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*John Lewis plc
annual report
and accounts 2003*



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Further information about the Partnership can be obtained on application to the Press Office,
John Lewis Partnership,
171 Victoria Street,
London SW1E 5NN
Telephone: 020 7592 6220
www.johnlewis.co.uk

The John Lewis Partnership

The John Lewis Partnership is one of the UK's largest retail businesses. It has two separate divisions, John Lewis Department Stores with 26 branches and Waitrose with 141 supermarkets.

It is also the country's largest employee cooperative, with over 59,000 staff. The company's equity capital is held in trust by John Lewis Partnership Trust Ltd. The purpose of the Partnership is to ensure that everybody who works in it enjoys all the advantages of ownership, so fulfilling the wishes of the Partnership's founder, John Spedan Lewis, to create a company where the rewards went to those who contributed most to its prosperity.

The Central Board of John Lewis Partnership plc comprises twelve members – the Chairman, the Deputy Chairman, five members nominated by the Chairman and five by the Partnership Council, the elected body which represents all the members of the Partnership.

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 balance 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 Central Board and is distributed as the same percentage of gross annual pay for all Partners. In the current year £68m of profit was shared with all Partners through a bonus of 10%.

Summary of results

for the year ended 25 January 2003

	2003 £m	2002 £m
Turnover (including VAT)	4,698.6	4,459.4
Trading profit	199.1	190.3
Share of operating loss of associate (Ocado)	(19.5)	(17.8)
Total operating profit	179.6	172.5
Interest	(34.1)	(31.0)
Profit before Partnership bonus and taxation	145.5	141.5
Taxation	(36.7)	(37.9)
Dividends	(0.4)	(0.3)
Balance available for profit sharing and retention in the business	108.4	103.3
Partnership bonus	(67.6)	(57.3)
Retained in the business for development	40.8	46.0
Net assets employed at the year end	1,479.9	1,439.1
Average number of employees (weighted for part-timers)	40,700	40,000
Number of shops – Department stores	26	26
– Supermarkets	141	136

Five year record

years ended January

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Turnover (including VAT)	4,698.6	4,459.4	4,126.6	3,747.6	3,517.6
Profit before pension costs	266.6	252.6	235.5	263.7	267.5
Pension costs	(67.5)	(62.3)	(54.9)	(49.7)	(47.5)
Exceptional operating income	–	–	–	–	33.5
Share of operating loss of associate (Ocado)	(19.5)	(17.8)	(3.8)	–	–
Interest	(34.1)	(31.0)	(27.3)	(19.3)	(16.6)
Profit before Partnership bonus and taxation	145.5	141.5	149.5	194.7	236.9
Taxation	(36.7)	(37.9)	(28.8)	(33.4)	(46.8)
Dividends	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)
Net profit available for profit sharing and retention in the business	108.4	103.3	120.4	161.0	189.8
Partnership bonus	(67.6)	(57.3)	(58.1)	(77.8)	(88.9)
As a percentage of ranking pay	10	9	10	15	19
Retained in the business	40.8	46.0	62.3	83.2	100.9
Net assets employed	1,479.9	1,439.1	1,393.1	1,429.0	1,301.2
Pay	653.7	611.4	562.7	508.1	467.4
Average number of employees including part-time employees	58,800	56,100	53,200	49,000	46,800
	28,000	25,600	23,600	20,800	19,800

Chairman's statement

2003 was a year of significant progress both for our John Lewis department stores and for Waitrose. Customer approval of the products and service offered in our shops was demonstrated in a 5% increase in total sales to £4.7bn, while our operating profit before pensions increased by 6% to £267m. This welcome return to profit growth was achieved despite significant cost pressures and continuing deflation in merchandise prices. The final profit figure (before Partnership Bonus and tax) was 3% up at £146m, with strong performance in the second half-year overcoming a disappointing first six months.

The rate of distribution of profit through Partnership Bonus was increased to 10% of all Partners' pay (compared with 9% last year). This accounted for £68m (last year £57m), and £41m was retained for re-investment in the business.

Department Stores

Department store sales increased by 6% to £2.3bn. Like-for-like sales, excluding our new shop in Solihull, were 4% ahead. Four branches – Peter Jones, Nottingham, Edinburgh and Brent Cross – were affected by major refurbishment work, with shorter periods of disruption in other locations as part of the progressive modernisation of our shop floors. June marked the completion of the first major phase of the Peter Jones project, with a highly successful reopening of the centre room there. More generally, the substantial investment we have been making in extended opening hours, a new corporate identity and selling floor refurbishments began to show through in a pleasing second half result. 22 of our department stores are now named John Lewis, and all are open on at least six days a week; by the end of the year eight were open for seven days a week. Selling price deflation remained a major influence on our performance, running at an average of 1% across all ranges. In these conditions an increase in gross margin was a significant achievement.

Our manufacturing branches continued to provide valuable support to the selling operation, with production for resale through our department stores growing by 18% on a like-for-like basis. However, external sales continued to disappoint in a depressed textiles market, and we did well to reduce overall losses in manufacturing.

Given the continuing scale of development work, the other factors mentioned above and a far from favourable trading environment, the department store division produced a welcome 9% increase in profit to £106m.

Waitrose

Waitrose sales increased by 5% to £2.4bn, with like-for-like sales up by 4%. Four new branches were opened in the Autumn of which two – at Canary Wharf and Cheltenham – were in our 'Food and Home' format, selling a selection of department store merchandise alongside the Waitrose range, and two were conventional supermarkets at Tonbridge and Chandlers Ford. Compared with last year, £5m of pre-opening costs for these new branches were added to large cost increases in the division's share of corporate overheads, such as insurance and the relocation of our mainframe computer. Waitrose too faced deflation in fresh food prices, but was also successful in securing an improved gross margin.

The result was a divisional profit of £93m, beating last year's record by 1%.

Direct Sales and E-commerce

The year saw further progress for the Partnership as a multi-channel retailer and provided encouraging evidence on the timeliness of our investments in this field. John Lewis Direct developed its on-line and catalogue capability, including the complete absorption of buy.com UK (which was acquired in 2001). Sales ran well ahead of expectations. Losses, although still substantial, were below budget, and the business remains well on track to move into profit in 2005. WaitroseDeliver – the e-grocery operation run from our branches – is proving popular with customers and by the end of the year was installed in 33 branches.

Our associate company, Ocado, which provides e-grocery deliveries mainly within the M25 area, was building sales and margin steadily throughout 2002 but is expected to remain loss-making for another two years. During the year we made £30m worth of convertible loans to Ocado, bringing our total commitment to that business to £76m. (The impact of making loans rather than a direct investment is to reduce our share of Ocado's equity to 37%. This has an advantage while it

remains loss-making, since we have to reflect our proportion of Ocado's losses in our accounts even though they do not represent a cash flow and nor do we get any tax relief for them.) The share of Ocado's losses and amortisation of goodwill carried in the present accounts is £20m, a 10% increase on last year.

Investment and Borrowing

We continued to make major investments in new branches, extensions, refurbishments and systems. Capital spending in department stores was £114m and in Waitrose £112m which, together with a further £20m of other investment, brought total capital spending up to £246m, compared with £212m in 2001. (The investment in Ocado is not included in these figures.)

Average borrowings during the course of the year were £525m. £450m of this was in bonds issued by ourselves of which £100m resulted from a further issue in October of our 2012 bond.

Year end gearing increased to 30%, from 26% last year, but interest cover remained at six times.

Employment and Pensions

The average number of Partners we employed during the year increased to 58,800 compared with 56,100 last year. Partner productivity, measured in sales per full-time equivalent, improved in both divisions.

During the course of the year our non-contributory, final-salary pension scheme was subject to a fundamental re-examination by our main democratic body, the Central Council. The result, fully supported by the Partnership's management, was reaffirmation of our commitment to the scheme and some improvements in the benefits it brings to lower paid Partners. These were balanced by more restrictive entry conditions which delay entry until five years of service have been completed. The net effect of the changes will be to reduce the cost of the scheme in due course by some £13m a year. The charge for the pension scheme increased by 8% to £68m.

Looking Ahead

Our strategy remains to develop our two strong businesses and to take advantage of the distinctive position which we hold in the department store and fresh food retailing sectors. We will proceed with our investment in our shops and in the other retailing channels which are complementary to them.

We expect further rewards from current investment projects during the course of 2003. The refurbishment of John Lewis Edinburgh is due to be completed in the first half, shortly followed by the next major stage of Peter Jones. A further three department stores are due to start opening on seven days a week, including our flagship shop in Oxford Street in the Autumn. We opened a new Waitrose branch in Belgravia earlier this month, and this will be followed by new supermarkets at Mill Hill and Portishead and by a relocation of our Romsey branch.

This is a time of unprecedented upheaval in retailing, and there may be opportunities for us to gain from that process. We have made public our interest in acquiring selected shops from competitors which become available as a result of the likely sale of Safeway or consolidation in the department store sector.

Sales comparisons for both divisions are complicated by the late Easter this year. However, Waitrose has been trading well and continuing to gain market share since the beginning of the year. After 10 weeks of the current trading year sales are 9% ahead of last year. Customers' concerns about the economic outlook and international hostilities has impacted department store trading, while Central London has been significantly disrupted by two Saturdays of peace marches and the temporary closure of the Central Line. At 10 weeks sales are 3% ahead of last year.

During the year we have made changes to our structure of elected councils to match the scale of our business, and I have high hopes of the contribution they will make in demonstrating the effectiveness of co-ownership and in reinforcing our competitive advantage in what looks to be a challenging year ahead.

Sir Stuart Hampson

Chairman

10 April 2003

Directors and advisers

DIRECTORS

Sir Stuart Hampson

Chairman

David Felwick

Deputy Chairman

Ian Alexander

Steven Esom

Charlie Mayfield

Luke Mayhew

Andy Street

OFFICERS AND ADVISERS

**Company Secretary and Director
of Legal Services**

Terence Neville

Director of Financial Control

Ros Haigh FCA

Auditors

PricewaterhouseCoopers LLP

Solicitors

Lovells

Bankers

Royal Bank of Scotland PLC

Registered Office

171 Victoria Street, London SW1E 5NN,
Registered in England No. 233462

Transfer Office

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

Directors' report

Directors

The directors of the company at the date of this report are listed on page 6, Steven Esom and Andy Street were appointed as directors on 11 March 2002 and 30 December 2002, respectively, and David Young, Nigel Wreford-Brown and Dudley Cloake resigned as directors on 11 March 2002, 27 December 2002 and 30 December 2002, respectively. All other directors served throughout the period under review.

Principal activity

The principal activity of the group is retailing. The company controls the businesses listed on page 42 comprising 26 department stores, 141 Waitrose supermarkets and ancillary manufacturing activities.

Employees

The company is the principal trading subsidiary of John Lewis Partnership plc, the latter being the principal holding company under trusts set up in 1929 and 1950 to implement the Constitution of the John Lewis Partnership. This constitution provides for the involvement of all employees. As 'co-owners' of the business they are provided with full information on all aspects of its operations and take responsibility for promoting its commercial success. They also share in its profits through Partnership Bonus. John Lewis plc, as the principal trading subsidiary of John Lewis Partnership plc, maintained the Constitution in the course of the year.

The company recruits disabled people for suitable vacancies and provides for such staff appropriate training and careers. Where disability occurs during the period of employment every effort is made to continue to provide suitable employment with the provision of appropriate training.

Corporate governance

The ultimate purpose of the John Lewis Partnership is defined in its Constitution – "the happiness of all its members through their worthwhile, secure and satisfying employment in a successful business". Its Principles and Rules encourage the widest possible sharing of profit, knowledge and power by all Partners and also set out the business's responsibilities to its suppliers, its customers and the community in which it operates.

The co-ownership character of the Partnership is reflected in the balance of authority between the Chairman and his management team, the Board of John Lewis Partnership plc (the Central Board) and the elected Partnership Council. The Partnership Council nominates five of the twelve members of the Central Board. Elected councils at divisional and local branch level provide regular opportunities for management to be held accountable to Partners; councils receive regular reports by directors and have an opportunity to follow these up with questions on any subject, while an open system of journalism both contributes to this process of accountability and provides the means of sharing information extensively with all Partners.

Through these mechanisms the Partnership aims to apply the highest standards of corporate governance and to conform with the spirit of the 'Combined Code' in a manner framed to suit its unique democratic ownership structure.

Directors' report

continued

Corporate accountability

The Partnership has an Audit Committee, chaired by the General Inspector, David Felwick, and composed of two of the five elected directors, chosen by that group, currently Johnny Aisher and Alastair McKay. It meets at least three times a year. Its purpose is to assist the Board of John Lewis Partnership plc in ensuring that the group's systems provide accurate and up to date information on its financial position, and that the group's published financial statements represent a true and fair reflection of this position. It also ensures that appropriate accounting policies and financial controls are in place. The external auditors attend its meetings, as does the Head of Internal Audit.

The Central Board has overall responsibility for the management of risk throughout the business. Executive management is responsible for identifying and evaluating the risks facing the business operations and for implementing and maintaining systems for managing those risks in an efficient and effective manner through their business planning processes, in accordance with the Board's policies.

The Partnership has a Risk Committee, established as a committee of the Board. It is chaired by the Deputy Chairman, David Felwick, and composed of four other directors, currently Ian Alexander, Steven Esom, Charlie Mayfield and Luke Mayhew, together with three others with appropriate functional responsibility. Its main purposes are to steer the Partnership's development of systems for managing risk throughout the group, to assess major risks identified within the business, to evaluate and monitor management's actions to manage these risks and to report annually to the Board.

Corporate Social Responsibility (CSR)

The Partnership's constitution clearly defines behaviour towards customers, suppliers, the wider community, the environment and one another. Social responsibility programmes and governance structures have been developed from these provisions.

Principal responsibility for managing and co-ordinating environmental, ethical and social issues resides with the Partnership's Deputy Chairman, David Felwick.

In 2002 the Partnership established a Corporate Social Responsibility Committee, a management committee reporting to the Central Board. Its purpose is to define, stimulate and co-ordinate the Partnership's CSR policy and strategy, lead the development of systems to manage CSR, guide divisional implementation, and monitor and review divisional performance. The committee reports annually to the Central Board.

The Partnership has made a public commitment to communicate its social responsibility programmes and performance and to promote good social practice in general, and considers this is best achieved through voluntary social and environmental reporting. Both divisions published these reports in 2002. Branches are further encouraged to contribute to locally led and in many cases non-Partnership CSR initiatives, and our membership of Business in the Community provides a platform for us to co-ordinate these activities.

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 group's trade creditors as at 25 January 2003 were equivalent to 27 days of purchases during the year ended on that date.

Directors' remuneration

The Partnership does not pay directors' fees but all members of the Board are paid a salary for their role within the business, determined in accordance with the Partnership's pay policy. This requires salaries to be in line with market rates. Performance is recognised in enhanced pay and by individual bonuses, not against pre-set criteria, for exceptional contributions. There are no annual incentive bonuses or long term bonus schemes related to individual or company performance.

The Partnership's pay policy respects the confidentiality of individual rates of pay, but all Partners can request details of the range of pay applying to their own post.

The Partnership has a Remuneration Committee which makes a recommendation each year to the Central Board on the Chairman's pay taking into account appropriate market data provided by an external remuneration consultant. The Committee also considers the Chairman's proposals for the remuneration of those directors who are also appointed Central Board Directors and provides a commentary to the Board on the appropriateness of those increases. The Committee is chaired by the Deputy Chairman, David Felwick. The Committee also comprises the Director of Personnel, Andy Street, and two of John Lewis Partnership plc's five Directors elected by the Central Council, chosen by that group – currently David Jones and Johnny Aisher. The Committee is supported by an external remuneration consultant who attends its meetings in an advisory capacity. The salaries of other members of the Board are determined by their managers and do not include any element in recognition of their Board duties. Details of directors' emoluments are set out in note 9.

Properties

The Partnership's freehold and long leasehold department store properties were last valued, by the directors, after consultation with Hillier Parker, Chartered Surveyors, at 31 December 1999 on the basis of existing use value, and this valuation was incorporated in the consolidated balance sheet at 29 January 2000. On adoption of FRS 15 the Partnership followed the transitional provisions to retain the book values of land and buildings revalued in 1999, together with certain amenity properties carried in the accounts at their 1988 valuation, and decided not to adopt a policy of revaluation for the future. These values are retained, subject to the requirement to test assets for impairment, in accordance with FRS 11.

The group's supermarket and distribution properties are stated at depreciated historical cost.

Treasury policy and financial risk management

The Board approves the group's treasury and financial risk management policies; senior financial management are responsible for implementing these policies and directly controlling day to day treasury operations.

Interest rate risk

The group's policy is to have a mix of fixed and floating interest rate exposures. At 25 January 2003, total fixed rate financial liabilities were £250m, with £265m at floating rates, as detailed in note 20. As at that date interest rate swaps were in place on £200m of fixed rate borrowing, converting it to floating rate. £100m of these swaps has now lapsed. The remaining £100m of swaps have terms of 9 years, with, on £50m of this, an option for the counterparty to cancel the arrangement from 2005 onwards.

Directors' report

continued

Liquidity risk

The group's policy is to manage its borrowing requirements in line with a five year cash forecast which is produced annually. Committed revolving borrowing facilities of £150m are available for one year, together with a £50m loan for 2 years. In October 2002 the company issued a further £100m of its 6½% bond, maturing in January 2012. The Board is satisfied that its borrowing facilities are adequate for the group's needs.

Currency risk

The group's policy is to hedge currency exposures with foreign exchange contracts so as to provide greater certainty on the cost of purchases from abroad. All major currencies are hedged, and at the year end £4.6m of a total £4.9m of liabilities denominated in foreign currency were covered in this way. In addition, £14.3m of commitments under forward orders were also hedged at the year end.

Derivatives and financial instruments

The main types of instrument used are interest rate swaps and forward currency contracts and such transactions are only undertaken, with approved counterparties, where there is an underlying commercial justification. The details of derivatives and other financial instruments required by FRS 13, Derivatives and Other Financial Instruments, are shown in notes 17, 20 and 21 to the Accounts.

Investments

In July 2002 the Partnership invested £17.7m in its associate company, Ocado Limited, by way of convertible loan stock, with a further £12.3m being invested in convertible loan stock in January 2003.

Use of profits

Preference dividends absorbed £125,000 and a final dividend of £280,000 has been proposed on the ordinary shares leaving £40.8m to be transferred to reserves.

Review of the business

A review of the business and of future developments is included in the Chairman's statement.

Directors' interests

Under the Constitution of the Partnership all the directors, as employees of John Lewis plc, are necessarily interested in the 612,000 Deferred Ordinary Shares in John Lewis Partnership plc which are held in trust for the benefit of employees of John Lewis plc and of certain other companies.

There were no contracts during or at the end of the financial year in which the directors were materially interested and which were significant in relation to the company's business.

Substantial shareholdings

As at 10 April 2003 the company has been notified of the following interests in its preference shares, these interests being recorded in the register maintained under the provisions of Section 211 of the Companies Act 1985.

5% First Cumulative Preference	% of Class
John Lewis Partnership plc	83.3%
Prudential Client HSBC GIS	
Nominee (UK) Limited	7.7%
Vidacos Nominees Ltd	3.8%
7% Cumulative Preference	% of Class
John Lewis Partnership plc	75.6%
Cleaning Tokens Limited	5.5%
J H M MacGowan	3.6%

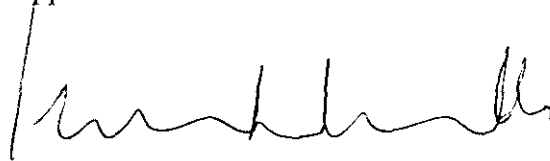
Directors' report

continued

Charitable donations

The group donated £1,702,000 for charitable purposes during the year, as well as substantial financial and practical support to causes in the communities where we trade, but made no political donations.

For and by Order of the Board
Terence Neville Secretary
10 April 2003



Consolidated profit and loss account

for the year ended 25 January 2003

Notes		2003 £m	2002 £m
2	Turnover	4,698.6	4,459.4
	Value added tax	(452.5)	(432.8)
		4,246.1	4,026.6
	Cost of sales	(2,895.5)	(2,749.5)
	Gross profit	1,350.6	1,277.1
3	Operating expenses	(1,084.0)	(1,024.5)
30	Pension costs	(67.5)	(62.3)
2	Trading profit	199.1	190.3
	Share of operating loss of associate	(19.5)	(17.8)
	Total operating profit	179.6	172.5
4	Net interest payable	(34.1)	(31.0)
	Profit before Partnership bonus and taxation	145.5	141.5
	Partnership bonus	(67.6)	(57.3)
5	Profit on ordinary activities before taxation	77.9	84.2
6	Tax on profit on ordinary activities	(36.7)	(37.9)
7	Profit for the financial year	41.2	46.3
8	Dividends – including non equity interests	(0.4)	(0.3)
23	Profit retained	40.8	46.0

Statement of total recognised gains and losses

Profit for the financial year and total recognised gains for the year	41.2	46.3
Prior year adjustment	–	(103.1)
Total gains and losses recognised since last report and accounts	41.2	(56.8)

There is no material difference between reported profits and profits on a historical cost basis for the company or the group.

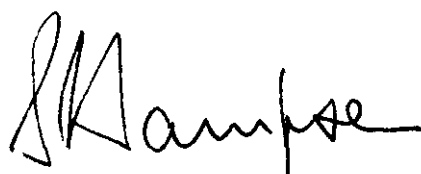
Consolidated balance sheet

as at 25 January 2003

Notes	2003 £m	2002 £m
Fixed assets		
11 Goodwill	2.6	4.9
12 Tangible assets	1,917.3	1,789.7
13 Investment in associate	34.6	24.8
	1,954.5	1,819.4
Current assets		
15 Stocks	315.3	302.0
16 Debtors	366.1	349.6
Cash at bank and in hand	70.5	42.0
	751.9	693.6
Creditors		
18 Amounts falling due within one year	(630.9)	(594.3)
Net current assets	121.0	99.3
Total assets less current liabilities	2,075.5	1,918.7
Creditors		
18 Amounts falling due after more than one year	(450.0)	(350.0)
19 Provisions for liabilities and charges	(145.6)	(129.6)
Net assets	1,479.9	1,439.1
Capital and reserves		
22 Called up share capital – equity	6.8	6.8
– non equity	2.2	2.2
Total share capital	9.0	9.0
23 Share premium account	1.8	1.8
23 Revaluation reserve	238.6	241.5
23 Other reserves	1.4	1.4
23 Profit and loss account	1,229.1	1,185.4
Total shareholders' funds (including non equity interests)	1,479.9	1,439.1

Approved by the Board on 10 April 2003

Sir Stuart Hampson

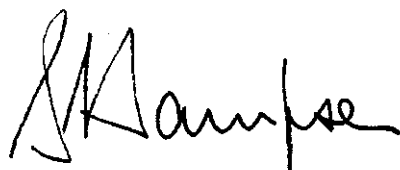


Balance sheet of the company

as at 25 January 2003

Notes		2003 £m	2002 £m
	Fixed assets		
12	Tangible assets	630.1	603.3
14	Investments	515.6	505.4
	Loan to associate company	30.0	–
		1,175.7	1,108.7
	Current assets		
15	Stocks	209.6	206.5
16	Debtors	327.2	328.0
	Cash at bank and in hand	15.0	6.9
		551.8	541.4
	Creditors		
18	Amounts falling due within one year	(504.2)	(535.8)
	Net current assets	47.6	5.6
	Total assets less current liabilities	1,223.3	1,114.3
	Creditors		
18	Amounts falling due after more than one year	(450.0)	(350.0)
19	Provisions for liabilities and charges	(84.6)	(74.6)
	Net assets	688.7	689.7
	Capital and reserves		
22	Called up share capital – equity	6.8	6.8
	– non equity	2.2	2.2
	Total share capital	9.0	9.0
23	Share premium account	1.8	1.8
23	Revaluation reserve	45.9	46.6
23	Profit and loss account	632.0	632.3
	Total shareholders' funds (including non equity interests)	688.7	689.7

Approved by the Board on 10 April 2003
Sir Stuart Hampson



Consolidated cash flow statement

for the year ended 25 January 2003

Notes	2003 £m	2002 £m
25 Net cash inflow from operating activities	245.2	209.7
Returns on investments and servicing of finance		
Interest received	1.0	0.6
Interest paid	(32.3)	(24.1)
Preference dividends paid	(0.4)	(0.1)
Net cash outflow from returns on investments and servicing of finance	(31.7)	(23.6)
Taxation	(30.9)	(28.4)
Capital expenditure and financial investment		
Purchases of tangible fixed assets	(232.8)	(212.4)
Proceeds of sales of tangible fixed assets	6.6	7.0
Net cash outflow from capital expenditure and financial investment	(226.2)	(205.4)
Acquisitions		
Acquisition of subsidiary	–	(3.1)
Cash acquired with subsidiary	–	0.3
Investment in associate	(30.0)	(10.8)
Equity dividends paid	(0.2)	(0.2)
Net cash outflow before liquid resources and financing	(73.8)	(61.5)
Management of liquid resources (Short term loans/deposits)	(37.5)	(11.5)
Financing		
Increase in borrowings	115.0	200.0
Loan repayments	–	(120.0)
Net cash inflow from financing	115.0	80.0
26 Increase in cash in the year	3.7	7.0

Notes to the accounts

1 Accounting policies

Accounting convention and basis of consolidation

The consolidated profit and loss account and balance sheet include the accounts of the company and all its subsidiary and associated undertakings. The group's share of the profit or loss of associated undertakings is included in the consolidated profit and loss account, and the share of net assets is included in the consolidated balance sheet, using the equity accounting method. The results included are based on the latest audited accounts, or management accounts where their accounting date is not co-terminous with the group's year end. 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 in accordance with the Companies Act 1985 and applicable accounting standards.

Turnover

Turnover is the amount receivable by the group for goods and services supplied to customers, including VAT.

Stock valuation

Stock is stated at the lower of cost, which is generally computed on the basis of selling price less the appropriate trading margin, and net realisable value.

Pension costs

The cost of providing retirement benefits is recognised in the profit and loss account so as to spread it over employees' working lives. The contributions are assessed in accordance with the advice of a qualified actuary. Any funding surpluses or deficits are amortised over the average remaining employees' service life. The group has adopted the transitional provisions of FRS 17, Retirement Benefits.

Property valuation

The Partnership's freehold and long leasehold department store properties were last valued by the directors, after consultation with Hillier Parker, Chartered Surveyors, at 31 December 1999, on the basis that each property is regarded as available for existing use in the open market. On adoption of FRS 15 the Partnership followed the transitional provision to retain the book value of land and buildings revalued in 1999, together with certain amenity properties carried in the accounts at their 1988 valuation, and decided not to adopt a policy of revaluation for the future. These values are retained subject to the requirement to test for impairment, in accordance with FRS 11. Supermarket and distribution properties are carried at depreciated historical 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, in equal annual instalments 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 – 10% to 33%

1 Accounting policies (continued)

Leased assets

Assets used by the group which have been funded through finance leases are capitalised and the resulting lease obligations are included in creditors. The interest element of finance lease rentals is charged to the profit and loss account. Rentals payable under operating leases are charged to the profit and loss account as incurred.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, with the exception of gains that would arise if properties were sold at their revalued amounts. Deferred taxation is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Goodwill

For acquisitions of subsidiary undertakings made after February 1998, goodwill is capitalised as an intangible fixed asset. Goodwill relating to acquisitions of associated undertakings made after February 1998 is capitalised as part of the cost of investment. Fair values are attributed to the identifiable assets and liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are also made to bring the accounting policies of acquired businesses into alignment with those of the group. Goodwill arising on acquisitions is amortised by equal annual instalments over its estimated useful economic life, taking into account the nature of the business acquired and other competitive considerations.

Prior to February 1998 goodwill arising on the acquisition of subsidiaries was written off to reserves at the time of acquisition.

Financial instruments

The group uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange rates and interest rates. Derivative instruments used by the group are primarily interest rate swaps and forward currency contracts. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to the interest charge over the period of the contract. Forward currency contracts are accounted for as hedges, with the instrument's impact on profit deferred until the underlying transaction is recognised in the profit and loss account.

Foreign currencies

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign currency assets and liabilities held at the year-end are translated at year-end exchange rates or the exchange rate of a related forward exchange contract where appropriate. The resulting exchange gain or loss is dealt with in the profit and loss account.

Notes to the accounts

continued

1 Accounting policies (continued)

Subsidiaries that maintain their accounts in currencies other than sterling are translated into sterling using the temporal method prior to consolidation. The results and assets and liabilities are translated into sterling at the exchange rate ruling on the date of the transaction. Monetary assets and liabilities are translated at the closing rate. Exchange differences arising are included in the result for the year.

2 Divisional analysis of turnover and trading profit

	Turnover		Trading profit	
	2003 £m	2002 £m	2003 £m	2002 £m
Department stores	2,279.9	2,163.2	105.9	97.6
Supermarkets	2,418.7	2,296.2	93.2	92.7
	4,698.6	4,459.4	199.1	190.3

The Partnership is principally engaged in the business of retailing, in department stores and supermarkets, and also operates some ancillary manufacturing and farming activities.

The business is carried on in the United Kingdom and turnover derives almost entirely from that source. Turnover and trading profit derive from continuing operations, there having been no material discontinued operations or acquisitions in the year.

Trading profit is stated after a £67.5m charge for pension costs. Excluding this, trading profits were £147.8m (£136.2m) for department stores, and £118.8m (£116.4m) for supermarkets.

3 Operating expenses

	2003 £m	2002 £m
Branch operating expenses	836.7	801.7
Administrative expenses	247.3	222.8
	1,084.0	1,024.5

The analysis of operating expenses has been restated to more meaningfully reflect the nature of the costs incurred.

4 Net interest payable

	2003 £m	2002 £m
Interest payable:		
On bank loans, overdrafts	12.3	11.6
On other loans repayable within 5 years	5.1	5.1
On loans repayable in more than 5 years	24.9	20.2
Interest receivable	(8.9)	(5.5)
Group	33.4	31.4
Share of interest charge/(income) of associate	0.7	(0.4)
	34.1	31.0

5 Profit on ordinary activities before taxation

	2003 £m	2002 £m
Profit on ordinary activities before taxation is stated after charging the following:		
Staff costs:		
Wages and salaries	653.7	611.4
Social security costs	49.2	46.6
Partnership bonus	60.7	51.0
Employers' national insurance on Partnership bonus	6.9	6.3
Pension costs	67.5	62.3
Depreciation – owned assets	111.9	104.2
Amortisation of goodwill – subsidiaries	2.3	2.1
Amortisation of goodwill – associate	3.6	4.0
Auditors' remuneration – audit of group	0.5	0.5
– audit of company	0.1	0.2
(included in the above)		
– non audit	0.3	0.1
Operating lease rentals – land and buildings	48.9	48.5
– plant and machinery	0.5	0.5

6 Tax on profit on ordinary activities

	2003 £m	2002 £m
Analysis of tax charge:		
Corporation tax based on the profit for the year	27.3	28.6
Corporation tax – prior years	(2.0)	(0.7)
Total current tax charge	25.3	27.9
Deferred tax – origination and reversal of timing differences	11.4	10.0
	36.7	37.9

The tax charge is based on a corporation tax rate of 30% (30%).

Notes to the accounts

continued

6 Tax on profit on ordinary activities (continued)

	2003 £m	2002 £m
Factors affecting the tax charge for the year:		
Profit on ordinary activities before tax and after Partnership bonus	77.9	84.2
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	23.4	25.2
Effects of:		
Expenses not deductible for tax purposes:		
Losses and goodwill amortisation of associate	6.1	5.2
Goodwill amortisation of subsidiary	0.7	0.6
Other	2.1	2.2
Capital allowances in excess of depreciation	(4.0)	(2.0)
Other timing differences	0.6	(0.9)
Non-taxable receipts	(1.7)	(1.7)
Adjustment for prior years	(2.0)	(0.7)
Current tax charge for the year	25.3	27.9

7 Profit for the financial year

As permitted by Section 230 of the Companies Act 1985, John Lewis plc has not presented its own profit and loss account. The loss dealt with in the accounts of the company amounted to £1.0m (£29.0m profit).

8 Dividends

	2003 £m	2002 £m
Non equity interests		
5% First Cumulative Preference Stock and 7% Cumulative Preference Stock	0.1	0.1
Equity interests		
Ordinary shares	0.3	0.2

The ordinary shares are all held by the parent company John Lewis Partnership plc which is registered in England.

9 Directors' emoluments

	2003 £000	2002 £000
Directors' remuneration including Partnership bonus of 10% (9%)	2,776	2,464

The emoluments of the Chairman, who was also the highest paid director, were £554,000 (£522,000), including Partnership bonus of £49,000 (£42,000). The Chairman's aggregate pension entitlement from the age of 60 accrued at the end of the year was £317,000 per annum (£296,000 per annum). The transfer value of the increase in accrued entitlement during the year was £192,000.

Excluding pension fund contributions but including Partnership bonus, the emoluments of the individual directors, excluding the Chairman, who served on the Board during any part of the year, were as follows:

	2003	2002		2003	2002
£0 - £50,000	2	–	£300,001 - £350,000	2	1
£50,001 - £100,000	–	1	£350,001 - £400,000	1	3
£150,001 - £200,000	1	1	£450,001 - £500,000	1	–
£200,001 - £250,000	2	1			

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

All 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. They are also entitled to a car for their personal use, or its cash equivalent, and benefit from private medical insurance paid by the Partnership.

All directors belong to the group's non-contributory pension scheme. The Chairman and six directors who joined the Partnership before 1989 also belong to a 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. The Inland Revenue introduced a ceiling on tax-exempt pension benefits in 1989. The group has given an undertaking that three directors who are affected by this ceiling will have their pensions made up to the same level as other directors benefiting from the senior pension scheme. The obligation is unfunded but, in line with group policy, provision has been made for this liability.

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:

	2003	2002		2003	2002
£0 - £50,000	3	3	£100,001 - £150,000	4	3
£50,001 - £100,000	–	1	£200,001 - £250,000	2	2

Notes to the accounts

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9 Directors' emoluments (continued)

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 £1,089,000 per annum (£953,000 per annum). The increase in accrued pension reflects the combined effect of a further year's service and of an increase in pay during the year. In addition, most of the directors are entitled to temporary pensions payable from the age 60 until their State pension starts. The amounts of these temporary pensions are all less than the State pensions they expect to receive. The aggregate entitlement to temporary pensions was £10,000 per annum (£10,000 per annum). The transfer value of the aggregate increase in accrued entitlement, including temporary pensions, during the year was £1,189,000.

10 Employees

During the year the average number of employees of the group, all of whom were employed in the UK, was as follows:

	2003	2002
Department stores	28,000	26,700
Supermarkets	29,000	27,600
Other	1,800	1,800
	58,800	56,100

11 Goodwill

	£m
Cost at 26 January 2002	7.0
Additions	-
Cost at 25 January 2003	7.0
Amortisation at 26 January 2002	2.1
Amortisation charge for the period	2.3
Amortisation at 25 January 2003	4.4
Net book value at 26 January 2002	4.9
Net book value at 25 January 2003	2.6

Goodwill is in respect of the acquisition in March 2001 of buy.com Limited. Goodwill is being amortised on a straight line basis over three years, which is the period over which the directors estimate that the value of the underlying business is expected to exceed the value of the underlying assets.

12 Tangible fixed assets

Consolidated	Land and buildings £m	Fixtures and fittings £m	Payments on account and assets in course of construction £m	Total £m
Cost or valuation				
At 26 January 2002	1,540.9	844.8	118.4	2,504.1
Additions at cost	14.9	77.6	153.6	246.1
Transfers	144.1	31.7	(175.8)	–
Disposals	(1.2)	(31.5)	–	(32.7)
At 25 January 2003	1,698.7	922.6	96.2	2,717.5
At cost	1,074.2	922.6	96.2	2,093.0
At valuation 1988	21.0	–	–	21.0
At valuation 2000	603.5	–	–	603.5
At 25 January 2003	1,698.7	922.6	96.2	2,717.5
Depreciation				
At 26 January 2002	202.5	511.9	–	714.4
Charges for the year	41.2	70.7	–	111.9
Disposals	(0.3)	(25.8)	–	(26.1)
At 25 January 2003	243.4	556.8	–	800.2
Net book values at 26 January 2002	1,338.4	332.9	118.4	1,789.7
Net book values at 25 January 2003	1,455.3	365.8	96.2	1,917.3
			2003 £m	2002 £m
Land and buildings at cost or valuation:				
Freehold property			947.0	861.7
Leasehold property, 50 years or more unexpired			668.7	537.9
Leasehold property, less than 50 years unexpired			83.0	141.3
			1,698.7	1,540.9

Notes to the accounts

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12 Tangible fixed assets (continued)

In 1988 Hillier Parker, chartered surveyors, valued most of the Partnership's freehold and long leasehold properties. This valuation was on the basis of existing use value. At 31 December 1999, the directors, after consultation with Hillier Parker, revalued the Partnership's department store properties on the same basis, and this valuation was incorporated into the accounts as at 29 January 2000. All supermarket and distribution properties are stated at depreciated historical cost. Certain amenity properties, which represent less than 2% of the Partnership's total property assets, are carried in the accounts at their 1988 valuation, which was carried out by external valuers, depreciated as appropriate.

On adoption of FRS 15 the Partnership followed the transitional provisions to retain the book value of land and buildings revalued in 1999 and 1988, and decided not to adopt a policy of revaluation for the future. These values are retained subject to the requirement to test for impairment, in accordance with FRS 11.

Included in land and buildings at 25 January 2003 is land valued at £335.0m, which is not subject to depreciation. At 25 January 2003 land and buildings would have been included at the following amounts, if they had not been revalued:

	2003 £m	2002 £m
Cost	1,496.2	1,338.4
Accumulated depreciation	(279.5)	(241.5)
	1,216.7	1,096.9

The gross cost of assets held under finance leases is £12.3m (£12.3m) with accumulated depreciation in respect of those assets of £12.3m (£12.3m).

12 Tangible fixed assets (continued)

Company	Land and buildings £m	Fixtures and fittings £m	Payments on account and assets in course of construction £m	Total £m
Cost or valuation				
At 26 January 2002	403.0	434.9	41.2	879.1
Additions at cost	7.4	40.7	33.0	81.1
Transfers	26.2	25.6	(51.8)	-
Disposals	-	(21.9)	-	(21.9)
At 25 January 2003	436.6	479.3	22.4	938.3
At cost	156.6	479.3	22.4	658.3
At valuation 1988	0.1	-	-	0.1
At valuation 2000	279.9	-	-	279.9
At 25 January 2003	436.6	479.3	22.4	938.3
Depreciation				
At 26 January 2002	27.8	248.0	-	275.8
Charges for the year	10.3	41.6	-	51.9
Transfers	-	-	-	-
Disposals	-	(19.5)	-	(19.5)
At 25 January 2003	38.1	270.1	-	308.2
Net book values at 26 January 2002	375.2	186.9	41.2	603.3
Net book values at 25 January 2003	398.5	209.2	22.4	630.1
			2003 £m	2002 £m
Land and buildings at cost or valuation:				
Freehold property			75.3	52.9
Leasehold property, 50 years or more unexpired			331.5	325.6
Leasehold property, less than 50 years unexpired			29.8	24.5
			436.6	403.0

Notes to the accounts

continued

12 Tangible fixed assets (continued)

Included in land and buildings at 25 January 2003 is land valued at £15.3m, which is not subject to depreciation. At 25 January 2003 land and buildings would have been included at the following amounts, if they had not been revalued:

	2003 £m	2002 £m
Cost	442.3	408.7
Accumulated depreciation	(60.5)	(50.4)
	381.8	358.3

13 Investment in associate

Cost	Share of net assets £m	Loans £m	Goodwill £m	Total £m
At 26 January 2002	11.5	–	18.5	30.0
Additions in year	–	30.0	–	30.0
Share of retained loss	(16.6)	–	–	(16.6)
Dilution of interest	7.0	–	(1.5)	5.5
At 25 January 2003	1.9	30.0	17.0	48.9
Amounts written off				
At 26 January 2002	–	–	(5.2)	(5.2)
Amortisation in year	–	–	(3.6)	(3.6)
Dilution of interest	–	–	0.7	0.7
Credit arising on dilution of interest	–	–	(6.2)	(6.2)
At 25 January 2003	–	–	(14.3)	(14.3)
Net book value				
At 26 January 2002	11.5	–	13.3	24.8
At 25 January 2003	1.9	30.0	2.7	34.6

Investments represent 0.1% of the Ordinary Shares and 64% of the Convertible Preference Shares of Ocado Limited which equates to 37% of the issued share capital.

In July 2002 the Partnership invested £17.7m in Ocado Limited by way of convertible loan stock. A further £12.3m investment in B loan stock was made in January 2003 when, because preference shares were issued to the other investors providing funding, the Partnership's holding reduced from 40% to 37% of the issued share capital. This gave rise to a credit of £6.2m on the dilution of the holding; however, the Directors do not believe it is appropriate to recognise such a credit at this stage in Ocado's development. Accordingly, the amount has been taken against goodwill on the group's investment in Ocado.

13 Investment in associate (continued)

If all holders of loan stock were to exercise their rights to convert to preference shares, the Partnership's holding in Ocado would increase to 44%. The loan stock is repayable in 2007 or, at Ocado's option, from 2004. Conversion to preference shares is at the Partnership's option, from 2004. The B loan stock is repayable in 2010, or earlier at Ocado's option. Conversion to preference shares is at the Partnership's option in 2010 or on earlier repayment of the loan stock, or in the event of Ocado issuing new shares to other investors.

Goodwill is being amortised on a straight line basis over five years. This is the period over which the directors estimate that the value of the underlying business is expected to exceed the value of the underlying assets.

14 Fixed asset investments

Company	Shares in group companies £m	Loan to group companies £m	Total £m
At 26 January 2002	98.5	406.9	505.4
Movements	(3.6)	13.8	10.2
At 25 January 2003	94.9	420.7	515.6

The movement in shares in group companies represents a write down of the investment in two companies where the assets and trade have been transferred to other group companies.

15 Stocks

	2003 £m	2002 £m
Consolidated		
Raw materials	8.4	7.9
Work in progress	2.2	2.6
Finished goods and goods for resale	304.7	291.5
	315.3	302.0
Company		
Raw materials	4.3	3.7
Finished goods and goods for resale	205.3	202.8
	209.6	206.5

Notes to the accounts

continued

16 Debtors

Consolidated	2003 £m	2002 £m
Amounts falling due within one year:		
Trade debtors	297.6	304.3
Other debtors	21.7	10.9
Due from associated undertaking	1.3	0.4
Prepayments and accrued income	45.5	34.0
	366.1	349.6
Company		
Amounts falling due within one year:		
Trade debtors	272.7	284.1
Due from group companies	5.1	11.5
Other debtors	13.0	8.1
Corporation tax	5.0	1.3
Prepayments and accrued income	31.4	23.0
	327.2	328.0

17 Analysis of financial assets

The currency and interest rate exposure of the group's financial assets is as set out below. Short term debtors are excluded from this analysis.

Interest rate and currency analysis	Floating rate £m	Non interest bearing £m	Total £m
Sterling	61.1	6.3	67.4
Euro	2.3	–	2.3
US dollar	0.7	–	0.7
Other	0.1	–	0.1
At 25 January 2003	64.2	6.3	70.5
Sterling	31.3	6.2	37.5
Euro	3.9	–	3.9
US dollar	0.4	–	0.4
Other	0.2	–	0.2
At 26 January 2002	35.8	6.2	42.0

Floating rate assets are bank balances at interest rates linked to LIBOR. Non interest bearing balances relate to cash floats, primarily held in the stores.

18 Creditors

Consolidated	2003 £m	2002 £m
Amounts falling due within one year:		
Bank overdraft and other borrowings	15.3	28.0
Loans	50.0	35.0
Trade creditors	277.8	289.1
Holding company	1.5	1.5
Other creditors	76.2	47.0
Corporation tax	6.3	11.9
Other taxation and social security	68.6	61.9
Accruals and deferred income	74.2	68.7
Proposed dividend	0.3	0.2
Partnership bonus	60.7	51.0
	630.9	594.3
Amounts falling due after more than one year:		
10¼% Bonds, 2006	50.0	50.0
6¾% Bonds, 2012	300.0	200.0
10½% Bonds, 2014	100.0	100.0
	450.0	350.0

Trade creditors includes £4.9m (£4.2m) of balances denominated in foreign currencies. Of this, £4.6m (£4.0m) is covered by currency bank balances or forward currency contracts as at the year end. All borrowings are unsecured and are repayable on the dates shown at par.

Company	2003 £m	2002 £m
Amounts falling due within one year:		
Bank overdraft and other borrowings	17.7	45.1
Loans	50.0	35.0
Trade creditors	127.6	144.1
Holding company	1.8	1.6
Owed to group companies	121.7	148.9
Other creditors	38.9	23.0
Other taxation and social security	32.3	33.2
Accruals and deferred income	54.4	54.8
Proposed dividend	0.3	0.2
Partnership bonus	59.5	49.9
	504.2	535.8
Amounts falling due after more than one year:		
10¼% Bonds, 2006	50.0	50.0
6¾% Bonds, 2012	300.0	200.0
10½% Bonds, 2014	100.0	100.0
	450.0	350.0

Notes to the accounts

continued

19 Provisions for liabilities and charges

Consolidated	Deferred tax £m	Pensions £m	Other £m	Total £m
At 26 January 2002	108.4	12.7	8.5	129.6
Charged to profit and loss account	11.4	67.5	5.4	84.3
Utilised	–	(65.3)	(3.0)	(68.3)
At 25 January 2003	119.8	14.9	10.9	145.6

Company				
At 26 January 2002	54.4	12.7	7.5	74.6
Charged to profit and loss account	6.3	67.5	4.3	78.1
Utilised	–	(65.3)	(2.8)	(68.1)
At 25 January 2003	60.7	14.9	9.0	84.6

Further details on pensions are provided in note 30. Other provisions include accrued holiday pay, closure and property related costs, and provision for service guarantees. 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 in note 20.

Provision for deferred taxation – consolidated	2003 £m	2002 £m
Accelerated capital allowances	123.7	112.0
Pension and other timing differences	(3.9)	(3.6)
	119.8	108.4

No provision has been made in these accounts for the liability to taxation of £49.9m (£49.1m) on capital gains, which would arise if properties were to be sold at the amounts at which they were revalued and included in these accounts.

Provision for deferred taxation – company	2003 £m	2002 £m
Accelerated capital allowances	62.8	56.5
Pension and other timing differences	(2.1)	(2.1)
	60.7	54.4

20 Analysis of financial liabilities

The currency and interest rate exposure of the group's financial liabilities, after taking account of a £200m swap from fixed rate to floating rate, is as set out below. Short term creditors are excluded from this analysis.

Interest rate and currency analysis	Fixed rate £m	Floating rate £m	Non interest bearing £m	Total £m
All sterling				
At 25 January 2003	250.0	265.3	10.9	526.2
At 26 January 2002	278.0	135.0	8.5	421.5

Floating rate borrowings are at interest rates linked to LIBOR. The weighted average rate for fixed rate borrowings is 8.8% (8.3%), with a weighted average period to maturity of 8.7 years (8.7 years).

The analysis of financial liabilities excludes preference share capital of £2.2m, which is detailed in note 22.

Maturity of financial liabilities	2003 £m	2002 £m
Repayable in one year or less		
Bank overdraft and other borrowings	15.3	28.0
Loans	–	35.0
Provisions	5.5	3.1
	20.8	66.1
Repayable between one and two years		
Provisions	4.5	4.4
Repayable between two and five years		
Provisions	0.9	1.0
Loans	50.0	–
10¼% Bonds 2006	50.0	50.0
	100.9	51.0
Repayable in more than five years		
6¾% Bonds 2012	300.0	200.0
10½% Bonds 2014	100.0	100.0
	400.0	300.0
	526.2	421.5

Notes to the accounts

continued

20 Analysis of financial liabilities (continued)

Borrowing facilities

At 25 January 2003 the group had undrawn committed facilities of £10m (£nil) which expire within 1 year (May 2003), £150m (£40m) which expire between 1 and 2 years, and £nil (£150m) which expire between 2 and 5 years. There was also an undrawn overdraft facility of £60m (£40m), renewable on an annual basis.

In April 2002 a £35m loan expired and was replaced by a £50m loan for three years. In October 2002 the company issued a further £100m of its 6% bond, maturing in January 2012.

Further information in connection with FRS 13, Derivatives and Other Financial Instruments, is given in the Directors' Report on pages 9 and 10.

21 Fair values of financial instruments

	2003 Book value £m	2003 Fair value £m	2002 Book value £m	2002 Fair value £m
Derivatives				
Interest rate swap	-	11.3	-	1.6
Forward currency contracts				
- to hedge existing creditors	-	-	-	-
- to hedge future purchases	-	(0.1)	-	(0.1)
Assets				
Cash at bank and in hand	70.5	70.5	42.0	42.0
Liabilities				
Short term borrowings	(65.3)	(65.3)	(63.0)	(63.0)
Long term borrowings	(450.0)	(555.0)	(350.0)	(397.7)
Provisions	(10.9)	(10.9)	(8.5)	(8.5)
Non equity shares				
Preference shares	(2.2)	(2.2)	(2.2)	(2.0)

Market values have been used to determine the fair value of derivatives, long term borrowings and preference shares. For other assets and liabilities carrying value represents fair value. There are no material exchange rate or other gains or losses recognised in the year or unrecognised as at the year end. Short term debtors and creditors, apart from borrowings and items covered by forward currency contracts, are excluded from this analysis.

22 Share capital

	2003 £m	2002 £m
Authorised, issued and fully paid:		
Equity		
Ordinary shares of £1 each	6.8	6.8
Non equity		
Cumulative preference stock of £1 each		
5% First Cumulative Preference Stock	1.5	1.5
7% Cumulative Preference Stock	0.7	0.7
	9.0	9.0

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

23 Reserves

Consolidated	Profit and loss account £m	Capital reserve £m	Share premium £m	Revaluation reserve £m	Total reserves £m
At 26 January 2002	1,185.4	1.4	1.8	241.5	1,430.1
Profit retained	40.8	–	–	–	40.8
Transfers	2.9	–	–	(2.9)	–
At 25 January 2003	1,229.1	1.4	1.8	238.6	1,470.9

The cumulative amount of goodwill written off to reserves is £10.9m (£10.9m).

Company	Profit and loss account £m	Share premium £m	Revaluation reserve £m	Total reserves £m
At 26 January 2002	632.3	1.8	46.6	680.7
Profit retained	(1.0)	–	–	(1.0)
Transfers	0.7	–	(0.7)	–
At 25 January 2003	632.0	1.8	45.9	679.7

Notes to the accounts

continued

24 Reconciliation of movements in shareholders' funds

Consolidated	2003 £m	2002 £m
Profit for the financial year	41.2	46.3
Dividends	(0.4)	(0.3)
Net addition to shareholders' funds	40.8	46.0
Opening shareholders' funds	1,439.1	1,393.1
Closing shareholders' funds	1,479.9	1,439.1
Company		
(Loss)/profit for the financial year	(0.7)	29.3
Dividends	(0.3)	(0.3)
Net addition to shareholders' funds	(1.0)	29.0
Opening shareholders' funds	689.7	660.7
Closing shareholders' funds	688.7	689.7

25 Reconciliation of trading profit to net cash inflow from operating activities

	2003 £m	2002 £m
Trading profit	199.1	190.3
Depreciation charged	111.9	104.2
Amortisation of goodwill	2.3	2.1
Increase in debtors	(8.6)	(24.4)
Increase in creditors	6.5	18.8
Movement in provisions	4.6	(4.8)
Increase in stocks	(13.3)	(18.1)
Partnership bonus paid for previous year	(57.3)	(58.4)
Net cash inflow from operating activities	245.2	209.7

26 Reconciliation of net cash flow to net debt

	2003 £m	2002 £m
Increase in cash in the year	3.7	7.0
Cash inflow from increase in debt and lease financing	(115.0)	(80.0)
Cash outflow from decrease in liquid resources	37.5	11.5
Movement in debt for the year	73.8	(61.5)
Opening net debt	371.0	(309.5)
Closing net debt	444.8	(371.0)

27 Analysis of changes in net debt

	2002 £m	Cash flows £m	Other changes £m	2003 £m
Cash balances	42.0	19.0	–	61.0
Overdrafts	–	(15.3)	–	(15.3)
	42.0	3.7	–	45.7
Debt due within one year	(35.0)	–	35.0	–
Debt due after one year	(350.0)	(115.0)	(35.0)	(500.0)
Short term deposits/(loans)	(28.0)	37.5	–	9.5
Net debt	(371.0)	(73.8)	–	(444.8)

28 Commitments

At 25 January 2003 contracts had been entered into for future capital expenditure of £53.9m (£74.9m).

John Lewis plc has entered into bank guarantees in favour of subsidiary companies amounting to £18.0m, and lease and loan guarantees in favour of the group's associate company (Ocado) of £12.5m.

29 Lease commitments

Operating leases	2003 Land and Buildings £m	2003 Plant and machinery £m	2002 Land and Buildings £m	2002 Plant and machinery £m
Rentals for the next financial year on operating leases expiring:				
Within 1 year	2.1	0.1	0.2	0.3
Between 1 and 5 years	3.3	0.4	5.2	0.2
Over 5 years	44.1	–	43.1	0.2

30 Pension commitments

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 consulting actuaries as at 31 March 2001, using the projected unit method. The assumption which has the most significant effect on the results of the valuation is the relative rate of return on the investments of the fund compared with increases in pay and pensions. It was assumed for this purpose that, on average, the annual return on investments would exceed increases in pay and pensions by 2.1% and 3.6% respectively. The market value of the assets of the fund as at 31 March 2001 was £1,000m. The actuarial valuation of these assets showed that they were sufficient to cover 94% of the benefits which had accrued to members.

Notes to the accounts

continued

30 Pension commitments (continued)

The actuaries have recommended a normal future contribution rate of 9.0% of total pay, together with an additional 1.0% of total pay in respect of the past-service deficit arising from the actuarial valuation. The pension charge for the year, calculated according to the provisions of SSAP 24, was equivalent to 10.0% (10.0%) of total pay and amounted to £65.4m (£60.5m), including notional interest of £nil (£nil) on the pension charge accrued in the consolidated balance sheet. The next actuarial valuation of the fund will take place as at 31 March 2004.

As explained in note 9, there is also a senior pension scheme which provides additional benefits to certain members of senior management. The actuaries have recommended a funding rate of 12.4% or 26.3% of total pay (increasing for 2003/04 to 14.8% and 28.7% of pay), depending on the level of benefits provided. The charge for the year was £1.3m (£1.2m). Provision has also been made for unfunded benefits, amounting to £0.8m (£0.6m). Both of these amounts are included in the total pension cost of £67.5m (£62.3m).

The disclosures required by FRS 17, Retirement Benefits, have been based on the most recent actuarial valuations, as at 31 March 2001, and have been updated by the actuaries to assess the assets and liabilities of the schemes as at 25 January 2003. Scheme assets are stated at market values at 25 January 2003. The following financial assumptions have been used:

	2003	2002
Future price inflation	2.25%	2.25%
Discount rate	5.75%	5.75%
Increases in earnings	3.75%	3.75%
Increases in pensions	2.25%	2.25%

The assets in the schemes and the expected rates of return were:

	25 January 2003		26 January 2002	
	Long term expected rate of return	Value £m	Long term expected rate of return	Value £m
Assets				
Equities	8.50%	577.0	7.75%	780.0
Properties	6.80%	131.0	6.50%	114.0
Bonds	5.75%	138.0	5.25%	99.0
Other assets	3.80%	5.0	4.50%	10.0
Total market value of assets		851.0		1,003.0
Present value of scheme liabilities		(1,282.0)		(1,189.0)
Deficit in schemes		(431.0)		(186.0)
Related deferred tax asset		129.3		55.8
Net pension liability		(301.7)		(130.2)

30 Pension commitments (continued)

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve at 25 January 2003 and 26 January 2002 would be as follows:

	2003 £m	2002 £m
Net assets		
Net assets as reported	1,479.9	1,439.1
add back SSAP 24 pension liability, net of deferred taxation	10.4	8.9
less FRS 17 pension liability	(301.7)	(130.2)
Net assets including FRS 17 pension liability	1,188.6	1,317.8
Reserves		
Profit and loss reserve as reported	1,229.1	1,185.4
add back SSAP 24 pension liability, net of deferred taxation	10.4	8.9
less FRS 17 pension liability	(301.7)	(130.2)
Profit and loss reserve including FRS 17 pension liability	937.8	1,064.1

The following amounts would have been recognised in the performance statements in the year to 25 January 2003 under the requirements of FRS 17:

	Year ended 25 January 2003 £m
Operating profit	
Current service cost	71.0
Past service cost	-
Charge to operating profit	71.0
Other finance income	
Expected return on assets	(74.4)
Interest on pension liabilities	67.2
Charge/(credit) to financing cost	(7.2)
Charge to Profit and Loss Account	63.8
Statement of Total Recognised Gains and Losses	
Actual return less expected return on assets	(248.1)
Experience gains and (losses) arising on liabilities	1.7
Changes in assumptions underlying the present value of liabilities	-
Total actuarial gain/(loss) recognised	(246.4)

Notes to the accounts

continued

30 Pension commitments (continued)

The movement in the FRS 17 surplus/deficit during the year is made up as follows:

	Year ended 25 January 2003 £m
Surplus/(deficit) at 26 January 2002	(186.0)
Current service cost	(71.0)
Contributions	65.2
Past service costs	–
Other finance income	7.2
Actuarial gain/(loss)	(246.4)
Surplus/(deficit) at 25 January 2003	(431.0)

Contributions will be as follows until the next actuarial valuations due as at 31 March 2004 have been finalised:

The John Lewis Partnership Trust for Pensions – 10% of pay.

The John Lewis Partnership Senior Pension Scheme – 14.8% or 28.7% of pay, depending on the level of benefits provided.

The experience gains and losses for the year ended 25 January 2003 were as follows:

Difference between the expected and actual return on assets:	
Amount (£ million)	248.1
Percentage of assets	29%
Experience gains and losses on liabilities:	
Amount (£ million)	(1.7)
Percentage of the present value of liabilities	0.1%
Total amount recognised in the statement of total recognised gains and losses:	
Amount (£ million)	(246.4)
Percentage of the present value of liabilities	19%

31 Related party transactions

Transactions with other companies within the group are not disclosed as the company has taken advantage of the exemption available under FRS 8, Related Party Disclosures, as the accounts of John Lewis Partnership plc, in which the company is consolidated, are publicly available.

During the year the Partnership entered into transactions with its associate company, Ocado Limited, for the supply of goods at cost totalling £8.3m (£0.4m) and provision of IT and other services totalling £1.2m (£1.2m). Included within debtors is a balance of £1.3m (£0.4m) due from Ocado Limited in respect of these transactions.

32 Subsidiary and associated undertakings

Subsidiary companies as at 25 January 2003 were as follows:

Findlater Mackie Todd & Co. Limited (*Mail order and wholesale including export*)
(*Subsidiary of Waitrose Limited*)
Herbert Parkinson Limited (*Weaving and making up*)
J.H.Birtwistle & Company, Limited (*Textile weaving*)
JLP Holdings BV (*Investment holding company*) (*Incorporated and operating in Holland*)
(*Subsidiary of JLP Victoria Limited*)
JLP Insurance Limited (*Insurance*) (*Incorporated and operating in Guernsey*)
JLP Victoria Limited (*Investment holding company*)
John Lewis Building Limited (*Building*)
John Lewis Car Finance Limited (*Car finance*)
John Lewis Card Services Limited (*Credit card handling*)
John Lewis Properties plc (*Property holding company*)
John Lewis Transport Limited (*Vehicle leasing*)
Stead, McAlpin & Company, Limited (*Textile printing*)
Waitrose Limited (*Food retailing*)
Waitrose Card Services Limited (*Credit card handling*)

Associate company:

Ocado Limited (*e-commerce grocery*) (*Year end 30 November*)

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

33 Parent company

John Lewis Partnership plc is the company's immediate and ultimate parent company and prepares consolidated accounts which include the accounts of the company. Ultimate control rests with John Lewis Partnership Trust Limited, which holds the equity of John Lewis Partnership plc in trust for the benefit of the employees. Both of these companies are registered in England.

Copies of these accounts may be obtained from the Company Secretary, John Lewis Partnership, 171 Victoria Street, London SW1E 5NN.

Directors' responsibilities for financial statements

The directors are required by UK company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing the financial statements suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made. Relevant accounting standards have been followed. The directors are responsible for maintaining adequate accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group, and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking steps for preventing and detecting fraud and other irregularities.

The directors, having made enquiries, consider that the company and the group have adequate resources to continue in operational existence for the foreseeable future, and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements.

Report of the auditors to the members of John Lewis plc

We have audited the financial statements of John Lewis plc which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cashflow statement, the statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out in note 1.

Respective responsibilities of directors and auditors

The directors responsibilities for preparing the Report & Accounts, in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Report & Accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report and the Chairman's Statement.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.


We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 25 January 2003 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

Chartered Accountants
and Registered Auditors



1 Embankment Place
London WC2N 6RH
10 April 2003

Retail branches

Department Stores

London	Southern England	Midlands, East Anglia, Northern England and Scotland
John Lewis, Oxford Street John Lewis, Brent Cross Peter Jones, Sloane Square	Caleys, Windsor John Lewis, Bluewater John Lewis, Cribbs Causeway John Lewis, High Wycombe John Lewis, Kingston John Lewis, Milton Keynes John Lewis, Reading John Lewis, Southampton John Lewis, Watford John Lewis, Welwyn Knight & Lee, Southsea	John Lewis, Aberdeen John Lewis, Cheadle John Lewis, Edinburgh John Lewis, Glasgow John Lewis, Liverpool John Lewis, Newcastle John Lewis, Norwich John Lewis, Nottingham John Lewis, Peterborough John Lewis, Sheffield John Lewis, Solihull Robert Sayle, Cambridge

Waitrose Supermarkets

London					
Barnet	Canary Wharf	Enfield	Harrow Weald	Putney	Temple Fortune
Belgravia	Chelsea	Finchley	Holloway Road	South Harrow	West Ealing
Brent Cross	East Sheen	Gloucester Road	Marylebone	Swiss Cottage	Whetstone
Southern England					
Abingdon	Caversham	Godalming	Marlborough	Sevenoaks	Wallingford
Allington Park	Chandlers Ford	Goldsworth Park	Marlow	Sidmouth	Wantage
Andover	Cheltenham	Gosport	Milton Keynes	South Woodford	Waterlooville
Banstead	Chesham	Green Street Green	New Malden	Southampton	Welwyn Garden City
Bath	Chichester	Hailsham	Northwood	Southend	Westbourne
Beaconsfield	Cirencester	Harpenden	Okehampton	Southsea	Westbury Park
Beckenham	Cobham	Havant	Paddock Wood	Staines	West Byfleet
Berkhamsted	Coulson	Henley	Petersfield	Stevenage	Weybridge
Billerica	Crowborough	Hertford	Ramsgate	Stroud	Windsor
Birch Hill	Dibden	Horley	Reading	Sunningdale	Winton
Bishop's Stortford	Dorchester	Horsham	Richmond	Surbiton	Witney
Brighton	Dorking	Hythe	Ringwood	Tenterden	Wokingham
Bromley	Epsom	Kingston	Romsey	Thame	Woodley
Bromley South	Esher	Leighton Buzzard	Ruislip	Thatcham	Worcester Park
Buckhurst Hill	Fleet	Longfield	Salisbury	Tonbridge	Yateley
Burgess Hill	Frimley	Lymington	Saltash	Twickenham	
Caterham	Gillingham	Maidenhead	St Albans	Twyford	
Midlands, East Anglia and Wales					
Blaby	Ely	Hall Green	Monmouth	Peterborough	Sudbury
Bury St Edmunds	Evington	Huntingdon	Newark	St Ives	Stourbridge
Cambridge	Four Oaks	Kidderminster	Newmarket	St Neots	Wymondham
Daventry	Great Malvern	Kingsthorpe	Norwich	Saffron Walden	

In addition to the shops listed above, the Partnership operates the following businesses

John Lewis Direct *Internet retail*

Waitrose Direct (including Findlater Mackie Todd) *Internet retail, mail order and wholesale including export*

Stead, McAlpin, Carlisle *Textile Printing*

J. H. Birtwistle, Haslingden *Textile weaving*

Herbert Parkinson, Darwen *Weaving and making up*

Leckford Estate, Stockbridge *Farming*

Notice of AGM

Notice is hereby given that the seventy-fifth annual general meeting of the company will be held at 12.15 pm on 25 June 2003 at 171 Victoria Street, London SW1E 5NN:

- To receive the directors' report and accounts for the year 2002/03.
- To consider the final dividend.
- To consider the re-election of retiring directors.
- To consider the following resolution, Special Notice having been given of the intention to move the resolution as an Ordinary Resolution:

THAT PricewaterhouseCoopers LLP be reappointed auditors of the Company to hold office from the conclusion of the meeting until the conclusion of the next general meeting at which the requirements of subsection (1) of section 241 of the Companies Act 1985 are complied with and that their remuneration be fixed by the directors.

By order of the Board

Terence Neville

Secretary

171 Victoria Street, London SW1E 5NN

30 April 2003

Following the decision to transfer their business with effect from 1 January 2003 to a limited liability partnership, PricewaterhouseCoopers ("PwC") resigned as auditors of the Company and the Directors appointed PricewaterhouseCoopers LLP ("PwC LLP") as auditors in their stead. Special Notice has been received under Section 379 of the Companies Act 1985 of a proposal to re-appoint PwC LLP as auditors".

A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote instead of him.

A proxy need not be a member of the company, but a proxy who is not a member has only the rights conferred by section 372(2) and section 373(2) of the Companies Act 1985. To be effective, a proxy form must reach the company's registered office not later than forty-eight hours before the time for holding the meeting. For the convenience of members a form of proxy is enclosed.

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