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REPORT & ACCOUNTS

2001

JOHN LEWIS PARTNERSHIP plc

CONTENTS

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 Partnership's purpose is to secure the fairest possible sharing among all those who work in it of all the advantages of ownership. John Lewis Partnership plc and John Lewis plc have modest issues of preference stock. Payment of dividends upon these stocks is naturally the first claim upon the Partnership's profits but the whole of the balance of profit is available to be shared among its permanent employees, i.e. the members of the Partnership, and for reserves. The equity and control of John Lewis Partnership plc, and hence of the Partnership, are held in trust by John Lewis Partnership Trust Limited for the benefit of the employees. One of the principal duties of the Trust Company under the terms of two irrevocable Settlements is to secure the appointment of directors to the Board of John Lewis Partnership plc in accordance with the Partnership's Constitution. The Constitution requires the appointment to the Board of the Chairman and Deputy Chairman of the Trust Company and of five other directors on the nomination of the Chairman together with five other directors nominated by the Central Council, which itself represents the Partnership's 54,000 members. The Board of John Lewis Partnership plc thus constituted directs the Partnership's business on behalf of its members.

SUMMARY
OF RESULTS
FOR THE YEAR ENDED 27 JANUARY 2001

	2001 £m	2000 £m
Turnover (including VAT)	4,126.6	3,747.6
Trading profit	180.6	214.0
Acquisition – Share of operating loss of associate	(3.8)	–
Total operating profit	176.8	214.0
Interest	(27.3)	(19.3)
Profit before Partnership bonus and taxation	149.5	194.7
Taxation	(23.9)	(33.4)
Preference dividends	(0.3)	(0.3)
Balance available for profit sharing and retention in the business	125.3	161.0
Partnership bonus	(58.1)	(77.8)
Retained in the business for development	67.2	83.2
Net assets employed at the year end	1,498.2	1,431.0
Average number of employees (weighted for part-timers)	38,000	35,600
Number of shops – Department stores	25	25
– Supermarkets	136	121

FIVE YEAR
RECORD
YEARS ENDED JANUARY

	2001 £m	2000 £m	1999* £m	1998 £m	1997 £m
Turnover (including VAT)	**4,126.6**	3,747.6	3,517.6	3,460.1	3,160.5
Profit before pension costs	**235.5**	263.7	267.5	300.7	262.3
Pension costs	**(54.9)**	(49.7)	(47.5)	(29.0)	(23.4)
Exceptional operating income	–	–	33.5	–	–
Acquisition – Share of operating loss of associate	**(3.8)**	–	–	–	–
Interest	**(27.3)**	(19.3)	(16.6)	(21.4)	(21.8)
Profit before Partnership bonus and taxation	**149.5**	194.7	236.9	250.3	217.1
Taxation	**(23.9)**	(33.4)	(46.8)	(49.9)	(45.2)
Dividends	**(0.3)**	(0.3)	(0.2)	(0.2)	(0.2)
Net profit available for profit sharing and retention in the business	**125.3**	161.0	189.9	200.2	171.7
Partnership bonus	**(58.1)**	(77.8)	(88.9)	97.7)	(81.7)
As a percentage of ranking pay	**10**	15	19	22	20
Retained in the business	**67.2**	83.2	101.0	102.5	90.0
Net assets employed	**1,498.2**	1,431.0	1,303.5	1,195.4	1,062.5
Pay	**562.7**	508.1	467.4	442.1	402.3
Average number of employees	**53,200**	49,000	46,800	45,300	43,700
including part-time employees	**23,600**	20,800	19,800	18,800	17,800

* 53 week year

CHAIRMAN'S STATEMENT

Retailing in the early years of the new millennium is proving singularly challenging. Positive economic conditions are unusually matched with retail spending caution, and the absence of inflation – and across large ranges, significant deflation – in retail prices makes the conversion of sales into profit an uphill struggle. Even so, the Partnership has demonstrated the robustness of both its retail formats with growth in sales – and, importantly, in market share – and has continued to make strategic investments to sustain its future market position.

Partnership sales overall rose to £4.1bn, an increase of 10%. A profit fall (before Partnership bonus and taxation) to £150m (-23%) was influenced by heavy costs and exceptional charges, as described below. £67m of profit after taxation was retained in the business, and the remaining £58m was shared among our 54,000 Partners by way of Partnership Bonus – with everyone receiving 10% of pay.

Waitrose
The Waitrose sales increase was 13%, boosted by the eleven new branches acquired from Somerfield as well as five new branches and one relocation. Partners throughout the business pulled out all the stops to meet the tight timetable for converting the Somerfield shops to the Waitrose identity and shopfloor standards and the associated training of our new Partners. We have seen a particularly positive response to the opening of our new supermarket in Cambridge, which incorporates all our latest thinking on food service. Like-for-like sales advanced by 3%, and once again Waitrose gained market share. Extra volume enabled gross margin for the year to hold up well, but the new branches and the absorption and refurbishment of the eleven Somerfield shops created substantial one off costs. Although trading profit in the second half was well up, the figure for the year as a whole decreased by 11% to £57m.

Department stores
Department store sales advanced by just over 7%. Sales from established branches increased by just under 7% marking good progress in the deflationary conditions already mentioned. Last September we relocated our Southampton department store business, Tyrrell & Green, to the new shopping mall West Quay, and the performance of John Lewis Southampton since opening has substantially exceeded our expectations and underlined the customer appeal of a full-line department store in modern, well-designed premises. At the same time, the major renovation work at Peter Jones has resulted in substantial disruption to the selling floors, and it is a credit to the attention paid to looking after our customers that close to 80% of previous trading levels have been retained through these adverse conditions. The manufacturing units achieved a 9% increase in sales despite a difficult climate for the textile sector.

The hard-won sales advances have not, however, carried through into profit growth. Department store margins have thinned as the driving force in sales has come from the lower margin areas of electrical appliances, audio/television and computers, but the growth in market share in these areas has underlined the confidence customers place in the value offered in our shops. The £100m Peter Jones renovation project has required heavy spending on preparatory works, which had to be written off immediately, and, combined with the profit decline on lower sales volume, £17m has been knocked from department store profits for the year. Additionally we have made provision for the costs of closing Taylor & Penton, which has been our manufacturer of Jonelle fitted kitchen furniture and beds. Higher depreciation following the adoption of FRS 15 has shaved a further £3m off department store profits. In consequence, the trading profit for the division decreased by 18% to £124m.

e-commerce

Alongside continuing attention to the quality of our department store and Waitrose selling space, the Partnership has made strategic investments in new selling channels. Waitrose has continued to develop internet-based ordering and delivery, and WaitroseDeliver has been added to the well-established office-based Waitrose@work. We have acquired a 40% share in the LMS e-commerce grocery business which expects to begin trading this year. The Partnership's share of their loss was £3.6m (being £3.8m loss and £0.2m interest income), relating to the early start up costs and write down of goodwill on our investment. Since the year end, we have acquired the UK business of buy.com, which will substantially accelerate the capability of the existing John Lewis Now site. While we recognise that e-commerce currently represents a small part of our markets we are determined to build on our existing reputation to establish our place as a 'multi-channel retailer'.

Capital spending

Capital spending increased from £171m to £317m, with the Somerfield acquisition accounting for a large proportion of the increase. The net interest charge increased with interest cover falling from eleven to six times. Year end gearing increased from 13% to 21%.

Looking ahead

John Lewis Solihull will be opened in September, work at Peter Jones will continue, Jessops in Nottingham is being modernised and extended and a £13m refurbishment of John Lewis Oxford Street's ground floor and basement will be carried out this year. Work is underway to open 3 new Waitrose supermarkets and 2 Food & Home branches in 2002. These continuing investments illustrate an accelerated pace of refurbishment to capitalise on the experience of strong trading in our most recently opened shops.

After 12 weeks of the current trading year, sales are 7% ahead in department stores and 13% in Waitrose, and we expect to continue to move sales forward and build market share. The absence of inflation across a wide part of our assortment means that turning extra sales into profit will remain challenging. Extension of trading hours is under review in many of our department stores as part of our focus on meeting customers' expectations. The major one-off costs of the Somerfield acquisition and Peter Jones preparatory work will not recur, though the reduced profit of the latter will continue to hold back our department store profit. The two e-commerce ventures will inevitably register losses in their start up phases in the current year.

The benefits of many of the initiatives now under development will not show through until 2002, but I expect the year ahead to show important and visible progress towards our long-term goals of improving the service, offer and customer appeal of both divisions.

SIR STUART HAMPSON CHAIRMAN
26 APRIL 2001

DIRECTORS

AND ADVISERS

DIRECTORS

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

SIR STUART HAMPSON AGE 54

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

DAVID YOUNG AGE 59

Deputy Chairman since 1993 and Finance Director from 1987 when he joined the Board. Joined the Partnership 1982.

JOHNNY AISHER † AGE 39

Project Manager, Management Services since 1999. Member of the Board since 1999. Joined the Partnership 1985.

IAN ALEXANDER AGE 51

Development Director since 2000. Member of the Board since 1990. Joined the Partnership 1987.

DUDLEY CLOAKE AGE 57

Director of Personnel since 2000. Member of the Board since 1997. Joined the Partnership 1968.

DAVID FELWICK AGE 56

Director of Trading (Food) since 1991, when he joined the Board. Joined the Partnership 1982.

DAVID JONES † AGE 40

Central Buyer, Waitrose since 1994. Member of the Board since 1999. Joined the Partnership 1982.

LUKE MAYHEW AGE 47

Director of Trading (Department Stores) since 2000. Member of the Board since 1993. Joined the Partnership 1992.

ALASTAIR MCKAY † AGE 55

Partners' Counsellor since 2000. Member of the Board since 2000. Joined the Partnership 1990.

MONTY PEACH † AGE 58

Section Manager, Stead McAlpin since 1992. Member of the Board since 1998. Joined the Partnership 1986.

DAME STEPHANIE SHIRLEY AGE 67

General Inspector since 1999 when she joined the Board. Joined the Partnership 1999.

KEN TEMPLE † AGE 53

Chief Registrar since 1995. Member of the Board since 1996. Joined the Partnership 1982.

OFFICERS AND ADVISERS

COMPANY SECRETARY

BRIAN PRITCHARD ACIS

DIRECTOR OF FINANCIAL CONTROL

ROS HAIGH FCA

DIRECTOR OF LEGAL SERVICES

TERRY NEVILLE

AUDITORS

PRICEWATERHOUSECOOPERS

SOLICITORS

LOVELLS

BANKERS

ROYAL BANK OF SCOTLAND PLC

REGISTERED OFFICE

171 VICTORIA STREET LONDON SW1E 5NN
Registered in England No. 238937

TRANSFER OFFICE

CAPITA IRG plc BOURNE HOUSE
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. All directors, with the exception of Alastair McKay, who was appointed as a director on 25 May 2000, served throughout the period under review.

Principal activity

The company controls, through John Lewis plc, the businesses listed on page 35, comprising 25 department stores, 136 Waitrose supermarkets and ancillary manufacturing activities.

Employees

The Constitution of the John Lewis Partnership provides for the constant and effective involvement of employees, all of whom are employed by subsidiary companies, in the Partnership's affairs. There is full, prompt and regular information on all aspects through extensive weekly journalism, as well as wide ranging communication and exchange of opinion, written and oral, through councils, committees, journalism and immediate management. Detailed explanations of financial results are given at intervals through the year in local units and for the John Lewis Partnership as a whole, including full analysis and council debate on the annual report and accounts of the holding company.

The Partnership 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 directors have considered the application of the 'Combined Code'. The company does not have equity shares listed on the London Stock Exchange and the ownership structure and written Constitution of the Partnership do not make it practicable to comply in detail with the 'Combined Code'. The following information is relevant in this context:

The Partnership has since 1929 operated under a Constitution which encourages the widest possible sharing of profit, knowledge and power by all Partners while also prescribing the business's responsibilities to its suppliers, its customers and the community in which it operates. The systems of accountability laid down in the Partnership's Principles, Rules and Regulations conform with the spirit of the 'Combined Code' but are framed to suit the unique democratic ownership structure of the Partnership.

Principal authority in the affairs of the Partnership is divided between the Chairman, the Board of John Lewis Partnership plc (the Central Board) and the elected Central Council. The Central Council nominates five of the twelve members of the Central Board. Elected councils at local branch as well as central level provide regular opportunity 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, whilst an open system of journalism both contributes to this process of accountability and provides the means of sharing information extensively with all Partners.

The Partnership has an Audit Committee, the members of which are the Chairman, the General Inspector and one other Director (not an Executive Director), nominated by the Chairman, currently Ken Temple, the Chief Registrar. It meets at least twice a year.

DIRECTORS'

REPORT CONTINUED

Its purpose is to assist the Board in ensuring that 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 reflection of this position. It also ensures that appropriate accounting policies and internal financial controls are in place. The external auditors attend its meetings, as does the Head of Internal Audit.

Following earlier discusssion on the principles contained in the report 'Internal Control: Guidance for Directors on the Combined Code' (the Turnbull Report), procedures for improved risk management have been developed and implemented over the last year, and continuing consideration will address what further steps need to be taken to relate the spirit of these proposals to the ownership and Constitution of the Partnership.

European Monetary Union

The Partnership has a steering group which is chaired by the Finance Director and includes senior representatives of the two trading divisions and the central IT Group. Good progress has been made in identifying how conversion to the euro would be effected and in clarifying the areas where major business decisions would need to be taken. The group's policy on acquiring new systems is to ensure that they are euro compliant.

Payments to suppliers

The Partnership's policy for the payment of its suppliers is to agree the terms of payment in advance and, provided a supplier fulfils the agreement, to pay promptly in accordance with such terms. The Partnership's trade creditors at 27 January 2001 were equivalent to 29 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 salary of the Chairman is decided by the Board in response to proposals he and the Director of Personnel make based on independent market evidence. The salaries of directors appointed to the Board, and of elected directors who are also Principal Directors in the Partnership, are decided by the Chairman in consultation with the Deputy Chairman. They are provided with independent market evidence by the Director of Personnel and the Partnership's Pay Research Unit, subsequently circulated to the Board. The salaries of other elected members of the Board are determined by their own 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 FRS15 the Partnership has followed the transitional provisions 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, but 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 FRS11.

The Partnership's supermarket and distribution properties are stated at depreciated historical cost. The directors are satisfied that the current market value of these properties is not materially different from their carrying value, as at 27 January 2001.

Treasury policy and financial risk management

The Board approves the group's treasury and 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. Interest rate swaps have, on occasion, been used to move from fixed to floating rates. Total fixed rate financial liabilities were £189.5m, with £163.7m at floating rates, as detailed in note 19.

Liquidity risk

The group's policy is to manage its borrowing requirements in line with a seven year cash forecast which is produced annually. Committed revolving borrowing facilities of £150m are available for 4 years. Further borrowing facilities totalling £100m, available for between one and three years, were arranged during the year. In April 2001 John Lewis plc issued a £200m 6⅜% bond, maturing in January 2012. The Board is satsified 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 £3.3m of a total £3.8m of liabilities denominated in foreign currency were covered in this way. In addition, £10.9m 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 16, 19 and 20 to the Accounts.

Acquisitions

The Partnership acquired 40% of the issued share capital of L. M. Solutions (UK) Limited, an e-commerce grocery business, on 11 October 2000 for consideration of £35.0m. On 7 March 2001 the Partnership acquired 100% of the issued share capital of buy.com Limited, a UK internet retailer of technology, software and office products, for consideration of £2.8m.

Purchase of shares

At an Extraordinary General Meeting held on 9 February 1984, the company was authorised to purchase up to £100,000 nominal of the 7½% Cumulative Preference Stock and up to £4,350,000 nominal of the 5% Cumulative Preference Stock. This authority has been renewed at subsequent

DIRECTORS'
REPORT CONTINUED

meetings, the last of which was held on 25 May 2000.

The Board considers that these stocks have become a relatively inefficient form of fixed interest finance and that it would be advantageous to the company to acquire some of them.

ShareGift
Stockholders with small holdings of stock may like to consider donating their stock to charity under ShareGift, administered by the Orr Mackintosh Foundation. Details are available from the Company Secretary at the address given on page 36.

Use of profits
Preference dividends absorbed £283,000 leaving £67,200,000 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.

Charitable donations
The Partnership donated £1,527,000 for charitable purposes during the year, as well as substantial support in finance and in kind to causes in the communities where we trade, but made no political donations.

FOR AND BY ORDER OF THE BOARD
BRIAN PRITCHARD SECRETARY
26 APRIL 2001

CONSOLIDATED
PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 27 JANUARY 2001

Notes		2001 £m	2000 £m
2	**Turnover**	4,126.6	3,747.6
	Value added tax	(406.4)	(373.4)
		3,720.2	3,374.2
	Cost of sales	(2,552.1)	(2,303.1)
	Gross profit	1,168.1	1,071.1
	Selling and distribution costs	(807.1)	(705.0)
	Administrative expenses	(125.5)	(102.4)
3	Pension costs	(54.9)	(49.7)
2	**Trading profit**	180.6	214.0
	Acquisition – Share of operating loss of associate	(3.8)	–
	Total operating profit	176.8	214.0
4	Net interest payable	(27.3)	(19.3)
	Profit before Partnership bonus and taxation	149.5	194.7
	Partnership bonus	(58.1)	(77.8)
5	**Profit on ordinary activities before taxation**	91.4	116.9
6	Tax on profit on ordinary activities	(23.9)	(33.4)
7	**Profit for the financial year**	67.5	83.5
8	Dividends – non equity interests	(0.3)	(0.3)
22	**Profit retained**	67.2	83.2

STATEMENT OF TOTAL
RECOGNISED GAINS AND LOSSES

	Profit for the financial year	67.5	83.5
23	Unrealised surplus on revaluation of department store properties	–	44.6
	Total recognised gains and losses for the year	67.5	128.1

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 27 JANUARY 2001

Notes		2001 £m	2000 £m
	Fixed assets		
11	Tangible assets	1,687.8	1,473.9
12	Investment in associate	31.4	–
		1,719.2	1,473.9
	Current assets		
14	Stocks	283.9	274.6
15	Debtors	323.8	313.9
	Cash at bank and in hand	43.7	36.3
		651.4	624.8
	Creditors		
17	Amounts falling due within one year	(696.4)	(496.4)
	Net current (liabilities)/assets	(45.0)	128.4
	Total assets less current liabilities	1,674.2	1,602.3
	Creditors		
17	Amounts falling due after more than one year	(150.0)	(150.0)
18	**Provisions for liabilities and charges**	(26.0)	(21.3)
	Net assets	1,498.2	1,431.0
	Capital and reserves		
21	Called up share capital – equity	0.6	0.6
	– non equity	4.9	4.9
	Total share capital	5.5	5.5
	Minority interest in subsidiary (non equity)	0.5	0.5
22	Revaluation reserve	244.4	249.2
22	Other reserves	5.7	5.7
22	Profit and loss account	1,242.1	1,170.1
	Total shareholders' funds (including non equity interests)	1,498.2	1,431.0

APPROVED BY THE BOARD ON 26 APRIL 2001

SIR STUART HAMPSON

BALANCE SHEET
OF THE COMPANY
AS AT 27 JANUARY 2001

Notes		2001 £m	2000 £m
	Fixed assets		
13	Fixed asset investments	14.9	14.9
	Current assets and liabilities		
	Debtors	0.4	0.3
	Creditors	(0.2)	(0.2)
	Net current assets	0.2	0.1
	Net assets	15.1	15.0
	Capital and reserves		
21	Called up share capital – equity	0.6	0.6
	– non equity	4.9	4.9
	Total share capital	5.5	5.5
22	Other reserves	4.3	4.3
22	Profit and loss account	5.3	5.2
	Total shareholders' funds (including non equity interests)	15.1	15.0

APPROVED BY THE BOARD ON 26 APRIL 2001
SIR STUART HAMPSON

CONSOLIDATED
CASH FLOW STATEMENT

FOR THE YEAR ENDED 27 JANUARY 2001

Notes		2001 £m	2000 £m
24	**Net cash inflow from operating activities**	279.2	231.0
	Returns on investments and servicing of finance		
	Interest received	0.8	1.0
	Interest paid	(28.5)	(19.6)
	Interest element of finance lease rental payments	–	(0.3)
	Preference dividends paid	(0.3)	(0.3)
	Net cash outflow from returns on investments and servicing of finance	(28.0)	(19.2)
	Taxation	(32.9)	(53.1)
	Capital expenditure and financial investment		
	Purchases of tangible fixed assets	(316.6)	(170.6)
	Proceeds of sales of tangible fixed assets	10.4	2.7
	Purchase of own shares	–	(0.3)
	Net cash outflow from capital expenditure and financial investment	(306.2)	(168.2)
	Acquisitions		
	Investment in associate	(35.0)	–
	Net cash outflow before liquid resources and financing	(122.9)	(9.5)
	Management of liquid resources (Short term loans/deposits)	32.0	2.0
	Financing		
	Inception of loans	155.0	–
	Loan repayments	(4.7)	(4.4)
	Capital element of finance lease rental payments	(0.6)	(2.3)
	Net cash inflow/(outflow) from financing	149.7	(6.7)
	Increase/(decrease) in cash in the year	58.8	(14.2)

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 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.

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 was regarded as available for existing use in the open market. On adoption of FRS15 the Partnership has followed the transitional provisions 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, but 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 FRS11. Supermarket and distribution properties are carried at depreciated historical cost.

Depreciation
On adoption of FRS15, a review of the categorisation of assets, their useful economic lives and residual values was performed. As a result, certain economic lives and residual values have been revised, and this has resulted in a net additional depreciation charge in the year of £3.0m.

NOTES
TO THE ACCOUNTS
CONTINUED

1 ACCOUNTING POLICIES (CONTINUED)

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. Rentals payable under operating leases are charged to the profit and loss account as incurred.

Deferred taxation
Provision for deferred taxation is only made where there is a reasonable probability of a liability crystallising in the foreseeable future.

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 net interest income 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.

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	
	2001 £m	2000 £m	2001 £m	2000 £m
Department stores	**2,031.4**	1,894.6	**123.6**	149.9
Supermarkets	**2,095.2**	1,853.0	**57.0**	64.1
	4,126.6	3,747.6	**180.6**	214.0

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.

3 PENSION COSTS

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 1998, 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 2.25% and 4.25% respectively. The market value of the assets of the fund as at 31 March 1998 was £864m. The actuarial valuation of these assets showed that they were sufficient to cover 92% of the benefits which had accrued to members.

The actuaries have recommended a normal future contribution rate of 8.6% of total pay, together with an additional 1.2% 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 9.5% (9.5%) of total pay and amounted to £53.5m (£48.4m), 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 2001.

NOTES
TO THE ACCOUNTS
CONTINUED

3 PENSION COSTS (CONTINUED)

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 23.6% of total pay, depending on the level of benefits provided. The charge for the year was £1.1m (£1.1m). Provision has also been made for certain unfunded benefits, amounting to £0.3m (£0.2m). Both of these amounts are included in the total pension cost of £54.9m (£49.7m).

4 NET INTEREST PAYABLE

	2001 £m	2000 £m
Interest payable:		
On bank loans, overdrafts and other loans repayable within 5 years	12.7	4.5
On finance leases	–	0.2
On loans repayable in more than five years	15.6	15.6
Interest receivable	(0.8)	(1.0)
Share of interest income of associate	(0.2)	–
	27.3	19.3

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2001 £m	2000 £m
Profit on ordinary activities before taxation is stated after charging the following:		
Staff costs:		
Wages and salaries	562.7	508.1
Social security costs	44.2	39.7
Partnership bonus	51.6	69.2
Employers' national insurance on Partnership bonus	6.5	8.6
Pension costs	54.9	49.7
Depreciation – owned assets	91.9	79.0
– assets held under finance leases	0.4	1.3
Auditors' remuneration – audit of group	0.4	0.4
– audit of company (included in the above)	0.1	0.1
– non audit	0.1	–
Operating lease rentals – land and buildings	45.2	44.2
– other	0.3	0.4

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2001 £m	2000 £m
Corporation tax based on the profit for the year	23.1	33.5
Corporation tax – previous years	0.4	0.3
Deferred tax	0.4	(0.4)
	23.9	33.4

The tax charge is based on a corporation tax rate of 30% (30%) and has been reduced by £4.9m (£7.3m) as a result of capital allowances in excess of depreciation.

Total taxation deferred and unprovided in respect of all capital allowances in excess of depreciation amounts to £103.1m (98.2m) based on corporation tax at 30% (30%).

No provision has been made in these accounts for the liability to taxation of £47.7m (£41.8m) 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.

7 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 £0.3m (£0.3m).

8 DIVIDENDS

	2001 £m	2000 £m
Non equity interests		
7½% Cumulative Preference Stock		
and 5% Cumulative Preference Stock	0.3	0.3

NOTES
TO THE ACCOUNTS
CONTINUED

9 DIRECTORS' EMOLUMENTS

	2001 £000	2000 £000
Directors' remuneration including Partnership bonus of 10% (15%)	2,508	2,681

The emoluments of the Chairman, who was also the highest paid director, were £493,000 (£485,000), including Partnership bonus of £44,000 (£62,000). The Chairman's aggregate pension entitlement from the age of 60 accrued at the end of the year was £261,000 per annum (£230,000 per annum). The transfer value of the increase in accrued entitlement during the year was £437,000 (£418,000).

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:

	2001	2000		2001	2000
£0 - £50,000	3	6	£250,001 - £300,000	1	1
£50,001 - £100,000	1	–	£300,001 - £350,000	1	2
£100,001 - £150,000	2	3	£350,001 - £400,000	2	2
£200,001 - £250,000	1	–			

The Chairman's contract of employment provides 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, and one director, Dame Stephanie Shirley, who has a fixed term contract which ends in September 2001.

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 eight of the eleven members of the Board who served during the year were entitled to a car for their personal use, or its cash equivalent. They, together with one other Board Member, also benefited from private medical insurance paid by the Partnership.

Eleven members of the Board belong to the Partnership's non-contributory pension scheme. During the year the Chairman and six directors, who joined the Partnership before 1989 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 an undertaking that one director who is affected by this ceiling will have his 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.

9 DIRECTORS' EMOLUMENTS (CONTINUED)

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:

	2001	2000		2001	2000
£0 - £50,000	6	6	£100,001 - £150,000	2	–
£50,001 - £100,000	1	3	£150,001 - £200,000	2	2

The aggregate pension entitlement accrued at the end of the year for all directors, excluding the Chairman, who served on the Board during any part of the year, and the prior year amount for the same individuals, was £767,000 per annum (£614,000 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 £15,000 per annum (£15,000 per annum). The transfer value of the aggregate increase in accrued entitlement, including temporary pensions, during the year was £2,294,000.

10 EMPLOYEES

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

	2001	2000
Department stores	25,000	24,000
Supermarkets	26,500	23,300
Other	1,700	1,700
	53,200	49,000

NOTES
TO THE ACCOUNTS
CONTINUED

11 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 29 January 2000	1,268.8	679.6	77.6	2,026.0
Additions at cost	17.1	44.2	255.3	316.6
Transfers	198.6	65.6	(264.2)	–
Disposals	(9.1)	(19.7)	(0.1)	(28.9)
At 27 January 2001	1,475.4	769.7	68.6	2,313.7
At cost	850.9	769.7	68.6	1,689.2
At valuation 1988	21.0	–	–	21.0
At valuation 2000	603.5	–	–	603.5
At 27 January 2001	1,475.4	769.7	68.6	2,313.7
Depreciation				
At 29 January 2000	135.2	416.9	–	552.1
Charges for the year	32.2	60.1	–	92.3
Disposals	(1.0)	(17.5)	–	(18.5)
At 27 January 2001	166.4	459.5	–	625.9
Net book values at 29 January 2000	1,133.6	262.7	77.6	1,473.9
Net book values at 27 January 2001	1,309.0	310.2	68.6	1,687.8

	2001 £m	2000 £m
Land and buildings at cost or valuation:		
Freehold property	840.1	744.8
Leasehold property, 50 years or more unexpired	501.2	428.7
Leasehold property, less than 50 years unexpired	134.1	95.3
	1,475.4	1,268.8

11 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 FRS15 the Partnership has followed the transitional provisions to retain the book value of land and buildings revalued in 1999 and 1988, but 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 FRS11.

Included in land and buildings at 27 January 2001 is land valued at £318.3m, which is not subject to depreciation. At 27 January 2001 land and buildings would have been included at the following amounts, if they had not been revalued:

	2001 £m	2000 £m
Cost	1,273.0	1,064.4
Accumulated depreciation	(208.4)	(180.8)
	1,064.6	883.6

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 (£11.9m).

NOTES
TO THE ACCOUNTS
CONTINUED

12 INVESTMENT IN ASSOCIATE

	2001 £m
Cost	
Share of net assets acquired	14.9
Goodwill	20.1
	35.0
Share of losses post acquisition	(2.4)
	32.6
Amounts written off	
Goodwill	(1.2)
	31.4
Net book value at 27 January 2001	
Share of net assets	12.5
Goodwill	18.9
	31.4

Investments represent 93% of the convertible preference shares of L. M. Solutions (UK) Limited, which equates to 40% of the total issued share capital. 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.

13 FIXED ASSET INVESTMENTS

	Subsidiary		Other	
Company	Shares in John Lewis plc £m	Loan to John Lewis plc £m	Shares in John Lewis Partnership Trust Limited £m	Total £m
At 29 January 2000	13.0	1.8	0.1	14.9
Movements	–	(0.2)	–	(0.2)
Dividend receivable	–	0.2	–	0.2
At 27 January 2001	13.0	1.8	0.1	14.9

14 STOCKS

	2001 £m	2000 £m
Raw materials	7.4	7.4
Work in progress	2.2	3.3
Finished goods and goods for resale	274.3	263.9
	283.9	274.6

15 DEBTORS

	2001 £m	2000 £m
Amounts falling due within one year:		
Trade debtors	195.9	186.5
Other debtors	27.2	33.9
Prepayments and accrued income	22.1	17.8
	245.2	238.2
Amounts falling due after more than one year:		
Trade debtors	73.9	70.6
Deferred tax	4.7	5.1
	323.8	313.9

16 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	107.0	6.1	113.1
US dollar	1.4	–	1.4
Other	3.1	–	3.1
At 27 January 2001	111.5	6.1	117.6
Sterling	99.4	5.5	104.9
US dollar	0.7	–	0.7
Other	1.3	–	1.3
At 29 January 2000	101.4	5.5	106.9

Sterling floating rate assets include £73.9m (£70.6m) of trade debtors repayable after more than one year. The remaining 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.

NOTES
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17 CREDITORS

	2001 £m	2000 £m
Amounts falling due within one year:		
Bank overdraft and other borrowings	48.2	67.6
Trade creditors	253.4	166.5
Other creditors	34.8	44.6
Obligations under finance leases	–	0.6
Loans	155.0	4.7
Corporation tax	12.4	21.8
Other taxation and social security	69.9	66.4
Accruals and deferred income	70.8	55.1
Partnership bonus	51.9	69.1
	696.4	496.4
Amounts falling due after more than one year:		
10¼% Bonds, 2006	50.0	50.0
10½% Bonds, 2014	100.0	100.0
	150.0	150.0

Trade creditors includes £3.8m (£4.4m) of balances denominated in foreign currencies. Of this, £3.3m (£3.6m) is covered by forward currency contracts as at the year end.

18 PROVISIONS FOR LIABILITIES AND CHARGES

	Pensions £m	Other £m	Total £m
At 29 January 2000	17.1	4.2	21.3
Charged to profit and loss account	54.9	10.5	65.4
Utilised	(56.2)	(4.5)	(60.7)
At 27 January 2001	15.8	10.2	26.0

Further details on pensions are provided in note 3. 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, our best estimate of utilisation is provided in note 19.

19 ANALYSIS OF FINANCIAL LIABILITIES

The currency and interest rate exposure of the group's financial liabilities 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 27 January 2001	189.5	163.7	10.2	363.4
At 29 January 2000	158.1	64.8	4.2	227.1

Floating rate borrowings are at interest rates linked to LIBOR. The weighted average rate for fixed rate borrowings is 9.5% (10.2%), with a weighted average period to maturity of 8.2 years (10.8 years).

Other financial liabilities not included above include non equity minority interests of £0.5m, and preference share capital of £4.9m as detailed in note 21.

Maturity of financial liabilities	2001 £m	2000 £m
Repayable in one year or less		
Bank overdraft and other borrowings	48.2	67.6
Finance leases	–	0.6
Loans	155.0	4.7
Provisions	4.9	2.3
	208.1	75.2
Repayable between one and two years		
Provisions	4.1	0.4
Repayable between two and three years		
Provisions	1.2	1.5
Repayable in more than five years		
10¼% Bonds 2006	50.0	50.0
10½% Bonds 2014	100.0	100.0
	150.0	150.0
	363.4	227.1

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TO THE ACCOUNTS
CONTINUED

19 ANALYSIS OF FINANCIAL LIABILITIES (CONTINUED)

Borrowing facilities

At 27 January 2001 the group had undrawn committed facilities of £25m which expire within 1 year, and £70m which expire between 2 and 5 years (£150m expiring in 2004). There was also an undrawn overdraft facility of £40m (£40m), renewable on an annual basis.

In April 2001 John Lewis plc issued a £200m 6⅞% bond, maturing in January 2012.

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

20 FAIR VALUES OF FINANCIAL INSTRUMENTS

	2001 Book value £m	2001 Fair value £m	2000 Book value £m	2000 Fair value £m
Derivatives				
Interest rate swap	–	–	–	0.1
Forward currency contracts				
– to hedge existing creditors	–	–	–	(0.1)
– to hedge future purchases	–	0.2	–	–
Assets				
Cash at bank and in hand	43.7	43.7	36.3	36.3
Trade debtors due after one year	73.9	73.9	70.6	70.6
Liabilities				
Short term borrowings	203.2	203.2	72.9	72.9
Long term borrowings	150.0	192.9	150.0	191.0
Provisions	10.2	10.2	4.2	4.2
Non equity shares				
Preference shares	4.9	4.3	4.9	4.3
Non equity minority interest	0.5	0.5	0.5	0.5

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.

21 SHARE CAPITAL

	2001 Authorised £m	2001 Issued and fully paid £m	2000 Authorised £m	2000 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	4.4	8.8	4.4
	10.0	5.5	10.0	5.5

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.

22 RESERVES

		Other reserves			
Consolidated	Profit and loss account £m	Capital reserve £m	Capital redemption reserve £m	Revaluation reserve £m	Total reserves £m
At 29 January 2000	1,170.1	1.4	4.3	249.2	1,425.0
Profit retained	67.2	–	–	–	67.2
Transfers	4.8	–	–	(4.8)	–
At 27 January 2001	1,242.1	1.4	4.3	244.4	1,492.2

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 29 January 2000	5.2	4.3	9.5
Profit retained	0.1	–	0.1
At 27 January 2001	5.3	4.3	9.6

All of the reserves are attributable to equity shareholders.

NOTES
TO THE ACCOUNTS
CONTINUED

23 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001 £m	2000 £m
Profit for the financial year	67.5	83.5
Dividends	(0.3)	(0.3)
	67.2	83.2
Revaluation surplus	–	44.6
Purchase of own shares	–	(0.3)
Net addition to shareholders' funds	67.2	127.5
Opening shareholders' funds	1,431.0	1,303.5
Closing shareholders' funds	1,498.2	1,431.0

24 RECONCILIATION OF TRADING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 £m	2000 £m
Trading profit	180.6	214.0
Depreciation charged	92.3	80.3
Increase in debtors	(10.3)	(2.8)
Increase in creditors	98.7	31.4
Movement in provisions	4.7	5.5
Increase in stocks	(9.3)	(8.3)
Partnership bonus paid for previous year	(77.5)	(89.1)
Net cash inflow from operating activities	279.2	231.0

25 RECONCILIATION OF NET CASH FLOW TO NET DEBT

	2001 £m	2000 £m
Increase/(decrease) in cash in the year	58.8	(14.2)
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	(149.7)	6.7
Cash inflow from decrease in liquid resources	(32.0)	(2.0)
Movement in debt for the year	(122.9)	(9.5)
Opening net debt	(186.6)	(177.1)
Closing net debt	(309.5)	(186.6)

26 ANALYSIS OF CHANGES IN NET DEBT

	2000 £m	Cash flows £m	2001 £m
Cash balances	36.3	7.4	43.7
Overdrafts	(60.1)	51.4	(8.7)
	(23.8)	58.8	35.0
Debt due within one year	(4.7)	(150.3)	(155.0)
Debt due after one year	(150.0)	–	(150.0)
Finance leases	(0.6)	0.6	–
Short term loans	(7.5)	(32.0)	(39.5)
Net debt	(186.6)	(122.9)	(309.5)

27 COMMITMENTS

At 27 January 2001 contracts had been entered into for future capital expenditure of £74.9m (£133.0m).

John Lewis plc has entered into bank guarantees in favour of subsidiary companies of £18.0m, and a lease guarantee in favour of an associate company of £6.8m.

28 LEASE COMMITMENTS

Operating leases Rentals for the next financial year on operating leases expiring:	2001 Land and Buildings £m	2001 Other £m	2000 Land and Buildings £m	2000 Other £m
Within 1 year	0.2	0.3	0.4	0.3
Between 1 and 5 years	3.9	0.2	3.3	0.3
Over 5 years	41.0	0.2	40.5	0.1

29 SUBSEQUENT EVENTS

On 7 March 2001 the Partnership acquired 100% of the issued share capital of buy.com Limited, a UK internet retailer of technology, software and office products for consideration of £2.8m.

NOTES
TO THE ACCOUNTS
CONTINUED

30 SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

Subsidiary companies as at 27 January 2001 were as follows:

John Lewis plc *(Department Store retailing)*

Ordinary shares - 100%
5% First Cumulative Preference Stock - 81.0%
7% Cumulative Preference Stock - 75.6%

Subsidiaries of John Lewis plc:

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

Associates of John Lewis plc:

L.M. Solutions (UK) 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.

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, for safeguarding the assets of the group and 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 PARTNERSHIP plc

We have audited the financial statements of John Lewis Partnership plc set out on pages 11 to 32 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 15 to 17.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Report & Accounts described on page 33. This includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kindom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

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 United Kingdom Companies Act. 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.

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 of the group as at 27 January 2001 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

PRICEWATERHOUSECOOPERS
CHARTERED ACCOUNTANTS
AND REGISTERED AUDITORS

1 EMBANKMENT PLACE
LONDON WC2N 6RH
26 APRIL 2001

PRICEWATERHOUSECOOPERS

RETAIL
BRANCHES

Department Stores

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

Waitrose Supermarkets

London

Barnet	East Sheen	Gloucester Road	Marylebone	Swiss Cottage	West Ealing
Brent Cross	Enfield	Harrow Weald	Putney	Temple Fortune	Whetstone
Chelsea	Finchley	Holloway Road	South Harrow		

Southern England

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

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
Stead, McAlpin, Carlisle *Textile Printing*
Taylor & Penton, Weybridge *Fitted kitchen furniture and bedding*
J. H. Birtwistle, Haslingden *Textile weaving,*
Herbert Parkinson, Darwen *Weaving and making up*
Leckford Estate, Stockbridge *Farming*
Findlater Mackie Todd, Bracknell *Mail order and wholesale including export*

NOTICE OF AGM

Notice is hereby given that the seventy-second annual general meeting of the company will be held at 12.30 pm on 20 June 2001 at 171 Victoria Street, London SW1E 5NN:

– To receive the directors' report and accounts for the year 2000/01.

– To consider the re-election of retiring directors.

– To consider the re-appointment of the auditors.

– To consider the remuneration of the auditors.

BY ORDER OF THE BOARD
BRIAN PRITCHARD SECRETARY
171 VICTORIA STREET, LONDON SW1E 5NN
9 MAY 2001

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

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

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