

John Lewis Partnership

annual report and accounts

2012

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The John Lewis Partnership

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

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

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

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

John Lewis Partnership plc and its subsidiary John Lewis plc have small issues of preference stock which have first claim on the profits. The whole of the remaining profit is available to be used for the benefit of the business and the Partners. The share of profits allocated to Partners, the Partnership bonus, is fixed each year by the Partnership Board and is distributed as the same percentage of gross annual pay for all Partners. All Partners received a 14% bonus for 2011/12 as their share of profits at a total cost of £165.2m

Chairman's statement

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

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

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

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

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

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

2012/13 Outlook

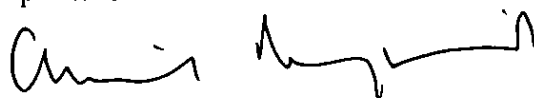
After 11 weeks, Partnership sales excluding VAT¹ are 9.0% higher than last year. Waitrose sales excluding VAT have increased by 8.4% (2.9% like-for-like) and John Lewis sales excluding VAT are 10.1% higher than last year (7.0% like-for-like). The 2012/13 sales include those for the Easter weekend, which have a beneficial impact on sales, whereas in 2011/12 Easter fell later in April.

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

Charlie Mayfield

Chairman

23 April 2012



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

Business review

Review of performance

The John Lewis Partnership

- Gross sales up £523 2m, 6 4%, to £8 73bn
- Sales excluding VAT¹ up £400 5m, 5 4% to £7 86bn
- Group operating profit down £37 7m, 8 7%, to £393 3m
- Profit before Partnership bonus and tax down £14 1m, 3 8%, to £353 8m
- Partnership Bonus of £165 2m, 14% of salary (equal to over 7 weeks' pay)

Waitrose

- Gross sales up £425 8m, 8 6%, to £5 40bn
- Sales excluding VAT¹ up £372 4m, 7 9% to £5 07bn
- Food only like-for-like sales up 3 6% (up 3 0% excluding VAT)
- Operating profit down £14 3m, 5 2%, to £260 6m

John Lewis

- Gross sales up £97 4m, 3 0%, to £3 33bn
- Sales excluding VAT¹ up £28 1m, 1 0% to £2 79bn
- Like-for-like sales up 1 3% (down 0 6% excluding VAT)
- johnlewis.com sales up £141 7m, 26 3%, to £680 8m (up £111 2m, 24 2% excluding VAT)
- Operating profit down £40 5m, 20 4%, to £157 9m

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

Five year record – years ended January

	2012 £m	2011 £m	2010 £m	2009* £m	2008 £m
Gross sales					
Waitrose	5,400 4	4,974 6	4,532 3	4,156 4	3,950 1
John Lewis	3,329 1	3,231 7	2,889 2	2,811 1	2,812 7
Gross sales	8 729 5	8,206 3	7,421 5	6 967 5	6,762 8
Sales excluding VAT ⁽¹⁾					
Waitrose	5,072.3	4,699 9	4,317 2	3,940 1	3,737 2
John Lewis	2,792 0	2,763 9	2,519 5	2,415 8	2,404 9
Sales excluding VAT	7,864 3	7,463 8	6,836 7	6,355 9	6,142 1
Revenue					
Waitrose	5,072 3	4,699 9	4,317 2	3,940 1	3,737 2
John Lewis	2,686 3	2,661 9	2,417 4	2,327 1	2,315 0
Revenue	7,758 6	7,361 8	6,734 6	6,267 2	6,052 2
Operating profit ⁽²⁾⁽³⁾					
Waitrose	260.6	274 9	266 8	214 5	226 2
John Lewis	157 9	198 4	160 4	140 6	192 0
Corporate and other ⁽⁴⁾	(25 2)	(42 3)	(37 5)	(31 8)	(26 9)
Operating profit	393 3	431 0	389 7	323 3	391 3
Net finance costs	(39 5)	(63 1)	(83 1)	(43 7)	(11 5)
Share of post tax losses of associate (Ocado)	–	–	–	–	(8 0)
Exceptional gain in respect of associate (Ocado)	–	–	–	127 4	8 0
Profit before Partnership bonus and tax	353.8	367 9	306 6	407 0	379 8
Taxation	(52 4)	(46 0)	(48 8)	(48 1)	(59 4)
Net profit available for profit sharing and retention in the business	301 4	321 9	257 8	358 9	320 4
Partnership bonus	(165 2)	(194 5)	(151 3)	(125 4)	(181 1)
As a percentage of eligible pay	14%	18%	15%	13%	20%
Discontinued operations	–	–	–	–	(9 1)
Profit for the year retained in the business	136 2	127 4	106 5	233 5	130 2
Net assets	2,008 9	2,072 8	1,704 5	1,722 8	1,683 9
Pay	1,096 3	1,021 7	940 4	908 0	864 8
Number of employees at year end	80,900	76,500	72,400	68,300	69,300
Average number of employees	78,700	74,800	70,000	68,700	68,200
including part-time employees	42,900	40,800	37,300	35,900	36,700
Average number of FTEs	51,100	48,500	45,900	45,100	44,900

*53 week year

⁽¹⁾ Sales excluding VAT are gross sales net of value added tax⁽²⁾ The comparatives have been re-presented in respect of John Lewis Insurance operations to be on a consistent basis to the current year⁽³⁾ The basis of allocation of pension costs to the divisions was changed for 2012 and is charged as a fixed proportion of total pay based on the estimated long term costs of providing the benefit, with the differences between these costs and the total annual pension operating costs recognised in Corporate and other. This was income of £16.8m in 2012, which is principally due to market driven volatility⁽⁴⁾ Corporate and other costs are principally corporate and shared service overheads, transformation costs and the Partnership Services division set up costs

Business review

Review of performance (continued)

Key performance indicators (KPIs)

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

	Group	Waitrose	John Lewis	Group	Waitrose	John Lewis
	2012	2012	2012	2011	2011	2011
Trading performance						
Gross sales growth						
– total continuing operations	6.4%	8.6%	3.0%	10.6%	9.8%	11.9%
– like-for-like ⁽¹⁾	2.6%	3.6%	1.3%	6.4%	4.0%	10.0%
Growth in sales excluding VAT						
– total continuing operations	5.4%	7.9%	1.0%	9.2%	8.9%	9.7%
– like-for-like ⁽¹⁾	1.6%	3.0%	(0.6)%	5.1%	3.3%	7.9%
Operating margin ⁽²⁾	5.0%	5.1%	5.7%	5.8%	5.8%	7.2%
Sales excluding VAT per selling FTE (£000s)		211.7	163.2		214.1	157.1
Operating profit per FTE (£000s) ⁽²⁾	7.7	9.4	7.1	8.9	10.8	9.0
Number of stores ⁽³⁾		272	35		243	32
Average selling space (m sq ft) ⁽⁴⁾	9.1	4.9	4.2	8.6	4.6	4.0
Sales excluding VAT per selling sq ft (£)	867	1,033	672	873	1,032	691
Operating profit per selling sq ft (£) ⁽²⁾	43	53	38	50	60	50
Cash flow and liquidity						
Operating cash flow before Partnership bonus (£m)	759.1			745.1		
Capital expenditure (£m) ⁽⁵⁾	517.8	292.6	182.4	492.7	354.0	119.5
Interest cover ⁽⁶⁾	3.8			3.8		
Balance sheet						
Net assets (£m)	2,008.9			2,072.8		
Net debt (£m)	577.3			548.4		
Gearing ⁽⁷⁾	28.7%			26.5%		
Return on invested capital ⁽⁸⁾	7.2%			7.9%		

⁽¹⁾ Like-for-like sales exclude the impact of branch openings and closures

⁽²⁾ Operating margin is expressed as a % of sales excluding VAT

⁽³⁾ The number of stores trading as at the year end date

⁽⁴⁾ Average selling space (of all stores and branches) includes all customer facing areas and excludes offices, warehouse space and staff facilities

⁽⁵⁾ Capital expenditure for the group includes £42.8m (2011: £19.2m) of spending on group-wide information technology systems, vehicles, properties and other assets, not allocated to the operating businesses

⁽⁶⁾ Interest cover is profit before net finance costs and tax, after Partnership bonus, divided by net finance costs excluding the financing element of pensions and long service leave, and IAS 39 fair value adjustments included within finance costs

⁽⁷⁾ Gearing is net debt divided by net assets

⁽⁸⁾ Return on invested capital is post tax profit, adjusted for non-operating items, as a proportion of average operating net assets, adjusted to reflect a deemed capital value for property lease rentals

Group performance

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

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

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

Operating profit was £393.3m (2010/11 £431.0m), a decrease of £37.7m, or 8.7% on last year, representing an operating profit margin (excluding VAT) of 5.00% (2010/11 5.77%).

Profit before Partnership bonus and tax was £353.8m, a decrease of £14.1m, or 3.8%, on last year. Profit before Partnership bonus and tax as a percentage of sales excluding VAT decreased from 4.93% to 4.50%.

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

Business review

Review of performance (continued)

Net finance costs

Net finance costs decreased by £23.6m (37.4%) to £39.5m. Changes to the financing element of pension costs, which is the difference between the expected return on scheme assets and the interest cost on the scheme liabilities, and the financing element of long service leave are driven by changes in the external investment market, including rates for corporate bonds, which means these costs can change materially from one year to the next, driven by market volatility. The financing elements of pensions and long service leave was a net credit of £23.8m, compared to a charge of £2.2m last year. Excluding pensions, long service leave and other non-cash fair value adjustments, net finance costs have reduced slightly, by £1.4m (2.3%), from £61.7m to £60.3m.

Pension charge

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

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

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

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

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

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

Actuarial valuation of the pension funds

A formal actuarial valuation is carried out at least once every three years by an independent professionally qualified actuary. This assesses, on a prudent basis, the amount of assets to be set aside to meet the pension promises made to the valuation date, taking into account future expected investment returns, and determines the future level of funding, estimated on prudent assumptions, that the Partnership needs to put into the schemes. For the main pension scheme, the last formal valuation was carried out as at 31 March 2010. This resulted in a funding surplus of £83m. The market value of the assets of the fund as at 31 March 2010 was £2,341m. The actuarial valuation of these assets showed that they were sufficient to cover 104% of the benefits which had accrued to members. As at 28 January 2012 the main pension scheme is estimated to have a funding deficit of £5m, and therefore the assets are sufficient to cover 100% of the benefits which had accrued to members.

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

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

Accounting valuation under IAS 19

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

Business review

Review of performance (continued)

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

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

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

Tax

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

Capital expenditure

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

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

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

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

Cash flow and net debt

We generated £759.1m in operating cash flow (before Partnership bonus) up £14.0m or 1.9% on the prior year. Our gearing ratio increased from 26.5% to 28.7% with year-end net debt increasing by £28.5m to £576.9m.

Return on invested capital

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

Profit for the year

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

Net assets

Net assets decreased by £63.9m, 3.1%, to £2,008.9m. This reflects significant investments totalling £517.6m, including £344m in new stores, extensions and refurbishments, £38m in distribution and £98m in new information technology systems, offset by depreciation and amortisation of £273.3m, an increase in the pension fund deficit of £224.1m and an increase in net debt of £28.5m.

Business review

Review of performance (continued)

Waitrose

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

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

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

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

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

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

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

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

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

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

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

Business review

Review of performance (continued)

John Lewis

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

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

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

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

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

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

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

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

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

Business review

Business and strategy

Purpose of the Partnership

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

Strategic development – background

The Partnership owns two of the strongest retail brands in the UK. Waitrose is renowned for the freshness, quality, safety and provenance of its food combined with the expertise and service of a specialist shop while John Lewis' reputation is built on a strong product range and excellent service. Neither Waitrose nor John Lewis depends on dominant market share but on distinctive positioning which secures an exceptional degree of loyalty from customers. That loyalty has been built on customers' trust and confidence in our sourcing, pricing and quality standards and by selling our products impartially with consistently exceptional service. It has been reinforced by recognition of our long-held desire to act responsibly and to minimise our environmental impact. The Partnership is uniquely placed to do this because our social, ethical and environmental values are ingrained in our culture, and we consistently demonstrate this through our commitment to the communities we serve.

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

Strategic initiatives

To reflect the changing external economic and retail landscape, and the ambitions of the Partnership, we have refreshed our strategic intent during the year. To ensure we continue to deliver against the Partnership's ultimate purpose, and to emphasise our belief that our model is a better way of doing business, we have developed three key strategic aims. Going forward everything we do will be aligned with the intention to either unlock the potential of our Partners, to increase the market potential for our brands or to grow our business in an efficient manner.

Despite the tough market conditions both Waitrose and John Lewis traded well through 2011, outperforming their respective markets, although progress in the non-food sector was particularly hard fought. In response to changing customer needs the investments we made in value have been especially important. In Waitrose, the continued success of the essential range, the Brand Price Match initiative and promotional pricing have reminded customers of our price/quality relationship. Likewise, John Lewis has continued to emphasise the value within its ranges, which when combined with widely acclaimed advertising and the commitment to remain Never Knowingly Undersold have given customers a reason to return to us.

We have not allowed economic uncertainty to deflect us and have taken the important decision to reorganise our business in ways which better support the multi-channel business we are today. We are currently managing substantial reorganisations to ensure that the Partnership remains competitive and that our Partners remain at the heart of our service offering for many years to come.

We recognise there remain new opportunities to develop our brands. Within the UK, new stores have been opened for both brands with an emphasis on exciting new formats such as the smaller footprint John Lewis 'at home' and Waitrose convenience. Additionally we have taken our brands to new markets through the John Lewis international website and the expansion of the Waitrose export business. We continue to experience strong growth from our online operations as customers increasingly embrace a multi-channel approach to retail, and we will continue to invest in improving the ease with which our customers can interact with us through improved web and mobile presence and initiatives such as Click & collect.

Business review

Resources and relationships

Partners

Our culture

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

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

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

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

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

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

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

Talent development

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

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

Business review

Resources and relationships (continued)

Partners (continued)

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

Benefits

Our reward strategy aims to provide a Total Reward Package that offers competitive pay and distinctive market leading benefits, such as our non-contributory defined benefit final salary pension scheme for those Partners who stay with us for more than three years. For those in their first three years, a defined contribution scheme is available where we will match Partner contributions up to 6%.

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

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

Corporate Social Responsibility (CSR)

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

As the UK's largest example of worker co-ownership, people come first. All 81,000 of our employees are Partners and they play a crucial part in the Partnership's continued success. Partners embody the Partnership's principles of respect, integrity and courtesy – and increasingly they help our business find new and innovative ways to make our operations, products and services more sustainable.

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

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

Governance and risk

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

In order to decide where to focus our efforts we assess and prioritise CSR risks, opportunities and insight by engaging with a wide range of stakeholders. This process enables us to increase our responsiveness to stakeholder concerns, find new ways to reduce our impacts and maximise opportunities, balance business efficiency with economic success and, ultimately, continue to make the Partnership more competitive, profitable and sustainable.

Sustainable retailing

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

'The Waitrose way' is

- **Championing British** – We believe in always bringing people home-grown food and produce at its very best, celebrating the British food season and working with the best local and regional suppliers
- **Treading Lightly** – We believe in making the right choices for the environment by reducing packaging, waste, water and CO₂ emissions, and sourcing our food and raw materials responsibly. At Waitrose, product stewardship and maintaining the highest levels of agricultural and environmental management are our key focus at home and abroad. We look closely at our operational impact on the environment and ask all own-label suppliers to reduce their business footprint too.
- **Treating people fairly** – We believe in treating our customers, Partners, farmers and suppliers fairly as well as supporting local charities and community groups through our Community Matters and Partner volunteering schemes.
- **Living well** – We believe that eating well should be enjoyable. We provide a wide range of imaginative and nutritious choices to inspire people to eat more healthily and are ahead of targets for salt reduction.

John Lewis 'Bringing Quality to Life' is

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

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

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

Customers, products and suppliers

The Partnership's vision is for long term sustainable trading. We are committed to selling responsibly sourced products, dealing fairly with suppliers, engaging with and acting in the interests of our customers and providing excellent value and unrivalled customer service.

In 2011 Waitrose came first in *Which?* magazine's supermarket survey of over 12,000 shoppers and John Lewis was voted Britain's favourite retailer for the fourth year running by retail analysts.

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

Business review

Resources and relationships (continued)

Customers, products and suppliers (continued)

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

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

Community

Local investment

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

Charitable and community investment

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

* Includes cash, in-kind, time and management costs as defined by the London Benchmarking Group model and also includes the donations for charitable purposes detailed on page 38

Community programmes included

- The Partnership donating over £3m in 2011/12 to a wide range of charities and community groups through Community Matters
- Providing Community Rooms which was launched in 2011 whereby Waitrose and John Lewis shops make their meeting and training rooms available free of charge to local charities and community groups
- The Partnership-wide payroll giving scheme which is well established enabling Partners to make tax-free charitable donations directly from their pay
- The Golden Jubilee Trust which is the Partnership's flagship employee volunteering scheme where any Partner can apply for a full- or part-time volunteering secondment with a UK registered charity for up to six months. In 2011/12, this scheme saw 21,000 hours awarded to 58 Partners for 57 UK charities

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

	2010-11	2011-12	% change on last year
Total greenhouse gas (GHG) emissions (CO ₂ e)	517,018*	530,147	2.5%
Transport related CO ₂ e emissions (tonnes/ £m sales)	8.8*	8.7	(1.1)%
Waitrose refrigeration and cooling direct emissions (CO ₂ e tonnes)	64,385*	60,963	(5.3)%
Proportion of generated waste diverted from landfill (%)	81	89	9.9%
Waitrose shop water consumption (cubic metres per sq ft trading floor area)	0.17	0.13	(23.5)%
John Lewis shop water consumption (cubic metres per sq ft trading floor area)	0.11	0.12	9.1%

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

During 2011, we focussed our efforts on embedding our carbon footprint reduction programme. This includes a target to reduce operational carbon dioxide (CO₂) equivalent emissions by 15% by the end of 2020/21 against a 2010/11 baseline.

It was anticipated that emissions would rise for a couple of years before decreasing in response to the implementation of a range of emissions saving projects. Our CO₂ equivalent emissions grew by 2.5% in 2011/12 to 530,147 tonnes, a period in which gross sales grew by 6.4%.

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

- Energy**
 In 2011/12 energy efficiency of our shops improved by 8.0% in Waitrose and by 2.8% in John Lewis. During 2011, we built two pilot energy centres at East Cowes on the Isle of Wight and at Bracknell, Berkshire where biomass fuelled combined cooling, heating and power plants will provide energy to the adjacent Waitrose stores.
- Transport**
 Against our target to reduce transport CO₂ equivalent emissions by 15% relative to turnover by 2013, we have made an improvement of 7.9% against our 2005/06 baseline. Progress has been achieved by reducing miles driven using smart scheduling, minimising empty vehicle journeys, increasing the use of double deck trailers and improving loading efficiency, improving fuel consumption by optimising driving styles, reducing drag through the widespread use of aerodynamic aids, and using alternative fuels such as pure plant oil, bio-methane, natural gas and electricity which reduce emissions and improve local air quality.

Business review

Resources and relationships (continued)

Environment (continued)

- **Refrigeration**

Waitrose stopped using hydrofluorocarbons (HFCs) for refrigeration in all new and refitted shops from 2010. 74 shops had our new low carbon refrigeration system installed by the end of 2011/12. As a result of this new system and our leakage reduction programme, Waitrose's direct refrigeration and cooling CO₂ equivalent emissions have been reduced by 5.3% since last year and 24.5% since our 2008/09 baseline.

- **Waste**

We diverted 89% of our operational waste from landfill last year, by segregating more recyclable material by source, recovering energy from unavoidable food waste in an increasing number of shops, and processing general waste through Materials Recovery Facilities (MRFs) to extract recyclable elements from the residual, unsegregated waste. During 2011, a suite of new recycling bins were installed in most Partner dining rooms to capture a larger proportion of recyclable waste such as vending drinks bottles, disposable cups, newspapers and magazines.

- **Water**

We continue to introduce automatic metering, the majority of our retail and non-trading sites now have this technology. The Partnership delivered an improvement of 23.5% over the prior year in Waitrose in shop water consumption per square foot of trading floor area. However John Lewis water consumption increased by 9.1% to 0.12m³ per square foot of trading floor area.

Responsible development

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

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

Packaging

We place over 130,000 tonnes of product packaging on the market each year. We contribute towards investment in domestic collection and public recycling centres, promote packaging recyclability and explore ways to optimise our packaging. More information is available on our website, www.johnlewispartnership.co.uk/csr/our-environment/minimising-packaging.html.

Business review

Risks and uncertainties

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

Economic

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

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

Financial risk

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

- **Funding and liquidity**

Liquidity requirements are managed in line with short and long term cash flow forecasts linked to our trading patterns, business plans and budgets and reviewed against the Partnership's debt portfolio and maturity profile. Details of the Partnership's borrowings, together with their interest rates and maturity profiles, are provided in note 25 to the accounts.

- **Interest rate risk**

In order to manage the risk of interest rate fluctuations the Partnership targets a ratio of fixed and floating rate debt in line with its treasury policy. Exposures to interest rate fluctuations are managed using interest rate swaps. Details of the Partnership's borrowings and interest rate exposures are provided in note 25 to the accounts.

- **Foreign currency risk**

The Partnership uses derivatives to manage exposures to movements in exchange rates arising from transactions with foreign suppliers. Foreign currency exposures are hedged primarily using forward foreign exchange contracts. Details are provided in note 22 to the accounts.

- **Credit risk**

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

- **Capital risk**

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

Business review

Risks and uncertainties (continued)

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

Pensions risk

Our pension obligation represents our longest term risk and is of critical importance. The Pension Fund assets are held in separate funds administered by the Trustees, who delegate day-to-day management of these funds to a number of investment managers. Our pension arrangements and funding position are explained in note 24 to the accounts. We have executed a deficit mitigation strategy over the past six years which means our Pension Fund on an actuarial basis was in surplus at the time of the most recent actuarial valuation in March 2010 and is estimated to be in balance currently. We actively monitor the outlook of asset and liabilities performance against the assumptions set both on an accounting and actuarial basis on a monthly basis and are finalising a formal framework for managing the Financial and Investment Risk of the Pension Fund proactively rather than retrospectively. The liquidity risk is managed by ensuring the annual contribution to the Fund more than covers its outgoings and that income generated from the investment activities is more than adequate to cover any short fall that may occur in exceptional circumstances.

Input cost inflation

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

Human resources

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

Customer offer

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

Health and safety

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

Business continuity and disaster recovery

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

Other significant risks and uncertainties

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

Compliance statement

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

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

Other information

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

Directors and advisers

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

Member of the Audit and Risk Committee

‡ Member of the Remuneration Committee

Δ Member of the Chairman's Nominations Committee

DIRECTORS

Charlie Mayfield Δ

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

Johnny Aisher †#Δ

Clerk to the Partnership Council since 2004. Member of the Board since 1999. Joined the Partnership 1985

David Anderson #Δ

Joined the Board as a non-executive director in February 2011. Vice Chairman and Senior Independent Director of NFU Mutual Insurance Society Limited, Chairman of the Reclaim Fund and a non-executive director of Mutuo

David Barclay #‡Δ

Deputy Chairman since March 2007. Joined the Board as a non-executive director in 2006. Also holds non-executive directorships with Wessex Water Services Limited and the British Library

Anne Buckley †‡

Registrar, John Lewis Victoria A since 2010. Member of the Board since 2003. Joined the Partnership 1985

Marisa Cassoni

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

Simon Fowler †#

Managing Director, John Lewis, Oxford Street since February 2011. Member of the Board since May 2010. Joined the Partnership 1986. Also Chairman of the Employee Ownership Association

OFFICERS AND ADVISERS

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

Auditors – PricewaterhouseCoopers LLP

Solicitors – Hogan Lovells

Bankers – Royal Bank of Scotland PLC

Baroness Hogg #‡

Joined the Board as a non-executive director in February 2011. Chairman of the Financial Reporting Council and Frontier Economics Limited and Senior Independent Director of BG Group plc. Also Lead Independent Director of HM Treasury and a Senior Adviser to the FSA.

Tracey Killen

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

Patrick Lewis

Partners' Counsellor since February 2009, when he joined the Board. Joined the Partnership 1994. Was a director of Ocado Limited and Ocado Group plc, until 11 February 2011

Kim Lowe †Δ

Managing Director, John Lewis, Glasgow since June 2010. Member of the Board since July 2007. Joined the Partnership 1982

Mark Price

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

Tony Probert †‡

Branch Manager, Waitrose Farnham since 2005. Member of the Board since May 2010. Joined the Partnership 1977

Andy Street

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

Registered Office

171 Victoria Street, London SW1E 5NN, Incorporated and registered in England No 238937

Transfer Office

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

Directors' report

Principal activity and business review

The principal activity of the group is retailing with the main trading operations being the Waitrose and John Lewis businesses. The company controls the entities listed in note 32, comprising 29 John Lewis department stores, 8 John Lewis at home stores, johnlewis.com, 246 Waitrose supermarkets, 31 Waitrose convenience stores, waitrose.com and business to business contracts in the UK and abroad and ancillary manufacturing activities. A review of the business and likely future developments is included separately in the Chairman's Statement and Business Review on pages 2 to 25, which forms part of this Directors' report.

Margaret Casely-Hayford
Director of Legal Services

The Partnership's Constitution and the UK Corporate Governance Code

The Partnership was founded by John Spedan Lewis in 1929. He established the business to be owned in trust for the benefit of its members. The members and co-owners of the Partnership are its employees, who are known as Partners.

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

The co-ownership character of the Partnership is reflected in the respective roles and responsibilities of its three governing authorities, as established by the Constitution: the elected Partnership Council (the representative body of all of the members of the Partnership, which is elected through a democratic election process), the Board of John Lewis Partnership plc (the Partnership Board), and the Chairman. The Partnership Council, as the representative body of the members of the Partnership, entrusts management of the business to the Partnership Board, which delegates day to day management of the business to the Chairman.

In addition to compliance with the system of governance and accountabilitys established by its Constitution, the Partnership aims to apply the highest standards of corporate governance and, although not obliged to do so, seeks to conform with the Principles set out in the June 2010 UK Corporate Governance Code in a manner framed to suit its democratic ownership structure. During 2011/12 the Partnership complied with the main principles of the UK Corporate Governance Code with certain exceptions in areas in which the Partnership's co-ownership model builds appropriate accountability and checks. Further explanations of how the Code's principles have been applied and details on the alternative governance mechanisms where they have not been applied, is set out below.

Role of the Partnership Board

The Partnership Board has responsibility for the overall management and performance of the Partnership and the approval of its long-term objectives. In particular, it agrees the Partnership strategy, business plan and annual budgets, including those of the Waitrose and John Lewis Divisions. It monitors performance, including that of the Divisions, against business plans, budgets and forecasts.

The Board comprises fourteen members – the Chairman, the non-executive Deputy Chairman, two further non-executive directors, five members appointed by the Chairman and five elected members nominated by the Partnership Council. The elected directors are required to stand for re-election every three years. The directors of the company at the date of this report are listed on page 28.

Directors' report

continued

There is a formal schedule of matters reserved for the Board by means of which it oversees the Partnership's affairs. The Board is assisted in carrying out its supervisory and assurance responsibilities by its committees. Responsibilities and terms of reference of the principal committees are described below. The Board also delegates authority to ad hoc committees to facilitate finalising matters within agreed parameters.

Senior executives attend Board meetings as appropriate to support proposals on policy setting, investments and the results and strategies of their business units. Board members are given appropriate and timely documentation in advance of each Board and committee meeting. In addition to formal Board meetings, the Chairman maintains regular contact with all directors through meetings of the Chairman's Committee and informal meetings with the elected, non-executive and executive directors and senior leadership group of Partners.

Board meeting attendance during the year

	Board 9 meetings
Charlie Mayfield	9
David Barclay	9
Johnny Aisher	9
David Anderson	6
Anne Buckley	9
Marisa Cassoni	9
Simon Fowler	9
Baroness Hogg	8
Tracey Killen	9
Patrick Lewis	9
Kim Lowe	9
Mark Price	8
Tony Probert	9
Andy Street	9

Chairman and executive directors

Under the Partnership's Constitution day to day management of the business is delegated by the Partnership Board to the Chairman. The Executive Chairman role reflects the terms of the Constitution. The Chairman's responsibilities are clearly defined under the Partnership's governance structure and include responsibility for developing the distinctive character and democratic vitality of the Partnership, the leadership and management of the Partnership and the execution of the strategy approved by the Board. Although the executive nature of the Chairman's role is not in compliance with the Code, this structure provides for the Chairman to be accountable to both the Board and to the Partnership Council constitutionally. The Partnership Council has opportunities throughout the year to hold the Chairman to account, thus there are two levels of scrutiny in place.

The Chairman is assisted in the day to day management of the business by the Chairman's Committee comprising the Partnership Board's executive directors: the Chairman, the Finance Director, the Director of Personnel, the Managing Director, Waitrose, the Managing Director, John Lewis, and is also attended by the Director of Partnership Services and the Partners' Counsellor.

The Chairman's Committee meets frequently as an informal committee to develop strategy, business plans and budgets and review major operational and management issues, financial results and forecasts and proposals for investment and development of the Partnership's businesses.

The Chairman delegates the day to day management of the Waitrose and John Lewis trading divisions to the two Managing Directors, and that of the Partnership Services division to the Director of Partnership Services.

Executive Directors

The Partnership announced the retirement of Marisa Cassoni, Finance Director, in September 2011. Marisa will step down as Finance Director and from the Partnership Board on 31 May 2012. Helen Weir joined the Partnership on 1 April 2012 and will formally assume the role of Finance Director and join the Partnership Board on 1 June 2012.

Executive directors of the Partnership Board do not stand for re-election as recommended by the Code but, as co-owners of the business, Partners are given opportunity, through Forums and Council meetings, at which to hold the executive directors responsible.

Elected directors

The five elected directors are all Partners and although not independent are members nominated by the Partnership Council (the representative body of all of the members of the Partnership)

The Partnership Council agreed in 2009 that the term of office for the Elected Directors should be extended from a period of two years to three years, to take effect from the Partnership Council elections in 2012

The Partnership Council held elections in March 2012 in which Kim Lowe was re-elected as a director of the Partnership Board. Johnny Aisher and Anne Buckley did not stand for re-election and will therefore resign from the Partnership Board with effect from 3 May 2012. Simon Fowler and Tony Probert will also resign from the Partnership Board with effect from 3 May 2012. Steven Gardiner, Daniel Smith, Kevin Payne and Noel Saunders were elected as directors with effect from 3 May 2012.

Non-executive directors

Baroness Hogg and David Anderson were appointed as non-executive directors with effect from 7 February 2011.

The non-executive directors are appointed for an initial term of three years, which may be renewed subject to satisfaction on the part of both the directors concerned and the Board. The terms and conditions of appointment of the non-executive directors are available on request from the Director of Legal Services and Company Secretary.

Non-executive directors bring external experience and independence to the Board's deliberations.

The Board reviews the independence of all non-executive directors annually and has determined that David Barclay, Baroness Hogg and David Anderson continue to be independent and have no cross-directorships or significant links which adversely interfere with the exercise of their independent judgement. All directors are required to declare pertinent interests and absent themselves from any discussion that might give rise to a conflict of interest. The non-executive directors are not Partners and therefore are not afforded voting rights in relation to Board decisions. They are not eligible to receive Partnership bonus or other benefits, and are not members of the Partnership's pension schemes, thereby underlining their independence.

Partners' Counsellor

The Partners' Counsellor monitors and upholds the integrity of the business, its values and ethics as enshrined in its Constitution. He is a member of the Board and performs part of the role of senior independent director in so far as his role involves interaction with Partners, as co-owners of the business. For the purposes of the Code, the element of the role of senior independent director, being to act as a sounding board for the Chairman on business issues, resides with the Deputy Chairman. The Partners' Counsellor supports the elected directors in their contribution to the Board as representatives of the Partners. The Partners' Counsellor convenes meetings regularly with the elected and non-executive directors, without other executive directors being present.

Directors' responsibilities

The Statement of directors' responsibilities in relation to the financial statements is set out on page 81.

Internal control

The directors have ultimate responsibility for the Partnership's systems of internal control, including risk management, and also for reviewing their effectiveness. In recognition of that responsibility, the directors set policies and seek regular assurance that the systems of internal control are operating effectively. Strategic, commercial, operational, financial and health and safety risk areas are all included within the scope of these activities.

The systems of internal control are designed to manage, rather than seeking to eliminate, the risk inherent in pursuit of business objectives. In pursuing these objectives, internal controls can only provide reasonable, and not absolute, assurance against material misstatement or loss. The directors have recently reviewed the effectiveness of the Partnership's systems of internal control for the accounting period covered by this report.

Directors' report

continued

Board effectiveness

On joining the Board, directors are given background information describing the Partnership and its activities and they also receive an induction pack of information relating to the business. Meetings are arranged with appropriate senior personnel, as well as site visits taking place. Training seminars are held for the Board with recent topics covering Data Protection, Corporate Governance, Anti Bribery and Corruption and Competition Law. External training is arranged as appropriate.

Board evaluation

In accordance with the recommendation of the Financial Reporting Council, the Board has decided to carry out an external evaluation for the period under review and instructed Board Intelligence to assist in this process. The outcome of the evaluation will be reported in the Annual Report and Accounts 2013.

Independent professional advice

The Board has approved a procedure for directors to take independent professional advice, if necessary, at the Partnership's expense. No such advice was sought by any director during the year.

Insurance

The Partnership maintains directors' and officers' liability insurance which provides appropriate cover for any legal action brought against its directors.

Directors' interests

Under the Constitution of the Partnership, the directors, apart from the three non-executive 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.

External directorships of executive directors

The Remuneration Committee has approved a policy relating to the holding of external directorships. The Board considers that executive directors can gain valuable experience and knowledge through such appointments.

The external directorships of the executive directors and the other directors during the year and at the date of this report are listed on page 28.

Board committees

The principal committees of the Partnership Board are the Audit and Risk Committee, the Remuneration Committee and the Chairman's Nominations Committee. Each committee has written terms of reference agreed by the Board and reviewed annually.

Audit and Risk Committee

The Audit and Risk Committee is chaired by Jeff Hewitt, an independent external committee member who, for the purpose of fulfilling the requirements of the UK Corporate Governance Code, is considered to hold recent and relevant financial experience. In addition to the Chairman, the members are the three non-executive directors, David Anderson, David Barclay and Baroness Hogg together with the Partners' Counsellor, Patrick Lewis, and two of the five directors elected by the Partnership Council, chosen by that group, currently Johnny Aisher and Simon Fowler. David Anderson and Baroness Hogg joined the Committee on 5 July 2011. Directors' attendance at meetings throughout the year is shown in the table.

	Audit and Risk Committee 4 meetings
Jeff Hewitt	4
Johnny Aisher	4
David Anderson*	1
David Barclay	4
Simon Fowler	4
Baroness Hogg*	2
Patrick Lewis	4

**David Anderson and Baroness Hogg joined the Committee in July 2011, so were only eligible to attend two out of four meetings.*

The Committee's principal roles are assisting the Partnership Board in the discharge of its responsibilities in respect of statutory and financial reporting and reviewing and monitoring the effectiveness of the group's internal controls and risk management systems, monitoring the effectiveness of the group's internal audit function, making recommendations to the Board on the appointment of the external auditors following an annual evaluation of their performance, approving the remuneration and terms of engagement of the external auditors and monitoring and reviewing the external auditors' independence, objectivity and effectiveness, taking into account professional and regulatory requirements

The external auditors attend the meetings of the Audit and Risk Committee, as does the Finance Director, the Group Financial Controller, the Head of Internal Audit and Risk Management, the Head of Operational Risk Management and the Director of Legal Services and Company Secretary. Other executives are invited to attend as appropriate and the Committee meets at least annually with the external auditors and the Head of Internal Audit and Risk Management without any executives being present.

External auditors

As part of the approval process for the appointment of the external auditors, the Audit and Risk Committee is responsible for the evaluation of their performance. The members of the Committee and regular attendees of the Committee's meetings were provided with an opportunity, through a questionnaire, to comment on the effectiveness of the external auditors. The review of PricewaterhouseCoopers LLP by the Audit Inspection Unit was also considered in forming a view on the firm's professional skills and practices. No significant areas of concern were identified in these evaluation processes and the Committee is satisfied that the external auditors continue to be effective. The external auditors are required to rotate the audit partner responsible for the group audit every five years and accordingly the audit partner changed during the 2011/12 financial year, with the responsibilities transferred upon signature of the 2010/11 Annual Report and Accounts. The Committee is monitoring the development of regulation on the rotation of audit firms from the Financial Reporting Council and elsewhere and will consider the implications for the appointment of the external auditor when the guidance is finalised. PricewaterhouseCoopers LLP, or its predecessor firms, have been the external auditor of the Partnership for a number of years, but continues to perform well and demonstrate independence. Hence, the Committee has no current intention of putting the external audit out for tender.

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

The Board recognises that the independence of the external auditor is a fundamental safeguard for the interests of the Partnership's co-owners. The Board has agreed a policy setting out the categories of non-audit services that are prohibited and those that may be undertaken by the external auditor subject to specific approval. Prohibited services include bookkeeping or other services related to the accounting records or financial statements and internal audit services. At each meeting the Audit and Risk Committee reviews the nature of all non-audit engagements with the external auditor and the related costs. It also reviews the assurance provided by them regarding their independence and objectivity. Details of the amounts paid to the external auditors are given in note 5 to the accounts. Having undertaken a review of the non-audit services provided during the year, the Committee is satisfied that these services did not prejudice the external auditors' independence.

Internal audit

The Head of Internal Audit and Risk Management reports functionally to the Committee and operationally to the Finance Director. The Committee approves the Internal Audit work programme for each year and considers the results of the internal audit work.

Internal control and risk management

The directors have ultimate responsibility for internal control and the management of risk throughout the business, and also for reviewing its effectiveness and delegate to the Committee the monitoring thereof. Executive management is responsible for identifying and evaluating the

Directors' report

continued

Audit and Risk Committee *(continued)*

risks of business operations and for implementing and maintaining systems for managing those risks in an efficient and effective manner through the business planning process. The Committee monitors the development of policies and systems for identifying, evaluating and managing significant risk throughout the Group. It also monitors management's actions to manage those risks and reports annually to the Board. The operating divisions, John Lewis, Waitrose and Partnership Services, and all corporate departments, include risk assessments as part of their business plans and quarterly reporting. A procedure is in place by which Partners may, in confidence, raise concerns about possible improprieties in matters of financial reporting or otherwise. The Partnership's culture lends itself well to individuals being given and taking explicit responsibility for managing risk throughout the business.

Work Performed by the Committee

Apart from performing the routine tasks laid out in the Committee's Terms of Reference, as summarised above, the Committee paid particular attention in its meetings to

- Strengthening the risk management procedures, as part of a continuous improvement programme, in terms of responsibilities and authorities following a robust compliance risk identification, assessment and reporting analysis of significant risks faced by the Partnership,
- Reviewing the measures for mitigating risks through appropriate internal controls and assurances mechanisms and developing risk analysis processes and methodology throughout the business functions,
- Reviewing and following up with management on internal audit and other reports related to the major transformation programmes taking place across the Partnership in information systems, e-commerce including the security of card payment information, finance and personnel,
- Regular review of the effectiveness of whistleblowing arrangements,
- Reviewing and following up with management on the operational risks within the Partnership, in particular those relating to anti-bribery and corruption policy and procedures, data security, business continuity and disaster recovery, health and safety and various external threats. The Committee was mindful of the impending Olympic Games in 2012 and the pressures that these will bring.

Committee evaluation

As part of the Board's evaluation process, the Audit and Risk Committee undertook a review of its own performance. The evaluation process did not identify any significant areas of concern. The Committee will also carry out a review in the coming year as part of the proposed Board evaluation process.

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

The Order and GSCOP came into force on 4 February 2010. Waitrose implemented a number of measures to ensure compliance with the Order and GSCOP which included the appointment of a Code Compliance Officer and the implementation of comprehensive Partner training, including annual refresher programmes and new starter training. As part of Waitrose's ongoing compliance with the Order and the GSCOP, Waitrose is required to submit a report detailing its compliance with GSCOP to the Audit and Risk Committee for approval and to the Office of Fair Trading. Waitrose has submitted a report to the Audit and Risk Committee for the period 4 February 2010 to 28 January 2012.

The Audit and Risk Committee, which met on 17 April 2012, has approved the Code Compliance Officer's report on Waitrose's compliance since the Order and GSCOP came into force and was pleased to note that Waitrose has not been the subject of any supplier or supply chain disputes under the Order or GSCOP. In concluding that Waitrose was fully compliant with the Order and with GSCOP, the Audit and Risk Committee noted the significant resources that Waitrose had invested in IT systems, training, processes and documentation ensuring that its compliance programme would be consistent both with the requirements of the Order and GSCOP and reflects the John Lewis Partnership's commitment to its overarching principle of fairness that has always governed its relationships with suppliers.

The Audit and Risk Committee concluded that compliance with the Order and with GSCOP is well embedded within Waitrose and approved the Code Compliance Officer's report to the Office of Fair Trading

Remuneration Committee

The Remuneration Committee is chaired by David Barclay, a non-executive director and the Partnership's Deputy Chairman. In addition to its chairman, the members of the Committee are Baroness Hogg, a non-executive director, and two of the five directors elected by the Partnership Council, chosen by that group, currently Anne Buckley and Tony Probert. Their attendance at meetings throughout the year is shown in the table

	Remuneration Committee 4 meetings
David Barclay*	3
Anne Buckley	4
Tony Probert	4
Baroness Hogg*	3

**Under the terms of reference for the Remuneration Committee, members take no part in deliberations with regard to their own remuneration and therefore David Barclay and Baroness Hogg were only eligible to attend three out of four meetings*

Remuneration Policy

The Committee recommends the remuneration of the Chairman to the Board and has delegated authority from the Board to determine the remuneration of the executive directors. The Committee keeps under review senior remuneration policy and makes recommendations to the Board as appropriate.

In considering remuneration for the Chairman and the executive directors, the Remuneration Committee seeks to apply the same principles which apply to all Partners in the business taking into account:

- Individual performance, including the achievement of specified personal objectives and the behaviours demonstrated in achieving those objectives,
- The performance of the function or division for which the individual is responsible, and/or Group performance where appropriate,
- The market context, based on the advice of Towers Watson, who are the Committee's independent remuneration consultants. Towers Watson also provide the Partnership's job evaluation system,
- The Partnership's Pay Policy and the overall positioning of Partnership pay against the market.

The Partnership's principles of fairness are embodied in its Constitution, particularly Rule 61 (which states the Partnership's intention to set pay rates to attract and retain high calibre people and pay each Partner the local market rate for satisfactory performance and as much above that as can be justified by better performance), and Rule 63 (which states that the pay of the highest paid Partner shall be no more than 75 times the average basic pay of non-management Partners, calculated on an hourly basis). Since the year end the Partnership Council has approved an amendment to Rule 61 which now states that "The Partnership sets pay ranges which are informed by the market and which are sufficient to attract and retain high calibre people. Each Partner is paid a competitive rate for good performance and as much above that as can be justified by better performance. Partnership Bonus is not taken into account when fixing pay rates."

As at 28 January 2012, the salary of the highest paid Partner was £825,000, which was 60 times the average basic salary of non-management Partners.

In making pay comparisons with the market, the Remuneration Committee takes into account the value of base salary and pension benefits. No attempt is made to match the value of the long term incentive schemes, share and share option schemes which are widely available in the market at these levels.

The Committee is supported by the Director of Personnel and Head of Reward. No member of the Committee takes part in any deliberations with regard to their own remuneration.

Directors' report

continued

Remuneration Committee (*continued*)

Chairman

The Committee makes a recommendation each year to the Partnership Board on the Chairman's pay based on appropriate market data supplied by the independent external remuneration consultant, an assessment of performance co-ordinated by the Deputy Chairman and having regard to Rule 63 of the Partnership's Constitution

It is the responsibility of the Chairman, under Rule 44, to ensure the system for deciding the pay and benefits of individual Partners is fair

The Board's policy is to be open about pay and the Partnership puts a great deal of effort into ensuring effective communication with Partners on matters relating to pay

Executive directors and senior management

The Committee determines the pay of the Partnership Board's executive directors on the basis of appropriate market data and the recommendations of the Chairman

Executive directors do not retain earnings from any external appointments unless the appointment predates their joining the Partnership

Non-executive directors

The remuneration of non-executive directors is determined by the Committee's elected directors, following a recommendation from the Director of Personnel, having regard to the Chairman's views and relevant market data provided by the independent external remuneration consultant

Elected directors

The salaries of elected members of the Partnership Board are determined by their managers and do not include any element in recognition of their Partnership Board duties

Directors' emoluments

With the exception of the non-executive directors, Partnership Board directors do not receive fees as they are all paid a salary for their respective roles within the business, in accordance with the Partnership's pay policy. There are no annual incentive bonuses or long-term bonus schemes related to individual performance. Partnership Board directors, except for the non-executive directors, receive Partnership Bonus at the same percentage as all other Partners. Details of directors' emoluments are set out in note 8

No executive contract is for a period longer than one year or contains a provision regarding early termination compensation

Chairman's Nominations Committee

The Chairman's Nominations Committee is chaired by the Partnership's Chairman and also comprises David Barclay, a non-executive director and the Partnership's Deputy Chairman, David Anderson, a non-executive director, and two of the five directors elected by the Partnership Council, chosen by that group, currently Kim Lowe and Johnny Aisher. Their attendance at meetings is shown in the table

	Nominations Committee 2 meetings
Charlie Mayfield	2
Johnny Aisher	2
David Anderson	1
David Barclay	2
Kim Lowe	2

The Committee is responsible for regularly reviewing the structure, size and composition (including the skills, knowledge and experience required) of the Board and makes recommendations to the Board with regard to any changes. It is supported by the Director of Personnel and assisted by independent consultants, as required

The Partnership values diversity (including gender) and the Board is committed to ensuring that it employs a balanced and diverse range of Partners, alongside seeking to employ and promote the best talent. The Board recognises that balanced and diverse boards are effective boards and its composition, including five Elected Directors from within the Partnership, helps to ensure that the Board is comprised of a diverse range of individuals. More information on the group's diversity policy can be found on page 17

The Committee is also responsible for overseeing the process of nominating and appointing the Chairman and Deputy Chairman in accordance with the Articles of Association of John Lewis Partnership Trust Limited. It also oversees the Chairman's proposals for any appointment of and the succession planning process for executive directors and senior management. It identifies and recommends for the approval of the Board, candidates as non-executive directors.

The ongoing training and development requirements of the Board directors, both individually and as a whole, are monitored by the Committee in order to ensure that directors are properly equipped to fulfil their statutory responsibilities.

Employees

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

The aim is to ensure that 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. This is through the Partnership's publications, including the weekly Gazette, and through its democratic elected bodies, in particular the Partnership Council.

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

All employees can benefit from the Partnership's training and development policies, and further information on these can be found on pages 17 and 18. The Partnership recruits people with disabilities to suitable vacancies on merit. Where disability occurs during the period of employment, every effort is made to continue to provide suitable employment with the provision of appropriate training.

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

Company Secretary

The Director of Legal Services and Company Secretary, is responsible for advising the Board on all corporate governance matters, ensuring that Board procedures are followed, ensuring good information flow, facilitating induction programmes for directors and assisting with directors' continuing professional development. All directors have access to the advice and services of the Director of Legal Services and the Company Secretariat.

Financial risk management and insurance, treasury and tax policies

The Board approves the group's financial risk management, insurance, treasury and tax policies, which are delegated to the Partnership's Finance Director to implement and control. Further details of the group's financial risk management arrangements are provided in the Business Review and note 22 to the financial statements.

Payments to suppliers

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 28 January 2012 were equivalent to 27 days of average purchases (2011: 24 days).

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 from these provisions and the principal responsibility for managing and co-ordinating social, ethical and

Directors' report

continued

environmental issues resides with the Partnership's Director of Personnel. More detailed information on the Partnership's CSR policies and procedures is set out in the Business Review, and copies of its published CSR reports can be found on the Partnership website, www.johnlewispartnership.co.uk.

Charitable and political donations

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

Dividends

Dividends on Preference Shares were £222,000 (2011 £222,000). Dividends on SIP shares (issued in connection with the BonusSave scheme) were £1,663,000 (2011 £1,268,000).

Purchase of shares

The Company currently has in issue 3,696,995 5% Cumulative preference shares and 500,000 7.5% Cumulative preference shares. In addition to these share classes, the company has in issue 612,000 Deferred Ordinary shares and 84,750,000 SIP shares, the latter of which are used in relation to the Partnership's BonusSave scheme. Under the Constitution of the Partnership, the 612,000 Deferred Ordinary Shares in John Lewis Partnership plc are held in trust for the benefit of employees of John Lewis plc and of certain other companies.

There are not any voting rights attaching to the Cumulative Preference shares unless the dividend is six months in arrears or unless a resolution is proposed which directly affects the interest of these shares as a class.

At the annual general meeting held on 27 May 2011, the company was authorised to make market purchases of up to £3,696,995 nominal of the 5% Cumulative Preference Stock and up to £500,000 nominal of the 7.5% Cumulative Preference Stock representing the remaining stock in issue. No purchases were made during the year and shareholders will be invited to renew the authority at the annual general meeting, as detailed on page 86. The Board considers that these stocks are an inefficient form of fixed interest finance and that it would be advantageous to the company to acquire them over time, as suitable opportunities arise.

Going concern

The directors, after reviewing the group's operating budgets, investment plans and financing arrangements, consider that the company and the group have adequate resources to continue in operation for the foreseeable future. A full description of the group's business activities, financial position, cash flows, liquidity position, committed facilities and borrowing position, together with the factors likely to affect its future development and performance, is set out in the Business Review and in the notes to the accounts. The company and group have, at the date of this report, sufficient financing available for their estimated requirements for the foreseeable future and, accordingly, the directors are satisfied that it is appropriate to adopt the going concern basis in preparing the financial statements.

Auditors and disclosure of information to auditors

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

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

For and by Order of the Board

Margaret Casely-Hayford

Secretary

23 April 2012



Consolidated income statement

for the year ended 28 January 2012

Notes		Year to 28 January 2012 £m	Year to 29 January 2011 £m
	Continuing operations		
2	Gross sales	8,729.5	8,206.3
2	Revenue	7,758.6	7,361.8
	Cost of sales	(5,166.5)	(4,878.7)
	Gross profit	2,592.1	2,483.1
	Other operating income	59.6	53.7
3	Operating expenses	(2,258.4)	(2,105.8)
2	Operating profit	393.3	431.0
4	Finance costs	(72.3)	(69.3)
4	Finance income	32.8	6.2
	Profit before Partnership bonus and tax	353.8	367.9
	Partnership bonus	(165.2)	(194.5)
5	Profit before tax	188.6	173.4
6	Taxation	(52.4)	(46.0)
	Profit for the year	136.2	127.4

The notes on pages 45 to 80 form part of these financial statements

Consolidated statement of comprehensive (expense)/income

for the year ended 28 January 2012

Notes		Year to 28 January 2012 £m	Year to 29 January 2011 £m
	Profit for the year	136.2	127.4
	Other comprehensive (expense)/income		
24	Actuarial (losses)/gains on defined benefit pension schemes	(254.8)	338.7
6	Movement of deferred tax on pension schemes	48.4	(141.4)
6	Movement of current tax on pension schemes	6.5	42.0
	Net gain on cash flow hedges	0.2	1.6
	Total comprehensive (expense)/income for the year	(63.5)	368.3

Consolidated balance sheet

as at 28 January 2012

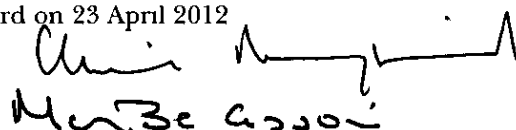
Notes	2012 £m	2011 £m
Non-current assets		
10 Intangible assets	164 3	111 4
11 Property, plant and equipment	3,798 4	3,622 6
14 Trade and other receivables	41 8	41 4
	4,004 5	3,775 4
Current assets		
13 Inventories	465.2	422 0
14 Trade and other receivables	222.8	210 9
Current tax receivable	–	17 0
23 Derivative financial instruments	2 7	8 6
15 Cash and cash equivalents	550 8	512 7
	1,241 5	1,171 2
Total assets	5,246.0	4,946 6
Current liabilities		
17 Borrowings and overdrafts	(302 1)	(165 3)
18 Trade and other payables	(1,134 8)	(1,031 9)
Current tax payable	(9.3)	–
19 Finance lease liabilities	(0 6)	(0 8)
20 Provisions	(90 6)	(85 0)
23 Derivative financial instruments	(2 5)	(1 0)
	(1,539.9)	(1,284 0)
Non-current liabilities		
17 Borrowings	(799 2)	(874 6)
18 Trade and other payables	(85 8)	(65 6)
19 Finance lease liabilities	(26 4)	(28 0)
20 Provisions	(115 6)	(112 9)
21 Deferred tax liabilities	(32 1)	(94 7)
24 Retirement benefit obligations	(638 1)	(414 0)
	(1,697 2)	(1,589 8)
Total liabilities	(3,237 1)	(2,873 8)
Net assets	2,008 9	2,072 8
Equity		
26 Share capital	0 6	0 6
Other reserves	6 6	6 4
Retained earnings	2,001 7	2,065 4
Non-controlling interest	–	0 4
Total equity	2,008 9	2,072 8

Approved by the Board on 23 April 2012

Charlie Mayfield

Marisa Cassoni

Directors



John Lewis Partnership plc

Registered number 00238937

Balance sheet of the company

as at 28 January 2012


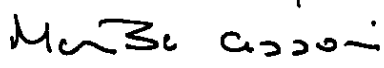
Notes	2012 £m	2011 £m
Non-current assets		
12 Investments	87.4	70.2
Total assets	87.4	70.2
Current liabilities		
18 Trade and other payables	(1.8)	(1.4)
Non-current liabilities		
17 Borrowings	(74.4)	(57.7)
Total liabilities	(76.2)	(59.1)
Net assets	11.2	11.1
Equity		
26 Share capital	0.6	0.6
Other reserves	5.0	5.0
Retained earnings	5.6	5.5
Total equity	11.2	11.1

Approved by the Board on 23 April 2012

Charlie Mayfield

Marisa Cassoni

Directors

Consolidated and company statements of changes in equity

for the year ended 28 January 2012

Notes	Consolidated	Share capital £m	Capital redemption reserve £m	Capital reserve £m	Hedging reserve £m	Retained earnings £m	Non-controlling interest £m	Total equity £m
	Balance at 30 January 2010	0.6	5.0	1.4	(1.6)	1,698.7	0.4	1,704.5
	Profit for the year	–	–	–	–	127.4	–	127.4
24	Actuarial gain on defined benefit pension schemes	–	–	–	–	338.7	–	338.7
6	Tax on above items recognised in equity	–	–	–	–	(99.4)	–	(99.4)
	Fair value losses on cash flow hedges	–	–	–	(1.1)	–	–	(1.1)
	– Transfers to inventories	–	–	–	2.7	–	–	2.7
	Balance at 29 January 2011	0.6	5.0	1.4	–	2,065.4	0.4	2,072.8
	Profit for the year	–	–	–	–	136.2	–	136.2
24	Actuarial loss on defined benefit pension schemes	–	–	–	–	(254.8)	–	(254.8)
6	Tax on above items recognised in equity	–	–	–	–	54.9	–	54.9
	Reclassification to borrowings	–	–	–	–	–	(0.4)	(0.4)
	Fair value gains on cash flow hedges	–	–	–	0.4	–	–	0.4
	– Transfers to inventories	–	–	–	(0.2)	–	–	(0.2)
	Balance at 28 January 2012	0.6	5.0	1.4	0.2	2,001.7	–	2,008.9

Retained earnings comprise £1,592.2m (2011 £1,649.9m) of distributable and £409.5m (2011 £415.5m) of non distributable reserves, arising on the revaluation of freehold and long leasehold properties prior to 31 January 2004

Company	Share capital £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 30 January 2010	0.6	5.0	5.4	11.0
Profit for the year	–	–	0.1	0.1
Balance at 29 January 2011	0.6	5.0	5.5	11.1
Profit for the year	–	–	0.1	0.1
Balance at 28 January 2012	0.6	5.0	5.6	11.2

Statement of consolidated cash flows

for the year ended 28 January 2012

Notes	Year to 28 January 2012 £m	Year to 29 January 2011 £m
27 Cash generated from operations	759 1	745 1
Net taxation paid	(33.7)	(27 5)
Partnership bonus paid	(194 5)	(151 2)
Special contribution to the Pension Scheme	–	(150 0)
Finance costs paid	(2 3)	(2 0)
Net cash generated from operating activities	528 6	414 4
Cash flows from investing activities		
Purchase of property, plant and equipment	(425 7)	(447 9)
Purchase of intangible assets	(88 4)	(43 5)
Proceeds from sale of property, plant and equipment	11 8	3 7
Finance income received	2 4	3 1
Net cash used in investing activities	(499 9)	(484 6)
Cash flows from financing activities		
Finance costs in respect of bonds	(54 7)	(76 7)
Payment of capital element of finance leases	(0 7)	(0 4)
Payments to preference shareholders	(0.2)	(0 2)
Payments to SIP shareholders	(1 3)	(1 1)
Cash inflow from borrowings	71 5	151 6
Net cash generated from financing activities	14.6	73 2
Increase in net cash and cash equivalents	43 3	3 0
Net cash and cash equivalents at beginning of period	447 4	444 4
Net cash and cash equivalents at end of period	490.7	447 4
15 Net cash and cash equivalents comprise		
Cash	83 6	84 2
Short-term investments	467 2	428 5
Bank overdraft	(60 1)	(65 3)
	490 7	447 4

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

Notes to the accounts

1 Accounting policies

Accounting convention and basis of consolidation

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

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

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

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

The following standards, amendments and interpretations were adopted by the group from 30 January 2011 and have not had a significant impact on the group's profit for the year, equity or disclosures.

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

There are a number of new accounting standards and amendments to existing standards that have been published and are applicable for the group's accounting periods beginning on or after 29 January 2012 or later periods, but which the group has not adopted early. These are as follows:

- IFRS 9 'Financial Instruments'
- IFRS 10 'Consolidated financial statements'
- IFRS 11 'Joint arrangements'
- IFRS 12 'Disclosure of interests in other entities'
- IFRS 13 'Fair value measurement'
- Amendment to IFRS 7 'Financial instruments: Disclosures' on derecognition
- Amendment to IAS 12 'Income taxes' on deferred tax
- Amendment to IAS 1 'Presentation of financial statements'
- Amendment to IAS 19 'Employee Benefits'

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

Notes to the accounts

continued

1 Accounting policies (continued)

Gross sales and revenue

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

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

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

Inventory valuation

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

Employee benefits

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

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

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

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

The group also operates a defined contribution scheme. Contributions are charged 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 service leave). The costs of providing the benefits under the scheme is determined actuarially. The current service cost is included in operating expenses in the consolidated income statement. The financing elements of long service leave are included in finance costs in the consolidated income statement.

Property valuation

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

Other assets are held at cost.

Depreciation

No depreciation is charged on freehold land, leasehold land with over 100 years to expiry, and assets in the course of construction. Depreciation is calculated for all other assets to write off the cost or valuation, less residual value, on a straight line basis over their expected useful life, at the following rates

Freehold and long leasehold buildings – 2% to 4%

Other leaseholds – over the remaining period of the lease

Buildings fixtures – 2.5% to 10%

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

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

Leased assets

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

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

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

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

Taxation

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

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

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to shareholder's equity, in which case the deferred tax is also dealt with in shareholder's equity.

Goodwill

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

Notes to the accounts

continued

1 Accounting policies (continued)

Intangible assets

Intangible assets, comprising both purchased and internally developed computer software, are carried at cost less accumulated amortisation and impairments. The cost of internally developed software, including all directly attributable costs necessary to create, produce and prepare the software for use, is capitalised where the development meets the criteria for capitalisation required by IAS 38. Internally developed software assets that are not yet in use are reviewed at each reporting date to ensure that the development still meets the criteria for capitalisation, and is not expected to become impaired or abortive. Once available for use, the purchased or internally developed software is amortised on a straight line basis over its useful economic life, which is deemed to be between 3 and 7 years.

Financial instruments

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

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

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

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability. Derivative financial instruments qualifying for fair value hedge accounting are principally interest rate swaps.

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

Borrowings

Borrowings are measured at amortised cost. Where there is an effective related fair value hedge, the movement in the fair value attributable to the hedged risk is separately disclosed.

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

Insurance

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

Impairment

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

Exceptional items

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

Provisions

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

Partnership bonus

Partnership bonus, determined in relation to the results for the previous financial year, is paid to Partners each March. No provision is made for Partnership bonus at the half year as the majority of the group's profit is earned in the second half year and, until the annual profit is known, it is not possible to make an estimate of the liability. A provision for this bonus is included in the year end accounts, with the amount confirmed by the 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 stated at amortised cost less allowances for situations where recovery is doubtful. Such allowances are based on an individual assessment of each receivable.

Investments

Investments are valued at cost, less allowances for impairment.

Trade payables

Trade payables are measured at amortised cost.

Notes to the accounts

continued

1 Accounting policies (continued)

Critical accounting estimates and judgements

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

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

Retirement benefits

Pension accounting requires certain assumptions to be made in order to value our obligations and to determine the charges to be made to the income statement. These figures are particularly sensitive to assumptions for discount rates, mortality, inflation rates and expected long-term rates of return on assets. Details of assumptions are given in note 24

Provisions

Provisions recognised at the balance sheet date are detailed in note 20 and include amounts for long leave, insurance claims, service guarantee costs, customer refunds, reorganisation costs, accrued holiday pay and property related costs

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

Impairment

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

2 Segmental reporting

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

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

2 Segmental reporting (continued)

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

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

Notes to the accounts

continued

2 Segmental reporting (continued)

29 January 2011	Waitrose £m	John Lewis £m	Corporate and other £m	Group £m
Gross sales	4,974 6	3,231 7	–	8,206 3
Adjustment for sale or return sales	–	(116 0)	–	(116 0)
Value added tax	(274 7)	(453 8)	–	(728 5)
Revenue	4,699 9	2,661 9	–	7,361 8
Operating profit excluding property profits	273 0	198 4	(42 3)	429 1
Property profits	1 9	–	–	1 9
Operating profit	274 9	198 4	(42 3)	431 0
Finance costs	–	–	(69 3)	(69 3)
Finance income	–	–	6 2	6 2
Partnership bonus	–	–	(194 5)	(194 5)
Profit before tax	274 9	198 4	(299 9)	173 4
Taxation	–	–	(46 0)	(46 0)
Profit after tax	274 9	198 4	(345 9)	127 4
Segment assets	2,520 2	1,597 9	828 5	4,946 6
Segment liabilities	(490 8)	(467 7)	(1,915 3)	(2,873 8)
Net assets	2,029 4	1,130 2	(1,086 8)	2,072 8
Other segment items				
– Depreciation	122 1	81 2	12 2	215 5
– Amortisation of intangible assets	8 4	8 6	7 0	24 0
– Capital expenditure – property, plant and equipment	333 8	97 5	17 9	449 2
– Capital expenditure – intangible assets	20 2	22 0	1 3	43 5
– Movement in provisions	(2 0)	9 4	5 7	13 1

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

3 Operating expenses

	2012 £m	2011 £m
Branch operating expenses	1,796.9	1,643.7
Administrative expenses	461.5	462.1
	2,258.4	2,105.8

4 Net finance costs

	2012 £m	2011 £m
Finance costs		
Interest payable on		
Bank loans and overdrafts	2.6	2.0
Other loans repayable within 5 years	12.2	16.7
Other loans repayable in more than 5 years	43.8	32.6
Finance lease interest payable	1.2	1.3
Amortisation of issue costs of bonds	1.0	1.1
Preference dividends	0.3	0.3
SIP dividends	1.6	1.3
Finance costs in respect of borrowings	62.7	55.3
Premium paid on bond redemption	–	9.2
Total finance costs in respect of borrowings	62.7	64.5
Fair value measurements and other	3.1	0.1
Net finance costs arising on other employee benefit schemes	6.5	4.7
Total finance costs	72.3	69.3
Finance income		
Interest receivable	(2.4)	(2.8)
Finance income in respect of investments	(2.4)	(2.8)
Fair value measurements and other	(0.1)	(0.9)
Net finance income arising on defined benefit retirement schemes (note 24)	(30.3)	(2.5)
Total finance income	(32.8)	(6.2)
Net finance costs	39.5	63.1

Notes to the accounts

continued

4 Net finance costs (continued)

	2012 £m	2011 £m
Finance costs in respect of borrowings	62.7	55.3
Premium paid on bond redemption	–	9.2
Finance income in respect of investments	(2.4)	(2.8)
Net finance costs in respect of borrowings and investments	60.3	61.7
Net fair value measurements and other	3.0	(0.8)
Net finance income arising on defined benefit retirement schemes	(30.3)	(2.5)
Net finance costs arising on other employee benefit schemes	6.5	4.7
Net finance costs	39.5	63.1

5 Profit on ordinary activities before taxation

	2012 £m	2011 £m
Profit on ordinary activities before taxation is stated after charging/(crediting) the following		
Staff costs (note 9)	1,475.9	1,425.8
Depreciation – owned assets	240.4	214.9
Depreciation – assets held under finance leases	0.6	0.6
Amortisation of intangible assets	32.3	24.0
Profit on sale of property	(1.5)	(1.9)
Loss on disposal of other tangible and intangible fixed assets	5.4	0.9
Inventory – cost of inventory recognised as an expense	5,166.5	4,878.7
Restructuring costs	2.1	9.0
Operating lease rentals		
– land and buildings	113.4	106.7
– plant and machinery	0.4	0.3
Sub lease income		
– land and buildings	(5.9)	(4.7)
Fees payable to the group's auditors for audit services pursuant to legislation		
– parent company and group audit	0.3	0.3
– subsidiary audits	0.4	0.4
Fees payable to the group's auditors and its associates for other services		
– taxation services	–	0.1
– other non-audit services	0.2	0.3

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

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

6 Tax on profit on ordinary activities

	2012 £m	2011 £m
Analysis of tax charge		
Corporation tax – current year	67.4	62.2
Corporation tax – prior years	(0.8)	(11.4)
Total current tax charge	66.6	50.8
Deferred tax – current year	(18.0)	(10.7)
Deferred tax – prior years	3.8	5.9
	52.4	46.0
Tax (credited)/charged to equity		
Deferred tax on pension liability	(48.4)	141.4
Current tax on pension liability	(6.5)	(42.0)
	(54.9)	99.4

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

	2012 £m	2011 £m
Profit before tax	188.6	173.4
Profit before tax multiplied by standard rate of corporation tax in the UK of 26.3% (2011 28%)	49.6	48.6
Effects of		
Adjustment to current tax in respect of prior years	(0.8)	(11.4)
Restatement of deferred tax balances for reduction in the corporation tax rate to 25%	(14.4)	(7.2)
Depreciation on assets not qualifying for tax relief	12.8	12.3
Difference between accounting and tax base for land and buildings	(1.9)	(2.8)
Adjustment to deferred tax in respect of prior years	3.8	5.9
Sundry disallowables	3.3	0.6
Total tax charge	52.4	46.0

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

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

Notes to the accounts

continued

7 Profit and loss of the company for the financial year

As permitted by Section 408 of the Companies Act 2006, John Lewis Partnership plc has not presented its own income statement. The result dealt with in the accounts of the company amounted to £0.1m profit (2011: £0.1m profit).

8 Directors' emoluments

	2012 £000	2011 £000
Directors' remuneration including Partnership bonus* of 14% (2011: 18%)	4,215	3,988

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

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

The remuneration and benefits of five directors who are elected to the Board are excluded throughout this note on the basis that no part of their remuneration relates to their service as a member of the Board. Excluding pension fund contributions and pension supplements in lieu of future pension accrual, but including Partnership bonus, the emoluments of the other individual directors, excluding the Chairman, who served on the Board during any part of the year, were as follows:

	2012	2011		2012	2011
£1 - £50,000	2	1	£600,001 - £650,000	–	1
£50,001 - £100,000	1	1	£650,001 - £700,000	1	1
£400,001 - £450,000	1	1	£700,001 - £750,000	1	1
£450,001 - £500,000	1	1	£750,001 - £800,000	1	–

Contracts of employment for the Chairman and five directors provide for a notice period of one year. Contracts for all other directors provide for between three and six months' notice.

Excluding the five directors who are elected to the Board, six members of the Board qualify for the annual distribution of profit in Partnership bonus, paid at the same percentage of pay as for any Partner in employment on 31 January.

The Chairman and five members of the Board who served during the year were entitled to the use of a company car, or its cash equivalent. They also benefited from private medical insurance paid by the Partnership.

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

Five directors belong to the group's non-contributory pension scheme and also to the senior pension scheme, which provides additional benefits intended to produce a total pension worth two-thirds of pensionable pay on retirement at age 60, after at least 20 or 30 years' service, depending on the level of benefit. From April 2010, these five directors became deferred members of both schemes and therefore accrue no further pension benefit in those schemes. One other director did not participate in the group's non-contributory pension scheme, but had an unfunded defined contribution arrangement under which the group accrued contributions. During the year ended 29 January 2011, the contributions for the period to 31 March 2010 were £88,000.

8 Directors' emoluments (continued)

Following changes to pension legislation in April 2006, five directors opted to have part of their pension benefit provided on an unfunded basis, and the Partnership gave undertakings that these directors would have their pension made up to the same level as that provided by the senior pension scheme. In April 2010, the unfunded pension accrued for two directors was settled through a cash settlement. Two directors retained their unfunded pension accrued as at that date and provision has been made for this liability. During the year ended 29 January 2011, the unfunded pension accrued as at April 2010 in respect of the remaining two directors was contributed by the Partnership to a separate plan managed by a third party.

From April 2010, six directors no longer accrue pension benefits within the Partnership's pension funds and instead either receive a pension supplement, being a percentage of salary, or contributions are made by the Partnership to the separate plan explained above. During the year ended 28 January 2012, the total pension supplement in lieu of future pension accrual and contributions made by the Partnership for all directors, was £2,042,000 (2011 £1,637,000 for the 10 months from April 2010), which includes £493,000 (2011 £400,000) in respect of the Chairman.

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

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

The aggregate pension entitlement accrued at the end of the year for all directors, excluding the Chairman, who served on the Board during any part of the year, and the prior year amount for the same individuals, was £628,000 per annum (2011 £598,000 per annum). In addition, most of the directors are entitled to temporary pensions payable from age 60 until their State pension starts. The aggregate entitlement to temporary pensions was £22,000 per annum (2011 £21,000 per annum). For those directors where there was an increase, the transfer value of the aggregate increase in accrued entitlement above consumer price inflation, including temporary pensions, during the year was £2,000.

9 Employees

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

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

Notes to the accounts

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9 Employees (continued)

Employment and related costs were as follows

Consolidated	2012 £m	2011 £m
Staff costs		
Wages and salaries	1,096.3	1,021.7
Social security costs	85.5	82.0
Partnership bonus	146.9	174.2
Employers' national insurance on Partnership bonus	18.3	20.3
Pension costs (note 24)	124.0	122.9
Long service leave cost	4.9	4.7
Total before partner discounts	1,475.9	1,425.8
Partner discounts (deducted from revenue)	50.1	44.6
	1,526.0	1,470.4
Included above are the following amounts in respect of key management compensation		
Salaries and short-term benefits	12.4	10.6
Pension benefits*	4.9	4.3
Termination benefits	-	0.7

* Includes pension supplements in lieu of future pension accrual

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

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

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

10 Intangible assets

Consolidated	Computer software			Total £m
	Purchased £m	Internally developed £m	Work in progress £m	
Cost				
At 30 January 2010	35.9	134.5	25.5	195.9
Additions	–	–	43.5	43.5
Transfers	8.6	15.2	(23.8)	–
Disposals	(0.2)	(0.5)	–	(0.7)
At 29 January 2011	44.3	149.2	45.2	238.7
Additions	–	–	88.4	88.4
Transfers	21.8	36.9	(58.7)	–
Disposals	(6.5)	(17.7)	(2.5)	(26.7)
At 28 January 2012	59.6	168.4	72.4	300.4
Aggregate amortisation				
At 30 January 2010	27.4	76.0	–	103.4
Charge for the year	4.6	19.4	–	24.0
Disposals	(0.1)	–	–	(0.1)
At 29 January 2011	31.9	95.4	–	127.3
Charge for the year	8.5	23.8	–	32.3
Disposals	(6.5)	(17.0)	–	(23.5)
At 28 January 2012	33.9	102.2	–	136.1
Net book value at 29 January 2011	12.4	53.8	45.2	111.4
Net book value at 28 January 2012	25.7	66.2	72.4	164.3

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

Amortisation of intangible assets is charged within operating expenses.

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11 Property, plant and equipment

Consolidated	Land and buildings £m	Fixtures and fittings £m	Assets in course of construction £m	Total £m
Cost				
At 30 January 2010	3,196.2	1,489.1	89.5	4,774.8
Additions	–	0.6	448.6	449.2
Transfers	203.7	103.5	(307.2)	–
Disposals	(8.9)	(18.2)	–	(27.1)
At 29 January 2011	3,391.0	1,575.0	230.9	5,196.9
Additions	–	1.5	427.9	429.4
Transfers	373.2	194.0	(567.2)	–
Disposals	(21.5)	(174.6)	(2.7)	(198.8)
At 28 January 2012	3,742.7	1,595.9	88.9	5,427.5
Accumulated depreciation				
At 30 January 2010	517.6	866.2	–	1,383.8
Charges for the year	72.3	143.2	–	215.5
Disposals	(7.7)	(17.3)	–	(25.0)
At 29 January 2011	582.2	992.1	–	1,574.3
Charges for the year	81.9	159.1	–	241.0
Disposals	(12.5)	(173.7)	–	(186.2)
At 28 January 2012	651.6	977.5	–	1,629.1
Net book values at 29 January 2011	2,808.8	582.9	230.9	3,622.6
Net book values at 28 January 2012	3,091.1	618.4	88.9	3,798.4

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

12 Investments

Company	Subsidiary		Other	Total £m
	Shares in John Lewis plc £m	Loan to John Lewis plc £m	Shares in John Lewis Partnership Trust Limited £m	
At 29 January 2011	13 0	57 1	0 1	70 2
Movements	–	17 2	–	17 2
At 28 January 2012	13 0	74.3	0.1	87 4

13 Inventories

	2012 £m	2011 £m
Consolidated		
Raw materials	3 6	5 1
Work in progress	0 8	0 8
Finished goods and goods for resale	460 8	416 1
	465.2	422 0

The cost of inventory recognised as an expense by the group in the period was £5,166 5m (2011 £4,878 7m) Provisions against inventories of £3 2m were charged (2011 £1 0m charged) in operating expenses

14 Trade and other receivables

	2012 £m	2011 £m
Consolidated		
Current		
Trade receivables	77 0	78 6
Other receivables	47.4	54 3
Prepayments and accrued income	98 4	78 0
	222 8	210 9
Non-current		
Prepayments and accrued income	41 8	41 4

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

Notes to the accounts

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14 Trade and other receivables (continued)

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

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

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

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

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

15 Cash and cash equivalents

	2012 £m	2011 £m
Cash at bank and in hand	83.6	84.2
Short-term investments	467.2	428.5
	550.8	512.7

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

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

	2012 £m	2011 £m
Cash and cash equivalents, as above	550.8	512.7
Less bank overdrafts	(60.1)	(65.3)
Net cash and cash equivalents	490.7	447.4

16 Analysis of financial assets

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

Interest rate and currency analysis	Effective interest rate	Floating rate £m	Non interest bearing £m	Total £m
Sterling	0.6%	537.0	13.5	550.5
Other	0.0%	0.3	–	0.3
At 28 January 2012		537.3	13.5	550.8
Sterling	0.7%	500.1	12.3	512.4
Other	0.0%	0.3	–	0.3
At 29 January 2011		500.4	12.3	512.7

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

17 Borrowings and overdrafts

Consolidated	2012 £m	2011 £m
Current		
Bank overdraft	60.1	65.3
Loans	100.0	100.0
6½% Bonds, 2012	142.0	–
	302.1	165.3
Non-current		
6½% Bonds, 2012	–	142.0
Fair value adjustment for hedged risk on bonds	–	6.2
10½% Bonds, 2014	100.0	100.0
Partnership Bond, 2016*	55.6	–
8½% Bonds, 2019	275.0	275.0
6¼% Bonds, 2025	300.0	300.0
Unamortised bond transaction costs	(6.2)	(6.3)
5% Cumulative Preference Stock	3.7	3.7
7½% Cumulative Preference Stock	0.5	0.5
Cumulative Preference Stock of subsidiary undertakings	0.4	–
SIP Shares	70.2	53.5
	799.2	874.6

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

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17 Borrowings and overdrafts (continued)

Company	2012 £m	2011 £m
Non-current		
5% Cumulative Preference Stock	3.7	3.7
7½% Cumulative Preference Stock	0.5	0.5
SIP Shares	70.2	53.5
	74.4	57.7

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

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

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

18 Trade and other payables

Consolidated	2012 £m	2011 £m
Current		
Trade payables	530.1	424.5
Other payables	102.9	96.6
Other taxation and social security	143.1	141.4
Accruals	185.1	167.5
Deferred income	25.0	25.8
Partnership bonus	148.6	176.1
	1,134.8	1,031.9
Non-current		
Accruals	0.9	1.1
Other payables	0.8	–
Deferred income	84.1	64.5
	85.8	65.6

Company	2012 £m	2011 £m
Current		
Other payables	1.8	1.4
	1.8	1.4

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

19 Finance lease liabilities

	2012 £m	2011 £m
The minimum lease payments under finance leases fall due as follows		
Not later than one year	1 8	2 0
Later than one year but not more than five	6 8	7 4
More than five years	46 2	48 3
	54 8	57 7
Future finance charge on finance leases	(27.8)	(28 9)
Present value of finance lease liabilities	27 0	28 8
Of which		
Current	0 6	0 8
Non-current	26 4	28 0

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

20 Provisions

Consolidated	Long service leave £m	Service guarantee costs £m	Customer refunds £m	Insurance £m	Other £m	Total £m
At 29 January 2011	85 4	52 6	10 1	18 4	31 4	197 9
Charged to income statement	11 4	16 7	32 9	11 7	10 7	83 4
Released to income statement	–	(3 8)	–	–	(5 8)	(9 6)
Utilised	(3 9)	(16 1)	(20 9)	(9 6)	(15 0)	(65 5)
At 28 January 2012	92.9	49 4	22 1	20 5	21 3	206 2
Of which						
Current	30 6	17 7	22 1	6 1	14 1	90 6
Non-current	62 3	31 7	–	14 4	7 2	115 6

The Partnership has a long service leave scheme, open to all employees, that provides up to six months' paid leave after 25 years' service. There is no proportional entitlement for shorter periods of service. The provision for the liabilities under the scheme is assessed on an actuarial basis, reflecting employees' expected service profiles, and using economic assumptions consistent with those used for the group's retirement benefit obligations (note 24), with the exception of the discount rate, where a rate appropriate to the shorter duration of the long leave liability is used, so as to accrue the cost over employees' service periods.

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

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.

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

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20 Provisions (continued)

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

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

21 Deferred tax

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

The movement on the deferred tax account is shown below

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

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

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

	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Rollover gains £m	Other £m	Total £m
Deferred tax liabilities					
At 30 January 2010	180.7	6.7	23.4	2.2	213.0
Credited to income statement	(1.7)	(1.8)	(1.6)	(0.4)	(5.5)
At 29 January 2011	179.0	4.9	21.8	1.8	207.5
(Credited)/charged to income statement	(13.0)	0.8	0.7	1.8	(9.7)
At 28 January 2012	166.0	5.7	22.5	3.6	197.8

	Capital gains tax on land and buildings £m	Pensions and provisions £m	Capital losses £m	Total £m
Deferred tax assets				
At 31 January 2010	(2.0)	(252.8)	(0.1)	(254.9)
(Credited)/charged to income statement	(0.3)	0.9	0.1	0.7
Charged to equity	–	141.4	–	141.4
At 29 January 2011	(2.3)	(110.5)	–	(112.8)
Credited to income statement	(4.2)	(0.3)	–	(4.5)
Credited to equity	–	(48.4)	–	(48.4)
At 28 January 2012	(6.5)	(159.2)	–	(165.7)

21 Deferred tax (continued)

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future profits is probable. There were no unrecognised deferred tax assets in respect of losses for the year ended 28 January 2012 (2011: £nil).

The deferred tax balance associated with the pension deficit has been adjusted to reflect the current tax benefit obtained in the financial year ended 30 January 2010 following the contribution of the limited partnership interest in JLP Scottish Limited Partnership to the pension scheme (see note 24).

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

22 Management of financial risks

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

Liquidity risk

Liquidity requirements are managed in line with short and long-term cash flow forecasts and reviewed against the Partnership's debt portfolio and maturity profile. At the year end the Partnership had undrawn committed revolving borrowings facilities of £310m (2011: £310m), £40m to October 2012, £30m, which was extended from August 2012 to August 2013, and £240m to September 2013. In addition to these facilities, the Partnership has listed bonds totalling £817m, £142m of which matured on 30 January 2012, £100m in 2014, £275m in 2019 and £300m in 2025, together with a term loan of £100m, which was extended from March 2011 to December 2012, and the Partnership bond issued in April 2011 and maturing in 2016, which raised gross proceeds of £58m. The bonds are not subject to repricing, and their interest rates and maturity profiles are set out in note 25.

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

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

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22 Management of financial risks (continued)

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

	Due within 1 year £m	Due between 1 and 2 years £m	Due 2 years and beyond £m
Non-derivative financial liabilities			
Borrowings and overdrafts	(302 1)	(100 0)	(707 6)
Interest payments on borrowings*	(64 2)	(54 5)	(358 6)
Finance lease liabilities	(1 8)	(1 8)	(51 2)
Trade and other payables	(966 7)	(1 7)	–
Derivative financial liabilities			
Derivative contracts – receipts	152 9	–	–
Derivative contracts – payments	(153 2)	–	–
At 28 January 2012	(1,335 1)	(158 0)	(1,117 4)
Non-derivative financial liabilities			
Borrowings and overdrafts	(165 3)	(142 0)	(732 7)
Interest payments on borrowings*	(61 1)	(51 9)	(392 2)
Finance lease liabilities	(2 0)	(1 9)	(53 8)
Trade and other payables	(864 7)	(1 1)	–
Derivative financial liabilities			
Derivative contracts – receipts	112 3	–	–
Derivative contracts – payments	(106 0)	–	–
At 29 January 2011	(1,086 8)	(196 9)	(1,178 7)

* Excludes annual interest of £0 3m on cumulative preference stock which have no fixed redemption date

Interest on borrowings is calculated based on the borrowing position at the financial year end without taking account of future issues. Future floating rate interest liabilities are estimated using the forward interest rate curve as at the relevant year end date.

For the purposes of this note, the foreign currency element of forward foreign currency contracts is translated at spot rates prevailing at the year end.

Interest rate risk

In order to manage the risk of interest rate fluctuations the Partnership targets a ratio of fixed and floating rate debt in line with the Board approved treasury policy. An analysis of the Partnership's financial liabilities is detailed in note 25. Exposures to interest rate fluctuations are managed using interest rate swaps. As authorised by the Board, the ratio of fixed to floating rate borrowing has remained outside treasury policy during the year, as it was decided not to enter into new interest rate swaps given the historically low bond yield levels and the sustained uncertainty within the global economy. On 30 January 2012, the interest rate swaps used to convert £142 0m (2011 £142 0m) of fixed rate bond debt to floating rate, which were accounted for as fair value hedges under IAS 39, matured in line with the maturity of the underlying 6 375% 2012 bond. The movement in the fair value of the swaps and of the underlying hedged item attributable to the hedged risk is £7 0m (2011 £5 7m).

22 Management of financial risks (continued)**Foreign currency risk**

The Partnership uses derivative financial instruments to manage exposures to movements in exchange rates arising from transactions with foreign suppliers. Foreign currency exposures are hedged primarily using forward foreign exchange contracts covering up to 100% of forecast exposures on a rolling basis. Forward foreign exchange contracts used to hedge forecast currency requirements are designated as cash flow hedges with fair value movements recognised in equity. Derivative financial instruments that were designated as cash flow hedges during the year were fully effective. At the balance sheet date, forward currency contracts of £152.9m (2011: £103.1m) had been entered into to hedge purchases in foreign currencies which will mature over the next 18 months. At the year end £12.0m (2011: £9.0m) of a total of £12.0m (2011: £9.1m) of liabilities denominated in foreign currency were covered in this way.

Credit risk

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

The Partnership considers its maximum exposure to credit risk is as follows:

	2012 £m	2011 £m
Trade and other receivables	124.4	132.9
Cash and cash equivalents	550.8	512.7
	675.2	645.6

Capital risk

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

The Partnership manages capital to ensure an appropriate balance between investing in Partner, customer and profit. The policy is to maintain a capital structure consistent with an investment grade credit rating. Although the Partnership does not have an external credit rating, it routinely monitors its capital and liquidity requirements using capital ratios commonly used by rating agencies to assess risk, whilst maintaining an appropriate level of debt headroom and a smooth debt maturity profile to ensure continuity of funding. The Partnership borrows centrally to meet the requirements of its divisions using a mix of funding including capital market issues and bank facilities. During the year, the Partnership diversified its funding sources through the issue of a Partnership bond to its Partners and customers. Other forms of borrowing include SIP shares as part of the BonusSave scheme and a small amount of cumulative preference stock.

Energy risk

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

Notes to the accounts

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22 Management of financial risks (continued)

Sensitivity analysis

The following analysis illustrates the sensitivity of the Partnership's financial instruments to changes in market variables, namely UK interest rates and the US dollar, euro and Hong Kong dollar to sterling exchange rates. The level of sensitivities chosen, being 2% movement in Sterling interest rates and a 10% movement in Sterling when compared to the US dollar, euro and Hong Kong dollar, reflects the Partnership's view of 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 designated as fair value hedges arising from movements in interest rates are assumed to have no effect on net assets,
- changes in the carrying value of derivative financial instruments not in hedging relationships are assumed only to affect the income statement, and
- all derivative financial instruments designated as hedges are assumed to be fully effective.

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

23 Derivative financial instruments

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

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

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

23 Derivative Financial instruments (continued)

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

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

	2012 £m	2011 £m
Bonds	914.3	895.7
Preference stock	3.7	3.5

24 Retirement benefit obligations

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

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

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

As explained in note 8, there is also a senior pension scheme which provides additional benefits to certain members of senior management. The actuaries recommended an annual contribution rate of £1.6m. In addition, deficit reduction contributions totalling £6.0m were made in January and February 2011 to discharge the deficit.

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

Pension commitments have been calculated based on the most recent actuarial valuations, as at 31 March 2010, which have been updated by the actuaries to assess the assets and liabilities of the schemes as at 28 January 2012.

Notes to the accounts

continued

24 Retirement benefit obligations (continued)

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

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

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

The financial assumption which has the most significant effect on the valuation of scheme liabilities and the current service cost is the real discount rate, i.e. the discount rate less the rate of future retail price inflation. A movement in the real discount rate of 0.10% would have the effect of increasing or decreasing the IAS 19 defined benefit obligation by circa £50m, and would increase or decrease the current service cost by circa £3.0m.

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

The average life expectancies assumed were as follows:

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

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

24 Retirement benefit obligations (continued)

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

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

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

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

Notes to the accounts

continued

24 Retirement benefit obligations (continued)

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

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

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

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

24 Retirement benefit obligations (continued)

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

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

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

For the John Lewis Partnership Senior Pension Scheme – £1.6m, or such other amount as certified by the scheme actuary based upon an analysis of the membership data at the start of the scheme year

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

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

Together with another Partnership company, JLP Scottish Limited Partnership provided sufficient capital to JLP Scottish Partnership to enable it to procure property assets with a market value of £150.9m from other Partnership companies. The Partnership retains control over these properties, including the flexibility to substitute alternative properties. The Properties held in JLP Scottish Partnership have been leased back to John Lewis plc and Waitrose Limited. In September 2011, the Partnership withdrew properties with a market value of £70.0m and substituted these with other properties with a market value of £72.8m.

As a partner in JLP Scottish Limited Partnership, the pension scheme is entitled to an annual share of the profits of the JLP Scottish Limited Partnership each year over 21 years. At the end of this period, the partnership capital allocated to the pension scheme will be reassessed, depending on the funding position of the pension scheme at that time, with a potential value in the range £0.5m to £99.5m. At that point, the Partnership may be required to transfer this amount in cash to the scheme.

Under IAS 19, the investment held by the pension scheme in JLP Scottish Limited Partnership, a consolidated entity, does not represent a plan asset for the purpose of the Partnership's consolidated accounts. Accordingly, the pension deficit position presented in these consolidated accounts does not reflect the £94.6m (2011: £98.0m) investment in JLP Scottish Limited Partnership held by the pension scheme. The distribution of JLP Scottish Limited Partnership profits to the pension scheme is reflected as pension contributions in these consolidated accounts on a cash basis.

Notes to the accounts

continued

25 Analysis of financial liabilities

The currency and interest rate exposure of the group's financial liabilities, after taking account of £142m (2011 £142m) of swaps from fixed rate to floating rate, is as set out below. Short-term payables are excluded from this analysis on the basis that they are all non-interest bearing.

	Fixed rate £m	Floating rate £m	Total £m
Interest rate and currency analysis			
All sterling			
At 28 January 2012	756.0	372.3	1,128.3
At 29 January 2011	707.9	360.8	1,068.7

	2012 Effective interest rate	2012 £m	2011 Effective interest rate	2011 £m
Maturity of financial liabilities				
Repayable within one year				
Bank overdrafts	1.8%	60.1	1.7%	65.3
Property finance leases	7.6%	0.6	7.6%	0.8
Loans	1.5%	100.0	0.9%	100.0
Bonds	6.4%	142.0	–	–
		302.7		166.1
Repayable between one and two years				
Property finance leases	7.6%	0.6	7.6%	0.8
Bonds	10.5%	100.0	6.4%	142.0
Unamortised bond transaction costs		–		(0.2)
Fair value adjustment for hedged risk on bonds		–		6.2
		100.6		148.8
Repayable between two and five years				
Property finance leases	7.6%	2.1	7.6%	2.5
Bonds	5.5%	55.6	10.5%	100.0
Unamortised bond transaction costs		(0.5)		–
		57.2		102.5
Repayable in more than five years				
Property finance leases	7.6%	23.7	7.6%	24.7
Bonds	7.2%	575.0	7.2%	575.0
Unamortised bond transaction costs		(5.7)		(6.1)
Preference stock	5.3%	4.2	5.3%	4.2
Preference stock of subsidiary undertaking	5.9%	0.4		–
SIP shares	2.5%	70.2	2.5%	53.5
		667.8		651.3
		1,128.3		1,068.7

26 Share capital

	2012 Authorised £m	2012 Issued and fully paid £m	2011 Authorised £m	2011 Issued and fully paid £m
Equity				
Deferred Ordinary Shares 612,000 of £1 each	0.6	0.6	0.6	0.6
	0.6	0.6	0.6	0.6

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

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

27 Reconciliation of profit before tax to cash generated from operations

	Year to 28 January 2012 £m	Year to 29 January 2011 £m
Consolidated		
Profit before tax	188.6	173.4
Amortisation of intangible assets	32.3	24.0
Depreciation	241.0	215.5
Net finance costs	39.5	63.1
Partnership bonus	165.2	194.5
Loss/(profit) on disposal of tangible and intangible assets	3.9	(1.0)
Increase in inventories	(43.2)	(23.0)
Increase in receivables	(12.6)	(42.5)
Increase in payables	143.1	132.1
(Decrease)/increase in retirement benefit obligations	(0.4)	0.6
Increase in provisions	1.7	8.4
Cash generated from operations	759.1	745.1

Notes to the accounts

continued

28 Analysis of net debt

	29 January 2011 £m	Cash flow £m	Other non-cash movements £m	28 January 2012 £m
Current assets				
Cash and cash equivalents	512.7	38.1	–	550.8
Derivative financial instruments	8.6	–	(5.9)	2.7
	521.3	38.1	(5.9)	553.5
Current liabilities				
Borrowings and overdrafts	(165.3)	5.2	(142.0)	(302.1)
Finance leases	(0.8)	0.7	(0.5)	(0.6)
Derivative financial instruments	(1.0)	–	(1.5)	(2.5)
	(167.1)	5.9	(144.0)	(305.2)
Non-current liabilities				
Borrowings	(874.7)	(72.1)	141.4	(805.4)
Unamortised bond transaction costs	6.3	0.6	(0.7)	6.2
Fair value adjustment for hedged risk on bonds	(6.2)	–	6.2	–
Finance leases	(28.0)	–	1.6	(26.4)
	(902.6)	(71.5)	148.5	(825.6)
Total net debt	(548.4)	(27.5)	(1.4)	(577.3)

Reconciliation of net cash flow to net debt

	Year to 28 January 2012 £m	Year to 29 January 2011 £m
Consolidated		
Increase in cash in the year	43.3	3.0
Cash inflow from increase in debt and lease financing	(70.8)	(151.2)
Movement in debt for the year	(27.5)	(148.2)
Opening net debt	(548.4)	(402.4)
Non-cash movements	(1.4)	2.2
Closing net debt	(577.3)	(548.4)

29 Commitments and contingent liabilities

At 28 January 2012 contracts had been entered into for future capital expenditure of £24.0m (2011 £53.6m)

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

30 Operating lease commitments

Future aggregate minimum lease payments under non-cancellable operating leases, payable	2012 Land and buildings £m	2011 Land and buildings £m
Within one year	117.0	104.7
Later than one year and less than five years	441.0	394.0
After five years	1,890.1	1,686.5
Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years comprise the following	2012 Land and buildings £m	2011 Land and buildings £m
Later than five years and less than ten years	450.5	408.2
Later than ten years and less than twenty years	571.5	527.6
Later than twenty years and less than forty years	250.7	232.4
Later than forty years and less than eighty years	258.4	229.2
After eighty years	359.0	289.1
	1,890.1	1,686.5

Total future sub-lease payments receivable relating to the above operating leases amounted to £13.6m (2011 £16.0m)

31 Related party transactions

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

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

Key management compensation has been disclosed in note 8.

Notes to the accounts

continued

32 Subsidiary and associated undertakings

Principal subsidiary undertakings as at 28 January 2012 were as follows

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

Ordinary shares – 100%

5% First Cumulative Preference Stock – 83.3%

7% Cumulative Preference Stock – 75.6%

Subsidiary undertakings of John Lewis plc:

Herbert Parkinson Limited (*Weaving and making up*)

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

JLP Scotush Limited Partnership (*Investment holding undertaking*)

JLP Scotush Partnership (*Investment holding undertaking*)

John Lewis Car Finance Limited (*Car finance*)

John Lewis Delivery Limited (*International delivery*)

John Lewis Properties plc (*Property holding company*)

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

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

Waitrose Limited (*Food retailing*)

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

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

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

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

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

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

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

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

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

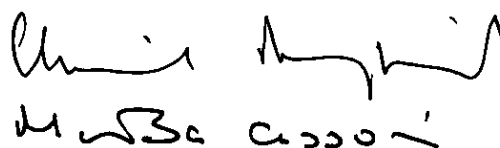
- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group, and
- the business review includes a fair review of the development and performance of the business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

By order of the Board

Charlie Mayfield
Marisa Casson

Directors

23 April 2012



Handwritten signatures of Charlie Mayfield and Marisa Casson.

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

We have audited the group and parent company financial statements (the "financial statements") of John Lewis Partnership plc for the year ended 28 January 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive (expense)/income, the consolidated balance sheet, the balance sheet of the company, the consolidated and company statements of changes in equity, the statement of consolidated cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 81, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 28 January 2012 and of the group's profit and cash flows for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

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


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

continued

Matters on which we are required to report by exception

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

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



Ranjan Sriskandan (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 April 2012

Retail branches

John Lewis Stores

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

Waitrose Supermarkets and Stores

London

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

Southern England

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

Retail branches

continued

Midlands, East Anglia, Wales, Northern England and Scotland

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

Channel Islands

Admiral Park	Rohais	Red Houses	St. Helier	St. Saviour
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In addition to the shops listed above the Partnership operates the following businesses

johnlewis.com *Internet retail*

John Lewis Insurance *Insurance products and services*

waitrose.com *Internet retail, mail order and wholesale including export*

Herbert Parkinson, Darwen *Weaving and making up*

Leckford Estate, Stockbridge *Farming*

Notice of AGM

Notice is hereby given that the eighty-third annual general meeting of the company will be held at 12.35pm on 31 May 2012 at Partnership House, Carlisle Place, London, SW1P 1BX

- To receive the directors' report and accounts for the year 2011/12
- To consider the re-election of directors
- To consider the re-appointment of the auditors
- To consider the remuneration of the auditors
- To consider the following, which will be proposed as an Ordinary Resolution,

That pursuant to the company's Articles of Association,

- (a) The company be and is hereby authorised to purchase by way of market purchase on a recognised stock exchange,

(i) up to 3,696,995 in nominal amount of 5 per cent Cumulative Preference Stock ('the 5 per cent Stock') in the company at a minimum price of 60p and a maximum price of £1 nominal of the 5 per cent Stock, and

(ii) up to £500,000 in nominal amount of 7½ per cent Cumulative Preference Stock ('the 7½ per cent Stock') in the company at a minimum price of 80p and a maximum price of 125p per £1 nominal of the 7½ per cent Stock, and

- (b) this authority shall expire on the earlier of the close of the annual general meeting of the company to be held in 2013 or 30 August 2013

- To consider the following, which will be proposed as a Special Resolution,

- (a) That, in accordance with section 21 of the Companies Act 2006, the company's Articles of Association,

(i) are amended by the deletion of the provisions of the company's Memorandum of Association which, by virtue of section 28 of the Companies Act 2006, are treated as provisions of the company's Articles, and

(ii) the Articles of Association contained in the document which is attached to this written resolution and marked "A" for identification are approved and adopted as the company's Articles of Association in substitution for, and to the exclusion of, the company's existing Articles of Association *

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



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

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

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

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