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JOHN LEWIS plc

Report and Accounts 1997

CONTENTS

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the sixty-ninth annual general meeting of the company will be held at 12.20pm on 18th June 1997 at 171 Victoria Street, London SW1E 5NN:

To receive the directors' report and accounts for the year 1996/97.

To consider the final dividend

To consider the re-election of retiring directors.

To consider the re-appointment of the auditors.

To consider the remuneration of the auditors.

By order of the Board
B J Pritchard Secretary
171 Victoria Street, London SW1E 5NN
7th May 1997

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 of the company, but a proxy who is not a member has only the rights conferred by Section 372(2) and Section 373(2) of the Companies Act 1985. To be effective, a proxy form must reach the company's registered office not later than forty-eight hours before the time for holding the meeting. For the convenience of members a form of proxy is enclosed.

BOARD OF DIRECTORS

Chairman	S Hampson MA
Deputy chairman	D E Young BA
	I D Alexander BA
	W N Wreford-Brown
	J B G Carpenter FRICS
	D R Cloake BSc (Econ)
	D L Felwick
	C L Mayhew MSc
	B A O'Callaghan

OFFICERS AND PROFESSIONAL ADVISERS

Company Secretary	B J Pritchard ACIS
Chief Accountant	R M Haigh BSc FCA
Director of Legal Services	T F Neville
Auditors	Price Waterhouse
Solicitors	Lovell White Durrant
Bankers	National Westminster Bank Plc
Registered office and Transfer office	171 Victoria Street London SW1E 5NN

Registered in England No. 233462

SUMMARY OF RESULTS FOR THE YEAR ENDED 25TH JANUARY 1997

	1997	1996
	£m	£m
Turnover (including VAT)	3,160.5	2,815.7
Trading profit	238.9	172.8
Interest	(21.8)	(22.8)
Profit before Partnership bonus and taxation	217.1	150.0
Taxation	(45.2)	(28.6)
Dividends	(0.3)	(0.3)
Balance available for profit sharing and retention in the business	171.6	121.1
Partnership bonus	(81.7)	(57.0)
Retained in the business for development	89.9	64.1
Net assets employed at the year end	1,060.4	950.0
Number of employees (weighted for part-timers)	32,400	31,000
Number of shops – Department stores	23	23
– Supermarkets	115	112

FIVE YEAR RECORD

	Years ended January				
	1997	1996	1995	1994	1993*
	£m	£m	£m	£m	£m
Turnover (including VAT)	3,160.5	2,815.7	2,575.5	2,420.0	2,357.3
Profit before pension costs	262.3	195.4	159.4	134.1	111.9
Pension costs	(23.4)	(22.6)	(18.0)	(17.6)	(16.1)
Interest	(21.8)	(22.8)	(24.5)	(23.3)	(24.4)
Profit before Partnership bonus and taxation	217.1	150.0	116.9	93.2	71.4
Taxation	(45.2)	(28.6)	(22.5)	(16.2)	(9.0)
Dividends	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Net profit available for profit sharing and retention in the business	171.6	121.1	94.1	76.7	62.1
Partnership bonus	(81.7)	(57.0)	(43.1)	(34.5)	(28.2)
As a percentage of ranking pay	20	15	12	10	8
Retained in the business	89.9	64.1	51.0	42.2	33.9
Net assets employed	1,060.4	950.0	859.8	806.7	779.6
Pay	402.3	371.3	351.8	335.3	338.4
Number of employees	43,700	41,100	39,600	38,800	39,300
including part-time employees	17,800	16,300	15,200	14,700	15,000

* 53 week year.

STATEMENT BY THE CHAIRMAN

Partnership sales passed the £3bn mark for the first time, and the overall increase for the year was a very satisfactory 12%. Profit before Partnership Bonus and taxation increased by 45% to £217m which sets a new record in both nominal and inflation-adjusted terms. £90m of profit after tax was retained in the business, but this still left £82m to be distributed to Partners by way of bonus at a rate of 20% of pay. In sterling terms this was a record pay-out.

Department store sales were 13% ahead of last year and included the benefit of a full year's trading from Cheadle which has made a most impressive start. A pleasing feature of the year was again the strength of the clothing directorates' trade complementing an excellent performance from the furnishings teams. Sales for the manufacturing units were up by just 5% with increased interest in weaves counter-balanced by a more difficult market for prints.

Excellent control of costs and a modest improvement in gross margin meant that the department store division enjoyed a strong gearing effect with trading profits at £168m, 41% ahead of the previous year.

The Waitrose sales increase was 11% with a stronger performance in the first half than the second, reflecting in large measure a significant falling-off in the rate of food price inflation. New branches were opened at South Harrow, Bromley South and Putney, and there were relocations of Wokingham and Berkhamsted to larger premises. Close attention continued to be paid not only to keeping refreshed the choice of fine food but also to offering our customers outstanding value; we were, nonetheless, able to move gross margin ahead despite unremitting competitive activity. Waitrose trading profit increased by 33% to a new record level of £71m.

Capital spending at £87m was less than the previous year and was more than covered by retentions and depreciation. The net interest charge fell for the second year, and interest cover was 11 times. Year-end gearing fell to 21% from 25%.

Looking ahead, we will be opening a new Waitrose at Newark later this year as well as the second Waitrose Food & Home at Salisbury. Work is well advanced at Cribbs Causeway for the move there of John Lewis Bristol in the spring of 1998, and two other new department stores are under construction at Bluewater Kent and Glasgow. The proposed relocation of Tyrrell & Green within Southampton has also been announced. We plan further investment in distribution infrastructure to cope with the growth in the business, and there are a number of major systems' developments in progress designed, amongst other things, to ensure we are "millennium-proof".

After 11 weeks of the current trading year sales are 9% ahead in department stores and 5% in Waitrose where low levels of inflation continue to persist. Until the General Election is out of the way there might be some caution on the part of customers, but the overall economic outlook seems set fair for the remainder of this year at least.

S Hampson
Chairman
17th April 1997

DIRECTORS' REPORT FOR THE YEAR ENDED 25TH JANUARY 1997

Directors

The directors of the company at the date of this report are listed on page 3. All served throughout the period under review. Mr P Falconer, who was in office as a director on 27th January 1996, resigned on 20th June 1996.

Principal activity

The company controls the businesses listed on page 27 comprising 23 department stores, 115 Waitrose supermarkets and ancillary manufacturing activities.

Employees

The company is the principal trading subsidiary of John Lewis Partnership plc, the latter being the principal holding company under trusts set up in 1929 and 1950 to implement the Constitution of the John Lewis Partnership. Among other things, those trusts and the Constitution provide employees of this company annually with a share of all the profits of the business in proportion to the pay of each individual; the Constitution also provides for their constant and effective involvement in its affairs through elected councils and elected membership of the Board of John Lewis Partnership plc. 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. John Lewis plc, as the principal trading subsidiary of John Lewis Partnership plc, maintained the Constitution in the course of the year.

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

Corporate Governance

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

The John Lewis Partnership is beneficially owned by its employees (Partners), who are the equivalent of shareholders in a conventional company. The Partnership has since 1929 operated under a Constitution which encourages the widest possible sharing of gain, knowledge and power by all Partners whilst also prescribing the business's responsibilities to its suppliers, its customers and the community in which it operates. The systems of accountability laid down in the Partnership's Articles, Rules and Regulations conform with the spirit of the Code of Best Practice but are framed to suit the unique democratic ownership structure of the Partnership. Principal authority in the affairs of the Partnership is divided between the Chairman, the Board of John Lewis Partnership plc (the Central Board) and the elected Central Council. The Central Council nominates five of the twelve members of the Central Board. Elected councils at local branch as well as central level provide regular opportunity for management to be held accountable to Partners; Councils receive regular reports by directors and have an opportunity to follow these up with questions on any subject, whilst an open system of journalism both contributes to this process of accountability and provides the means of sharing information extensively with all Partners.

DIRECTORS' REPORT FOR THE YEAR ENDED 25TH JANUARY 1997 *continued*

Corporate Governance *(continued)*

During the year the Board of John Lewis Partnership plc agreed to establish an Audit Committee, which first met in February 1997. The committee's members are the Chairman, the General Inspector and one other Director (not an Executive Director), nominated by the Chairman, currently Mr Temple, the Chief Registrar. It will meet at least twice a year. Its purpose is to assist the Board of John Lewis Partnership plc 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 will also ensure that appropriate accounting policies and internal financial controls are in place. The auditors attend its meetings, as does the Head of Internal Audit.

Payment policy for 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.

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 Central Board in response to proposals he and the Partnership's Director of Personnel make based on independent market evidence. The salaries of directors appointed to the Board 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, which is subsequently circulated to the Central Board. Details of directors' emoluments are set out in note 9.

Properties

The group's freehold and long leasehold department store properties were valued by the directors at 31st December 1996 on the basis of existing use value. This valuation has been incorporated in the consolidated balance sheet at 25th January 1997, resulting in a surplus of £20.5m, which has been credited to the revaluation reserve.

The group'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 25th January 1997.

Use of profits

Preference dividends absorbed £89,250 and a final dividend of £200,000 has been proposed on the Ordinary Shares leaving £89,900,000 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' REPORT FOR THE YEAR ENDED 25TH JANUARY 1997 *continued*

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.

Substantial shareholdings

As at 17th April 1997 the Company has been notified of the following interests in its preference shares, these interests being recorded in the register maintained under the provisions of Section 211 of the Companies Act 1985.

5% First Cumulative Preference	% of Class
John Lewis Partnership plc	81.0%
Prudential Client (MSS) Nominees Limited	7.5%
Commercial Union Assurance Company plc	6.7%

7% Cumulative Preference	% of Class
John Lewis Partnership plc	75.6%
Cleaning Tokens Limited	5.5%
J H M MacGowan	3.6%
Commercial Union Assurance Company plc	3.3%

Charitable donations

The group donated £1,030,000 for charitable purposes during the year but made no political donations.

For and by order of the Board
B J Pritchard Secretary
17th April 1997

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 25TH JANUARY 1997

Notes		1997 £m	1996 £m
2	**Turnover**	3,160.5	2,815.7
	Value added tax	(310.8)	(275.1)
		2,849.7	2,540.6
	Cost of sales	(1,962.8)	(1,765.0)
	Gross profit	886.9	775.6
	Selling and distribution costs	(558.6)	(517.2)
	Administrative expenses	(66.0)	(63.0)
3	Pension costs	(23.4)	(22.6)
2	**Trading profit**	238.9	172.8
4	Net interest payable	(21.8)	(22.8)
	Profit before Partnership bonus and taxation	217.1	150.0
	Partnership bonus	(81.7)	(57.0)
5	**Profit on ordinary activities before taxation**	135.4	93.0
6	Tax on profit on ordinary activities	(45.2)	(28.6)
7	**Profit for the financial year**	90.2	64.4
8	Dividends (including non equity interests)	(0.3)	(0.3)
17	**Profit retained**	89.9	64.1

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Profit for the financial year	90.2	64.4
17	Unrealised surplus on revaluation of department store properties	20.5	26.1
	Total recognised gains and losses for the year	110.7	90.5

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 25TH JANUARY 1997

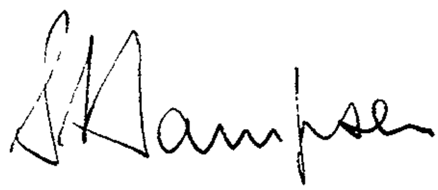
Notes		1997 £m	1996 £m
	Fixed assets		
11	Tangible assets	1,122.0	1,081.8
	Current assets		
13	Stocks	239.1	219.5
14	Debtors	328.1	292.9
	Cash at bank and in hand	107.2	32.0
		674.4	544.4
	Creditors		
15	Amounts falling due within one year	(567.2)	(401.9)
	Net current assets	107.2	142.5
	Total assets less current liabilities	1,229.2	1,224.3
	Creditors		
15	Amounts falling due after more than one year	(168.8)	(274.3)
	Net assets	1,060.4	950.0
	Capital and reserves		
16	Called up share capital – equity	6.8	6.8
	– non equity	2.2	2.2
	Total share capital	9.0	9.0
17	Share premium account	1.9	1.9
17	Revaluation reserve	177.0	158.3
17	Capital reserve	1.4	1.4
17	Profit and loss account	871.1	779.4
	Total shareholders' funds (including non equity interests)	1,060.4	950.0

Approved by the Board on 17th April 1997
S Hampson

BALANCE SHEET OF THE COMPANY AS AT 25TH JANUARY 1997

Notes		1997 £m	1996 £m
	Fixed assets		
11	Tangible assets	301.5	294.3
12	Investments in subsidiary undertakings	340.1	333.5
		641.6	627.8
	Current assets		
13	Stocks	154.7	142.0
14	Debtors	300.9	267.8
	Cash at bank and in hand	95.8	28.3
		551.4	438.1
	Creditors		
15	Amounts falling due within one year	(651.2)	(494.6)
	Net current liabilities	(99.8)	(56.5)
	Total assets less current liabilities	541.8	571.3
	Creditors		
15	Amounts falling due after more than one year	(150.0)	(250.0)
	Net assets	391.8	321.3
	Capital and reserves		
16	Called up share capital – equity	6.8	6.8
	– non equity	2.2	2.2
	Total share capital	9.0	9.0
17	Share premium account	1.9	1.9
17	Revaluation reserve	13.8	5.6
17	Profit and loss account	367.1	304.8
	Total shareholders' funds (including non equity interests)	391.8	321.3

Approved by the Board on 17th April 1997
S Hampson



CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 25TH JANUARY 1997

Notes		1997 £m	1996 £m
19	**Net cash inflow from operating activities**	212.0	176.9
	Returns on investments and servicing of finance		
	Interest received	7.0	6.9
	Interest paid	(28.2)	(29.0)
	Interest element of finance lease rental payments	(0.7)	(0.6)
	Preference dividends paid	(0.1)	(0.1)
	Net cash outflow from returns on investments and servicing of finance	(22.0)	(22.8)
	Taxation	(25.2)	(20.9)
	Capital expenditure and financial investment		
	Purchases of tangible fixed assets	(86.7)	(120.0)
	Proceeds of sales of tangible fixed assets	2.6	7.6
	Net cash outflow from capital expenditure and financial investment	(84.1)	(112.4)
	Equity dividends paid	(0.2)	(0.2)
	Net cash inflow/before liquid resources and financing	80.5	20.6
	Management of liquid resources (Short term deposits)	(68.5)	(19.5)
	Financing		
	Debt due within one year		
	New loan repayable 1996-1997	–	8.2
	Loan repayments	(3.5)	(4.7)
	Debt due beyond one year		
	New loan repayable 1998-2001	–	16.9
	Capital element of finance lease rental payments	(1.8)	(1.3)
	Net cash (outflow)/inflow from financing	(5.3)	19.1
	Increase in cash in the year	6.7	20.2

NOTES TO THE ACCOUNTS

1 Accounting policies

Accounting convention and basis of consolidation
The consolidated profit and loss account and balance sheet include the accounts of the company and all its subsidiary 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, or net realisable value.

Pension costs
The cost of providing retirement benefits is recognised in the profit and loss account so as to spread it over employees' working lives. The contributions are assessed in accordance with the advice of a qualified actuary. Any funding surpluses or deficits are amortised over the average remaining employees' service life.

Property valuation
The valuations, which are performed annually and principally relate to department store properties, are made on the basis that each property is regarded as available for existing use in the open market. The surplus or deficit arising on the revaluation of properties is taken to the revaluation reserve. Supermarket and distribution properties are carried at depreciated historical cost.

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

Freehold and long leasehold buildings – 1% to 4%
Other leaseholds – over the remaining period of the lease
Fixtures and fittings – 10% to 33%

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

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

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

NOTES TO THE ACCOUNTS *continued*

2 Divisional analysis of turnover and trading profit

	Turnover		*Trading profit*	
	1997	*1996*	*1997*	*1996*
	£m	*£m*	*£m*	*£m*
Department stores	*1,620.7*	*1,431.7*	*168.1*	*119.6*
Supermarkets	*1,539.8*	*1,384.0*	*70.8*	*53.2*
	3,160.5	*2,815.7*	*238.9*	*172.8*

The Partnership is principally engaged in the business of retailing in department stores and supermarkets, and also operates some ancillary manufacturing and farming activities. The business is carried on in the United Kingdom and turnover derives almost entirely from that source. Turnover and trading profit derive from continuing operations, there having been no material discontinued operations or acquisitions in the year.

3 Pension costs

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

The fund was last valued by consulting actuaries as at 31st March 1995, using the projected unit method. The assumption which has the most significant effect on the results of the valuation is the relative rate of return on the investments of the fund compared with increases in pay and pensions. It was assumed for this purpose that on average, the annual return on investments would exceed increases in pay and pensions by 2.5% and 5% respectively. The market value of the assets of the fund as at 31st March 1995 was £470m. The actuarial valuation of these assets showed that they were sufficient to cover 100% of the benefits which had accrued to members.

The actuaries have recommended a normal future contribution rate of 8.0% of total pay. For a number of years the charge will continue to be reduced by taking into account the past-service surplus arising from the actuarial valuation at March 1992, together with a small adjustment arising from the March 1995 valuation. The pension charge for the year, calculated according to the provisions of SSAP 24, was equivalent to 5.6% (6.0%) of total pay and amounted to £22.6m (£22.2m), including notional interest of £0.7m (£2.1m) on the pension charge accrued in the consolidated balance sheet. The next actuarial valuation of the fund will take place as at 31st March 1998.

As explained in note 9, there is also a senior pension scheme which provides additional benefits to certain members of senior management. The actuaries have recommended a funding rate of 11.9% or 18.6% of total pay, depending on the level of benefits provided. The charge for the year was £0.7m (£0.2m). Provision has also been made for certain unfunded benefits amounting to £0.1m (£0.2m). Both of these amounts are included in the total pension cost of £23.4m (£22.6m).

4 Net interest payable

	1997	*1996*
	£m	*£m*
Interest payable:		
On bank loans, overdrafts and other loans repayable within 5 years	*12.6*	*13.4*
On finance leases	*0.7*	0.6
On all other loans	*15.5*	*15.6*
Interest receivable	*(7.0)*	*(6.8)*
	21.8	*22.8*

NOTES TO THE ACCOUNTS *continued*

5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging the following:	1997 £m	1996 £m
Staff costs:		
Wages and salaries	402.3	371.3
Social security costs	33.3	30.8
Partnership bonus	73.7	51.3
Employer's national insurance on Partnership bonus	8.0	5.7
Pension costs	23.4	22.6
Depreciation – owned assets	62.2	58.6
– assets held under finance leases	2.4	2.4
Auditors' remuneration – audit of group	0.4	0.4
– audit of company (included in the above)	0.2	0.2
– non audit services	0.2	–
Operating lease rentals of land and buildings	39.2	38.8

6 Tax on profit on ordinary activities

Corporation tax based on the profit for the year	41.1	26.3
Corporation tax - previous years	(0.2)	0.1
Deferred tax	4.3	2.2
	45.2	28.6

The tax charge is based on a corporation tax rate of 33% (33%) and has been reduced by £2.4m (£3.0m) as a result of capital allowances in excess of depreciation.

Total taxation deferred and unprovided in respect of capital allowances in excess of depreciation amounts to £89.6m (£84.7m) based on corporation tax at 33% (33%).

No provision has been made in these accounts for the liability to taxation of £16.6m (£15.9m) on capital gains, which would arise if properties were to be sold at the amounts at which they have been revalued and included in these accounts.

7 Profit for the financial year

As permitted by Section 230 of the Companies Act 1985, John Lewis plc has not presented its own profit and loss account. The profit dealt with in the accounts of the company amounted to £62.3m (£40.6m).

8 Dividends

	1997 £m	1996 £m
Non equity interests		
5% (now 3.5% plus tax credit) First Cumulative Preference Stock and 7% (now 4.9% plus tax credit) Cumulative Preference Stock	0.1	0.1
Equity interests		
Ordinary shares	0.2	0.2
	0.3	0.3

The ordinary shares are all held by the parent company John Lewis Partnership plc which is registered in England.

NOTES TO THE ACCOUNTS *continued*

9 Directors' emoluments	*1997*	*1996*
Directors' remuneration including pension fund contributions	*£000*	*£000*
and Partnership bonus of 20% (15%) was as follows:		
Remuneration as managers	*2,541*	*2,359*
Pensions to past directors	*9*	*9*

Excluding pension fund contributions but including Partnership bonus, the emoluments of the individual directors, who served on the Board during any part of the year, were as follows:

	1997	*1996*		*1997*	*1996*
Chairman	*£384,347*	*£343,499*			
Other directors:					
£75,001 - £80,000	*1*	–	*£190,001 - £195,000*	*1*	–
£115,001 - £120,000	–	*1*	*£205,001 - £210,000*	–	*1*
£125,001 - £130,000	*1*	*1*	*£230,001 - £235,000*	*1*	*1*
£140,001 - £145,000	*1*	–	*£235,001 - £240,000*	–	*1*
£145,001 - £150,000	–	*1*	*£240,001 - £245,000*	–	*1*
£160,001 - £165,000	*1*	–	*£260,001 - £265,000*	*1*	–
£165,001 - £170,000	–	*1*	*£265,001 - £270,000*	*1*	–
£170,001 - £175,000	–	*1*	*£280,001 - £285,000*	*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.

All members of the Board qualify for the annual distribution of profit in Partnership bonus, paid at the same percentage of pay as for any Partner in employment on 31st January. They are also entitled to a car for their personal use, or its cash equivalent, and benefit from private medical insurance paid by the Partnership.

All directors belong to the Partnership's non-contributory pension scheme. The Chairman and seven directors who joined the Partnership before 1989 also belong 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.

10 Employees

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

	1997	1996
Department stores	*22,100*	*21,100*
Supermarkets	*20,200*	*18,600*
Other	*1,400*	*1,400*
	43,700	*41,100*

NOTES TO THE ACCOUNTS *continued*

11 Tangible fixed assets

Consolidated	*Land and buildings* £m	*Fixtures and fittings* £m	*Payments on account and assets in course of construction* £m	*Total* £m
Cost or valuation				
At 27th January 1996	900.4	490.6	40.9	1,431.9
Additions at cost	10.0	30.5	46.4	86.9
Transfers	40.9	10.4	(51.3)	–
Disposals	(1.0)	(14.6)	–	(15.6)
Revaluation adjustments	14.9	–	–	14.9
At 25th January 1997	965.2	516.9	36.0	1,518.1
At cost	486.2	516.9	36.0	1,039.1
At valuation 1988	21.1	–	–	21.1
At valuation 1997	457.9	–	–	457.9
At 25th January 1997	965.2	516.9	36.0	1,518.1
Depreciation				
At 27th January 1996	77.2	272.9	–	350.1
Charges for the year	17.8	46.8	–	64.6
Disposals	(0.3)	(12.7)	–	(13.0)
Revaluation adjustments	(5.6)	–	–	(5.6)
At 25th January 1997	89.1	307.0	–	396.1
Net book values at 27th January 1996	823.2	217.7	40.9	1,081.8
Net book values at 25th January 1997	876.1	209.9	36.0	1,122.0

	1997 £m	*1996* £m
Land and buildings at cost or valuation:		
Freehold property	598.5	535.2
Leasehold property, 50 years or more unexpired	272.3	290.1
Leasehold property, less than 50 years unexpired	94.4	75.1
	965.2	900.4

In 1988 Hillier Parker, chartered surveyors, valued most of the Partnership's freehold and long leasehold properties. This valuation was on the basis of existing use value. At 31st December 1996, 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 25th January 1997. The £20.5m surplus arising from this revaluation has been credited to revaluation reserve.

All supermarket and distribution properties are stated at depreciated historical cost.

NOTES TO THE ACCOUNTS *continued*

11 Tangible fixed assets *(continued)*

Certain amenity properties, which represent less than 3% 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 25th January 1997 is land valued at £202.3m, which is not subject to depreciation. At 25th January 1997 land and buildings would have been included at the following amounts, if they had not been revalued:

	1997 £m	1996 £m
Cost	824.2	774.8
Accumulated depreciation	(125.8)	(110.3)
	698.4	664.5

The gross cost of assets held under finance leases is £12.3m (£12.0m) with accumulated depreciation in respect of those assets of £5.9m (£3.5m).

Company	Land and buildings £m	Fixtures and fittings £m	Payments on account and assets in course of construction £m	Total £m
Cost or valuation				
At 27th January 1996	204.8	238.3	1.9	445.0
Additions at cost	1.7	19.1	5.1	25.9
Transfers	0.1	–	–	0.1
Disposals	–	(11.1)	–	(11.1)
Revaluation adjustments	6.0	–	–	6.0
At 25th January 1997	212.6	246.3	7.0	465.9
At cost	45.3	246.3	7.0	298.6
At valuation 1988	0.2	–	–	0.2
At valuation 1997	167.1	–	–	167.1
At 25th January 1997	212.6	246.3	7.0	465.9
Depreciation				
At 27th January 1996	6.2	144.5	–	150.7
Charges for the year	3.1	22.4	–	25.5
Disposals	–	(9.6)	–	(9.6)
Revaluation adjustments	(2.2)	–	–	(2.2)
At 25th January 1997	7.1	157.3	–	164.4
Net book values at 27th January 1996	198.6	93.8	1.9	294.3
Net book values at 25th January 1997	205.5	89.0	7.0	301.5

NOTES TO THE ACCOUNTS *continued*

11 Tangible fixed assets *(continued)*

	1997 £m	1996 £m
Land and buildings at cost or valuation:		
Freehold property	49.8	48.4
Leasehold property, 50 years or more unexpired	153.5	147.2
Leasehold property, less than 50 years unexpired	9.3	9.2
	212.6	204.8

Included in land and buildings at 25th January 1997 is land valued at £10.3m, which is not subject to depreciation. At 25th January 1997 land and buildings would have been included at the following amounts, if they had not been revalued:

	1997	1996
Cost	248.7	246.8
Accumulated depreciation	(24.7)	(21.4)
	224.0	225.4

12 Investments in subsidiary undertakings

Company	Shares in group companies £m	Loans to group companies £m	Total £m
At 27th January 1996	54.3	279.2	333.5
Movements	(0.7)	5.5	4.8
Dividends receivable	–	1.8	1.8
At 25th January 1997	53.6	286.5	340.1

On 29th January 1996 the company transferred its holding in Findlater Mackie Todd and Co. Limited to Waitrose Limited, at the original cost to the group.

13 Stocks

	1997 £m	1996 £m
Consolidated		
Raw materials and work-in-progress	10.0	8.1
Finished goods and goods for resale	229.1	211.4
	239.1	219.5
Company		
Raw materials and work-in-progress	0.9	1.1
Finished goods and goods for resale	153.8	140.9
	154.7	142.0

NOTES TO THE ACCOUNTS *continued*

14 Debtors

	1997 £m	1996 £m
Consolidated		
Amounts falling due within one year:		
Trade debtors	192.0	164.6
Other debtors	62.8	16.8
Prepayments and accrued income	15.2	12.3
Deferred tax	–	1.3
	270.0	195.0
Amounts falling due after more than one year:		
Trade debtors	50.2	43.9
Other debtors	–	43.1
Deferred tax	7.9	10.9
	328.1	292.9
Company		
Amounts falling due within one year:		
Trade debtors	66.7	42.3
Amounts owed by group companies	118.9	114.7
Other debtors	50.5	8.3
Prepayments and accrued income	10.0	7.8
Deferred tax	–	1.3
	246.1	174.4
Amounts falling due after more than one year:		
Trade debtors	50.2	43.9
Other debtors	–	43.1
Deferred tax	4.6	6.4
	300.9	267.8

Other debtors due within one year for both the company and the group includes the net present value of deferred consideration totalling £46.2m relating to the sale of a call option, receivable in January 1998.

15 Creditors

	1997 £m	1996 £m
Consolidated		
Amounts falling due within one year:		
Trade creditors	189.7	174.5
10¾% Bonds, 1998	100.0	–
Holding company	1.9	1.9
Other creditors	19.5	14.7
Obligations under finance leases	2.0	1.8
Loans	3.7	3.5
Corporation tax	41.7	26.0
Other taxation and social security	87.6	73.7
Pension fund accrual	24.9	32.9
Accruals and deferred income	22.3	21.6
Proposed dividend	0.2	0.2
Partnership bonus	73.7	51.1
	567.2	401.9

NOTES TO THE ACCOUNTS *continued*

15 Creditors *(continued)*

	1997	*1996*
Amounts falling due after more than one year:	*£m*	*£m*
Due between 1 and 2 years		
– Obligations under finance leases	*2.1*	*1.8*
– Loans	*4.1*	*3.7*
– 10⅜% Bonds, 1998	–	*100.0*
Due between 2 and 5 years		
– Obligations under finance leases	*3.5*	*5.6*
– Loans	*9.1*	*13.2*
Due other than by instalments after 5 years		
– 10¼% Bonds, 2006	*50.0*	*50.0*
– 10½% Bonds, 2014	*100.0*	*100.0*
	168.8	*274.3*

Company

	1997	*1996*
Amounts falling due within one year:		
Trade creditors	*163.2*	*153.7*
10⅜% Bonds 1998	*100.0*	–
Holding company	*1.8*	*1.8*
Owed to group companies	*170.2*	*163.8*
Other creditors	*13.9*	*13.7*
Corporation tax	*26.4*	*14.2*
Other taxation and social security	*66.8*	*53.9*
Pension fund accrual	*24.9*	*32.9*
Accruals and deferred income	*12.4*	*10.9*
Proposed dividend	*0.2*	*0.2*
Partnership bonus	*71.4*	*49.5*
	651.2	*494.6*
Amounts falling due after more than one year:		
Due between 1 and 2 years		
– 10⅜% Bonds, 1998	–	*100.0*
Due other than by instalments after 5 years		
– 10¼% Bonds, 2006	*50.0*	*50.0*
– 10½% Bonds, 2014	*100.0*	*100.0*
	150.0	*250.0*

16 Share capital

	1997	*1996*
Authorised, issued and fully paid :		
Equity		
Ordinary shares of £1 each	*6.8*	*6.8*
Non equity		
Cumulative Preference Stock of £1 each		
5% (now 3.5% plus tax credit) First Cumulative Preference Stock	*1.5*	*1.5*
7% (now 4.9% plus tax credit) Cumulative Preference Stock	*0.7*	*0.7*
	9.0	*9.0*

NOTES TO THE ACCOUNTS *continued*

16 Share capital *(continued)*

If the preference dividends are in arrears or in the event of winding up, the 5% first cumulative preference stock and the 7% cumulative preference stock have one vote per share. Otherwise, both classes have one vote for every ten shares. The amounts receivable in a winding up would be limited to the amounts paid up, the 5% first cumulative preference stock taking priority over the 7% cumulative preference stock.

17 Reserves

Consolidated	*Profit and loss account £m*	*Capital reserve £m*	*Share premium £m*	*Revaluation reserve £m*	*Total reserves £m*
At 27th January 1996	*779.4*	*1.4*	*1.9*	*158.3*	*941.0*
Profit retained	*89.9*	–	–	–	*89.9*
Transfers	*1.8*	–	–	*(1.8)*	–
Revaluation surplus	–	–	–	*20.5*	*20.5*
At 25th January 1997	*871.1*	*1.4*	*1.9*	*177.0*	*1,051.4*

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

Company	*Profit and loss account £m*	*Share premium £m*	*Revaluation reserve £m*	*Total reserves £m*
At 27th January 1996	*304.8*	*1.9*	*5.6*	*312.3*
Profit retained	*62.3*	–	–	*62.3*
Revaluation surplus	–	–	*8.2*	*8.2*
At 25th January 1997	*367.1*	*1.9*	*13.8*	*382.8*

All of the reserves are attributable to equity shareholders.

18 Reconciliation of movements in shareholders' funds

Consolidated	*1997 £m*	*1996 £m*
Profit for the financial year	*90.2*	*64.4*
Dividends	*(0.3)*	*(0.3)*
Revaluation surplus	*20.5*	*26.1*
Net addition to shareholders' funds	*110.4*	*90.2*
Opening shareholders' funds	*950.0*	*859.8*
Closing shareholders' funds	*1,060.4*	*950.0*

NOTES TO THE ACCOUNTS *continued*

18 Reconciliation of movements in shareholders' funds (continued)

Company	*1997 £m*	*1996 £m*
Profit for the financial year	62.6	40.9
Dividends	(0.3)	(0.3)
Revaluation surplus	8.2	2.5
Net addition to shareholders' funds	70.5	43.1
Opening shareholders' funds	321.3	278.2
Closing shareholders' funds	391.8	321.3

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

Trading profit	238.9	172.8
Depreciation charged	64.6	61.0
Increase in debtors	(39.5)	(40.1)
Increase in creditors	32.6	39.2
Decrease in pension fund accrual	(8.0)	(6.9)
Increase in stocks	(19.6)	(6.0)
Partnership bonus paid for previous year	(57.0)	(43.1)
Net cash inflow from operating activities	212.0	176.9

20 Reconciliation of net cash flow to net debt

Increase in cash in the year	6.7	20.2
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	5.3	(19.1)
Cash outflow from increase in liquid resources	68.5	19.5
Change in net debt resulting from cash flows	80.5	20.6
New finance leases	(0.2)	(1.8)
Movement in net debt for the year	80.3	18.8
Net debt at 27th January 1996	(247.6)	(266.4)
Net debt at 25th January 1997	(167.3)	(247.6)

NOTES TO THE ACCOUNTS *continued*

21 Analysis of changes in net debt

	1996	Cash flows	Other changes	1997
	£m	£m	£m	£m
Cash	32.5	6.7	–	39.2
Debt due within one year	(3.5)	3.5	(103.7)	(103.7)
Debt due after one year	(266.9)	–	103.7	(163.2)
Finance leases	(9.2)	1.8	(0.2)	(7.6)
Short term deposits	(0.5)	68.5	–	68.0
Net debt	(247.6)	80.5	(0.2)	(167.3)

22 Commitments

At 25th January 1997, the directors had authorised capital expenditure of £91.2m (£86.6m) of which contracts had been placed for £12.4m (£5.3m).

John Lewis plc has entered into bank guarantees in favour of subsidiary companies amounting to £16.0m.

23 Lease commitments

	1997	1996
Operating leases	£m	£m
Rentals of land and buildings for the next financial year on leases expiring:		
Within 1 year	0.2	0.1
Between 1 and 5 years	0.6	0.6
Over 5 years	38.1	38.5

24 Subsidiary undertakings

Subsidiary companies of John Lewis plc as at 25th January 1997 were as follows:

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

The whole of the ordinary share capital of the subsidiaries 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.

NOTES TO THE ACCOUNTS *continued*

25 Related party transactions

Transactions with other companies within the group are not disclosed as the company has taken advantage of the exemption available under Financial Reporting Standard 8 'Related Party Disclosures' as the accounts of John Lewis Partnership plc, in which the company is consolidated, are publicly available.

26 Parent Company

John Lewis Partnership plc is the company's immediate and ultimate parent company and prepares consolidated accounts which include the accounts of the company. Ultimate control rests with John Lewis Partnership Trust Limited, which holds the equity of John Lewis Partnership plc in trust for the benefit of the employees. Both of these companies are registered in England.

Copies of these accounts may be obtained from the Company Secretary, John Lewis Partnership, 171 Victoria Street, London SW1E 5NN

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 plc

We have audited the financial statements of John Lewis plc set out on pages 9 to 25 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 13.

Respective responsibilities of directors and auditors

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

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 25th January 1997 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants
and Registered Auditors

Southwark Towers
32 London Bridge Street
London SE1 9SY
17th April 1997

RETAIL BRANCHES

Department Stores

London

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

Southern England

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

Midlands, East Anglia
Northern England and Scotland

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

Waitrose Supermarkets

London

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

Southern England

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

Midlands, East Anglia and Wales

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

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

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