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JOHN LEWIS PARTNERSHIP plc REPORT AND ACCOUNTS 1998

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NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the sixty-ninth annual general meeting of the company will be held at 12.30 pm on 24th June 1998 at 171 Victoria Street, London SW1E 5NN:

To receive the directors' report and accounts for the year 1997/98.

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
B J Pritchard Secretary
171 Victoria Street, London SW1E 5NN
20th May 1998



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.

OFFICERS AND PROFESSIONAL ADVISERS

Company Secretary	B J Pritchard ACIS
Chief Accountant	R M Haigh BSc FCA
Director of Legal Services	T F Neville
Auditors	Price Waterhouse
Solicitors	Lovell White Durrant
Bankers	National Westminster Bank Plc
Registered office and Transfer office	171 Victoria Street London SW1E 5NN
Registered in England No. 238937	

BOARD OF DIRECTORS

S Hampson MA

Chairman and Chief Executive since 1993. Deputy Chairman from 1989-1993. Director of Research and Expansion 1986-1992. Member of the Board since 1986. Joined the Partnership 1982. Age 51.

D E Young BA

Deputy Chairman since 1993 and Finance Director from 1987 when he joined the Board. Previously Managing Director Peter Jones. Joined the Partnership 1982. Age 56.

I D Alexander BA

Director of Personnel since 1992. Member of the Board since 1990. Previously Chief Registrar. Joined the Partnership 1987. Age 48.

D R Cloake BSc (Econ)*

Appointed Partners' Counsellor and member of the Board in 1997. Previously Director of Management Services. Joined the Partnership 1968. Age 54.

D L Felwick

Director of Trading (Food) since 1991, when he joined the Board. Previously Director of Selling (Waitrose). Joined the Partnership 1982. Age 53.

T Leader *

Branch Manager Waitrose since 1982. Member of the Board since 1997. Joined the Partnership 1969. Age 45.

C L Mayhew MSc

Director of Research and Expansion since 1993 when he joined the Board. Joined the Partnership 1992. Age 44.

K McGrath *

Assistant Staff Manager since 1991. Member of the Board since 1997. Joined the Partnership 1977. Age 39.

I F Miller BA

Appointed General Inspector in 1997 when she joined the Board. Previously Managing Director, Peter Jones. Joined the Partnership 1976. Age 46.

B A O'Callaghan

Director of Trading (Department Stores) since 1990 when he joined the Board. Previously Director of Selling (Department Stores). Joined the Partnership 1967. Age 55.

D S Ramsey *

Operations Manager Waitrose since 1969. Member of the Board 1976-1987, 1989-1990 and since 1991. Joined the Partnership 1956. Age 58.

K D Temple MA MA*

Chief Registrar since 1995. Previously Personnel Director (Waitrose). Member of the Board since 1996. Joined the Partnership in 1982. Age 50.

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

SUMMARY OF RESULTS FOR THE YEAR ENDED 31ST JANUARY 1998

	1998 £m	1997 £m
Turnover (including VAT)	3,460.1	3,160.5
Trading profit	271.7	238.9
Interest	(21.4)	(21.8)
Profit before Partnership bonus and taxation	250.3	217.1
Taxation	(49.9)	(45.2)
Preference dividends	(0.2)	(0.2)
Balance available for profit sharing and retention in the business	200.2	171.7
Partnership bonus	(97.7)	(81.7)
Retained in the business for development	102.5	90.0
Net assets employed at the year end	1,195.4	1,062.5
Number of employees (weighted for part-timers)	33,300	32,400
Number of shops – Department stores	23	23
– Supermarkets	117	115

FIVE YEAR RECORD

	Years ended January				
	1998* £m	1997 £m	1996 £m	1995 £m	1994 £m
Turnover (including VAT)	3,460.1	3,160.5	2,815.7	2,575.5	2,420.0
Profit before pension costs	300.7	262.3	195.4	159.4	134.1
Pension costs	(29.0)	(23.4)	(22.6)	(18.0)	(17.6)
Interest	(21.4)	(21.8)	(22.8)	(24.5)	(23.3)
Profit before Partnership bonus and taxation	250.3	217.1	150.0	116.9	93.2
Taxation	(49.9)	(45.2)	(28.6)	(22.5)	(16.2)
Dividends	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Net profit available for profit sharing and retention in the business	200.2	171.7	121.2	94.2	76.8
Partnership bonus	(97.7)	(81.7)	(57.0)	(43.1)	(34.5)
As a percentage of ranking pay	22	20	15	12	10
Retained in the business	102.5	90.0	64.2	51.1	42.3
Net assets employed	1,195.4	1,062.5	952.0	861.7	808.5
Pay	442.1	402.3	371.3	351.8	335.3
Number of employees	45,300	43,700	41,100	39,600	38,800
including part-time employees	18,800	17,800	16,300	15,200	14,700

* 53 week year

STATEMENT BY THE CHAIRMAN

Partnership sales were just under £3.5bn, giving an increase over last year of 9%, albeit this included an extra week of trading this year. Profit before Partnership bonus and taxation increased by 15% to £250m, comfortably beating last year's record. £103m of profit after tax was retained in the business, leaving £98m to be distributed to Partners by way of bonus at 22% of pay. Once again, in sterling terms, this was a record.

Department store sales were 10% ahead of last year. Sales in the first half year were no doubt helped by the proceeds of the demutualisation of building societies and insurance companies. Sales in the second half year were more difficult but good Clearance sales brought the year to a satisfactory conclusion. Sales for the manufacturing units were flat but they have continued to give good support to our furnishing trade. Continuing control of costs and maintenance of the gross margin meant that the department store division's trading profit reached £197m, 17% ahead of the previous year.

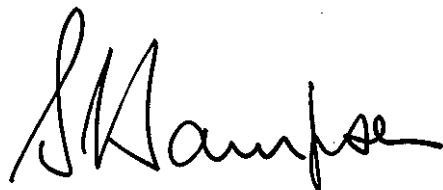
The Waitrose sales increase was 9%, with the pattern reversed: the first half year was difficult with very low food price inflation hampering progress; the second half year, with new branches opening at Newark and Salisbury, brought stronger sales. Despite intense competition in this market, the gross margin moved slightly ahead and Waitrose trading profit increased by 5% to £75m.

Capital spending of £155m was well ahead of last year's £87m, boosted by the cost of three new department stores under construction. The net interest charge fell for the third year and interest cover increased from 11 times to 13 times. Year-end gearing fell to 14% from 21%.

This year has already seen the transfer of the Bristol department store to Cribbs Causeway and Waitrose expects to open two new branches this year. Work will intensify on two other department stores at Bluewater in Kent and Glasgow, both opening in Spring 1999. In January we announced a new branch to be built at Solihull and this is in addition to our proposed relocation of Tyrrell & Green within Southampton.

After 12 weeks of the current trading year, sales are 7% ahead in department stores and 6% in Waitrose. It is too early to see how the economy will influence sales this year but driving our profit forward is bound to be challenging, with little further stimulus from windfalls, the pre-opening costs for two new department stores coming through in addition to the costs of ensuring that all our computer systems are 'millennium-proof'. All this and only 52 weeks to put against a 53-week year.

S Hampson
Chairman
30th April 1998



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 annually by the Central Council, which itself represents the Partnership's 37,000 members. The Board of John Lewis Partnership plc thus constituted directs the Partnership's business on behalf of its members.

Further information about the Partnership can be obtained on application to the Press Office, John Lewis Partnership, 171 Victoria Street, London SW1E 5NN. Telephone: 0171 592 6220.

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST JANUARY 1998

Directors

The directors of the company at the date of this report are listed on page 3. Messrs Hampson, Young, Alexander, Felwick, Mayhew, O'Callaghan, Ramsey and Temple served throughout the period under review. Mr I R Basset and Mr C C Stephens, who were in office as directors on 25th January 1997, resigned on 22nd May 1997, on which date Mr T Leader and Miss K McGrath were appointed directors. Mr S C May and Mr D A Stevens resigned on 7th March 1997 and 31st January 1997, respectively. Mr D R Cloake was appointed a director on 20th February 1997, and Miss I F Miller was appointed a director on 31st March 1997.

Principal activity

The company controls, through John Lewis plc, the businesses listed on page 25, comprising 23 department stores, 117 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 Cadbury Committee's 'Code of Best Practice'. 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 'Cadbury Code'. The following information is relevant in this context:

The John Lewis Partnership is beneficially owned by its employees (Partners), who are the equivalent of shareholders in a conventional company.

The Partnership has since 1929 operated under a Constitution which encourages the widest possible sharing of gain, knowledge and power by all Partners whilst 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 Articles, Rules and Regulations conform with the spirit of the Code of Best Practice 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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST JANUARY 1998 *continued*

Corporate governance *(continued)*

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 Mr Temple, the Chief Registrar. It meets at least twice a year. 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.

Year 2000

The Partnership has a detailed plan in place to ensure that its computer systems are able to function effectively in the year 2000 and thereafter. It is estimated that work on converting the Partnership's computer software to deal with the year 2000 date change will cost £4.7m in total, of which £1.0m has been incurred in 1997/98. The majority of these costs will be charged to the Profit and Loss account as incurred. Work is also in hand to identify the extent of problems with embedded chips. The cost of the remedial work cannot be quantified at present, but it is not expected to be material in the context of the Partnership's financial resources.

In addition to the costs identified above, a number of projects have been brought forward to avoid the need to modify old systems. The total cost of these projects is expected to be £2.7m, of which £1.0m has been incurred in 1997/98. The costs will be capitalised as appropriate.

The Partnership plans to complete the majority of this work by the end of 1998. This is a challenging target, but the work is proceeding to plan and progress is reviewed on a monthly basis at a senior level.

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 31st January 1998 were equivalent to 22 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 full-time 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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST JANUARY 1998 *continued*

Properties

The Partnership's freehold and long leasehold department store properties were valued by the directors at 31st December 1997 on the basis of existing use value. This valuation has been incorporated in the consolidated balance sheet at 31st January 1998, resulting in a surplus of £30.4m which has been credited to the revaluation reserve.

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 31st January 1998.

Purchase of shares

At an Extraordinary General Meeting held on 9th February 1984, the company was authorised to purchase up to £100,000 nominal of the 7½% (now 5¼% plus tax credit) Cumulative Preference Stock and up to £4,350,000 nominal of the 5% (now 3½% plus tax credit) Cumulative Preference Stock. This authority has been renewed at subsequent meetings, the last of which was held on 17th July 1997.

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.

Use of profits

Preference dividends absorbed £190,000 leaving £102,500,000 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 £1,420,000 for charitable purposes during the year but made no political donations.

For and by order of the Board
B J Pritchard Secretary
30th April 1998



**CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED
31ST JANUARY 1998**

Notes	1998 £m	1997 £m
2 Turnover	3,460.1	3,160.5
Value added tax	(342.7)	(310.8)
	<hr/> 3,117.4	<hr/> 2,849.7
Cost of sales	(2,130.7)	(1,962.8)
	<hr/> 986.7	<hr/> 886.9
Gross profit		
Selling and distribution costs	(613.5)	(558.6)
Administrative expenses	(72.5)	(66.0)
3 Pension costs	(29.0)	(23.4)
	<hr/> 271.7	<hr/> 238.9
2 Trading profit		
4 Net interest payable	(21.4)	(21.8)
	<hr/> 250.3	<hr/> 217.1
Profit before Partnership bonus and taxation		
Partnership bonus	(97.7)	(81.7)
	<hr/> 152.6	<hr/> 135.4
5 Profit on ordinary activities before taxation		
6 Tax on profit on ordinary activities	(49.9)	(45.2)
	<hr/> 102.7	<hr/> 90.2
7 Profit for the financial year		
8 Dividends – non equity interests	(0.2)	(0.2)
	<hr/> 102.5	<hr/> 90.0
17 Profit retained		

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	102.7	90.2
17 Profit for the financial year		
Unrealised surplus on revaluation of department store properties	30.4	20.5
	<hr/> 133.1	<hr/> 110.7
Total recognised gains and losses for the year		

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

JOHN LEWIS PARTNERSHIP plc REPORT AND ACCOUNTS 1998

CONSOLIDATED BALANCE SHEET AS AT 31ST JANUARY 1998

Notes	1998 £m	1997 £m
Fixed assets		
11 Tangible assets	1,234.6	1,122.0
Current assets		
13 Stocks	259.4	239.1
14 Debtors	290.1	328.3
Cash at bank and in hand	58.7	107.2
	608.2	674.6
Creditors		
15 Amounts falling due within one year	(484.8)	(565.3)
Net current assets	123.4	109.3
Total assets less current liabilities	1,358.0	1,231.3
Creditors		
15 Amounts falling due after more than one year	(162.6)	(168.8)
Net assets	1,195.4	1,062.5
Capital and reserves		
16 Called up share capital – equity	0.6	0.6
– non equity	5.2	5.2
Total share capital	5.8	5.8
Minority interest in subsidiary (non equity)	0.5	0.5
17 Revaluation reserve	205.2	177.0
17 Other reserves	5.4	5.4
17 Profit and loss account	978.5	873.8
Total shareholders' funds (including non equity interests)	1,195.4	1,062.5

Approved by the Board on 30th April 1998
S Hampson



BALANCE SHEET OF THE COMPANY AS AT 31ST JANUARY 1998

Notes		1998 £m	1997 £m
	Fixed assets		
12	Investments	14.9	14.9
	Current assets and liabilities		
	Debtors	0.5	0.4
	Creditors	(0.2)	(0.2)
	Net current assets	0.3	0.2
	Net assets	15.2	15.1
	Capital and reserves		
16	Called up share capital – equity	0.6	0.6
	– non equity	5.2	5.2
	Total share capital	5.8	5.8
17	Other reserves	4.0	4.0
17	Profit and loss account	5.4	5.3
	Total shareholders' funds (including non equity interests)	15.2	15.1

Approved by the Board on 30th April 1998
S Hampson



**CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED
31ST JANUARY 1998**

Notes	1998 £m	1997 £m
19 Net cash inflow from operating activities	170.4	211.9
Returns on investments and servicing of finance		
Interest received	7.2	7.0
Interest paid	(27.8)	(28.2)
Interest element of finance lease rental payments	(0.5)	(0.7)
Preference dividends paid	(0.2)	(0.2)
Net cash outflow from returns on investments and servicing of finance	(21.3)	(22.1)
Taxation	(42.6)	(25.2)
Capital expenditure and financial investment		
Purchases of tangible fixed assets	(154.5)	(86.7)
Proceeds of sales of tangible fixed assets	2.5	2.6
Proceeds of sale of call option	49.3	—
Net cash outflow from capital expenditure and financial investment	(102.7)	(84.1)
Net cash inflow before liquid resources and financing	3.8	80.5
Management of liquid resources (Short term loans/deposits)	28.7	(68.5)
Financing		
Repayment of 10 ³ / ₈ % Bonds, 1998	(100.0)	—
Loan repayments	(3.7)	(3.5)
Capital element of finance lease rental payments	(2.5)	(1.8)
Net cash outflow from financing	(106.2)	(5.3)
(Decrease)/increase in cash in the year	(73.7)	6.7

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 undertakings. 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 valuations, which are performed annually and principally relate to department store properties, are made on the basis that each property is regarded as available for existing use in the open market. The surplus or deficit arising on the revaluation of properties is taken to the revaluation reserve. 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 in equal annual instalments at the following rates:

- Freehold and long leasehold buildings – 1% to 4%
- Other leaseholds – over the remaining period of the lease
- 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

Goodwill arising on the acquisition of subsidiaries is written off to reserves at the time of acquisition.

NOTES TO THE ACCOUNTS *continued***2 Divisional analysis of turnover and trading profit**

	<i>Turnover</i>		<i>Trading profit</i>	
	<i>1998</i>	<i>1997</i>	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Department stores	1,788.2	1,620.7	197.2	168.1
Supermarkets	1,671.9	1,539.8	74.5	70.8
	<u>3,460.1</u>	<u>3,160.5</u>	<u>271.7</u>	<u>238.9</u>

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 31st March 1995, 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 2.5% and 5% respectively. The market value of the assets of the fund as at 31st March 1995 was £470m. The actuarial valuation of these assets showed that they were sufficient to cover 100% of the benefits which had accrued to members.

The actuaries have recommended a normal future contribution rate of 8.0% of total pay. For several years the charge will continue to be reduced by taking into account the past-service surplus arising from the actuarial valuation at March 1992, together with a small adjustment arising from the March 1995 valuation. The pension charge for the year, calculated according to the provisions of SSAP 24, was equivalent to 6.3% (5.6%) of total pay and amounted to £28.0m (£22.6m), including notional interest of £0.4m (£0.7m) on the pension charge accrued in the consolidated balance sheet. During the year the Committee for Management of the pension scheme, with the consent of the Board, amended the scheme rules to provide certain benefit enhancements. This resulted in an additional pension charge of £1.1m. The impact of the 1997 Finance Act change to Advance Corporation Tax for pension funds was to increase the pension charge by a further £1.5m. The next actuarial valuation of the fund will take place as at 31st March 1998.

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 11.9% or 18.6% of total pay, depending on the level of benefits provided. The charge for the year was £0.9m (£0.7m). Provision has also been made for certain unfunded benefits, amounting to £0.1m (£0.1m). Both of these amounts are included in the total pension cost of £29.0m (£23.4m).

4 Net interest payable

	<i>1998</i>	<i>1997</i>
	<i>£m</i>	<i>£m</i>
Interest payable:		
On bank loans, overdrafts and other loans repayable within 5 years	12.0	12.6
On finance leases	0.5	0.7
On all other loans	15.9	15.5
Interest receivable	(7.0)	(7.0)
	<u>21.4</u>	<u>21.8</u>

NOTES TO THE ACCOUNTS *continued*

5 Profit on ordinary activities before taxation	1998	1997
Profit on ordinary activities before taxation is stated after charging the following:	£m	£m
Staff costs:		
Wages and salaries	442.1	402.3
Social security costs	36.3	33.3
Partnership bonus	88.4	73.7
Employer's national insurance on Partnership bonus	9.3	8.0
Pension costs	29.0	23.4
Depreciation – owned assets	67.4	62.2
– assets held under finance leases	2.4	2.4
Auditors' remuneration – audit of group	0.4	0.4
– audit of company (included in the above)	0.1	0.1
– non audit services	–	0.2
Operating lease rentals – land and buildings	39.5	39.2
– other	1.2	0.6

6 Tax on profit on ordinary activities

Corporation tax based on the profit for the year	47.5	41.1
Corporation tax – previous years	–	(0.2)
Deferred tax	2.4	4.3
	49.9	45.2

The tax charge is based on a corporation tax rate of 31% (33%) and has been reduced by £2.8m (£2.4m) 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 £84.6m (£89.6m) based on corporation tax at 31% (33%).

No provision has been made in these accounts for the liability to taxation of £20.2m (£16.6m) on capital gains, which would arise if properties were to be sold at the amounts at which they have been 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	1998	1997
	£m	£m
Non equity interests		
7½% (now 5¼% plus tax credit) Cumulative Preference Stock		
and 5% (now 3¼% plus tax credit) Cumulative Preference Stock	0.2	0.2

NOTES TO THE ACCOUNTS *continued*

9 Directors' emoluments

	1998	1997
	£000	£000
Directors' remuneration including Partnership bonus of 22% (20%)	2,399	2,176

The emoluments of the Chairman, who was also the highest paid director, were £435,000 (£384,000), including Partnership bonus of £76,000 (£62,000). The Chairman's aggregate pension entitlement from the age of 60 accrued at the end of the year was £168,000 per annum (£141,000 per annum), with a further temporary pension, payable from the age of 60 until the State pension starts, of £1,000 per annum (£1,000 per annum). The transfer value of the increase in accrued entitlement, including temporary pension, during the year was £315,000.

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:

	1998	1997		1998	1997
£0 - £50,000	6	4	£200,001 - £250,000	1	1
£50,001 - £100,000	1	2	£250,001 - £300,000	1	3
£100,001 - £150,000	3	1	£300,001 - £350,000	3	—
£150,001 - £200,000	—	2			

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 two directors who have notice periods 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 31st January.

The Chairman and eleven of the fifteen members of the Board who served during the year were entitled to a car for their personal use, or its cash equivalent. They 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 nine directors, two of whom retired before the end of the year, 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.

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, were as follows:

	1998	1997		1998	1997
£0 - £50,000	9	11	£100,001 - £150,000	3	1
£50,001 - £100,000	2	3	£150,001 - £200,000	1	—

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 was £797,000 per annum (£682,000 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 £39,000 per annum (£37,000 per annum). The transfer value of the aggregate increase in accrued entitlement, including temporary pensions, during the year was £1,430,000.

NOTES TO THE ACCOUNTS *continued***10 Employees**

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

	1998	1997
Department stores	22,500	22,100
Supermarkets	21,300	20,200
Other	1,500	1,400
	<u>45,300</u>	<u>43,700</u>

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 25th January 1997	965.2	516.9	36.0	1,518.1
Additions at cost	28.6	45.2	80.7	154.5
Transfers	40.5	7.7	(48.2)	—
Disposals	(1.0)	(13.4)	—	(14.4)
Revaluation adjustments	25.1	—	—	25.1
At 31st January 1998	<u>1,058.4</u>	<u>556.4</u>	<u>68.5</u>	<u>1,683.3</u>
At cost	551.9	556.4	68.5	1,176.8
At valuation 1988	21.1	—	—	21.1
At valuation 1998	<u>485.4</u>	<u>—</u>	<u>—</u>	<u>485.4</u>
At 31st January 1998	<u>1,058.4</u>	<u>556.4</u>	<u>68.5</u>	<u>1,683.3</u>
Depreciation				
At 25th January 1997	89.1	307.0	—	396.1
Charges for the year	20.7	49.1	—	69.8
Disposals	—	(11.9)	—	(11.9)
Revaluation adjustments	(5.3)	—	—	(5.3)
At 31st January 1998	<u>104.5</u>	<u>344.2</u>	<u>—</u>	<u>448.7</u>
Net book values at 25th January 1997	<u>876.1</u>	<u>209.9</u>	<u>36.0</u>	<u>1,122.0</u>
Net book values at 31st January 1998	<u>953.9</u>	<u>212.2</u>	<u>68.5</u>	<u>1,234.6</u>
	1998	1997		
Land and buildings at cost or valuation:	£m	£m		
Freehold property	657.0	581.5		
Leaschold property, 50 years or more unexpired	317.7	310.1		
Leasehold property, less than 50 years unexpired	83.7	73.6		
	<u>1,058.4</u>	<u>965.2</u>		

NOTES TO THE ACCOUNTS *continued***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 31st December 1997, the directors, after consultation with Hillier Parker, revalued the Partnership's department store properties on the same basis, and this valuation has been incorporated into the accounts as at 31st January 1998. The £30.4m surplus arising from this revaluation has been credited to revaluation reserve.

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.

Included in land and buildings at 31st January 1998 is land valued at £216.2m, which is not subject to depreciation.

At 31st January 1998 land and buildings would have been included at the following amounts, if they had not been revalued:

	1998	1997
	£m	£m
Cost	893.0	824.9
Accumulated depreciation	(144.3)	(125.8)
	<u>748.7</u>	<u>699.1</u>

The gross cost of assets held under finance leases is £12.3m (£12.3m) with accumulated depreciation in respect of those assets of £8.3m (£5.9m).

12 Investments

Company	Subsidiary		Other	Total £m
	Shares in John Lewis plc £m	Loan to John Lewis plc £m	Shares in John Lewis Partnership Trust Limited £m	
At 25th January 1997	13.0	1.8	0.1	14.9
Movements	—	(0.2)	—	(0.2)
Dividend receivable	—	0.2	—	0.2
At 31st January 1998	<u>13.0</u>	<u>1.8</u>	<u>0.1</u>	<u>14.9</u>

13 Stocks

	1998	1997
	£m	£m
Raw materials and work-in-progress	12.0	10.0
Finished goods and goods for resale	247.4	229.1
	<u>259.4</u>	<u>239.1</u>

NOTES TO THE ACCOUNTS *continued*

14 Debtors	1998 £m	1997 £m
Amounts falling due within one year:		
Trade debtors	195.7	192.0
Other debtors	20.5	63.0
Prepayments and accrued income	14.3	15.2
	<u>230.5</u>	<u>270.2</u>
Amounts falling due after more than one year:		
Trade debtors	54.1	50.2
Deferred tax	5.5	7.9
	<u>290.1</u>	<u>328.3</u>

Other debtors due within one year for 1997 included the net present value of deferred consideration totalling £46.2m relating to the sale of a call option, which was subsequently received in January 1998.

15 Creditors

Amounts falling due within one year:

Bank overdraft	53.9	—
Trade creditors	154.9	189.7
10½% Bonds, 1998	—	100.0
Other creditors	37.1	19.7
Obligations under finance leases	1.6	2.0
Loans	4.0	3.7
Corporation tax	46.6	41.7
Other taxation and social security	64.5	87.6
Pension fund accrual	16.3	24.9
Accruals and deferred income	17.5	22.3
Partnership bonus	88.4	73.7
	<u>484.8</u>	<u>565.3</u>

Amounts falling due after more than one year:

Due between 1 and 2 years		
— Obligations under finance leases	2.3	2.1
— Loans	4.4	4.1
Due between 2 and 5 years		
— Obligations under finance leases	1.2	3.5
— Loans	4.7	9.1
Due other than by instalments after 5 years		
— 10½% Bonds, 2006	50.0	50.0
— 10½% Bonds, 2014	100.0	100.0
	<u>162.6</u>	<u>168.8</u>

NOTES TO THE ACCOUNTS *continued*

16 Share capital	1998 Authorised £m	1998 Issued and fully paid £m	1997 Authorised £m	1997 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% (now 5¼% plus tax credit)	0.6	0.5	0.6	0.5
5% (now 3½% plus tax credit)	8.8	4.7	8.8	4.7
	10.0	5.8	10.0	5.8

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.

17 Reserves	<u>Other reserves</u>				
	<i>Profit and loss account</i> £m	<i>Capital reserve</i> £m	<i>Capital redemption reserve</i> £m	<i>Revaluation reserve</i> £m	<i>Total reserves</i> £m
Consolidated					
At 25th January 1997	873.8	1.4	4.0	177.0	1,056.2
Profit retained	102.5	—	—	—	102.5
Transfers	2.2	—	—	(2.2)	—
Revaluation surplus	—	—	—	30.4	30.4
At 31st January 1998	978.5	1.4	4.0	205.2	1,189.1

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

Company	<i>Profit and loss account</i> £m	<i>Capital redemption reserve</i> £m	<i>Total reserves</i> £m
At 25th January 1997	5.3	4.0	9.3
Profit retained	0.1	—	0.1
At 31st January 1998	5.4	4.0	9.4

All of the reserves are attributable to equity shareholders.

NOTES TO THE ACCOUNTS *continued*

18 Reconciliation of movements in shareholders' funds	1998	1997
	£m	£m
Consolidated		
Profit for the financial year	102.7	90.2
Dividends	(0.2)	(0.2)
Revaluation surplus	30.4	20.5
	<hr/>	<hr/>
Net addition to shareholders' funds	132.9	110.5
	<hr/>	<hr/>
Opening shareholders' funds	1,062.5	952.0
	<hr/>	<hr/>
Closing shareholders' funds	1,195.4	1,062.5
	<hr/>	<hr/>

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

Trading profit	271.7	238.9
Depreciation charged	69.8	64.6
Increase in debtors	(13.7)	(39.6)
(Decrease)/increase in creditors	(46.8)	32.6
Decrease in pension fund accrual	(8.6)	(8.0)
Increase in stocks	(20.3)	(19.6)
Partnership bonus paid for previous year	(81.7)	(57.0)
	<hr/>	<hr/>
Net cash inflow from operating activities	170.4	211.9
	<hr/>	<hr/>

20 Reconciliation of net cash flow to net debt

(Decrease)/increase in cash in the year	(73.7)	6.7
Cash outflow from decrease in debt and lease financing	106.2	5.3
Cash (inflow)/outflow from (decrease)/increase in liquid resources	(28.7)	68.5
	<hr/>	<hr/>
Change in net debt resulting from cash flows	3.8	80.5
	<hr/>	<hr/>
New finance leases	—	(0.2)
	<hr/>	<hr/>
Movement in debt for the year	3.8	80.3
	<hr/>	<hr/>
Opening net debt	(167.3)	(247.6)
	<hr/>	<hr/>
Closing net debt	(163.5)	(167.3)
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS *continued*

21 Analysis of changes in net debt

	1997	Cash flows	Other changes	1998
	£m	£m	£m.	£m
Cash balances	39.2	(19.8)	—	19.4
Overdrafts	—	(53.9)	—	(53.9)
	39.2	(73.7)	—	(34.5)
Debt due within one year	(103.7)	103.7	(4.1)	(4.1)
Debt due after one year	(163.2)	—	4.1	(159.1)
Finance leases	(7.6)	2.5	—	5.1
Short term deposits	68.0	(28.7)	—	39.3
Net debt	(167.3)	3.8	—	(163.5)

22 Commitments

At 31st January 1998 contracts had been placed for future capital expenditure of £54.8m (£12.4m), which have not been provided for in these accounts.

23 Lease commitments

	1998	1998	1997	1997
	Land and Buildings	Other	Land and Buildings	Other
	£m	£m	£m	£m
Operating leases				
Rentals for the next financial year on operating leases expiring:				
Within 1 year	0.5	0.2	0.2	0.1
Between 1 and 5 years	0.5	1.1	0.6	0.6
Over 5 years	38.5	0.1	38.1	0.1

24 Subsidiary undertakings

Subsidiary companies as at 31st January 1998 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 wines*) (*Subsidiary of Waitrose Limited*)

Cavendish Textiles Limited (*Textile design and development*)

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*)

J.L.P. Insurance Limited (*Insurance*) (*Incorporated and operating in Guernsey*)

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 10 to 23 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 page 14.

Respective responsibilities of directors and auditors

As described above, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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 31st January 1998 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.



Price Waterhouse
Chartered Accountants
and Registered Auditors

Southwark Towers
32 London Bridge Street
London SE1 9SY
30th April 1998

RETAIL BRANCHES

Department Stores

London

John Lewis, Oxford Street
John Lewis, Brent Cross
Peter Jones, Sloane Square

Southern England

Caleys, Windsor
Heclas, Reading
John Lewis, Cribbs Causeway
John Lewis, High Wycombe
John Lewis, Kingston
John Lewis, Milton Keynes
John Lewis, Welwyn
Knight & Lee, Southsea
Trewins, Watford
Tyrrell & Green, Southampton

*Midlands, East Anglia**Northern England and Scotland*

Bainbridge, Newcastle
Bonds, Norwich
Cole Brothers, Sheffield
George Henry Lee, Liverpool
Jessop & Son, Nottingham
John Lewis, Aberdeen
John Lewis, Cheadle
John Lewis, Edinburgh
John Lewis, Peterborough
Robert Sayle, Cambridge

Waitrose Supermarkets

London

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

Southern England

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

Midlands, East Anglia and Wales

Blaby	Evington	Huntingdon	Monmouth	Norwich	St Neots
Bury St Edmunds	Four Oaks	Kidderminster	Newark	Peterborough	Saffron Walden
Daventry	Hall Green	Kingsthorpe	Newmarket	St Ives	Stourbridge
Ely					

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

Stead, McAlpin, Carlisle (<i>Textile Printing</i>)	Taylor & Penton, Weybridge
J. H. Birtwistle, Haslingden (<i>Textile weaving</i>)	(<i>Fitted kitchen furniture and bedding</i>)
Herbert Parkinson, Darwen (<i>Weaving and making up</i>)	Leckford Estate, Stockbridge (<i>farming</i>)
Findlater Mackie Todd, London (<i>Mail order wines</i>)	

