233462

JOHN LEWIS plc

Report and Accounts 1996

CONTENTS

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the sixty-eighth annual general meeting of the company will be held at 12.15pm on 19th June 1996 at 171 Victoria Street, London SW1E 5NN:

To receive the directors' report and accounts for the year 1995/96.

To consider the final dividend

To consider the re-election of retiring directors.

To consider the re-appointment of the auditors.

To consider the remuneration of the auditors.

By order of the Board
B J Pritchard Secretary
171 Victoria Street, London SW1E 5NN
8th May 1996

A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote instead of him.

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

BOARD OF DIRECTORS

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

OFFICERS AND PROFESSIONAL ADVISERS

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

Registered in England No. 233462

SUMMARY OF RESULTS FOR THE YEAR ENDED 27TH JANUARY 1996

	1996	1995
	£m	£m
Turnover (including VAT)	2,815.7	2,575.5
Trading profit	172.8	141.4
Interest	(22.8)	(24.5)
Profit before Partnership bonus and taxation	150.0	116.9
Taxation	(28.6)	(22.5)
Dividends	(0.3)	(0.3)
Balance available for profit sharing and retention in the business	121.1	94.1
Partnership bonus	(57.0)	(43.1)
Retained in the business for development	64.1	51.0
Net assets employed at the year end	950.0	859.8
Number of employees (weighted for part-timers)	31,000	30,200
Number of shops – Department stores	23	22
– Supermarkets	112	111

FIVE YEAR RECORD

	Years ended January				
	1996	1995	1994	1993*	1992
	£m	£m	£m	£m	£m
Turnover (including VAT)	2,815.7	2,575.5	2,420.0	2,357.3	2,280.4
Profit before pension costs	195.4	159.4	134.1	111.9	111.4
Pension costs	(22.6)	(18.0)	(17.6)	(16.1)	(11.3)
Interest	(22.8)	(24.5)	(23.3)	(24.4)	(22.8)
Profit before Partnership bonus and taxation	150.0	116.9	93.2	71.4	77.3
Taxation	(28.6)	(22.5)	(16.2)	(9.0)	(8.3)
Dividends	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)
Net profit available for profit sharing and retention in the business	121.1	94.1	76.7	62.1	68.6
Partnership bonus	(57.0)	(43.1)	(34.5)	(28.2)	(30.2)
As a percentage of ranking pay	15	12	10	8	9
Retained in the business	64.1	51.0	42.2	33.9	38.4
Net assets employed	950.0	859.8	806.7	779.6	745.7
Pay	371.3	351.8	335.3	338.4	323.6
Number of employees	41,100	39,600	38,800	39,300	40,200
including part-time employees	16,300	15,200	14,700	15,000	15,400

* 53 week year.

STATEMENT BY THE CHAIRMAN

Partnership sales at £2,816m were 9% up on last year. Profit before Partnership bonus and taxation increased by 28% to reach a new record of £150m. This has allowed the Board, after making prudent retentions for the future, to declare a profit share in the form of Partnership bonus at a rate of 15% of pay.

Department store sales were 7% ahead of last year. Our first new department store for five years opened at Cheadle in October, and its early successful trading made a useful contribution. With low inflation in the goods we sell (and indeed falling prices in a number of ranges such as electrical goods) the sales advance represents a creditable performance across the country and clear confirmation of the resilience of the Partnership's full-line department stores. It was a more difficult year for wholesale and manufacturing units which experienced a 6% decline in sales; the slow trading conditions in export markets compounded the weakness in the UK textiles sector for much of the year, and the figure also reflects the closure of the spinning operation at J H Birtwistle.

Trading profit for the department store division at £120m showed a 6% rise on the previous year. This increase was all the more commendable given the absence of rates rebates this year, the extra costs for opening John Lewis Cheadle and a lower manufacturing contribution. In very competitive conditions our buyers have again maintained gross margin without any weakening in the value of our offer to customers.

For Waitrose the sales increase was 13%. We have been particularly pleased by the strong sales performance by existing branches following the investment in scanning and selling floor refurbishment completed early in the year. Many of these branches faced new competition in the course of the year but proved encouragingly robust in their ability to sustain sales. A further 23 branches began trading regularly on Sundays from June 1995. Sales in the second half year were boosted by strong performances from new branches: Reading was opened in October 1995, Monmouth in November 1995, and an existing supermarket in Norwich was acquired and converted to the Waitrose format in September 1995. Our branch in Cirencester was relocated to a new, more powerful site in November 1995. Waitrose Slough closed in August 1995 and, after the year end, we closed our shop in Kenton.

The Waitrose divisional profit, no longer bearing the one-off costs associated with scanning and the change to regional composite distribution, increased by over 80% on last year to £53m. Gross margin was maintained in a very competitive market, in part because of the widening of the assortment to include more non-food lines.

Capital expenditure for the year was £122m - the same as last year - covered by retentions of £64m and depreciation of £61m. The net interest charge fell and interest cover improved from nearly six times to 7½ times. Year-end gearing at 25% was the same as at January 1995.

We have made an encouraging start to the new trading year with sales after 11 weeks 13% ahead in both department stores and Waitrose. The year to come holds a share of political uncertainty, not least the prospect of a General Election within the next twelve months. There do, however, appear to be some signs of improving consumer confidence which will continue to bring particular benefit to the furnishings trade in our department stores.

S Hampson
Chairman
18th April 1996

DIRECTORS' REPORT FOR THE YEAR ENDED 27TH JANUARY 1996

Directors

The directors of the company at the date of this report are listed on page 3. All directors served throughout the period under review.

Principal activity

The company controls the businesses listed on page 25 comprising 23 department stores, 112 Waitrose supermarkets and ancillary manufacturing activities.

Employees

The company is the principal trading subsidiary of John Lewis Partnership plc, the latter being the principal holding company under trusts set up in 1929 and 1950 to implement the Constitution of the John Lewis Partnership. Among other things, those trusts and the Constitution provide employees of this company annually with a share of all the profits of the business in proportion to the pay of each individual; the Constitution also provides for their constant and effective involvement in its affairs through elected councils and elected membership of the Board of John Lewis Partnership plc. There is full, prompt and regular information on all aspects through extensive weekly journalism, as well as wide ranging communication and exchange of opinion, written and oral, through councils, committees, journalism and immediate management. Detailed explanations of financial results are given at intervals through the year in local units and for the John Lewis Partnership as a whole, including full analysis and council debate on the annual report and accounts of the holding company. John Lewis plc, as the principal trading subsidiary of John Lewis Partnership plc, maintained the Constitution in the course of the year.

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

Corporate Governance

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

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

The Partnership has since 1929 operated under a Constitution which encourages the widest possible sharing of gain, knowledge and power by all Partners whilst also prescribing the business's responsibilities to its suppliers, its customers and the community in which it operates. The systems of accountability laid down in the Partnership's Articles, Rules and Regulations conform with the spirit of the Code of Best Practice but are framed to suit the unique democratic ownership structure of the Partnership.

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

A booklet containing details of how these systems operate is obtainable from the Company Secretary.

Directors' Remuneration

The Partnership does not pay directors' fees but all members of the Board are paid a full-time salary for their role within the business, determined in accordance with the Partnership's pay policy. This requires salaries to be in line with market rates. Performance is recognised in enhanced pay and by individual bonuses, not against pre-set criteria, for exceptional contributions. There are no annual incentive bonuses or long term bonus schemes related to individual or company performance.

DIRECTORS' REPORT FOR THE YEAR ENDED 27TH JANUARY 1996 *continued*

Directors' Remuneration *(continued)*

The Partnership's pay policy respects the confidentiality of individual rates of pay, but all Partners can request details of the range of pay applying to their own post.

The salary of the Chairman is decided by the Central Board in response to proposals he and the Partnership's Director of Personnel make based on independent market evidence. The salaries of directors appointed to the Board are decided by the Chairman in consultation with the Deputy Chairman. They are provided with independent market evidence by the Director of Personnel and the Partnership's Pay Research Unit, which is subsequently circulated to the Central Board. Details of directors' emoluments are set out in note 9.

Properties

The group's freehold and long leasehold department store properties were valued by the directors at 31st December 1995 on the basis of open market value for existing use. This valuation has been incorporated in the consolidated balance sheet at 27th January 1996, resulting in a surplus of £26.1m, which has been credited to the revaluation reserve.

The group's supermarket and distribution properties are stated at depreciated historical cost. The directors are satisfied that the current market value of these properties is not materially different from their carrying value, as at 27th January 1996. Details of tangible fixed assets are set out in note 11.

Use of profits

Preference dividends absorbed £89,250 and a final dividend of £200,000 has been proposed on the Ordinary Shares leaving £64,137,000 to be transferred to reserves.

Review of the business

A review of the business and of future developments is included in the Chairman's statement.

Directors' interests

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

There were no contracts during or at the end of the financial year in which the directors were materially interested and which were significant in relation to the company's business.

Substantial shareholdings

As at 18th April 1996 the Company has been notified of the following interests in its preference shares, these interests being recorded in the register maintained under the provisions of Section 211 of the Companies Act 1985.

5% First Cumulative Preference	% of Class
John Lewis Partnership plc	81.0%
Prudential Client (MSS) Nominees Limited	7.5%
Twenty-Nine Gracechurch Street Nominees Limited (Provincial Insurance Plc)	6.7%

7% Cumulative Preference	% of Class
John Lewis Partnership plc	75.6%
J H M MacGowan	3.6%
Twenty-Nine Gracechurch Street Nominees Limited (Provincial Insurance Plc)	3.3%

Charitable donations

The group donated £790,000 for charitable purposes during the year but made no political donations.

For and by order of the Board
B J Pritchard Secretary
18th April 1996

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 27TH JANUARY 1996

Notes		1996 £m	1995 £m
2	**Turnover**	2,815.7	2,575.5
	Value added tax	(275.1)	(253.1)
		2,540.6	2,322.4
	Cost of sales	(1,765.0)	(1,619.3)
	Gross profit	775.6	703.1
	Selling and distribution costs	(517.2)	(483.8)
	Administrative expenses	(63.0)	(59.9)
3	Pension costs	(22.6)	(18.0)
2	**Trading profit**	172.8	141.4
4	Net interest payable	(22.8)	(24.5)
	Profit before Partnership bonus and taxation	150.0	116.9
	Partnership bonus	(57.0)	(43.1)
5	**Profit on ordinary activities before taxation**	93.0	73.8
6	Tax on profit on ordinary activities	(28.6)	(22.5)
7	**Profit for the financial year**	64.4	51.3
8	Dividends (including non equity interests)	(0.3)	(0.3)
17	**Profit retained**	64.1	51.0

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Profit for the financial year	64.4	51.3
17	Unrealised surplus on revaluation of department store properties	26.1	2.1
	Total recognised gains and losses for the year	90.5	53.4

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

CONSOLIDATED BALANCE SHEET AS AT 27TH JANUARY 1996

Notes		*1996* *£m*	*1995* *£m*
	Fixed assets		
11	Tangible assets	*1,081.8*	*1,002.5*
	Current assets		
13	Stocks	*219.5*	*213.5*
14	Debtors	*292.9*	*255.1*
	Cash at bank and in hand	*32.0*	*2.7*
		544.4	*471.3*
	Creditors		
15	Amounts falling due within one year	*(401.9)*	*(356.7)*
	Net current assets	*142.5*	*114.6*
	Total assets less current liabilities	*1,224.3*	*1,117.1*
	Creditors		
15	Amounts falling due after more than one year	*(274.3)*	*(257.3)*
	Net assets	*950.0*	*859.8*
	Capital and reserves		
16	Called up share capital – equity	*6.8*	*6.8*
	– non equity	*2.2*	*2.2*
17	Share premium account	*1.9*	*1.9*
17	Revaluation reserve	*158.3*	*132.2*
17	Capital reserve	*1.4*	*1.4*
17	Profit and loss account	*779.4*	*715.3*
	Total shareholders' funds	*950.0*	*859.8*

Approved by the Board on 18th April 1996
S Hampson

S Hampson

BALANCE SHEET OF THE COMPANY AS AT 27TH JANUARY 1996

Notes		1996 £m	1995 £m
	Fixed assets		
11	Tangible assets	294.3	277.9
12	Investments in subsidiary undertakings	333.5	323.9
		627.8	601.8
	Current assets		
13	Stocks	142.0	135.3
14	Debtors	267.8	229.6
	Cash at bank and in hand	28.3	1.1
		438.1	366.0
	Creditors		
15	Amounts falling due within one year	(494.6)	(439.6)
	Net current liabilities	(56.5)	(73.6)
	Total assets less current liabilities	571.3	528.2
	Creditors		
15	Amounts falling due after more than one year	(250.0)	(250.0)
	Net assets	321.3	278.2
	Capital and reserves		
16	Called up share capital – equity	6.8	6.8
	– non equity	2.2	2.2
17	Share premium account	1.9	1.9
17	Revaluation reserve	5.6	3.1
17	Profit and loss account	304.8	264.2
	Total shareholders' funds	321.3	278.2

Approved by the Board on 18th April 1996
S Hampson

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 27TH JANUARY 1996

Notes		1996 £m	1995 £m
19	**Net cash inflow from operating activities**	176.9	166.1
	Returns on investments and servicing of finance		
	Interest received	6.9	4.4
	Interest paid	(29.0)	(28.2)
	Interest element of finance lease rental payments	(0.6)	(0.5)
	Dividends paid	(0.3)	(0.3)
	Net cash outflow from returns on investments and servicing of finance	(23.0)	(24.6)
	Corporation tax paid	(20.9)	(23.9)
	Investing activities		
	Purchases of tangible fixed assets	(120.0)	(111.0)
	Proceeds of sales of tangible fixed assets	7.6	5.5
	Purchase of call option	–	(38.5)
	Net cash outflow from investing activities	(112.4)	(144.0)
	Net cash inflow/(outflow) before financing	20.6	(26.4)
	Financing		
	New loan	25.1	–
	Capital element of finance lease rental payments	(1.3)	(1.5)
	Loan repayments	(4.7)	–
20	**Net cash inflow/(outflow) from financing**	19.1	(1.5)
21	**Increase/(decrease) in cash and cash equivalents**	39.7	(27.9)

NOTES TO THE ACCOUNTS

1 Accounting policies

Accounting convention and basis of consolidation

The consolidated profit and loss account and balance sheet include the accounts of the company and all its subsidiary undertakings. The accounts are prepared under the historical cost convention, with the exception of certain land and buildings which are included at their revalued amounts, and in accordance with applicable accounting standards

Turnover

Turnover is the amount receivable by the group for goods and services supplied to customers, including VAT.

Stock valuation

Stock is stated at the lower of cost, which is generally computed on the basis of selling price less the appropriate trading margin, or net realisable value.

Pension costs

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

Property valuation

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

Depreciation

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

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

Leased assets

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

Deferred taxation

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

Goodwill

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

NOTES TO THE ACCOUNTS *continued*

2 Divisional analysis of turnover and trading profit

	Turnover		*Trading profit*	
	1996	*1995*	*1996*	*1995*
	£m	*£m*	*£m*	*£m*
Department stores	*1,431.7*	*1,346.5*	*119.6*	*112.4*
Supermarkets	*1,384.0*	*1,229.0*	*53.2*	*29.0*
	2,815.7	*2,575.5*	*172.8*	*141.4*

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

3 Pension costs

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

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

The actuaries have recommended a normal future contribution rate of 8.0% of total pay. For a number of years the charge will continue to be reduced by taking into account the past-service surplus arising from the actuarial valuation at March 1992, together with a small adjustment arising from the March 1995 valuation. The pension charge for the year, calculated according to the provisions of SSAP 24, was equivalent to 6.0% (5.2%) of total pay and amounted to £22.2m (£17.9m), including notional interest of £2.1m (£2.6m) on the pension charge accrued in the consolidated balance sheet. The next actuarial valuation of the fund will take place as at 31st March 1998.

As explained in note 9, there is also a senior pension scheme which provides additional benefits to certain members of senior management. The actuaries have recommended a funding rate of 11.9% or 18.6% of total pay, depending on the level of benefits provided. The charge for the year was £0.2m (£0.1m). Provision has also been made for certain unfunded benefits amounting to £0.2m. Both of these amounts are included in the total pension cost of £22.6m (£18.0m).

4 Net interest payable

	1996	*1995*
	£m	*£m*
Interest payable:		
On bank loans, overdrafts and other loans repayable within 5 years	*13.4*	*12.3*
On finance leases	*0.6*	*0.7*
On all other loans	*15.6*	*15.6*
Interest receivable	*(6.8)*	*(4.1)*
	22.8	*24.5*

NOTES TO THE ACCOUNTS *continued*

5 Profit on ordinary activities before taxation

	1996	1995
Profit on ordinary activities before taxation is stated after charging the following:	£m	£m
Staff costs:		
Wages and salaries	371.3	351.8
Social security costs	30.8	30.3
Partnership bonus	51.3	38.8
Employer's national insurance on Partnership bonus	5.7	4.3
Pension costs	22.6	18.0
Depreciation – owned assets	58.6	56.0
– assets held under finance leases	2.4	1.1
Auditors' remuneration	0.4	0.4
Operating lease rentals of land and buildings	38.8	35.6

6 Tax on profit on ordinary activities

Corporation tax based on the profit for the year	26.3	20.8
Corporation tax - previous years	0.1	(0.5)
Deferred tax	2.2	2.2
	28.6	22.5

The tax charge is based on a corporation tax rate of 33% (33%) and has been reduced by £3.0m (£4.7m) as a result of capital allowances in excess of depreciation.

Total taxation deferred and unprovided in respect of capital allowances in excess of depreciation amounts to £84.7m (£81.6m) based on corporation tax at 33% (33%).

No provision has been made in these accounts for the liability to taxation of £15.9m (£6.4m) on capital gains, which would arise if properties were to be sold at the amounts at which they have been revalued and included in these accounts.

7 Profit for the financial year

As permitted by Section 230 of the Companies Act 1985, John Lewis plc has not presented its own profit and loss account. The profit dealt with in the accounts of the company amounted to £40.6m (£39.9m).

8 Dividends

	1996	1995
	£m	£m
Non equity interests		
5% (now 3.5% plus tax credit) Cumulative Preference Stock and 7% (now 4.9% plus tax credit) Cumulative Preference Stock	0.1	0.1
Equity interests		
Ordinary shares	0.2	0.2
	0.3	0.3

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

NOTES TO THE ACCOUNTS *continued*

9 Directors' emoluments

	1996	1995
Directors' remuneration including pension fund contributions and Partnership bonus of 15% (12%) was as follows:	£000	£000
Remuneration as managers	2,189	1,837
Pensions to past directors	9	9

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

	1996	1995		1996	1995
Chairman	£343,499	£302,314			
Other directors:					
£105,001 - £110,000	–	1	£170,001 - £175,000	1	–
£115,001 - £120,000	1	1	£200,001 - £205,000	–	2
£125,001 - £130,000	1	–	£205,001 - £210,000	1	–
£135,001 - £140,000	–	1	£210,001 - £215,000	–	1
£145,001 - £150,000	1	1	£230,001 - £235,000	1	–
£155,001 - £160,000	–	1	£235,001 - £240,000	1	–
£165,001 - £170,000	1	1	£240,001 - £245,000	1	–

The Chairman's contract of employment provides for a notice period of one year. Contracts for all other directors provide for six months' notice.

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

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

10 Employees

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

	1996	1995
Department stores	21,100	20,800
Supermarkets	18,600	17,400
Other	1,400	1,400
	41,100	39,600

NOTES TO THE ACCOUNTS *continued*

11 Tangible fixed assets

Consolidated	*Land and buildings* *£m*	*Fixtures and fittings* *£m*	*Payments on account and assets in course of construction* *£m*	*Total* *£m*
Cost or valuation				
At 28th January 1995	*815.5*	*452.0*	*42.1*	*1,309.6*
Additions at cost	*24.0*	*48.3*	*49.5*	*121.8*
Transfers	*47.4*	*1.3*	*(48.7)*	–
Disposals	*(5.8)*	*(11.0)*	*(2.0)*	*(18.8)*
Revaluation adjustments	*19.3*	–	–	*19.3*
At 27th January 1996	*900.4*	*490.6*	*40.9*	*1,431.9*
At cost	*438.3*	*490.6*	*40.9*	*969.8*
At valuation 1988	*21.2*	–	–	*21.2*
At valuation 1996	*440.9*	–	–	*440.9*
At 27th January 1996	*900.4*	*490.6*	*40.9*	*1,431.9*
Depreciation				
At 28th January 1995	*69.0*	*238.1*	–	*307.1*
Charges for the year	*16.0*	*45.0*	–	*61.0*
Disposals	*(1.0)*	*(10.2)*	–	*(11.2)*
Revaluation adjustments	*(6.8)*	–	–	*(6.8)*
At 27th January 1996	*77.2*	*272.9*	–	*350.1*
Net book values at 28th January 1995	*746.5*	*213.9*	*42.1*	*1,002.5*
Net book values at 27th January 1996	*823.2*	*217.7*	*40.9*	*1,081.8*

	1996	*1995*
Land and buildings at cost or valuation:	*£m*	*£m*
Freehold property	*535.2*	*487.0*
Leasehold property, 50 years or more unexpired	*290.1*	*256.4*
Leasehold property, less than 50 years unexpired	*75.1*	*72.1*
	900.4	*815.5*

In 1988 Hillier Parker, chartered surveyors, valued most of the Partnership's freehold and long leasehold properties. This valuation was on the basis of open market value for existing use. At 31st December 1995, the directors, after consultation with Hillier Parker, revalued the Partnership's department store properties on the same basis, and this valuation has been incorporated into the accounts as at 27th January 1996. The £26.1m surplus arising from this revaluation has been credited to revaluation reserve.

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

NOTES TO THE ACCOUNTS *continued*

11 Tangible fixed assets *(continued)*

Certain amenity properties, which represent less than 3% of the Partnership's total property assets, are carried in the accounts at their 1988 valuation, which was carried out by external valuers, depreciated as appropriate.

Included in land and buildings at 27th January 1996 is land valued at £159.5m, which is not subject to depreciation. At 27th January 1996 land and buildings would have been included at the following amounts, if they had not been revalued:

	1996	*1995*
	£m	*£m*
Cost	*774.8*	*712.3*
Accumulated depreciation	*(110.3)*	*(98.0)*
	664.5	*614.3*

The gross cost of assets held under finance leases is £12.0m (£10.2m) with accumulated depreciation in respect of those assets of £3.5m (£1.1m).

Company	*Land and buildings £m*	*Fixtures and fittings £m*	*Payments on account and assets in course of construction £m*	*Total £m*
Cost or valuation				
At 28th January 1995	*175.6*	*218.4*	*19.0*	*413.0*
Additions at cost	*0.2*	*27.6*	*11.7*	*39.5*
Transfers	*28.8*	–	*(28.8)*	–
Disposals	–	*(7.7)*	–	*(7.7)*
Revaluation adjustments	*0.2*	–	–	*0.2*
At 27th January 1996	*204.8*	*238.3*	*1.9*	*445.0*
At cost	*45.2*	*238.3*	*1.9*	*285.4*
At valuation 1988	*0.3*	–	–	*0.3*
At valuation 1996	*159.3*	–	–	*159.3*
At 27th January 1996	*204.8*	*238.3*	*1.9*	*445.0*
Depreciation				
At 28th January 1995	*5.8*	*129.3*	–	*135.1*
Charges for the year	*2.7*	*21.6*	–	*24.3*
Disposals	–	*(6.4)*	–	*(6.4)*
Revaluation adjustments	*(2.3)*	–	–	*(2.3)*
At 27th January 1996	*6.2*	*144.5*	–	*150.7*
Net book values at 28th January 1995	*169.8*	*89.1*	*19.0*	*277.9*
Net book values at 27th January 1996	*198.6*	*93.8*	*1.9*	*294.3*

NOTES TO THE ACCOUNTS *continued*

11 Tangible fixed assets *(continued)*

	1996	1995
Land and buildings at cost or valuation:	£m	£m
Freehold property	48.4	49.4
Leasehold property, 50 years or more unexpired	147.2	117.2
Leasehold property, less than 50 years unexpired	9.2	9.0
	204.8	175.6

Included in land and buildings at 27th January 1996 is land valued at £8.9m, which is not subject to depreciation. At 27th January 1996 land and buildings would have been included at the following amounts, if they had not been revalued:

Cost	246.8	217.7
Accumulated depreciation	(21.4)	(18.4)
	225.4	199.3

12 Investments in subsidiary undertakings

Company	Shares in group companies £m	Loans to group companies £m	Total £m
At 28th January 1995	54.1	269.8	323.9
Movements	0.2	7.3	7.5
Dividends receivable	–	2.1	2.1
At 27th January 1996	54.3	279.2	333.5

13 Stocks

	1996 £m	1995 £m
Consolidated		
Raw materials and work-in-progress	8.1	9.5
Finished goods and goods for resale	211.4	204.0
	219.5	213.5
Company		
Raw materials and work-in-progress	1.1	1.2
Finished goods and goods for resale	140.9	134.1
	142.0	135.3

NOTES TO THE ACCOUNTS *continued*

14 Debtors

	1996 £m	1995 £m
Consolidated		
Amounts falling due within one year:		
Trade debtors	164.6	140.6
Other debtors	16.8	15.8
Prepayments and accrued income	12.3	9.9
Deferred tax	1.3	1.3
	195.0	167.6
Amounts falling due after more than one year:		
Trade debtors	43.9	34.5
Other debtors	43.1	39.9
Deferred tax	10.9	13.1
	292.9	255.1
Company		
Amounts falling due within one year:		
Trade debtors	157.0	131.8
Other debtors	8.3	8.6
Prepayments and accrued income	7.8	5.7
Deferred tax	1.3	1.3
	174.4	147.4
Amounts falling due after more than one year:		
Trade debtors	43.9	34.5
Other debtors	43.1	39.9
Deferred tax	6.4	7.8
	267.8	229.6

Other debtors due after more than one year for both the company and the group represents the net present value of deferred consideration relating to the sale of a call option, receivable in January 1998.

15 Creditors

Consolidated		
Amounts falling due within one year:		
Bank overdraft	–	10.4
Trade creditors	174.5	146.5
Holding company	1.9	1.8
Other creditors	14.7	12.2
Obligations under finance leases	1.8	1.4
Loans	3.5	–
Corporation tax	26.0	20.5
Other taxation and social security	73.7	64.4
Pension fund accrual	32.9	39.8
Accruals and deferred income	21.6	20.7
Proposed dividend	0.2	0.2
Partnership bonus	51.1	38.8
	401.9	356.7

NOTES TO THE ACCOUNTS *continued*

15 Creditors *(continued)*

	1996 £m	1995 £m
Amounts falling due after more than one year:		
Due between 1 and 2 years		
– Obligations under finance leases	1.8	1.5
– Loans	3.7	–
– 10⅜% Bonds, 1998	100.0	100.0
Due between 2 and 5 years		
– Obligations under finance leases	5.6	5.8
– Loans	13.2	–
Due other than by instalments after 5 years		
– 10¼% Bonds, 2006	50.0	50.0
– 10½% Bonds, 2014	100.0	100.0
	274.3	257.3

Company

	1996 £m	1995 £m
Amounts falling due within one year:		
Bank overdraft	–	15.9
Trade creditors	153.7	129.5
Holding company	1.8	1.8
Owed to group companies	163.8	132.8
Other creditors	13.7	10.8
Corporation tax	14.2	14.7
Other taxation and social security	53.9	45.0
Pension fund accrual	32.9	39.8
Accruals and deferred income	10.9	11.6
Proposed dividend	0.2	0.2
Partnership bonus	49.5	37.5
	494.6	439.6
Amounts falling due after more than one year:		
Due between 1 and 2 years		
– 10⅜% Bonds, 1998	100.0	100.0
Due other than by instalments after 5 years		
– 10¼% Bonds, 2006	50.0	50.0
– 10½% Bonds, 2014	100.0	100.0
	250.0	250.0

16 Share capital

	1996 £m	1995 £m
Authorised, issued and fully paid :		
Equity		
Ordinary shares of £1 each	6.8	6.8
Non equity		
Cumulative Preference Stock of £1 each		
5% (now 3.5% plus tax credit) First Cumulative Preference Stock	1.5	1.5
7% (now 4.9% plus tax credit) Cumulative Preference Stock	0.7	0.7
	9.0	9.0

NOTES TO THE ACCOUNTS *continued*

16 Share capital *(continued)*

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

17 Reserves

Consolidated	*Profit and loss account £m*	*Capital reserve £m*	*Share premium £m*	*Revaluation reserve £m*	*Total reserves £m*
At 28th January 1995	*715.3*	*1.4*	*1.9*	*132.2*	*850.8*
Profit retained	*64.1*	–	–	–	*64.1*
Revaluation surplus	–	–	–	*26.1*	*26.1*
At 27th January 1996	*779.4*	*1.4*	*1.9*	*158.3*	*941.0*

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

Company	*Profit and loss account £m*	*Share premium £m*	*Revaluation reserve £m*	*Total reserves £m*
At 28th January 1995	*264.2*	*1.9*	*3.1*	*269.2*
Profit retained	*40.6*	–	–	*40.6*
Revaluation surplus	–	–	*2.5*	*2.5*
At 27th January 1996	*304.8*	*1.9*	*5.6*	*312.3*

All of the reserves are attributable to equity shareholders.

18 Reconciliation of movements in shareholders' funds

Consolidated	*1996 £m*	*1995 £m*
Profit for the financial year	*64.4*	*51.3*
Dividends	*(0.3)*	*(0.3)*
Revaluation surplus	*26.1*	*2.1*
Net addition to shareholders' funds	*90.2*	*53.1*
Opening shareholders' funds	*859.8*	*806.7*
Closing shareholders' funds	*950.0*	*859.8*

NOTES TO THE ACCOUNTS *continued*

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

	1996 £m	1995 £m
Trading profit	172.8	141.4
Depreciation charged	61.0	57.1
Increase in debtors	(40.1)	(20.0)
Increase in creditors	39.2	47.4
Decrease in pension fund accrual	(6.9)	(6.5)
Increase in stocks	(6.0)	(18.8)
Partnership bonus paid for previous year	(43.1)	(34.5)
Net cash inflow from operating activities	176.9	166.1

20 Analysis of changes in financing

	Share capital (inc. premium) £m	Bonds, loans and finance leases £m
At 29th January 1994	10.9	250.0
Inception of finance leases	–	10.2
Capital element of finance leases repaid	–	(1.5)
At 28th January 1995	10.9	258.7
New loan	–	25.1
Inception of finance leases	–	1.8
Capital element of finance leases repaid	–	(1.3)
Loan repayments	–	(4.7)
At 27th January 1996	10.9	279.6

21 Analysis of cash and cash equivalents as shown in the balance sheet

	1996 £m	Change in year £m	1995 £m	Change in year £m	1994 £m
Cash at bank and in hand	32.0	29.3	2.7	(17.5)	20.2
Bank overdraft	–	10.4	(10.4)	(10.4)	–
	32.0	39.7	(7.7)	(27.9)	20.2

22 Commitments

At 27th January 1996, the directors had authorised capital expenditure of £86.6m (£82.2m) of which contracts had been placed for £5.3m (£17.0m).

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

NOTES TO THE ACCOUNTS *continued*

23 Lease commitments

	1996	1995
Operating leases	£m	£m
Rentals of land and buildings for the next financial year on leases expiring:		
Within 1 year	0.1	0.1
Between 1 and 5 years	0.6	0.6
Over 5 years	38.5	32.8

24 Subsidiary undertakings

Subsidiary companies of John Lewis plc as at 27th January 1996 were as follows:

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

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

25 Parent Company

John Lewis Partnership plc, a company registered in England, is the company's immediate and ultimate parent company and prepares consolidated accounts which include the accounts of the company.
Copies of the group accounts of John Lewis Partnership plc may be obtained from the Company Secretary, John Lewis Partnership, 171 Victoria Street, London SW1E 5NN

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The directors are required by UK company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing the financial statements suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made. Relevant accounting standards have been followed. The directors are responsible for maintaining adequate accounting records, for safeguarding the assets of the group and for preventing and detecting fraud and other irregularities.

The directors, having made enquiries, consider that the company and the group have adequate resources to continue in operational existence for the foreseeable future, and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements.

REPORT OF THE AUDITORS TO THE MEMBERS OF JOHN LEWIS plc

We have audited the financial statements of John Lewis plc set out on pages 8 to 23 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on page 12.

Respective responsibilities of directors and auditors

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

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 27th January 1996 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants
and Registered Auditors

Southwark Towers
32 London Bridge Street
London SE1 9SY
18th April 1996

RETAIL BRANCHES

Department Stores

London

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

Southern England

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

Midlands, East Anglia Northern England and Scotland

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

Waitrose Supermarkets

London

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

Southern England

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

Midlands, East Anglia and Wales

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

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

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