

John Lewis Partnership

Unaudited results for 52 weeks to 25 January 2014
 [This does not constitute a preliminary announcement]
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John Lewis Partnership plc Results for the 52 weeks ended 25 January 2014

Innovation and investment drive strong sales and profit performance

Financial Summary

	Waitrose		John Lewis ⁽¹⁾		Partnership	
	£m	Change %	£m	Change %	£m	Change %
Gross sales	6,112	6.0%	4,060	7.5%	10,172	6.6%
LFL sales ⁽²⁾	5.1%		6.4%			
Revenue	5,754	6.2%	3,274	7.4%	9,028	6.6%
Operating profit before exceptional item	310.1	6.1%	226.1	4.3%	470.9	3.9%
Exceptional item ⁽³⁾					(47.3)	n/a
Operating profit	310.1	6.1%	226.1	4.3%	423.6	(6.6)%
PBT ⁽⁴⁾ before exceptional item					376.4	9.6%
PBT ⁽⁴⁾					329.1	(4.1)%

(1) John Lewis operating profit before restructuring costs⁵ of £240.5m, up £23.8m (11.0%)

(2) Waitrose like-for-like sales excludes petrol

(3) Exceptional item of £47.3m following review of holiday pay policy

(4) Profit before Partnership Bonus and tax for 2012/13 has been restated for IAS 19 revised, reducing profit before Partnership Bonus and tax by £66.3m.

Financial Highlights

- Gross sales exceed £10bn for the Partnership, £6bn for Waitrose and £4bn for John Lewis
- Revenue exceeds £9bn for the Partnership, with Waitrose £5.75bn and John Lewis £3.27bn
- Profit before Partnership Bonus, tax and exceptional item up by almost 10%; down by 4% after the exceptional item
- Partnership Bonus of £202.5m; 15% of salary (equal to nearly 8 weeks' pay)
- Net debt of £485.8m, up £113.9m (30.6%)
- Pension deficit of £1,003.4m, up £181.3m (22.1%)

Operational Highlights

Waitrose

- 13 new branches (including five little Waitrose)
- Total online services gross sales of £262m; Waitrose.com grocery gross sales up 41.4%
- More than 5.6m customer visits each week
- myWaitrose cardholders now account for 68% of sales
- 56 months of market outperformance

⁵ Restructuring costs of £14.4m for streamlining John Lewis department store management structures and the future closure of our Park Royal distribution centre as part of our programme to upgrade our distribution infrastructure.

John Lewis

- johnlewis.com gross sales of £1,142m, up £184m (19.2%)
- Click & collect grown by 57%
- Significant market share gains across all three categories
- New 'at home' store at Ashford and strong store pipeline
- £97m 'Magna 2' distribution centre on track

Partnership

- Net 6,300 new jobs created, a 7.4% increase in Partners
- Invested £584m in benefits to our Partners, including Partnership Bonus, pensions, Partner discount, catering subsidy, long service leave, leisure spending and the running of our five holiday centres
- £85m additional cash contribution to final salary pension scheme in January 2014

Charlie Mayfield, Chairman of John Lewis Partnership, commented:

“This has been another good year for the Partnership. Both Waitrose and John Lewis increased market share for the fifth consecutive year, profit before exceptionals has grown by almost 10% and, for the first time, we have achieved sales of over £10 billion. As a result of our performance, I am delighted that 91,000 Partners will receive a Bonus of 15%, equivalent to nearly 8 weeks' pay. The Bonus reflects the balance of a strong trading year, but also the increased costs of pension provision. The exceptional costs of £47m, relating to holiday pay premiums (announced in August), did not affect the bonus percentage.

Our ownership by Partners has played a key role in these results. There are fundamental changes taking place in retail, especially in customer attitudes towards value, convenience and personalisation. For several years we have been adapting our business to take advantage of these changes. That has required high levels of investment, organisational change and new capabilities. The level of change has at times been challenging, but Partners have understood and embraced the need for their business to continue to develop.

As a result we have been able to make important progress in several areas. Innovation in product and service continues to be vital in today's market and there have been great examples of that in Waitrose and John Lewis. We have improved our omni-channel offer significantly with new online platforms for both brands and expansion of the hugely popular Click & collect service. We have also introduced greater personalisation to the relationship with customers, particularly with myWaitrose. To deliver all of this we continue to make improvements to branch structures and are giving greater emphasis to the importance of our leadership teams creating opportunities for individual Partners.”

Outlook 2014/15

The current year has started well. We have good trading momentum, with gross sales up 5.3% versus last year after five weeks. Waitrose gross sales have increased by 5.1% (3.7% like-for-like, excluding petrol) and John Lewis gross sales are 5.7% higher than last year (5.3% like-for-like).

There are more encouraging signs for the economy as a whole and, although this has not yet come through as a significant increase in consumer spending, I am cautiously optimistic that we will see improvements this year. I am confident that however quickly the UK economy emerges from this prolonged period of slow growth, the Partnership is well positioned to continue to strengthen its competitive position and to grow market share in both Waitrose and John Lewis.

Financial Results

In 2013/14 the Partnership traded well, delivering good growth in sales and profit before exceptionals. Both Waitrose and John Lewis grew sales well ahead of their respective markets, increasing their market shares.

Partnership gross sales (inc VAT) were £10.17bn, an increase of £630.2m, or 6.6%, on last year. Revenue, which is adjusted for sale or return sales and excludes VAT, was £9.03bn, up by £562.3m or 6.6%.

Partnership operating profit was £423.6m, down £29.8m, or 6.6% on last year. This includes an exceptional cost of £47.3m following a review of the Partnership's holiday pay policy during the year. Excluding the exceptional item, operating profit was £470.9m, an increase of £17.5m or 3.9%.

The exceptional item comprises costs of £39.3m for payments to Partners and associated expenses, and £8.0m for an increase in future pension liabilities.

Profit before Partnership Bonus and tax was £329.1m, down by £14.2m, or 4.1% on last year with the decline wholly attributable to the exceptional item. Excluding this it was £376.4m, up by £33.1m or 9.6%.

These results reflect the collective hard work of our Partners who, as co-owners, each receive the same percentage of annual pay as Partnership Bonus. Partners will share £202.5m in profit, which represents 15% of pay or the equivalent of nearly 8 weeks' pay.

Waitrose

The shaping of the modern Waitrose continued apace throughout the year. Gross sales for the year were up 6.0% to £6.11bn and like-for-like sales grew by 5.1%, with a large proportion of this uplift attributable to volume growth. Operating profit was up by 6.1% to £310.1m.

The myWaitrose card is allowing us to deepen relationships with our customers, we are growing our online business and, through more services and hospitality, we are creating additional reasons to visit our branches. Our customer service, high quality products, breadth of range and value offer continue to resonate with customers and Waitrose has now outperformed the market⁶ for 56 months in a row. As a result, our market share⁶ increased by 0.2 per cent over the year.

Customer transactions grew by 9.6% and there are now more than 5.6m customer visits each week. More than 4.1m customers now have a myWaitrose card and 68% of sales are to cardholders. As well as the benefits that customers already receive, myWaitrose became even more appealing in October when we increased the number of price promotions on branded products. In addition to Brand Price Match (where we match Tesco prices on branded goods excluding promotions), myWaitrose customers now receive an extra 10% discount on hundreds of lines.

Waitrose.com performed strongly with grocery gross sales up 41.4%. We continued to invest in our online business, improving the shopping experience with a new look for the site, making it more tablet-friendly, and easier to register, navigate and search for products. In the year we nearly doubled the capacity of our branches to fulfil online orders. We will have the capacity to realise further potential for our online business in the London area when our second dark store opens in Coulsdon later this year.

Customers increasingly expect to be able to move smoothly between channels and during the year 57% of all John Lewis Click & collect orders were picked up from Waitrose branches, amounting to 2.5m collections. We are exploring more ways to integrate our channels and are trialling drive-through collections in five shops. We began a pilot for collection lockers last July.

We opened 13 new branches and relocated two others in the year, which brought the total number of shops at the end of the year to 305. We now have 42 little Waitrose shops in total, five of which were opened last year.

⁶ Source: Kantar

We carried out major refurbishments of 11 branches and now have concierge-style welcome desks in 112 shops. These give a focal point for our existing services as well as the opportunity to try out new offerings in the future. We continue to develop our hospitality offer with cafés in more than 100 of our branches and are trialling concepts, such as new-look bakery and wine departments and grazing areas in our Kingston and Cambridge branches.

In the year ahead we plan to open 38 new branches, including 23 little Waitrose shops, as well as relocating two branches. We closed our Dartford branch at the end of its lease in February.

Innovation, superb quality and high standards of provenance are at the heart of our products, from essential Waitrose to Duchy from Waitrose. We launched over 4,000 products during the year and expect to sustain this pace in 2014. In addition, April 2013 saw the debut of the Waitrose flower garden range and Waitrosegarden.com, offering 6,000 gardening products in total.

John Lewis

John Lewis gross sales grew strongly throughout the year, increasing by 7.5% in total and passing the £4bn mark for the first time. Total like-for-like sales grew by 6.4%. Operating profit before restructuring costs was up 11.0% to £240.5m. Restructuring costs were £14.4m for streamlining our department store management structures and the future closure of our Park Royal distribution centre, as part of our programme to upgrade our distribution infrastructure. Both of these will improve long-term efficiency. Operating profit including these costs was up 4.3% to £226.1m.

Sales growth was shared across the categories:

- Home (+2.3%): We made significant progress in our ambition to be the UK's largest home retailer through new initiatives such as Any Shape, Any Fabric and the maturation of our HOUSE range.
- Fashion (+5.0%): We expanded our Kin fashion lifestyle brand with new accessories and babywear collections, as well as building on the success of our fashion labels, Somerset by Alice Temperley and John Lewis & Co.
- Electricals and Home Technology (EHT) (+15.5%): We were Samsung's retailer of choice to debut their new OLED televisions, and were exclusive stockists of Nest when the product launched in the UK.

Omni-channel capability and innovation has been key to our success. We have seen growth in both shops and online, with shops significantly outperforming the high street and johnlewis.com up 19.2% to £1.1bn, achieved while launching a new web platform in the first half. Click & collect has grown strongly, up 57%, with the convenience of being able to pick up from Waitrose being particularly appreciated. Collect+ was successfully launched in September. Mobile also grew rapidly this year, and visits from phones and tablets now account for 50% of traffic to johnlewis.com.

We continued to build the value and trust our customers expect of us through our commitment to be 'Never Knowingly Undersold', and our guarantees were improved further this year through Guaranteed Guarantees, to give a minimum of two years' cover on any electrical item. The my John Lewis membership card was also launched with 500,000 members joining in just four months. Our 'The Bear and the Hare' Christmas advertising campaign was also a huge success, with over 12 million views on YouTube.

Behind the scenes, we have invested significantly in our support infrastructure. Our new £97m distribution centre will begin operations in 2015 alongside our existing Magna Park site in Milton Keynes, further enhancing our fulfilment capability.

Shop developments continue to be a strong focus of our growth strategy. 2013 saw the full refurbishment of our High Wycombe shop, and we have an active pipeline of new sites. In 2013 we opened an 'at home' shop in Ashford and this year we will open a full line flexible format shop in York, and our smallest shop to date at Heathrow's Terminal 2. We have announced future sites in Birmingham, Leeds, Westfield White City, Oxford, Chelmsford, Horsham, and Basingstoke. New catering partnerships with Joe & the Juice and Hotel

Chocolat's Cocoa Bar Café were launched, alongside the first little Waitrose within a John Lewis shop at Watford.

We continue to exploit new technology including equipping our Partners with transactional tablets, and we are the first major department store to use Google to map the inside of our Oxford Street shop.

Partnership Services *Corporate*

Partnership Services and Corporate includes the operating costs for our Corporate offices, Partnership Services, transformation programmes and certain pension operating costs. Corporate and Partnership Services net operating costs, including the costs of transformation programmes, were down year-on-year by £12.0m or 16.2%. However, overall costs increased by £9.7m to £65.3m due to the increase in pension operating costs resulting from changes in financial assumptions.

Partnership Services has grown significantly since 2009 with the division now providing business services for IT, Financial Processing, Procurement, Personnel, Partnership Health and Pensions administration. The division has made significant progress in improving the productivity of its most established operations, with Financial Processing of invoices almost 30% more efficient than the previous year.

In the year, the division has also delivered and supported a number of key projects including the launch of a Partnership-wide health service and the transfer in of Personnel policy and administrative tasks, as well as the rollout of the Personnel Transformation Programme (PTP). Following its completion in May 2014, PTP will provide our Partners with a consistent way of working and our line managers with more efficient processes, and will give us much deeper insight into Partner performance.

In 2014/15 Partnership Services will focus on stabilising the new systems and services it has taken on - particularly in IT and Personnel. New processes need to be bedded in to allow us to gain the full benefits of the investments we have made.

Investment in the future

Capital investment in 2013/14 was £533.1m, an increase of £156.2m (41.4%) on the previous year. This includes £55.8m on freehold properties.

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

Investment in Waitrose was £316.6m, up £118.4m (59.7%) on the previous year, and in John Lewis investment was £174.8m, up £30.5m (21.1%).

We expect the higher level of capital investment to continue in 2014/15, as our employee-owned model allows us to invest for the long term.

Pensions

The Partnership has adopted 'IAS 19 revised' in the year, which changes the way in which pension 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 £1.0m and an increase in finance costs of £67.3m. Profit before tax therefore has decreased by £66.3m.

The pension operating cost before exceptional item was £167.7m, an increase of £30.7m or 22.4% on the prior year, reflecting changes to financial assumptions and growth in scheme membership. Pension finance costs were £35.3m, an increase of £6.2m or 21.3% on the restated prior year pension finance costs, reflecting a higher accounting pension deficit at the beginning of the year than at the beginning of the previous year. As a result, total pension costs before exceptional item were £203.0m, an increase of £36.9m or 22.2%. The exceptional item includes £8.0m for an increase in future pension liabilities, resulting in total pension costs of £211.0m.

The total accounting pension deficit at 25 January 2014 was £1,003.4m, an increase of £181.3m (22.1%). Net of deferred tax, the deficit was £820.3m. The accounting valuation of pension fund liabilities increased by £422.2m (11.1%) to £4,218.2m, while pension fund assets increased by £240.9m (8.1%) to £3,214.8m, including an £85m one-off cash contribution made by the Partnership in January 2014.

The triennial actuarial valuation of our non-contributory defined benefit final salary scheme as at 31 March 2013 has concluded with a deficit of £840m. We have agreed to increase the ongoing contribution rate to 16.4% of members' gross taxable pay, up from 12.2%, and put in place a plan to eliminate the deficit over a 10 year period through the one-off contribution made in January 2014 and annual deficit reduction contributions of £44m. The balance of the deficit is expected to be met by investment returns on the scheme's assets.

The pension is one of the most important benefits offered to Partners, but also accounts for the greatest single investment made each year by the Partnership. We are undertaking a review of the pension scheme to ensure that it can remain fair to Partners and sustainable from a business perspective. A draft proposal was published earlier this year to move to a DB/DC hybrid scheme, where future pension risk is shared between Partners and the Partnership. Partners remain at the centre of the review as co-owners of the business and have the opportunity to share their views. The proposal will be further developed over the course of 2014, with a decision expected to be agreed by Partnership Council and the Partnership Board towards the end of the year.

Financing

Net finance costs on borrowings and investments decreased by £1.2m (2.0%) to £58.8m. After including the financing elements of pensions and long service leave and non-cash fair value adjustments, net finance costs decreased by £15.6m (14.2%) to £94.5m.

At 25 January 2014, net debt was £485.8m, an increase of £113.9m (30.6%). In January 2014 we repaid a £100m bond from available cash and agreed a new £150m short term bilateral borrowing facility, which was undrawn at year end.

Sustainability

This year has seen us continue to lower the environmental impact across our estate, in our products and in our supply chains. We have also invested Partner time in community activities and in encouraging customers to live more sustainable lives.

- Our new Waitrose branch in Chipping Sodbury is 40% more carbon efficient than the equivalent existing shop.
- John Lewis launched a trial Energy Efficiency Service - selling heating systems and insulation, solar panels and home energy control devices - and we are participating in a trial with the Department for Energy and Climate Change (DECC) to give customers information on the lifetime electricity running costs of laundry products.
- We were highly praised by WWF in its 'Palm Oil Buyers Scorecard' for our leading efforts in sourcing segregated sustainable palm oil.
- At John Lewis we are developing a sustainable fibre guide to help buying Partners make more sustainable purchasing decisions.
- Partners continued to invest their time and skills in the local community - through the continued work of the Golden Jubilee Trust, and through the launch of dedicated programmes at Waitrose and John Lewis that support local schools in the curriculum.
- Through the 'Waitrose Way' commitments, Waitrose continued to encourage customers to make small changes in the way they shop and live.

We recognise that managing sustainability issues across our complex and growing business is only going to become more challenging and so, for 2014/15, we are adopting a pan-Partnership process to update our views of the issues that are most material to our business, allowing us to prioritise and then plan and invest accordingly.

Further information

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Notes to editors

The John Lewis Partnership - The John Lewis Partnership operates 40 John Lewis shops across the UK (30 department stores and 10 John Lewis at home), johnlewis.com, 304 Waitrose shops, waitrose.com and business to business contracts in the UK and abroad. The business has annual gross sales of over £10bn. It is the UK's largest example of worker co-ownership where all 91,000 staff are Partners in the business.

John Lewis - John Lewis, 'Retailer of the Year 2013'¹, 'The Nation's Best Retailer'² and 'Best Retailer 2013'³, typically stocks more than 350,000 separate lines in its department stores. The website stocks over 250,000 products focused on the best of fashion, beauty, home and giftware and electrical items including online exclusives. johnlewis.com is consistently ranked one of the top online shopping destinations in the UK (www.johnlewis.com). John Lewis Insurance offers a range of comprehensive insurance products - home, car, wedding and event, travel and pet insurance and life cover - delivering the usual values of expertise, trust and customer service expected from the John Lewis brand.

¹ Oracle Retail Week Awards 2013

² Verdict Consumer Satisfaction Awards 2013

³ Which? Awards 2013

You can follow John Lewis on the following social media channels:

www.johnlewis.com/twitter
www.johnlewis.com/facebook
www.johnlewis.com/youtube.

Waitrose - Waitrose, Britain's favourite supermarket*, has 304 shops in the UK and Channel Islands and has consistently achieved sales growth significantly ahead of the market**. Its strong performance has been driven by the success of the essential Waitrose range, Brand Price Match, the success of the myWaitrose card and free delivery for online shopping, as well as a long term commitment to sourcing the UK's finest local and regional foods. Waitrose combines the convenience of a supermarket with the expertise and service of a specialist shop - dedicated to offering quality food that has been responsibly sourced combined with high standards of customer service. (www.waitrose.com)

* Favourite Food & Grocery Retailer at Verdict's annual Consumer Satisfaction Awards; Favourite Supermarket at Good Housekeeping Awards

** Kantar Worldpanel

UNAUDITED RESULTS FOR THE 52 WEEKS TO 25 JANUARY 2014

	2013/14	2012/13 Restated ¹	Change
	£m	£m	%
GROSS SALES (including VAT)			
Waitrose	6,111.9	5,763.9	6.0
John Lewis	4,059.6	3,777.4	7.5
Gross sales	10,171.5	9,541.3	6.6
REVENUE			
Waitrose	5,753.7	5,416.1	6.2
John Lewis	3,274.1	3,049.4	7.4
Revenue	9,027.8	8,465.5	6.6
OPERATING PROFIT			
Waitrose	310.1	292.3	6.1
John Lewis	226.1	216.7	4.3
	536.2	509.0	5.3
Partnership Services and Corporate²	(65.3)	(55.6)	(17.4)
Operating profit before exceptional item	470.9	453.4	3.9
Exceptional item	(47.3)	-	-
Operating profit	423.6	453.4	(6.6)
Net finance costs	(94.5)	(110.1)	14.2
Profit before Partnership Bonus and tax	329.1	343.3	(4.1)
Partnership Bonus	(202.5)	(210.8)	3.9
Profit before tax	126.6	132.5	(4.5)
Profit before Partnership Bonus, tax and exceptional item	376.4	343.3	9.6
Notes			
1. 2012/13 has been restated for IAS 19 revised, decreasing profit before Partnership Bonus and tax by £66.3m.			
2. Partnership Services and Corporate includes the operating costs for our Corporate offices, Partnership Services, transformation programmes and certain pension operating costs. Corporate and Partnership Services net operating costs were down year-on-year by £12.0m or 16.2%. However, overall costs increased by £9.7m or 17.4% due to the year-on-year increase in pension operating costs resulting from changes in financial assumptions.			
3. This statement does not constitute a preliminary announcement. These results are subject to audit. The Annual Report & Accounts for 2013/14 will be published in April 2014.			