233462

John Lewis plc annual report and accounts 2007

Contents

John Lewis Partnership,
Partnership House,
Carlisle Place,
London SW1P 1BX
www.johnlewispartnership.co.uk

The John Lewis Partnership

The John Lewis Partnership is one of the UK's top ten retail businesses with 26 John Lewis department stores and 183 Waitrose supermarkets

It is also the country's largest employee co-operative, with over 68,000 employees The Partnership aims to ensure that everyone who works for it enjoys the experience of ownership, by sharing in the profits, by having access to information and by sharing in decision making

The Partnership believes that the commitment of Partners to the business is a unique source of competitive advantage which has underpinned 75 years of profitable growth and a reputation amongst customers and suppliers unparalleled in the UK retail industry

The company's record of performance testifies to the robustness of the vision of its founder John Spedan Lewis, to create a company dedicated to the happiness of the staff through their worthwhile, secure and satisfying employment in a successful business

The Partnership Board of John Lewis Partnership plc comprises thirteen members – the Chairman, the non-executive Deputy Chairman, five members nominated by the Chairman, five members nominated by the Partnership Council, the elected body which represents all the members of the Partnership, and a further non-executive director

John Lewis Partnership plc and its subsidiary John Lewis plc have small issues of preference stock which have first claim on the profits The whole of the balance is available to be used for the benefit of the business and the Partners The share of profits allocated to Partners, the Partnership Bonus, is fixed each year by the Partnership Board and is distributed as the same percentage of gross annual pay for all Partners All Partners received a 18% bonus for the current year as their share of profits at a total cost of £155m

The Business Review and Directors' Report provide information, including financial information, and details in respect of the John Lewis Partnership The Directors believe this is appropriate, as John Lewis plc, which is the only immediate subsidiary of John Lewis Partnership plc, has the same strategy and objectives as the Partnership, conducts all of the Partnership's trading operations and is subject to the same governance

Chairman's statement

The Partnership has been widely recognised as the retail pace-setter over the last year, and I'm pleased to report that this has been borne out by an excellent set of financial results, with strong sales growth and a major stride forward in the Partnership's profits. We have two major brands creating value, and a new brand launched in Greenbee. Group sales are up £611.8m or 10.6% to £6.4bn, and profit before Partnership Bonus and taxation is up £67.4m or 26.8% to £319.3m.

It's through the power of Partners working together that we've been able to keep up this progress and make so many improvements in every part of the business, and I congratulate all our Partners on this fine performance.

Our unique business model delivers tangible benefits for Partners. The Board has decided that £155.2m should be distributed as Partnership Bonus at a rate of 18%. The charge for our non contributory pension schemes was £85.1m, £0.4m lower than the prior year. In addition, Partners received benefits of around £60m (including discount in the shops, dining room subsidy, residential clubs, leisure activities and long leave), which brings the total sum shared by Partners this year to some £300m.

After the tax charge of £55.6m, we retained £108.5m for future investment, up by £19.4m (21.8%) from £89.1m last year.

Our Partners' focus on building on our reputation for delivering excellent customer service has, for the second year, resulted in us matching our powerful financial results with two impressive votes of confidence from shoppers, as the *Verdict* and *Which?* customer surveys again rated John Lewis and Waitrose as the UK's two favourite retailers. In March we were also voted Retailer of the Year by a Retail Week panel of our High Street competitors.

These results show how our Partnership model can provide the profitability to create a sustainable and ambitiously expanding business, can win the approval and loyalty of our customers and can reward the achievement of our Partners through provision for a good pension in retirement and a Bonus worth over 9 weeks' pay.

I take this opportunity to thank my predecessor Sir Stuart Hampson who stepped down in March after 25 years with the Partnership, 14 of which were spent leading our business as Chairman. He leaves us with a strong financial platform on which to build. We wish him all the best for the future.

Our best wishes also go to Alastair McKay, our former Deputy Chairman who left the business after 17 years in February, and Ken Temple who took over the Presidency of the Partnership Council from Bill Redmond in January 2007 and will be stepping down from the Partnership Board in May after 25 years with the Partnership.

Outlook for 2007/08

Both divisions have made an encouraging start to what is expected to be a more challenging new trading year. At John Lewis thirteen week gross sales are currently showing 5% growth, while at Waitrose the increase is 9%, with like-for-like sales continuing to advance by 4%.

We have an ambitious development programme for the year, with John Lewis Oxford Street completing its major refurbishment, Cambridge planned to open in time for Christmas trading, and a pipeline of further openings, led by Liverpool and Leicester in 2008. Waitrose will add three new branches in Cheadle Hulme, Windsor and Rickmansworth, with major extensions being completed in Maidenhead, Beckenham and John Barnes, and numerous other extension and refurbishment projects. Greenbee has recently added life cover to its range of products, with other new services in prospect. All this is evidence of the progress we have made and continue to make towards our strategic aim of the doubling in size of our business in the next ten years.

Charlie Mayfield
Chairman
30 April 2007

Business review

Review of performance

Financial highlights
- Group gross sales up 10 6%, £611 8m to £6 4bn
- Operating profit up 25 8%, £72 7m to £354 3m
- Profit before Partnership bonus and tax up 26 8%, £67 4m to £319 3m
- Partnership Bonus payment of £155 2m, up £34 9m (increase of 29 0%), 18% of salary (equal to more than 9 weeks' pay)
- Return on Capital of 7 9%, up from 7 0% last year
- Net cash from operations before Partnership bonus and tax was £523 7m, up by 19 2%

John Lewis
- Gross sales up 10 5%, £254 8m to £2 7bn
- Like-for-like sales up 10 3%
- John Lewis Direct sales up 64 0%, £72 3m to £185 2m
- Divisional profit up 37 5%, £71 9m to £263 5m
- Operating profit up 59 5%, £66 2m to £177 4m
- Operating margin up 200 basis points to 6 6%

Waitrose
- Gross sales up 10 7%, £357 0m to £3 7bn
- Like-for-like sales up 5 3%
- Market share up 20 basis points to 3 9%
- 6 9% increase in selling space in the year
- Divisional profit up 5 3%, £12 3m to £243 7m
- Operating profit up 3 8%, £6 5m to £176 9m
- Operating margin decreased slightly by 30 basis points against last year to 4 8%

Business review

Review of performance (continued)

Five year record – years ended January

	2007 **£m**	2006* Restated £m	2005 £m	2004** UK GAAP £m	2003 UK GAAP £m
Gross sales (including sale or return sales and VAT)	**6,376 2**	5,764 4	5,333 6	5,046 8	4,679 3
Revenue					
John Lewis	**2,201.1**	1,990 4	1,960 8	1,951 6	1,884 5
Waitrose	**3,497 3**	3,158 9	2,796 7	2,547 9	2,284 6
Revenue	**5,698 4**	5,149 3	4,757 5	4,499 5	4,169 1
Operating profit					
John Lewis	**177 4**	111 2	123 4	98 6	105 9
Waitrose	**176 9**	170 4	150 6	114 2	93 2
Operating profit	**354 3**	281 6	274 0	212 8	199 1
Disposal of account card operation	**–**	–	–	4 3	–
Net finance costs	**(35.0)**	(34 9)	(30 6)	(28 4)	(34 1)
Share of post tax losses of associate (Ocado)	**(18 0)**	(5 6)	(14 1)	(15 2)	(19 5)
Exceptional gain on dilution of interest in associate	**18 0**	10 8	–	–	–
Profit before Partnership bonus and tax	**319 3**	251 9	229 3	173 5	145 5
Taxation	**(55 6)**	(42 5)	(34 3)	(24 5)	(36 7)
Dividends	**–**	–	–	(0 2)	(0 4)
Net profit available for profit sharing and retention in the business	**263 7**	209 4	195 0	148 8	108 4
Partnership bonus	**(155 2)**	(120 3)	(105 8)	(87 3)	(67 6)
As a percentage of pay	**18**	15	14	12	10
Retained in the business	**108.5**	89 1	89 2	61 5	40 8
Net assets	**1,650 1**	1,512 6	1,420 8	1,541 4	1,479 9
Pay	**817.6**	755 0	713 8	689 7	653 7
Average number of employees	**67,100**	63,700	61,100	59,600	58,800
including part-time employees	**35,900**	33,600	31,100	29,400	28,000
Average number of FTEs	**44,100**	42,200	41,000	40,500	40,700

* The results for 2006 have been restated in respect of deferred tax, as detailed in note 1

** 53 week year

Key performance indicators (KPIs)

	John Lewis 2007	Waitrose 2007	Group 2007	Group 2006
Trading performance				
Sales growth – total	10 5%	10 7%	10 6%	8 1%
Sales growth – like for like	10.3%	5.3%	7.4%	2 8%
Operating margin	6 6%	4 8%	5 6%	4 9%
Sales per selling FTE (£000s)	146 5	186.3		
Operating profit per FTE (£000s)	8 4	8 2	8 0	6 7
Number of stores	26	183		
Average selling space (m sq ft) [1]	3 5	3.6	7.1	6 9
Sales per selling sq ft	755	1,015	887	839
Operating profit per selling sq ft	51	49	50	41
Cash flow and liquidity				
Operating cash flow before Partnership bonus (£m)			523 7	439 3
Capital expenditure (£m) [2]	88 5	278 3	393 4	287 6
Interest cover [3]			5 7	4 6
Balance sheet				
Net assets (£m)			1,650.1	1,512 6
Net debt (£m)			307 7	323 9
Gearing [4]			18 6%	21 4%
Return on capital [5]			7 9%	7 0%

1 Average selling space includes all customer facing areas of our shops, and excludes offices, warehouse space and staff facilities

2 Capital expenditure for the group includes £26 6m of spending on IT systems, vehicles, offices and other assets, not attributable to the operating businesses

3 Interest cover is profit before net finance costs, net gain in respect of associate and tax, divided by net finance costs

4 Gearing is net debt divided by net assets

5 Return on capital is post tax profits adjusted for non-operating items as a proportion of average operating net assets, adjusted to reflect operating lease commitments

Group performance
Consistently strong trading throughout 2006/07 saw gross sales increase by 10 6% to £6 4bn, and operating profit increase by 25 8% to £354 3m

Good cost management meant that profit before Partnership bonus and tax (PBBT) continued to grow, both as a percentage of sales and in cash terms, to £319 3m – an increase of 26 8% on last year

We distributed £155 2m as Partnership bonus, an increase of 29 0% on last year, and a record in cash terms After deducting a tax charge of £55 6m (2006 £42 5m), a total of £108 5m was retained in the business, up by £19 4m (21 8%) from £89 1m last year

John Lewis
John Lewis has had an outstanding year, with retail gross sales up by £256 1m, 10 6%, to £2 7bn and most categories gaining market share The star performer was again Electrical and Home Technology, which achieved sales growth of 22 8%, but there were also excellent performances in the homeware and clothing directorates There were no new branch openings this year and one closure, and like-for-like sales growth was 10 3% All branches played a part in the year-on-year improvement, with particularly strong growth from Solihull, Edinburgh, Peter Jones and Southampton

Sales per square foot grew by 9 6% to £755, from £690 last year

Our performance was mainly driven by the substantial investments we have made over recent years in line with a clear strategic direction, together with significant operational improvements in 2006 These included call-centre productivity gains, better stock availability and supply chain efficiency and improvements to our delivery proposition

Further margin improvements were secured over the year and, in the branches, operating costs were well controlled, compensating for a £3 6m increase in the division's utility costs

Business review

Review of performance (continued)

John Lewis *(continued)*
John Lewis Direct achieved a 64 0% increase in sales, up by £72 3m to £185 2m, and is now a well established, integral and profitable part of our business

Central divisional costs were held to last year's level, with pay increases and other inflation covered by savings elsewhere

Following significant restructuring, the manufacturing operations have generated a small operating profit of £1 4m, compared with a loss of £6 0m last year

Property profits amounted to £8 8m compared with £1 7m last year, with most of this year's gain relating to the disposal of Caleys in August 2006

Divisional profit increased by £71 9m, 37 5%, from £191 6m to £263 5m, an outstanding result Operating profit increased by £66 2m, 59 5%, from £111 2m to £177 4m with operating profit per square foot up by £18 (58%) to £50 Operating margin increased by 200 basis points to 6 6%

John Lewis *(continued)*
Sales per selling FTE grew by £11,000 (8 1%) to £145,000 while operating profit per FTE moved ahead significantly to £8,400

Waitrose
Gross sales for Waitrose rose by £357 0m, 10 7%, to £3 7bn, fuelled significantly by like-for-like sales growth in excess of 5% – ahead of the overall market performance of 4% and a credit both to the standards of presentation and customer service achieved in our shops and also to the ongoing innovation and diligence of our buying teams We again achieved recognition for these successes, gaining a large number of prestigious awards for our customer service, food and wine and sourcing policies

Alongside this core growth we benefited from maturing sales at the 23 ex-Safeway branches acquired in 2004 and 2005 and from acquisitions and relocations during the year at Biggin Hill, Balham, Barbican, Buxton, Comely Bank, Morningside, Southampton, Formby, Eastbourne, Parkstone, Hexham and Lymington We also developed new branches at Bloomsbury and Ampthill The performance of our new shops has been a very positive sign of the customer appeal of the Waitrose offer in all parts of England and for the first time in Scotland The last three years have seen a net increase of 40 branches and 43% in selling space We expect the maturing effect of this investment to continue to drive increased sales for some time to come as new customers test out our offer and like what they find

Business review

Review of performance (continued)

Waitrose *(continued)*
Our rapid underlying growth saw sales density rise by 2 1% to £1,015 per square foot, despite the dilutive effect of new space At the same time our sales productivity per selling FTE increased to £195,000, up by £9,000 (4 6%) on last year

Overall divisional profit increased by £12 3m, 5 3%, to £243 7m Operating profit increased by £6 5m, 3 8%, to £176 9m

Our greater scale continued to deliver advantages in buying terms and in central costs, and the information provided by our new stock system, combined with excellent stock management in the branches, delivered a significant reduction in wastage Property profits of £3 1m were realised, compared with £1 9m last year The level of change in the business drove some significant additional costs, including reorganisation costs of £6 7m An increase of £9 6m in utilities was largely driven by the doubling of electricity rates in October 2005 Operating margin decreased by 30 basis points as a result of the impact of these additional costs as well as the diluting effect of new space

Waitrose *(continued)*
Operating profit per square foot and per FTE showed dilution of 4 3% and 4 6%, respectively, due to the addition of immature space and the impact of one off costs

Pensions
Our pension charge of £85 1m for the year is slightly (£0 4m) down on last year The contribution to the funds in respect of the year was £84 1m, up £6 6m (8 5%) on last year The fund's investment assets have performed very well, increasing to just over £1 8bn On the accounting basis required by IAS 19, the fund's deficit stands at £441m, down £38m (7 9%) on last year The next actuarial valuation of the fund is taking place as at 31 March 2007, and will be used to determine future contributions to the scheme

Finance costs
Finance costs were £42 7m for the year and income was £7 7m, resulting in net finance costs of £35 0m This compares with £34 9m last year Interest cover was 5 7 times compared to 4 6 times last year

Ocado
Ocado continued to grow its sales and develop its business during the year It had a good Christmas, with sales up 60% in the final week

We have recorded a book profit on our shareholding in Ocado of £18 0m, compared with £10 8m last year, reflecting the fund-raising early in the year This gain entirely offsets our share of Ocado's post tax losses, £9 5m for this year and £8 5m of unconsolidated losses brought forward from last year.

Our investment has been written down to a nil carrying value in our books and consequently any further profits or losses will not affect our results, unless funding rounds increase the valuation of the asset At the year end there were £0 9m of losses which had not been consolidated, and have been carried forward to be written off against future profits or other gains

Tax
The tax charge increased compared with last year, mainly due to the increase in profits The effective tax rate of 33 9% is slightly higher than last year's restated tax rate (32 3%), mainly because of increased property profits this year on which a deferred tax provision has had to be recognised

In light of evolving interpretation by the auditing profession of IAS 12 in connection with the calculation of deferred tax liabilities on buildings, we have been advised that the

Business review

Review of performance (continued)

Tax *(continued)*
"single use" basis is no longer considered appropriate and, accordingly, the group has revised its accounting policy on deferred tax Full details are provided in note 1 to the accounts This has led to a restatement of last year's tax charge (increased from £36 7m to £42 5m) and a reduction in the deferred tax provision required in the balance sheet as at January 2006 (reduced from £127 9m to £22 0m), which in turn increased net assets as at January 2006 (from £1,406 7m to £1,512 6m)

Capital expenditure
Capital spending in 2006/07 was £393 4m, up £105 8m (36 8%) compared with £287 6m in the previous year Waitrose capital spending totalled £278 3m, including £105m for new stores, £57m for extensions and refurbishments, and £43m for distribution For John Lewis capital spending totalled £88 5m, including £38m for extensions and refurbishments This demonstrates the significant investments we are making to expand and develop the Partnership

Cashflow and net debt
We generated £523 7m in operating cash flow (before Partnership bonus) up 19 2% on the prior year We reduced our net debt by £16 2m to £307 7m reflecting both strong sales performance and tighter management of our cash and assets and, in particular, as a result of both divisions reducing their working capital

Return on capital
Return on capital was 7 9%
– a steadily rising trend

Partnership bonus
We have more Partners in the business now, particularly in Waitrose, and this, together with higher pay rates, has moved the cost of each 1% of bonus 7 5% higher The Board's decision on the bonus raises the total distributed to £155 2m, which is a record in sterling terms This represents over nine weeks' pay, and equates to a bonus per full time equivalent of £3,519, up 23 4% on last year

Retained earnings
Retained earnings were £108 5m,
up by £19 4m (21 8%) on last year

Business review

Business and strategy

The Partnership's reputation is founded on the uniqueness of our ownership structure and our commercial success Our purpose is the happiness of all our members, through their worthwhile, secure and satisfying employment in a successful business, with success measured by our ability to sustain and enhance our position both as an outstanding retailer and a thriving example of employee ownership

The Partnership owns two of the strongest retail brands in the UK and a new direct services business, Greenbee None of our businesses depends on dominant market share but on distinctive positioning which secures an exceptional degree of loyalty from customers That loyalty has been built on customers' trust and confidence in our sourcing policies, and by selling our product impartially with consistently exceptional service More recently it has been reinforced by recognition of our long-held desire to act responsibly and to minimise our environmental impact The Partnership is uniquely placed to do this because we are 'Powered by our Principles' and because our social, ethical and environmental values are ingrained in our culture These principles create a shared purpose and dedication to success in our Partners, enable close and honest relationships with our suppliers and communities, and create a commitment to satisfy our customers' needs

Our business model is based on employee ownership, and the superior product and service which flows from Partners' involvement in their own business Our profitability depends on innovation, continuous search for efficiencies and on delivering a distinctive experience to our customers which is reflected in their loyalty and in higher sales Crucial to our business success is fair and commercially minded relationships with longstanding suppliers who share our commitment to superior and sustainable products and services and who believe in trading fairly, by continuously raising labour standards and workplace conditions

We have set ourselves the financial goal of doubling sales profitably over the next 10 years

- **John Lewis** is now well positioned for expansion with 10 new department stores planned from 2008 in addition to 3 relocations Beyond this we expect there to be further opportunities for full line department stores and significant growth through our multichannel strategy,
- **Waitrose** aims to increase sales by continuing to extend its store presence whilst improving its core customer offer New physical space will be supplemented by developing our customer services, including Waitrose Entertaining and Home Delivery
- **Greenbee**, our direct services business launched in Autumn 2006, will continue to build on our reputation, providing new services for our customers, underpinned by our authority in customer service These services offer our customers better value than they could achieve for themselves elsewhere, and take the Partnership into new markets, such as financial, leisure and home services

Business review

Resources and relationships

Partners

Recruitment, retention and training

We aim to attract and retain the best people who share our values. Alongside honesty, respect and recognition we emphasise enterprise, working together and achievement. This approach to business relationships fosters lasting commercial success as well as a uniquely satisfying work environment.

Our vision is to be an 'employer of distinction'. Part of that vision is to create and nurture a culture that values the differences of those who are engaged in the Partnership, whether as Partners, customers, suppliers or as part of the wider community. Embracing diversity helps us to attract, retain and develop Partners while developing a creative and innovative culture and appealing to a wide range of customers.

The Partnership is committed to providing equal opportunities for all in employment, regardless of individual differences such as gender, ethnic origin, disability, sexual orientation, age, social background, religion and beliefs. Discrimination of any kind will not be tolerated and will be dealt with in line with the Partnership's 'Fair Treatment' policy.

Our aim is that every Partner fulfils their individual potential and that we offer each customer a high-quality experience every time they visit one of our department stores, food shops, or other retail channels, because our Partners are equipped to do so through their attitude, behaviour and skills – supported by first-class training and development.

Benefits

Our aim is to have a pay policy which is competitive whilst being fair to all Partners which is easy to understand, which will provide a range of benefits which are market leading, and which will deliver leisure benefits that enable Partners to balance their working and home lives, and thus remain highly committed to long term careers in the Partnership.

Suppliers and product

Traceability

Having full traceability of our products, and their ingredients or components, is critical to our success and to consumer confidence. In order to ensure we know where our products come from, how they have been produced and what they contain, we apply rigorous safety, quality, and ethical sourcing policies and invest in long-term supplier relationships.

We work hard to raise consumer awareness of the facts surrounding sourcing issues, through careful training of our Partners, honest labelling of our products and offering accessible customer information instore and online. All our own-brand food product labelling contains information on nutrition, country of origin and certifications to relevant standards, and we only refer to ethical standards, that have been independently verified such as the Forest Stewardship Council and Marine Stewardship Council.

Waitrose was the first retailer to implement the 'traffic light' labelling system proposed by the Food Standards Agency (FSA). We ceased the sale of products containing hydrogenated vegetable oil in October 2006 and we are also working towards meeting the maximum salt intake target proposed by the Department of Health and the FSA, three years ahead of its 2010 deadline.

Product safety

We ensure the integrity of our products and the application of the best standards in safety, quality environment and animal welfare.

In John Lewis and Waitrose, dedicated technology departments, in conjunction with our buying teams, are responsible for ensuring that every product sold is safe to use and fit for purpose, and that all our own-label branded and exclusive products comply with all

Business review

Resources and relationships (continued)

Suppliers and product (continued)

relevant consumer legislation and safety standards. Within Waitrose, our technologists also ensure the provenance and traceability of all our own-label foods.

Farming standards
As farmers ourselves, we understand the challenges of maintaining high standards. We work with our farmers, growers and other suppliers to ensure that the best standards in safety, quality, environment and animal welfare are applied across our supply chain, supported by our own inspections and farm assurance schemes.

Waitrose has been selling organic products, which support sustainable production, for over 20 years. Twice voted 'Organic Supermarket of the Year' by the Soil Association, we aim to offer the widest possible range of organic food – Waitrose currently accounts for 17% of the UK organic market, over four times our overall market share. The launch of a new range, Waitrose Organic in September 2006, saw us increase our own-label organic lines to over 350 and our total assortment now stands at more than 1,500 products including pet food, wine, tea, coffee, preserves, bread and toiletries.

Waitrose is the only British retailer to insist that all its British growers adopt the LEAF (Linking Environment and Farming) Marque certification standard. LEAF, an independent charitable organisation, helps farmers to improve business performance, lower environmental impacts, conserve the British countryside for future generations and strengthen links with the public. Our Leckford Estate holds the LEAF Marque and is one of a small number of LEAF Demonstration Farms.

Animal welfare
Waitrose is committed to providing the best conditions for animals at all stages of the supply chain and to combating cruel practices. Our dedication to animal welfare has meant that we have again earned the Compassion in World Farming (CIWF) 'Compassionate Supermarket of the Year' title. We were also the first retailer to be named 'Food Retailer of the Year' at the inaugural RSPCA Good Business Awards in 2005.

All our fish comes from well-managed fisheries using responsible fishing methods. Reinforcing our responsible sourcing policies, we have launched a series of initiatives to make it easier for consumers to identify and buy sustainably sourced fish. These include phasing out fish caught by beam trawling and replacing them with fish caught using Danish seine fishing methods which cause less disturbance to the sea bed. We are also working with the Marine Stewardship Council (MSC) to establish the world's first MSC-accredited feed fishery. Waitrose aims to use sustainable sources of feed for all farmed salmon it sells by 2010.

Sustainable timber
John Lewis is equally committed to ensuring the integrity of the products it sells. We never source from areas where we believe forest management is poor. Where necessary, timber is sourced from regions where certified products are not yet available. Where this is the case we support the suppliers, encouraging them to work towards forestry certification. This helps to raise forestry standards, increase the availability of certified timber and phase out timber from illegal unsustainable sources. Our target is for 75% of our garden furniture sales by volume to be independently certified to the Forest Stewardship Council (FSC) standard by the end of 2007.

Chemicals of concern
Since the publication of the REACH (Regulation Evaluation Authorisation of Chemicals) regulation in December 2006, Waitrose and John Lewis have been working closely with suppliers to assess the number of chemicals that will be subject to registration and possible

Suppliers and product (continued)

further authorisation procedures All consumer products (excluding foods) are included in the scope of the regulation We ensure that suppliers to all parts of our business are fully aware of their legal obligations and we assist them in meeting these obligations

Responsible sourcing
We have a set of Responsible Sourcing principles which have been validated by approved third parties and a Partnership-wide Code of Practice All our own-label suppliers must commit to meeting the requirements of this Code and must register on the Supplier Ethical Data Exchange (Sedex) – the largest global database on labour standards Should non-compliances be identified, we work with our suppliers and auditors to establish action programmes to help directly raise labour standards

As a percentage of Waitrose own-label sales. 99 02% of qualifying suppliers have registered on Sedex and provided information on labour standards for a total of 685 production sites John Lewis has a much larger supplier base 80% of their prioritised suppliers have also registered on Sedex and currently 600 production sites are providing John Lewis with information on labour standards

The Partnership actively collaborates with other businesses and organisations to drive best practice in the supply chain

Local sourcing
Waitrose 'Local and Regional Sourcing' is one of the best established local sourcing initiatives in its sector, covering over 300 producers and offering more than 1200 product lines in 167 shops In 2006, sales of our local and regional foods were up 92% on 2005 In order to clarify our message to customers and better illustrate our support for UK suppliers, we now promote local, regional and British food together – product 'stamps' identify the origins of regional and local food, labels carry photos of producers, and new shelf edge ticketing helps shoppers to find products from their local area Through initiatives like 'Meet the Buyer' and 'Meet the Farmer' (which introduce Producers to Buyers, and our customers) and our annual Small Producers Awards, now in their seventh year, we continue to champion the work of small producers across the country and to promote local and regional food

Fairtrade & Waitrose Foundation
As part of our commitment to trading fairly, we support established schemes such as Fairtrade, that further contribute to the sustainable development of the communities where farmers and growers live Sales of Fairtrade items generate a guaranteed price to cover production costs plus a 'social premium' to be reinvested in the supplier's own business or their local community Waitrose stocks one of the widest ranges of Fairtrade products, over 100 products In November 2006, we launched our own-label Fairtrade coffee and chocolate and in February 2007 we became the first UK supermarket to complete the switch of all our banana lines in all stores to Fairtrade We have recently announced plans to launch the widest range of Fairtrade roses of any supermarket on the high street, with the aim of ensuring 100 per cent of all rose bunches sold in our shops are certified

We have set up the 'Waitrose Foundation', a partnership with our suppliers designed to improve the lives of the workers who grow and pick our fruit in South Africa In 2006 the Foundation raised £363,000, of which Waitrose has contributed 60%, which supported community projects at more than 24 farms and helped more than 7,000 workers, providing healthcare, crèches and adult education classes

Business review

Resources and relationships (continued)

Community

Town centre regeneration
From choosing the initial sites for our new shops to the shop's opening, the views of local people and all relevant authorities are sought The Partnership prioritises town centre development and plays an active role in regeneration, aiming to keep town centres vibrant and economically sustainable by creating a positive experience for shoppers As an employer of distinction we bring sustainable employment opportunities to regeneration areas in the form of high quality jobs and training for local people

The Partnership is keen to see London's West End transformed into a modern, dynamic and accessible shopping destination and we have committed £60m to the refurbishment of our flagship Oxford Street John Lewis department store We also supported the 2012 Olympics bid and intend to play a key role in the sustainable development and regeneration of East London as an employer and neighbour in Newham

Community investment
We encourage our Partners to actively forge links and become involved in the local communities in which they live and work

We work with organisations like Business in the Community (BITC) to continually improve the impact we have as a business on society Over the last three years we have invested the equivalent of around 2% of our pre-tax profits in our local communities In 2006 the Partnership was one of only 141 companies to achieve the BITC PerCent Standard

Golden Jubilee Trust
The Golden Jubilee Trust (GJT), our employee volunteering scheme has so far supported 287 Partners who have given over 114,000 hours to more than 280 UK charities The GJT, established in 2000 as part of our Golden Jubilee celebrations, enables any Partner, regardless of age, seniority or length of service, to apply full or part-time for a volunteering secondment with a registered charity for up to six months The placements have helped to create strong links with the community and provide charities with the resource and skills to meet their own objectives in serving the needs of the wider community

Food education
As a leading food retailer, we recognise we have an important role to play in educating children about healthy eating Waitrose Education is a series of initiatives to raise awareness of health, nutrition and food provenance with children and young adults These include a series of nutritional tips and meal plans for children aged under 10, the Food for Thought Activity Pack (developed with Farming and Countryside Education) to help children understand the impacts of food production, packaging and transport, food demonstrations at three Waitrose Food Studios, a mobile food pod – launched in May 2006 – which tours key events and shops, and support of the Specialised Chef's Scholarship, sponsored by renowned hotels and restaurants, where 30 students each year are trained under some of the industry's top chefs Over 1200 secondary schools – 5 5% of all secondary schools in the UK – have requested the Food for Thought pack since its launch in November 2005 and last year our Food Studio and Food Pod provided free educational workshops to around 500 schools involving more than 10,000 children

Environment

Energy and emissions

We are committed to tackling the issue of Climate Change and have set a public target of reducing our CO_2 emissions by 10% by 2010, relative to our trading pattern in 2001. As a growing business, our absolute carbon emissions are increasing, but as a result of a strict carbon management programme we are currently exceeding our 10-year reduction target and in 2006/07 our emissions per £million sales were 17% less than in 2001/02. Currently, 40% of our electricity is derived from renewables and from October 2007 100% of our electricity will come from renewable sources through an agreement with EDF Energy. By purchasing electricity from renewable sources in 2006/07 we avoided emitting the equivalent of 43,000 tonnes of CO_2.

With bigger shops and longer trading hours absolute energy use continues to rise, although energy efficiency has improved and new Waitrose shops are typically 20% more efficient than those built 10 years ago. We continue to seek ways to improve the energy efficiency of all our shops. Waitrose has committed to invest £55 million over 5 years on new refrigeration (where the bulk of its electricity is used). John Lewis is instigating a lighting replacement programme, using life cycle costing to assist in the choice of new equipment, investigating a wind turbine at one of its production sites and sourcing electrical products with the highest energy efficiency ratings.

In 2005, the Partnership joined the Corporate Leaders Group on Climate Change, a group of senior executives from 18 major UK and International companies. As a member, we have made a commitment to take action on climate change, to show strong leadership, and to offer support to Government in developing new, longer-term policies for tackling climate change.

Sustainable construction

With ambitious retail development plans, new acquisitions and planned refurbishments for existing shops, the Partnership is committed to ensuring our shops are designed to suit their surroundings, built responsibly and operated sustainably. Working with one of the UK's leading sustainable development charities – Forum for the Future – the Partnership has launched a sustainable construction framework for our business. The framework contains objectives for each stage of the construction life cycle and will ensure sustainability principles are adopted within the planning, design, construction and operation of our future builds and refurbishments.

Packaging and waste

The Partnership's longstanding objective is to reduce waste wherever possible, and to reuse or recycle more of what we produce. In meeting our obligations under the Packaging Waste Regulations, Waitrose recycled 49% of its waste last year, saving over 19,500 tonnes from landfill and John Lewis 28% of its waste (3,337 tonnes). However, our recycling rate is still below our target. Newly revised procedures for shop waste and recycling are expected to deliver substantial cost savings and a step change in our waste recycling. As part of our packaging obligation the business spends almost £1 million a year to help recycle consumer packaging. We also encourage customer recycling and our Waitrose shops offer recycling facilities for customers where feasible.

We are one of 17 major retailers to help establish the Distributor Takeback Scheme to implement the recently published Directive on Waste Electrical and Electronic Equipment, requiring that we provide consumers with adequate recycling facilities for old electrical and electronic goods when they buy new items.

Business review

Resources and relationships (continued)

Environment (continued)

Waitrose has made a public commitment to help the Government-funded Waste Resources and Action programme, explore the viability of new materials and eliminate packaging growth by 2008 We are already on track to meeting this target, having reduced packaging consumption relative to sales by 33% since 2000 We have been trialing alternative materials – 50% of our organic range of produce is now available in degradable, biodegradable and compostable packaging

Keen to reduce the number of plastic carrier bags we give away each year, we continue to promote our Waitrose 'Bag for Life' and reusable biodegradable jute carrier, and actively support local and national campaigns to raise awareness with customers about carrier bag reuse John Lewis is currently rolling out a reusable biodegradable jute bag across its stores We have recently invested in carrier bag recycling points for all our Waitrose shops, and these will also be trialled in John Lewis Waitrose and John Lewis have signed up to a joint agreement with Government, the Waste Resources and Action Programme (WRAP) and other major retailers, which will see all parties working towards a shared objective to reduce the environmental impact of carrier bags

Food waste accounts for 60% of the total waste our food shops produce Whilst we aim to minimise food waste through accurate ordering, where it does arise donating surplus food can offer an environmental and socially beneficial solution Waitrose has partnered with the FareShare food donation scheme and is rolling out food donation to those branches where FareShare can provide a collection service Donated food is redistributed to charities throughout the UK working with homeless and vulnerable people

Water
We are not big users of water, but recognise the role we have to play in using less of this precious and increasingly scarce resource Our total water consumption in absolute terms (abstracted plus mains) has reduced by 21% in 2006/07 to under 1,507,000 cubic metres a year and water consumption per full-time equivalent Partner to 34 cubic metres This step change is a direct result of our concerted efforts to capture more complete and accurate data on water usage We are now using an improved system to monitor water consumption which will enable us to strengthen our data capture and gain a better understanding of our performance in this area

Transport
Through initiatives like transport consolidation, where a preferred haulier collects from a number of suppliers before delivering to a Regional Distribution Centre, we are saving mileage, ensuring greater load efficiency and providing a more viable option for suppliers dealing in small volumes John Lewis is rolling out a 'one-step supply chain' initiative, aimed at delivering more stock direct to customers homes, providing a more efficient service, lower mileage and a reduction in unnecessary journeys

We have increased vehicle utilisation – commercial miles driven per £million of sales reduced by 10% on the previous year and vehicle fuel efficiency improved by 0 15 miles per gallon (or 1 2%) Ahead of new European regulations, we were the first UK retailer to invest in the Euro 4 engine, which emits 76% less nitrous oxides and 96% less particulate matter than a 1992 engine The rest of our Partnership's fleet will move to Euro 4 and Euro 5 engines within their standard six-year replacement cycle

Business review

Risks and uncertainties

Our risk management strategy reinforces the value of actively managing risk, rather than eliminating it, and thereby ensures a disciplined approach to balancing risk and reward

Economic
As a business based solely in the UK, the Partnership is particularly exposed to any economic downturn which could affect consumer spending, most notably in the Department Store business

However, the strength and diversity of the John Lewis and Waitrose businesses, alongside our multi-channel strategy and developing Greenbee business, form an effective means of managing economic risk in a retail environment Our range and diversity of products and services bring us into competition with a wide range of UK and international retailers in largely mature market segments with low underlying growth For this reason we continually focus on maintaining our pre-eminent product quality, customer service and supplier relationships, whilst retaining our competitive pricing, thereby enabling us to maintain our appeal

Regulatory and political
The Partnership remains sensitive to the regulatory environment in which it trades in order to ensure our ongoing compliance with key regulatory requirements around planning, trading, tax and competition In addition to this, the Partnership actively works with governmental and non-governmental organisations to develop public policy, and seeks to represent the views of our customers and Partners in the areas in which we trade In this way we try to anticipate and contribute towards significant debates to improve the environment in which we operate

Financial and treasury risk
The principal financial risk which we face is the ability to generate sufficient funds to satisfy our business needs, to meet our Partners' expectations for Partnership Bonus and to mitigate against any adverse financial impact resulting from risks identified in our business planning process Other financial risks and mitigations are covered in more detail below

- **Funding and liquidity**
  Borrowing requirements are managed in line with regularly updated cash forecasts and reviewed against the group's debt portfolio and maturity profile Details of the group's borrowings, together with their interest rates and maturity profiles, are also provided in note 25 to the accounts

- **Interest rate risk management**
  The group's policy is to have a suitable mix of fixed and floating interest rate exposures, in order to manage the risk of interest rate fluctuations on borrowings Exposures to interest rate fluctuations are managed using interest rate swaps Details of the group's borrowings and interest rate exposures are provided in note 25 to the accounts

- **Foreign currency risk management**
  The group uses derivatives to manage exposures to movements in exchange rates and forward exchange contracts are entered into for all major exposures

Business review

Risks and uncertainties (continued)

- **Credit risk**
  The group has no significant customer credit risk Cash deposits and other financial instruments give rise to credit risk on the amounts due from bank counterparties These risks are managed by restricting such transactions to approved banks and limiting the aggregate exposure to any one counterparty according to their credit rating The group holds convertible loan stock in its associate company, Ocado Limited, with a book value of £9 6m
- **Insurance**
  The group's captive insurance company, JLP Insurance Limited, provides reinsurance of the group's employer's, public and vehicle third party liability insurances and of the group's healthcare insurance cover It also insures ServicePlan Limited and reinsures Landmark Insurance Company Limited, third party providers of extended warranty products to customers of John Lewis

Pensions
The maintenance of our open non-contributory final salary pension scheme remains a key financial risk for our business

Day to day management of the fund is delegated to a number of investment managers under the guidance of the Trustees The assets of this scheme are held in a separate fund administered by the trustees The Partnership takes a long term view of its pensions liabilities but recognises that there are significant risks in increasing longevity, the effect of age discrimination legislation, and continuing volatility in investment markets

Actuarial valuation of the pension funds
The funds are valued every three years by an independent professionally qualified actuary, in order to assess the amount of assets that need to be set aside to meet the pension promises, and to determine the future level of funding that the Partnership should put into the schemes The last valuation was carried out as at 31 March 2004 The market value of the assets of the funds as at 31 March 2004 was £1,094m The actuarial valuation of these assets showed that they were sufficient to cover 85% of the benefits which had accrued to members

An actuarial valuation of the pension funds is taking place as at 31 March 2007

Accounting valuation under IAS 19
IAS 19 requires the financial position of the group's pension funds to be reassessed at each balance sheet reporting date following a prescribed methodology This produces results that are different to, and more volatile than, the actuarial valuation, the purpose of which is to assess the funding requirements of the pension schemes

Pension commitments have been calculated based on the most recent actuarial valuations, as at 31 March 2004, which have been updated by the actuaries to assess the assets and liabilities of the schemes as at 27 January 2007

The assets of the pension schemes as at 27 January 2007 were £1,810m (2006 £1,630m) This was invested as follows

The accounting liabilities of the pension funds (under IAS 19) were calculated to be £2,251m (2006 £2,109m) Taking the fund assets and accounting liabilities together, this resulted in an IAS 19 pension fund deficit of £441m (2006 £479m)

Pension liabilities and fund deficit

Fraud and compliance

As with any business, there is a risk of fraudulent behaviour from our employees Although we believe that the Partnership structure, where every Partner is a co-owner of the business, reduces this risk considerably and clearly defines our internal code of ethics, we do not underestimate the potential for financial crime at any level of the business Extensive steps are taken to reduce this risk, including clear accounting processes and auditing and review by our Internal Audit department We have appointed a Head of Business Protection and Continuity who has a specific brief to monitor the risk and incidence of fraud in the business and to review our existing practices to ensure that they are appropriate to meet business needs going forward

Business review

Risks and uncertainties (continued)

Operational
Operational efficiency is of paramount importance in a business dedicated to delivering best value in quality and service Our risk management approach encourages a proportionate response to each area of operational risk, with a combination of generic standards and local ownership Supply chain resilience and product quality management are regarded as two key operational risks

Health and safety
The Partnership is committed to going about its business in a way that avoids, so far as is reasonably practicable, causing harm to people or property, and to promoting, through its extensive occupational health service, the wellbeing of its workforce This commitment underpins our approach to health and safety, with Board level responsibility being carried by the Director of Personnel, supported by specialist technical advisers in safety and occupational health employed within the two divisions We have set ourselves the target of reducing reportable accidents to less than one accident for every 100 full time equivalent Partners We cannot expect to eliminate health and safety risk totally from the workplace but our current priority is to ensure that management at all levels know and understand the risks within their areas of responsibility We are revisiting, across the business, the quality and effectiveness of our risk assessment and incident investigation processes and the completeness of our health and safety management systems This review will inform our future plans for continuing to satisfy our primary commitment and for achieving our immediate target for accident prevention

Business continuity and disaster recovery
Any significant incident, such as a terrorist attack or pandemic flu outbreak, or an event which impacts upon our mainframe systems or key central support functions could severely compromise our ability to trade We are continuing to refine our Business Continuity Plans for all significant business areas, which are supported by software systems and regularly tested

Compliance statement
This review has been prepared in accordance with the Directors' Report Business Review Regulations in section 234ZZB of the Companies Act 1985 The review's intent is to provide information to shareholders and the Partnership's other stakeholders It should not be relied upon by any other party or for any other purpose

Where this review contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report These statements should be treated with caution due to the inherent uncertainties underlying any such forward-looking information

Other information
Additional financial and non-financial information, including press releases and year end presentations, can be accessed on our website, www johnlewispartnership co uk

Directors and advisers

DIRECTORS

Charlie Mayfield

Chairman

Marisa Cassoni

Tracey Killen

Mark Price

Andy Street

OFFICERS AND ADVISERS

Company Secretary and Director of Legal Services

Margaret Casely-Hayford

Director of Financial Control

Ros Haigh

Auditors

PricewaterhouseCoopers LLP

Solicitors

Lovells

Bankers

Royal Bank of Scotland PLC

Registered Office

171 Victoria Street, London SW1E 5NN,
Registered in England No 233462

Transfer Office

Capita Registrars, The Registry,
34 Beckenham Road,
Beckenham, Kent BR3 4TU

Directors' report

Directors
The directors of the company at the date of this report are listed on page 25 Sir Stuart Hampson retired as a director on 1 April 2007 and Steven Esom resigned as a director on 24 April 2007 Marisa Cassoni and Tracey Killen were appointed as directors on 26 June 2006 and 30 April 2007, respectively All other directors served throughout the period under review

Principal activity and Business Review
The principal activity of the group is retailing The company controls the businesses listed in note 34, comprising 26 John Lewis department stores, 183 Waitrose supermarkets, and ancillary manufacturing activities A review of the business and likely future developments is included separately in the Business Review on pages 3 to 24, which forms part of this Directors' report

Employees
The constitution of the John Lewis Partnership provides for the involvement of employees, known as Partners As 'co-owners' of the business they are provided with full information on all aspects of its operations and take responsibility for promoting its commercial success Elected councils at all levels of the business provide regular opportunities for management to be held accountable to Partners, councils receive regular reports by directors and have an opportunity to follow these up with questions on any subject, while an open system of journalism both contributes to this process of accountability and provides the means of sharing information extensively with all Partners Partners also share in the profits of the business through Partnership Bonus

The Partnership recruits people with disabilities to suitable vacancies on merit All employees can benefit from our training and development policies 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 ultimate purpose of the John Lewis Partnership is defined in its Constitution – "the happiness of all its members through their worthwhile and satisfying employment in a successful business" Its Principles and Rules encourage the widest possible sharing of profit, knowledge and power by all Partners and also set out the business's responsibilities to its suppliers, its customers and the community in which it operates The following paragraphs describe the key governance structures and internal controls operating within the Partnership Through these mechanisms, the Partnership aims to apply the highest standards of corporate governance and to conform with the spirit of the 'Combined Code' in a manner framed to suit its unique democratic ownership structure

The co-ownership character of the Partnership is reflected in the balance of authority between the Chairman and his management team, the Board of John Lewis Partnership plc (the Partnership Board) and the elected Partnership Council The Partnership Council nominates five members of the Partnership Board Nominated directors are required to stand for re-election every two years In addition, the Board was strengthened in 2006 by the appointment of two non-executive directors who bring external experience and independence to the Board's deliberations The Board meets at least 8 times a year and has a formal schedule of matters reserved for its decision The Partnership's Constitution sets out the Partnership Board's responsibility for determining major strategic and financial issues In particular, it agrees the Partnership Business Plan and those of the divisional Management Boards, its annual budget and monitors the performance of the two operating divisions against their business plans

All new directors are provided with an appropriate induction programme and have access to the advice and services of the Company Secretary Subsequent training is available on an ongoing basis to meet specific needs

Internal control

The directors have overall responsibility for the Partnership's systems of internal control, which cover strategic, financial, regulatory and operational controls The systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve business objectives The directors have reviewed the effectiveness of the Partnership's systems of internal control for the accounting period under review

Audit Committee

The Partnership has an Audit Committee, chaired by Jeff Hewitt, an independent external committee member with relevant financial experience, and, in addition to the chairman, composed of two of the five elected directors chosen by that group, currently Johnny Aisher and Ken Temple, together with David Barclay, a non-executive director It meets at least three times a year and 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 view of this position The Committee also ensures that appropriate accounting policies and internal controls are in place and reviews the performance, independence and objectivity of the external auditors Its terms of reference are reviewed annually and include responsibility for making recommendations to the Partnership Board in relation to the appointment, re-appointment and removal of external auditors The external auditors attend its meetings as does the Finance Director, the Director of Financial Control and the Head of Internal Audit The Committee monitors and reviews the scope of work of the Internal Audit department

As part of its remit, the Audit Committee keeps under review the nature and extent of non-audit services provided to the Partnership by the external auditors, seeking to ensure the maintenance of their objectivity and independence The external auditors confirm, at least annually, to the Audit Committee that in their professional judgement they are independent with respect to the audit The scope of services provided by the external auditors and the approval process relating to them are determined in accordance with Audit Committee policy

Remuneration Committee

The Partnership has a Remuneration Committee which makes a recommendation each year to the Partnership Board on the Chairman's pay, taking into account appropriate market data provided by an external remuneration consultant The Committee determines the fees of the non-executive directors, and considers the Chairman's remuneration proposals for the appointed Partnership Board directors, providing a commentary to the Board on whether they are appropriate in relation to the market Those of the non-executive directors or the appointed Board directors who are members of the Committee take no part in its deliberations with regard to their own remuneration The Committee also determines and agrees with the Partnership Board the broad policy for the remuneration of certain senior Partners, taking into account such factors as it considers appropriate, and reviews the ongoing appropriateness and relevance of that policy

The Committee is chaired by David Barclay, a non-executive director and the Partnership's Deputy Chairman, and is composed of the Director of Personnel and two of the five directors elected by the Partnership Council, chosen by that group, currently David Jones and Anne Buckley The Committee is supported by an external remuneration consultant who attends its meetings in an advisory capacity The salaries of elected members of the Board are determined by their managers and do not include any element in recognition of their Board duties With the exception of the non-executive directors, Partnership Board directors do not receive fees as they are all paid a salary for their respective roles within the business, in accordance with the Partnership's pay policy, which sets salaries in relation to market rates Exceptional performance is recognised in enhanced pay and in individual bonuses, not against pre-set targets or criteria There are no annual incentive bonuses or

Directors' report

continued

long-term bonus schemes related to individual or company performance. Details of directors' emoluments are set out in note 9.

Risk Committee

The Partnership Board has overall responsibility for internal control and the management of risk throughout the business. Executive management is responsible for identifying and evaluating the risks of business operations and for implementing and maintaining systems for managing those risks in an efficient and effective manner through the business planning processes.

The Partnership has a Risk Committee established as a committee of the Board. It is chaired by Jane Tozer, a non-executive director, and is composed of five other directors, currently the Managing Directors of John Lewis and Waitrose, Finance Director and Director of Personnel, together with the Director of Legal Services & Company Secretary, the Head of Risk Management and the Director of Building & Services, who provide appropriate functional and professional advice. Following the resignation of Steven Esom, one position is currently vacant. The Committee meets at least twice a year and its main purpose is to steer the Partnership's development of policies and systems for identifying, evaluating and managing significant risk throughout the group. It monitors management's actions to manage those risks and reports annually to the Partnership Board. The operating divisions, John Lewis and Waitrose, and all corporate departments, include risk assessments as part of their business plans.

Charitable and political donations

The Partnership donated £2,106,000 (2006: £2,040,000) for charitable purposes during the year, comprising £1,630,000 (2006: £1,580,000) for welfare causes and £476,000 (2006: £460,000) for music and arts, learning and the environment. In addition, we provided substantial financial and practical support to causes in the communities where we trade. The Partnership made no political donations.

Payments to suppliers

The Partnership's policy on the payment of its suppliers is to agree terms of payment in advance and, provided a supplier fulfils the agreement, to pay promptly in accordance with those terms. Payments to suppliers are dealt with on a group basis, and the Partnership's trade creditors at 27 January 2007 were equivalent to 25 days of purchases (2006: 25 days) during the year ended on that date.

Treasury policy and financial risk management

The Board approves the group's treasury and financial risk management policies. Senior financial management are responsible for implementing these policies and directly controlling day to day treasury operations. Further details of the group's financial risk management arrangements are provided in the Business Review and note 24 to the financial statements.

Investments

In March 2006 Ocado raised £60m of funding from other investors, as a result of which the Partnership's shareholding reduced to 25.6%, or 29.6% on a fully diluted basis. In March 2007 Ocado raised a further £30m of funding from other investors, following which the Partnership's shareholding reduced to 24.1%, or 28.0% on a fully diluted basis.

Dividends

Dividends on Preference Shares for 2007 were £125,000 (2006: £125,000), and a dividend of £125,000 (2006: £125,000) was paid on the ordinary shares.

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

No director has or had a material interest in any contract or arrangement to which the company or any subsidiary is or was a party

Going concern

The directors, having made appropriate 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

Auditors and disclosure of information to auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors and to authorise the directors to fix their remuneration will be proposed at the annual general meeting

The directors of the group have taken all the steps that they ought to have taken as directors in order to make themselves aware of any information needed by the group's auditors in connection with preparing their report and to establish that the auditors are aware of that information and so far as the directors are aware there is no such information of which the group's auditors are unaware

For and by Order of the Board
Margaret Casely-Hayford
Secretary
30 April 2007

Consolidated income statement

for the year ended 27 January 2007

Notes		Year to 27 January 2007 £m	Year to 28 January 2006 Restated* £m
2	**Gross sales**	**6,376 2**	5,764 4
2	**Revenue**	**5,698.4**	5,149 3
	Cost of sales	**(3,794.1)**	(3,438 4)
	Gross profit	**1,904 3**	1,710 9
	Other operating income	**36 6**	33 0
	Operating expenses before pension costs	**(1,501.5)**	(1,376 8)
25	Pension costs	**(85.1)**	(85 5)
3	Total operating expenses	**(1,586.6)**	(1,462 3)
2	**Operating profit**	**354 3**	281 6
4	Finance costs	**(42.7)**	(45 4)
4	Finance income	**7 7**	10 5
13	Share of post tax losses of associate	**(18 0)**	(5 6)
13	Exceptional gain on dilution of interest in associate	**18 0**	10 8
	Net gain in respect of associate	**-**	5 2
	Profit before Partnership bonus and tax	**319.3**	251 9
	Partnership bonus	**(155 2)**	(120 3)
5	**Profit before tax**	**164 1**	131 6
6	Taxation	**(55 6)**	(42 5)
	Profit for the year	**108 5**	89 1

* Prior year results have been restated in respect of deferred tax, as detailed in note 1

The notes on pages 36 to 75 form part of these financial statements

Statement of recognised income and expenses

for the year ended 27 January 2007

Consolidated	Year to 27 January 2007 £m	Year to 28 January 2006 Restated* £m
Actuarial gains on defined benefit pension schemes	**42 2**	11 7
Movement on deferred tax on pension scheme	**(12 7)**	(3 4)
Net loss on cash flow hedges	**(0.2)**	–
Net gain not recognised in the income statement	**29 3**	8 3
Profit for the period	**108 5**	89 1
Total recognised income and expenses for the year	**137 8**	97 4
Effect of change in accounting policy		111 7

Company	Year to 27 January 2007 £m	Year to 28 January 2006 Restated* £m
Actuarial gains on defined benefit pension scheme	**42 2**	11 7
Movement on deferred tax on pension scheme	**(12 7)**	(3 4)
Net loss on cash flow hedges	**(0 2)**	–
Net gain not recognised in the income statement	**29.3**	8 3
Profit for the period	**28 6**	(8 5)
Total recognised income and expenses for the year	**57 9**	(0 2)
Effect of change in accounting policy		20 2

* Prior year results have been restated in respect of deferred tax, as detailed in note 1

Consolidated balance sheet

for the year ended 27 January 2007

Notes		2007 £m	2006 Restated* £m
	Non-current assets		
11	Intangible assets	**61 3**	52 2
12	Property, plant and equipment	**2,869 2**	2,682 5
16	Trade and other receivables	**19 7**	20 4
		2,950 2	2,755 1
	Current assets		
15	Inventories	**349 6**	324 3
16	Trade and other receivables	**134 5**	121 2
24	Derivative financial instruments	**1 5**	4 1
17	Cash and cash equivalents	**248.0**	282 8
		733 6	732 4
	Total assets	**3,683 8**	3,487 5
	Current liabilities		
19	Borrowings and overdrafts	**(151.9)**	(100 3)
20	Trade and other payables	**(763 7)**	(660 8)
	Current tax payable	**(18 9)**	(23 4)
21	Finance lease liabilities	**(1.3)**	(0 8)
22	Provisions	**(52 2)**	(44 5)
24	Derivative financial instruments	**(1 1)**	(0 1)
		(989 1)	(829 9)
	Non-current liabilities		
19	Borrowings	**(403 8)**	(506 4)
20	Trade and other payables	**(37.0)**	(29 0)
21	Finance lease liabilities	**(30 3)**	(31 9)
22	Provisions	**(90 8)**	(76 7)
23	Deferred tax liabilities	**(41 7)**	(22 0)
25	Retirement benefit obligations	**(441 0)**	(479 0)
		(1,044 6)	(1,145 0)
	Total liabilities	**(2,033 7)**	(1,974 9)
	Net assets	**1,650 1**	1,512 6
	Equity		
27	Share capital	**6 7**	6 7
28	Share premium	**0 6**	0 9
28	Other reserves	**1 2**	1 4
28	Retained earnings	**1,641 6**	1,503 6
	Total equity	**1,650 1**	1,512 6

* Prior year results have been restated in respect of deferred tax, as detailed in note 1

Approved by the Board on 30 April 2007
Charlie Mayfield

Balance sheet of the company

for the year ended 27 January 2007

Notes		2007 £m	2006 Restated* £m
	Non-current assets		
11	Intangible assets	**58.1**	49 0
12	Property, plant and equipment	**676 1**	673 8
16	Trade and other receivables	**19.7**	20 4
14	Investments	**980 4**	886 5
		1,734 3	1,629 7
	Current assets		
15	Inventories	**215 7**	196 8
16	Trade and other receivables	**50 4**	49 2
23	Deferred tax asset	**81 5**	92 7
	Current tax receivable	**20 6**	13 1
24	Derivative financial instruments	**1.5**	4 1
17	Cash and cash equivalents	**169 2**	196 1
		538 9	552 0
	Total assets	**2,273 2**	2,181 7
	Current liabilities		
19	Borrowings and overdrafts	**(151 7)**	(100 0)
20	Trade and other payables	**(760 8)**	(666 1)
21	Finance lease liabilities	**(0.1)**	(0 3)
22	Provisions	**(44 8)**	(37 7)
24	Derivative financial instruments	**(1 1)**	(0 1)
		(958 5)	(804 2)
	Non-current liabilities		
19	Borrowings	**(403 8)**	(506 4)
20	Trade and other payables	**(34 9)**	(27 3)
21	Finance lease liabilities	**(15 3)**	(15 8)
22	Provisions	**(78 6)**	(65 6)
25	Retirement benefit obligations	**(441 0)**	(479 0)
		(973 6)	(1,094 1)
	Total liabilities	**(1,932 1)**	(1,898 3)
	Net assets	**341 1**	283 4
	Equity		
27	Share capital	**6.7**	6 7
28	Share premium	**0 6**	0 9
28	Other reserves	**(0 2)**	–
28	Retained earnings	**334 0**	275 8
	Total equity	**341.1**	283 4

* Prior year results have been restated in respect of deferred tax, as detailed in note 1

Approved by the Board on 30 April 2007
Charlie Mayfield

Consolidated cash flow statement

for the year ended 27 January 2007

Notes		Year to 27 January 2007 £m	Year to 28 January 2006 £m
29	**Cash generated from operations**	**587 9**	483 7
	Taxation paid	**(53.1)**	(32 5)
	Partnership bonus paid	**(120 3)**	(105 8)
	Finance costs paid	**(11 1)**	(11 9)
	Net cash generated from operating activities	**403 4**	333 5
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(364 4)**	(255 7)
	Purchase of intangible assets	**(23.7)**	(27 9)
	Proceeds from sale of property, plant and equipment	**26 4**	14 6
	Loans repaid by associate	**–**	16 2
	Finance income received	**7 9**	12 7
	Net cash used in investing activities	**(353 8)**	(240 1)
	Cash flows from financing activities		
	Finance costs in respect of bonds	**(34.8)**	(34 8)
	Payment of capital element of finance leases	**(1 1)**	(0 5)
	Payments to preference shareholders	**(0 1)**	(0 1)
	Cash inflow/(outflow) from borrowings	**(50.0)**	20 0
	Net cash used in financing activities	**(86 0)**	(15 4)
	Increase/(decrease) in net cash and cash equivalents	**(36 4)**	78 0
	Net cash and cash equivalents at beginning of period	**232 5**	154 5
	Net cash and cash equivalents at end of period	**196 1**	232 5
17	**Net cash and cash equivalents comprise**		
	Cash	**77 6**	71 9
	Short term deposits	**170 4**	210 9
	Bank overdrafts	**(51 9)**	(50 3)
		196 1	232 5

Cashflow of the company

for the year ended 27 January 2007

Notes		Year to 27 January 2007 £m	Year to 28 January 2006 £m
29	**Cash generated from operations**	**274 5**	220 4
	Taxation paid	**(19 1)**	(5 3)
	Partnership bonus paid	**(44 7)**	(49 4)
	Finance costs paid	**(9 8)**	(10 5)
	Net cash generated from operating activities	**200 9**	155 2
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(61 7)**	(80 2)
	Purchase of intangible assets	**(21 7)**	(25 7)
	Proceeds from sale of property, plant and equipment	**0.5**	0 9
	Dividends received	**1 7**	0 6
	Loans (advanced to)/repaid by group companies	**(70 5)**	6 0
	Loans repaid by associate	**-**	16 2
	Finance income received	**7 8**	12 6
	Net cash used in investing activities	**(143 9)**	(69 6)
	Cash flows from financing activities		
	Finance costs in respect of bonds	**(34.8)**	(34 8)
	Payment of capital element of finance leases	**(0 7)**	(0 1)
	Payments to preference shareholders	**(0 1)**	(0 1)
	Cash inflow from borrowings	**(50.0)**	20 0
	Net cash used in financing activities	**(85 6)**	(15 0)
	Increase/(decrease) in net cash and cash equivalents	**(28.6)**	70 6
	Net cash and cash equivalents at beginning of period	**146 1**	75 5
	Net cash and cash equivalents at end of period	**117 5**	146 1
17	**Net cash and cash equivalents comprise**		
	Cash	**25 2**	10 1
	Short term deposits	**144 0**	186 0
	Bank overdraft	**(51 7)**	(50 0)
		117 5	146 1

Notes to the accounts

1 Accounting policies

Accounting convention and basis of consolidation
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 financial instruments not designated as hedging instruments which are carried at fair value, and in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS The consolidated income statement and balance sheet include the accounts of the company and all its subsidiary and associated undertakings The group's share of the profit or loss of associated undertakings is included in the consolidated income statement, and the share of net assets is included in the consolidated balance sheet, using the equity accounting method The results included are based on the latest audited accounts, or management accounts where their accounting date is not co-terminous with the group's year end

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates

There are a number of new accounting standards and amendments to existing standards that have been published and are mandatory for the group's accounting periods beginning on or after 28 January 2007 or later periods, but which the group has not adopted early

These are as follows

- IFRS 7 "Financial Instruments Disclosures" which introduces new disclosures about financial instruments,
- IFRS 8 "Operating Segments" requires identification and reporting of operating segments on the basis of internal reports that are regularly reviewed by the Board

These are not expected to have a material impact on the group's profit for the period or equity, but may affect disclosures

Gross sales and revenue
Gross sales are the amounts receivable by the group for goods and services supplied to customers, net of discounts but including sale or return sales and VAT

Sales of goods and services are recognised as revenue when the goods have been delivered or the services rendered Revenue in respect of 'sale or return sales' which represents concession income is stated at the value of the margin that the group receives on the transaction Staff discounts are deducted from revenue Revenue is recognised in respect of sales under bill and hold arrangements when the goods are segregated for the customer's benefit at their request, and made available for delivery Sales of gift vouchers are treated as future liabilities, and revenue is recognised when the gift vouchers are redeemed against a later transaction Certain companies within the group sell products with a right of return, and experience is used to estimate and provide for the value of such returns at the time of sale

Inventory valuation
Inventory is stated at the lower of cost, which is either computed on the basis of selling price less the appropriate trading margin or as average unit cost, and net realisable value Inventory excludes merchandise purchased by the group on a sale or return basis, where the group does not have the risks and rewards of ownership

Employee benefits
The group's principal retirement benefit scheme is a defined benefit pension fund with assets held separately from the group The cost of providing benefits under the scheme is determined using the projected unit credit actuarial valuation method The current service

1 Accounting policies (continued)

cost and gains and losses on settlements and curtailments are included in pension costs in the consolidated income statement Past service costs are similarly included where the benefits have vested, otherwise they are amortised on a straight line basis over the vesting period The expected return on assets of funded defined benefit pension plans and the imputed interest on pension plan liabilities are also recognised in pension costs Differences between the actual and expected return on assets, changes in the retirement benefit obligation due to experience and changes in actuarial assumptions are included in the Statement of Recognised Income and Expenses in full in the period in which they arise

There are a number of unfunded pension liabilities, where the actuarially assessed costs of providing the benefit is charged to the income statement There are no assets supporting these arrangements

The group has a scheme to provide up to six months paid leave after 25 years service The cost of providing the benefits under the scheme is determined actuarially, and included in operating costs in the consolidated income statement

Property valuation
The Partnership's freehold and long leasehold properties were last valued by the directors, after consultation with CB Richard Ellis, Chartered Surveyors, at 31 January 2004, at fair value These values have been incorporated as deemed cost, subject to the requirement to test for impairment, in accordance with IAS 36 The group has decided not to adopt a policy of revaluation for the future

Other assets are held at 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 to write off the cost or valuation, less residual value, in equal annual instalments over their useful life, at the following rates

Freehold and long leasehold buildings – 2% to 4%
Other leaseholds – over the remaining period of the lease
Buildings fixtures – 2 5% to 10%
Fixtures and fittings (including IT equipment) – 10% to 33%

Property residual values are assessed as the price in current terms that a property would be expected to realise, if the buildings were at the end of their useful economic life The assets' residual values and useful lives are reviewed at least at each balance sheet date

Leased assets
Assets used by the group which have been funded through finance leases on terms that transfer to the group substantially all the risks and rewards of ownership are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability The interest element of finance lease rentals is charged to the income statement Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term

Leases where the group does not retain substantially all the risks and rewards of ownership of the asset are classified as operating leases Operating lease rental payments, other than contingent rentals, are recognised as an expense in the income statement on a straight line basis over the lease term

Taxation
The charge for current income tax is based on the results for the year as adjusted for items which are not taxed or are disallowed It is calculated using tax rates in legislation that has been enacted or substantively enacted by the balance sheet date

Notes to the accounts

continued

1 Accounting policies (continued)

Deferred income tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax arising from the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, is not recognised. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to shareholders' equity, in which case the deferred tax is also dealt with in shareholders' equity.

Deferred tax is an accounting entry based on the differences between the carrying amount of an asset in the accounts and its tax value ("tax base"), and is in principle intended to reflect the future tax consequences of recovery of the carrying amount. In accordance with advice from our auditors as to what was considered best practice, for the financial statements for the year ended 28 January 2006, the group determined the deferred tax on buildings on the basis that the expected manner of recovery was primarily through use. In the financial statements for the year ended 27 January 2007, in light of evolving interpretation of IAS 12 by the auditing profession, we have been advised that this "single use" basis is no longer considered appropriate and, accordingly, the group has revisited the expected manner of recovery and adopted a basis whereby the recovery of the depreciable amount through use, followed by the recovery of the residual value through disposal is used.

Accordingly, the group has changed its accounting policy to apply this "dual recovery" basis for the determination of deferred tax on buildings, which has been effected retrospectively.

This change in accounting policy has no impact on the cash flow statement nor on profit before tax, which is the income statement line after Partnership bonus, for the year ended 27 January 2007 and the year ended 28 January 2006. For the group, this change has increased taxation in the income statement by £1.6m for the year ended 27 January 2007 and increased taxation in the income statement by £5.8m for the year ended 28 January 2006. The change in accounting policy reduces non-current deferred tax liabilities and increases net assets by £105.9m at 28 January 2006 and by £111.7m at 29 January 2005.

For the company, there is a decrease in taxation in the income statement of £1.7m for the year ended 27 January 2007, and an increase of £0.6m for the year to 28 January 2006. The change in accounting policy reduces non current deferred tax liabilities and increases net assets by £19.6m at 28 January 2006 and by £20.2m at 29 January 2005.

Goodwill
Goodwill represents the excess of the cost of a business combination over the group's share of the fair value of identifiable net assets of the business acquired at the date of acquisition. Prior to February 1998 goodwill arising on the acquisition of subsidiaries was written off to reserves at the time of acquisition. The group has taken the IFRS 1 exemption in respect of the treatment of goodwill and, accordingly, goodwill on previous acquisitions has not been restated.

Intangible assets
Intangible assets, comprising both purchased and internally developed computer software, are carried at cost less accumulated amortisation and impairments. The cost of internally developed software, including all directly attributable costs necessary to produce and prepare the system for use, is capitalised where the development meets the criteria for capitalisation required by IAS 38. Internally developed software assets that are not yet in use are reviewed at each reporting date to ensure that the development still meets the criteria for capitalisation, and is not expected to become impaired or abortive. Once available for use, the purchased or internally developed software is amortised over its useful economic life, which is deemed to be between 3 and 7 years.

1 Accounting policies (continued)

Financial instruments
The group uses derivative financial instruments to manage its exposure to fluctuations in foreign currency exchange rates and interest rates Derivative instruments used by the group include interest rate swaps and forward currency contracts Such derivative financial instruments are measured at fair value The gains or losses on re-measurement are taken to the income statement The fair value of a derivative financial instrument represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the forward rates of exchange prevailing at the balance sheet date

Gains or losses on fair value hedges that are regarded as highly effective are recorded in the income statement along with the gain or loss on the hedge item attributable to the hedge risk

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity The gain or loss relating to the ineffective portion is recognised immediately in the income statement with other gains/losses Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss

In order to qualify for hedge accounting, the relationship between the item being hedged and the hedging instrument is documented in advance of entering into the hedge, and assessed to show that the hedge will be highly effective on an ongoing basis This effectiveness testing is reperformed at each period end to ensure that the hedge remains highly effective

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, the designation is revoked or it no longer qualifies for hedge accounting For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement

Borrowings
Borrowings are measured at amortised cost Where there is an effective related fair value hedge, the movement in its fair value is separately disclosed

Loan arrangement costs in respect of debt are capitalised and amortised over the life of the debt at a constant rate Finance costs are charged to the income statement, based on the effective interest rate of the associated borrowings

Insurance
The group's captive insurance company, JLP Insurance Limited, provides reinsurance of the group's employer's, public and vehicle third party liability insurances, and of the group's healthcare insurance cover It also insures ServicePlan Limited, and reinsures Landmark Insurance Company Limited, third party providers of extended warranty products to customers of John Lewis For the liability insurances, the results of each underwriting year are estimated at the year end using independent actuarial assessments, when any profits or losses arising are recognised Other classes are also accounted for on an annual basis, with unearned premiums attributed to unexpired periods of insurance at the year end

Impairment
Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to sell and value in use Value in use calculations are performed using cash flow projections, discounted at a pre-tax rate which reflects the asset specific risks and the time value of money

Exceptional items
Items which are both material and non-recurring are presented as exceptional items within their relevant consolidated income statement category The separate reporting of exceptional items helps provide an indication of the group's underlying business performance Events which may give rise to the classification of items as exceptional include gains or losses on the disposal of properties or investments, individually significant restructuring costs and asset impairments

Notes to the accounts

continued

1 Accounting policies (continued)

Provisions
Provisions are recognised when the group has an obligation in respect of a past event, it is more likely than not that payment (or a non cash settlement) will be required to settle the obligation and where the amount can be reliably estimated Provisions are discounted when the time value of money is considered material

Partnership bonus
Partnership bonus, determined in relation to the results for the previous financial year, is paid to Partners each March No provision is made for Partnership bonus at the half year as the majority of the group's profit is earned in the second half year and, until the annual profit is known, it is not possible to make an estimate of the liability A provision for this bonus is included in the year end accounts, with the amount confirmed by the Board shortly after the year end

Rent inducements
Rent inducements received are recorded in the balance sheet, and amortised over the term of the lease

Dividends
Dividends on ordinary shares are recognised in the period in which they are paid

Offsetting
Balance sheet netting only occurs to the extent that there is the legal ability and intention to settle net As such, bank overdrafts are presented in current liabilities to the extent that there is no intention to offset with any cash balances

Foreign currencies
Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction Foreign currency assets and liabilities held at the year-end are translated into sterling at the rate of exchange ruling at the balance sheet date

Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with maturities of less than 90 days In the consolidated cash flow statement, net cash and cash equivalents comprise cash and cash equivalents, as defined above, net of bank overdrafts

Trade and other receivables
Trade and other receivables are stated at amortised cost less allowances for situations where recovery is doubtful Such allowances are based on an individual assessment of each receivable

Investments
Investments are valued at cost, less allowances for impairment

Critical accounting estimates and judgements
Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

The preparation of the financial statements requires management to make estimates and assumptions concerning the future The resulting accounting estimates will, by definition, be likely to differ from the related actual results The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below

Retirement benefits
Pension accounting requires certain assumptions to be made in order to value our obligations and to determine the charges to be made to the income statement These figures are particularly sensitive to assumptions for discount rates, mortality, inflation rates and expected long-term rates of return on assets Details of assumptions are given in note 25

1 Accounting policies (continued)

Provisions
Provisions are recognised when the group has an obligation in respect of a past event, it is more likely than not that payment (or a non cash settlement) will be required to settle the obligation and where the amount can be reliably estimated. Provisions are discounted when the time value of money is considered material.

Provisions recognised at the balance sheet date are detailed in note 22 and include amounts for long leave, insurance claims, service guarantee costs, reorganisation costs, accrued holiday pay and property related costs.

Although provisions are reviewed on a regular basis and adjusted to reflect management's best current estimates the judgemental nature of these items means that future amounts settled may be different from those provided.

2 Segmental reporting

The Partnership is organised in three business segments John Lewis Retail, John Lewis Other, principally manufacturing, and Waitrose. Corporate and other costs are allocated to the business segments based on the use they make of corporate facilities and services. Segment assets and liabilities consist of operating balances for property, fixtures and fittings, inventory, receivables, trade payables and accruals. They exclude cash balances, taxation, borrowings and other non operating balances including Partnership bonus, as these are managed on a group basis. Inter-segment sales are transacted at market prices.

The business is carried on in the United Kingdom and gross sales derive almost entirely from that source. Accordingly, the group has presented no secondary segmental analysis. Gross sales and operating profit derive from continuing operations, there having been no discontinued operations or acquisitions in the year.

Notes to the accounts

continued

2 Segmental reporting (continued)

27 January 2007	John Lewis Retail £m	John Lewis Other £m	John Lewis Total £m	Waitrose £m	Unallocated £m	Group £m
Total sales	2,663 1	36 4	2,699 5	3,698 5	–	6,398 0
Inter-segment sales	–	(21 8)	(21 8)	–	–	(21.8)
Gross sales	2,663 1	14 6	2,677 7	3,698 5	–	6,376.2
Adjustments for sale or return sales	(100.7)	–	(100.7)	–	–	(100 7)
Value added tax	(374 1)	(1 8)	(375 9)	(201 2)	–	(577 1)
Revenue	2,188 3	12 8	2,201 1	3,497 3	–	5,698 4
Divisional profit	262 1	1 4	263.5	243 7	–	507.2
Corporate and other costs	(35 6)	–	(35 6)	(32 2)	–	(67 8)
Pension costs	(49 3)	(1 2)	(50 5)	(34 6)	–	(85 1)
Operating profit	177 2	0 2	177 4	176 9	–	354 3
Finance expense	–	–	–	–	(42 7)	(42 7)
Finance income	–	–	–	–	7.7	7 7
Share of operating loss of associate	–	–	–	–	(18 0)	(18 0)
Exceptional gain on dilution of interest in associate	–	–	–	–	18 0	18 0
Partnership bonus	–	–	–	–	(155 2)	(155 2)
Profit before tax	177 2	0 2	177 4	176 9	(190 2)	164 1
Taxation	–	–	–	–	(55 6)	(55 6)
Profit for the year	177 2	0 2	177.4	176.9	(245.8)	108 5
Segment assets	1,417 4	12 5	1,429.9	1,999 4	–	3,429 3
Unallocated assets						
– group cash	–	–	–	–	248 0	248 0
– other	–	–	–	–	6.5	6 5
Total assets	1,417 4	12 5	1,429 9	1,999 4	254 5	3,683 8
Segment liabilities	(364 1)	(3 2)	(367 3)	(358 1)	(269 9)	(995 3)
Unallocated liabilities						
– group borrowings	–	–	–	–	(555 7)	(555 7)
– deferred tax liabilities	–	–	–	–	(41 7)	(41.7)
– retirement benefit obligations	–	–	–	–	(441 0)	(441.0)
Total liabilities	(364 1)	(3.2)	(367.3)	(358 1)	(1,308 3)	(2,033 7)
Net assets	1,053 3	9 3	1,062.6	1,641.3	(1,053.8)	1,650.1
Other segment items						
– Depreciation	56.7	0 7	57 4	91 9	15 9	165 2
– Amortisation of intangible assets	4.4	–	4 4	6 7	3 5	14 6
– Capital expenditure – property, plant and equipment	76 9	0 5	77 4	269 2	23 1	369 7
– Capital expenditure – intangible assets	11 1	–	11 1	9 1	3 5	23.7
– Movement in provisions	18 4	(0 3)	18.1	0 7	3 0	21 8

2 Segmental reporting (continued)

28 January 2006	John Lewis Retail £m	John Lewis Other £m	John Lewis Total £m	Waitrose £m	Unallocated Restated £m	Group Restated £m
Total sales	2,407 0	35 0	2,442 0	3,341 5	–	5,783 5
Inter-segment sales	–	(19 1)	(19 1)	–	–	(19 1)
Gross sales	2,407 0	15 9	2,422 9	3,341 5	–	5,764 4
Adjustments for sale or return sales	(92 8)	–	(92 8)	–	–	(92 8)
Value added tax	(337 8)	(1 9)	(339 7)	(182 6)	–	(522 3)
Revenue	1,976 4	14 0	1,990 4	3,158 9	–	5,149 3
Divisional profit	197 6	(6 0)	191 6	231 4	–	423 0
Corporate and other costs	(29 6)	–	(29 6)	(26 3)	–	(55 9)
Pension costs	(49 5)	(1 3)	(50 8)	(34 7)	–	(85 5)
Operating profit	118 5	(7 3)	111 2	170 4	–	281 6
Finance expense	–	–	–	–	(45 4)	(45 4)
Finance income	–	–	–	–	10 5	10 5
Share of operating loss of associate	–	–	–	–	(5 6)	(5 6)
Exceptional gain on dilution of interest in associate	–	–	–	–	10 8	10 8
Partnership bonus	–	–	–	–	(120 3)	(120 3)
Profit before tax	118 5	(7 3)	111 2	170 4	(150 0)	131 6
Taxation	–	–	–	–	(42 5)	(42 5)
Profit for the year	118 5	(7 3)	111 2	170 4	(192 5)	89 1
Segment assets	1,376 2	14 2	1,390 4	1,806 5	–	3,196 9
Unallocated assets						
– group cash	–	–	–	–	282 8	282 8
– other	–	–	–	–	7 8	7 8
Total assets	1,376 2	14 2	1,390 4	1,806 5	290 6	3,487 5
Segment liabilities	(317 2)	(3 7)	(320 9)	(311 4)	(234 9)	(867 2)
Unallocated liabilities						
– group borrowings	–	–	–	–	(606 7)	(606 7)
– deferred tax liabilities	–	–	–	–	(22 0)	(22 0)
– retirement benefit obligations	–	–	–	–	(479 0)	(479 0)
Total liabilities	(317 2)	(3 7)	(320 9)	(311 4)	(1,342 6)	(1,974 9)
Net assets	1,059 0	10 5	1,069 5	1,495 1	(1,052 0)	1,512 6
Other segment items						
– Depreciation	53 4	0 7	54 1	72 9	15 3	142 3
– Amortisation of intangible assets	3 5	–	3 5	4 9	2 3	10 7
– Capital expenditure – property, plant and equipment	56 6	1 5	58 1	180 2	21 4	259 7
– Capital expenditure – intangible assets	8 1	–	8 1	10 6	9 2	27 9
– Movement in provisions	15 4	0 3	15 7	0 5	9 9	26 1

Notes to the accounts

continued

3 Operating expenses

	2007 £m	2006 £m
Branch operating expenses	**1,173.7**	1,054 2
Administrative expenses	**327 8**	322 6
Pension costs	**85 1**	85 5
	1,586.6	1,462 3

4 Net finance costs

	2007 £m	2006 £m
Finance costs		
Interest payable on		
Bank loans and overdrafts	**9 1**	8 8
Other loans repayable within 5 years	**1 4**	5 1
Loans repayable in more than 5 years	**29.5**	29 6
Finance lease interest payable	**1 6**	1 6
Amortisation of issue costs of bonds	**0 3**	0 2
Preference dividends	**0.1**	0 1
Adjustments to fair values	**0 7**	–
	42 7	45 4
Finance income		
Interest receivable	**(7.7)**	(9 8)
Adjustments to fair values	–	(0 7)
	(7 7)	(10 5)
Net finance costs	**35.0**	34 9

5 Profit on ordinary activities before taxation

	2007 £m	2006 £m
Profit on ordinary activities before taxation is stated after charging/(crediting) the following		
Staff costs (note 10)	**1,129 7**	1,033 5
Depreciation – owned assets	**164 5**	141 5
Depreciation – assets held under finance leases	**0 7**	0 8
Amortisation of intangible assets	**14.6**	10 7
(Profit)/loss on sale of tangible and intangible fixed assets	**(8.6)**	(2 9)
Inventory – cost of inventory recognised as an expense	**3,794.1**	3,438 4
Restructuring costs	**5.5**	7 5
Operating lease rentals – land and buildings	**74.7**	59 3
– plant and machinery	**0.9**	0 8
Sub lease income – land and buildings	**(4 8)**	(3 3)
Fees payable to the group's auditors in respect of audit services		
– audit of group financial statements	**0.6**	0 6
– audit of company (included in the above)	**0.2**	0 2
Fees payable to the group's auditors and its associates for other services		
– taxation services	**0.1**	0 1
– other non audit services	**0.1**	0 3

In addition to the above, the group's auditors also acted as auditors to the group's pension schemes The aggregate fee for audit services to the pension schemes during the year was £34,000 (2006 £36,000)

Contingency rents expensed during the year were £9 9m (2006 £8 8m) Contingency rents are determined based on store revenues

Notes to the accounts

continued

6 Tax on profit on ordinary activities

Analysis of tax charge	2007 £m	2006 Restated £m
Corporation tax – current year	**53 7**	50 7
Corporation tax – prior years	**(5 1)**	(0 5)
Total current tax charge	**48 6**	50 2
Deferred tax	**7 0**	(7 7)
	55 6	42 5

Tax on items charged to equity	2007 £m	2006 £m
Deferred tax on pension liability	**(12.7)**	(3 4)

The tax charge for the period is higher (2006 (restated) higher) than the standard corporation tax rate of 30% (2006 30%) The differences are explained below

	2007 £m	2006 Restated £m
Profit before tax	**164 1**	131 6
Profit before tax multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	**49 2**	39 5
Effects of		
Adjustment to current tax in respect of prior years	**(5.1)**	(0 5)
Depreciation on assets not qualifying for tax relief	**11 9**	9 0
Difference between accounting and tax base for land and buildings	**(1 8)**	(4 5)
Non-allowable share of associate company gain/loss	**(0 2)**	(1 5)
Sundry disallowables	**1 6**	0 5
Total tax charge	**55.6**	42 5

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 result dealt with in the accounts of the company amounted to £28 6m profit (2006 £8 5m loss)

8 Dividends

	2007 £m	2006 £m
Equity interests		
Ordinary shares		
(41 pence per share, 2006, 20 pence per share)	**0.3**	0 1

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

9 Directors' emoluments

	2007 £000	2006 £000
Directors' remuneration including Partnership bonus of 18% (15%)	**3,187**	2,986

The emoluments of Sir Stuart Hampson, who held the post of Chairman throughout the year to 27 January 2007 and was also the highest paid director for that year, were £833,000 (2006 £752,000), including Partnership bonus of £125,000 (2006 £96,000) For the purposes of this note, all references to the Chairman are to Sir Stuart Hampson The Chairman's aggregate pension entitlement from the age of 60 accrued at the end of the year was £455,000 per annum (2006 £430,000 per annum) The transfer value of the increase in accrued entitlement during the year was £353,000

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

	2007	2006		2007	2006
£250,001 - £300,000	**1**	–	£500,001 - £550,000	**1**	–
£350,001 - £400,000	**–**	1	£550,001 - £600,000	**–**	1
£400,001 - £450,000	**2**	2	£700,001 - £750,000	**1**	–
£450,001 - £500,000	**–**	1			

Contracts of employment for all members of the Board provide for a notice period of one year

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 They are also entitled to the use of a company car, or its cash equivalent, and private medical insurance paid by the Partnership

Six directors belong to the group's non-contributory pension scheme The Chairman and four directors 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 Following changes to pension legislation in April 2006, six directors have opted to have part of their pension benefit provided on an unfunded basis, and the group has given an undertaking that these directors will have their pensions made up to the same level as that provided by the senior pension scheme The obligation is unfunded but provision has been made for this liability

Notes to the accounts

continued

9 Directors' emoluments (continued)

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

	2007	2006		2007	2006
£50,001 - £100,000	1	1	£150,001 - £200,000	1	–
£100,001 - £150,000	2	3			

One director does not participate in the group's non-contributory pension scheme, but has an unfunded defined contribution arrangement under which the group accrued contributions of £150,000 (2006 nil) in the year

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 £503,000 per annum (2006 £422,000 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, all directors are entitled to temporary pensions payable from the age 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 £13,000 per annum (2006 £12,000 per annum) The transfer value of the aggregate increase in accrued entitlement, including temporary pensions, during the year was £490,000

10 Employees

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

Consolidated	2007	2006
John Lewis	**27,600**	26,600
Waitrose	**37,900**	35,400
Other	**1,600**	1,700
	67,100	63,700

10 Employees (continued)

Employment and related costs were as follows

Consolidated	2007 £m	2006 £m
Staff costs		
Wages and salaries	**817 6**	755 0
Social security costs	**66 2**	60 6
Partnership bonus	**138 4**	107 1
Employers national insurance on Partnership bonus	**16 8**	13 2
Pension costs	**85 1**	85 5
Partner discounts (deducted from revenue)	**19 2**	18 7
Long leave cost	**5 6**	12 1
Included above are the following amounts in respect of key management compensation		
Salaries and short term benefits	**10 7**	9 9
Pension benefits	**3 5**	3 2
Termination benefits	**–**	0 1

Key management include directors of group companies, members of the group's management boards and officers of the group Key management compensation includes salaries, national insurance costs, pension costs and the cost of other employment benefits such as company cars and private medical insurance

Key management participate in the Partnership's Long Leave scheme, which is open to all employees and provides up to six months paid leave after 25 years service There is no proportional entitlement for shorter periods of service It is not practical to allocate the cost of accruing entitlement to this benefit to individuals, and so no allowance has been made for this benefit in the amounts disclosed above

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

Company	2007	2006
John Lewis division	**27,600**	26,600
Other	**1,600**	1,700
	29,200	28,300

Notes to the accounts

continued

10 Employees (continued)

Employment and related costs were as follows

Company	2007 £m	2006 £m
Staff costs		
Wages and salaries	**408 9**	399 5
Social security costs	**36 3**	34 8
Partnership bonus	**70 9**	56 8
Employers national insurance on Partnership bonus	**8 6**	7 0
Pension costs	**49.3**	50 8
Partner discounts (deducted from revenue)	**9 8**	9 6
Long leave cost	**3 4**	7 3
Included above are the following amounts in respect of key management compensation		
Salaries and short term benefits	**7 9**	7 5
Pension benefits	**2 7**	2 5

11 Intangible assets

Consolidated	Computer software Purchased £m	Computer software Internally developed £m	Work in progress £m	Total £m
Cost				
At 29 January 2005	17 4	31 8	13 8	63 0
Additions	6 1	5 4	16 4	27 9
Transfers	–	3 5	(3 5)	–
Disposals	(2 3)	–	(0 1)	(2 4)
At 28 January 2006	21 2	40 7	26 6	88 5
Additions	2 4	5 6	15 7	23 7
Transfers	–	26 7	(26 7)	–
Disposals	–	(0 5)	–	(0 5)
At 27 January 2007	**23 6**	**72.5**	**15 6**	**111 7**
Aggregate amortisation				
At 29 January 2005	11 5	14 7	–	26 2
Charge for the year	3 0	7 7	–	10 7
Disposals	(0 6)	–	–	(0 6)
At 28 January 2006	13 9	22 4	–	36 3
Charge for the year	1 4	13 2	–	14 6
Disposals	–	(0 5)	–	(0 5)
At 27 January 2007	**15 3**	**35.1**	**–**	**50 4**
Net book value at 28 January 2006	7 3	18 3	26 6	52 2
Net book value at 27 January 2007	**8.3**	**37 4**	**15 6**	**61 3**

11 Intangible assets (continued)

For the year to January 2007 computer systems totalling £26 7m were brought into use This covered a range of selling, support, administration and IT infrastructure applications, with asset lives ranging from three to seven years

Amortisation of intangible assets is charged within operating expenses

Company	Computer software Purchased £m	Internally developed £m	Work in progress £m	Total £m
Cost				
At 29 January 2005	12 8	31 7	13 8	58 3
Additions	4 6	5 2	15 9	25 7
Transfers	–	3 5	(3 5)	–
Disposals	(2 3)	–	(0 1)	(2 4)
At 28 January 2006	15 1	40 4	26 1	81 6
Additions	2 3	5 2	14 2	21 7
Transfers	–	24 7	(24 7)	–
Disposals	–	(0 3)	–	(0 3)
At 27 January 2007	**17 4**	**70 0**	**15 6**	**103 0**
Aggregate amortisation				
At 29 January 2005	9 0	14 7	–	23 7
Charge for the year	1 7	7 7	–	9 4
Disposals	(0 5)	–	–	(0 5)
At 28 January 2006	10 2	22 4	–	32 6
Charge for the year	1 4	11 2	–	12 6
Disposals	–	(0 3)	–	(0 3)
At 27 January 2007	**11 6**	**33 3**	**–**	**44 9**
Net book value at 28 January 2006	4 9	18 0	26 1	49 0
Net book value at 27 January 2007	**5 8**	**36 7**	**15.6**	**58 1**

Notes to the accounts

continued

12 Property, plant and equipment

Consolidated	Land and buildings £m	Fixtures and fittings £m	Assets in course of construction £m	Total £m
Cost				
At 29 January 2005	2,291 3	1,055 7	81 8	3,428 8
Additions	2 0	27 3	230 4	259 7
Transfers	139 5	90 2	(229 7)	-
Disposals	(12 4)	(28 6)	-	(41 0)
At 28 January 2006	2,420 4	1,144 6	82 5	3,647 5
Additions	0 3	0 6	368 8	369 7
Transfers	184 4	121 0	(305 4)	-
Disposals	(15 0)	(75 4)	-	(90 4)
At 27 January 2007	**2,590 1**	**1,190.8**	**145.9**	**3,926 8**
Accumulated depreciation				
At 29 January 2005	247 1	606 7	-	853 8
Charges for the year	47 1	95 2	-	142 3
Disposals	(3 5)	(27 6)	-	(31 1)
At 28 January 2006	290 7	674 3	-	965 0
Charges for the year	56 9	108 3	-	165 2
Disposals	(2 1)	(70 5)	-	(72 6)
At 27 January 2007	**345 5**	**712.1**	**-**	**1,057 6**
Net book values at 28 January 2006	2,129 7	470 3	82 5	2,682 5
Net book values at 27 January 2007	**2,244 6**	**478 7**	**145 9**	**2,869 2**

Included above are land and buildings assets held under finance leases with a net book value of £22 2m (2006 £22 9m)

12 Property, plant and equipment (continued)

Company	Land and buildings £m	Fixtures and fittings £m	Assets in course of construction £m	Total £m
Cost				
At 29 January 2005	457 1	509 4	29 4	995 9
Additions	–	7 4	68 0	75 4
Transfers	30 2	42 9	(73 1)	–
Disposals	(0 4)	(16 5)	–	(16 9)
At 28 January 2006	**486.9**	**543 2**	**24 3**	**1,054 4**
Additions	0 1	0 1	67 4	67 6
Transfers	5 1	37 9	(43 0)	–
Disposals	–	(31 8)	–	(31 8)
At 27 January 2007	**492 1**	**549 4**	**48 7**	**1,090 2**
Accumulated depreciation				
At 29 January 2005	46 8	290 1	–	336 9
Charge for the year	9 7	50 9	–	60 6
Disposals	(0 2)	(16 7)	–	(16 9)
At 28 January 2006	**56 3**	**324 3**	**–**	**380.6**
Charges for the year	10 6	53 3		63 9
Disposals		(30 4)	–	(30 4)
At 27 January 2007	**66 9**	**347 2**	**–**	**414 1**
Net book values as at 28 January 2006	430 6	218 9	24 3	673 8
Net book values as at 27 January 2007	**425 2**	**202 2**	**48 7**	**676 1**

Included above are land and buildings assets held under finance leases with a net book value of £14 2m (2006 £14 4m)

Notes to the accounts

continued

13 Investment in associate

	Share of net assets £m	Loans £m	Goodwill £m	Total £m
Cost				
At 29 January 2005	(14 8)	36 5	15 1	36 8
Net repayment in year	–	(16 2)	–	(16 2)
Share of retained loss	(5 6)	–	–	(5 6)
Dilution of interest	10 8	–	–	10 8
At 28 January 2006	(9 6)	20 3	15 1	25 8
Share of post tax losses*	(18 0)	–	–	(18 0)
Dilution of interest	18 0	–	–	18 0
At 27 January 2007	**(9 6)**	**20 3**	**15 1**	**25 8**
Amounts written off				
At 28 January 2006 and 27 January 2007	**–**	**(10 7)**	**(15 1)**	**(25 8)**
Net book value				
At 28 January 2006	(9 6)	9 6	–	–
At 27 January 2007	**(9 6)**	**9.6**	**–**	**–**

The Partnership's share of the assets, liabilities and results of Ocado was as follows

	2007 £m	2006 £m
Current assets	**4 6**	4 2
Long-term assets	**19.8**	17 2
Current liabilities	**(7 9)**	(8 7)
Long-term liabilities	**(27.0)**	(30 8)
Losses not consolidated*	**0 9**	8 5
Share of net assets of associate	**(9 6)**	(9 6)
Revenue	**64 0**	50 9
Expenses	**(74.4)**	(65 0)
Losses not consolidated*	**0 9**	8 5
Share of operating loss of associate	**(9.5)**	(5 6)

* Post tax losses comprise £8 5m of losses not consolidated from the year to 28 January 2006, together with £9 5m of losses in respect of the year to 27 January 2007 As at 27 January 2007 a total of £0 9m of losses remain unconsolidated

13 Investment in associate (continued)

Investments at 27 January 2007 represent 0 1% of the Ordinary Shares and 40% of the Convertible Preference Shares of Ocado Limited which equates to 25 6% of the issued share capital

The total revenue of Ocado Limited for the year to 27 January 2007 was £243 5m Ocado's results are included in the group's accounts based on their statutory accounts to 3 December 2006, and management accounts from that date to the group's year end

Losses totalling £0 9m (2006 £8 5m) have not been included in the group's results on the basis that its investment in Ocado has been fully amortised, and is held at nil value

In March 2006 Ocado raised £60m of funding from other investors, as a result of which the Partnership's shareholding reduced to 25 6%, or 29 6% on a fully diluted basis These transactions gave rise to a credit of £18 0m on the dilution of the holding, which is recorded in the income statement as an exceptional gain for the year ended 27 January 2007

In July 2005 Ocado repaid a loan of £17 7m, and the Partnership invested a further £1 5m in Ocado Unsecured Convertible Redeemable loan stock 2009 During the year ended 28 January 2006 preference shares were issued to other investors providing funding and, as a result, the Partnership's holding reduced from 32 5% to 29 4% of the issued share capital These transactions gave rise to a credit of £10 8m on the dilution of the holding, which is recorded in the income statement as an exceptional gain for the year ended 28 January 2006

The Partnership's holdings of Ocado loan stock are

- £12 3m of B loan stock, repayable in 2010, or earlier at Ocado's option Conversion to preference shares is at the Partnership's option in 2010 or on earlier repayment of the loan stock, or in the event of Ocado issuing new shares to other investors,
- £8 6m of C loan stock, repayable in 2011, or earlier at Ocado's option Conversion to preference shares is on the same basis as for the B loan stock,
- £1 5m of Unsecured Convertible Redeemable loan stock 2009, repayable in March 2007, which has now been extended to March 2009 at the Partnership's option Conversion to preference shares is at the Partnership's option at any time

There is no interest payable on the B and C loan stock Interest of 4% is payable on redemption of the Unsecured Convertible Redeemable Loan Stock 2009, but no interest is payable if conversion to preference shares takes place

If all holders of loan stock were to exercise their rights to convert to preference shares, the Partnership's holding in Ocado would increase to 29 6%

In March 2007 Ocado raised a further £30m of funding from other investors, following which the Partnership's shareholding reduced to 24 1%, or 28 0% on a fully diluted basis

Notes to the accounts

continued

14 Investments

Company	Shares in group companies £m	Loans to group companies £m	Shares in associate company £m	Loan to associate company £m	Total £m
At 28 January 2006	80 1	751 0	45 8	9 6	886 5
Movements	1 6	92 3	–	–	93 9
At 27 January 2007	**81 7**	**843.3**	**45 8**	**9 6**	**980 4**

A list of subsidiary undertakings is provided in note 34

15 Inventories

	2007 £m	2006 £m
Consolidated		
Raw materials	**6 2**	6 4
Work in progress	**1 4**	1 6
Finished goods and goods for resale	**342 0**	316 3
	349.6	324 3
Company		
Raw materials	**3.6**	3 1
Finished goods and goods for resale	**212 1**	193 7
	215 7	196 8

The cost of inventory recognised as an expense by the group in the period was £3,794 1m (2006 £3,438 4m) Provisions against inventories of £3 7m (2006 £4 1m) were recognised in operating expenses

16 Trade and other receivables

Consolidated	2007 £m	2006 £m
Current		
Trade receivables	**47 3**	36 1
Other receivables	**27 6**	33 9
Due from associated undertaking	**4 6**	5 4
Prepayments	**55 0**	45 8
	134 5	121 2
Non-current		
Other receivables	**18 2**	18 2
Prepayments	**1 5**	2 2
	19.7	20 4

Company		
Current		
Trade receivables	**2.7**	4 7
Other receivables	**17 9**	20 2
Prepayments	**29 8**	24 3
	50 4	49 2
Non-current		
Other receivables	**18.2**	18 2
Prepayments	**1 5**	2 2
	19 7	20 4

Trade receivables are non interest bearing and generally on credit terms of less than 90 days Concentrations of credit risk are considered to be very limited The carrying amount of trade and other receivables approximates to fair value

17 Cash and cash equivalents

Consolidated	2007 £m	2006 £m
Cash at bank and in hand	**77 6**	71 9
Short term bank deposits	**170.4**	210 9
	248 0	282 8

Company		
Cash at bank and in hand	**25 2**	10 1
Short term bank deposits	**144.0**	186 0
	169 2	196 1

For the year ended 27 January 2007, the effective interest rate on short-term deposits was 4 7% (2006 4 3%) and these deposits had an average maturity of 2 days (2006 1 day)

Notes to the accounts

continued

17 Cash and cash equivalents (continued)

In the group and company cash flow statements net cash and cash equivalents are shown after deducting bank overdrafts, as follows

Consolidated	2007 £m	2006 £m
Cash and cash equivalents, as above	**248 0**	282 8
Less bank overdrafts	**(51 9)**	(50 3)
Net cash and cash equivalents	**196 1**	232 5
Company		
Cash and cash equivalents, as above	**169 2**	196 1
Less bank overdrafts	**(51 7)**	(50 0)
Net cash and cash equivalents	**117.5**	146 1

18 Analysis of financial assets

The currency and interest rate exposure of the group's financial assets is as set out below Short term debtors are excluded from this analysis, on the basis that they are all non interest bearing and denominated in sterling

Interest rate and currency analysis	Effective interest rate %	Floating rate £m	Non interest bearing £m	Total £m
Sterling	4 7%	235 4	47 5	282 9
Euro	2 0%	0 9	–	0 9
Other	4 3%	3 0	–	3 0
At 27 January 2007		239 3	47 5	286 8
Sterling	4 6%	271 6	48 9	320 5
Euro	1 2%	1 6	–	1 6
Other	2 7%	1 4	–	1 4
At 28 January 2006		274 6	48 9	323 5

Floating rate assets are bank balances, short term deposits and loans to Ocado Limited at interest rates linked to LIBOR Non interest bearing balances include interest free loans to Ocado Limited, prepaid rent and cash floats, primarily held in the stores

19 Borrowings and overdrafts

Consolidated	2007 £m	2006 £m
Current		
Bank overdraft	**51 9**	50 3
10¼% Bonds, 2006	**–**	50 0
Loans, repayable 2007	**100 0**	–
	151 9	100 3
Non-current		
Loans, repayable 2007	**–**	100 0
6⅞% Bonds, 2012	**300 0**	300 0
Interest rate swap on the above	**1 5**	4 1
10½% Bonds, 2014	**100 0**	100 0
5% First Cumulative Preference Stock	**1 5**	1 5
7% Cumulative Preference Stock	**0 8**	0 8
	403 8	506 4

Company	2007 £m	2006 £m
Current		
Bank overdraft	**51 7**	50 0
10¼% Bonds, 2006	**–**	50 0
Loans, repayable 2007	**100.0**	–
	151 7	100 0
Non-current		
Loans, repayable 2007	**–**	100 0
6⅞% Bonds, 2012	**300 0**	300 0
Interest rate swap on the above	**1 5**	4 1
10½% Bonds, 2014	**100.0**	100 0
5% First Cumulative Preference Stock	**1 5**	1 5
7% Cumulative Preference Stock	**0 8**	0 8
	403 8	506 4

All borrowings are unsecured, denominated in sterling, and are repayable on the dates shown at par

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, the holders of preference stock have one vote for every ten shares, whereas the holders of ordinary shares have one vote for every ordinary share held 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

Notes to the accounts

continued

20 Trade and other payables

Consolidated	2007 £m	2006 £m
Current		
Trade payables	**326 3**	309 5
Amounts owed to parent undertaking	**1 8**	1 7
Amounts owed to associated undertaking	**5 6**	2 0
Other payables	**78 9**	64 3
Other taxation and social security	**120 0**	91 2
Accruals	**89.4**	70 8
Deferred income	**3 3**	14 2
Partnership bonus	**138 4**	107 1
	763 7	660 8
Non-current		
Accruals	**2 0**	2 2
Deferred income	**35 0**	26 8
	37 0	29 0
Company		
Current		
Trade payables	**135 4**	130 4
Amounts owed to parent undertaking	**1 8**	1 7
Amounts owed to group companies	**279 4**	256 2
Other payables	**55.1**	35 1
Other taxation and social security	**94 9**	74 9
Accruals	**54 5**	48 9
Deferred income	**2.9**	13 4
Partnership bonus	**136.8**	105 5
	760.8	666 1
Non-current		
Accruals	**2.0**	2 2
Deferred income	**32.9**	25 1
	34.9	27 3

The carrying amount of trade and other payables approximates to fair value

21 Finance lease liabilities

Consolidated	2007 £m	2006 £m
The minimum lease payments under finance leases fall due as follows		
Not later than one year	**2 2**	2 4
Later than one year but not more than five	**8.6**	9 5
More than five years	**57 1**	57 6
	67 9	69 5
Future finance charge on finance leases	**(36.3)**	(36 8)
Present value of finance lease liabilities	**31.6**	32 7
Of which		
Current	**1.3**	0 8
Non-current	**30 3**	31 9

Company	2007 £m	2006 £m
The minimum lease payments under finance leases fall due as follows		
Not later than one year	**0 5**	0 6
Later than one year but not more than five	**2 0**	2 4
More than five years	**27 3**	27 9
	29.8	30 9
Future finance charge on finance leases	**(14 4)**	(14 8)
Present value of finance lease liabilities	**15 4**	16 1
Of which		
Current	**0 1**	0 3
Non-current	**15 3**	15 8

The group's finance lease liabilities relate to buildings that have been classified as finance leases in accordance with IAS 17, Leases

Notes to the accounts

continued

22 Provisions

Consolidated	Long leave £m	Other £m	Total £m
At 28 January 2006	70 0	51 2	121 2
Charged to income statement	5 6	41 4	47 0
Utilised	(3 9)	(21 3)	(25 2)
At 27 January 2007	**71 7**	**71 3**	**143 0**
Of which			
Current	19 6	32 6	52 2
Non-current	52 1	38 7	90 8

Company	Long leave £m	Other £m	Total £m
At 28 January 2006	70 0	33 3	103 3
Charged to income statement	5 6	34 2	39 8
Utilised	(3 9)	(15 8)	(19 7)
At 27 January 2007	**71 7**	**51 7**	**123.4**
Of which			
Current	19 6	25 2	44 8
Non-current	52 1	26 5	78 6

The Partnership has a Long Leave scheme, open to all employees, that provides up to six months paid leave after 25 years service There is no proportional entitlement for shorter periods of service The provision for the scheme is assessed on an actuarial basis, reflecting employees' expected service profiles, and using economic assumptions consistent with those used for the group's retirement benefit obligations (note 25), so as to accrue the cost over employees' service periods

Other provisions include insurance claim provisions, where the group's liabilities are assessed on an actuarial basis, provisions for service guarantee costs, which reflect the expected failure rate and unit repair costs for the classes of goods sold, reorganisation costs, accrued holiday pay, and property related costs The exact timing of utilisation of these provisions will vary according to the individual circumstances However, the group's best estimate of utilisation is provided above, and in note 26

23 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% (2006 30%)

The movement on the deferred tax account is shown below

Consolidated	2007 £m	2006 £m
Opening liability, as reported		138 0
Deferred tax restatement		(111 7)
Opening liability, as restated	22 0	26 3
Charged/(credited) to income statement	7 0	(7 7)
Charged/(credited) to equity	12 7	3 4
Closing liability	41 7	22 0

Company	2007 £m	2006 £m
Opening asset, as reported		(63 2)
Deferred tax restatement		(20 2)
Opening asset, as restated	(92 7)	(83 4)
Charged/(credited) to income statement	(1 5)	(12 7)
Charged/(credited) to equity	12 7	3 4
Closing asset	(81 5)	(92 7)

The movements in deferred tax assets and liabilities during the period (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) are shown below

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net

Deferred tax liabilities – consolidated	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Rollover gains £m	Other £m	Total £m
At 29 January 2005, as reported	144 7	127 2	19 7	12 1	303 7
Deferred tax restatement	–	(102 9)	–	–	(102 9)
At 29 January 2005, as restated	144 7	24 3	19 7	12 1	200 8
Charged/(credited) to income statement	11 3	(1 0)	0 2	(10 8)	(0 3)
At 28 January 2006	156 0	23 3	19 9	1 3	200 5
Charged/(credited) to income statement	8 0	–	4 3	–	12 3
At 27 January 2007	**164 0**	**23 3**	**24 2**	**1 3**	**212 8**

Notes to the accounts

continued

23 Deferred tax (continued)

Deferred tax assets – consolidated	Capital gains tax on land and buildings £m	Pensions and provisions £m	Capital losses £m	Total £m
At 29 January 2005, as reported	–	(163 8)	(1 9)	(165 7)
Deferred tax restatement	(8 8)	–	–	(8 8)
At 29 January 2005, as restated	(8 8)	(163 8)	(1 9)	(174 5)
Charged/(credited) to income statement	(3 2)	(4 2)	–	(7 4)
Charged/(credited) to equity	–	3 4	–	3 4
At 28 January 2006	(12 0)	(164 6)	(1 9)	(178 5)
Charged/(credited) to income statement	(3 1)	(2 8)	0 6	(5 3)
Charged/(credited) to equity	–	12 7	–	12 7
At 27 January 2007	**(15 1)**	**(154 7)**	**(1 3)**	**(171 1)**

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future profits is probable The group did not recognise deferred tax assets in respect of losses amounting to £25 5m (2006 £24 2m)

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax provision at 27 January 2007 was £41 7m (2006 restated £22 0m) The deferred tax liability due after more than one year is £41 7m (2006 restated £22 0m)

The deferred income tax charged/(credited) to equity during the year is as follows

	2007 £m	2006 £m
Deferred tax charged on pension fund provision	**12 7**	3 4

24 Fair values of financial instruments

Management of financial risks
The principal financial risks that the group is exposed to are interest rate risk, liquidity risk, currency risk and credit risk These risks are managed as follows

Interest rate risk
The group's policy is to have a suitable mix of fixed and floating interest rate exposures in order to manage the risk of interest rate fluctuations on borrowings At the year end total fixed rate financial liabilities were £402 3m (2006 £402 3m), with £185 0m (2006 £237 1m) at floating rates, as detailed in note 26 Exposures to interest rate fluctuations are managed using interest rate swaps At the year end interest rate swaps were used to convert £50 0m (2006 £50 0m) of fixed rate borrowings to floating rate These swaps have a maturity and payment profile which matches the underlying debt, with a remaining term of 5 years, expiring in January 2012, and have been accounted for as fair value hedges

24 Fair values of financial instruments (continued)

Liquidity risk
Borrowing requirements are managed in line with a five year cash forecast, revised annually, and reviewed against the group's debt portfolio and maturity profile At the year end the group had committed revolving borrowings facilities of £475m (2006 £490m), £230m of which is available to February 2010 and £245m to December 2008 In addition to these facilities, the group has a £100m (2006 £100m) loan, repayable in December 2007, together with bonds totalling £400m, £300m of which matures in 2012, and £100m in 2014 These loans are not subject to repricing, and have interest rates and maturity profiles as set out in note 26

Currency risk
The group uses derivatives to manage exposures to movements in exchange rates, and forward exchange contracts are entered into for all major exposures At the year end £7 7m (2006 £5 8m) of a total of £8 0m (2006 £6 1m) of liabilities denominated in foreign currency were covered in this way In addition, forward exchange contracts had been entered into for £12 1m (2006 £12 6m) of commitments under forward orders

Credit risk
The group has no significant customer credit risk Cash deposits and other financial instruments give rise to credit risk on the amounts due from bank counterparties These risks are managed by restricting such transactions to approved banks, and limiting the aggregate exposure to any one counterparty according to their credit rating The group holds convertible loan stock in its associate company, Ocado Limited, with a book value of £9 6m

Fair value of derivative financial instruments	2007 Assets £m	2007 Liabilities £m	2006 Assets £m	2006 Liabilities £m
Interest rate swap – fair value hedge	1 5	–	4 1	–
Forward currency contracts – fair value hedge	–	(1 1)	–	(0 1)

	2007 £m	2006 £m
Gain/(loss) recorded in income statement	(0.7)	0 7

Details of these swaps are set out below

Currency	Amount	Fixed rate	Floating rate	Maturity
Sterling	£25m	6⅜%	LIBOR +77pts	30 January 2012
Sterling	£25m	6⅜%	LIBOR +77pts	30 January 2012

Notes to the accounts

continued

24 Fair values of financial instruments (continued)

The fair values of the group's bonds and preference stock, which have been determined by reference to market price quotations, are shown below For cash, provisions, and other financial liabilities book values approximate to fair value

	2007 £m	2006 £m
Bonds – current	–	50 7
Bonds – non-current	**429 2**	457 6
Preference stock	**2.5**	2 1

25 Retirement benefit obligations

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 an independent professionally qualified actuary as at 31 March 2004, 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 3 1% and 4 2% respectively The market value of the assets of the fund as at 31 March 2004 was £1,094m The actuarial valuation of these assets showed that they were sufficient to cover 85% of the benefits which had accrued to members

The actuaries have recommended a normal future contribution rate of 8 2% of total pay, together with an additional 1 8% of total pay in respect of the past-service deficit arising from the actuarial valuation The next actuarial valuation of the fund will take place as at 31 March 2007

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 contribution of £2 0m for the year to 26 January 2008, increasing at 6% annually, with an additional charge for new entrants to the scheme

The contributions expected to be paid to the pension schemes during the year to 26 January 2008 amount to £91 7m

Pension commitments have been calculated based on the most recent actuarial valuations, as at 31 March 2004, which have been updated by the actuaries to assess the assets and liabilities of the schemes as at 27 January 2007

25 Retirement benefit obligations (continued)

Scheme assets are stated at market values at 27 January 2007. The following financial assumptions have been used.

	2007	2006	2005	2004
Future price inflation	**2.95%**	2.75%	2.70%	2.60%
Discount rate	**5.30%**	4.80%	5.40%	5.60%
Expected return on assets	**7.30%**	7.25%	7.50%	7.50%
Increases in earnings	**3.95%**	3.75%	3.70%	4.10%
Increases in pensions	**2.95%**	2.75%	2.70%	2.60%

The expected return on assets is a weighted average of the individual asset categories and their expected rates of return, which are determined by consideration of historical experience and current market factors. Increases in earnings are projected at 1% above inflation, with increases in pensions being in line with inflation.

For 2007 the post-retirement mortality assumptions used in valuing the pensions liabilities were based on the "00" series standard tables for all retirements. These were then adjusted in line with the actual experience of the John Lewis pensioner population relative to the standard rates. It is assumed that younger members will live longer in retirement than older members. This reflects the expectation that mortality rates will continue to fall over time. For 2006 mortality table PXA92, adjusted to reflect improvements in longevity to the year 2010, was used for current pensioners and the same table, adjusted to reflect improvements in longevity to the year 2020, was used for scheme members who have yet to retire.

The average life expectancies assumed were as follows:

	2007		2006	
	Men	**Women**	Men	Women
Average life expectancy (in years) for a 60-year-old	**25.0**	**27.6**	23.5	26.5
Average life expectancy (in years) at age 60, for a 40-year-old	**26.3**	**29.1**	24.4	27.4

Amounts recognised in the balance sheet	2007 £m	2006 £m	2005 £m
Defined benefit obligation for funded arrangements	**(2,237.0)**	(2,096.0)	(1,757.0)
Defined benefit obligation for unfunded arrangements	**(14.0)**	(13.0)	(9.0)
Total defined benefit obligation	**(2,251.0)**	(2,109.0)	(1,766.0)
Total value of assets	**1,810.0**	1,630.0	1,281.0
Defined benefit liability at end of year	**(441.0)**	(479.0)	(485.0)

Notes to the accounts

continued

25 Retirement benefit obligations (continued)

Amounts recognised in the income statement	Year ended 27 January 2007 £m	Year ended 28 January 2006 £m
Current service cost	**100 4**	87 8
Interest cost on liabilities	**102 7**	93 7
Expected return on assets	**(119 4)**	(97 3)
Pension expense	**83 7**	84 2
Administrative costs	**1 4**	1 3
Total pension charge	**85 1**	85 5

Amounts recognised in equity	Year ended 27 January 2007 £m	Year ended 28 January 2006 £m
Actuarial (gain)/loss on assets	**(43 7)**	(233 8)
Actuarial (gain)/loss on defined benefit obligation	**1 5**	222 1
Total (gain)/loss recognised in equity	**(42 2)**	(11 7)
Cumulative (gain)/loss recognised in equity	**5 6**	47 8

Reconciliation of defined benefit liability	2007 £m	2006 £m
Defined benefit liability at beginning of year	**(479 0)**	(485 0)
Pension expense	**(83 7)**	(84 2)
Contributions	**79 5**	78 5
Total gain/(loss) recognised in equity	**42 2**	11 7
Defined benefit liability at end of year	**(441.0)**	(479 0)

Reconciliation of defined benefit obligation	2007 £m	2006 £m
Defined benefit obligation at the beginning of year	**2,109 0**	1,766 0
Current service cost	**100 4**	87 8
Interest on pension liabilities	**102 7**	93 7
Actuarial (gains)/losses	**1.5**	222 1
Benefits paid	**(62 6)**	(60 6)
Defined benefit obligation at the end of year	**2,251 0**	2,109 0

25 Retirement benefit obligations (continued)

Reconciliation of value of assets	2007 £m	2006 £m
Value of assets at the beginning of year	**1,630 0**	1,281 0
Expected return on assets	**119 4**	97 3
Actuarial gains/(losses)	**43 7**	233 8
Benefits paid	**(62.6)**	(60 6)
Partnership contributions	**79 5**	78 5
Value of assets at the end of year	**1,810 0**	1,630 0

Analysis of assets	2007 %	2007 £m	2006 %	2006 £m
Equities	**69**	**1,254 0**	71	1,165 0
Bonds	**16**	**285 0**	15	246 0
Properties	**14**	**256 0**	12	191 0
Other assets	**1**	**15 0**	2	28 0
		1,810 0		1,630 0

Actual return on assets	2007 £m	2006 £m
Expected return on assets	**119 4**	97 3
Actuarial gains/(losses)	**43 7**	233 8
Actual return on assets	**163 1**	331 1

History of experience of gains and losses	2007 £m	2006 £m	2005 £m
(Gain)/loss on assets	**(43.7)**	(233 8)	(91 5)
% of assets at the end of the period	**2%**	(14%)	(7%)
Experience (gain)/loss on defined benefit obligation	**1 5**	10 0	72 0
% of defined benefit obligation at the end of the period	**0%**	0%	4%

Contributions will be as follows until the next actuarial valuations due as at 31 March 2007

The John Lewis Partnership Trust for Pensions – 10% of pay

The John Lewis Partnership Senior Pension Scheme – £2 0m for the year to January 2008, increasing at 6% annually, with an additional charge for new entrants to the scheme

Notes to the accounts

continued

26 Analysis of financial liabilities

The currency and interest rate exposure of the group's financial liabilities, after taking account of £50m of swaps from fixed rate to floating rate, is as set out below. Short term payables are excluded from this analysis.

Interest rate and currency analysis	Fixed rate £m	Floating rate £m	Non interest bearing £m	Total £m
All sterling				
At 28 January 2006	402.3	237.1	121.2	760.6
At 27 January 2007	**402.3**	**185.0**	**143.0**	**730.3**

Maturity of financial liabilities	2007 Effective interest rate	2007 £m	2006 Effective interest rate	2006 £m
Repayable in one year				
Bank overdrafts and other borrowing	**5.2%**	**51.9**	5.1%	50.3
Provisions		**52.2**		44.5
Property finance leases	**7.6%**	**1.3**	7.6%	0.8
Bonds		**–**	10.3%	50.0
Loans	**5.2%**	**100.0**		–
		205.4		145.6
Repayable between one and two years				
Provisions		**19.0**		16.8
Property finance leases	**7.6%**	**1.1**	7.6%	1.1
Loans		**–**	5.2%	100.0
		20.1		117.9
Repayable between two and five years				
Provisions		**36.0**		24.9
Property finance leases	**7.6%**	**2.0**	7.6%	2.0
		38.0		26.9
Repayable in more than five years				
Provisions		**35.8**		35.0
Property finance leases	**7.6%**	**27.2**	7.6%	28.8
Bonds	**7.4%**	**400.0**	7.4%	400.0
Interest rate swap		**1.5**		4.1
Preference stock	**5.6%**	**2.3**	5.6%	2.3
		466.8		470.2
		730.3		760.6

27 Share capital

	2007 £m	2006 £m
Authorised, issued and fully paid		
Equity		
Ordinary shares		
6,750,000 of £1 each	**6 7**	6 7
	6 7	6 7

28 Reconciliation of changes in equity

Consolidated	Share capital £m	Share premium £m	Capital reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 29 January 2005, as reported	6 7	1 1	1 4	–	1,294 4	1,303 6
Deferred tax restatement	–	–	–	–	111 7	111 7
Balance at 29 January 2005, as restated	6 7	1 1	1 4	–	1,406 1	1,415 3
Profit for the year	–	–	–	–	89 1	89 1
Transfers	–	(0 2)	–	–	0 2	–
Actuarial gains	–	–	–	–	11 7	11 7
Tax on items recognised in equity	–	–	–	–	(3 4)	(3 4)
Dividends	–	–	–	–	(0 1)	(0 1)
Balance at 28 January 2006	6 7	0 9	1 4	–	1,503 6	1,512 6
Profit for the year	–	–	–	–	108 5	108 5
Transfers	–	(0 3)	–	–	0 3	–
Actuarial gains	–	–	–	–	42 2	42 2
Tax on items recognised in equity	–	–	–	–	(12 7)	(12 7)
Net loss on cash flow hedges	–	–	–	(0 2)	–	(0 2)
Dividends	–	–	–	–	(0 3)	(0 3)
Balance at 27 January 2007	**6 7**	**0 6**	**1 4**	**(0 2)**	**1,641 6**	**1,650 1**

The cumulative amount of goodwill written off to reserves is £10 9m (2006 £10 9m) Retained earnings comprise £1,202 7m (2006 £1,056 0m) of distributable and £438 9m (2006 £447 6m) of non distributable reserves

Transfers relate to the amortisation of issue costs in respect of the 2012 bond

Notes to the accounts

continued

28 Reconciliation of changes in equity (continued)

Company	Share capital £m	Share premium £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 29 January 2005, as reported	6 7	1 1	–	255 7	263 5
Deferred tax restatement	–	–	–	20 2	20 2
Balance at 29 January 2005, as restated	6 7	1 1	–	275 9	283 7
Loss for the year	–	–	–	(8 5)	(8 5)
Transfers	–	(0 2)	–	0 2	–
Actuarial gains	–	–	–	11 7	11 7
Tax on items recognised in equity	–	–	–	(3 4)	(3 4)
Dividends	–	–	–	(0 1)	(0 1)
Balance at 28 January 2006	6 7	0 9	–	275 8	283 4
Profit for the year	–	–	–	28 6	28 6
Transfers	–	(0 3)	–	0 3	–
Actuarial gains	–	–	–	42 2	42 2
Tax on items recognised in equity	–	–	–	(12 7)	(12 7)
Net loss on cash flow hedges	–	–	(0 2)	–	(0 2)
Dividends	–			(0 2)	(0 2)
Balance at 27 January 2007	**6 7**	**0 6**	**(0 2)**	**334.0**	**341.1**

The cumulative amount of goodwill written off to reserves is £10 9m (2006 £10 9m)

29 Reconciliation of profit before tax to cash generated from operations

Consolidated	Year to 27 January 2007 £m	Year to 28 January 2006 £m
Profit before tax	**164 1**	131 6
Amortisation of intangible assets	**14.6**	10 7
Depreciation	**165 2**	142 3
Net finance costs	**35.0**	34 9
Net gain in respect of associate	**–**	(5 2)
Partnership bonus provision	**155 2**	120 3
(Profit)/loss on disposal of property, plant and equipment	**(8 6)**	(2 9)
(Increase)/decrease in inventories	**(25 3)**	15 0
(Increase)/decrease in receivables	**(12 7)**	(21 3)
Increase/(decrease) in payables	**74 4**	27 9
Increase/(decrease) in retirement benefit obligations	**4.2**	5 7
Increase/(decrease) in provisions	**21 8**	24 7
Cash generated from operations	**587 9**	483 7

29 Reconciliation of profit before tax to cash generated from operations (continued)

Company	Year to 27 January 2007 £m	Year to 28 January 2006 £m
Profit/(loss) before tax	**36 8**	(7 1)
Amortisation of intangible assets	**12 6**	9 4
Depreciation	**63 9**	60 6
Net finance costs	**33 8**	33 7
Partnership bonus provision	**79 5**	63 8
(Profit)/loss on disposal of property, plant and equipment	**0 9**	0 9
(Increase)/decrease in inventories	**(18.9)**	8 8
(Increase)/decrease in receivables	**(0 6)**	(9 0)
Increase/(decrease) in payables	**42 2**	30 5
Increase/(decrease) in retirement benefit obligations	**4.2**	5 7
Increase/(decrease) in provisions	**20 1**	23 1
Cash generated from operations	**274 5**	220 4

30 Reconciliation of net cash flow to net debt

Consolidated	Year to 27 January 2007 £m	Year to 28 January 2006 £m
Increase/(decrease) in cash in the year	**4.1**	(17 9)
Cash (inflow)/outflow from debt and lease financing	**50 0**	(20 0)
Cash (inflow)/outflow from liquid resources	**(40 5)**	95 9
Movement in debt for the year	**13 6**	58 0
Opening net debt	**(323 9)**	(381 9)
Non cash movements	**2 6**	-
Closing net debt	**(307 7)**	(323 9)

31 Commitments and contingent liabilities

At 27 January 2007 contracts had been entered into for future capital expenditure of £49 1m (2006 £24 2m) for the group, and £32 7m (2006 £8 3m) for the company

John Lewis plc has entered into lease guarantees in favour of the group's associate company, Ocado Limited, of £6 8m (2006 £6 8m)

Notes to the accounts

continued

32 Operating lease commitments

Future aggregate minimum lease payments under non-cancellable operating leases, payable	2007 Land and buildings £m	2007 Plant and machinery £m	2006 Land and buildings £m	2006 Plant and machinery £m
Consolidated				
Within one year	**70 4**	**0 4**	60 4	0 6
Later than one year and less than five years	**267 1**	**0 5**	225 2	0 7
After five years	**1,580 6**	**-**	1,378 0	-
Company				
Within one year	**24.9**	**0 3**	21 9	0 5
Later than one year and less than five years	**90 6**	**0 4**	74 6	0 6
After five years	**806 0**	**-**	657 1	-

Amounts payable after five years comprise the following	2007 Land and buildings £m	2006 Land and buildings £m
Consolidated		
Later than five years and less than ten years	**292 7**	248 8
Later than ten years and less than twenty years	**394 1**	336 9
Later than twenty years and less than forty years	**285 8**	232 6
Later than forty years and less than eighty years	**283 8**	242 7
After eighty years	**324 2**	317 0
	1,580.6	1,378 0
Company		
Later than five years and less than ten years	**96.8**	80 0
Later than ten years and less than twenty years	**147 1**	111 3
Later than twenty years and less than forty years	**158.3**	110 8
Later than forty years and less than eighty years	**133 2**	93 6
After eighty years	**270.6**	261 4
	806 0	657 1

Total future sub-lease payments receivable relating to the above operating leases amounted to £12 4m (2006 £13 6m) for the group, and £2 5m (2006 £2 8m) for the company

33 Related party transactions

During the year John Lewis plc entered into transactions with other group companies in respect of credit card acquisition charges £nil (2006 £34 8m), the supply of goods for resale and associated services £17 9m (2006 £23 2m), purchase of goods for resale £18 7m (2006 £17 4m), the supply of IT and related services £21 2m (2006 £19 3m), and the hire of vehicles £6 9m (2006 £8 4m)

In addition, John Lewis plc settled other transactions on behalf of group companies for administrative convenience, such as payroll and supplier settlement All such transactions were charged at cost to the relevant group company It is not practical to quantify these non trading recharges

During the year the group entered into transactions with its associate company, Ocado Limited, for the supply of goods at cost totalling £48 8m (2006 £49 8m), provision of distribution and other services totalling £1 2m (2006 £2 1m) and interest charges of £nil (2006 £2 8m) Included within trade and other receivables is a balance of £4 6m (2006 £5 4m) due from Ocado Limited in respect of these transactions Included within trade and other payables is a balance of £5 6m (2006 £2 0m) due to Ocado in connection with the supply of goods

34 Subsidiary and associated undertakings

Principal subsidiary companies as at 27 January 2007 were as follows
Findlater Mackie Todd & Co Limited *(Wholesale including export, subsidiary of Waitrose Limited)*
Herbert Parkinson Limited *(Weaving and making up)*
J H Birtwistle & Company, Limited *(Textile weaving)*
JLP Holdings BV *(Investment holding company, incorporated in Holland, subsidiary of JLP Victoria Limited)*
JLP Insurance Limited *(Insurance, incorporated and operating in Guernsey)*
JLP Victoria Limited *(Investment holding company)*
John Lewis Car Finance Limited *(Car finance)*
John Lewis Properties plc *(Property holding company)*
John Lewis Transport Limited *(Vehicle leasing)*
Stead, McAlpin & Company, Limited *(Textile printing)*
Waitrose Limited *(Food retailing)*

Associate company
Ocado Limited *(e-commerce grocery, year end November)*

The whole of the ordinary share capital of the subsidiaries of John Lewis plc is held within the group The list excludes non-trading companies which have no material effect on the accounts of the group Except as noted above, all of these subsidiaries operate wholly or mainly in the United Kingdom and are registered in England and Wales

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 and Wales

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 that disclose with reasonable accuracy at any time the financial position of the company and the group, and which enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS regulation. They are also responsible for safeguarding the assets of the group and hence for taking steps for preventing and detecting fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of John Lewis plc

We have audited the group and parent company financial statements (the "financial statements") of John Lewis plc for the year ended 27 January 2007 which comprise the group income statement, the group and company balance sheets, the group and company cash flow statements, the group and company statements of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS regulation. We also report to you whether, in our opinion, the directors' report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referred from the Principal Activity and Business Review section of the Directors' Report. We also report to you if in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement and the Business Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company'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 the presentation of information in the financial statements.

Independent auditors' report to the members of John Lewis plc *continued*

Opinion

In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 27 January 2007 and of its profit and cash flows for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the company's affairs as at 27 January 2007 and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS regulation, and
- the information given in the directors' report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
and Registered Auditors

1 Embankment Place
London WC2N 6RH
30 April 2007

Retail branches

Department Stores

London	Southern England	Midlands, East Anglia, Northern England and Scotland
John Lewis, Oxford Street	John Lewis, Bluewater	John Lewis, Aberdeen
John Lewis, Brent Cross	John Lewis, Cribbs Causeway	John Lewis, Cheadle
Peter Jones, Sloane Square	John Lewis, High Wycombe	John Lewis, Edinburgh
	John Lewis, Kingston	John Lewis, Glasgow
	John Lewis, Milton Keynes	John Lewis, Liverpool
	John Lewis, Reading	John Lewis, Newcastle
	John Lewis, Southampton	John Lewis, Norwich
	John Lewis, Watford	John Lewis, Nottingham
	John Lewis, Welwyn	John Lewis, Peterborough
	Knight & Lee, Southsea	John Lewis, Sheffield
		John Lewis, Solihull
		John Lewis, Trafford
		Robert Sayle, Cambridge

Waitrose Supermarkets

London

Balham	Brent Cross	Finchley	Kensington	St Katharine Docks	Whetstone
Barbican	Canary Wharf	Fulham	Marylebone	Swiss Cottage	
Barnet	Chelsea	Gloucester Road	Mill Hill	Temple Fortune	
Belgravia	East Sheen	Harrow Weald	Putney	Wandsworth	
Bloomsbury	Enfield	Holloway Road	South Harrow	West Ealing	

Southern England

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

Midlands, East Anglia, Wales, Northern England and Scotland

Abergavenny	Droitwich	Harrogate	Newark	Saffron Walden	Willerby
Barry	Durham	Hexham	Newmarket	Sandbach	Wilmslow
Blaby	Ely	Huntingdon	Newport	Sheffield	Wolverhampton
Bury St Edmunds	Evington	Kingsthorpe	Norwich	St Ives	Wymondham
Buxton	Formby	Lichfield	Otley	St Neots	
Cambridge	Four Oaks	Lincoln	Parkstone	Stourbridge	
Comely Bank	Great Malvern	Monmouth	Peterborough	Sudbury	
Daventry	Hall Green	Morningside	Rushden	Swaffham	

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

John Lewis Direct *Internet retail*

Waitrose Direct (including Findlater Mackie Todd) *Internet retail, mail order and wholesale including export*

Stead McAlpin, Carlisle *Textile Printing*

J H Birtwistle, Haslingden *Textile weaving*

Herbert Parkinson, Darwen *Weaving and making up*

Leckford Estate, Stockbridge *Farming*

Notice of AGM

Notice is hereby given that the seventy-ninth annual general meeting of the company will be held at 12 15 pm on 27 June 2007 at 171 Victoria Street, London SW1E 5NN

- To receive the directors' report and accounts for the year 2006/07
- 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
Margaret Casely-Hayford
Secretary
171 Victoria Street, London SW1E 5NN
11 May 2007

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