 26 33%) The differences are explained below

	2013 £m	2012 £m
Profit before tax	**198 0**	188 1
Profit before tax multiplied by standard rate of corporation tax in the UK of 24 33% (2012 26 33%)	**48 2**	49 5
Effects of		
Adjustment to current tax in respect of prior years	**(2 2)**	(1 2)
Restatement of deferred tax balances for reduction in the corporation tax rate to 23% (2012 25%)	**(13 6)**	(14 4)
Depreciation on assets not qualifying for tax relief	**13 6**	12 8
Difference between accounting and tax base for land and buildings	**(2 0)**	(1 9)
Adjustment to deferred tax in respect of prior years	**(0 2)**	3 8
Sundry disallowables	**2 7**	3 3
Total tax charge	**46 5**	51 9

Notes to the accounts

continued

6 Taxation (continued)

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

The effect of the 2% rate change on the current year (2012 2% rate change) was to increase the deferred tax liability by £0 5m (2012 £4 0m decrease) with a £14 2m charge (2012 £10 4m charge) being taken directly to reserves and a £13 6m tax credit (2012 £14 4m credit) to the income statement Adjustments in future years are expected to be higher than the year ended 26 January 2013, assuming reductions proposed are substantively enacted annually and a comparable level of deferred tax

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 or statement of comprehensive expense The result dealt with in the accounts of the company amounted to £15 0m profit (2012 £75 4m profit), including an exceptional gain of £nil (2012 £78 4m) on the liquidation of subsidiary undertakings

8 Dividends

	2013 £m	2012 £m
Equity interests		
Ordinary shares		
(20 pence per share, 2012, 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

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

9 Directors' emoluments (continued)

Highest paid director

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

Total emoluments paid to directors were £5,605,000 (2012 £5,330,000)

Pension arrangements

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

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

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

10 Employees

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

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

Notes to the accounts

continued

10 Employees (continued)

Employment and related costs were as follows

Consolidated	2013 £m	2012 £m
Staff costs		
Wages and salaries	**1,162 3**	1,096 3
Social security costs	**88 5**	85 5
Partnership Bonus	**187 4**	146 9
Employers' national insurance on Partnership Bonus	**23 4**	18 3
Pension costs (note 25)	**138 0**	124 0
Long leave cost	**5 4**	4 9
Total before partner discounts	**1,605 0**	1,475 9
Partner discounts (deducted from revenue)	**57 4**	50 1
	1,662 4	1,526 0
Included above are the following amounts in respect of key management compensation		
Salaries and short-term benefits	**13 5**	12 4
Post-employment benefits*	**4 6**	4 9

* Includes pension supplements in lieu of future pension accrual

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

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

10 Employees (continued)

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

Company	2013	2012
John Lewis	**29,300**	28,200
Other	**1,600**	2,100
	30,900	30,300

Employment and related costs were as follows

Company	2013 £m	2012 £m
Staff costs		
Wages and salaries	**520 3**	500 8
Social security costs	**44 1**	44 0
Partnership Bonus	**84 7**	66 1
Employers national insurance on Partnership Bonus	**10 6**	8 2
Pension costs	**68 5**	59 9
Long leave cost	**2 6**	2 3
Total before partner discounts	**730 8**	681 3
Partner discounts	**31 5**	28 0
	762 3	709 3
Included above are the following amounts in respect of key management compensation		
Salaries and short term benefits	**9 0**	8 3
Post-employment benefits*	**3 1**	3 4

* 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 29 January 2011	44 3	149 2	45 2	238 7
Additions	–	–	88 4	88 4
Transfers	21 8	36 9	(58 7)	–
Disposals	(6 5)	(17 7)	(2 5)	(26 7)
At 28 January 2012	59 6	168 4	72 4	300 4
Additions	–	–	96 1	96 1
Transfers	23 7	30 0	(53 7)	–
Disposals	(5 3)	(2 7)	(4 8)	(12 8)
At 26 January 2013	**78 0**	**195 7**	**110 0**	**383 7**
Accumulated amortisation				
At 29 January 2011	31 9	95 4	–	127 3
Charge for the year	8 5	23 8	–	32 3
Disposals	(6 5)	(17 0)	–	(23 5)
At 28 January 2012	33 9	102 2	–	136 1
Charge for the year	8 0	33 9	–	41 9
Disposals	(0 8)	(7 2)	–	(8 0)
At 26 January 2013	**41 1**	**128 9**	**–**	**170 0**
Net book value at 28 January 2012	25 7	66 2	72 4	164 3
Net book value at 26 January 2013	**36 9**	**66 8**	**110 0**	**213 7**

For the year to 26 January 2013 computer systems valued at £53 7m (2012 £58 7m) were brought into use This covered a range of selling, support, supply chain, administration and information technology infrastructure applications, with asset lives ranging from three to ten years

Amortisation of intangible assets is charged within operating expenses

11 Intangible assets (continued)

Company	Purchased £m	Computer software Internally developed £m	Work in progress £m	Total £m
Cost				
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
Additions	–	–	64 8	64 8
Transfers	12 1	10 5	(22 6)	–
Disposals	(4 9)	(75 4)	(21 3)	(101 6)
At 26 January 2013	**40 4**	**103 2**	**80 2**	**223 8**
Accumulated amortisation				
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
Charge for the year	2 7	19 8	–	22 5
Disposals	(0 5)	(49 8)	–	(50 3)
At 26 January 2013	**23 2**	**71 9**	**–**	**95 1**
Net book value at 28 January 2012	12 2	66 2	59 3	137 7
Net book value at 26 January 2013	**17 2**	**31 3**	**80 2**	**128 7**

For the year to 26 January 2013 computer systems totalling £22 6m (2012 £48 2m) were brought into use This covered a range of selling, support, supply chain, administration and information technology infrastructure applications, with asset lives ranging from three to ten years

Amortisation of intangible assets is charged within operating expenses

At 29 January 2012, John Lewis plc disposed of intangible assets with a net book value of £46 5m to one of its subsidiaries, Waitrose Limited

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 29 January 2011	3,391 0	1,575 0	230 9	5,196 9
Additions	–	1 5	427 9	429 4
Transfers	373 2	194 0	(567 2)	–
Disposals	(21 5)	(174 6)	(2 7)	(198 8)
At 28 January 2012	3,742 7	1,595 9	88 9	5,427 5
Additions	14 1	2 7	264 0	280 8
Transfers	145 8	93 6	(239 4)	–
Disposals	(11 4)	(64 4)	(1 4)	(77 2)
At 26 January 2013	**3,891 2**	**1,627 8**	**112 1**	**5,631 1**
Accumulated depreciation				
At 29 January 2011	582 2	992 1	–	1,574 3
Charges for the year	81 9	159 1	–	241 0
Disposals	(12 5)	(173 7)	–	(186 2)
At 28 January 2012	651 6	977 5	–	1,629 1
Charges for the year	98 9	156 2	–	255 1
Disposals	(10 1)	(63 9)	–	(74 0)
At 26 January 2013	**740 4**	**1,069 8**	**–**	**1,810 2**
Net book values at 28 January 2012	3,091 1	618 4	88 9	3,798 4
Net book values at 26 January 2013	**3,150 8**	**558 0**	**112 1**	**3,820 9**

Included above are land and buildings assets held under finance leases with a net book value of £30 9m (2012 £19 0m)

12 Property, plant and equipment (continued)

Company	Land and buildings £m	Fixtures and fittings £m	Assets in course of construction £m	Total £m
Cost				
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
Additions	0 1	1 0	102 7	103 8
Transfers	44 6	45 0	(89 6)	–
Disposals	(0 6)	(46 7)	(1 6)	(48 9)
At 26 January 2013	**723 5**	**754 8**	**34 3**	**1,512 6**
Accumulated depreciation				
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
Charges for the year	23 0	80 0	–	103 0
Disposals	(0 2)	(45 0)	–	(45 2)
At 26 January 2013	**148 7**	**486 9**	–	**635 6**
Net book values at 28 January 2012	553 5	303 6	22 8	879 9
Net book values at 26 January 2013	**574 8**	**267 9**	**34 3**	**877 0**

Included above are land and buildings assets held under finance leases with a net book value of £12 8m (2012 £13 0m)

Notes to the accounts

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13 Investments

Company	Shares in group companies £m	Loans to group companies £m	Total £m
At 28 January 2012	41 6	925 1	966 7
Movements	0 1	(112 5)	(112 4)
At 26 January 2013	**41 7**	**812 6**	**854 3**

A list of subsidiary undertakings is provided in note 33

The movements in shares in group companies relate to an increase in the company's investment in John Lewis Delivery Limited

14 Inventories

Consolidated	2013 £m	2012 £m
Raw materials	**3 1**	3 6
Work in progress	**0 9**	0 8
Finished goods and goods for resale	**510 0**	460 8
	514 0	465 2

Company		
Raw materials	**0 2**	0 3
Finished goods and goods for resale	**293 7**	263 2
	293 9	263 5

The cost of inventory recognised as an expense by the group in the year was £5,640 1m (2012 £5,166 5m) Provisions against inventories of £12 7m were charged (2012 £3 2m charged) in operating expenses

15 Trade and other receivables

Consolidated	2013 £m	2012 £m
Current		
Trade receivables	**49 5**	77 1
Other receivables	**46 2**	37 7
Prepayments and accrued income	**96 2**	98 4
	191 9	213 2
Non-current		
Other receivables	**12 6**	9 5
Prepayments and accrued income	**43 2**	41 8
	55 8	51 3
Company		
Current		
Trade receivables	**9 6**	11 3
Other receivables	**27 2**	19 6
Prepayments and accrued income	**49 5**	53 6
	86 3	84 5
Non-current		
Prepayments and accrued income	**46 4**	41 0

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 26 January 2013, group trade receivables of £2 3m (2012 £1 2m) were impaired and fully provided for Movements in the provision for impairment of receivables were as follows

Consolidated	2013 £m	2012 £m
At start of year	**(1 2)**	(1 0)
Charged to income statement	**(1 4)**	(0 5)
Utilised	**–**	0 1
Released	**0 3**	0 2
At end of year	**(2 3)**	(1 2)

Notes to the accounts

continued

15 Trade and other receivables (continued)

As of 26 January 2013, company trade and other receivables of £1 8m (2012 £0 7m) were impaired and fully provided for Movements in the provision for impairment of receivables were as follows

Company	2013 £m	2012 £m
At start of year	**(0 7)**	(0 5)
Charged to income statement	**(1 1)**	(0 3)
Utilised	**–**	0 1
Released to income statement	**–**	–
At end of year	**(1 8)**	(0 7)

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

As of 26 January 2013, group trade and other receivables of £21 0m (2012 £20 4m) were past due but not impaired The ageing analysis of the past due amounts is as follows

Consolidated	2013 £m	2012 £m
Up to 3 months past due	**18 1**	18 0
3 to 12 months past due	**2 0**	1 8
Over 12 months past due	**0 9**	0 6
	21 0	20 4

As of 26 January 2013, company trade and other receivables of £9 6m (2012 £11 9m) were past due but not impaired The ageing analysis of past due amounts is as follows

Company	2013 £m	2012 £m
Up to 3 months past due	**7 4**	11 3
3 to 12 months past due	**1 3**	0 4
Over 12 months past due	**0 9**	0 2
	9 6	11 9

16 Cash and cash equivalents

Consolidated	2013 £m	2012 £m
Cash at bank and in hand	**120 0**	83 6
Short-term investments	**414 4**	467 2
	534 4	550 8
Company		
Cash at bank and in hand	**45 6**	24 5
Short-term investments	**379 3**	435 0
	424 9	459 5

For the year ended 26 January 2013, the effective interest rate on short-term investments was 0 5% (2012 0 6%) and these deposits had an average maturity of 1 day (2012 2 days)

At 26 January 2013, £34 4m (2012 £32 1m) of the Group's cash balance and £0 1m (2012 £0 1m) of the Group's accrued interest balance was pledged as collateral This is part of the Partnership's insurance arrangements and the release of these funds is subject to approval from the third parties

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

Consolidated	2013 £m	2012 £m
Cash and cash equivalents, as above	**534 4**	550 8
Less bank overdrafts	**(56 3)**	(60 1)
Net cash and cash equivalents	**478 1**	490 7
Company		
Cash and cash equivalents, as above	**424 9**	459 5
Less bank overdrafts	**(54 7)**	(59 0)
Net cash and cash equivalents	**370 2**	400 5

Notes to the accounts

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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 5%	520 0	14 3	534 3
Other	0 0%	0 1	-	0 1
At 26 January 2013		**520 1**	**14 3**	**534 4**
Sterling	0 6%	537 0	13 5	550 5
Other	0 0%	0 3	-	0 3
At 28 January 2012		537 3	13 5	550 8

Interest rate and currency analysis **Company**	**Effective interest rate %**	**Floating rate £m**	**Non interest bearing £m**	**Total £m**
Sterling	0 5%	421 6	3 2	424 8
Other	0 0%	0 1	–	0 1
At 26 January 2013		**421 7**	**3 2**	**424 9**
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

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

18 Borrowings and overdrafts

Consolidated	2013 £m	2012 £m
Current		
Bank overdraft	**56 3**	60 1
Loans	**–**	100 0
6⅜% Bonds, 2012	**–**	142 0
10½% Bonds, 2014	**100 0**	–
	156 3	302 1
Non-current		
10½% Bonds, 2014	**–**	100 0
Partnership Bond, 2016*	**56 1**	55 6
8⅜% Bonds, 2019	**275 0**	275 0
6⅛% Bonds, 2025	**300 0**	300 0
Unamortised bond transaction costs	**(5 7)**	(6 2)
5% First Cumulative Preference Stock	**1 5**	1 5
7% Cumulative Preference Stock	**0 8**	0 8
	627 7	726 7

Company		
Current		
Bank overdraft	**54 7**	59 0
Loans	**–**	100 0
6⅜% Bonds, 2012	**–**	142 0
10½% Bonds, 2014	**100 0**	–
	154 7	301 0
Non-current		
10½% Bonds, 2014	**–**	100 0
Partnership Bond, 2016*	**56 1**	55 6
8⅜% Bonds, 2019	**275 0**	275 0
6⅛% Bonds, 2025	**300 0**	300 0
Unamortised bond transaction costs	**(5 7)**	(6 2)
5% First Cumulative Preference Stock	**1 5**	1 5
7% Cumulative Preference Stock	**0 8**	0 8
	627 7	726 7

* The Partnership Bond is a five year investment product offering a fixed annual return of 4 5% in cash and a further 2% in John Lewis Partnership gift vouchers

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

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

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19 Trade and other payables

Consolidated	2013 £m	2012 £m
Current		
Trade payables	**698 1**	530 1
Amounts owed to parent undertaking	**89 2**	74 2
Other payables	**115 1**	101 2
Other taxation and social security	**174 0**	143 1
Accruals	**151 5**	185 1
Deferred income	**33 4**	25 0
Partnership Bonus	**190 0**	148 6
	1,451 3	1,207 3
Non-current		
Accruals	–	0 9
Other payables	**0 7**	0 8
Deferred income	**118 6**	84 1
	119 3	85 8

Company	2013 £m	2012 £m
Current		
Trade payables	**305 5**	202 0
Amounts owed to parent undertaking	**89 2**	74 2
Amounts owed to group companies	**220 9**	209 3
Other payables	**92 2**	80 1
Other taxation and social security	**136 1**	125 0
Accruals	**94 6**	134 2
Deferred income	**27 8**	23 5
Partnership Bonus	**188 0**	145 4
	1,154 3	993 7
Non-current		
Accruals	–	0 9
Deferred income	**104 2**	75 0
	104 2	75 9

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

20 Finance lease liabilities

Consolidated	2013 £m	2012 £m
The minimum lease payments under finance leases fall due as follows		
Not later than one year	**4 6**	1 8
Later than one year but not more than five	**16 0**	6 8
More than five years	**46 6**	46 2
	67 2	54 8
Future finance charge on finance leases	**(28 3)**	(27 8)
Present value of finance lease liabilities	**38 9**	27 0
Of which		
Current	**3 0**	0 6
Non-current	**35 9**	26 4

Company	2013 £m	2012 £m
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 4**	24 9
	26 9	27 4
Future finance charge on finance leases	**(12 4)**	(12 7)
Present value of finance lease liabilities	**14 5**	14 7
Of which		
Current	**0 2**	0 2
Non-current	**14 3**	14 5

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

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21 Provisions

Consolidated	Long leave £m	Service guarantee costs £m	Customer refunds £m	Insurance claims £m	Other £m	Total £m
At 28 January 2012	92 9	49 4	22 1	20 5	21 3	206 2
Charged to income statement	25 8	26 4	45 4	10 7	23 2	131 5
Released to income statement	–	(6 1)	–	–	(3 1)	(9 2)
Utilised	(6 5)	(17 0)	(41 2)	(9 7)	(7 9)	(82 3)
At 26 January 2013	**112 2**	**52 7**	**26 3**	**21 5**	**33 5**	**246 2**
Of which						
Current	33 7	19 2	26 3	4 8	26 0	110 0
Non-current	78 5	33 5	–	16 7	7 5	136 2

Company	Long leave £m	Service guarantee costs £m	Customer refunds £m	Other £m	Total £m
At 28 January 2012	92 9	49 4	22 1	15 9	180 3
Charged to income statement	25 8	26 4	45 4	16 0	113 6
Released to income statement	–	(6 1)	–	(3 0)	(9 1)
Utilised	(6 5)	(17 0)	(41 2)	(5 0)	(69 7)
At 26 January 2013	**112 2**	**52 7**	**26 3**	**23 9**	**215 1**
Of which					
Current	33 7	19 2	26 3	17 7	96 9
Non-current	78 5	33 5	–	6 2	118 2

The Partnership has a long leave scheme, open to all employees, that provides up to six months' paid leave after 25 years' service There is no proportional entitlement for shorter periods of service The provision for the liabilities under the scheme is assessed on an actuarial basis, reflecting employees' expected service profiles, and using economic assumptions consistent with those used for the group's retirement benefit obligations (note 25) with the exception of the discount rate, where a rate appropriate to the shorter duration of the long leave liability is used, so as to accrue the cost over employees' service periods

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

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

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

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

22 Deferred tax

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

The movement on the deferred tax account is shown below

Consolidated	2013 £m	2012 £m
Opening liability	**32 1**	94 7
Credited to income statement	**(28 8)**	(14 2)
Credited to other comprehensive expense	**(28 9)**	(48 4)
Closing (asset)/liability	**(25 6)**	32 1

Company	2013 £m	2012 £m
Opening asset	**(129 1)**	(77 8)
Credited to income statement	**(16 8)**	(2 0)
Credited to other comprehensive expense	**(32 0)**	(49 3)
Closing asset	**(177 9)**	(129 1)

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

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

Deferred tax liabilities – consolidated	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Rollover gains £m	Other £m	Total £m
At 29 January 2011	179 0	4 9	21 8	1 8	207 5
(Credited)/charged to income statement	(13 0)	0 8	0 7	1 8	(9 7)
At 28 January 2012	166 0	5 7	22 5	3 6	197 8
Credited to income statement	(18 8)	(1 0)	(2 6)	(1 4)	(23 8)
At 26 January 2013	**147 2**	**4 7**	**19 9**	**2 2**	**174 0**

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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 29 January 2011	(2 3)	(110 5)	–	(112 8)
Credited to income statement	(4 2)	(0 3)	–	(4 5)
Credited to other comprehensive expense	–	(48 4)	–	(48 4)
At 28 January 2012	(6 5)	(159 2)	–	(165 7)
Credited to income statement	(0 8)	(4 2)	–	(5 0)
Credited to other comprehensive expense	–	(28 9)	–	(28 9)
At 26 January 2013	**(7 3)**	**(192 3)**	**–**	**(199 6)**

Deferred tax liabilities – company	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Rollover gains £m	Other £m	Total £m
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
(Credited)/charged to income statement	(10 6)	–	(1 2)	(0 5)	(12 3)
At 26 January 2013	**60 4**	**0 1**	**7 3**	**1 3**	**69 1**

Deferred tax assets – company	Capital gains tax on land and buildings £m	Pensions and provisions £m	Total £m
At 29 January 2011	(12 2)	(151 9)	(164 1)
Charged to income statement	–	2 9	2 9
Credited to other comprehensive expense	–	(49 3)	(49 3)
At 28 January 2012	(12 2)	(198 3)	(210 5)
Charged to income statement	0 8	5 3	6 1
Credited to other comprehensive expense	–	(42 6)	(42 6)
At 26 January 2013	**(11 4)**	**(235 6)**	**(247 0)**

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 26 January 2013 (2012 nil)

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 asset at 26 January 2013 was £25 6m (2012 liability of £32 1m) The net deferred tax asset for the group is recoverable 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 26 January 2013 was £177 9m (2012 asset of £129 1m) 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 During the year, the group refinanced £310m bilateral borrowing facilities with a £325m five year syndicated revolving borrowing facility At the year end the group had undrawn committed revolving borrowings facilities of £325m (2012 £310m) In addition to these facilities, the group has listed bonds totalling £675m, of which £100m mature in 2014, £275m in 2019 and £300m in 2025, and the Partnership bond issued in April 2011 and maturing in 2016, which raised gross proceeds of £58m The bonds are not subject to repricing, and their interest rates and maturity profiles are set out in note 26

The group's bank borrowing facility contains one financial covenant, based on fixed charge cover The minimum covenant that applies is that consolidated EBITDAR shall not be less than 2 5 times rent adjusted total net interest costs Throughout the year the Partnership maintained comfortable headroom against this covenant and is expected to do so into the foreseeable future

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

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

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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	(156 3)	-	(635 1)
Interest payments on borrowings*	(54 5)	(44 0)	(304 1)
Finance lease liabilities	(4 6)	(4 6)	(58 0)
Trade and other payables	(1,243 9)	(0 7)	-
Derivative financial liabilities			
Derivative contracts – receipts	163 0	–	–
Derivative contracts – payments	(166 7)	–	–
At 26 January 2013	**(1,463 0)**	**(49 3)**	**(997 2)**
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)

* Excludes annual interest of £0 1m on cumulative preference stock which have no fixed redemption date

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	(154 7)	–	(635 1)
Interest payments on borrowings*	(54 5)	(44 0)	(304 1)
Finance lease liabilities	(0 5)	(0 5)	(25 9)
Trade and other payables	(990 4)	–	–
Derivative financial liabilities			
Derivative contracts – receipts	163 0	–	–
Derivative contracts – payments	(166 7)	–	–
At 26 January 2013	**(1,203 8)**	**(44 5)**	**(965 1)**
Non-derivative financial liabilities			
Borrowings and overdrafts	(301 0)	(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	(1,211 2)	(155 9)	(1,020 1)

* 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

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 group targets a ratio of fixed and floating rate debt in line with the Partnership Board approved treasury policy An analysis of the group's financial liabilities is detailed in note 26 Exposures to interest rate fluctuations are managed using interest rate derivatives As authorised by the Partnership Board, the ratio of fixed to floating rate borrowing has remained outside treasury policy during the year, as it was decided not to enter into new interest rate swaps given the historically low bond yield levels

Foreign currency risk

The group uses derivative financial instruments to manage exposures to movements in exchange rates arising from transactions with foreign suppliers Foreign currency exposures are hedged primarily using forward foreign exchange contracts covering up to 100% of forecast exposures on a rolling basis Forward foreign exchange contracts used to hedge forecast currency requirements are designated as cash flow hedges with fair value movements recognised in equity Derivative financial instruments that were designated as cash flow hedges during the year were fully effective At the balance sheet date, forward currency contracts of £163 0m (2012 £152 9m) had been entered into to hedge purchases in foreign currencies which will mature over the next 18 months

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23 Management of financial risks (continued)

Credit risk

The group has no significant exposure to customer credit risk due to transactions being principally of a high volume, low value and short maturity Cash deposits and other financial instruments give rise to credit risk on the amounts due from counterparties These risks are managed by restricting such transactions to counterparties with a credit rating not less than a Standard & Poor's equivalent 'A' rating and designating appropriate limits to each counterparty

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

Consolidated	2013 £m	2012 £m
Trade and other receivables	**108 2**	124 3
Cash and cash equivalents	**534 4**	550 8
Derivative financial instruments	**4 2**	2 7
	646 8	677 8

Company	2013 £m	2012 £m
Trade and other receivables	**36 8**	30 9
Cash and cash equivalents	**424 9**	459 5
Derivative financial instruments	**4 2**	2 7
	465 9	493 1

Capital risk

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

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

23 Management of financial risks (continued)

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

Sensitivity analysis
The following analysis illustrates the sensitivity of the group's financial instruments to changes in market variables, namely UK interest rates and the US dollar, euro and Hong Kong dollar to sterling exchange rates The level of sensitivities chosen, being 1% movement in Sterling interest rates and a 10% movement in Sterling when compared to the US dollar, euro and Hong Kong dollar, reflects the Partnership's view of reasonable possible changes to these variables which existed at the year end

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

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

The following assumptions have been made in calculating the sensitivity analysis

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

	2013		2012	
	Income statement +/- £m	Equity +/- £m	Income statement +/- £m	Equity +/- £m
UK interest rates +/- 1% (2012 +/- 2%)	4 5	–	4 3	-
US dollar exchange rate +/- 10% (2012 +/- 10%)	0 4	9 3	0 6	6 5
Euro exchange rate +/- 10% (2012 +/- 10%)	0 5	4 9	0 5	6 0
Hong Kong dollar exchange rate +/- 10% (2012 +/- 10%)	-	0 1	–	0 3

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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 as follows

Fair value of derivative financial instruments Consolidated and Company	2013 Assets £m	2013 Liabilities £m	2012 Assets £m	2012 Liabilities £m
Currency derivatives – cash flow hedge	**4 2**	**0 6**	2 7	2 5
	4 2	**0 6**	2 7	2 5

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	2013 £m	2012 £m
Bonds	**826 8**	914 3
Preference stock	**1 9**	2 0

25 Retirement benefit obligations

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

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

The actuaries recommended a normal future annual contribution rate of 12 2% of gross taxable pay of members The next triennial actuarial valuation of the fund will take place as at 31 March 2013

The senior pension scheme provided additional benefits to certain members of senior management The actuaries recommended an annual contribution rate of £1 5m The senior pension scheme was merged into the main scheme on 31 March 2013

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

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 reflect the assets and liabilities of the schemes as at 26 January 2013

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

	2013	2012
Future retail price inflation	**3 20%**	2 80%
Future consumer price inflation	**2 30%**	2 00%
Discount rate	**4 60%**	4 95%
Expected return on assets	**7 50%**	7 60%
Increases in earnings	**3 70%**	3 30%
Increases in pensions – in payment	**3 00%**	2 60%
Increases in pensions – deferred	**2 30%**	2 00%

The expected return on assets is a weighted average of the individual asset categories and their expected rates of return, which are determined by consideration of historical experience and current market factors Increases in earnings are projected at 0 5% above retail price inflation, with increases in pensions in payment being 0 2% below retail price inflation, reflecting the impact of a cap on the level of pension increases, and increases in deferred pensions being in line with consumer price inflation

The financial assumption which has the most significant effect on the valuation of scheme liabilities and the current service cost is the real discount rate, i e the discount rate less the rate of future retail price inflation A movement in the real discount rate of 0 10% would have the effect of increasing or decreasing the IAS 19 defined benefit obligation by circa £65m, and would increase or decrease the current service cost by circa £3 5m

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

The average life expectancies assumed were as follows

	2013		2012	
	Men	**Women**	Men	Women
Average life expectancy (in years) for a 60-year-old	**26 2**	**28 5**	26 2	28 4
Average life expectancy (in years) at age 60, for a 40-year-old	**27 6**	**29 9**	27 5	29 8

Amounts recognised in the balance sheet	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Defined benefit obligation for funded arrangements	**(3,781 0)**	(3,164 0)	(2,869 0)	(2,824 0)	(2,334 0)
Defined benefit obligation for unfunded arrangements	**(15 0)**	(11 0)	(11 0)	(29 0)	(18 0)
Total defined benefit obligation	**(3,796 0)**	(3,175 0)	(2,880 0)	(2,853 0)	(2,352 0)
Total value of assets	**2,973 9**	2,536 9	2,466 0	1,948 4	1,622 0
Defined benefit liability at end of year	**(822 1)**	(638 1)	(414 0)	(904 6)	(730 0)

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25 Retirement benefit obligations (continued)

Amounts recognised in the income statement	Year ended 26 January 2013 £m	Year ended 28 January 2012 £m
Current service cost	**129 0**	117 4
Contribution expense*	**6 4**	4 9
Administrative expenses	**2 6**	1 7
Operating expenses	**138 0**	124 0
Interest cost on liabilities	**154 8**	160 2
Expected return on assets	**(193 0)**	(190 5)
Finance income	**(38 2)**	(30 3)
Total pension charge	**99 8**	93 7

* Includes group 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 26 January 2013 £m	Year ended 28 January 2012 £m
Actuarial (gains)/losses on assets	**(108 3)**	145 1
Actuarial losses on defined benefit obligation	**434 6**	109 7
Total losses recognised in equity	**326 3**	254 8
Cumulative loss recognised in equity	**811 9**	485 6

Reconciliation of net defined benefit liability	2013 £m	2012 £m
Net defined benefit liability at beginning of year	**(638 1)**	(414 0)
Pension expense	**(90 8)**	(87 1)
Contributions	**233 1**	117 8
Total losses recognised in equity	**(326 3)**	(254 8)
Net defined benefit liability at end of year	**(822 1)**	(638 1)

25 Retirement benefit obligations (continued)

Reconciliation of defined benefit obligation	2013 £m	2012 £m
Defined benefit obligation at the beginning of year	3,175 0	2,880 0
Current service cost	129 0	117 4
Interest on pension liabilities	154 8	160 2
Actuarial losses	434 6	109 7
Benefits paid	(97 4)	(92 3)
Defined benefit obligation at the end of year	3,796 0	3,175 0

Reconciliation of value of assets	2013 £m	2012 £m
Value of assets at the beginning of year	2,536 9	2,466 0
Expected return on assets	193 0	190 5
Actuarial gains/(losses)	108 3	(145 1)
Benefits paid	(97 4)	(92 3)
Contributions	233 1	117 8
Value of assets at the end of year	2,973 9	2,536 9

Analysis of assets	2013 %	2013 £m	2012 %	2012 £m
Equities	73	2,168 3	77	1,958 6
Bonds	12	363 0	12	309 8
Properties	6	181 6	8	191 0
Other	9	261 0	3	77 5
		2,973 9		2,536 9

Actual return on assets	2013 £m	2012 £m
Expected return on assets	193 0	190 5
Actuarial gains/(losses)	108 3	(145 1)
Actual return on assets	301 3	45 4

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25 Retirement benefit obligations (continued)

History of experience of gains and losses	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Gains/(losses) on assets	**108 3**	(145 1)	179 2	164 7	(514 5)
% of assets at the end of the year	**4%**	6%	7%	8%	32%
Experience gains/(losses) on defined benefit obligation	**30 3**	(33 4)	106 5	28 0	17 4
% of defined benefit obligation at the end of the year	**1%**	1%	4%	1%	1%

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

The John Lewis Partnership Trust for Pensions – 12 2% of scheme members' gross taxable pay (excluding Partnership Bonus)

For the John Lewis Partnership Senior Pension Scheme – £1 5m, or such other amount as certified by the scheme actuary based upon an analysis of the membership data at the start of the scheme year

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

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

Together with another group company, JLP Scottish Limited Partnership provided sufficient capital to JLP Scottish Partnership to enable it to procure property assets with a market value of £150 9m from other group companies The group retains control over these properties, including the flexibility to substitute alternative properties The Properties held in JLP Scottish Partnership have been leased back to John Lewis plc and Waitrose Limited In September 2011, the group withdrew properties with a market value of £70 0m and substituted these with other properties with a market value of £72 8m

As a partner in JLP Scottish Limited Partnership, the pension scheme is entitled to an annual share of the profits of the JLP Scottish Limited Partnership each year over 21 years At the end of this period, the 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 financial statements Accordingly, the pension deficit position presented in these consolidated accounts does not reflect the £108 0m (2012 £94 6m) investment in JLP Scottish Limited Partnership held by the pension scheme The distribution of JLP Scottish Limited Partnership profits to the pension scheme is reflected as pension contributions in these consolidated financial statements on a cash basis

The investment does represent a plan asset for the purpose of the company accounts The retirement benefit obligation for the company as at 26 January 2013 was £714 1m (2012 £543 5m)

26 Analysis of financial liabilities

The currency and interest rate exposure of the group's and company's financial liabilities is as set out below Short term payables are excluded from this analysis on the basis that they are all non-interest bearing

Interest rate and currency analysis **Consolidated**	**Fixed rate £m**	**Floating rate £m**	**Total £m**
All sterling			
At 26 January 2013	**766 6**	**56 3**	**822 9**
At 28 January 2012	753 7	302 1	1,055 8

Maturity of financial liabilities **Consolidated**	**2013 Effective interest rate**	**2013 £m**	2012 Effective interest rate	2012 £m
Repayable within one year				
Bank overdrafts and other borrowing	**1 8%**	**56 3**	1 8%	60 1
Property finance leases	**7 6%**	**3 0**	7 6%	0 6
Loans	–	–	1 5%	100 0
Bonds	**10 5%**	**100 0**	6 4%	142 0
		159 3		302 7
Repayable between one and two years				
Property finance leases	**7 6%**	**3 3**	7 6%	0 6
Bonds		–	10 5%	100 0
		3 3		100 6
Repayable between two and five years				
Property finance leases	**7 6%**	**7 9**	7 6%	2 1
Bonds	**5 5%**	**56 1**	5 5%	55 6
Unamortised bond transaction costs		**(0 4)**		(0 5)
		63 6		57 2
Repayable in more than five years				
Property finance leases	**7 6%**	**24 7**	7 6%	23 7
Bonds	**7 2%**	**575 0**	7 2%	575 0
Unamortised bond transaction costs		**(5 3)**		(5 7)
Preference stock	**5 6%**	**2 3**	5 6%	2 3
		596 7		595 3
		822 9		1,055 8

Notes to the accounts

continued

26 Analysis of financial liabilities (continued)

Interest rate and currency analysis Company	Fixed rate £m	Floating rate £m	Total £m
All sterling			
At 26 January 2013	**742 2**	**54 7**	**796 9**
At 28 January 2012	741 4	301 0	1,042 4

Maturity of financial liabilities Company	2013 Effective interest rate	2013 £m	2012 Effective interest rate	2012 £m
Repayable within one year				
Bank overdrafts	**1 8%**	**54 7**	1 8%	59 0
Property finance leases	**7 6%**	**0 2**	7 6%	0 2
Loans	–	–	1 5%	100 0
Bonds	**10 5%**	**100 0**	6 4%	142 0
		154 9		301 2
Repayable between one and two years				
Property finance leases	**7 6%**	**0 2**	7 6%	0 2
Bonds	–	–	10 5%	100 0
		0 2		100 2
Repayable between two and five years				
Property finance leases	**7 6%**	**0 6**	7 6%	0 6
Bonds	**5 5%**	**56 1**	5 5%	55 6
Unamortised bond transaction costs		**(0 4)**		(0 5)
		56 3		55 7
Repayable in more than five years				
Property finance leases	**7 6%**	**13 5**	7 6%	13 7
Bonds	**7 2%**	**575 0**	7 2%	575 0
Unamortised bond transaction costs		**(5 3)**		(5 7)
Preference stock	**5 6%**	**2 3**	5 6%	2 3
		585 5		585 3
		796 9		1,042 4

27 Share capital

	2013 £m	2012 £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 26 January 2013 £m	Year to 28 January 2012 £m
Profit before tax	**198 0**	188 1
Amortisation of intangible assets	**41 9**	32 3
Depreciation	**255 1**	241 0
Net finance costs	**40 9**	37 7
Partnership Bonus	**210 8**	165 2
Loss on disposal of other plant and equipment and intangible assets	**6 1**	3 9
Increase in inventories	**(48 8)**	(43 2)
Decrease/(increase) in receivables	**16 7**	(12 6)
Increase in payables	**229 9**	160 3
Increase/(decrease) in retirement benefit obligations	**20 9**	(0 4)
Increase in provisions	**19 6**	1 7
Cash generated from operations	**991 1**	774 0

Company	Year to 26 January 2013 £m	Year to 28 January 2012 £m
Profit before tax	**24 0**	79 9
Amortisation of intangible assets	**22 5**	28 0
Depreciation	**103 0**	97 7
Net finance costs	**39 6**	36 9
Partnership Bonus	**95 2**	74 4
Exceptional gain on liquidation of subsidiaries	**–**	(78 4)
Loss on disposal of other plant and equipment and intangible assets	**53 9**	8 7
Increase in inventories	**(30 4)**	(18 0)
(Increase)/decrease in receivables	**(7 2)**	3 6
Increase in payables	**115 1**	82 0
Increase in retirement benefit obligations	**27 7**	6 3
Increase/(decrease) in provisions	**14 4**	(1 8)
Cash generated from operations	**457 8**	319 3

Notes to the accounts

continued

29 Analysis of net debt

Consolidated	28 January 2012 £m	Cash flow £m	Other non-cash movements £m	**26 January 2013 £m**
Current assets				
Cash and cash equivalents	550 8	(16 4)	–	**534 4**
Derivative financial instruments	2 7	–	1 5	**4 2**
	553 5	(16 4)	1 5	**538 6**
Current liabilities				
Borrowings and overdrafts	(302 1)	245 8	(100 0)	**(156 3)**
Finance leases	(0 6)	3 5	(5 9)	**(3 0)**
Derivative financial instruments	(2 5)	–	1 9	**(0 6)**
	(305 2)	249 3	(104 0)	**(159 9)**
Non-current liabilities				
Borrowings	(732 9)	–	99 5	**(633 4)**
Unamortised bond transaction costs	6 2	–	(0 5)	**5 7**
Finance leases	(26 4)	–	(9 5)	**(35 9)**
	(753 1)	–	89 5	**(663 6)**
Total net debt	(504 8)	232 9	(13 0)	**(284 9)**

Reconciliation of net cash flow to net debt

Consolidated	**Year to 26 January 2013 £m**	Year to 28 January 2012 £m
(Decrease)/increase in cash in the year	**(12 6)**	43 3
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	**245 5**	(54 0)
Movement in debt for the year	**232 9**	(10 7)
Opening net debt	**(504 8)**	(493 0)
Non-cash movements	**(13 0)**	(1 1)
Closing net debt	**(284 9)**	(504 8)

30 Commitments and contingent liabilities

At 26 January 2013 contracts had been entered into for future capital expenditure of £11 1m (2012 £24 0m) for the group, and £3 5m (2012 £18 9m) 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 (2012 £6 8m)

31 Operating lease commitments

Future aggregate minimum lease payments under non-cancellable operating leases, payable	2013 Land and buildings £m	2012 Land and buildings £m
Consolidated		
Within one year	**138 4**	117 0
Later than one year and less than five years	**503 4**	441 0
After five years	**2,299 3**	1,890 1
Company		
Within one year	**47 9**	39 4
Later than one year and less than five years	**156 6**	145 8
After five years	**1,001 1**	968 6

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years comprise the following	2013 Land and buildings £m	2012 Land and buildings £m
Consolidated		
Later than five years and less than ten years	**529 5**	450 5
Later than ten years and less than twenty years	**677 5**	571 5
Later than twenty years and less than forty years	**323 0**	250 7
Later than forty years and less than eighty years	**296 6**	258 4
After eighty years	**472 7**	359 0
	2,299 3	1,890 1
Company		
Later than five years and less than ten years	**154 0**	142 0
Later than ten years and less than twenty years	**224 6**	219 9
Later than twenty years and less than forty years	**144 9**	136 6
Later than forty years and less than eighty years	**155 7**	144 8
After eighty years	**321 9**	325 3
	1,001 1	968 6

Total future sub-lease payments receivable relating to the above operating leases amounted to £11 8m (2012 £13 6m) for the group, and £3 6m (2012 £3 1m) for the company

Notes to the accounts

continued

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 £16 0m (2012 £24 3m), purchase of goods for resale totalling £51 0m (2012 £45 2m), the use of land and buildings totalling £39 0m (2012 £41 6m), the supply of IT and related services totalling £nil (2012 £44 5m), the supply of administrative and other shared services totalling £26 6m (2012 £25 3m) and the hire of vehicles totalling £15 6m (2012 £13 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 pension scheme for £10 6m and entered into an operating lease in respect of the property These transactions were at market values

The John Lewis Partnership Trust Limited is a related party and holds the Deferred Ordinary Shares in the Partnership on behalf of the Partners The John Lewis Partnership Trust Limited facilitates the approval and payment of the Partnership Bonus The John Lewis Partnership Trust Limited facilitates the approval and payment of the Partnership Bonus and BonusSave At the year end there was a balance of £9 8m (2012 £3 3m) owed to John Lewis plc by The John Lewis Partnership Trust Limited in respect of BonusSave

Key management compensation has been disclosed in note 10

Loans payable to group companies are included in note 19

33 Subsidiary and associated undertakings

Principal subsidiary undertakings as at 26 January 2013 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 accounts

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

By order of the Board

Charlie Mayfield
Helen Weir

Directors

22 April 2013

Independent auditors' report to the members of John Lewis plc

We have audited the group and parent company financial statements (the "financial statements") of John Lewis plc for the year ended 26 January 2013 which comprise the consolidated income statement, the consolidated statement of comprehensive expense, the consolidated balance sheet, the balance sheet of the company, the consolidated and company statements of changes in equity, the consolidated and company statements of cash flows and the related notes to the accounts The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 88, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

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

Opinion on financial statements
In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 26 January 2013 and of the group's profit and 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 IAS Regulation

Independent auditors' report to the members of John Lewis plc

continued

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
22 April 2013

Retail branches

John Lewis Stores

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

Waitrose Supermarkets and Stores

London

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

Southern England

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

Retail branches

continued

Midlands, East Anglia, Wales, Northern England and Scotland

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

Channel Islands

Admiral Park	Rohais	Red Houses	St Helier	St Saviour

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-fifth annual general meeting of the company will be held at 12 45pm on 6 June 2013 at Partnership Services Division head office, Spedan House, Doncastle Road, Bracknell, Berkshire RG12 8YA

- To receive the Company's annual accounts, together with the Directors' Report, and the Auditor's Report on those accounts for the year ended 26 January 2013
- To re-elect Tracey Killen, Rachel Osborne, Mark Price, Andy Street and Helen Weir as directors of the Company

Biographical details of the directors and their experience is set out on page 30

- To re-appoint PricewaterhouseCoopers LLP as Auditor of the Company to hold office from the conclusion of the meeting until the conclusion of the next meeting of the Company at which accounts are laid
- To authorise the directors to determine the remuneration of the Auditor

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

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

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