

238937

# 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 38,000 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 30 JANUARY 1999

	1999 £m	1998 £m
Turnover (including VAT)	3,517.6	3,460.1
Trading profit	220.0	271.7
Exceptional operating income	33.5	-
Total operating profit	253.5	271.7
Interest	(16.6)	(21.4)
Profit before Partnership bonus and taxation	236.9	250.3
Taxation	(46.8)	(49.9)
Preference dividends	(0.2)	(0.2)
Balance available for profit sharing and retention in the business	189.9	200.2
Partnership bonus	(88.9)	(97.7)
Retained in the business for development	101.0	102.5
Net assets employed at the year end	1,303.5	1,195.4
Average number of employees (weighted for part-timers)	34,100	33,300
Number of shops – Department stores	23	23
– Supermarkets	117	117

# FIVE YEAR RECORD

YEARS ENDED JANUARY

	1999 £m	1998* £m	1997 £m	1996 £m	1995 £m
Turnover (including VAT)	3,517.6	3,460.1	3,160.5	2,815.7	2,575.5
Profit before pension costs	267.5	300.7	262.3	195.4	159.4
Pension costs	(47.5)	(29.0)	(23.4)	(22.6)	(18.0)
Exceptional operating income	33.5	—	—	—	—
Interest	(16.6)	(21.4)	(21.8)	(22.8)	(24.5)
Profit before Partnership bonus and taxation	236.9	250.3	217.1	150.0	116.9
Taxation	(46.8)	(49.9)	(45.2)	(28.6)	(22.5)
Dividends	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Net profit available for profit sharing and retention in the business	189.9	200.2	171.7	121.2	94.2
Partnership bonus	(88.9)	(97.7)	(81.7)	(57.0)	(43.1)
As a percentage of ranking pay	19	22	20	15	12
Retained in the business	101.0	102.5	90.0	64.2	51.1
Net assets employed	1,303.5	1,195.4	1,062.5	952.0	861.7
Pay	467.4	442.1	402.3	371.3	351.8
Average number of employees including part-time employees	46,800	45,300	43,700	41,100	39,600
	19,800	18,800	17,800	16,300	15,200

\* 53 week year

# CHAIRMAN'S STATEMENT

Partnership sales were just over £3.5bn, an increase of 2%, (52 weeks against 53 weeks). Profit before Partnership Bonus and taxation fell by 5% to £237m. However, this total included two non-recurring items – the benefit of a £33.5m refund for VAT and a £5m transfer from profits to the fund we are setting up to celebrate the Golden Jubilee of the Second Trust Settlement (under which Spedan Lewis transferred ownership of the business irrevocably to Partners). In contrast, both this and future years are affected by an actuarial valuation of the pension fund, which has prompted a significant rise in pension costs charged to profit.

On a like-for-like basis profit fell 17%. £101m of profit after taxation was retained in the business, leaving £89m to be distributed to Partners by way of bonus at 19% of pay.

Department store sales were level with last year; in common with other retailers, sales became harder to achieve as the year progressed. The manufacturing units were hard hit, with a 6% decrease in sales. The division's gross margin slipped fractionally, and, with costs outstripping sales, trading profit decreased.

The Waitrose sales increase was 3%. There was no increase in the number of supermarkets (Billericay opened but we closed Chelmsford), but we improved our share of the market. Despite moving the gross margin ahead slightly, rises in costs meant that the trading profit for the division fell by 18% to £61m.

Capital spending increased from £155m to £183m. The net interest charge fell once again, and interest cover increased from 13 times to 15 times. Year-end gearing remained at 14%.

After the year end, new department stores at Bluewater and Glasgow were opened in March, and attention now turns to the relocation of our Southampton department store next year followed by the opening of Solihull in 2001. Waitrose opened a new branch at Gloucester Road in April and aims to open five further branches and relocate one this year.

After 12 weeks of the current trading year, sales are almost level in department stores and 5% ahead in Waitrose. The outlook for non-food retailing remains very hard to call, both in relation to the level of confidence in the market and also whether the approach to the new millennium will exert an influence on spending patterns. The profits of both divisions will be affected by the costs of opening new branches and by the completion of year 2000 computer work. The challenge will be to offset such exceptional costs with a tight focus on underlying profit.



SIR STUART HAMPSON CHAIRMAN

29 APRIL 1999

# DIRECTORS

## AND ADVISERS

### DIRECTORS

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

**SIR STUART HAMPSON** AGE 52

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.

**DAVID YOUNG** AGE 57

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

**IAN ALEXANDER** AGE 49

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

**DUDLEY CLOAKE** † AGE 55

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

**DAVID FELWICK** AGE 54

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

**TIM LEADER** † AGE 46

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

**LUKE MAYHEW** AGE 45

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

**KIM MCGRATH** † AGE 40

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

**FELICITY MILLER** AGE 47

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

**BRIAN O'CALLAGHAN** AGE 56

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

**MONTY PEACH** † AGE 56

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

**KEN TEMPLE** † AGE 51

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

### OFFICERS AND ADVISERS

**COMPANY SECRETARY**

**BRIAN PRITCHARD** ACIS

**CHIEF ACCOUNTANT**

**ROS HAIGH** FCA

**DIRECTOR OF LEGAL SERVICES**

**TERRY NEVILLE**

**AUDITORS**

**PRICEWATERHOUSECOOPERS**

**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

# 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 Monty Peach, served throughout the period under review. David Ramsey, who was in office as a director on 31 January 1998, resigned on 4 June 1998, on which date Monty Peach was appointed as a director.

### Principal activity

The company controls, through John Lewis plc, the businesses listed on page 26, comprising 25 department stores, 118 Waitrose supermarkets (including 2 new department stores and 1 Waitrose supermarket which opened after the year end) and ancillary manufacturing activities.

### Employees

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

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

### Corporate governance

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

The Partnership has since 1929 operated under a Constitution which encourages the widest possible sharing of gain, 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 Articles, Rules and Regulations conform with the spirit of the 'Combined Code' but are framed to suit the unique democratic ownership structure of the Partnership.

Principal authority in the affairs of the Partnership is divided between the Chairman, the Board of John Lewis Partnership plc (the Central Board) and the elected Central Council. The Central Council nominates five of the twelve members of the Central Board. Elected councils at local branch as well as central level provide regular opportunity for management to be held accountable to Partners; Councils receive regular reports by directors and have an opportunity to follow these up with questions on any subject, whilst an open system of journalism both contributes to this process of accountability and provides the means of sharing information extensively with all Partners.

The Partnership has an Audit Committee, the members of which are the Chairman, the General Inspector and one other Director

(not an Executive Director), nominated by the Chairman, currently Ken Temple, the Chief Registrar. It meets at least twice a year. 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 expected that work on converting the Partnership's computer software to deal with the year 2000 date change will cost £4.1m in total, of which £1.0m was incurred in 1997/98 and £2.4m in 1998/99. The majority of these costs are being charged to the Profit and Loss account as incurred. Work is also well advanced to identify the extent of problems with embedded chips. The cost of the remedial work is expected to be £1.5m, of which £0.4m was incurred in 1998/99. Around £0.3m of the total cost is expected to be capitalised with the remainder charged to the Profit and Loss account as incurred.

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 £2.2m, of which £1.0m was incurred in 1997/98 and £0.9m in 1998/99. The costs are being capitalised as appropriate.

It is expected that the remaining work on Year 2000 compliance will be completed by the end of August 1999.

While there can be no absolute guarantee that the date change from 1999 to 2000 will not adversely affect the Partnership's operations, and problems may also arise as a result of the inability of third parties to manage the problem, work is proceeding to plan and progress is reviewed on a monthly basis at a senior level. Contingency plans are also being developed to safeguard business continuity.

#### European Monetary Union

The Partnership has formed a steering group and a number of working groups to identify the issues which might be faced in connection with EMU. This work is at a relatively early stage and until matters become more clear an estimate of likely costs cannot be prepared.

#### 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 30 January 1999 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 10.

#### Properties

The Partnership's freehold and long leasehold department store properties were valued by the directors at 31 December 1998 on the basis of existing use value. This valuation has been incorporated in the consolidated balance sheet at 30 January 1999, resulting in a surplus of £7.1m 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 30 January 1999.

#### 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 17 December 1998.

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.

On 1 April 1999 the company purchased 293,901 £1 units of 5% stock, representing 5.09% of the issued share capital, for £261,572.

#### Use of profits

Preference dividends absorbed £190,000 leaving £101,000,000 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

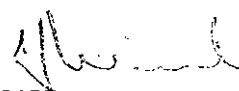
Under the Constitution of the Partnership all the directors, as employees of John Lewis plc, are necessarily interested in the 612,000 Deferred Ordinary Shares in John Lewis Partnership plc which are held in trust for the benefit of employees of John Lewis plc and of certain other companies.

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 £1,497,000 for charitable purposes during the year but made no political donations.

FOR AND BY ORDER OF THE BOARD  
BRIAN PRITCHARD SECRETARY  
29 APRIL 1999



# **CONSOLIDATED PROFIT AND LOSS ACCOUNT**

FOR THE YEAR ENDED 30 JANUARY 1999

Notes		1999 £m	1998 £m
2	Turnover	3,517.6	3,460.1
	Value added tax	(349.6)	(342.7)
		<u>3,168.0</u>	<u>3,117.4</u>
	Cost of sales	(2,162.9)	(2,130.7)
	Gross profit	<u>1,005.1</u>	<u>986.7</u>
	Selling and distribution costs	(646.2)	(613.5)
3	Administrative expenses (including exceptional item of £5.0m)	(91.4)	(72.5)
4	Pension costs	(47.5)	(29.0)
		<u>220.0</u>	<u>271.7</u>
2	Trading profit		
3	Exceptional operating income	33.5	—
		<u>253.5</u>	<u>271.7</u>
5	Net interest payable	(16.6)	(21.4)
		<u>236.9</u>	<u>250.3</u>
	Profit before Partnership bonus and taxation		
	Partnership bonus	(88.9)	(97.7)
6	Profit on ordinary activities before taxation	<u>148.0</u>	<u>152.6</u>
7	Tax on profit on ordinary activities	(46.8)	(49.9)
8	Profit for the financial year	<u>101.2</u>	<u>102.7</u>
9	Dividends – non equity interests	(0.2)	(0.2)
18	Profit retained	<u>101.0</u>	<u>102.5</u>

## **STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

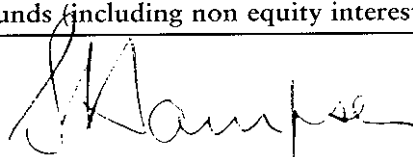
	Profit for the financial year	101.2	102.7
18	Unrealised surplus on revaluation of department store properties	7.1	30.4
	<b>Total recognised gains and losses for the year</b>	<u>108.3</u>	<u>133.1</u>

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

# CONSOLIDATED BALANCE SHEET

AS AT 30 JANUARY 1999

Notes		1999 £m	1998 £m
	<b>Fixed assets</b>		
12	Tangible assets	1,341.7	1,234.6
	<b>Current assets</b>		
14	Stocks	266.3	259.4
15	Debtors	310.7	290.1
	Cash at bank and in hand	36.9	58.7
		613.9	608.2
	<b>Creditors</b>		
16	Amounts falling due within one year	(496.2)	(484.8)
	<b>Net current assets</b>	117.7	123.4
	<b>Total assets less current liabilities</b>	1,459.4	1,358.0
	<b>Creditors</b>		
16	Amounts falling due after more than one year	(155.9)	(162.6)
	<b>Net assets</b>	1,303.5	1,195.4
	<b>Capital and reserves</b>		
17	Called up share capital – equity	0.6	0.6
	– non equity	5.2	5.2
	<b>Total share capital</b>	5.8	5.8
	<b>Minority interest in subsidiary (non equity)</b>	0.5	0.5
18	Revaluation reserve	207.2	205.2
18	Other reserves	5.4	5.4
18	Profit and loss account	1,084.6	978.5
	<b>Total shareholders' funds (including non equity interests)</b>	1,303.5	1,195.4

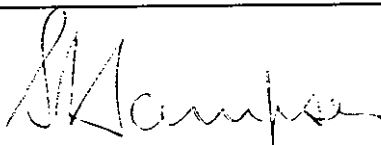


APPROVED BY THE BOARD ON 29 APRIL 1999  
SIR STUART HAMPSON

# BALANCE SHEET OF THE COMPANY

AS AT 30 JANUARY 1999

Notes		1999 £m	1998 £m
13	Fixed assets Investments	14.9	14.9
	Current assets and liabilities		
	Debtors	0.6	0.5
	Creditors	(0.2)	(0.2)
	Net current assets	0.4	0.3
	Net assets	15.3	15.2
	Capital and reserves		
17	Called up share capital – equity	0.6	0.6
	– non equity	5.2	5.2
	Total share capital	5.8	5.8
18	Other reserves	4.0	4.0
18	Profit and loss account	5.5	5.4
	Total shareholders' funds (including non equity interests)	15.3	15.2



APPROVED BY THE BOARD ON 29 APRIL 1999  
SIR STUART HAMPSON

## CONSOLIDATED

## CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JANUARY 1999

Notes	1999 £m	1998 £m
20 Net cash inflow from operating activities	223.0	170.4
Returns on investments and servicing of finance		
Interest received	2.6	7.2
Interest paid	(19.5)	(27.8)
Interest element of finance lease rental payments	(0.3)	(0.5)
Preference dividends paid	(0.2)	(0.2)
Net cash outflow from returns on investments and servicing of finance	(17.4)	(21.3)
Taxation	(46.0)	(42.6)
Capital expenditure and financial investment		
Purchases of tangible fixed assets	(182.9)	(154.5)
Proceeds of sales of tangible fixed assets	9.7	2.5
Proceeds of sale of call option	-	49.3
Net cash outflow from capital expenditure and financial investment	(173.2)	(102.7)
Net cash (outflow)/inflow before liquid resources and financing	(13.6)	3.8
Management of liquid resources (Short term loans/deposits)	44.8	28.7
Financing		
Repayment of 10% Bonds, 1998	-	(100.0)
Loan repayments	(4.1)	(3.7)
Capital element of finance lease rental payments	(2.2)	(2.5)
Net cash outflow from financing	(6.3)	(106.2)
Increase/(decrease) in cash in the year	24.9	(73.7)

# NOTES TO THE ACCOUNTS

## 1 ACCOUNTING POLICIES

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### 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

Prior to February 1998 goodwill arising on the acquisition of subsidiaries was written off to reserves at the time of acquisition. Goodwill on future acquisitions will be capitalised, as appropriate, and amortised in accordance with the requirements of FRS 10.

## 2 DIVISIONAL ANALYSIS OF TURNOVER AND TRADING PROFIT

	Turnover		Trading profit	
	1999 £m	1998 £m	1999 £m	1998 £m
Department stores	1,789.6	1,788.2	164.1	197.2
Supermarkets	1,728.0	1,671.9	60.9	74.5
Exceptional item	—	—	(5.0)	—
	3,517.6	3,460.1	220.0	271.7

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 EXCEPTIONAL ITEMS

Included within administrative expenses is a charge of £5.0m in respect of the cost of establishing the Golden Jubilee Trust.

Exceptional operating income represents £33.5m received in respect of VAT overpaid on sales of earlier accounting periods following the Court of Appeal decision in a case brought by Littlewoods Home Shopping. The decision clarified how VAT should be calculated on retail sales, amending previous interpretation. The overpayment was repaid in full following the acceptance of the Court of Appeal decision by the tax authorities.

## 4 PENSION COSTS

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

The fund was last valued by consulting actuaries as at 31 March 1998, using the projected unit method. The assumption which has the most significant effect on the results of the valuation is the relative rate of return on the investments of the fund compared with increases in pay and pensions. It was assumed for this purpose that on average, the annual return on investments would exceed increases in pay and pensions by 2.25% and 4.25% respectively. The market value of the assets of the fund as at 31 March 1998 was £864m. The actuarial valuation of these assets showed that they were sufficient to cover 92% of the benefits which had accrued to members.

The actuaries have recommended a normal future contribution rate of 8.6% of total pay, together with an additional 1.2% of total pay in respect of the past-service deficit arising from the actuarial valuation. The pension charge for the year, calculated according to the provisions of SSAP 24, was equivalent to 9.9% (6.3%) of total pay and amounted to £46.4m (£28.0m), including notional interest of £1.9m (£0.4m) on the pension charge accrued in the consolidated balance sheet. The next actuarial valuation of the fund will take place as at 31 March 2001.

As explained in note 10, there is also a senior pension scheme which provides additional benefits to certain members of senior management. The actuaries have recommended a funding rate of 12.4% or 23.6% of total pay, depending on the level of benefits provided. The charge for the year was £1.0m (£0.9m). 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 £47.5m (£29.0m).

## 5 NET INTEREST PAYABLE

	1999 £m	1998 £m
Interest payable:		
On bank loans, overdrafts and other loans repayable within 5 years	3.3	12.0
On finance leases	0.3	0.5
On all other loans	15.6	15.9
Interest receivable (for 1999 includes £1.1m relating to exceptional operating income)	(2.6)	(7.0)
	16.6	21.4



## 6 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1999 £m	1998 £m
Profit on ordinary activities before taxation is stated after charging the following:		
Staff costs:		
Wages and salaries	467.4	442.1
Social security costs	39.1	36.3
Partnership bonus	80.4	88.4
Employer's national insurance on Partnership bonus	8.5	9.3
Pension costs	47.5	29.0
Depreciation – owned assets	70.9	67.4
– assets held under finance leases	2.3	2.4
Auditors' remuneration – audit of group	0.4	0.4
– audit of company (included in the above)	0.1	0.1
Operating lease rentals – land and buildings	41.0	39.5
– other	0.5	1.2

## 7 TAX ON PROFIT ON ORDINARY ACTIVITIES

Corporation tax based on the profit for the year	46.1	47.5
Deferred tax	0.7	2.4
	46.8	49.9

The tax charge is based on a corporation tax rate of 31% (31%) and has been reduced by £6.3m (£2.8m) 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 £90.9m (£84.6m) based on corporation tax at 31% (31%).

No provision has been made in these accounts for the liability to taxation of £33.1m (£20.2m) 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.

## 8 PROFIT FOR THE FINANCIAL YEAR

As permitted by Section 230 of the Companies Act 1985, John Lewis Partnership plc has not presented its own profit and loss account. The profit dealt with in the accounts of the company amounted to £0.3m (£0.3m).

## 9 DIVIDENDS

	1999 £m	1998 £m
Non equity interests		
7½% Cumulative Preference Stock		
and 5% Cumulative Preference Stock	0.2	0.2

## 10 DIRECTORS' EMOLUMENTS

	1999 £000	1998 £000
Directors' remuneration including Partnership bonus of 19% (22%)	2,566	2,399

The emoluments of the Chairman, who was also the highest paid director, were £466,000 (£435,000), including Partnership bonus of £72,000 (£76,000). The Chairman's aggregate pension entitlement from the age of 60 accrued at the end of the year was £199,000 per annum (£168,000 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 £372,000 (£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:

	1999	1998		1999	1998
£0 - £50,000	4	6	£250,001 - £300,000	2	1
£50,001 - £100,000	—	1	£300,001 - £350,000	2	3
£100,001 - £150,000	3	3	£350,001 - £400,000	1	—
£200,001 - £250,000	—	1			

The Chairman's contract of employment provides for a notice period of one year.

Contracts for all other directors provide for six months' notice, with the exception of 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 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 also benefited from private medical insurance paid by the Partnership.

## 10 DIRECTORS' EMOLUMENTS (CONTINUED)

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

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:

	1999	1998		1999	1998
£0 - £50,000	7	7	£100,001 - £150,000	2	2
£50,001 - £100,000	2	2	£150,001 - £200,000	1	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, and the prior year amount for the same individuals, was £764,000 per annum (£626,000 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 £27,000 per annum (£27,000 per annum). The transfer value of the aggregate increase in accrued entitlement, including temporary pensions, during the year was £1,843,000.

## 11 EMPLOYEES

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

	1999	1998
Department stores	22,900	22,500
Supermarkets	22,300	21,300
Other	1,600	1,500
	46,800	45,300

## 12 TANGIBLE FIXED ASSETS

	Land and buildings £m	Fixtures and fittings £m	Payments on account and assets in course of construction £m	Total £m
Cost or valuation				
At 31 January 1998	1,058.4	556.4	68.5	1,683.3
Additions at cost	10.1	42.8	130.0	182.9
Transfers	50.7	28.7	(79.4)	—
Disposals	(11.2)	(12.0)	(0.1)	(23.3)
Revaluation adjustments	0.9	—	—	0.9
At 30 January 1999	1,108.9	615.9	119.0	1,843.8
At cost	585.7	615.9	119.0	1,320.6
At valuation 1988	21.1	—	—	21.1
At valuation 1999	502.1	—	—	502.1
At 30 January 1999	1,108.9	615.9	119.0	1,843.8
Depreciation				
At 31 January 1998	104.5	344.2	—	448.7
Charges for the year	22.0	51.2	—	73.2
Disposals	(2.6)	(11.0)	—	(13.6)
Revaluation adjustments	(6.2)	—	—	(6.2)
At 30 January 1999	117.7	384.4	—	502.1
Net book values at 31 January 1998	953.9	212.2	68.5	1,234.6
Net book values at 30 January 1999	991.2	231.5	119.0	1,341.7
			1999 £m	1998 £m
Land and buildings at cost or valuation:				
Freehold property			684.5	657.0
Leasehold property, 50 years or more unexpired			332.8	317.7
Leasehold property, less than 50 years unexpired			91.6	83.7
			1,108.9	1,058.4

## 12 TANGIBLE FIXED ASSETS (CONTINUED)

In 1988 Hillier Parker, chartered surveyors, valued most of the Partnership's freehold and long leasehold properties. This valuation was on the basis of existing use value. At 31 December 1998, 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 30 January 1999. The £7.1m 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 30 January 1999 is land valued at £215.3m, which is not subject to depreciation. At 30 January 1999 land and buildings would have been included at the following amounts, if they had not been revalued:

	1999 £m	1998 £m
Cost	943.7	893.0
Accumulated depreciation	(159.7)	(144.3)
	784.0	748.7

The gross cost of assets held under finance leases is £12.3m (£12.3m) with accumulated depreciation in respect of those assets of £10.6m (£8.3m).

## 13 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 31 January 1998	13.0	1.8	0.1	14.9
Movements	—	(0.2)	—	(0.2)
Dividend receivable	—	0.2	—	0.2
At 30 January 1999	13.0	1.8	0.1	14.9

## 14 STOCKS

	1999 £m	1998 £m
Raw materials and work-in-progress	10.4	12.0
Finished goods and goods for resale	255.9	247.4
	266.3	259.4

## 15 DEBTORS

	1999 £m	1998 £m
Amounts falling due within one year:		
Trade debtors	200.6	195.7
Other debtors	34.0	20.5
Prepayments and accrued income	15.5	14.3
	<u>250.1</u>	<u>230.5</u>
Amounts falling due after more than one year:		
Trade debtors	55.9	54.1
Deferred tax	4.7	5.5
	<u>310.7</u>	<u>290.1</u>

## 16 CREDITORS

Amounts falling due within one year:		
Bank overdraft	52.0	53.9
Trade creditors	163.6	154.9
Other creditors	42.7	37.1
Obligations under finance leases	1.7	1.6
Loans	4.4	4.0
Corporation tax	46.6	46.6
Other taxation and social security	56.0	64.5
Pension fund accrual	15.8	16.3
Accruals and deferred income	32.8	17.5
Partnership bonus	80.6	88.4
	<u>496.2</u>	<u>484.8</u>
Amounts falling due after more than one year:		
Due between 1 and 2 years		
– Obligations under finance leases	1.2	2.3
– Loans	4.7	4.4
Due between 2 and 5 years		
– Obligations under finance leases	–	1.2
– Loans	–	4.7
Due other than by instalments after 5 years		
– 10¼% Bonds, 2006	50.0	50.0
– 10½% Bonds, 2014	100.0	100.0
	<u>155.9</u>	<u>162.6</u>

## 17 SHARE CAPITAL

	1999 Authorised £m	1999 Issued and fully paid £m	1998 Authorised £m	1998 Issued and fully paid £m
Equity				
Deferred Ordinary Shares of £1 each	0.6	0.6	0.6	0.6
Non equity				
Fixed interest Cumulative Preference Stock of £1 each held by the public:				
7½%	0.6	0.5	0.6	0.5
5%	8.8	4.7	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.

## 18 RESERVES

Consolidated	Profit and loss account £m	Other reserves			Total reserves £m
		Capital reserve £m	Capital redemption reserve £m	Revaluation reserve £m	
At 31 January 1998	978.5	1.4	4.0	205.2	1,189.1
Profit retained	101.0	—	—	—	101.0
Transfers	5.1	—	—	(5.1)	—
Revaluation surplus	—	—	—	7.1	7.1
At 30 January 1999	1,084.6	1.4	4.0	207.2	1,297.2

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

## 18 RESERVES (CONTINUED)

Company	Profit and loss account £m	Capital redemption reserve £m	Total reserves £m
At 31 January 1998	5.4	4.0	9.4
Profit retained	0.1	—	0.1
At 30 January 1999	5.5	4.0	9.5

All of the reserves are attributable to equity shareholders.

## 19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1999 £m	1998 £m
Profit for the financial year	101.2	102.7
Dividends	(0.2)	(0.2)
Revaluation surplus	7.1	30.4
Net addition to shareholders' funds	108.1	132.9
Opening shareholders' funds	1,195.4	1,062.5
Closing shareholders' funds	1,303.5	1,195.4

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

Trading profit	220.0	271.7
Exceptional operating income	33.5	—
Depreciation charged	73.2	69.8
Increase in debtors	(21.4)	(13.7)
Increase/(decrease) in creditors	22.6	(46.8)
Decrease in pension fund accrual	(0.5)	(8.6)
Increase in stocks	(6.9)	(20.3)
Partnership bonus paid for previous year	(97.5)	(81.7)
Net cash inflow from operating activities	223.0	170.4



## 21 RECONCILIATION OF NET CASH FLOW TO NET DEBT

	1999 £m	1998 £m
Increase/(decrease) in cash in the year	24.9	(73.7)
Cash outflow from decrease in debt and lease financing	6.3	106.2
Cash inflow from decrease in liquid resources	(44.8)	(28.7)
Movement in debt for the year	(13.6)	3.8
Opening net debt	(163.5)	(167.3)
Closing net debt	(177.1)	(163.5)

## 22 ANALYSIS OF CHANGES IN NET DEBT

	1998 £m	Cash flows £m	Other changes £m	1999 £m
Cash balances	19.4	17.5	—	36.9
Overdrafts	(53.9)	7.4	—	(46.5)
	(34.5)	24.9	—	(9.6)
Debt due within one year	(4.1)	4.1	(4.4)	(4.4)
Debt due after one year	(159.1)	—	4.4	(154.7)
Finance leases	(5.1)	2.2	—	(2.9)
Short term deposits/(loans)	39.3	(44.8)	—	(5.5)
Net debt	(163.5)	(13.6)	—	(177.1)

## 23 COMMITMENTS

At 30 January 1999 contracts had been placed for future capital expenditure of £38.3m (£54.8m), which have not been provided for in these accounts.

## 24 LEASE COMMITMENTS

	1999 Land and Buildings £m	1999 Other £m	1998 Land and Buildings £m	1998 Other £m
Operating leases				
Rentals for the next financial year on operating leases expiring:				
Within 1 year	0.2	0.1	0.5	0.2
Between 1 and 5 years	2.6	0.3	0.5	1.1
Over 5 years	38.2	0.1	38.5	0.1

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25 SUBSIDIARY UNDERTAKINGS

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Subsidiary companies as at 30 January 1999 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*)

Stead, McAlpin & Company, Limited (*Textile printing*)

Herbert Parkinson Limited (*Weaving and making up*)

J.H.Birtwistle & Company, Limited (*Textile weaving*)

John Lewis Building Limited (*Building*)

John Lewis Transport Limited (*Vehicle leasing*)

Leckford Estate Limited (*Farming*)

Leckford Mushrooms Limited (*Mushroom growing*)

JLP Insurance Limited (*Insurance*) (*Incorporated and operating in Guernsey*)

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 26 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

The directors are responsible for preparing the Report & Accounts, including as described on page 27 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

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

We read the other information contained in the Report & Accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## Basis of opinion

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

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

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 30 January 1999 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

PRICEWATERHOUSECOOPERS 

1 EMBANKMENT PLACE  
LONDON WC2N 6NN  
29 APRIL 1999

# RETAIL

## BRANCHES

### Department Stores

<i>London</i>	<i>Southern England</i>	<i>Midlands, East Anglia, Northern England and Scotland</i>
John Lewis, Oxford Street John Lewis, Brent Cross Peter Jones, Sloane Square	Caleys, Windsor Heelas, Reading John Lewis, Bluewater 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	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, Glasgow John Lewis, Peterborough Robert Sayle, Cambridge

### Waitrose Supermarkets

<i>London</i>					
Barnet	East Sheen	Gloucester Road	Putney	Swiss Cottage	West Ealing
Brent Cross	Enfield	Harrow Weald	South Harrow	Temple Fortune	Whetstone
Chelsea	Finchley	Holloway Road			
<i>Southern England</i>					
Abingdon	Buckhurst Hill	Epsom	Horsham	Richmond	Tilehurst
Allington Park	Burgess Hill	Esher	Kingston	Ringwood	Wallingford
Andover	Caterham	Fleet	Leighton Buzzard	Romsey	Wantage
Banstead	Caversham	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
Billericay	Coulsdon	Harpenden	Milton Keynes	Southsea	Windsor
Birch Hill	Cowplain	Havant	New Malden	Stevenage	Winton
Bishop's Stortford	Crowborough	Hayes	Northwood	Stroud	Witney
Brighton	Dibden	Henley	Petersfield	Sunningdale	Wokingham
Bromley	Dorchester	Hertford	Ramsgate	Tenterden	Woodley
Bromley South	Dorking	Horley	Reading	Thame	Yateley
<i>Midlands, East Anglia and Wales</i>					
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					

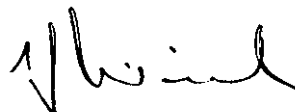
In addition to the shops listed above, the Partnership operates the following businesses  
 Stead, McAlpin, Carlisle *Textile Printing*  
 Taylor & Penton, Weybridge *Fitted kitchen furniture and bedding*  
 J. H. Birtwistle, Haslingden *Textile weaving*,  
 Herbert Parkinson, Darwen *Weaving and making up*  
 Leckford Estate, Stockbridge *Farming*  
 Findlater Mackie Todd, Bracknell *Mail order wines*

## NOTICE OF AGM

Notice is hereby given that the seventieth annual general meeting of the company will be held at 12.30 pm on 24 June 1999 at 171 Victoria Street, London SW1E 5NN:

- To receive the directors' report and accounts for the year 1998/99.
- To consider the re-election of retiring directors.
- Special Notice having been received, to consider the re-appointment of PricewaterhouseCoopers as auditors.
- To consider the remuneration of the auditors.

BY ORDER OF THE BOARD  
BRIAN PRITCHARD SECRETARY  
171 VICTORIA STREET, LONDON SW1E 5NN  
19 MAY 1999



Following the merger of Price Waterhouse and Coopers & Lybrand, Price Waterhouse resigned as auditors of the Company during the year and the directors appointed PricewaterhouseCoopers as auditors in their stead. Special Notice has been received under Section 379 of the Companies Act 1985 of a proposal to re-appoint PricewaterhouseCoopers as auditors.

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.