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REPORT & ACCOUNTS

2002

JOHN LEWIS PARTNERSHIP plc

CONTENTS

The John Lewis Partnership 1
Summary of results 2
Five year record 3
Chairman's statement 4
Directors and Advisers 6
Directors' report 7
Consolidated profit and loss account 11
Statement of total recognised gains and losses 11
Consolidated balance sheet 12
Balance sheet of the company 13
Consolidated cash flow statement 14
Notes to the accounts 15
Directors' responsibilities for financial statements 36
Report of the auditors 37
Retail branches 38
Notice of annual general meeting 39

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 57,000 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 26 JANUARY 2002

	2002 £m	2001 Restated* £m
Turnover (including VAT)	4,459.4	4,126.6
Trading profit	190.3	180.6
Share of operating loss of associate (Ocado)	(17.8)	(3.8)
Total operating profit	172.5	176.8
Interest	(31.0)	(27.3)
Profit before Partnership bonus and taxation	141.5	149.5
Taxation	(37.9)	(28.8)
Preference dividends	(0.3)	(0.3)
Balance available for profit sharing and retention in the business	103.3	120.4
Partnership bonus	(57.3)	(58.1)
Retained in the business for development	46.0	62.3
Net assets employed at the year end	1,440.5	1,395.1
Average number of employees (weighted for part-timers)	40,000	38,000
Number of shops – Department stores	26	25
– Supermarkets	136	136

* The January 2001 comparatives have been restated to reflect the adoption of FRS 19 – Deferred Taxation, as described in note 1.

FIVE YEAR
RECORD
YEARS ENDED JANUARY

	2002 £m	2001 Restated* £m	2000 £m	1999 £m	1998** £m
Turnover (including VAT)	**4,459.4**	4,126.6	3,747.6	3,517.6	3,460.1
Profit before pension costs	**252.6**	235.5	263.7	267.5	300.7
Pension costs	**(62.3)**	(54.9)	(49.7)	(47.5)	(29.0)
Exceptional operating income	–	–	–	33.5	–
Share of operating loss of associate (Ocado)	**(17.8)**	(3.8)	–	–	–
Interest	**(31.0)**	(27.3)	(19.3)	(16.6)	(21.4)
Profit before Partnership bonus and taxation	**141.5**	149.5	194.7	236.9	250.3
Taxation	**(37.9)**	(28.8)	(33.4)	(46.8)	(49.9)
Dividends	**(0.3)**	(0.3)	(0.3)	(0.2)	(0.2)
Net profit available for profit sharing and retention in the business	**103.3**	120.4	161.0	189.9	200.2
Partnership bonus	**(57.3)**	(58.1)	(77.8)	(88.9)	(97.7)
As a percentage of ranking pay	*9*	*10*	*15*	*19*	*22*
Retained in the business	**46.0**	62.3	83.2	101.0	102.5
Net assets employed	**1,440.5**	1,395.1	1,431.0	1,303.5	1,195.4
Pay	**611.4**	562.7	508.1	467.4	442.1
Average number of employees	**56,100**	53,200	49,000	46,800	45,300
including part-time employees	**25,600**	23,600	20,800	19,800	18,800

* The January 2001 comparatives have been restated to reflect the adoption of FRS 19 – Deferred Taxation, as described in note 1. Earlier years have not been restated.

** 53 week year

CHAIRMAN'S STATEMENT

The Partnership continued to invest confidently in its future as a multi-channel retailer. Our mainstream businesses showed an encouraging uplift in profitability, ending a three year downward trend, and came close to covering the start-up losses from e-commerce enterprises. The final profit figure of £142m (before Partnership bonus and tax) was just 5% below last year.

A profit of £46m after tax was retained in the business, with the remaining £57m shared among our 57,000 Partners as Partnership bonus, with each of us receiving 9% of pay.

Waitrose
Sales increased in Waitrose by 10% (to £2.3bn). There were no new branch openings, but we were helped by the first full year of trading for the eleven shops acquired from Somerfield in 2000. Like-for-like sales grew by 5%, well ahead of inflation in food prices. A favourable mix of trade enabled our margin to be increased, and Waitrose's divisional profit grew sharply from £57m to the record level of £93m (63%).

This was the last full year for which David Felwick served as Managing Director of Waitrose before becoming the Partnership's Deputy Chairman, and this outstanding result is a fitting tribute to his stewardship of our food division.

Department Stores Division
Sales grew by 6% to £2.2bn despite continuing deflation (averaging 0.5% over the year) in the prices of the goods we sell. John Lewis Solihull opened successfully in September, John Lewis Southampton continued to set a strong pace after its first full year of trading, and there was significant growth too from our Glasgow branch which opened in 2000. Our out-of-town shops at Cribbs Causeway, Bluewater and Cheadle continue to be strong performers. After an autumn clouded by warm weather and the effects of 11 September on our important Central London and Thames valley branches, the run-up to Christmas brought three consecutive weeks of record sales.

The year was again one of substantial investment for the Division. Three of our shops – Peter Jones, Jessops and John Lewis Edinburgh – continued to be affected by reconstruction work, and the benefit of this will begin to show through in the current year. The modernisation of the ground and first floors at Oxford Street was completed. Our Partners have participated fully in local reviews of trading hours and have supported changes which produce more than a 10% increase in opening hours across the shops.

Manufacturing had a very difficult year, with losses resulting from sales falling by some 30%, as we experienced just how cyclical the fortunes of the textile sector can be. As foreshadowed in last year's accounts, we closed our bed and kitchen furniture manufacturer, Taylor & Penton, in July 2001.

Divisional profit reduced to £98m from £124m (-21%) after taking account of a number of one-off costs, higher pensions charges and some £14m of losses and amortisation of goodwill from John Lewis Direct in its start-up year.

E commerce
During the year we finalised the purchase of the UK operations of buy.com which became the platform for the Autumn relaunch of johnlewis.com as part of John Lewis Direct. Early sales and customer reactions have exceeded our expectations.

We maintained our 40% stake in the food e-tailer Ocado with a further investment of £11 million (taking total invested capital there to £46m). The joint venture is still in its preliminary stages, and it will be some time before we can offer a definitive judgement on the market response, but the service has already been positively received by early users. The share of losses carried in our profit and loss account is some £17m.

Overall, losses and amortisation of goodwill in the two e-commerce ventures totalled £32m, which was in line with our forecast.

Pensions
We continue to have a non-contributory final salary pension scheme, which will increasingly give us a competitive advantage in recruitment. However, this comes at a substantial cost and impact to our declared profit. Our pension charge for the year rose by 13.5% to £62m, and means our pension costs have more than doubled over the last five years. This is well ahead of pension costs borne by the majority of our competitors.

Capital spending
Capital spending fell from £317m to £212m (last year included the Somerfield purchases). Interest cover remained at six times. Year end gearing increased from 22% (restated) to 26%.

Looking ahead
We recognised 2001/2 as a year of investment in our future, and we continue to take a long-term view of the growth of our business. The renovation work at Peter Jones is scheduled for two more years, but this summer will see a major landmark with the opening of its new centre room. Elsewhere in Department Stores, the major refurbishments will be completed at John Lewis Edinburgh and Jessops, and a number of other shops will benefit from the continuing modernisation programme. Waitrose will open two Food and Home branches in Canary Wharf and Cheltenham and a further two supermarkets at Chandlers Ford and Tonbridge. Our commitment to multi-channel retailing will be enhanced with expanded activity for John Lewis Direct, including Gift List online and larger catalogues. Waitrose Direct is trading well, and the year ahead will give further evidence of the full potential for Ocado. Our e-commerce ventures will continue to be loss-making in the current year.

After 11 weeks of the current trading year, sales are 5% ahead in department stores and 3% in Waitrose. The comparisons with last year are affeced by the different fall of Easter this year. We expect to build on the progress we saw in the trade of our core businesses last year, to drive through the benefits of the initiatives taken in 2001/2 and to pursue further ways of improving our business for the benefit of our customers and our Partners.

SIR STUART HAMPSON CHAIRMAN
18 APRIL 2002

DIRECTORS

AND ADVISERS

DIRECTORS

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

SIR STUART HAMPSON AGE 55

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

JOHNNY AISHER † AGE 40

Office and Personnel Systems Manager, Waitrose since 2001. Member of the Board since 1999. Joined the Partnership 1985.

IAN ALEXANDER AGE 52

Finance Director since 2001. Member of the Board since 1990. Joined the Partnership 1987.

DUDLEY CLOAKE AGE 58

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

STEVEN ESOM AGE 41

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

DAVID FELWICK AGE 57

Deputy Chairman and General Inspector since March 2002. Joined the Board in 1991. Joined the Partnership 1982.

DAVID JONES † AGE 41

Deputy Head of Buying Administration, Waitrose since March 2002. Member of the Board since 1999. Joined the Partnership 1982.

CHARLIE MAYFIELD AGE 35

Development Director since 2001 when he joined the Board. Joined the Partnership 2000.

LUKE MAYHEW AGE 48

Managing Director, Department Stores since 2000. Member of the Board since 1993. Joined the Partnership 1992.

ALASTAIR MCKAY † AGE 56

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

MONTY PEACH † AGE 59

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

KEN TEMPLE † AGE 54

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

OFFICERS AND ADVISERS

COMPANY SECRETARY & DIRECTOR OF LEGAL SERVICES

TERENCE NEVILLE

DIRECTOR OF FINANCIAL CONTROL

ROS HAIGH FCA

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 Dame Stephanie Shirley, who resigned on 24 September 2001, Charlie Mayfield, who was appointed as a director on the same day, and Steven Esom who was appointed as a director on 11 March 2002, served throughout the period under review. David Young resigned as a director on 11 March 2002.

Principal activity
The principal activity of the group is retailing. The company controls, through John Lewis plc, the businesses listed on page 38, comprising 26 department stores, 136 Waitrose supermarkets and ancillary manufacturing activities.

Employees
The Constitution of the John Lewis Partnership provides for the involvement of employees, all of whom are employed by subsidiary companies, in the Partnership's affairs. There is full information on all aspects through 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 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 opportunities for management to be held accountable to Partners; Councils receive regular reports by directors and have an opportunity to follow these up with questions on any subject, while an open system of journalism both contributes to this process of accountability and provides the means of sharing information extensively with all Partners.

The Partnership has an Audit Committee, the members of which are the General Inspector and two of the five elected directors, chosen

DIRECTORS'
REPORT CONTINUED

by that group, currently Johnny Aisher and Alastair McKay. It meets at least three times 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 financial controls are in place. The external auditors attend its meetings, as does the Head of Internal Audit.

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

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

This Committee is also responsible for considering further the steps that need to be taken to relate the spirit of these corporate governance principles to the ownership and Constitution of the Partnership.

European Monetary Union
The Partnership has identified how conversion to the euro would be implemented. All new systems acquired or developed are euro compliant.

Payments to suppliers
The Partnership's policy on the payment of its suppliers is to agree terms of payment in advance and, provided a supplier fulfils the agreement, to pay promptly in accordance with those terms. The Partnership's trade creditors at 26 January 2002 were equivalent to 30 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.

At its meeting on 6 September 2001 the Board established a Remuneration Committee to make a recommendation each year to the Board on the Chairman's pay taking into account appropriate market data provided by an external remuneration consultant. The Committee also considers the Chairman's proposals for the remuneration of the appointed Central Board Directors and provides a commentary to the Board on those increases. The Committee is chaired by the Deputy Chairman: David Young has seen the Committee through its first meeting, and, following his retirement on 8 March, has been succeeded by David Felwick. The Committee also comprises the Director of Personnel, Dudley Cloake, and two of the five Directors elected by the Central Council, chosen by that group – currently David Jones and Monty Peach. The Committee is supported by an external remuneration consultant who attends its meetings in an advisory capacity. The salaries of elected members of the Board are determined by their managers and do not include any element in recognition of their Board duties. Details of directors' emoluments are set out in note 8.

Properties

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

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

Treasury policy and financial risk management

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

Interest rate risk

The group's policy is to have a mix of fixed and floating interest rate exposures. Total fixed rate financial liabilities were £278m, with £135m at floating rates, as detailed in note 19. An interest rate swap is in place on £100m of fixed rate borrowing, converting it to floating rate. The term of the swap is 10 years with an option for the counterparty to cancel the arrangement in January each year from 2003 onwards.

Liquidity risk

The group's policy is to manage its borrowing requirements in line with a five year cash forecast which is produced annually. Committed revolving borrowing facilities of £150m are available for 3 years, together with a loan of £35m which expired in April 2002 and has been replaced by a £50m loan for 3 years. Further borrowing facilities totalling £40m are available for one year. In April 2001 John Lewis plc issued a £200m 6⅜% bond, maturing in January 2012. The Board is satisified that its borrowing facilities are adequate for the group's needs.

Currency risk

The group's policy is to hedge currency exposures with foreign exchange contracts so as to provide greater certainty on the cost of purchases from abroad. All major currencies are hedged, and at the year end £4.0m of a total £4.2m of liabilities denominated in foreign currency were covered in this way. In addition, £8.5m of commitments under forward orders were also hedged at the year end.

DIRECTORS'
REPORT CONTINUED

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
On 7 March 2001 the Partnership acquired 100% of the issued share capital of buy.com Limited, a UK internet retailer of technology and office products, for consideration of £3.1m, including acquisition costs of £0.3m. On 7 June 2001 the Partnership invested a further £10.8m in Ocado Limited, an e-commerce grocery business, previously L. M. Solutions (UK) Limited, maintaining its holding at 40% of the issued share capital.

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 meetings, the last of which was held on 22 November 2001. Authority to purchase the remaining stock will be sought at the Annual General Meeting in June 2002, as detailed on page 39.

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

During the year the company purchased 675,000 £1 units of 5% stock, representing 12.3% of the issued share capital, for £550,397.

Use of profits
Preference dividends absorbed £266,000 leaving £46.0m 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 £1,555,000 for charitable purposes during the year, as well as substantial financial and practical support to causes in the communities where we trade, but made no political donations.

FOR AND BY ORDER OF THE BOARD
TERENCE NEVILLE SECRETARY
18 APRIL 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 26 JANUARY 2002

Notes		2002 £m	2001 Restated* £m
2	**Turnover**	4,459.4	4,126.6
	Value added tax	(432.8)	(406.4)
		4,026.6	3,720.2
	Cost of sales	(2,749.5)	(2,552.1)
	Gross profit	1,277.1	1,168.1
	Selling and distribution costs	(886.3)	(807.1)
	Administrative expenses	(138.2)	(125.5)
30	Pension costs	(62.3)	(54.9)
2	**Trading profit**	190.3	180.6
	Share of operating loss of associate	(17.8)	(3.8)
	Total operating profit	172.5	176.8
3	Net interest payable	(31.0)	(27.3)
	Profit before Partnership bonus and taxation	141.5	149.5
	Partnership bonus	(57.3)	(58.1)
4	**Profit on ordinary activities before taxation**	84.2	91.4
5	Tax on profit on ordinary activities	(37.9)	(28.8)
6	**Profit for the financial year**	46.3	62.6
7	Dividends – non equity interests	(0.3)	(0.3)
22	**Profit retained**	46.0	62.3

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Profit for the financial year and total recognised gains for the year	46.3	62.6
Prior year adjustment	(103.1)	
Total gains and losses recognised since last report and accounts	(56.8)	

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

* The 2001 comparatives have been restated to reflect the adoption of FRS 19 – Deferred Taxation, as described in note 1.

CONSOLIDATED
BALANCE SHEET

AS AT 26 JANUARY 2002

Notes		2002 £m	2001 Restated* £m
	Fixed assets		
10	Goodwill	4.9	–
11	Tangible assets	1,789.7	1,687.8
12	Investment in associate	24.8	31.4
		1,819.4	1,719.2
	Current assets		
14	Stocks	302.0	283.9
15	Debtors	349.7	319.1
	Cash at bank and in hand	42.0	43.7
		693.7	646.7
	Creditors		
17	Amounts falling due within one year	(593.0)	(696.4)
	Net current assets/(liabilities)	100.7	(49.7)
	Total assets less current liabilities	1,920.1	1,669.5
	Creditors		
17	Amounts falling due after more than one year	(350.0)	(150.0)
18	**Provisions for liabilities and charges**	(129.6)	(124.4)
	Net assets	1,440.5	1,395.1
	Capital and reserves		
21	Called up share capital – equity	0.6	0.6
	– non equity	4.2	4.9
	Total share capital	4.8	5.5
	Minority interest in subsidiary (non equity)	0.4	0.5
22	Revaluation reserve	241.5	244.4
22	Other reserves	6.4	5.7
22	Profit and loss account	1,187.4	1,139.0
	Total shareholders' funds (including non equity interests)	1,440.5	1,395.1

* The January 2001 comparatives have been restated to reflect the adoption of FRS 19 – Deferred Taxation, as described in note 1.

APPROVED BY THE BOARD ON 18 APRIL 2002
SIR STUART HAMPSON

S Hampson

BALANCE SHEET
OF THE COMPANY
AS AT 26 JANUARY 2002

Notes		2002 £m	2001 £m
	Fixed assets		
13	Fixed asset investments	**14.9**	14.9
	Current assets and liabilities		
	Debtors	–	0.4
	Creditors	(0.3)	(0.2)
	Net current (liabilities)/assets	(0.3)	0.2
	Net assets	**14.6**	15.1
	Capital and reserves		
21	Called up share capital – equity	0.6	0.6
	– non equity	4.2	4.9
	Total share capital	4.8	5.5
22	Other reserves	5.0	4.3
22	Profit and loss account	4.8	5.3
Total shareholders' funds (including non equity interests)		**14.6**	15.1

APPROVED BY THE BOARD ON 18 APRIL 2002
SIR STUART HAMPSON

CONSOLIDATED
CASH FLOW STATEMENT

FOR THE YEAR ENDED 26 JANUARY 2002

Notes		2002 £m	2001 £m
24	Net cash inflow from operating activities	210.3	279.2
	Returns on investments and servicing of finance		
	Interest received	0.6	0.8
	Interest paid	(24.1)	(28.5)
	Preference dividends paid	(0.3)	(0.3)
	Net cash outflow from returns on investments and servicing of finance	(23.8)	(28.0)
	Taxation	(28.4)	(32.9)
	Capital expenditure and financial investment		
	Purchases of tangible fixed assets	(212.4)	(316.6)
	Proceeds of sales of tangible fixed assets	7.0	10.4
	Purchase of own shares	(0.6)	–
	Net cash outflow from capital expenditure and financial investment	(206.0)	(306.2)
	Acquisitions		
	Acquisition of subsidiary	(3.1)	–
	Cash acquired with subsidiary	0.3	–
	Investment in associate	(10.8)	(35.0)
	Net cash outflow before liquid resources and financing	(61.5)	(122.9)
	Management of liquid resources (Short term loans/deposits)	(11.5)	32.0
	Financing		
	Increase in borrowings	200.0	155.0
	Loan repayments	(120.0)	(4.7)
	Capital element of finance lease rental payments	–	(0.6)
	Net cash inflow from financing	80.0	149.7
	Increase in cash in the year	7.0	58.8

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.

FRS 19 – Deferred Taxation has been adopted in these financial statements. The adoption of the standard represents a change in accounting policy and comparative figures have been restated accordingly. The transitional provisions of FRS 17 – Retirement Benefits have also been adopted and the disclosures required are given in note 30.
FRS 18 – Accounting Policies has been adopted in the year. This did not result in any change in accounting policies.

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 FRS 15, the Partnership 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, and decided not to adopt a policy of revaluation for the future. These values are retained, subject to the requirement to test for impairment, in accordance with FRS 11. Supermarket and distribution properties are carried at depreciated historical cost.

NOTES
TO THE ACCOUNTS
CONTINUED

1 ACCOUNTING POLICIES (CONTINUED)

Depreciation
No depreciation is charged on freehold land, leasehold land with over 100 years to expiry, and assets in the course of construction. Depreciation is calculated for all other assets to write off the cost or valuation, less residual value, in equal annual instalments at the following rates:

Freehold and long leasehold buildings – 2% to 4%
Other leaseholds – over the remaining period of the lease
Buildings fixtures – 2.5% to 10%
Fixtures and fittings – 10% to 33%

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

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

On adoption of FRS 19 – Deferred Taxation, opening reserves have been restated to reflect previously unprovided deferred tax. The adjustments as at January 2000 and January 2001 were £98.2m and £103.1m respectively. In addition, the tax charge for the year to January 2001 has been restated, increasing by £4.9m to £28.8m. The adoption of FRS 19 has resulted in an additional tax charge for the year to 26 January 2002 of £8.9m.

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

1 ACCOUNTING POLICIES (CONTINUED)

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.

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	
	2002 £m	2001 £m	2002 £m	2001 £m
Department stores	2,163.2	2,031.4	97.6	123.6
Supermarkets	2,296.2	2,095.2	92.7	57.0
	4,459.4	4,126.6	190.3	180.6

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 NET INTEREST PAYABLE

	2002 £m	2001 £m
Interest payable:		
On bank loans, overdrafts and other loans repayable within 5 years	16.7	12.7
On loans repayable in more than five years	20.2	15.6
Interest receivable	(5.5)	(0.8)
Share of interest income of associate	(0.4)	(0.2)
	31.0	27.3

NOTES
TO THE ACCOUNTS
CONTINUED

4 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2002 £m	2001 £m
Profit on ordinary activities before taxation is stated after charging the following:		
Staff costs:		
Wages and salaries	611.4	562.7
Social security costs	46.6	44.2
Partnership bonus	51.0	51.6
Employers' national insurance on Partnership bonus	6.3	6.5
Pension costs	62.3	54.9
Depreciation – owned assets	104.2	91.9
– assets held under finance leases	–	0.4
Amortisation of goodwill	2.1	–
Auditors' remuneration – audit of group	0.5	0.4
– audit of company (included in the above)	0.1	0.1
– non audit	0.1	0.1
Operating lease rentals – land and buildings	48.5	45.2
– other	0.5	0.3

5 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2002 £m	2001 Restated £m
Analysis of tax charge:		
Corporation tax based on the profit for the year	28.6	23.1
Corporation tax – prior years	(0.7)	0.4
Total current tax charge	27.9	23.5
Deferred tax – origination and reversal of timing differences	10.0	5.3
	37.9	28.8

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

5 TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

	2002 £m	2001 £m
Factors affecting the tax charge for the year:		
Profit on ordinary activities before tax and after Partnership bonus	84.2	91.4
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	25.2	27.4
Effects of:		
Expenses not deductible for tax purposes:		
Losses and goodwill amortisation of associate (Ocado Limited)	5.2	1.1
Goodwill amortisation of subsidiary (buy.com Limited)	0.6	–
Other	2.2	2.0
Capital allowances in excess of depreciation	(2.0)	(2.8)
Other timing differences	(0.9)	(0.4)
Non-taxable receipts	(1.7)	(4.2)
Adjustment for prior years	(0.7)	0.4
Current tax charge for the year	27.9	23.5

6 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).

7 DIVIDENDS

	2002 £m	2001 £m
Non equity interests		
7½% Cumulative Preference Stock		
and 5% Cumulative Preference Stock	0.3	0.3

NOTES
TO THE ACCOUNTS
CONTINUED

8 DIRECTORS' EMOLUMENTS

	2002 £000	2001 £000
Directors' remuneration including Partnership bonus of 9% (10%)	2,743	2,508

The emoluments of the Chairman, who was also the highest paid director, were £522,000 (£493,000), including Partnership bonus of £42,000 (£44,000). The Chairman's aggregate pension entitlement from the age of 60 accrued at the end of the year was £296,000 per annum (£261,000 per annum). The transfer value of the increase in accrued entitlement during the year was £459,000 (£437,000).

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:

	2002	2001		2002	2001
£0 - £50,000	3	3	£200,001 - £250,000	1	1
£50,001 - £100,000	2	1	£250,001 - £300,000	–	1
£100,001 - £150,000	1	2	£300,001 - £350,000	1	1
£150,001 - £200,000	1	–	£350,001 - £400,000	3	2

Contracts of employment for the Chairman and five directors provide for a notice period of one year. Contracts for all other directors provide for six months' notice, with the exception of one director who has a notice period of three months, and one director, Dame Stephanie Shirley, who had a fixed term contract which ended 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 nine of the twelve 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.

Twelve members of the Board belong to the Partnership's non-contributory pension scheme. During the year the Chairman and six directors also belonged to a senior pension scheme which provides additional benefits intended to produce a total pension worth two-thirds of pensionable pay on retirement at age 60, after at least 20 or 30 years' service, depending on the level of benefit. The Inland Revenue introduced a ceiling on tax-exempt pension benefits in 1989. The Partnership has given undertakings that three directors who are affected by this ceiling will have their pension made up to the same level as other directors benefiting from the senior pension scheme. The obligation is unfunded but, in line with group policy, provision has been made for this liability.

The annual pension entitlements from the age of 60, accrued at the end of the year for individual directors, excluding the Chairman, who served on the Board during any part of the year, and the prior year amounts for the same individuals, were as follows:

8 DIRECTORS' EMOLUMENTS (CONTINUED)

	2002	2001		2002	2001
£0 - £50,000	7	7	£150,001 - £200,000	–	2
£50,001 - £100,000	1	1	£200,001 - £250,000	2	–
£100,001 - £150,000	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 £895,000 per annum (£769,000 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 £1,734,000.

9 EMPLOYEES

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

	2002	2001
Department stores	26,700	25,000
Supermarkets	27,600	26,500
Other	1,800	1,700
	56,100	53,200

10 GOODWILL

	£m
Cost at 27 January 2001	–
Additions (note 27)	7.0
Cost at 26 January 2002	7.0
Amortisation at 27 January 2001	–
Amortisation charge for the period since acquisition	2.1
Amortisation at 26 January 2002	2.1
Net book value at 27 January 2001	–
Net book value at 26 January 2002	4.9

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

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 27 January 2001	1,475.4	769.7	68.6	2,313.7
Additions at cost	18.3	74.3	119.8	212.4
Transfers	48.1	21.9	(70.0)	–
Acquisitions	–	1.0	–	1.0
Disposals	(0.9)	(22.1)	–	(23.0)
At 26 January 2002	1,540.9	844.8	118.4	2,504.1
At cost	916.4	844.8	118.4	1,879.6
At valuation 1988	21.0	–	–	21.0
At valuation 2000	603.5	–	–	603.5
At 26 January 2002	1,540.9	844.8	118.4	2,504.1
Depreciation				
At 27 January 2001	166.4	459.5	–	625.9
Charges for the year	36.6	67.6	–	104.2
Acquisitions	–	0.3	–	0.3
Disposals	(0.5)	(15.5)	–	(16.0)
At 26 January 2002	202.5	511.9	–	714.4
Net book values at 27 January 2001	1,309.0	310.2	68.6	1,687.8
Net book values at 26 January 2002	1,338.4	332.9	118.4	1,789.7

	2002 £m	2001 £m
Land and buildings at cost or valuation:		
Freehold property	861.7	840.1
Leasehold property, 50 years or more unexpired	537.9	501.2
Leasehold property, less than 50 years unexpired	141.3	134.1
	1,540.9	1,475.4

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

Included in land and buildings at 26 January 2002 is land valued at £323.5m, which is not subject to depreciation. At 26 January 2002 land and buildings would have been included at the following amounts, if they had not been revalued:

	2002 £m	2001 £m
Cost	1,338.4	1,273.0
Accumulated depreciation	(241.5)	(208.4)
	1,096.9	1,064.6

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 (£12.3m).

NOTES
TO THE ACCOUNTS
CONTINUED

12 INVESTMENT IN ASSOCIATE

Cost	Share of net assets £m	Goodwill £m	Total £m
At 27 January 2001	12.5	20.1	32.6
Additions in year	12.4	(1.6)	10.8
Share of retained loss	(13.4)	–	(13.4)
At 26 January 2002	11.5	18.5	30.0
Amounts written off			
At 27 January 2001	–	(1.2)	(1.2)
Amortisation in year	–	(4.0)	(4.0)
At 26 January 2002	–	(5.2)	(5.2)
Net book value			
At 27 January 2001	12.5	18.9	31.4
At 26 January 2002	11.5	13.3	24.8

Investments represent 0.1% of the Ordinary Shares and 74% of the Convertible Preference Shares of Ocado Limited, previously L. M. Solutions (UK) Limited, which equates to 40% of the issued share capital.

On 7 June 2001 the Partnership invested a further £10.8m in Ocado Limited, maintaining its holding at 40% of the 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 27 January 2001	13.0	1.8	0.1	14.9
Movements	–	(0.1)	–	(0.1)
Dividend receivable	–	0.1	–	0.1
At 26 January 2002	13.0	1.8	0.1	14.9

14 STOCKS

	2002 £m	2001 £m
Raw materials	7.9	7.4
Work in progress	2.6	2.2
Finished goods and goods for resale	291.5	274.3
	302.0	283.9

15 DEBTORS

	2002 £m	2001 Restated £m
Amounts falling due within one year:		
Trade debtors	303.9	283.9
Other debtors	11.4	13.1
Due from associated undertaking	0.4	–
Prepayments and accrued income	34.0	22.1
	349.7	319.1

Restatements include the adjustments required in respect of deferred taxation (implementing FRS 19) and a reclassification of trade debtors to more accurately reflect when debts are due.

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	31.3	6.2	37.5
US dollar	0.4	–	0.4
Other	4.1	–	4.1
At 26 January 2002	35.8	6.2	42.0
Sterling	33.1	6.1	39.2
US dollar	1.4	–	1.4
Other	3.1	–	3.1
At 27 January 2001	37.6	6.1	43.7

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
TO THE ACCOUNTS
CONTINUED

17 CREDITORS

	2002 £m	2001 £m
Amounts falling due within one year:		
Bank overdraft and other borrowings	28.0	48.2
Trade creditors	289.1	253.4
Other creditors	47.3	34.8
Loans	35.0	155.0
Corporation tax	11.9	12.4
Other taxation and social security	61.9	69.9
Accruals and deferred income	68.8	70.8
Partnership bonus	51.0	51.9
	593.0	696.4
Amounts falling due after more than one year:		
10¼% Bonds, 2006	50.0	50.0
6⅞% Bonds, 2012	200.0	–
10½% Bonds, 2014	100.0	100.0
	350.0	150.0

Trade creditors includes £4.2m (£3.8m) of balances denominated in foreign currencies. Of this, £4.0m (£3.3m) is covered by forward currency contracts as at the year end.

18 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred tax £m	Pensions £m	Other £m	Total £m
At 27 January 2001 as reported	–	15.8	10.2	26.0
Prior year adjustment	98.4	–	–	98.4
At 27 January 2001 as restated	98.4	15.8	10.2	124.4
Charged to profit and loss account	10.0	62.3	2.6	74.9
Utilised	–	(65.4)	(4.3)	(69.7)
At 26 January 2002	108.4	12.7	8.5	129.6

18 PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Further details on pensions are provided in note 30. Other provisions include accrued holiday pay, closure and property related costs and provision for service guarantees. The exact timing of utilisation of these provisions of £8.5m will vary according to the individual circumstances. However, the group's best estimate of utilisation is given in the maturity of financial liabilities table in note 19.

Provision for deferred taxation	2002 £m	2001 Restated £m
Accelerated capital allowances	112.0	103.1
Pension and other timing differences	(3.6)	(4.7)
	108.4	98.4

No provision has been made in these accounts for the liability to taxation of £49.1m (£47.7m) 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.

19 ANALYSIS OF FINANCIAL LIABILITIES

The currency and interest rate exposure of the group's financial liabilities, after taking account of a £100m swap from fixed rate to floating rate, is as set out below. Short term creditors are excluded from this analysis.

Interest rate and currency analysis	Fixed rate £m	Floating rate £m	Non interest bearing £m	Total £m
All sterling				
At 26 January 2002	278.0	135.0	8.5	421.5
At 27 January 2001	189.5	163.7	10.2	363.4

Floating rate borrowings are at interest rates linked to LIBOR. The weighted average rate for fixed rate borrowings is 8.3% (9.5%), with a weighted average period to maturity of 8.7 years (8.2 years).

Other financial liabilities not included above include non equity minority interests of £0.4m (£0.5m), and preference share capital of £4.2m (£4.9m) as detailed in note 21.

NOTES
TO THE ACCOUNTS
CONTINUED

19 ANALYSIS OF FINANCIAL LIABILITIES (CONTINUED)

Maturity of financial liabilities	2002 £m	2001 £m
Repayable in one year or less		
Bank overdraft and other borrowings	28.0	48.2
Loans	35.0	155.0
Provisions	3.1	4.9
	66.1	208.1
Repayable between one and two years		
Provisions	4.4	4.1
Repayable between two and five years		
Provisions	1.0	1.2
10¼% Bonds 2006	50.0	–
	51.0	1.2
Repayable in more than five years		
10¼% Bonds 2006	–	50.0
6⅜% Bonds 2012	200.0	–
10½% Bonds 2014	100.0	100.0
	300.0	150.00
	421.5	363.4

Borrowing facilities

At 26 January 2002 the group had undrawn committed facilities of £nil (£25m) which expire within 1 year, £40m (£nil) which expire between 1 and 2 years, and £150m (£70m) which expire between 2 and 5 years. There was also an undrawn overdraft facility of £40m (£40m), renewable on an annual basis.

In April 2001 John Lewis plc issued a £200m 6⅜% bond, maturing in January 2012. In April 2002 a £35m loan expired and was replaced by a £50m loan for 3 years.

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

20 FAIR VALUES OF FINANCIAL INSTRUMENTS

	2002 Book value £m	2002 Fair value £m	2001 Book value £m	2001 Fair value £m
Derivatives				
Interest rate swap	–	1.6	–	–
Forward currency contracts				
– to hedge existing creditors	–	–	–	–
– to hedge future purchases	–	(0.1)	–	0.2
Assets				
Cash at bank and in hand	42.0	42.0	43.7	43.7
Liabilities				
Short term borrowings	63.0	63.0	203.2	203.2
Long term borrowings	350.0	397.7	150.0	192.9
Provisions	8.5	8.5	10.2	10.2
Non equity shares				
Preference shares	4.2	3.6	4.9	4.3
Non equity minority interest	0.4	0.4	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

	2002 Authorised £m	2002 Issued and fully paid £m	2001 Authorised £m	2001 Issued and fully paid £m
Equity				
Deferred Ordinary Shares of £1 each	0.6	0.6	0.6	0.6
Non equity				
Fixed interest Cumulative Preference Stock of £1 each held by the public:				
7½%	0.6	0.5	0.6	0.5
5%	8.8	3.7	8.8	4.4
	10.0	4.8	10.0	5.5

NOTES
TO THE ACCOUNTS
CONTINUED

21 SHARE CAPITAL (CONTINUED)

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

The deferred ordinary shares are held by John Lewis Partnership Trust Limited, with whom ultimate control rests.

22 RESERVES

		Other reserves			
Consolidated	Profit and loss account £m	Capital reserve £m	Capital redemption reserve £m	Revaluation reserve £m	Total reserves £m
At 27 January 2001 as reported	1,242.1	1.4	4.3	244.4	1,492.2
Prior year adjustment	(103.1)	–	–	–	(103.1)
At 27 January 2001 as restated	1,139.0	1.4	4.3	244.4	1,389.1
Profit retained	46.0	–	–	–	46.0
Transfers	2.9	–	–	(2.9)	–
Purchase of own shares	(0.5)	–	0.7	–	0.2
At 26 January 2002	1,187.4	1.4	5.0	241.5	1,435.3

The cumulative amount of goodwill written off to reserves is £10.9m (£10.9m). The prior year adjustment is in respect of the implementation of FRS 19 – Deferred Taxation.

Company	Profit and loss account £m	Capital redemption reserve £m	Total reserves £m
At 27 January 2001	5.3	4.3	9.6
Purchase of own shares	(0.5)	0.7	0.2
At 26 January 2002	4.8	5.0	9.8

All of the reserves are attributable to equity shareholders.

23 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002 £m	2001 Restated £m
Profit for the financial year	46.3	62.6
Dividends	(0.3)	(0.3)
	46.0	62.3
Purchase of own shares	(0.5)	–
Change in minority interest	(0.1)	–
Net addition to shareholders' funds	45.4	62.3
Opening shareholders' funds as reported	1,395.1	1,431.0
Prior year adjustment	–	(98.2)
Opening shareholders' funds as restated	1,395.1	1,332.8
Closing shareholders' funds	1,440.5	1,395.1

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

	2002 £m	2001 £m
Trading profit	190.3	180.6
Depreciation charged	104.2	92.3
Amortisation of goodwill	2.1	–
Increase in debtors	(24.4)	(10.3)
Increase in creditors	19.4	98.7
Movement in provisions	(4.8)	4.7
Increase in stocks	(18.1)	(9.3)
Partnership bonus paid for previous year	(58.4)	(77.5)
Net cash inflow from operating activities	210.3	279.2

25 RECONCILIATION OF NET CASH FLOW TO NET DEBT

	2002 £m	2001 £m
Increase in cash in the year	7.0	58.8
Cash inflow from increase in debt and lease financing	(80.0)	(149.7)
Cash outflow/(inflow) from decrease in liquid resources	11.5	(32.0)
Movement in debt for the year	(61.5)	(122.9)
Opening net debt	(309.5)	(186.6)
Closing net debt	(371.0)	(309.5)

NOTES
TO THE ACCOUNTS
CONTINUED

26 ANALYSIS OF CHANGES IN NET DEBT

	2001 £m	Cash flows £m	2002 £m
Cash balances	43.7	(1.7)	**42.0**
Overdrafts	(8.7)	8.7	**–**
	35.0	7.0	**42.0**
Debt due within one year	(155.0)	120.0	**(35.0)**
Debt due after one year	(150.0)	(200.0)	**(350.0)**
Short term loans	(39.5)	11.5	**(28.0)**
Net debt	(309.5)	(61.5)	**(371.0)**

27 ACQUISITIONS

On 7 March 2001 the Partnership acquired 100% of the issued share capital of buy.com Limited, a UK internet retailer of technology and office products for consideration of £3.1m, including acquisition costs of £0.3m.

This has been accounted for using acquisition accounting and has been consolidated as follows:

	Balance sheet at acquisition £m	Fair value adjustments £m	Fair value balance sheet £m
Tangible fixed assets	1.0	(0.3)	0.7
Debtors	1.3	–	1.3
Creditors	(6.2)	–	(6.2)
Cash	0.3	–	0.3
Net liabilities acquired	(3.6)	(0.3)	(3.9)
Goodwill			7.0
Consideration			3.1

The fair value adjustment of £0.3m is in respect of alignment of accounting policies. The trade of buy.com Limited was transferred to John Lewis plc with effect from the date of acquisition and consequently post acquisition results are not separately identifiable.

28 COMMITMENTS

At 26 January 2002 contracts had been entered into for future capital expenditure of £74.9m (£74.9m).

John Lewis plc has entered into bank guarantees in favour of subsidiary companies of £18.0m, and lease and loan guarantees in favour of an associate company of £12.5m.

29 LEASE COMMITMENTS

Operating leases Rentals for the next financial year on operating leases expiring:	2002 Land and Buildings £m	2002 Other £m	2001 Land and Buildings £m	2001 Other £m
Within 1 year	0.2	0.3	0.2	0.3
Between 1 and 5 years	5.2	0.2	3.9	0.2
Over 5 years	43.1	0.2	41.0	0.2

30 PENSION COMMITMENTS

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

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

The actuaries have recommended a normal future contribution rate of 9.0% of total pay, together with an additional 1.0% of total pay in respect of the past-service deficit arising from the actuarial valuation. The pension charge for the year, calculated according to the provisions of SSAP 24, was equivalent to 10.0% (9.5%) of total pay and amounted to £60.5m (£53.5m), including notional interest of £nil (£nil) on the pension charge accrued in the consolidated balance sheet. The next actuarial valuation of the fund will take place as at 31 March 2004.

As explained in note 8, there is also a senior pension scheme which provides additional benefits to certain members of senior management. The actuaries have recommended a funding rate of 12.4% or 26.3% of total pay, depending on the level of benefits provided. The charge for the year was £1.2m (£1.1m). Provision has also been made for certain unfunded benefits, amounting to £0.6m (£0.3m). Both of these amounts are included in the total pension cost of £62.3m (£54.9m).

NOTES
TO THE ACCOUNTS
CONTINUED

30 PENSION COMMITMENTS (CONTINUED)

The disclosures required by FRS 17 – Retirement Benefits – have been based on the most recent actuarial valuations, as at 31 March 2001, and have been updated by the actuaries to assess the value of the assets and liabilities of the schemes as at 26 January 2002. Scheme assets are stated at market values at 26 January 2002. The following financial assumptions have been used:

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

The assets in the schemes and the expected rates of return as at 26 January 2002 were:

	Long term expected rate of return	Value £m
Assets		
Equities	7.75%	780.0
Properties	6.50%	114.0
Bonds	5.25%	99.0
Other assets	4.50%	10.0
Total market value of assets		1,003.0
Present value of scheme liabilities		(1,189.0)
Deficit in schemes		(186.0)
Related deferred tax asset		55.8
Net pension liability		(130.2)

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

Net assets	
Net assets as reported	1,440.5
add back SSAP 24 pension liability, net of deferred taxation	8.9
less FRS 17 pension liability	(130.2)
Net assets including FRS 17 pension liability	1,319.2
Reserves	
Profit and loss reserve as reported	1,187.4
add back SSAP 24 pension liability, net of deferred taxation	8.9
less FRS 17 pension liability	(130.2)
Profit and loss reserve including FRS 17 pension liability	1,066.1

31 RELATED PARTY TRANSACTIONS

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

32 SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

Subsidiary companies as at 26 January 2002 were as follows:
John Lewis plc *(Department Store retailing)*
Ordinary shares - 100%
5% First Cumulative Preference Stock - 83.3%
7% Cumulative Preference Stock - 75.6%
Subsidiaries of John Lewis plc:
Findlater Mackie Todd & Co. Limited *(Mail order and wholesale including export) (Subsidiary of Waitrose Limited)*
Herbert Parkinson Limited *(Weaving and making up)*
J.H.Birtwistle & Company, Limited *(Textile weaving)*
JLP Holdings BV *(Investment holding company) (Incorporated and operating in Holland) (Subsidiary of JLP Victoria Limited)*
JLP Insurance Limited *(Insurance) (Incorporated and operating in Guernsey)*
JLP Victoria Limited *(Investment holding company)*
John Lewis Building Limited *(Building)*
John Lewis Car Finance Limited *(Car finance)*
John Lewis Card Services Limited *(Credit card handling)*
John Lewis Properties plc *(Property holding company)*
John Lewis Transport Limited *(Vehicle leasing)*
Leckford Estate Limited *(Farming)*
Leckford Mushrooms Limited *(Mushroom growing)*
Stead, McAlpin & Company, Limited *(Textile printing)*
Waitrose Limited *(Food retailing)*
Waitrose Card Services Limited *(Credit card handling) (Subsidiary of Waitrose Limited)*
Associates of John Lewis plc:
Ocado Limited, previously 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 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out in note 1.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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

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

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 26 January 2002 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
18 APRIL 2002

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	John Lewis, Bluewater	Cole Brothers, Sheffield
Peter Jones, Sloane Square	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, Reading	John Lewis, Edinburgh
	John Lewis, Southampton	John Lewis, Glasgow
	John Lewis, Watford	John Lewis, Norwich
	John Lewis, Welwyn	John Lewis, Peterborough
	Knight & Lee, Southsea	John Lewis, Solihull
		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
John Lewis Direct *Internet retail*
Waitrose Direct (including Findlater Mackie Todd) *Internet retail, mail order and wholesale including export*
Stead, McAlpin, Carlisle *Textile Printing*
J. H. Birtwistle, Haslingden *Textile weaving,*
Herbert Parkinson, Darwen *Weaving and making up*
Leckford Estate, Stockbridge *Farming*

NOTICE OF AGM

Notice is hereby given that the seventy-third annual general meeting of the company will be held at 12.30 pm on 19 June 2002 at 171 Victoria Street, London SW1E 5NN:

- To receive the directors' report and accounts for the year 2001/02.
- To consider the re-election of retiring directors.
- To consider the re-appointment of the auditors.
- To consider the remuneration of the auditors.
- To consider the following, which will be proposed as a Ordinary Resolution.

  That pursuant to the Company's Articles of Association;

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

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

    and

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

  and

  (b) this authority shall expire at the close of the Annual General Meeting of the Company held in 2003 or 19 September 2003, whichever is earlier.

BY ORDER OF THE BOARD
TERENCE NEVILLE SECRETARY
171 VICTORIA STREET, LONDON SW1E 5NN
1 MAY 2002

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.