John Lewis Partnership plc annual report and accounts 2005

238937

John Lewis
Waitrose

Contents

Further information about the Partnership can be obtained on application to the Press Office,
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The John Lewis Partnership

The John Lewis Partnership is one of the UK's top ten retail businesses with 26 John Lewis department stores and 166 Waitrose supermarkets.

It is also the country's largest employee co-operative, with over 63,000 employees. The Partnership aims to ensure that everyone who works for it enjoys the experience of ownership, by sharing in the profits, by having access to information and by sharing in decision making.

The Partnership believes that the commitment of Partners to the business is a unique source of competitive advantage which has underpinned 75 years of profitable growth and a reputation amongst customers and suppliers unparalleled in the UK retail industry.

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

The Partnership 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 Partnership Board and is distributed as the same percentage of gross annual pay for all Partners. All Partners received a 14% bonus for the current year as their share of profits at a total cost of £106m.

Summary of results

for the year ended 29 January 2005

	2005 £m	2004* £m
Gross sales (including sale or return sales and VAT)	**5,333.6**	5,046.8
Trading profit (after exceptional costs of £10.1m (£12.8m))	**231.8**	212.8
Share of operating loss of associate (Ocado)	**(13.2)**	(15.2)
Total operating profit	**218.6**	197.6
Disposal of account card operation	**5.4**	4.3
Property disposals	**21.2**	–
Interest	**(29.9)**	(28.4)
Profit before Partnership bonus and taxation	**215.3**	173.5
Taxation	**(39.2)**	(24.5)
Preference dividends	**(0.2)**	(0.2)
Balance available for profit sharing and retention in the business	**175.9**	148.8
Partnership bonus	**(105.8)**	(87.3)
Retained in the business for development	**70.1**	61.5
Net assets employed at the year end	**1,613.1**	1,543.0
Average number of employees (full time equivalents)	**41,000**	40,500
Number of shops – Department stores	**26**	26
– Supermarkets	**166**	144

** 53 week year.

Five year record

years ended January

	2005 £m	2004* £m	2003 £m	2002 £m	2001 £m
Gross sales (including sale or return sales and VAT)	**5,333.6**	5,046.8	4,679.3	4,459.4	4,126.6
Profit before pension costs	**312.4**	284.2	266.6	252.6	235.5
Pension costs	**(80.6)**	(71.4)	(67.5)	(62.3)	(54.9)
Share of operating loss of associate (Ocado)	**(13.2)**	(15.2)	(19.5)	(17.8)	(3.8)
Disposal of account card operation	**5.4**	4.3	–	–	–
Property disposals	**21.2**	–	–	–	–
Interest	**(29.9)**	(28.4)	(34.1)	(31.0)	(27.3)
Profit before Partnership bonus and taxation	**215.3**	173.5	145.5	141.5	149.5
Taxation	**(39.2)**	(24.5)	(36.7)	(37.9)	(28.8)
Dividends	**(0.2)**	(0.2)	(0.2)	(0.3)	(0.3)
Net profit available for profit sharing and retention in the business	**175.9**	148.8	108.6	103.3	120.4
Partnership bonus	**(105.8)**	(87.3)	(67.6)	(57.3)	(58.1)
As a percentage of ranking pay	***14***	*12*	*10*	*9*	*10*
Retained in the business	**70.1**	61.5	41.0	46.0	62.3
Net assets employed	**1,613.1**	1,543.0	1,481.5	1,440.5	1,395.1
Pay	**713.8**	689.7	653.7	611.4	562.7
Average number of employees	**61,100**	59,600	58,800	56,100	53,200
including part-time employees	**31,100**	29,400	28,000	25,600	23,600

**53 week year.

Chairman's statement

The Partnership marked its 75th anniversary in fine style. Gross sales of £5.3 billion were 6% ahead of 2003/04 and trading profit, before exceptional items, increased by 7% to £242m. Our two divisions made almost exactly equal contributions to that total, a clear confirmation that in a shifting retail environment John Lewis and Waitrose remain two of the UK's strongest retail brands. Profit before Partnership bonus and taxation rose to £215m: an increase of 24%, achieved in 52 weeks against last year's 53.

The rate of distribution of Partnership Bonus was increased to 14% of Partners' pay (compared with 12% last year), at a total cost of £106m (last year £87m). This, together with an £81m charge for our final salary pension scheme, meant that our 63,000 Partners shared a total of £187m from the Partnership's successful trading. £70m has been retained for reinvestment in the business (last year £62m).

John Lewis

Sales for the John Lewis division totalled £2.4bn – 1% ahead of the 53 week figure last year. In the first half year we faced softer comparisons as 2003 sales were affected by both the Iraq war and the impact of the Congestion Charge in Central London. The slow pace of the second half was a concern for all retailers, but our pre-Christmas sales compared favourably with our competitors, and we also achieved strong Clearance trading.

The completion of the Peter Jones refurbishment in June proved a high point for the John Lewis division, and its appeal as a shopping destination is seen in sales running substantially ahead of last year. Noteworthy increases also came from Cribbs Causeway, Cheadle, Solihull, Edinburgh and Glasgow. Robert Sayle has started its three year 'decamp' to temporary space before moving to a new store in Cambridge's new Grand Arcade shopping scheme in 2007.

The strength and reputation of the John Lewis brand underpins our ability to operate successfully as a multi-channel retailer. Our e-commerce operation, John Lewis Direct, recorded a year-on-year sales increase of 75%, bringing it up to our original target of matching a medium-sized department store, with every sign of substantial further growth to come.

We have begun to see encouraging results from the new focus in our John Lewis buying teams, and our own-brand business is gaining in authority and appeal. We achieved a further improvement in gross margin during 2004, and positive customer response to new ranges gives encouragement for the year ahead.

The John Lewis division has tackled a number of reorganisation projects in recent years, and the benefits of a leaner cost structure are beginning to show through in greater operating efficiency and productivity gains.

Our manufacturing companies continued to face a difficult market for textiles. While reorganisation has secured significant cost savings, sales growth has proved more difficult. We have therefore written down the value of our assets at Stead McAlpin and JH Birtwistle by a further £7m.

Properties no longer required by Peter Jones were sold, yielding a profit of £8m. Excluding property and other exceptional items, the John Lewis division produced a 9% improvement in trading profit to £121m.

Looking ahead, we have a strong pipeline of new shops, with firm proposals announced for Cardiff, Leicester, Portsmouth and Sprucefield (Northern Ireland) and our involvement as a key participant in the proposed redevelopment of Crawley.

Waitrose
As we celebrated the 100th anniversary of the first Waitrose shop, attention was focused on the conversion and integration of the 19 shops acquired from Morrison's, following their purchase of Safeway. Sales growth was accelerated markedly by these new shops, which represent a 20% increase in our selling space. We also opened a further four new shops (Newbury, Sanderstead, Wandsworth and Kensington High Street), relocated our Newmarket branch and completed four major extensions.

In the week before Christmas Waitrose took £100m for the first time in its history, and the year's total sales reached just short of £3bn – a 10% advance (+3% like-for-like). The distinctiveness of Waitrose continues to be underlined by the strengthening of our own-brand ranges. In four of the former Safeway branches we have had the space to extend our non-food offer by introducing 1,600 new lines, the majority of which were sourced with the help of John Lewis buyers. We have been well supported by our suppliers throughout this expansion, showing innovation and commitment to Waitrose's quality position within the market. The benefits of scale have enabled us to invest in lower prices to combat intense competition in Known Value Items, while further improving our gross margin.

Good control of branch operating costs and welcome productivity gains have carried through to net margin, but they have been balanced by the inevitable, heavy burden of pre-opening expenses totalling some £6m for the year, a £4m increase on 2003/04.

Property profits, from the sale and leaseback of the Brinklow distribution centre and sale of the Henley cinema, amounted to £13m.

The growth of Waitrose's business means that it now takes a larger share of corporate costs and pensions, and this adjustment has meant that a 10% trading profit increase before these costs led to just a 5% increase after them, to £121m.

Capital expenditure
Capital spending in 2004/05 reached a record £539m. The lion's share, £440m, went to Waitrose, reflecting the £333m spent on acquiring and converting the Safeway shops and new openings in the period. £77m was spent in John Lewis and £22m on corporate assets.

Ocado
Ocado has continued to make major progress in combining a high reputation for reliability with the quality of Waitrose products and expansion is under way in the West Midlands and the North West. The Partnership's accounting share of Ocado's losses (including £0.9m (£0.8m) of interest) reduced to £14m compared with £16m last year.

Employment and Pensions
The average number of Partners employed during the year was 61,100, and the total at the end of the year was 63,100 (4,000 more than a year earlier; with the split 56% Waitrose, 43% John Lewis and 1% for corporate departments).

We are now the only large retail employer to continue to offer a non-contributory final salary pension scheme, and comparisons of our results with others need to take account of the costs of our pension scheme and the benefits it brings to Partners. The charge for pensions rose to £81m, a 13% increase on the previous year.

In the Autumn we received the Scheme Actuary's report following a triennial review of its finances. His recommendation, which was accepted by the Board, is that we can continue with an acceptable level of funding by retaining our contribution at 10% of the total pay bill.

Chairman's statement

continued

The year ahead
Looking ahead, it is clear that our two divisions are currently facing very different trading conditions.

Waitrose continues to power ahead, with sales in the first 11 weeks 19% ahead of last year, and showing a 5% lead on a like-for-like basis. During 2005 we are set to benefit from growing sales at our newly opened branches and we also look forward to openings at Droitwich, Hersham and Lichfield, along with relocations at Wallingford and West Ealing.

The non-food sector has so far proved more challenging, with John Lewis sales 2% behind last year, reflecting a similar position to that of our competitors. Despite this, we are seeing a good response to new products in our assortment and to the quality and value of our own brand ranges. Our focus on improving the efficiency of our operations also continues. After several years with no new department stores we are looking forward to the opening of John Lewis Trafford in May, which will help consolidate our presence in the North West.

Our Partners have done a magnificent job in moving profits ahead so well this year and in accomplishing so much change in our business. That achievement is reflected in the Bonus which we all share. I am confident that 2005 will be a year of further progress.

Sir Stuart Hampson
Chairman
21 April 2005

Directors and advisers

DIRECTORS

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

Sir Stuart Hampson age 58

Executive Chairman since 1993. Deputy Chairman from 1989-1993. Member of the Board since 1986. Joined the Partnership 1982.

Johnny Aisher † age 43

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

Ian Alexander age 55

Deputy Chairman since 2004 and Finance Director since 2001. Member of the Board since 1990. Joined the Partnership 1987.

Anne Buckley † age 37

Assistant Personnel Manager, Group E, Waitrose since 2004. Joined the Board in 2003. Joined the Partnership 1985.

Steven Esom age 44

Managing Director, Waitrose since 2002 when he joined the Board. Joined the Partnership 1995.

Kate Green † age 49

Registrar since 1994. Joined the Board in 2004. Joined the Partnership in 1973.

David Jones † age 44

Head of Buying Services, Waitrose since 2002. Member of the Board since 1999. Joined the Partnership 1982.

Charlie Mayfield age 38

Managing Director John Lewis since 2005. Member of the Board since 2001. Joined the Partnership 2000.

Alastair McKay age 59

Director of Corporate Responsibility since 2004. Member of the Board since 2000. Joined the Partnership 1990.

Mark Price age 44

Development Director since 2005 when he joined the Board. Joined the Partnership 1982.

Andy Street age 41

Director of Personnel since 2002 when he joined the Board. Joined the Partnership 1985.

Ken Temple † age 57

Partners' Counsellor since 2004. Member of the Board since 1996. Joined the Partnership 1982.

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. 238937

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 7. Kate Green and Mark Price were appointed as directors on 9 September 2004 and 30 January 2005, respectively. David Felwick and Luke Mayhew resigned on 3 September 2004 and 24 December 2004, respectively. All other directors served throughout the period under review.

Principal Activity and Business Review
The principal activity of the group is retailing. The company controls, through John Lewis plc, the businesses listed on page 38, comprising 26 John Lewis department stores, 166 Waitrose supermarkets and ancillary manufacturing activities. A review of the business and future developments is included in the Chairman's statement.

Employees
The constitution of the John Lewis Partnership provides for the involvement of employees, known as Partners. 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. Elected councils at all levels of the business 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. Partners also share in the profits of the business through Partnership Bonus.

The Partnership recruits people with disabilities to suitable vacancies on merit. All employees can benefit from our training and development policies. 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 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 following paragraphs describe the key governance structures and internal controls operating within the Partnership. 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.

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 Partnership Board) and the elected Partnership Council. The Partnership Council nominates five of the twelve members of the Partnership Board, who are required to stand for re-election every two years. The Board meets at least 8 times a year and has a formal schedule of matters reserved for its decision. The Partnership's Constitution sets out the Partnership Board's responsibility for determining major strategic and financial issues. In particular, it agrees the Partnership Business Plan and those of the divisional Management Boards, its annual budget and monitors the performance of the two operating divisions against their business plans.

All new directors are provided with an appropriate induction programme and have access to the advice and services of the Company Secretary. Subsequent training is available on an ongoing basis to meet specific needs.

Internal Control
The directors have overall responsibility for the Partnership's system of internal control, which covers strategic, financial, regulatory and operational controls. The system of

internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. The directors have reviewed the effectiveness of the Partnership's system of internal control for the accounting period under review.

Audit Committee
The Partnership has an Audit Committee, chaired by the Director of Corporate Responsibility, Alastair McKay, and composed of two of the five elected directors chosen by that group, currently Johnny Aisher and Kate Green. It meets at least three times a year and its purpose is to assist the Board in ensuring the Partnership's systems provide accurate and up to date information on its financial position, and that the Partnership's published financial statements represent a true and fair statement of this position. It also ensures that appropriate accounting policies and internal controls are in place and it reviews the performance, independence and objectivity of the external auditors. Its terms of reference, which are available for inspection, are reviewed annually and include responsibility for making recommendations to the Partnership Board in relation to the appointment, re-appointment and removal of external auditors. The external auditors attend its meetings as does the Head of Internal Audit. The Head of Internal Audit has separate meetings with the Chairman of the Audit Committee and the Committee monitors and reviews the scope of work of the Internal Audit department.

As part of its remit, the Audit Committee keeps the nature and extent of non-audit services provided to the Partnership by the external auditors under review, seeking to ensure the maintenance of both their objectivity and independence. The external auditors confirm, at least annually, to the Audit Committee that in their professional judgement they are independent with respect to the audit. The scope of services provided by the external auditors and the approval process relating to them are determined in accordance with Audit Committee policy.

Remuneration Committee
The Partnership has a Remuneration Committee which makes a recommendation each year to the Partnership Board on the Chairman's pay, taking into account appropriate market data provided by an external remuneration consultant. The Committee considers the Chairman's remuneration proposals for the appointed Partnership Board directors and provides a commentary to the Board on whether they are appropriate in relation to the market. It also determines and agrees with the Partnership Board the broad policy for the remuneration of certain senior Partners, taking into account such factors as it considers appropriate, and reviews the ongoing appropriateness and relevance of that policy.

The Committee is chaired by the Director of Corporate Responsibility, Alastair McKay, and is composed of the Director of Personnel, Andy Street, and two of the five directors elected by the Partnership 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 elected members of the Board are determined by their managers and do not include any element in recognition of their Board duties. Partnership Board directors do not receive fees as all members of the Board are paid a salary for their respective roles within the business, in accordance with the Partnership's pay policy, which requires salaries to be in line with market rates. Exceptional performance is recognised in enhanced pay and in individual bonuses, not against pre-set targets or criteria. There are no annual incentive bonuses or long-term bonus schemes related to individual or company performance. Details of directors' emoluments are set out in note 10.

Risk Committee
The Partnership Board has overall responsibility for internal control and the management of risk throughout the business. Executive management is responsible for identifying and evaluating the risks of 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 Partnership Business Plan.

Directors' report

continued

The Partnership has a Risk Committee established as a committee of the Board. It is chaired by the Director of Corporate Responsibility, Alastair McKay, and composed of five other directors, currently Ian Alexander, Steven Esom, Charlie Mayfield, Mark Price and Andy Street, together with the Director of Legal Services & Company Secretary, the Head of Risk Management and the Director of Building & Services who provide appropriate functional and professional advice. The Committee meets twice a year and its main purpose is to steer the Partnership's development of policies and systems for identifying, evaluating and managing significant risk throughout the group. It monitors management's actions to manage those risks and reports annually to the Partnership Board. The operating divisions, John Lewis and Waitrose, and all corporate departments, include risk assessments as part of their business plans.

Health and Safety
The Director of Personnel, Andy Street, is the Partnership Board director with the remit for health and safety across the business. He chairs the Partnership Health and Safety Steering Group, comprising divisional board representatives from John Lewis and Waitrose and the Partnership's technical advisers for safety, occupational health, fire and risk management. This Group develops overall business strategy and policy in this area, sets standards and reviews performance. A clear set of objectives has been agreed for the 2005/06 trading year. Within the operating divisions considerable progress has been made in clarifying the structure for effective health and safety management. The number of accidents to Partners necessitating reporting under RIDDOR (Reporting of Injuries, Deaths and Dangerous Occurrences Regulations) fell in the John Lewis division, and the rate of occurrence fell in Waitrose. The new health and safety data system developed by the John Lewis division has performed to specification, and will be extended across the whole business. This will improve the consistency of accident reporting and investigation and facilitate more effective management of health and safety.

Corporate Social Responsibility (CSR)
The terms of the Partnership's Constitution clearly define the behaviour expected towards customers, suppliers, the wider community, the environment and its Partners. Social responsibility programmes and governance structures have been developed from these provisions and the principal responsibility for managing and co-ordinating environmental, ethical and social issues resides with the Partnership's Director of Corporate Responsibility, Alastair McKay.

In addition, the Partnership has a CSR Committee, a management committee reporting annually to the Partnership Board, which is representative of both divisions and corporate departments. The Committee is chaired by the Director of Corporate Responsibility and comprises several members of senior management. Its purpose is to define, stimulate and co-ordinate the Partnership's CSR policy and strategy, to lead the development of systems to manage them, to guide divisional and corporate implementation and to monitor and review performance. The policy is to integrate and align our CSR strategy with existing management structures.

The Partnership has made a public commitment to communicate its CSR programme and performance and promote good practice in general and considers this is best achieved through regular external reporting of its social and environmental progress. These reports are issued biennially, and in August 2004 both Waitrose and John Lewis published Corporate Social Responsibility Reports. Information on current policies and procedures is also included on the Partnership website, www.johnlewispartnership.co.uk. Individual branches are further encouraged to contribute to locally inspired initiatives and our membership of Business in the Community (BITC) provides a platform to help co-ordinate these activities. The Partnership has also made a commitment to benchmark annually its CSR performance with other leading UK businesses. In 2004, the Partnership participated in the BITC Corporate Responsibility Index and we are pleased to report that we finished 9th overall.

Charitable and political donations

The Partnership was again awarded the BITC Percent Standard, given to companies who donate at least 1% of their pre tax profits to the community. The Partnership donated £2,080,000 (£1,650,000) for charitable purposes during the year comprising £1,560,000 (£1,240,000) for welfare causes and £520,000 (£410,000) for music and arts, learning and the environment. In addition, we provided substantial financial and practical support to causes in the communities where we trade. The Partnership made no political donations.

Pensions

The principal pension scheme operated by the Partnership is a non-contributory defined benefit scheme, providing benefits based on final pensionable pay. The assets of this scheme are held in a separate, trustee administered fund. Details are contained in note 30.

Payments to suppliers

The Partnership's policy on the payment of its suppliers is to agree terms of payment in advance and, provided a supplier fulfils the agreement, to pay promptly in accordance with those terms. The Partnership's trade creditors at 29 January 2005 were equivalent to 27 days of purchases (23 days)during the year ended on that date.

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 29 January 2005, total fixed rate financial liabilities were £400m, with £170m at floating rates, as detailed in note 21. At that date interest rate swaps were in place on £50m of fixed rate borrowing, converting it to floating rate. These swaps have terms of 7 years.

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 £300m are available until December 2008, with a further £230m agreed in February 2005, available to February 2010. There is also an £80m loan, repayable in December 2007. 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 exposures are hedged, and at the year end £5.8m of a total £6.2m of liabilities denominated in foreign currency were covered in this way. In addition, £15.4m 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 18, 21 and 22 to the Accounts.

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 value of land and buildings revalued in 1999, together with certain leisure 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.

Directors' report

continued

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

Acquisition of stores

In March 2004 the group entered into a contract with Wm Morrison Supermarkets PLC to acquire 19 stores. Title to the stores was transferred to the group on a phased basis in the period up to October 2004. The total cost of these stores, including conversion costs, taxes and fees was £333m.

Investments

In February 2004 the Partnership invested a further £8.6m in its associate company, Ocado Limited, by way of convertible loan stock.

Dividends and retentions

Dividends on Preference Shares absorbed £247,000 (£247,000) leaving £70.1m (£61.5m) to be transferred to reserves.

Purchase of shares

At the annual general meeting held on 23 June 2004, the company was authorised to make market purchases of up to £3,696,995 nominal of the 5% Cumulative Preference Stock and up to £500,000 nominal of the 7½% Cumulative Preference Stock representing the remaining stock in issue. No purchases were made during the year, and shareholders will be invited to renew the authority at the annual general meeting, as detailed on page 42.

The Board considers that these stocks are an inefficient form of fixed interest finance and that it would be advantageous to the company to acquire them over time.

International Financial Reporting Standards

It is a requirement that all UK listed companies adopt International Financial Reporting Standards (IFRS) for financial years beginning on or after 1 January 2005. The implications of the transition have been reviewed, and the work required to restate the historical results is well advanced. This is purely an accounting change and will not affect the Partnership's operations or cash flows. The impact on reported profits is expected to be modest.

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.

No director has or had a material interest in any contract or arrangement to which the company or any subsidiary is or was a party.

Going concern

The directors, having made appropriate 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.

Auditors

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

For and by Order of the Board
Terence Neville
Secretary
21 April 2005

Consolidated profit and loss account

for the year ended 29 January 2005

Notes		Before exceptional items £m	Exceptional items (note 4) £m	2005 £m	Before exceptional items £m	Exceptional items (note 4) £m	*2004 £m
2	**Gross sales**	**5,333.6**	–	**5,333.6**	5,046.8	–	5,046.8
	Adjustment for sale or return sales	**(89.2)**	–	**(89.2)**	(76.9)	–	(76.9)
	Value added tax	**(486.9)**	–	**(486.9)**	(470.4)	–	(470.4)
	Turnover	**4,757.5**	–	**4,757.5**	4,499.5	–	4,499.5
	Cost of sales	**(3,162.0)**	–	**(3,162.0)**	(3,047.3)	–	(3,047.3)
	Gross profit	**1,595.5**	–	**1,595.5**	1,452.2	–	1,452.2
3	Operating expenses	**(1,273.0)**	**(10.1)**	**(1,283.1)**	(1,155.2)	(12.8)	(1,168.0)
30	Pension costs	**(80.6)**	–	**(80.6)**	(71.4)	–	(71.4)
2	**Trading profit**	**241.9**	**(10.1)**	**231.8**	225.6	(12.8)	212.8
	Share of operating loss of associate	**(13.2)**	–	**(13.2)**	(15.2)	–	(15.2)
	Total operating profit	**228.7**	**(10.1)**	**218.6**	210.4	(12.8)	197.6
	Disposal of account card operation	–	**5.4**	**5.4**	–	4.3	4.3
	Property disposals	–	**21.2**	**21.2**	–	–	–
5	Net interest payable	**(29.9)**	–	**(29.9)**	(31.1)	2.7	(28.4)
	Profit before Partnership bonus and taxation	**198.8**	**16.5**	**215.3**	179.3	(5.8)	173.5
	Partnership bonus	**(105.8)**	–	**(105.8)**	(87.3)	–	(87.3)
6	**Profit on ordinary activities before taxation**	**93.0**	**16.5**	**109.5**	92.0	(5.8)	86.2
7	Tax on profit on ordinary activities	**(40.6)**	**1.4**	**(39.2)**	(37.0)	12.5	(24.5)
8	**Profit for the financial year**	**52.4**	**17.9**	**70.3**	55.0	6.7	61.7
9	Dividends – including non equity interests	**(0.2)**	–	**(0.2)**	(0.2)	–	(0.2)
24	**Profit retained**	**52.2**	**17.9**	**70.1**	54.8	6.7	61.5

** 53 week year.

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

The group has no recognised gains and losses other than the profit above, and therefore no separate statement of recognised gains and losses has been presented.

Consolidated balance sheet

as at 29 January 2005

Notes		2005 £m	2004 £m
	Fixed assets		
12	Goodwill	–	0.2
13	Tangible assets	**2,335.9**	1,972.6
14	Investment in associate	**13.1**	18.6
		2,349.0	1,991.4
	Current assets		
16	Stocks	**340.0**	329.2
17	Debtors	**123.3**	87.5
	Short term deposits	**115.0**	314.0
	Cash at bank and in hand	**79.4**	66.3
		657.7	797.0
	Creditors		
19	Amounts falling due within one year	**(666.1)**	(587.8)
	Net current (liabilities)/assets	**(8.4)**	209.2
	Total assets less current liabilities	**2,340.6**	2,200.6
	Creditors		
19	Amounts falling due after more than one year	**(530.0)**	(500.0)
20	**Provisions for liabilities and charges**	**(197.5)**	(157.6)
	Net assets	**1,613.1**	1,543.0
	Capital and reserves		
23	Called up share capital – equity	**0.6**	0.6
	– non equity	**4.2**	4.2
	Total share capital	**4.8**	4.8
	Minority interest in subsidiary (non equity)	**0.4**	0.4
24	Revaluation reserve	**228.9**	235.6
24	Other reserves	**6.4**	6.4
24	Profit and loss account	**1,372.6**	1,295.8
	Total shareholders' funds (including non equity interests)	**1,613.1**	1,543.0

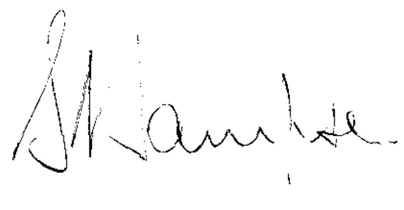
Approved by the Board on 21 April 2005
Sir Stuart Hampson

Balance sheet of the company

as at 29 January 2005

Notes		2005 £m	2004 £m
	Fixed assets		
15	Investments	**14.9**	14.9
	Current liabilities		
	Creditors	**(0.2)**	(0.2)
	Net current liabilities	**(0.2)**	(0.2)
	Net assets	**14.7**	14.7
	Capital and reserves		
23	Called up share capital – equity	**0.6**	0.6
	– non equity	**4.2**	4.2
	Total share capital	**4.8**	4.8
24	Other reserves	**5.0**	5.0
24	Profit and loss account	**4.9**	4.9
	Total shareholders' funds (including non equity interests)	**14.7**	14.7

Approved by the Board on 21 April 2005
Sir Stuart Hampson



Consolidated cash flow statement

for the year ended 29 January 2005

Notes		2005 £m	2004 £m
26	**Net cash inflow from operating activities**	**348.4**	250.7
	Returns on investments and servicing of finance		
	Interest received	**8.5**	23.8
	Exceptional interest income	–	1.4
	Interest paid	**(20.8)**	(64.3)
	Preference dividends paid	**(0.2)**	(0.2)
	Net cash outflow from returns on investments and servicing of finance	**(12.5)**	(39.3)
	Taxation	**(29.3)**	(26.3)
	Exceptional tax credit	**-**	10.3
	Capital expenditure and financial investment		
	Purchases of tangible fixed assets	**(531.0)**	(209.9)
	Proceeds of sales of tangible fixed assets	**2.3**	4.9
	Proceeds of sale on exceptional property disposals	**48.5**	–
	Net cash outflow from capital expenditure and financial investment	**(480.2)**	(205.0)
	Acquisitions and disposals		
	Net proceeds of disposal of account card operation	**3.3**	257.8
	Investment in associate	**(8.6)**	–
	Net cash inflow/(outflow) before liquid resources and financing	**(178.9)**	248.2
	Management of liquid resources		
	(Increase)/decrease in short term deposits	**199.0**	(304.5)
	Financing		
	Increase in borrowings	**30.0**	–
	Net cash inflow from financing	**30.0**	–
	Increase/(decrease) in cash in the year	**50.1**	(56.3)

Reconciliation of net cash flow to net debt

		2005 £m	2004 £m
	Increase/(decrease) in cash in the year	**50.1**	(56.3)
	Cash inflow from increase in debt and lease financing	**(30.0)**	-
	Cash(inflow)/outflow from increase in liquid resources	**(199.0)**	304.5
	Movement in debt for the year	**(178.9)**	248.2
27	Opening net debt	**(196.6)**	(444.8)
27	Closing net debt	**(375.5)**	(196.6)

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.

Gross sales and turnover
Gross sales are the amounts receivable by the group for goods and services supplied to customers, net of discounts but including sale or return sales and VAT. Turnover is gross sales, net of adjustments for sale or return sales and 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. Stocks exclude sale or return merchandise.

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. While the group continues to account for pension costs under SSAP 24, it 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 leisure 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%

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 on an accruals basis.

Notes to the accounts

continued

1 Accounting policies (continued)

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 aquisitions 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. Each forward currency contract is accounted for a hedge, with the instrument's impact on profit deferred until the underlying transaction is recognised in the profit and loss account.

Insurance
The group's captive insurance company, JLP Insurance Limited, provides reinsurance of the group's employers, public and vehicle third party liability insurances, and of the group's healthcare insurance cover. It also insures ServicePlan Limited, and reinsures Landmark Insurance Company Limited, third party provider of extended warranty products to customers of John Lewis. Appropriate capping arrangements limit the company's liability. The results of each liability underwriting year are estimated at the year end using independent actuarial assessments when any profits or losses arising are recognised. The level of insurance provisions for unreported and uncertain future liabilities are kept under review and, where appropriate, adjustments are made. Other classes are also accounted for on an annual basis, with unearned premiums attributed to unexpired periods of insurance at the year end and those relating to extended warranty insurances sold by ServicePlan Limited retained in a ring fenced Trust administered by an Independent Trustee.

Impairment
The group reviews its tangible fixed assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised to the extent that the carrying amount of an asset exceeds its recoverable amount, being the higher of value in use and net realisable value.

Capital Instruments
Finance costs in respect of debt are capitalised and amortised over the life of the debt at a constant rate.

1 Accounting policies (continued)

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 recorded with in the profit and loss account.

2 Divisional analysis of gross sales* and trading profit

	Gross sales		Trading profit					
			Before exceptional items	**Exceptional items (note 4)**		Before exceptional items	Exceptional items (note 4)	
	2005 £m	2004 £m	**2005 £m**	**2005 £m**	**2005 £m**	2004 £m	2004 £m	2004 £m
John Lewis	**2,378.4**	2,355.5	**121.2**	**(10.3)**	**110.9**	111.0	(12.4)	98.6
Waitrose	**2,955.2**	2,691.3	**120.7**	**0.2**	**120.9**	114.6	(0.4)	114.2
	5,333.6	5,046.8	**241.9**	**(10.1)**	**231.8**	225.6	(12.8)	212.8

*Gross sales include sale or return sales and VAT.

The Partnership operates in one segment, retailing, in John Lewis department stores and Waitrose supermarkets. It also operates some ancillary manufacturing and farming activities.

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

3 Operating expenses

	2005 £m	2004 £m
Branch operating expenses (including exceptional charges of £7.1m (£5.1m))	**976.7**	896.6
Administrative expenses (including exceptional charges of £3.0m (£7.7m))	**306.4**	271.4
	1,283.1	1,168.0

Notes to the accounts

continued

4 Exceptional items

	2005 £m	2004 £m
Exceptional items comprise the following (charges) and credits:		
Operating expenses:		
Asset impairments	**(6.2)**	(2.5)
Asset write offs	**(1.3)**	–
Reorganisation costs	**(2.6)**	(10.3)
Gain on disposal of account card operation	**5.4**	4.3
Gain on property disposals	**21.2**	–
Interest on corporation tax refund	–	2.7
Corporation tax refund	–	10.3
Tax effect of exceptional items		
Current tax	**(0.4)**	0.7
Deferred tax	**1.8**	1.5
	17.9	6.7

In accordance with FRS 11, Impairment of Fixed Assets and Goodwill, the carrying value of the group's fixed asset interests in the JH Birtwistle and Stead McAlpin businesses have been compared to their recoverable amounts. Recoverable amounts have been based on the higher of net realisable value and value in use. In determining the recoverable amounts the directors have considered a number of factors including current and prospective revenues, earnings and cashflows from each of the sites. In determining value in use a discount rate of 13% has been used.

Following the disposal of the account card operation in 2003/04, the Partnership received £233m for the book value of the related debtors, plus a premium in that year of £27m. £13.5m of the premium was taken to profit, offset by £9.2m costs to give a £4.3m gain in that year, with £13.5m deferred on the balance sheet.

The gain in the current year represents the phased release of the disposal premium, together with income received by the Partnership in respect of conversions to the new account card.

5 Net interest payable

	2005 £m	2004 £m
Interest payable on:		
Bank loans and overdrafts	**5.9**	8.1
Other loans repayable within 5 years	**7.7**	5.2
Loans repayable in more than 5 years	**23.2**	23.5
Interest receivable	**(7.8)**	(6.5)
Exceptional interest receivable on corporate tax refund	–	(2.7)
Group	**29.0**	27.6
Share of interest charge of associate	**0.9**	0.8
	29.9	28.4

6 Profit on ordinary activities before taxation

	2005 £m	2004 £m
Profit on ordinary activities before taxation is stated after charging the following:		
Depreciation – owned assets	**144.8**	126.8
Amortisation of goodwill – subsidiaries	**0.2**	2.4
– associate	**–**	1.0
Auditors' remuneration – audit of group	**0.5**	0.5
– audit of company (included in the above)	**0.1**	0.1
– non audit	**0.3**	0.1
Operating lease rentals – land and buildings	**56.3**	52.7
– plant and machinery	**1.7**	1.9

7 Tax on profit on ordinary activities

	2005 £m	2004 £m
Analysis of tax charge:		
Corporation tax based on the profit for the year	**32.5**	30.6
Corporation tax – prior years	**(3.8)**	(14.5)
Total current tax charge	**28.7**	16.1
Deferred tax – origination and reversal of timing differences	**10.5**	8.4
	39.2	24.5

	2005 £m	2004 £m
The tax credit which is attributable to exceptional items comprises:		
Current tax	**0.4**	(11.0)
Deferred tax	**(1.8)**	(1.5)
	(1.4)	(12.5)

Notes to the accounts

continued

7 Tax on profit on ordinary activities (continued)

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

	2005 £m	2004 £m
Factors affecting the tax charge for the year:		
Profit on ordinary activities before tax and after Partnership bonus	**109.5**	86.2
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	**32.9**	25.9
Effects of:		
Expenses not deductible for tax purposes:		
Losses and goodwill amortisation of associate	**4.1**	4.8
Exceptional items	**(4.5)**	0.9
Other	**1.8**	1.8
Capital allowances in excess of depreciation	**(3.5)**	(0.8)
Other timing differences	**2.6**	(0.2)
Non-taxable receipts	**(0.9)**	(1.8)
Adjustment for prior years	**(3.8)**	(14.5)
Current tax charge for the year	**28.7**	16.1

8 Profit for the financial year

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

9 Dividends

	2005 £m	2004 £m
Non equity interests		
7½% First Cumulative Preference Stock		
and 5% Cumulative Preference Stock	**0.2**	0.2

10 Directors' emoluments

	2005 £000	2004 £000
Directors' remuneration including Partnership bonus of 14% (12%)	**3,812**	3,479

The emoluments of the Chairman, who was also the highest paid director, were £700,000 (£626,000), including Partnership bonus of £84,000 (£66,000). The Chairman's aggregate pension entitlement from the age of 60 accrued at the end of the year was £391,000 per annum (£363,000 per annum). The transfer value of the increase in accrued entitlement during the year was £238,000.

10 Directors' emoluments (continued)

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:

	2005	2004		2005	2004
£0 - £50,000	**2**	2	£300,001 - £350,000	**3**	–
£50,001 - £100,000	**1**	2	£350,001 - £400,000	**–**	1
£100,001 - £150,000	**1**	–	£400,001 - £450,000	**1**	2
£150,001 - £200,000	**1**	1	£450,001 - £500,000	**–**	1
£200,001 - £250,000	**1**	1	£500,001 - £550,000	**2**	–
£250,001 - £300,000	**–**	2			

In addition, one director is being paid compensation for loss of office totalling £591,000 in salary, car and other benefits and £426,000 in respect of pension arrangements, subject to deduction of tax.

Contracts of employment for the Chairman and six directors provide for a notice period of one year. Contracts for all other directors provide for six months' notice, with the exception of one director who has a notice period of three months.

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.

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

All members of the Board belong to the Partnership's non-contributory pension scheme. During the year the Chairman and five directors also belonged 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 Partnership has given undertakings that four directors who are affected by this ceiling will have their pension 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:

	2005	2004		2005	2004
£0 - £50,000	**5**	5	£151,001 - £200,000	**1**	1
£50,001 - £100,000	**3**	4	£200,001 - £250,000	**1**	–
£100,001 - £150,000	**1**	1	£250,001 - £300,000	**1**	1

Notes to the accounts

continued

10 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 £1,124,000 per annum (£924,000 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 of 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 £29,000 per annum (£27,000 per annum). The transfer value of the aggregate increase in accrued entitlement, including temporary pensions, during the year was £1,968,000.

11 Employees

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

	2005	2004
John Lewis	**27,000**	27,300
Waitrose	**32,500**	30,600
Other	**1,600**	1,700
	61,100	59,600

Employment and related costs were as follows:

	2005 £m	2004 £m
Staff costs:		
Wages and salaries	**713.8**	689.7
Social security costs	**57.9**	55.9
Partnership bonus	**94.2**	77.7
Employers' national insurance on Partnership bonus	**11.6**	9.6
Pension costs	**80.6**	71.4
Partner discounts (deducted from gross sales)	**18.7**	18.4

12 Goodwill

	£m
Cost at 31 January 2004 and 29 January 2005	7.0
Amortisation at 31 January 2004	6.8
Amortisation charge for the year	0.2
Amortisation at 29 January 2005	7.0
Net book value at 31 January 2004	0.2
Net book value at 29 January 2005	–

13 Tangible fixed assets

	Land and buildings £m	Fixtures and fittings £m	Payments on account and assets in course of construction £m	Total £m
Cost or valuation				
At 31 January 2004	1,810.3	967.4	61.2	2,838.9
Additions at cost	217.0	94.2	228.2	539.4
Transfers	138.2	69.4	(207.6)	–
Disposals	(30.6)	(63.1)	–	(93.7)
At 29 January 2005	**2,134.9**	**1,067.9**	**81.8**	**3,284.6**
At cost	1,512.4	1,067.9	81.8	2,662.1
At valuation 1988	21.0	–	–	21.0
At valuation 2000	601.5	–	–	601.5
At 29 January 2005	**2,134.9**	**1,067.9**	**81.8**	**3,284.6**
Depreciation				
At 31 January 2004	287.2	579.1	–	866.3
Charges for the year	51.3	93.5	–	144.8
Disposals	(3.3)	(59.1)	–	(62.4)
At 29 January 2005	**335.2**	**613.5**	**–**	**948.7**
Net book values at 31 January 2004	1,523.1	388.3	61.2	1,972.6
Net book values at 29 January 2005	**1,799.7**	**454.4**	**81.8**	**2,335.9**

	2005 £m	2004 £m
Land and buildings at cost or valuation:		
Freehold property	**1,218.9**	989.3
Leasehold property, 50 years or more unexpired	**702.3**	628.1
Leasehold property, less than 50 years unexpired	**213.7**	192.9
	2,134.9	1,810.3

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 leisure 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.

Notes to the accounts

continued

13 Tangible fixed assets (continued)

Included in land and buildings at 29 January 2005 is land valued at £483.7m (£362.9m), which is not subject to depreciation. At 29 January 2005 land and buildings would have been included at the following amounts, if they had not been revalued:

	2005 £m	2004 £m
Cost	**1,934.3**	1,607.8
Accumulated depreciation	**(366.4)**	(320.3)
	1,567.9	1,287.5

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).

14 Investment in associate

Cost	**Share of net assets £m**	**Loans £m**	**Goodwill £m**	**Total £m**
At 31 January 2004	(10.3)	30.0	16.5	36.2
Addition in year	–	8.6	–	8.6
Share of retained loss	(14.1)	–	–	(14.1)
Dilution of interest	9.6	–	(1.4)	8.2
At 29 January 2005	**(14.8)**	**38.6**	**15.1**	**38.9**
Amounts written off				
At 31 January 2004	–	(1.1)	(16.5)	(17.6)
Dilution of interest	–	–	1.4	1.4
Credit arising on dilution of interest	–	(9.6)	–	(9.6)
At 29 January 2005	**–**	**(10.7)**	**(15.1)**	**(25.8)**
Net book value				
At 31 January 2004	(10.3)	28.9	–	18.6
At 29 January 2005	**(14.8)**	**27.9**	**–**	**13.1**

Investments represent 0.1% of the Ordinary Shares and 52% of the Convertible Preference Shares of Ocado Limited which equates to 32.5% of the issued share capital.

In February 2004 the Partnership invested a further £8.6m in Ocado C loan stock. During the year preference shares were issued to other investors providing funding and, as a result, the Partnership's holding reduced from 35.6% to 32.5% of the issued share capital. These transactions gave rise to credits of £9.6m on the dilution of the holding; however, the Directors do not believe it is appropriate to recognise such credits at this stage in Ocado's development. Accordingly, the total amount has been taken against loan balances owed to the group by Ocado.

14 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 40%. £17.7m of the loan stock is repayable in 2007 or, since 2004, at Ocado's option. Conversion to preference shares is at the Partnership's option, since 2004. £12.3m of 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. £8.6m of C loan stock is repayable in 2011, or earlier at Ocado's option. Conversion to preference shares is on the same terms as for the B loan stock.

15 Fixed asset investments

	Subsidiary		Other	Total
Company	**Shares in John Lewis plc £m**	**Loan to John Lewis plc £m**	**Shares in John Lewis Partnership Trust Limited £m**	**£m**
At 31 January 2004	13.0	1.8	0.1	14.9
Movements	–	(0.2)	–	(0.2)
Dividend receivable	–	0.2	–	0.2
At 29 January 2005	**13.0**	**1.8**	**0.1**	**14.9**

16 Stocks

	2005 £m	2004 £m
Raw materials	**8.8**	7.5
Work in progress	**2.2**	2.6
Finished goods and goods for resale	**329.0**	319.1
	340.0	329.2

17 Debtors

	2005 £m	2004 £m
Amounts falling due within one year:		
Trade debtors	**28.4**	25.4
Other debtors	**30.9**	25.6
Due from associated undertaking	**5.1**	3.6
Prepayments and accrued income	**58.9**	32.9
	123.3	87.5

Included in prepayments are £11.5m of amounts maturing after one year.

Notes to the accounts

continued

18 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	201.5	40.3	241.8
Euro	2.0	–	2.0
Other	0.7	–	0.7
At 29 January 2005	**204.2**	**40.3**	**244.5**
Sterling	390.4	17.9	408.3
Euro	1.9	–	1.9
Other	0.1	–	0.1
At 31 January 2004	392.4	17.9	410.3

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

19 Creditors

	2005 £m	2004 £m
Amounts falling due within one year:		
Bank overdraft and other borrowings	**39.9**	76.9
Trade creditors	**300.2**	239.3
Amounts owed to associated undertaking	**1.9**	–
Other creditors	**90.6**	81.5
Corporation tax	**5.7**	6.3
Other taxation and social security	**58.6**	58.1
Accruals and deferred income	**75.0**	48.0
Partnership bonus	**94.2**	77.7
	666.1	587.8
Amounts falling due after more than one year:		
Loans	**80.0**	50.0
10¼% Bonds, 2006	**50.0**	50.0
6⅞% Bonds, 2012	**300.0**	300.0
10½% Bonds, 2014	**100.0**	100.0
	530.0	500.0

Trade creditors includes £6.2m (£5.4m) of balances denominated in foreign currencies. Of this, £5.8m (£5.0m) 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.

20 Provisions for liabilities and charges

	Deferred tax £m	Pensions £m	Other £m	Total £m
At 31 January 2004	128.2	14.4	15.0	157.6
Reclassification	–	–	9.8	9.8
Charged to profit and loss account	10.5	80.6	16.8	107.9
Utilised	–	(72.0)	(5.8)	(77.8)
At 29 January 2005	**138.7**	**23.0**	**35.8**	**197.5**

£9.8m of other creditor balances held in respect of insurance claims as at 31 January 2004 have been reclassified as provisions.

Further details on pensions are provided in note 30. Other provisions include insurance claim provisions, reorganisation costs, accrued holiday pay, property related costs and provisions 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 21.

Provision for deferred taxation	**2005 £m**	2004 £m
Accelerated capital allowances	**144.7**	131.6
Pension and other timing differences	**(6.0)**	(3.4)
	138.7	128.2

No provision has been made in these accounts for the liability to taxation of £49.4m (£46.2m) 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.

21 Analysis of financial liabilities

The currency and interest rate exposure of the group's financial liabilities, after taking account of £50.0m of swaps 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 29 January 2005	**400.0**	**169.9**	**35.8**	**605.7**
At 31 January 2004	350.0	226.9	15.0	591.9

Floating rate borrowings are at interest rates linked to LIBOR. The weighted average rate for fixed rate borrowings is 7.9% (8.1%), with a weighted average period to maturity of 6.8 years (7.8 years).

Other financial liabilities excludes non equity minority interests of £0.4m (£0.4m), and preference share capital of £4.2m (£4.2m) as detailed in note 23.

Notes to the accounts

continued

21 Analysis of financial liabilities (continued)

Maturity of financial liabilities	**2005 £m**	2004 £m
Repayable in one year or less		
Bank overdraft and other borrowings	**39.9**	76.9
Provisions	**14.8**	9.6
	54.7	86.5
Repayable between one and two years		
Provisions	**10.4**	3.3
Loans	**–**	50.0
10¼% Bonds 2006	**50.0**	–
	60.4	53.3
Repayable between two and five years		
Provisions	**8.6**	1.6
Loans	**80.0**	–
10¼% Bonds 2006	**–**	50.0
	88.6	51.6
Repayable in more than five years		
Provisions	**2.0**	0.5
6⅜% Bonds 2012	**300.0**	300.0
10½% Bonds 2014	**100.0**	100.0
	402.0	400.5
	605.7	591.9

Borrowing facilities

At 29 January 2005 and 31 January 2004 the group had undrawn committed facilities of £300m, expiring in December 2008. There was also an overdraft facility of £75m (£75m), renewable on an annual basis.

In February 2005 additional committed facilities of £230m were agreed, expiring in February 2010.

Further information in connection with FRS 13, Derivatives and Other Financial Instruments, is given in the Directors' Report on page 11.

22 Fair values of financial instruments

	2005 Book value £m	2005 Fair value £m	2004 Book value £m	2004 Fair value £m
Derivatives				
Interest rate swap	–	3.5	–	2.3
Forward currency contracts				
– to hedge existing creditors	–	(0.1)	–	(0.1)
– to hedge future purchases	–	(0.5)	–	(0.5)
Assets				
Short term deposits	115.0	115.0	314.0	314.0
Cash at bank and in hand	79.4	79.4	66.3	66.3
Loans to associated undertaking	27.9	24.8	30.0	27.2
Liabilities				
Short term borrowings	(39.9)	(39.9)	(76.9)	(76.9)
Long term borrowings	(530.0)	(586.8)	(500.0)	(549.2)
Provisions	(35.8)	(35.8)	(24.8)	(24.8)
Non equity shares				
Preference shares	(4.2)	(3.7)	(4.2)	(3.3)
Non equity minority interest	(0.4)	(0.4)	(0.4)	(0.4)

Market values have been used to determine the fair value of derivatives, long term borrowings and preference shares. The fair value of loans has been assessed on a discounted basis. 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.

23 Share capital

	2005 Authorised £m	2005 Issued and fully paid £m	2004 Authorised £m	2004 Issued and fully paid £m
Equity				
Deferred Ordinary Shares of £1 each	0.6	0.6	0.6	0.6
Non equity				
Fixed interest Cumulative Preference Stock of £1 each held by the public:				
7½%	0.6	0.5	0.6	0.5
5%	8.8	3.7	8.8	3.7
	10.0	4.8	10.0	4.8

Notes to the accounts

continued

23 Share capital (continued)

Unless the preference dividends are in arrears, the 7½% and 5% Cumulative Preference Shares only have voting rights in relation to a variation of their class rights. The amounts receivable in a winding up would be limited to the amounts paid up, for the 5% Cumulative Preference Shares, and to one and a half times the amounts paid up for the 7½% Cumulative Preference Shares. The Deferred Ordinary Shares rank in all respects as equity shares except that each share has 1000 votes in a vote taken on a poll.

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

24 Reserves

Consolidated	Profit and loss account £m	Capital redemption reserve £m	Revaluation reserve £m	Other reserves £m	Total reserves £m
At 31 January 2004	1,295.8	5.0	235.6	1.4	1,537.8
Profit retained	70.1	–	–	–	70.1
Transfers	6.7	–	(6.7)	–	–
At 29 January 2005	**1,372.6**	**5.0**	**228.9**	**1.4**	**1,607.9**

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

Company	Profit and loss account £m	Capital redemption reserve £m	Total reserves £m
At 31 January 2004 and 29 January 2005	**4.9**	**5.0**	**9.9**

All of the reserves are attributable to equity shareholders.

25 Reconciliation of movements in shareholders' funds

	2005 £m	2004 £m
Profit for the financial year	**70.3**	61.7
Dividends	**(0.2)**	(0.2)
Net addition to shareholders' funds	**70.1**	61.5
Opening shareholders' funds	**1,543.0**	1,481.5
Closing shareholders' funds	**1,613.1**	1,543.0

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

	2005 £m	2004 £m
Trading profit	**231.8**	212.8
Depreciation charged	**144.8**	126.8
Amortisation of goodwill	**0.2**	2.4
(Increase)/decrease in debtors	**(27.8)**	31.0
Increase/(decrease) in creditors	**78.2**	(43.9)
Movement in provisions	**19.3**	3.1
(Increase)/decrease in stocks	**(10.8)**	(13.9)
Partnership bonus paid for previous year	**(87.3)**	(67.6)
Net cash inflow from operating activities	**348.4**	250.7

Included in net cash inflow from operating activities are cash outflows of £4.3m (£9.6m) in respect of exceptional reorganisation costs.

27 Analysis of changes in net debt

	2004 £m	Cash flows £m	2005 £m
Cash balances	66.3	13.1	79.4
Overdrafts	(76.9)	37.0	(39.9)
	(10.6)	50.1	39.5
Debt due after one year	(500.0)	(30.0)	(530.0)
Short term deposits	314.0	(199.0)	115.0
Net debt	(196.6)	(178.9)	(375.5)

Notes to the accounts

continued

28 Commitments

At 29 January 2005 contracts had been entered into for future capital expenditure of £43.4m (£43.8m).

John Lewis plc has entered into bank guarantees in favour of subsidiary companies amounting to £16.0m, and lease and loan guarantees in favour of the group's associate company (Ocado Limited) of £8.7m, of which £1.9m has lapsed since the year end.

29 Lease commitments

Operating leases **Rentals for the next financial year on operating leases expiring:**	**2005** **Land and Buildings** **£m**	**2005** **Plant and Machinery** **£m**	2004 Land and Buildings £m	2004 Plant and Machinery £m
Within 1 year	**0.7**	**0.1**	1.2	0.3
Between 1 and 5 years	**4.0**	**0.7**	2.8	0.7
Over 5 years	**59.2**	–	49.1	–

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 an independent professionally qualified actuary as at 31 March 2004, 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 3.1% and 4.2% respectively. The market value of the assets of the fund as at 31 March 2004 was £1,094m. The actuarial valuation of these assets showed that they were sufficient to cover 85% of the benefits which had accrued to members.

The actuaries have recommended a normal future contribution rate of 8.2% of total pay, together with an additional 1.8% 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 10.5% (10.0%) of total pay and amounted to £75.0m (£69.0m), 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 2007.

As explained in note 10, there is also a senior pension scheme which provides additional benefits to certain members of senior management. The actuaries have recommended a contribution of £1.7m for the year, increasing at 6% annually, with an additional charge for new entrants to the scheme. The charge for the year was £1.7m (£1.4m). Provision has also been made for unfunded benefits, amounting to £3.9m (£1.0m). Both of these amounts are included in the total pension cost of £80.6m (£71.4m).

The disclosures required by FRS 17, Retirement Benefits, have been based on the most recent actuarial valuations, as at 31 March 2004, and have been updated by the actuaries to assess the value of the assets and liabilities of the schemes as at 29 January 2005.

30 Pension commitments (continued)

Scheme assets are stated at market values at 29 January 2005. The following financial assumptions have been used:

	2005	2004	2003
Future price inflation	**2.70%**	2.60%	2.25%
Discount rate	**5.40%**	5.60%	5.75%
Increases in earnings	**3.70%**	4.10%	3.75%
Increases in pensions	**2.70%**	2.60%	2.25%

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

	29 January 2005		31 January 2004		25 January 2003	
	Long term expected rate of return	**Value £m**	Long term expected rate of return	Value £m	Long term expected rate of return	Value £m
Assets						
Equities	**8.20%**	**897.0**	8.25%	747.0	8.50%	577.0
Properties	**6.80%**	**159.0**	6.90%	141.0	6.80%	131.0
Bonds	**5.40%**	**222.0**	5.60%	183.0	5.75%	138.0
Other assets	**3.70%**	**5.0**	3.60%	30.0	3.80%	5.0
Total market value of assets		**1,283.0**		1,101.0		851.0
Present value of scheme liabilities		**(1,766.0)**		(1,507.0)		(1,282.0)
Deficit in schemes		**(483.0)**		(406.0)		(431.0)
Related deferred tax asset		**144.9**		121.8		129.3
Net pension liability		**(338.1)**		(284.2)		(301.7)

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

	2005 £m	**2004 £m**
Net assets as reported	**1,613.1**	1,543.0
Add back SSAP 24 pension liability, net of deferred taxation	**16.1**	10.1
Less FRS 17 pension liability	**(338.1)**	(284.2)
Net assets including FRS 17 pension liability	**1,291.1**	1,268.9
Profit and loss reserve as reported	**1,372.6**	1,295.8
Add back SSAP 24 pension liability, net of deferred taxation	**16.1**	10.1
Less FRS 17 pension liability	**(338.1)**	(284.2)
Profit and loss reserve including FRS 17 pension liability	**1,050.6**	1,021.7

Notes to the accounts

continued

30 Pension commitments (continued)

The following amounts would have been recognised in the performance statements under the requirements of FRS 17:

	Year ended 29 January 2005 £m	Year ended 31 January 2004 £m
Operating profit		
Current service cost	**82.4**	79.3
Past service cost	**1.6**	16.9
Charge to operating profit	**84.0**	96.2
Other finance income		
Expected return on assets	**(83.6)**	(69.4)
Interest on pension liabilities	**82.9**	72.4
Charge/(credit) to financing cost	**(0.7)**	3.0
Charge to profit and loss account	**83.3**	99.2
Statement of total recognised gains and losses		
Actual return less expected return on assets	**(81.0)**	(158.4)
Experience gains arising on liabilities	**70.3**	(28.3)
Changes in assumptions underlying the present value of liabilities	**79.0**	135.0
Total actuarial (gain)/loss recognised	**68.3**	(51.7)

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

	2005 £m	2004 £m
Deficit at beginning of year	**(406.0)**	(431.0)
Current service cost	**(82.4)**	(79.3)
Contributions	**74.6**	72.5
Past service costs	**(1.6)**	(16.9)
Other finance (charges)/income	**0.7**	(3.0)
Actuarial gain/(loss)	**(68.3)**	51.7
Deficit at end of year	**(483.0)**	(406.0)

30 Pension commitments (continued)

Contributions will be as follows until the next actuarial valuations due as at 31 March 2007:

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

The John Lewis Partnership Senior Pension Scheme – £1.7m per year, increasing at 6% annually, with an additional charge for new entrants to the scheme.

Experience gains and losses were as follows:

	Year ended 29 January 2005	Year ended 31 January 2004	Year ended 25 January 2003
Difference between the expected and actual return on assets:			
Gain/(loss) (£m)	**81.0**	158.4	(248.1)
Percentage of assets	**6%**	14%	29%
Experience gains and losses on liabilities:			
Gain/(loss) (£m)	**(70.3)**	28.3	1.7
Percentage of the present value of liabilities	**4%**	2%	0.1%
Total amount recognised in the statement of total recognised gains and losses:			
Gain/(loss) (£m)	**(68.3)**	51.7	(246.4)
Percentage of the present value of liabilities	**4%**	3%	19%

31 Related party transactions

During the year the Partnership entered into transactions with its associate company, Ocado Limited, for the supply of goods at cost totalling £36.7m (£18.9m), provision of IT and other services totalling £1.8m (£0.1m) and interest charges of £0.7m (£0.4m). Included within debtors is a balance of £5.1m (£3.6m) due from Ocado Limited in respect of these transactions. Included within creditors is a balance of £1.9m (£nil) due to Ocado in connection with the supply of goods.

Notes to the accounts

continued

32 Subsidiary and associated undertakings

Subsidiary companies as at 29 January 2005 were as follows:

John Lewis plc *(Department Store retailing)*
Ordinary shares – 100%
5% First Cumulative Preference Stock – 83.3%
7% Cumulative Preference Stock – 75.6%

Subsidiaries of John Lewis plc:
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; subsidiary of Waitrose Limited)*

Associate of John Lewis plc:
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 and Wales.

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.

Report of the auditors to the members of John Lewis Partnership plc

We have audited the financial statements of John Lewis Partnership plc which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement 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 and 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 29 January 2005 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

PricewaterhouseCoopers

1 Embankment Place
London WC2N 6RH
21 April 2005

Retail branches

Department Stores

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

Waitrose Supermarkets

London

Barnet	Chelsea	Fulham	Kensington	South Harrow	Wandsworth
Belgravia	East Sheen	Gloucester Road	Marylebone	Swiss Cottage	West Ealing
Brent Cross	Enfield	Harrow Weald	Mill Hill	Temple Fortune	Whetstone
Canary Wharf	Finchley	Holloway Road	Putney		

Southern England

Abingdon	Chandlers Ford	Godalming	Marlborough	Sanderstead	Twickenham
Allington Park	Cheltenham	Goldsworth Park	Marlow	Sevenoaks	Twyford
Andover	Chesham	Gosport	Milton Keynes	Sidmouth	Wallingford
Banstead	Chichester	Green Street Green	New Malden	South Woodford	Wantage
Bath	Cirencester	Hailsham	Newbury	Southampton	Waterlooville
Beaconsfield	Cobham	Harpenden	Northwood	Southend	Welwyn Garden City
Beckenham	Coulsdon	Havant	Okehampton	Southsea	Westbourne
Berkhamsted	Crowborough	Henley	Paddock Wood	St Albans	Westbury Park
Billericay	Dartford	Hertford	Petersfield	Staines	West Byfleet
Birch Hill	Dibden	Hitchin	Portishead	Stevenage	Weybridge
Bishop's Stortford	Dorchester	Horley	Ramsgate	Stroud	Windsor
Brighton	Dorking	Horsham	Reading	Sunningdale	Winton
Bromley	Epsom	Hythe	Richmond	Surbiton	Witney
Bromley South	Esher	Kingston	Ringwood	Tenterden	Wokingham
Buckhurst Hill	Farnham	Leighton Buzzard	Romsey	Thame	Woodley
Burgess Hill	Fleet	Longfield	Ruislip	Thatcham	Worcester Park
Caterham	Frimley	Lymington	Salisbury	Tonbridge	Worthing
Caversham	Gillingham	Maidenhead	Saltash	Towcester	Yateley

Midlands, East Anglia, Wales and Northern England

Abergavenny	Ely	Huntingdon	Newmarket	Saffron Walden	Stourbridge
Barry	Evington	Kidderminster	Newport	Sandbach	Sudbury
Blaby	Four Oaks	Kingsthorpe	Norwich	Sheffield	Swaffham
Bury St Edmunds	Great Malvern	Lincoln	Otley	Southport	Willerby
Cambridge	Hall Green	Monmouth	Peterborough	St Ives	Wolverhampton
Daventry	Harrogate	Newark	Rushden	St Neots	Wymondham

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-sixth annual general meeting of the company will be held at 12.20 pm on 22 June 2005 at 171 Victoria Street, London SW1E 5NN:

- To receive the directors' report and accounts for the year 2004/05.
- To consider the re-election of retiring directors.
- To consider the re-appointment of the auditors.
- To consider the remuneration of the auditors.
- To consider the following, which will be proposed as an Ordinary Resolution.

  That pursuant to the Company's Articles of Association;

  (a) The Company be and is hereby authorised to purchase by way of market purchase on a recognised stock exchange;

    (i) up to £3,696,995 in nominal amount of 5 per cent Cumulative Preference Stock ("the 5 per cent Stock") in the Company at a minimum price of 60p and a maximum price of 95p per £1 nominal of the 5 per cent Stock

    and

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

    and

  (b) this authority shall expire at the close of the annual general meeting of the Company held in 2006 or 22 September 2006, whichever is earlier.

By Order of the Board
Terence Neville
Secretary
171 Victoria Street, London SW1E 5NN
4 May 2005

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

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