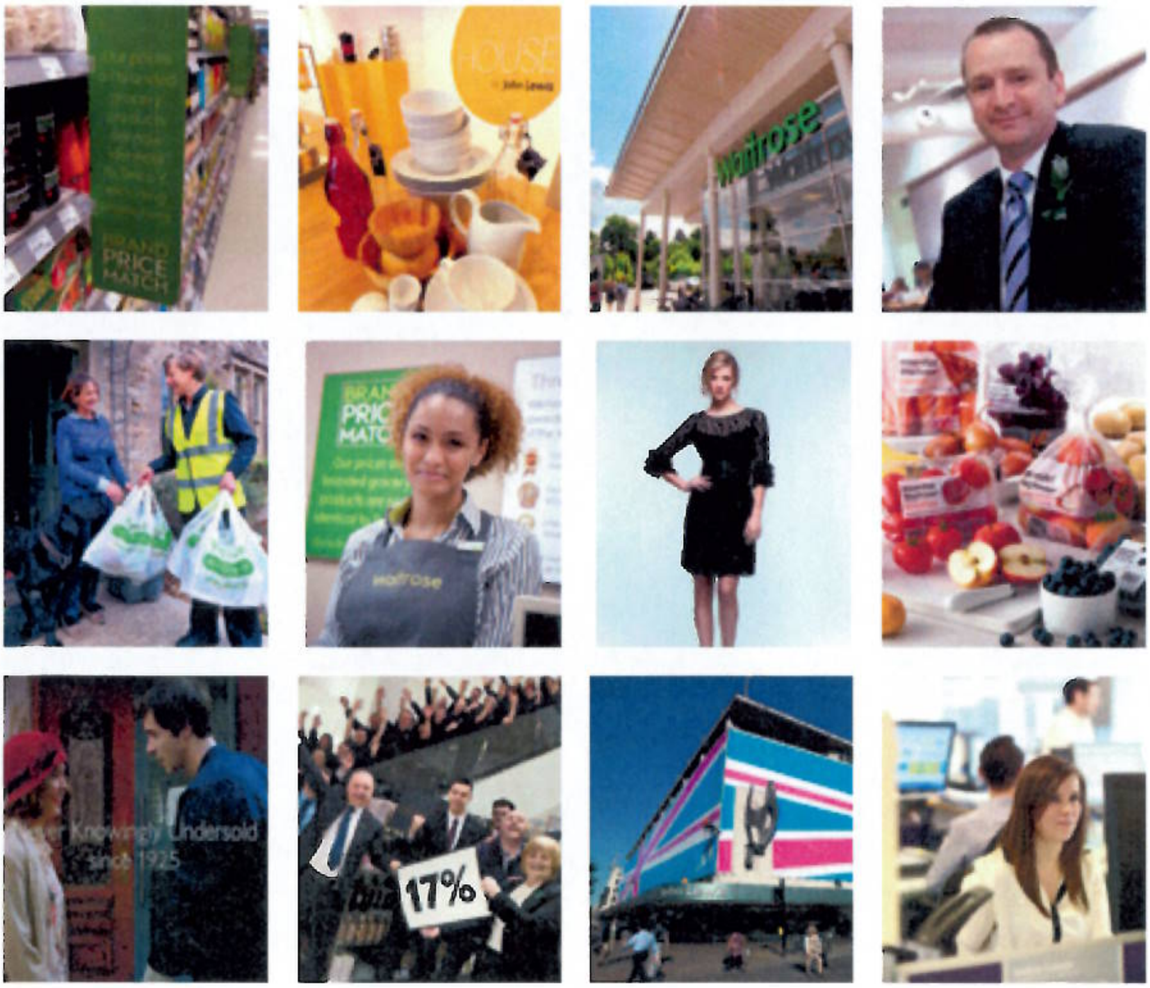
John Lewis
interim report 2013



Chairman's statement

The Partnership has had a strong first half with sales up 7.3% and profit before exceptionals up by 3.9%, slightly ahead of our expectations due to a good trading performance in both businesses.

I am particularly pleased that both Waitrose and John Lewis again increased their market shares significantly during the first half. Year-on-year, we grew our customer numbers by 6%, helped especially by initiatives such as myWaitrose and our market leading omni-channel offer in John Lewis.

We are committed as a Partnership to developing our business for the long term, building the capabilities of our Partners and being innovative in products and services for our customers. As part of this, we have made further encouraging progress in what I referred to in March as our "quiet revolution" – the investment and restructuring in areas of our retail operations, supply chain, IT and support functions. That has included rolling out 'My Performance', a new online system that ensures every Partner has an individual personal development plan. We also moved johnlewis.com successfully onto a new platform, opened a new Waitrose distribution centre in Leyland and announced a new John Lewis distribution centre in Milton Keynes.

There are some fundamental changes taking place in retail and the range and scale of these investments demonstrate our determination to take full advantage of the market opportunities that they bring.

Outlook 2013/14

As expected, the market has shown signs of improvement. After six weeks of the second half, Partnership gross sales are 5.3% higher than last year. Waitrose gross sales have increased by 4.8% (4.4% like-for-like, excluding petrol) and John Lewis gross sales are 6.2% higher than last year (5.1% like-for-like).

Looking ahead, I'm encouraged by progress this year and am confident of the plans we have in place for Christmas. Despite a strong second half last year, both during the Olympics and at Christmas, I expect us to trade positively in the second half.

Financial Results

In the first six months of the year the Partnership traded strongly and achieved robust growth in sales and profit before exceptionals. Both Waitrose and John Lewis grew sales well ahead of their respective markets, increasing their market shares.

Chairman's statement

continued

Partnership gross sales (inc VAT) were £4.73bn, an increase of £323.2m, or 7.3%, on last year. Revenue, which is adjusted for sale or return sales and excludes VAT, was £4.22bn, up by £293.2m, or 7.5%.

Following a recent review of the Partnership's holiday pay policy, an exceptional cost of £47.3m was recognised in the first half, being expected costs of £40.0m for payments to Partners and associated expenses, and £7.3m for an increase in future pensions liabilities.

Profit before tax and exceptional item was £116.8m, an increase of £4.4m, or 3.9%, on last year.

Waitrose

Gross sales in the first half were up by 7.8% to £3.02bn and like-for-like sales grew by 6.9%. A large proportion of this uplift is attributable to strong volume growth. Operating profit grew ahead of sales, slightly exceeding our expectations for the first half, up by 12.8% to £160.2m.

Waitrose has outperformed the market for over four years and our market share now stands at 4.9 per cent, 0.3 per cent higher than a year ago. Outstanding value combined with quality, trusted provenance, high standards of service and innovative marketing led to a strong overall performance.

As part of our strong focus on value, we continue to offer sharper pricing through essential Waitrose, more promotions, Brand Price Match with Tesco on all branded lines (excluding promotions) and consistent price matching with Sainsbury's on thousands of every day branded items.

Customer transactions grew by 9.3% in the first half. There are more than 5.1m customer visits each week and over 2.5m customers now hold a myWaitrose card. Carefully targeted and personalised offers and deals, together with free tea and coffee and regular discounts on every day staples, have helped strengthen our customer relationships and drive volume.

Product innovation also continued across the business and launches in the first half included the Heston from Waitrose Barbecue range, Seriously from Waitrose desserts and chocolate bars and fresh additions to Menu from Waitrose ready meals. A particularly exciting development has been the introduction of our gardening range with new brand ambassador Alan Titchmarsh. We now have outdoor gardening pods in 44 branches showcasing our new horticulture products and together with a dedicated website, Waitrosegarden.com, we offer more than 5,000 gardening lines. Horticulture is proving particularly popular with Waitrose customers and sales of our new ranges are exceeding our expectations.

The shopping experience is also being enhanced by the services offered at our new concierge-style welcome desks. We now have these in 40 branches and by the year end expect these to have been introduced into 91 branches in total. We are currently trialling services such as flower wrapping and dry cleaning, and will continue to develop these and other initiatives that underline our commitment to service. For example, shoppers will be able to browse our full assortment and click and collect their groceries or products from johnlewis.com using iPads available at these desks.

We opened four new branches (two core, two convenience) in the first half and relocated one branch. We plan to open a further six core branches and three convenience stores in the second half. This autumn will see Waitrose reach the significant milestone of our 300th shop, in Helensburgh, near Glasgow. We now have 56 convenience shops, including our 19 Welcome Break branches. During the half year we renewed our successful franchise partnership with Welcome Break for a further 10 years and also began providing food and snacks on Eurostar services to and from Europe.

Waitrose.com performed strongly with sales up 40.6% and we continue to invest in our online business. Investment in the capacity for our branches to fulfil Waitrose.com orders has resulted in a 40% increase in online delivery slots nationwide. We plan to open a second dark store to support the London area and we expect this to be up and running by the second half of 2014, more than doubling our capacity to handle online orders in the capital.

To support our growth in the north of England and Scotland, our purpose-built distribution centre in Leyland, Lancashire opened in July. This 360,000 square foot warehouse is currently servicing 35 branches but has the capacity to support up to 100 branches in the longer term. In the half year we welcomed the first 185 Partners in Leyland and a further 500 to new branches.

John Lewis
The first half of 2013 has seen John Lewis build on last year's performance to deliver a gross sales increase of 6.6% to £1.71bn. Operating profit before restructuring costs was up 9.9% to £50.1m, reflecting the robust sales performance and a strong focus on controlling costs. Restructuring costs in the first half were £15.4m for streamlining our department store management structures and a new distribution infrastructure, both of which demonstrate our commitment to long-term efficiency in a fast-changing sector. Operating profit including these costs was down 23.9% to £34.7m.

Chairman's statement

continued

John Lewis has significantly outperformed the market with like-for-like sales up 5.1% against the BRC's 1.7%. Sales growth both in shops (+3.4%) and online (+17.1%) reflects our position as Britain's leading omni-channel retailer. Our growth was fuelled by market share gains across each of our categories, which was particularly pleasing as last half year benefitted from a number of significant one-off events, including the digital switchover and Jubilee.

- In Electricals and Home Technology (EHT), a focus on innovation delivered a record market share of 7.6% and a sales increase of 15.7%.
- In Fashion, growth of 4.2% was boosted by the strength of our own-brand collections: John Lewis & Co was presented at Men's Fashion Week and we announced that Somerset by Alice Temperley will expand into lingerie and childrenswear.
- In Home, our strong market position was enhanced with the growth of HOUSE which is now our biggest brand in Home. We have recently launched "Any Shape, Any Fabric", where customers can choose from over 112,000 upholstery combinations. This key initiative is led by our Lancashire factory, Herbert Parkinson, and further supports our commitment to increase sales of UK-made products by 15% by 2015.

johnlewis.com passed the significant milestone of £1bn annual online sales on a rolling 52 week basis - a full year ahead of target. In line with our ambition to stay at the forefront of e-commerce, we have made a significant investment in a new web platform which went live during the first half. Over 40% of traffic now comes from mobile phones or tablets. In July we relaunched our transactional mobile app and since then sales via the app have grown quickly and we are preparing for what we anticipate will be the UK's first "mobile Christmas". With convenience and availability playing a critical role in customer choice, we announced the opening of a second distribution centre in Milton Keynes as well as a trial to enable customers to pick up purchases in 1,500 Collect Plus locations.

In recognition of the evolving role of our shops, we have focused on creating an increasingly inspirational shopping experience. The first Little Waitrose at John Lewis in Watford opened in June, four more Kuoni travel concessions opening this autumn and upcoming partnerships with hospitality brands are all part of our ambition to redefine the 21st century department store. We are building new shops in Ashford, York and Birmingham, and have announced plans to open in Oxford as well as in Heathrow Terminal 2. Ongoing refurbishment of existing shops continues with the introduction of Beauty and Fashion into a remodelled John Lewis High Wycombe.

Our efforts were recognised by customers and peers with John Lewis receiving Which?'s Best Retailer, Oracle Retail Week's Retailer of the Year, and Customer Service awards from Verdict and the Institute of Customer Service. In addition, more than 1,000 of our Partners achieved accredited qualifications as part of the 'University of John Lewis'.

Partnership Services & Corporate

Corporate and other includes the operating costs for our Corporate offices, Partnership Services, transformation programmes and certain pension operating costs. Year-on-year these costs increased by £9.1m to £32.7m with this being entirely due to the increase in pension operating costs resulting from changes in financial assumptions. Corporate and Partnership Services net operating costs were both down year-on-year.

The first half saw the introduction of My Performance, a new online system to ensure every Partner has an annual appraisal linked to a personal development plan. The new format aims to give Partners more control over their own development and progression, and therefore improve overall business performance.

Partnership Services, the Partnership's business services division, continued to make a significant contribution to our efficiency during the first half, driving benefits through better procurement of not-for-resale goods and services and continued efficiencies in processing operations. The division's scope has also expanded to include IT Application Development and Support, Personnel Policy Advice, Occupational Health, Resourcing and Pensions Administration. These areas will benefit from Partnership Services' process management and improvement expertise as we move forward.

Investment in the future

Capital spending in the first six months of the year was £167.8m, an increase of £5.4m (3.3%). We expect an acceleration in capital spending in the second half of the year.

Chairman's statement

continued

Waitrose invested £101.0m, mainly on new branch openings and the new Leyland regional distribution centre, together with investment in supply chain systems to drive productivity and a number of retail systems improvements to aid efficiency and enhance the flexibility of our offer.

John Lewis invested £53.2m, with the mix of investment continuing to reflect the business strategy of investing in new shops for the future, refurbishing key regional shops and investing in the IT and distribution infrastructure to support omni-channel trading.

In addition, £13.6m was invested centrally, mainly in maintaining and modernising our IT platforms and head office buildings.

Pensions

At this half year the Partnership has adopted 'IAS 19 revised', which changes the basis on which pension finance costs are recognised in the income statement. Consequently the comparative income statement for 2012/13 has been restated with an increase in operating profit of £0.5m, an increase in finance costs of £33.6m and therefore a decrease in profit before tax of £33.1m.

The pensions service cost before exceptional item was £84.0m, an increase of £15.8m or 23.2% on the prior year, reflecting changes to financial assumptions and growth in scheme membership.

The pension finance costs for the half year were £17.7m, an increase of £3.2m or 22.1% on the restated prior year finance costs.

The total accounting pension deficit at 27 July 2013 was £908.6m, an increase of £86.5m (10.5%) since 26 January 2013. Net of deferred tax, the deficit was £748.2m. The accounting valuation of pension fund liabilities increased by £177.3m (4.7%) to £3,973.3m, while pension fund assets increased by £90.8m (3.1%) to £3,064.7m.

Our pension scheme review, announced in March, is now well underway and is expected to conclude towards the end of 2014, after consultation with Partners.

Financing

Net finance costs on borrowings and investments decreased by £0.6m (2.1%) to £28.5m. After including the financing elements of pensions, together with long service leave and other non-cash fair value adjustments, net finance costs decreased by £6.2m (12.0%) to £45.4m.

At 27 July 2013, net debt was £393.9m, an increase of £109.0m (38.3%) in the half year but £108.6m (21.6%) lower than 28 July 2012.

Corporate Social Responsibility

Corporate Social Responsibility is an integral part of how the Partnership does business and we continue to innovate to reduce our environmental impact. We are the only UK retailer to have any shops rated as "Outstanding" by BREEAM (Building Research Establishment Environmental Assessment Method), our transport team continues to work with leading academic institutions to decrease our transport-related emissions and we are pioneering "closed-loop" solutions for plastic waste.

Our focus on securing long-term sustainable supply chains has helped Waitrose achieve the ambitious target of 100% certified sustainable palm oil in its own brand products and we are now focusing on a similar approach for soya ingredients. The John Lewis Foundation has been working with cotton growers in India to help them practice more sustainable farming methods and is this year funding educational programmes in supplier communities in India. This year we are again offering thousands of work placements to young people from the UK and the Golden Jubilee Trust - our flagship volunteering programme - continues to support Partners who are donating time to UK charities. Five years ago Waitrose launched Community Matters - our "green token" scheme - which has supported over 40,000 local good causes chosen by customers and this scheme has now been rolled out to all John Lewis shops.

Charlie Mayfield
Chairman
11 September 2013

Where this interim report contains forward-looking statements, these are made by the directors in good faith based on the information available to them up to 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.

Consolidated income statement

for the half year ended 27 July 2013

	Half year to 27 July 2013 £m	Half year to 28 July 2012 (restated) £m	Year to 26 January 2013 (restated) £m
Gross sales	**4,729.1**	4,405.9	**9,541.3**
Revenue	**4,218.8**	3,925.6	**8,465.5**
Cost of sales	**(2,832.5)**	(2,635.4)	**(5,640.1)**
Gross profit	**1,386.3**	1,290.2	**2,825.4**
Other operating income	**34.9**	30.7	**64.1**
Operating expenses	**(1,259.0)**	(1,156.9)	**(2,438.8)**
Operating profit before exceptional item	**162.2**	164.0	**450.7**
Exceptional item	**(47.3)**	–	**–**
Operating profit	**114.9**	164.0	**450.7**
Finance costs	**(47.3)**	(53.9)	**(110.1)**
Finance income	**1.9**	2.3	**1.9**
Profit before Partnership Bonus and tax	**69.5**	112.4	**342.5**
Partnership Bonus	**–**	–	**(210.8)**
Profit before tax	**69.5**	112.4	**131.7**
Taxation	**(15.3)**	(26.7)	**(30.9)**
Profit for the period	**54.2**	85.7	**100.8**
Profit before tax and exceptional item	***116.8***	*112.4*	***131.7***

Consolidated statement of comprehensive income/(expense)

for the half year ended 27 July 2013

	Half year to 27 July 2013 £m	Half year to 28 July 2012 (restated) £m	Year to 26 January 2013 (restated) £m
Profit for the period	**54.2**	85.7	**100.8**
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Actuarial loss on defined benefit pension schemes	**(41.0)**	(174.0)	**(260.0)**
Movement of deferred tax on pension schemes	**2.8**	36.1	**13.3**
Movement of current tax on pension schemes	**–**	–	**34.6**
Items that may be reclassified subsequently to profit or loss:			
Net gain/(loss) on cash flow hedges	**1.0**	(2.2)	**3.7**
Total comprehensive income/(expense) for the period	**17.0**	(54.4)	**(107.6)**

Consolidated balance sheet

as at 27 July 2013

	27 July 2013 £m	28 July 2012 £m	26 January 2013 £m
Non-current assets			
Intangible assets	**222.6**	178.6	**213.7**
Property, plant and equipment	**3,826.3**	3,794.2	**3,820.9**
Trade and other receivables	**61.4**	48.5	**55.8**
Deferred tax asset	**39.6**	22.5	**25.6**
	4,149.9	4,043.8	**4,116.0**
Current assets			
Inventories	**510.1**	463.3	**514.0**
Trade and other receivables	**214.4**	215.5	**191.9**
Current tax receivable	**–**	–	**3.1**
Derivative financial instruments	**5.0**	3.5	**4.2**
Cash and cash equivalents	**434.5**	433.5	**534.4**
	1,164.0	1,115.8	**1,247.6**
Total assets	**5,313.9**	5,159.6	**5,363.6**
Current liabilities			
Borrowings and overdrafts	**(167.3)**	(175.0)	**(156.3)**
Trade and other payables	**(1,232.7)**	(1,080.6)	**(1,451.3)**
Current tax payable	**(29.2)**	(37.9)	**–**
Finance lease liabilities	**(3.2)**	(1.8)	**(3.0)**
Provisions	**(133.0)**	(88.4)	**(110.0)**
Derivative financial instruments	**(0.7)**	(4.0)	**(0.6)**
	(1,566.1)	(1,387.7)	**(1,721.2)**
Non-current liabilities			
Borrowings	**(628.2)**	(727.2)	**(627.7)**
Trade and other payables	**(126.9)**	(96.2)	**(119.3)**
Finance lease liabilities	**(34.0)**	(31.5)	**(35.9)**
Provisions	**(132.0)**	(125.9)	**(136.2)**
Retirement benefit obligations	**(908.6)**	(836.7)	**(822.1)**
	(1,829.7)	(1,817.5)	**(1,741.2)**
Total liabilities	**(3,395.8)**	(3,205.2)	**(3,462.4)**
Net assets	**1,918.1**	1,954.4	**1,901.2**
Equity			
Share capital	**6.7**	6.7	**6.7**
Share premium	**0.3**	0.3	**0.3**
Other reserves	**6.3**	(0.6)	**5.3**
Retained earnings	**1,904.8**	1,948.0	**1,888.9**
Total equity	**1,918.1**	1,954.4	**1,901.2**

Consolidated statement of changes in equity

for the half year ended 27 July 2013

	Share capital £m	Share premium £m	Capital reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 28 January 2012 (restated)	6.7	0.3	1.4	0.2	2,000.3	2,008.9
Profit for the period	–	–	–	–	85.7	85.7
Actuarial loss on defined benefit pension schemes	–	–	–	–	(174.0)	(174.0)
Tax on above items recognised in equity	–	–	–	–	36.1	36.1
Fair value losses on cash flow hedges	–	–	–	(1.0)	–	(1.0)
– transfers to inventories	–	–	–	(1.2)	–	(1.2)
Dividends	–	–	–	–	(0.1)	(0.1)
Balance at 28 July 2012	**6.7**	**0.3**	**1.4**	**(2.0)**	**1,948.0**	**1,954.4**
Balance at 28 January 2012 (restated)	6.7	0.3	1.4	0.2	2,000.3	2,008.9
Profit for the period	–	–	–	–	100.8	100.8
Actuarial loss on defined benefit pension schemes	–	–	–	–	(260.0)	(260.0)
Tax on above items recognised in equity	–	–	–	–	47.9	47.9
Fair value gains on cash flow hedges	–	–	–	0.3	–	0.3
– transfers to inventories	–	–	–	3.4	–	3.4
Dividends	–	–	–	–	(0.1)	(0.1)
Balance at 26 January 2013	6.7	0.3	1.4	3.9	1,888.9	1,901.2
Profit for the period	–	–	–	–	54.2	54.2
Actuarial loss on defined benefit pension schemes	–	–	–	–	(41.0)	(41.0)
Tax on above items recognised in equity	–	–	–	–	2.8	2.8
Fair value losses on cash flow hedges	–	–	–	(2.0)	–	(2.0)
– transfers to inventories	–	–	–	2.9	–	2.9
– transfers to property, plant and equipment	–	–	–	0.1	–	0.1
Dividends	–	–	–	–	(0.1)	(0.1)
Balance at 27 July 2013	**6.7**	**0.3**	**1.4**	**4.9**	**1,904.8**	**1,918.1**

Statement of consolidated cash flows

for the half year ended 27 July 2013

	Half year to 27 July 2013 £m	Half year to 28 July 2012 £m	**Year to 26 January 2013 £m**
Cash generated from operations	**285.4**	370.1	**991.1**
Net taxation received/(paid)	**5.7**	(16.5)	**(52.9)**
Partnership Bonus paid	**(210.5)**	(164.2)	**(164.3)**
Additional contribution to the Pension Scheme	**–**	–	**(125.0)**
Finance costs paid	**(1.4)**	(1.0)	**(4.9)**
Net cash generated from operating activities	**79.2**	188.4	**644.0**
Cash flows from investing activities			
Purchase of property, plant and equipment	**(131.1)**	(113.3)	**(261.5)**
Purchase of intangible assets	**(34.5)**	(39.5)	**(96.5)**
Proceeds from sale of property, plant and equipment	**1.8**	1.4	**1.9**
Finance income received	**0.9**	0.9	**1.9**
Net cash used in investing activities	**(162.9)**	(150.5)	**(354.2)**
Cash flows from financing activities			
Finance costs paid in respect of bonds	**(25.6)**	(27.4)	**(56.8)**
Payment of capital element of finance leases	**(1.6)**	(0.6)	**(3.5)**
Payments to preference shareholders	**–**	(0.1)	**(0.1)**
Cash outflow from borrowings	**–**	(142.0)	**(242.0)**
Net cash used in financing activities	**(27.2)**	(170.1)	**(302.4)**
Decrease in net cash and cash equivalents	**(110.9)**	(132.2)	**(12.6)**
Net cash and cash equivalents at beginning of period	**478.1**	490.7	**490.7**
Net cash and cash equivalents at end of period	**367.2**	358.5	**478.1**
Net cash and cash equivalents comprise:			
Cash	**115.7**	121.1	**120.0**
Short term investments	**318.8**	312.4	**414.4**
Bank overdraft	**(67.3)**	(75.0)	**(56.3)**
	367.2	358.5	**478.1**

Notes to the financial statements

1 Basis of preparation

These condensed set of interim financial statements were approved by the Board on 11 September 2013. The condensed set of interim financial statements are unaudited, but have been reviewed by the auditors and their review report is set out on pages 25 to 26, and do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. The comparative information for the half year to or as at 28 July 2012 has not been audited or reviewed in accordance with the International Standard on Review Engagements 2410.

The results for the half year to 27 July 2013 have been prepared using the discrete period approach, considering the half year as an accounting period in isolation. The tax charge is based on the effective rate estimated for the full year, which has been applied to the profits in the first half year.

The Partnership's published financial statements for the year ended 26 January 2013 have been reported on by the Partnership's auditors and filed with the Registrar of Companies. The report of the auditors was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

These condensed set of interim financial statements for the half year ended 27 July 2013 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (previously the Financial Services Authority) and with IAS 34 'Interim Financial Reporting', as adopted by the European Union. The condensed set of interim financial statements should be read in conjunction with the Annual Report and Accounts for the year ended 26 January 2013, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Going concern

The Directors, after reviewing the Partnership's operating budgets, investments plans and financing arrangements, consider that the company and group have, at the date of this report, sufficient financing available for the estimated requirements for the foreseeable future. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing these condensed set of interim financial statements.

2 Accounting policies

The Partnership's results for the half year to 27 July 2013 have been prepared on a basis consistent with the Partnership's accounting policies published in the financial statements for the year ended 26 January 2013, except as set out below.

The Partnership has adopted IAS 19 'Employee benefits' (Revised 2011), which amends the accounting for employee benefits. The adoption of the revised standard has been applied on a retrospective basis, and consequently the relevant charges or income in the consolidated income statement and the consolidated statement of comprehensive income/(expense) for the period to 28 July 2012 and 26 January 2013 have been restated.

As a result of the change, the expected return on pension scheme assets and the interest cost on pension scheme liabilities are replaced with a net interest expense calculated by applying the discount rate to the net defined benefit asset or liability. This has increased finance costs but has had no impact on equity. Administration costs of pension funds are now recognised as an expense when the administration services are performed.

For year to 26 January 2013, the effect of the restatement is that the net finance income recognised in respect of the defined benefit retirement schemes of £38.2m has become a net finance cost of £29.1m. Additionally, operating profit has increased by £1.0m.

For the period to 28 July 2012, the effect of the restatement is that the net finance income recognised in respect of the defined benefit retirement schemes of £19.1m has become a net finance cost of £14.5m. Additionally, operating profit has increased by £0.5m.

The Partnership has adopted the amendment to IAS 1 'Presentation of financial statements' and IFRS 13 'Fair value measurement' which have affected disclosures only.

Notes to the financial statements

continued

3 Risks and uncertainties

The principal and other significant risks and uncertainties affecting the Partnership were identified as part of the Business Review, set out on pages 25 to 28 of the John Lewis Annual Report and Accounts 2013, a copy of which is available on the Partnership's website www.johnlewispartnership.co.uk.

The Partnership adopts a disciplined and proactive approach in identifying and mitigating risks, in order to safeguard the Partnership. In summary, the Partnership has identified the following key risks, which are unchanged from year end:

- economic risk: the exposure to any economic downturn in the UK
- financial risk: the failure to generate sufficient funds for our business needs and mitigate any adverse financial impacts
- pensions risk: the risk of not meeting our pension obligation
- Partner trust and engagement: the risk of erosion of trust and commitment of Partners to the business
- managing change risk: the failure to manage change effectively
- competitor pricing: the risk of margin erosion due to the pricing strategies of our competitors
- business interruption: the potential interruption to our business from IT failures or breaches of information security
- talent management: the failure to develop and retain talent
- reputation risk: the loss of confidence in the Partnership amongst our stakeholders
- health and safety risk: the potential for causing harm to people or property
- input cost inflation: the risk of increases in costs for products and raw materials which we are not able to pass on
- legislative and regulatory requirements: the risk of non-compliance with UK laws and regulations

In the view of the Board, the key risks and uncertainties remain relevant for the second half of the financial year.

Notes to the financial statements

continued

5 Segmental reporting (continued)

	Waitrose £m	John Lewis £m	Corporate and other £m	Group £m
Half year to 28 July 2012 (restated)				
Gross sales	2,805.9	1,600.0	–	4,405.9
Adjustment for sale or return sales	–	(61.0)	–	(61.0)
Value added tax	(168.4)	(250.9)	–	(419.3)
Revenue	2,637.5	1,288.1	–	3,925.6
Operating profit	142.0	45.6	(23.6)	164.0
Finance costs	–	–	(53.9)	(53.9)
Finance income	–	–	2.3	2.3
Profit before tax	142.0	45.6	(75.2)	112.4

	Waitrose £m	John Lewis £m	Corporate and other £m	Group £m
Year to 26 January 2013 (restated)				
Gross sales	5,763.9	3,777.4	–	9,541.3
Adjustment for sale or return sales	–	(134.6)	–	(134.6)
Value added tax	(347.8)	(593.4)	–	(941.2)
Revenue	5,416.1	3,049.4	–	8,465.5
Operating profit	292.3	216.7	(58.3)	450.7
Finance costs	–	–	(110.1)	(110.1)
Finance income	–	–	1.9	1.9
Partnership Bonus	–	–	(210.8)	(210.8)
Profit before tax	292.3	216.7	(377.3)	131.7

4 Exceptional item

On 22 August 2013, the Partnership made an announcement regarding holiday pay payments. Following a recent review of the Partnership's holiday pay policy, it became clear that Partners who receive certain additions to pay, such as premiums for working on Sunday or bank holidays, had not been paid correctly under the Working Time Regulations legislation. The Partnership Board therefore decided to make one-off additional payments to those affected.

An exceptional charge has been recorded in the period to 27 July 2013 totalling £47.3m. This reflects the expected costs of £40.0m for payments to Partners and associated expenses for holiday pay dating back to 2006 which had not been calculated correctly. Future pensions liabilities have also increased by £7.3m as a result.

5 Segmental reporting

The Partnership's operating segments have been identified as Waitrose, John Lewis and Corporate and other. Corporate and other includes the operating costs for our Corporate offices, Partnership services, transformation programmes and certain pension operating 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, and before the exceptional item.

Waitrose's business is not subject to highly seasonal fluctuations although there is an increase in trading in the fourth quarter of the year. There is a more marked increase in the fourth quarter sales for the John Lewis business.

	Waitrose £m	John Lewis £m	Corporate and other £m	Group £m
Half year to 27 July 2013				
Gross sales	3,023.7	1,705.4	–	4,729.1
Adjustment for sale or return sales	–	(66.7)	–	(66.7)
Value added tax	(176.1)	(267.5)	–	(443.6)
Revenue	2,847.6	1,371.2	–	4,218.8
Operating profit before exceptional item	160.2	34.7	(32.7)	162.2
Exceptional item	–	–	(47.3)	(47.3)
Operating profit	160.2	34.7	(80.0)	114.9
Finance costs	–	–	(47.3)	(47.3)
Finance income	–	–	1.9	1.9
Profit before tax	160.2	34.7	(125.4)	69.5

5 Segmental reporting (continued)

	Waitrose £m	John Lewis £m	Corporate and other £m	Group £m
27 July 2013				
Segment assets	**2,680.7**	**1,772.3**	**860.9**	**5,313.9**
Segment liabilities	**(618.3)**	**(593.7)**	**(2,183.8)**	**(3,395.8)**
Net assets	**2,062.4**	**1,178.6**	**(1,322.9)**	**1,918.1**
28 July 2012				
Segment assets	2,722.3	1,677.5	759.8	5,159.6
Segment liabilities	(660.9)	(523.1)	(2,021.2)	(3,205.2)
Net assets	2,061.4	1,154.4	(1,261.4)	1,954.4
26 January 2013				
Segment assets	2,624.7	1,770.2	968.7	5,363.6
Segment liabilities	(553.7)	(648.1)	(2,260.6)	(3,462.4)
Net assets	2,071.0	1,122.1	(1,291.9)	1,901.2

6 Net finance costs

	Half year to 27 July 2013 £m	Half year to 28 July 2012 (restated) £m	**Year to 26 January 2013 (restated) £m**
Finance costs			
Total finance costs in respect of borrowings	**29.3**	30.0	**60.0**
Fair value measurements and other	**0.3**	0.4	**0.6**
Net finance costs arising on defined benefit retirement and other employee benefit schemes	**17.7**	23.5	**49.5**
Total finance costs	**47.3**	53.9	**110.1**
Finance income			
Total finance income in respect of investments	**(0.8)**	(0.9)	**(1.9)**
Fair value measurements and other	**(0.1)**	(1.4)	**–**
Net finance income arising on other employee benefit schemes	**(1.0)**	–	**–**
Total finance income	**(1.9)**	(2.3)	**(1.9)**
Net finance costs	**45.4**	51.6	**108.2**

Notes to the financial statements

continued

6 Net finance costs (continued)

	Half year to 27 July 2013 £m	Half year to 28 July 2012 (restated) £m	Year to 26 January 2013 (restated) £m
Total finance costs in respect of borrowings	**29.3**	30.0	**60.0**
Total finance income in respect of investments	**(0.8)**	(0.9)	**(1.9)**
Net finance costs in respect of borrowings and investments	**28.5**	29.1	**58.1**
Fair value measurements and other	**0.2**	(1.0)	**0.6**
Net finance costs arising on defined benefit retirement schemes	**17.7**	14.5	**29.1**
Net finance (income)/costs arising on other employee benefit schemes	**(1.0)**	9.0	**20.4**
Net finance costs	**45.4**	51.6	**108.2**

7 Income taxes

Income tax expense is recognised based on management's best estimate of the full year effective tax rate based on estimated full year profits. The estimated full year effective tax rate for the year to 25 January 2014 is 22.0% (the estimated effective tax rate for the period to 28 July 2012 was 23.8%). The decrease on last year is mainly due to the reduction in the main rate of corporation tax for the year to 25 January 2014 and the impact of substantially enacted changes to the main rate of corporation tax on deferred tax balances in future years.

8 Capital expenditure

	Property, plant and equipment £m	Intangible assets £m	Total capital expenditure £m
Net book values at 26 January 2013	3,820.9	213.7	4,034.6
Additions	133.3	34.5	167.8
Depreciation and amortisation	(126.3)	(23.2)	(149.5)
Disposals	(1.6)	(2.4)	(4.0)
Net book values at 27 July 2013	**3,826.3**	**222.6**	**4,048.9**

Intangible assets primarily relate to internally developed IT systems.

9 Retirement benefit obligations

The principal pension scheme operated by the Partnership is a defined benefit scheme, providing benefits based on the final pensionable pay.

Pension commitments have been calculated based on the most recent actuarial valuations, as at 31 March 2010, which have been updated by the actuaries to reflect the assets and liabilities of the scheme as at 27 July 2013.

Scheme assets are stated at market value at 27 July 2013.

The following financial assumptions have been used:

	Half year to 27 July 2013 £m	Half year to 28 July 2012 £m	**Year to 26 January 2013 £m**
Discount rate	**4.55%**	4.35%	**4.60%**
Future retail price inflation (RPI)	**3.30%**	2.50%	**3.20%**
Future consumer price inflation (CPI)	**2.40%**	1.80%	**2.30%**
Increase in earnings	**3.80%**	3.00%	**3.70%**
Increase in pensions – in payment	**3.10%**	2.30%	**3.00%**
Increase in pensions – deferred	**2.40%**	1.80%	**2.30%**

The movement in the net defined benefit liability in the period is as follows:

	Half year to 27 July 2013 £m	Half year to 28 July 2012 (restated) £m	**Year to 26 January 2013 (restated) £m**
Net defined benefit liability at beginning of period	**(822.1)**	(638.1)	**(638.1)**
Operating cost	**(85.2)**	(64.0)	**(128.0)**
Interest cost on liabilities	**(86.3)**	(77.4)	**(154.8)**
Interest income on assets	**68.6**	62.9	**125.7**
Contributions	**57.4**	53.9	**233.1**
Total losses recognised in equity	**(41.0)**	(174.0)	**(260.0)**
Net defined benefit liability at end of period	**(908.6)**	(836.7)	**(822.1)**

Notes to the financial statements

continued

10 Reconciliation of profit before tax to cash generated from operations

	Half year to 27 July 2013 £m	Half year to 28 July 2012 (restated) £m	Year to 26 January 2013 (restated) £m
Profit before tax	**69.5**	112.4	**131.7**
Amortisation of intangible assets	**23.2**	21.1	**41.9**
Depreciation	**126.3**	125.0	**255.1**
Net finance costs	**45.4**	51.6	**108.2**
Partnership Bonus	–	–	**210.8**
Loss on disposal of tangible and intangible assets	**2.3**	4.8	**6.1**
Decrease/(increase) in inventories	**3.9**	1.9	**(48.8)**
(Increase)/decrease in receivables	**(28.3)**	0.4	**16.7**
(Decrease)/increase in payables	**(4.5)**	43.5	**229.9**
Increase in retirement benefit obligations	**27.8**	10.2	**19.9**
Increase/(decrease) in provisions	**19.8**	(0.8)	**19.6**
Cash generated from operations	**285.4**	370.1	**991.1**

11 Analysis of net debt

	26 January 2013 £m	Cash flow £m	Other non-cash movements £m	27 July 2013 £m
Current assets				
Cash and cash equivalents	534.4	(99.9)	–	**434.5**
Derivative financial instruments	4.2	–	0.8	**5.0**
	538.6	(99.9)	0.8	**439.5**
Current liabilities				
Borrowings and overdrafts	(156.3)	(11.0)	–	**(167.3)**
Finance leases	(3.0)	1.6	(1.8)	**(3.2)**
Derivative financial instruments	(0.6)	–	(0.1)	**(0.7)**
	(159.9)	(9.4)	(1.9)	**(171.2)**
Non-current liabilities				
Borrowings	(633.4)	–	(0.2)	**(633.6)**
Unamortised bond transaction costs	5.7	–	(0.3)	**5.4**
Finance leases	(35.9)	–	1.9	**(34.0)**
	(663.6)	–	1.4	**(662.2)**
Total net debt	(284.9)	(109.3)	0.3	**(393.9)**

11 Analysis of net debt

Reconciliation of net cash flow to net debt

	Half year to 27 July 2013 £m	Half year to 28 July 2012 £m	Year to 26 January 2013 £m
Decrease in cash in the period	**(110.9)**	(132.2)	**(12.6)**
Cash (inflow)/outflow from movement in debt and lease financing	**1.6**	142.6	**245.5**
Movement in debt for the period	**(109.3)**	10.4	**232.9**
Opening net debt	**(284.9)**	(504.8)	**(504.8)**
Non-cash movements	**0.3**	(8.1)	**(13.0)**
Closing net debt	**(393.9)**	(502.5)	**(284.9)**

12 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, energy risk and insurable risk.

These condensed set of interim financial statements do not include all risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Annual Report and Accounts for the year ended 26 January 2013. During the half year to 27 July 2013, the Partnership has continued to apply the financial risk management process and policies as detailed in the Annual Report and Accounts for the year ended 26 January 2013.

Valuation techniques and assumptions applied in determining fair values of each class of asset or liability are consistent with those used as at 26 January 2013 and reflect the current economic environment.

Fair value estimation
The different levels per the IFRS 13 fair value hierarchy have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

Notes to the financial statements

continued

12 Management of financial risks (continued)

Fair value estimation (continued)

During the half year to 27 July 2013, there have been no transfers between any levels of the IFRS 13 fair value hierarchy, and there were no reclassifications of financial assets as a result of a change in the purpose or use of those assets.

The fair value of the derivative financial instruments held by the Partnership are classified as level 2 under the IFRS 13 fair value hierarchy, as all significant inputs to the valuation model used are based on observable market data. At 27 July 2013, the carrying value of derivative financial instruments was £4.3m, asset (26 January 2013: £3.6m, asset; 28 July 2012: £0.5m, liability).

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.

The following table compares the Partnership's liabilities held at amortised cost, where there is a difference between carrying value (CV) and fair value (FV):

		27 July 2013 £m		28 July 2012 £m		**26 January 2013 £m**
	CV	**FV**	CV	FV	**CV**	**FV**
Financial liabilities						
Listed bonds	**669.6**	**809.4**	669.0	827.2	**669.3**	**826.8**
Preference stock	**0.4**	**0.4**	0.4	0.4	**0.4**	**0.4**

The fair values of the Partnership's listed bonds and preference stock have been determined by reference to market price quotations.

For other financial assets and liabilities, there are no material differences between carrying value and fair value.

13 Capital commitments

At 27 July 2013 contracts had been entered into for future capital expenditure of £23.3m (2012: £35.8m).

14 Related party transactions

There have been no material changes to the principal subsidiaries listed in the Annual Report and Accounts for the year ended 26 January 2013. All related party transactions arise during the ordinary course of business. There were no material changes in the transactions or balances during the half year ended 27 July 2013.

15 Events after the balance sheet date

Other than the matter disclosed in note 4, there have been no other events after the balance sheet date requiring disclosure.

Statement of directors' responsibilities

The directors confirm that these condensed set of interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a fair review of the information required by the Disclosure and Transparency Rules (DTR) paragraphs DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the half year and their impact on the condensed set of interim financial statements, and a description of the principal risks and uncertainties for the remaining half of the financial year; and
- material related-party transactions in the half year and any material changes in the related-party transactions described in the last annual report.

For and by Order of the Board

Charlie Mayfield, Chairman

Helen Weir, Finance Director

11 September 2013

Independent review report to John Lewis plc

Introduction

We have been engaged by the company to review the condensed set of interim financial statements in the interim report for the half year ended 27 July 2013, which comprises the consolidated income statement, the consolidated statement of comprehensive income/(expense), the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes to the condensed set of interim financial statements. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of interim financial statements.

Directors' responsibilities

The interim report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of interim financial statements included in this interim report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of interim financial statements in the interim report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in producing this report, 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 review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' ('ISRE 2410') issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of interim financial statements in the interim report for the half year ended 27 July 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Other matter

The accompanying condensed set of interim financial statements includes comparative information as required by International Accounting Standard 34, 'Interim financial reporting'. The comparative information for the half year to or as at 28 July 2012 has not been audited or reviewed in accordance with ISRE 2410.

PricewaterhouseCoopers LLP
Chartered Accountants
London
11 September 2013

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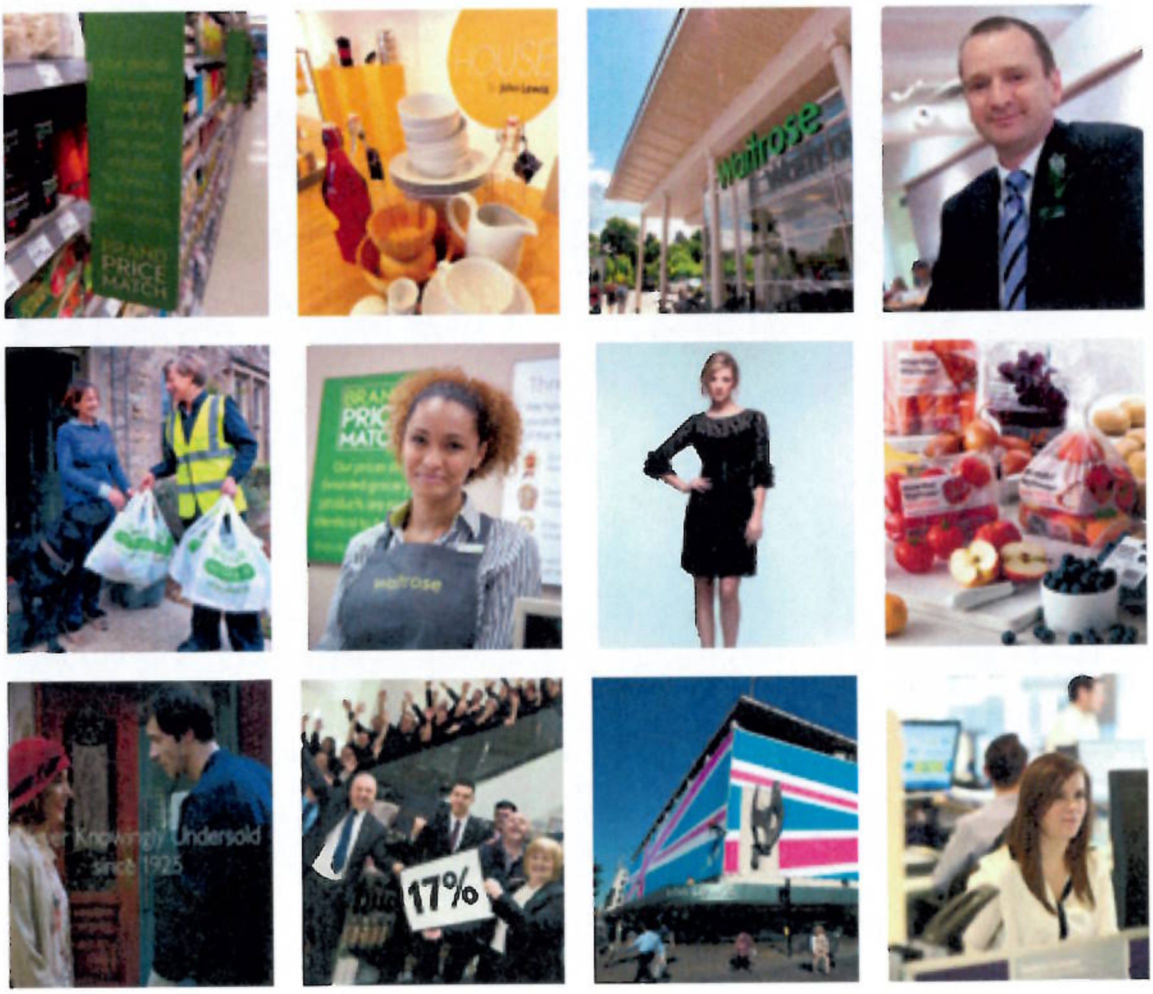
John Lewis

Waitrose



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Independent review report to John Lewis plc

Introduction
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Independent review report to John Lewis plc (continued)

Other matter

The accompanying condensed set of interim financial statements includes comparative information as required by International Accounting Standard 34, 'Interim financial reporting'. ~~The comparative information for the year to or as at 26 January 2013 is based on the audited financial statements as at 26 January 2013.~~ The comparative information for the ~~26 weeks~~ half year to or as at 28 July 2012 has not been audited or reviewed in accordance with ISRE 2410.

PricewaterhouseCoopers LLP
Chartered Accountants
11 September 2013