John Lewis PLC. 233462

annual report and accounts 2008

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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 187 Waitrose supermarkets

It is also the country's largest employee co-operative, with over 69,000 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 more than 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 twelve members – the Chairman, the non-executive Deputy Chairman, four other 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 remaining profit 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 20% bonus for the current year as their share of profits at a total cost of £181m

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 had another successful year in a challenging trading environment. Gross sales from continuing operations were up 6.3% to £6.8bn. The group's profit before tax and Partnership bonus increased by 18.6% to £379.7m. Profit as a percentage of gross sales increased from 5.0% to 5.6%.

It is the enterprise, experience and professionalism of our 69,000 Partners, who own the business, that lie behind this success. It is their motivation and efforts to improve what we do every day that inspire customers' confidence in our reputation for value, choice, service and honesty. Partners reaped the benefit of their year's work, with every Partner receiving a Partnership bonus worth 20% of salary, the equivalent of more than 10 weeks' pay, a total distribution of £181m. Taken together with the pension charge of £83m and other benefits of £60m, that amounts to over £320m returned to Partners.

The key to our success is the commitment of our Partners

We are hoping to be able to announce the purchase of a new holiday centre for Partners soon. During 2007, there were 40,000 visits by Partners and their dependants to our existing four leisure centres. We are also planning to invest up to £1m a year between this autumn and 2012 in Partners in Sport, a wide-ranging programme to enable Partners to play sport, gain sports coaching qualifications and live healthier lifestyles.

Both Waitrose and John Lewis performed strongly, growing overall market share and strengthening our position in key product categories. We offered more innovative and inspiring products, invested in building Partners' skills and improved the service experience for customers. Growth was also achieved by investing in new and refurbished shops, strengthening our online presence, increasing capacity and automation in distribution and building awareness of the John Lewis and Waitrose brands among customers.

Our ambition is to win and sustain our reputation with customers for well-differentiated products and service excellence. Our standing was boosted by Waitrose and John Lewis being awarded the top two places, for the third year in a row, in the independent Verdict and Which? consumer satisfaction surveys.

Outlook for 2008/09

There was a general slowdown in the housing market in the second half of the year, which depressed sales of large purchases in the home market and this trend has continued into the new financial year. Sales for the first ten weeks of the year to 5 April are up 2% in John Lewis while at Waitrose, which tends to be less affected by a downturn in consumer confidence, sales are up 6%.

We expect trading conditions to be very challenging this year as consumers continue to respond to concerns about the housing market, higher food and energy costs and tighter credit conditions.

However, we believe that the diversity of our business across the home and grocery sectors and the benefits of our Partnership model make us resilient and able to perform well even in testing market conditions. We have the confidence to pursue our ambitious growth and investment plans for the long term.

Looking to the future, we are planning to grow our businesses and reach more customers. Our investment will be in new shops, in the development of our on-line business and in the systems and infrastructure needed to support a larger business. We expect the number of Partners in the business to increase by 16,000 to 85,000 over the next five years to support our growth.

Charlie Mayfield
Chairman
7 April 2008

Business review

Review of performance

Financial highlights

- Gross sales for the group from continuing operations up £400 5m, 6 3% to £6 8bn
- Operating profit (excluding property profits of £9 1m (2007 £11 9m)) up £57 8m, 16 8%, to £401 2m, including property, operating profits up £55 0m, 15 5% to £410 3m
- Profit before Partnership bonus and tax up £59 5m, 18 6% to £379 7m
- Profit margin before tax and Partnership bonus up 57 basis points against last year to 5 6%
- Partnership bonus payment of £181 1m, up £27 0m (increase of 17 5%), 20% of salary (equal to more than 10 weeks' pay)
- Return on invested capital of 8 5%, up from 7 9%

John Lewis

- Gross sales from continuing operations up £148 9m, 5 6% to £2 8bn
- Operating profit (excluding property profits of £0 5m (2007 £8 8m)) up £19 9m, 11 7%, to £189 5m, including property, operating profits up £11 6m, 6 5% to £190 0m
- Like-for-like sales up 5 0%
- John Lewis Direct sales up £82 8m, 44 6% to £268 1m
- Market share up 0 4% to 19 1%
- Operating margin up 37 basis points to 6 7% (excluding property profits)

Waitrose

- Gross sales up £251 6m, 6 8% to just under £4 0bn
- Operating profit (excluding property profits of £8 6m (2007 £3 1m)) up £37 9m, 21 8% to £211 7m, including property, operating profits up £43 4m, 24 5% to £220 3m
- Like-for-like growth of 3 6% (excluding petrol)
- Market share level at 3 9%
- Operating margin up 66 basis points to 5 4% (excluding property profits)

Five year record – years ended January

	2008	2007*	2006	2005	2004** UK GAAP
	£m	£m	£m	£m	£m
Gross sales (including sale or return sales and VAT)	**6,762 8**	6,362 3	5,764 4	5,333 6	5,046 8
Revenue					
John Lewis	**2,315 0**	2,188 9	1,990 4	1,960 8	1,951 6
Waitrose	**3,737 2**	3,497 3	3,158 9	2,796 7	2,547 9
Revenue	**6,052 2**	5,686 2	5,149 3	4,757 5	4,499 5
Operating profit					
John Lewis	**190 0**	178 4	111 2	123 4	98 6
Waitrose	**220 3**	176 9	170 4	150 6	114 2
Operating profit	**410 3**	355 3	281 6	274 0	212 8
Disposal of account card operation	**–**	–	–	–	4 3
Net finance costs	**(30 6)**	(35 1)	(34 9)	(30 6)	(28 4)
Share of post tax losses of associate (Ocado)	**(8 0)**	(18 0)	(5 6)	(14 1)	(15 2)
Exceptional gain on dilution of interest in associate	**8 0**	18 0	10 8	–	–
Profit before Partnership bonus and tax	**379.7**	320 2	251 9	229 3	173 5
Taxation	**(59 4)**	(56 9)	(42 5)	(34 3)	(24 5)
Dividends	**–**	–	–	–	(0 2)
Net profit available for profit sharing and retention in the business	**320 3**	263 3	209 4	195 0	148 8
Partnership bonus	**(181 1)**	(154 1)	(120 3)	(105 8)	(87 3)
As a percentage of pay	***20%***	*18%*	*15%*	*14%*	*12%*
Discontinued operations	**(9 1)**	(0 7)	–	–	–
Retained in the business	**130 1**	108 5	89 1	89 2	61 5
Net assets	**1,683 9**	1,650 1	1,512 6	1,420 8	1,541 4
Pay	**864 8**	817 6	755 0	713 8	689 7
Average number of employees	**68,200**	66,800	63,700	61,100	59,600
including part-time employees	**36,700**	35,900	33,600	31,100	29,400
Average number of FTEs	**44,600**	43,900	42,200	41,000	40,500

*The presentation of prior year results has been amended in respect of discontinued operations, as detailed in note 8 Earlier years have not been amended

**53 week year

Business review

Review of performance (continued)

Key performance indicators (KPIs)

	John Lewis 2008	Waitrose 2008	Group 2008	Group 2007
Trading performance				
Gross sales growth – total continuing operations	**5 6%**	**6 8%**	**6 3%**	10 6%
Gross sales growth – like for like	**5 0%**	**3 6%**	**4.3%**	7 4%
Operating margin	**6 8%**	**5 6%**	**6 1%**	5 6%
Sales per selling FTE (£000s)	**154.2**	**202 9**		
Operating profit per FTE (£000s)	**9 0**	**9 9**	**9.2**	8 1
Number of stores	**26**	**187**		
Average selling space (m sq ft) [1]	**3.5**	**3 8**	**7 3**	7 1
Sales per selling sq ft	**796**	**1,038**	**921**	887
Operating profit per selling sq ft	**54**	**58**	**56**	50
Cash flow and liquidity				
Operating cash flow before Partnership bonus (£m) [2]			**631 5**	588 0
Capital expenditure (£m) [3]	**184 9**	**165 6**	**363 3**	393 4
Interest cover [4]			**7 5**	5 7
Balance sheet				
Net assets (£m)			**1,683 9**	1,650 1
Net debt (£m)			**341 4**	307 7
Gearing [5]			**20 3%**	18 6%
Return on invested capital [6]			**8 5%**	7 9%

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

2 Operating cash flow before Partnership bonus excludes a £72 0m advance payment of 2008/09 pension fund contributions

3 Capital expenditure for the group includes £12 8m (2007 £26 6m) of spending on IT systems, vehicles, offices and other assets, not attributable to the operating businesses

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

5 Gearing is net debt divided by net assets Excluding the £72m advance payment of 2008/09 pension contributions gearing would be 16 0%

6 Return on invested capital is post tax profits adjusted for non-operating items as a proportion of average operating net assets, adjusted to reflect a deemed capital value for property lease rentals

Group performance

The Partnership has had another successful year Gross sales from continuing operations were up 6 3% to £6 8bn Waitrose gross sales were just under £4bn, up 6 8%, while John Lewis gross sales were £2 8bn, an increase of 5 6%

The Group's profit before tax and Partnership bonus (excluding a £9 1m post tax charge for discontinued operations) increased by 18 6% to £379 7m Operating profit margin increased from 5 6% to 6 1% Profit as a percentage of gross sales increased from 5 0% to 5 6%

We have more Partners in the business now, and this, together with higher pay rates, has moved the cost of each 1% of bonus 5 6% higher The Board's decision to pay a bonus of 20% of pay raises the total distributed to £181 1m, which is a record in monetary terms This represents over ten weeks' pay, and equates to a bonus per full time equivalent of £4,042, up 14 9% on last year

The group saw consistently strong trading throughout 2007/08

Business review

Review of performance (continued)

Pensions

Our pension charge of £83 2m for the year is slightly (£1 1m) down on last year The contribution to the funds in respect of the year was £85 0m, up £0 9m (1 1%) on last year The fund's investment assets have performed very well, increasing to just under £1 9bn On the accounting basis required by IAS 19, the fund's deficit stands at £554m, up £113m (26%) on last year This includes an additional liability in respect of death in service benefits and more conservative assumptions for ill-health pensions and mortality The most recent actuarial valuation of the fund took place as at 31 March 2007, and has been used to determine future contributions to the scheme

Net finance costs

Finance costs were £39 2m for the year and income was £8 6m, resulting in net finance costs of £30 6m This compares with £35 1m last year Interest cover was 7 5 times compared to 5 7 times last year

Ocado

Our shareholding in Ocado is 24 1%

Ocado continued to grow its sales and develop its business during the year Including sales through Ocado, we believe that Waitrose's share of the online grocery market is approaching 20% Our shareholding in Ocado is 24 1% There is no impact from this shareholding on the Partnership's profits The book profit from Ocado's successful fundraising early in the year is entirely offset by our share of Ocado's trading losses, which were £7 1m for this year and £0 9m 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 £1 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, but offset by a deferred tax credit arising from the restatement of brought forward deferred tax provisions for the decrease in the rate of corporation tax from 30% to 28% taking effect from 1 April 2008 The effective tax rate of 29 9% is lower than last year's rate of 34 3%, mainly because of the restatement of brought forward deferred tax balances

Capital expenditure

John Lewis Cambridge opened in November 2007

Capital spending in 2007/08 was £363 3m, compared with £393 4m in the previous year when Waitrose made 11 store acquisitions from Morrisons and Somerfield John Lewis substantially increased its capital investment with expenditure on Oxford Street, including the new foodhall, and the relocation of our Cambridge store Capital was also committed to the relocation of our shop in Liverpool and to our new shop in Leicester, which will open in May and September 2008 respectively, and to distribution centres at Magna Park (John Lewis) and Aylesford (Waitrose)

Cashflow and net debt

We generated £631 5m in operating cash flow (before Partnership bonus) up 7 4% on the prior year Our gearing ratio increased slightly to 20 3% with year-end net debt increasing by £33 7m This was due to a £72m prepayment of a major part of the 2008/09 pension contribution just before the year end Excluding this payment, gearing fell to 16 0%

Business review

Review of performance (continued)

Return on invested capital
Return on invested capital was 8 5%, increasing by 0 6% from 7 9%

Retained earnings
Retained earnings were £130 1m, up by £21 6m (21 6%) from £108 5m last year

Net assets
Net assets have increased by £33 8m (2 0%) to £1,683 9m This is mainly due to significant investments made for new stores, extensions and refurbishments, distribution and IT, offset by an increase in the pension fund deficit

Andy Street

John Lewis

John Lewis gross sales grew 5 6% (5 0% like-for-like), to £2 8bn Sales growth exceeded the market and we increased market share of the department store sector by 0 4% to 19 1%, continuing our 6 year trend Growth came from across the business and was well balanced across all three product categories, with Electrical and Home Technology up 6 0%, Home up 5 5% and Fashion up 4 6% John Lewis topped the rankings in all the categories in which we compete, including Fashion, Electrical and Home, in both independent surveys from Verdict and Which?

Sales per square foot grew by 5 3% to £796, from £756 last year, and sales per selling FTE grew by £9,000 (6 1%) to £154,000

John Lewis Cambridge opened successfully in early November, with sales exceeding expectations, recording an 80% increase in December and January versus our temporary shop in Cambridge The major refurbishment (£64m) of John Lewis Oxford Street was completed in October with the opening of the new foodhall in conjunction with Waitrose

There was an excellent performance in the home directorate

Business review

Review of performance (continued)

John Lewis *(continued)*
There were strong performances in many areas, particularly furniture, kitchens, men's and women's fashions and beauty Sales of John Lewis branded merchandise reached over 30% of the total for the first time, with strong contributions from both Home and Fashion We continue to improve our offer, rolling out new formats in menswear, cookshop, and lighting while selectively investing in beauty and catering We also focused on improving shop floor service, availability, call centres and enhancing our delivery service

John Lewis Direct again grew strongly, with sales up 44 6% (£82 8m) to £268 1m, well ahead of the fast growing on-line market

Property profits amounted to £0 5m compared with £8 8m last year, with most of last year's gain relating to the disposal of Caleys

Operating profit grew by 11 7% to £189 5m, after the share of corporate costs and pensions, but excluding property profits Operating profit (excluding property profits) margin improved by 37 basis points, and branch costs were well contained Including property gains, operating profit increased by 6 5% to £190 0m

Operating profit per square foot increased by £3 (6 5%) to £54 Operating profit per FTE moved ahead to £9,000

The sale to Apex Textiles Limited of our manufacturing operations, Stead McAlpin & J H Birtwistle, resulted in a £9 1m post tax charge for discontinued operations

Waitrose

Waitrose gross sales grew 6 8% (3 6% like-for-like, excluding petrol) to just under £4 0bn

Mark Price

Waitrose sales have grown by 47% in four years with our market share increasing to our current level of 3 9% Our share of the UK organics market stands at over 18%, while our market share for Fairtrade items is 8 6%, with an associated increase in sales in this area of 16 3% year on year, significantly in excess of growth in the overall Fairtrade market

Sales density rose by 2 3% to £1,038 per square foot Our sales productivity per selling FTE increased to £203,000, up by £8,000 (3 9%) on last year

Product quality is key to our success Waitrose products won 13 out of the 18 Q Industry Awards, where products are 'blind tasted' Another notable success was our own-label champagne, which was one of only two products to achieve a top five star rating in a taste test of 146 labels by *Decanter Magazine*, eclipsing many illustrious brands Our animal welfare credentials were recognised by the RSPCA with the title of Supermarket of the Year in the RSPCA Good Business Awards

Our achievements in product quality are directly related to our long-term relationships with farmers and suppliers and our commitment to support British Farming In the face of challenges like foot-and-mouth disease and bluetongue, our supply chain was robust with excellent availability Our dairy farmers were able to invest in their business at a rate that was double the national average, while new base level payments, offering a minimum payment for beef and lamb producers, protected our farmers against market volatility

Waitrose gross sales grew 6 8%

Business review

Review of performance (continued)

Waitrose *(continued)*
Distinctive service also played a key part in driving sales. We increased the number of specialists in meat, fish and wine in our shops to over 800, with a further 190 in training. This success was confirmed by Waitrose being ranked as customers' favourite grocer by both Which? and Verdict independent surveys.

Further expansion has taken place this last year with acquisitions at Harborne and Christchurch, and the opening of new shops in Cheadle Hulme, Rickmansworth, and two relocations, in Windsor and from Birch Hill to Sandhurst, both increasing our selling space.

We have also redesigned our Marylebone and John Barnes (Finchley Road) shops with an improved layout and product range to better meet the needs of London shoppers. Waitrose.com, our on-line presence, has been refreshed and relaunched.

Waitrose's export business remains modest but it continues to grow, with additional sales through Spinneys in Dubai planned for 2008/09.

Property profits amounted to £8.6m, primarily in respect of the disposal of some retail units at Salisbury, compared with £3.1m last year.

Despite this rapid pace of development, we have continued to invest in price. In spite of this investment operating profit grew by 21.8% to £211.7m, after the share of corporate costs and pensions. Including property gains, operating profit increased by 24.5% to £220.3m. Operating profit per square foot was up by £9, 19.5% to £58. Operating profit per FTE grew by £1,700 to £9,900.

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 products 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 are 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 As the business grows, we continue to focus on nurturing '*an enterprising Partnership*' but remain committed to preserving our core values and ensuring a culture of being 'Powered by our Principles'

We are alert to market conditions becoming more uncertain and an increasingly challenging competitive outlook, but remain confident that our unique business model and the commitment of our Partners will help to deliver growth As competitors attempt to narrow the gap, we continue to focus on offering our customers a differentiated proposition, underpinned by a clear '*Partnership Difference*'

Looking to the future, 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 9 new department stores planned from 2008 over the next 6 years in addition to 2 relocations Beyond this we expect there to be further opportunities for additional full line department stores and significant growth through our multi-channel strategy, particularly John Lewis Direct In the longer term, there is also potential for John Lewis to examine the possibility of smaller full-line department stores
- **Waitrose** aims to increase sales by continuing to extend its store presence whilst improving its core customer offer and focus on improving price perceptions New physical space will demonstrate a refreshed store environment and we remain committed to new store formats and channels to reach customers currently out of reach This will be supplemented by developing our customer service, including reduced queue times and providing an integrated multi-channel offer
- **Greenbee**, our direct services business, has now been trading for a year and will continue to build on our reputation for providing selected services to our customers and their homes These services are underpinned by our authority in customer service and take the Partnership into new markets, we already provide a range of 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 reward policy which is market leading This comprises competitive rates of pay which reflect market and individual performance and a range of benefits which are truly distinctive and include leisure benefits that enable Partners to balance their working and home lives, and thus remain highly committed to 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 on-line 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) On other Government initiatives such as salt reduction, we have already met many of the targets proposed by the FSA ahead of their 2010 timeline We continue to work closely with suppliers to drive nutritional quality through appropriate ingredient selection

Suppliers and product (continued)

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 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 over 18% of the UK organic market, more than four times our overall market share Following the launch of our new Waitrose Organic range, launched in September 2006, the total range now offers more than 1,500 organic products including pet food, wine, tea, coffee, preserves, bread and toiletries

Waitrose is the only British retailer to insist that all its British Fruit and Vegetable growers adopt the LEAF (Linking Environment and Farming) Marque certification standard LEAF, an independent charitable organisation, helps farmers to improve business performance by lowering environmental impacts, and conserving the British countryside for future generations Our Leckford Estate holds the LEAF Marque and is one of a small number of LEAF Demonstration Farms We are now extending LEAF Marque certification to our world-wide grower base of fruit, vegetables and horticulture Working in partnership with our growers, our target is to achieve this by 2010

WildCare, part of our Select Farm milk scheme and developed with UK Wildlife Trusts, also sets environmental standards that require at least 10% of a farm's area to be set aside for wildlife habitats For 2008, Waitrose will be sponsoring Open Farm Sunday when hundreds of LEAF farms will be open to the public, giving our customers the opportunity to meet the people who grow our food and see exactly how they do it

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 earned us the 'Compassionate Supermarket of the Year' title, awarded biennially, from leading animal welfare charity Compassion in World Farming (CIWF), in 2004 and 2006 It also helped us win the supermarket category in the RSPCA Good Business Awards in 2005 and 2007 We have led the way in improving animal welfare standards for chicken through a progressive reduction in stocking density and the provision of an enriched environment All Waitrose chickens including Select Farm, Free Range and Organic are UK-hatched and reared We do not sell standard intensively reared chicken and our entry level chickens (Waitrose Select Farm) are reared to a high standard of welfare Our policy of not selling caged eggs gained us a 'Good Egg Award' from CIWF in 2007

To make it easy for our customers, all our fish comes from well-managed fisheries using responsible fishing methods We do not sell any varieties considered endangered or over-fished, we use selective fishing methods that minimise the impact on the environment, and stock the largest range of line-caught fish, and we work closely with independent certification bodies like the Marine Stewardship Council which uses a 'blue tick' to identify fish from sustainable sources Our farmed fish also comes from our Select Farm sites which are selected for their respect for

Business review

Resources and relationships (continued)

marine ecosystems and ongoing conservation measures, including the sustainability of the fish feed Our sustainable fishing policy has been commended by Greenpeace and in 2007, Waitrose came top of the Marine Conservation Society's Sustainable Seafood Supermarket League Table and were the Seafish Industry Authority Seafood Multiple retailer of the year

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 to ensure all garden furniture is independently certified to the Forest Stewardship Council (FSC) standard by the end of 2009 Currently, as a result of our progress in 2007, 77% of the garden furniture we sell in 2008 will be FSC certified We will also be expanding our timber policy to cover all wood-based products from 2008

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 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 Supplier labour standards and working practices are then thoroughly assessed and all sites are subject to an independently ethical audit where we have reason to suspect that standards fail to meet our high standards Should non-compliances be identified, we work directly with our suppliers and ethical auditors to establish action programmes to help raise labour standards

As a percentage of Waitrose own-label sales, 99% of qualifying suppliers have enrolled in our social compliance programme and have been subject to assessment and/or audit, representing a total of 828 production sites In John Lewis we are working directly with all qualifying first tier suppliers to ensure all production sites are assessed Currently 758 production sites are registered on Sedex 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 All Waitrose shops now have a local and regional offering, which covers in excess of 300 producers supplying over 1,400 product lines To communicate our support for UK suppliers, shelf edge ticketing and product 'stamps help customers to find products from their local area Waitrose initiatives like our Made in Britain Awards (previously the Small Producers Awards), 'Meet the Buyer' and 'Meet the Farmer' events, which introduce customers to local producers and promote local foods also champion small producers Our Summer 2007 'Best of British' campaign highlighted seasonal British food and the people who grow, rear or produce it, and we now have dedicated display areas for regional fruit and vegetables in 155 shops in nine regions

Suppliers and product (continued)

Fairtrade

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, around 145 products (including seasonal lines), such as our own label Fairtrade coffee and chocolate. All Waitrose bananas and roses are now Fairtrade certified, as well as 25% of other flowers, and in 2007 Waitrose launched Fairtrade sugar and cereal bars, as well as own label organic and Fairtrade ice creams. John Lewis is equally supportive of such schemes, selling Fairtrade flowers and cotton garments.

Waitrose Foundation

The 'Waitrose Foundation' is a partnership with our South African fruit suppliers and an independent charitable organisation set up three years ago. All members of the supply chain donate a percentage of their profits to provide direct financial support for projects to improve the welfare of farm workers and their local communities. The Foundation's scope has now been extended to include all fruit sourced from South Africa. In 2007 the Foundation raised over £565,000, of which Waitrose contributed 60%. This money has supported community projects at more than 30 farms and is helping more than 19,000 workers, providing healthcare, crèches and adult education classes. Two bursaries have also been set up, awarded to farm workers' children. In line with the South African Government's aspirations for black economic empowerment, the programme will ultimately offer grants for buying land, to be held in trust on the workers' behalf.

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. We have refurbished our flagship Oxford Street John Lewis shop, creating more natural light, better air circulation, installing more efficient escalators, boilers, catering equipment and lighting. Development of John Lewis department stores such as Leicester, Sheffield and Liverpool forms part of a much larger masterplan to create cities with wider opportunities, better shopping and easier urban living.

We also intend to play a key role in the East London regeneration programme, with John Lewis and Waitrose shops being planned adjacent to the Olympic site, creating a strong attraction for customers and generating around 800 jobs.

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. For the last four years we have used the

Business review

Resources and relationships (continued)

community investment model of the London Benchmarking Group to provide us with a more complete picture of our overall community investment As a result of applying this model we can verify that we have invested the equivalent of around 2% of our pre-tax profits in our local communities In acknowledgement of this investment the Partnership has been awarded the BITC Per Cent Standard for the last four years

This year BITC have launched a new national standard called the CommunityMark, which replaces the Percent Standard. The CommunityMark will publicly recognise companies that are good investors in the community, defined as those companies that can demonstrate a long-term commitment to community investment that results in real community impact The Partnership has submitted an application for the CommunityMark and the results will be announced later this year

Golden Jubilee Trust
The Golden Jubilee Trust (GJT), our employee volunteering scheme has so far supported 331 Partners who have given over 136,000 hours to more than 320 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 for a full or part-time 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 In 2007, the Golden Jubilee Trust once again received a Business in the Community 'Big Tick' Award for Excellence

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 range of initiatives designed to raise awareness of health, nutrition and food provenance with children and young adults These include a series of

more than

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 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 (189 to date) are trained under some of the industry's top chefs Over 2,000 secondary schools – 49% of all English secondary schools – 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 550 schools involving more than 18,500 children The Waitrose Education programme was awarded a BITC 'Big Tick' in 2007

Environment

Energy and emissions
We are committed to tackling the issue of Climate Change and have set public targets to reduce our CO_2 emissions by 10% by 2010, 20% by 2020 and 60% by 2050, 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 on track to achieve our 20-year reduction target and in 2007/08 our emissions per £million sales were 16% less than in 2001/02 Since October 2007, 100% of our electricity is derived from renewable sources (up from 40% in 2006/07) through an agreement with EDF Energy

The Partnership is a member of the Corporate Leaders Group on Climate Change, a group of senior executives from 20 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 This includes the Climate Change Bill, which was introduced into the House of Lords in November 2007 and is hoped to achieve Royal Assent by early summer 2008 The Bill will provide a clear, credible, long-

efficiency

term framework for the UK to reduce CO_2 emissions and ensure steps are taken towards adapting to the impacts of climate change

Environment (continued)

Our current priority is tackling the CO_2 emissions from our UK operations, but we are aware of the impact associated with the CO_2 emitted during the production, distribution and consumption of products The John Lewis Partnership has been selected to represent the Institute of Grocery Distribution (IGD) and wider retail sector on a British Standards Institute steering group (PAS 2050) alongside the Carbon Trust and Defra, which will establish standards for measuring the total carbon footprint of a product or service, from cradle to grave In addition, the Partnership has also been invited to represent retail on the Carbon Trust Carbon Reduction and Communication Steering Group, a cross sector stakeholder group developing a robust framework to help companies communicate reductions in CO_2 emissions

With bigger shops and longer trading hours absolute energy use continues to rise, although energy efficiency has improved We are aiming to further improve the energy efficiency of all our shops and offices by 20% by 2010 (based on 2003/04 baseline) Waitrose is now in the third year of a five year programme which will see £55 million invested in 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, and is sourcing electrical products with the highest 'A' energy efficiency rating Both John Lewis and Waitrose also support calls by Government to phase out sales of conventional incandescent light bulbs

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 Our sustainable construction framework, developed with the UK's leading sustainable development charity – Forum for the Future, contains objectives for each stage of the construction life cycle and is ensuring that sustainability principles are adopted within the planning, design, construction and operation of all new builds and refurbishments

Packaging and waste

In meeting our obligations under the Packaging Waste Regulations, Waitrose recycled 49% of its waste last year, saving over 21,500 tonnes from landfill and John Lewis 39% of its waste (4,490 tonnes) Our ongoing objectives are to recycle 75% of all Waitrose waste by year-end 2012 and 50% of all John Lewis waste by year-end 2010 Our recently revised waste and recycling procedures continue 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 actively encourage our customers to reuse and recycle more and our Waitrose shops offer, and encourage local authorities to provide and service, centralised recycling points for packaging materials in our car parks where feasible Usability of packaging by our customers is an important factor in our packaging design process and we are currently working with the Waste Resources and Action Programme (WRAP) and other retailers to ensure a more consistent approach to this labelling, ensuring consumers are provided with clear and concise information on how to recycle their packaging

We fully support the UK's Waste Electrical and Electronic Equipment (WEEE) regulations introduced in 2007 The Partnership helped establish the Distributor Takeback Scheme through which £10 million is being invested in local recycling facilities for electrical items, enabling customers to recycle old electrical and electronic appliances free of charge at sites across the UK. As a manufacturer of own-brand electrical products we also have responsibility for recycling waste electricals and are funding a compliance scheme to do this on our behalf

As a signatory of the Courtauld Commitment, 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,

Business review

Resources and relationships (continued)

having reduced packaging consumption relative to sales by 36% since 2000. We have been trialling alternative materials – 50% of our organic range of produce is now available in degradable, biodegradable and compostable packaging.

Food waste accounts for approximately 60% of the total unrecyclable waste our food shops produce. Waitrose is a supporter of WRAP's 'Love Food, Hate Waste' campaign, providing practical information instore and online to help our Partners and customers reduce the amount of food they waste. Waitrose also continues to work with food donation charities to ensure that, where possible, food can be gifted to support disadvantaged communities.

Carrier Bags
In February 2007, the Partnership signed up to a national Voluntary Code of Practice on Carrier Bags, working with the Government and other retailers to reduce the environmental impact of carrier bags by 25% by the end of 2008. In support of this, Waitrose is rolling out special 'green tills' to shops, where free single trip plastic bags aren't provided. Our Saffron Walden shop also became a carrier-bag-free supermarket during a trial to evaluate customer appetite for a potentially bag less supermarket of the future.

We continue to promote our Waitrose 'Bag for Life', which saved an estimated 80 million bags in 2007. Both Waitrose and John Lewis sell reusable, biodegradable, and climate neutral jute bags and in 2007 Waitrose launched a new style Quick Check Bag made from the same material. Waitrose have been trialling, and John Lewis has introduced, plastic carrier bags made from 30% recycled material and with stronger environmental messaging. Carrier bag recycling facilities can be found in every Waitrose shop, while John Lewis is trialling them in Sheffield and Southampton.

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 19%. This is largely attributable to the sale of our production unit at Stead McAlpin which was the single largest user of water. Water consumption in shops has also improved and is now 27 cubic metres per full time equivalent Partner. This is a result of improved systems for monitoring water consumption.

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. Supporting this, we have remodelled our regional delivery boundaries, implementing changes to ensure that all products are delivered to the customer based on the lowest drive time.

We have increased vehicle utilisation – commercial miles driven per £million of sales reduced by 2% on the previous year and vehicle fuel efficiency reduced slightly to 12.16 miles per gallon (previously 12.20). All new vehicles are equipped with the latest Euro 5 engines where they are available, so that the emissions from our vehicles are the cleanest that can be achieved using available technology. Waitrose has also become the first supermarket to run five of its lorries on rapeseed oil as part of a six-month trial. If judged to be effective and sustainable, Waitrose will consider rolling it out to more fleet vehicles. Rapeseed oil has a cleaner production process than biodiesel and the associated carbon footprint is up to 20% lower than that producing an equivalent biodiesel.

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, 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 works actively 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 and in note 25 to the accounts

- **Funding and liquidity**
  Liquidity requirements are managed in line with short and long term cash flow 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 28 to the accounts
- **Interest rate risk**
  In order to manage the risk of interest rate fluctuations the group targets a ratio of fixed and floating rate debt in line with treasury policy 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 28 to the accounts
- **Foreign currency risk**
  The group uses derivatives to manage exposures to movements in exchange rates arising from transactions with foreign suppliers Forward exchange contracts are entered into for all major exposures
- **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 counterparties with a credit rating not less than a Standard & Poor's equivalent 'A' rating
- **Capital risk**
  The group's objectives are to maintain a capital structure which is consistent with an investment grade credit rating
- **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

Business review

Risks and uncertainties (continued)

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

Day-to-day management of the funds is delegated to a number of investment managers under the guidance of the trustees The assets of the schemes are held in separate funds 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
An actuarial valuation is carried out 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 For the primary pension scheme, the last valuation was carried out as at 31 March 2007 The market value of the assets of the fund as at 31 March 2007 was £1,843m The actuarial valuation of these assets showed that they were sufficient to cover 97% of the benefits which had accrued to members

There is also a senior scheme The actuarial valuation of this scheme as at 31 March 2007 will be finalised later in 2008

The next actuarial valuation of both pension schemes will take place as at 31 March 2010

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 from, 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, which have been updated by the actuaries to assess the assets and liabilities of the schemes as at 26 January 2008

The assets of the pension schemes as at 26 January 2008 were £1,859m (2007 £1,810m) The accounting liabilities of the pension funds (under IAS 19) were calculated to be £2,413m (2007 £2,251m) Taking the fund assets and accounting liabilities together, this resulted in an IAS 19 pension fund deficit of £554m (2007 £441m)

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 In addition, the Head of Business Protection and Continuity 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

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 During 2008/09 we will put in place new systems and measures which will support a more proactive approach to meeting our commitments to the safety and well being of our Partners, suppliers and customers

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

Business review

Risks and uncertainties (continued)

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 Partners, 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 age 41

Executive Chairman since March 2007
Member of the Board since 2001
Joined the Partnership 2000

Marisa Cassoni age 56

Finance Director since 2006 when she joined the Board and the Partnership
Also holds non-executive directorships with WSP Group plc and GFI Group Inc

Tracey Killen age 46

Director of Personnel since April 2007, when she joined the Board
Joined the Partnership 1982

Mark Price age 47

Managing Director, Waitrose since April 2007 Joined the Board 2005
Joined the Partnership 1982

Andy Street age 44

Managing Director, John Lewis since February 2007 Member of the Board since 2002 Joined the Partnership 1985

OFFICERS AND ADVISERS

Company Secretary and Director of Legal Services

Margaret Casely-Hayford

Auditors

PricewaterhouseCoopers LLP

Solicitors

Lovells

Bankers

Royal Bank of Scotland PLC

Director of Financial Control

Ros Haigh

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 28 Sir Stuart Hampson retired as a director on 1 April 2007 and Steven Esom resigned as a director on 24 April 2007 Tracey Killen was appointed as a director on 30 April 2007 Charlie Mayfield was appointed as Executive Chairman on 27 March 2007 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 36, comprising 26 John Lewis department stores, 187 Waitrose supermarkets, and ancillary manufacturing activities A review of the business and likely future developments is included separately in the Business Review on pages 4 to 26, 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 and forums 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

Directors' report

continued

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, risk The directors have reviewed the effectiveness of the Partnership's systems of internal control for the accounting period under review

Board committees
The principal committees of the Partnership Board are the Audit, Remuneration and Risk Committees Each committee has written terms of reference agreed by the Partnership Board

Audit Committee
The Audit Committee is chaired by Jeff Hewitt, an independent external committee member with relevant financial experience In addition to the chairman, the members are two of the five elected directors chosen by that group, currently Johnny Aisher and Martin Whitell, together with David Barclay, a non-executive director The external auditors attend its meetings as does the Finance Director, the Director of Financial Control and the Head of Internal Audit Other executives are invited to attend as appropriate and the Committee meets at least annually with the external auditors and the Head of Internal Audit without any executives being present

The Committee meets at least three times a year and its principal roles are assisting the Partnership Board in the discharge of its responsibilities in respect of statutory and other financial reporting and in respect of its review of the effectiveness of the group's internal controls and risk management systems, monitoring and reviewing the effectiveness of the group's internal audit function, making recommendations to the Board on the appointment and dismissal of the external auditors, approving the remuneration and terms of engagement of the external auditors and monitoring and reviewing the external auditors independence, objectivity and effectiveness, taking into account professional and regulatory requirements The Committee keeps under review the nature and extent of non-audit services provided to the Partnership by the external auditors, and receives confirmation from them, at least annually, that in their professional judgement they are independent with respect to the audit The Head of Internal Audit reports to the Committee and the Committee reviews and approves the Internal Audit work programme for each year and considers the results of internal audit work

Remuneration Committee
The Remuneration Committee is chaired by David Barclay, a non-executive director and the Partnership's Deputy Chairman In addition to the chairman, the members are Jane Tozer, a non-executive director, 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 Committee 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 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 long-term bonus schemes related to individual or company performance Details of directors' emoluments are set out in note 10

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 process

The Risk Committee is chaired by Jane Tozer, a non-executive director In addition to the Chairman, the members are four 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 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 £2,285,000 (2007 £2,106,000) for charitable purposes during the year, comprising £1,798,000 (2007 £1,630,000) for welfare causes and £487,000 (2007 £476,000) 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

Corporate social responsibility

The terms of the Partnership's Constitution clearly define the behaviour expected towards customers, suppliers, the environment, the wider community and its Partners Corporate Social Responsibility (CSR) programmes and governance structures have been developed from these provisions and the principal responsibility for managing and co-ordinating social, ethical and environmental issues resides with the Partnership's Director of Personnel, Tracey Killen In addition, the Partnership has a CSR Committee, a management committee reporting annually to the Partnership Board, which is chaired by the Director of Personnel and comprises several members of senior management Its purpose is to co-ordinate the Partnership's CSR policy and strategy and to monitor and review performance

More detailed information on the Partnership's CSR policies and procedures and copies of its published CSR reports can be found on the Partnership website, www johnlewispartnership co uk

Payments to suppliers

The Partnership's policy on the payment of its suppliers is to agree terms of payment in advance and, provided a supplier fulfils the agreement, to pay promptly in accordance with those terms The Partnership's trade creditors at 26 January 2008 were equivalent to 24 days of purchases (2007 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 25 to the financial statements

Directors' report

continued

Investments

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

Dividends

Dividends on Preference Shares for 2008 were £125,000 (2007 £125,000), and a dividend of £125,000 (2007 £250,000) 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
7 April 2008

Consolidated income statement

for the year ended 26 January 2008

Notes	Continuing operations	Year to 26 January 2008 £m	Year to 27 January 2007 £m
2	**Gross sales**	**6,762 8**	6,362 3
2	**Revenue**	**6,052 2**	5,686 2
	Cost of sales	**(4,007 6)**	(3,785 0)
	Gross profit	**2,044 6**	1,901 2
	Other operating income	**41 6**	36 6
3	Operating expenses	**(1,675 9)**	(1,582 5)
2	**Operating profit**	**410 3**	355 3
4	Finance costs	**(39 2)**	(42 7)
4	Finance income	**8 6**	7 6
14	Share of post tax losses of associate	**(8 0)**	(18 0)
13	Exceptional gain on dilution of interest in associate	**8 0**	18 0
	Net gain/(loss) in respect of associate	**-**	-
	Profit before Partnership bonus and tax	**379 7**	320 2
	Partnership bonus	**(181 1)**	(154 1)
5	**Profit before tax**	**198 6**	166 1
6	Taxation	**(59 4)**	(56 9)
	Profit after tax from continuing operations	**139 2**	109 2
8	Loss from discontinued operations	**(9 1)**	(0 7)
	Profit for the year	**130 1**	108 5

The presentation of prior year results has been amended in respect of discontinued operations, as detailed in note 8

The notes on pages 40 to 85 form part of these financial statements

Statement of recognised income and expenses

for the year ended 26 January 2008

Consolidated	Year to 26 January 2008 £m	Year to 27 January 2007 £m
Actuarial (loss)/gain on defined benefit pension schemes	**(123 4)**	42 2
Movement of deferred tax on pension scheme	**26 3**	(12 7)
Net gain/(loss) on cash flow hedges	**0 9**	(0 2)
Net (loss)/gain not recognised in the income statement	**(96.2)**	29 3
Profit for the period	**130 1**	108 5
Total recognised income and expenses for the year	**33 9**	137 8

Company	Year to 26 January 2008 £m	Year to 27 January 2007 £m
Actuarial (loss)/gain on defined benefit pension scheme	(123 4)	42 2
Movement on deferred tax on pension scheme	26 3	(12 7)
Net gain/(loss) on cash flow hedges	0 9	(0 2)
Net (loss)/gain not recognised in the income statement	(96 2)	29 3
Profit for the period	22 7	28 6
Total recognised income and expenses for the year	(73 5)	57 9

Consolidated balance sheet

as at 26 January 2008

Notes		2008 £m	2007 £m
	Non-current assets		
12	Intangible assets	**66 9**	61 3
13	Property, plant and equipment	**3,021 8**	2,869 2
17	Trade and other receivables	**31 3**	19 7
		3,120.0	2,950 2
	Current assets		
16	Inventories	**344 9**	349 6
17	Trade and other receivables	**211 5**	134 5
	Current tax receivables	**10 1**	–
26	Derivative financial instruments	**3 7**	1 5
18	Cash and cash equivalents	**121 6**	248 0
		691 8	733 6
	Total assets	**3,811 8**	3,683 8
	Current liabilities		
20	Borrowings and overdrafts	**(58 4)**	(151 9)
21	Trade and other payables	**(842 9)**	(763 7)
	Current tax payable	–	(18 9)
22	Finance lease liabilities	**(0 7)**	(1 3)
23	Provisions	**(54 3)**	(52 2)
26	Derivative financial instruments	–	(1 1)
		(956 3)	(989 1)
	Non-current liabilities		
20	Borrowings	**(404 6)**	(403 8)
21	Trade and other payables	**(40 1)**	(37 0)
22	Finance lease liabilities	**(30.1)**	(30 3)
23	Provisions	**(97 7)**	(90 8)
24	Deferred tax liabilities	**(45 1)**	(41 7)
27	Retirement benefit obligations	**(554 0)**	(441 0)
		(1,171 6)	(1,044 6)
	Total liabilities	**(2,127 9)**	(2,033 7)
	Net assets	**1,683 9**	1,650 1
	Equity		
29	Share capital	**6 7**	6 7
30	Share premium	**0 3**	0 6
30	Other reserves	**2.1**	1 2
30	Retained earnings	**1,674 8**	1,641 6
	Total equity	**1,683 9**	1,650 1

Approved by the Board on 7 April 2008
Charlie Mayfield
Marisa Cassoni
Directors

Balance sheet of the company

as at 26 January 2008

Notes		2008 £m	2007 £m
	Non-current assets		
12	Intangible assets	**63 4**	58 1
13	Property, plant and equipment	**767 4**	676 1
17	Trade and other receivables	**31 3**	19 7
15	Investments	**915.8**	980 4
		1,777 9	1,734 3
	Current assets		
16	Inventories	**205.0**	215 7
17	Trade and other receivables	**129.3**	50 4
24	Deferred tax asset	**96.0**	81 5
	Current tax receivable	**44.5**	20 6
26	Derivative financial instruments	**3.7**	1 5
18	Cash and cash equivalents	**47 0**	169 2
		525 5	538 9
	Total assets	**2,303 4**	2,273 2
	Current liabilities		
20	Borrowings and overdrafts	**(58.3)**	(151 7)
21	Trade and other payables	**(834 4)**	(760 8)
22	Finance lease liabilities	**(0 1)**	(0 1)
23	Provisions	**(45.8)**	(44 8)
26	Derivative financial instruments	**–**	(1 1)
		(938 6)	(958 5)
	Non-current liabilities		
20	Borrowings	**(404 6)**	(403 8)
21	Trade and other payables	**(37 6)**	(34 9)
22	Finance lease liabilities	**(15.2)**	(15 3)
23	Provisions	**(83 7)**	(78 6)
27	Retirement benefit obligations	**(554 0)**	(441 0)
		(1,095 1)	(973 6)
	Total liabilities	**(2,033 7)**	(1,932 1)
	Net assets	**269 7**	341 1
	Equity		
29	Share capital	**6 7**	6 7
30	Share premium	**0 3**	0 6
30	Other reserves	**0 7**	(0 2)
30	Retained earnings	**262 0**	334 0
	Total equity	**269 7**	341 1

Approved by the Board on 7 April 2008
Charlie Mayfield
Marisa Cassoni
Directors

Consolidated cash flow statement

for the year ended 26 January 2008

Notes		Year to 26 January 2008 £m	Year to 27 January 2007 £m
31	**Cash generated from operations**	**559 4**	588 0
	Taxation paid	**(58 3)**	(53 1)
	Partnership bonus paid	**(153 8)**	(119 2)
	Finance costs paid	**(9 7)**	(11 1)
	Net cash outflow from discontinued operations	**(0 4)**	(1 2)
	Net cash generated from operating activities	**337 2**	403 4
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(341 1)**	(364 1)
	Purchase of intangible assets	**(23 4)**	(23 7)
	Proceeds from sale of property, plant and equipment	**16 8**	26 4
	Net proceeds from sale of subsidiaries, net of cash disposed	**0 8**	–
	Finance income received	**7 4**	7 8
	Net cash flows from investing activities – discontinued operations	**0 1**	(0 2)
	Net cash used in investing activities	**(339 4)**	(353 8)
	Cash flows from financing activities		
	Finance costs in respect of bonds	**(29 6)**	(34 8)
	Payment of capital element of finance leases	**(0 8)**	(1 1)
	Premium paid on options	**(0 2)**	–
	Payments to preference shareholders	**(0 1)**	(0 1)
	Cash outflow from borrowings	**(100 0)**	(50 0)
	Net cash used in financing activities	**(130 7)**	(86 0)
	Increase/(decrease) in net cash and cash equivalents	**(132.9)**	(36 4)
	Net cash and cash equivalents at beginning of period	**196 1**	232 5
	Net cash and cash equivalents at end of period	**63 2**	196 1
18	**Net cash and cash equivalents comprise:**		
	Cash	**71 9**	77 6
	Short term deposits	**49 7**	170 4
	Bank overdrafts	**(58 4)**	(51 9)
		63 2	196 1

The presentation of prior year cash flow has been amended in respect of discontinued operations, as detailed in note 8

Cashflow of the company

for the year ended 26 January 2008

Notes		Year to 26 January 2008 £m	Year to 27 January 2007 £m
31	**Cash generated from operations**	**181.1**	274 5
	Taxation paid	**(24 0)**	(19 1)
	Partnership bonus paid	**(63 6)**	(44 7)
	Finance costs paid	**(8 6)**	(9 8)
	Net cash generated from operating activities	**84 9**	200 9
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(155 7)**	(61 7)
	Purchase of intangible assets	**(21 8)**	(21 7)
	Proceeds from sale of property, plant and equipment	**0.9**	0 5
	Net proceeds from sale of subsidiaries, net of cash disposed	**0 8**	-
	Dividends received	**2 1**	1 7
	Loans repaid by/(advanced to) group companies	**82 4**	(70 5)
	Finance income received	**7 4**	7 8
	Net cash used in investing activities	**(83 9)**	(143 9)
	Cash flows from financing activities		
	Finance costs in respect of bonds	**(29 6)**	(34 8)
	Payment of capital element of finance leases	**(0.1)**	(0 7)
	Payments to preference shareholders	**(0 1)**	(0 1)
	Cash outflow from borrowings	**(100 0)**	(50 0)
	Net cash used in financing activities	**(129 8)**	(85 6)
	Increase/(decrease) in net cash and cash equivalents	**(128.8)**	(28 6)
	Net cash and cash equivalents at beginning of period	**117 5**	146 1
	Net cash and cash equivalents at end of period	**(11 3)**	117 5
18	**Net cash and cash equivalents comprise**		
	Cash	**25 4**	25 2
	Short term deposits	**21 6**	144 0
	Bank overdraft	**(58 3)**	(51 7)
		(11 3)	117 5

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 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

Business components that represent major lines of business or geographical areas of operations are recognised as discontinued if the operations have been disposed of, are being abandoned or meet the criteria to be classified as held for sale

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

The following standards, amendments and interpretations were adopted by the group from 28 January 2007

- IFRS 7 Financial Instruments Disclosures
- IFRS 4 Insurance Contracts revised guidance on implementing
- Amendment to IAS 1 Capital Disclosures
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC 11 IFRS 2 Group and Treasury Share Transactions

The adoption of these standards, amendments and interpretations has not had a significant impact on the Group's profit for the period or equity, but has affected disclosures

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 27 January 2008 or later periods, but which the group has not adopted early

These are as follows

- IFRS 8 Operating Segments requires identification and reporting of operating segments on the basis of internal reports that are regularly reviewed by the Board
- IFRIC 12 Service Concession Arrangements
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 14 – IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction
- Amendment to IAS 1 Presentation of Financial Statements
- Amendment to IAS 23 Borrowing Costs

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

1 Accounting policies (continued)

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 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

Notes to the accounts

continued

1 Accounting policies (continued)

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

Lease premiums and inducements are recognised in current and non-current assets accordingly, and amortised on a straight line basis over the lease term

Sub-lease income is recognised as income on a straight line basis over the sub-lease term, less allowances for situations where recovery is doubtful

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

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

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

1 Accounting policies (continued)

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

Financial instruments
The group uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates and interest rates Derivative financial instruments used by the group include interest rate swaps, forward currency contracts and vanilla currency options Hedge accounting has been adopted for derivative financial instruments where possible Such derivative financial instruments are measured at fair value 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 and interest rates prevailing at the balance sheet date

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

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability Derivative financial instruments qualifying for fair value hedge accounting are principally interest rate swaps

A cash flow hedge is a hedge of the exposure to variability of cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction 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 Derivative financial instruments qualifying for cash flow hedge accounting are principally forward currency contracts and currency options

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

Notes to the accounts

continued

1 Accounting policies (continued)

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

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

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

1 Accounting policies (continued)

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 27

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 23 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 two business segments, John Lewis 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

Following the disposal of Stead McAlpin and JH Birtwistle during the year, the segment analysis has been reviewed The John Lewis Retail and John Lewis Other segments have been combined into one segment, 'John Lewis', and the comparative segmental information has been represented

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 are reported in respect of continuing operations Discontinued operations are explained in note 8

Notes to the accounts

continued

2 Segmental reporting (continued)

26 January 2008	John Lewis £m	Waitrose £m	Unallocated £m	Group £m
Gross sales	2,812 7	3,950 1	–	6,762 8
Adjustment for sale or return sales	(103.0)	–	–	(103 0)
Value added tax	(394.7)	(212 9)	–	(607 6)
Revenue	2,315 0	3,737 2	–	6,052 2
Operating profit	190 0	220 3	–	410 3
Finance costs	–	–	(39 2)	(39.2)
Finance income	–	–	8 6	8.6
Share of post tax losses of associate	–	–	(8.0)	(8.0)
Exceptional gain on dilution of interest in associate	–	–	8.0	8.0
Partnership bonus	–	–	(181 1)	(181.1)
Profit before tax	190 0	220 3	(211 7)	198 6
Taxation	–	–	(59 4)	(59 4)
Profit after tax from continuing operations	190 0	220 3	(271 1)	139 2
Segment assets	1,542 5	2,058 1	–	3,600 6
Unallocated assets				
– group cash	–	–	121 6	121 6
– other	–	–	89 6	89 6
Total assets	1,542 5	2,058 1	211 2	3,811.8
Segment liabilities	(405 1)	(375 2)	(285.5)	(1,065.8)
Unallocated liabilities				
– group borrowings	–	–	(463 0)	(463 0)
– deferred tax liabilities	–	–	(45 1)	(45 1)
– retirement benefit obligations	–	–	(554 0)	(554 0)
Total liabilities	(405 1)	(375 2)	(1,347 6)	(2,127.9)
Net assets	1,137 4	1,682 9	(1,136 4)	1,683 9
Other segment items*				
– Depreciation	61 6	98 6	9 0	169.2
– Amortisation of intangible assets	6 1	7.1	4 5	17 7
– Capital expenditure – property, plant and equipment	173 8	157.4	8.6	339 8
– Capital expenditure – intangible assets	11 0	8 2	4 2	23 4
– Movement in provisions	9 4	2 7	(3 1)	9 0

* Continuing operations only

2 Segmental reporting (continued)

27 January 2007	John Lewis £m	Waitrose £m	Unallocated £m	Group £m
Gross sales	2,663 8	3,698 5	–	6,362 3
Adjustment for sale or return sales	(100 7)	–	–	(100 7)
Value added tax	(374 2)	(201 2)	–	(575 4)
Revenue	2,188 9	3,497 3	–	5,686 2
Operating profit	178 4	176 9	–	355 3
Finance costs	–	–	(42 7)	(42 7)
Finance income	–	–	7 6	7 6
Share of post tax losses of associate	–	–	(18 0)	(18 0)
Exceptional gain on dilution of interest in associate	–	–	18 0	18 0
Partnership bonus	–	–	(154 1)	(154 1)
Profit before tax	178 4	176 9	(189 2)	166 1
Taxation	–	–	(56 9)	(56 9)
Profit after tax from continuing operations	178 4	176 9	(246 1)	109 2
Segment assets	1,429 9	1,999 4	–	3,429 3
Unallocated assets				
– group cash	–	–	248 0	248 0
– other	–	–	6 5	6 5
Total assets	1,429 9	1,999 4	254 5	3,683 8
Segment liabilities	(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	(367 3)	(358 1)	(1,308 3)	(2,033 7)
Net assets	1,062 6	1,641 3	(1,053 8)	1,650 1
Other segment items*				
– Depreciation	57 3	91 9	15 9	165 1
– Amortisation of intangible assets	4 4	6 7	3 5	14 6
– Capital expenditure – property, plant and equipment	77 1	269 2	23 1	369 4
– Capital expenditure – intangible assets	11 1	9 1	3 5	23 7
– Movement in provisions	18 1	0 7	3 0	21 8

* Continuing operations only

Notes to the accounts

continued

3 Operating expenses

	2008 £m	2007 £m
Branch operating expenses	**1,222.8**	1,172 8
Administrative expenses	**369 9**	325 4
Pension costs	**83 2**	84 3
	1,675 9	1,582 5

The presentation of prior year figures has been amended in respect of discontinued operations, as detailed in note 8

4 Net finance costs

	2008 £m	2007 £m
Finance costs		
Interest payable on		
Bank loans and overdrafts	**7 5**	9 1
Other loans repayable within 5 years	**19 1**	1 4
Loans repayable in more than 5 years	**10 5**	29 5
Finance lease interest payable	**1 5**	1 6
Amortisation of issue costs of bonds	**0 3**	0 3
Preference dividends	**0 1**	0 1
Adjustments to fair values	**0 2**	0 7
Group	**39 2**	42 7
Finance income		
Interest receivable	**(7 0)**	(7 6)
Adjustment to fair values	**(1.6)**	-
	(8 6)	(7 6)
Net finance costs	**30 6**	35 1

5 Profit on ordinary activities before taxation

	Continuing operations		Discontinued operations		Total	
	2008	2007	**2008**	2007	**2008**	2007
	£m	£m	**£m**	£m	**£m**	£m
Profit on ordinary activities before taxation is stated after charging/(crediting) the following						
Staff costs (note 11)	**1,192 6**	1,121 4	**5 8**	8 3	**1,198.4**	1,129 7
Depreciation – owned assets	**168 6**	164 4	**0 1**	0 1	**168 7**	164 5
Depreciation – assets held under finance leases	**0 6**	0 7	**–**	–	**0 6**	0 7
Amortisation of intangible assets	**17 7**	(14 6)	**–**	–	**17 7**	(14 6)
(Profit)/loss on sale of tangible and intangible fixed assets	**(0 2)**	(8 6)	**(0 2)**	–	**(0 4)**	(8 6)
Inventory – cost of inventory recognised as an expense	**4,007 6**	3,785 0	**5 9**	9 1	**4,013 5**	3,794 1
Restructuring costs	**9 1**	5 5	**–**	–	**9 1**	5 5
Operating lease rentals						
– land and buildings	**78.8**	74 6	**–**	0 1	**78 8**	74 7
– plant and machinery	**0 9**	0 8	**–**	0 1	**0 9**	0 9
Sub lease income						
– land and buildings	**(4 3)**	(4 8)	**–**	–	**(4 3)**	(4 8)
Fees payable to the group's auditors in respect of audit services						
– audit of group financial statements	**0.7**	0 6	**–**	–	**0 7**	0 6
– audit of company (included in the above)	**0.2**	0 2	**–**	–	**0 2**	0 2
Fees payable to the group's auditors and its associates for other services						
– taxation services	**0.1**	0 1	**–**	–	**0.1**	0 1
– other non audit services	**0 1**	0 1	**–**	–	**0 1**	0 1

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 £35,000 (2007 £34,000)

Contingency rents expensed during the year were £11 5m (2007 £9 9m) Contingency rents are determined based on store revenues

Notes to the accounts

continued

6 Tax on profit on ordinary activities

Analysis of tax charge	Continuing operations 2008 £m	2007 £m	Discontinued operations 2008 £m	2007 £m	Total 2008 £m	2007 £m
Corporation tax – current year	**33 6**	54 6	**(0 4)**	(0 9)	**33 2**	53 7
Corporation tax – prior years	**(3 8)**	(5 1)	–	–	**(3 8)**	(5 1)
Total current tax charge	**29 8**	49 5	**(0 4)**	(0 9)	**29.4**	48 6
Deferred tax	**29 6**	7 4	**0.1**	(0 4)	**29 7**	7 0
	59 4	56 9	**(0.3)**	(1 3)	**59 1**	55 6

Tax (credited)/charged to equity	Continuing operations 2008 £m	2007 £m	Discontinued operations 2008 £m	2007 £m	Total 2008 £m	2007 £m
Deferred tax on pension liability	**(26 3)**	12 7	–	–	**(26 3)**	12 7

The tax charge for the period is lower (2007 higher) than the standing corporation tax rate of 30% (2007 30%) The differences are explained below

	Continuing operations 2008 £m	2007 £m	Discontinued operations 2008 £m	2007 £m	Total 2008 £m	2007 £m
Profit before tax	**198 6**	166 1	**(9 4)**	(2 0)	**189 2**	164 1
Profit before tax multiplied by standard rate of corporation tax in the UK of 30% (2007 30%)	**59 6**	49 8	**(2 8)**	(0 6)	**56 8**	49 2
Effects of						
Adjustment to current tax in respect of prior years	**(3 8)**	(5 1)	–	–	**(3.8)**	(5 1)
Restatement of brought forward deferred tax balance for reduction in the corporation tax rate to 28%	**(10 9)**	–	–	–	**(10 9)**	–
Depreciation on assets not qualifying for tax relief	**12 1**	11 9	–	–	**12 1**	11 9
Difference between accounting and tax base for land and buildings	**0 5**	(1 8)	–	–	**0 5**	(1 8)
Non-allowable costs of disposal of manufacturing companies	–	–	**2 5**	–	**2 5**	–
Non-allowable share of associate company gain/loss	–	(0 2)	–	–	–	(0 2)
Sundry disallowables	**1 9**	2 3	–	(0 7)	**1 9**	1 6
Total tax charge	**59 4**	56 9	**(0 3)**	(1 3)	**59.1**	55 6

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 £22 7m profit (2007 £28 6m profit)

8 Discontinued operations

On 14 September 2007 the Partnership disposed of the entire share capital of JH Birtwistle & Company Limited and Stead, McAlpin & Company Limited

The loss after tax for the period from the discontinued operations is analysed below

	Year to 26 January 2008 £m	Year to 27 January 2007 £m
Gross sales	**7 9**	13 9
Revenue	**7 4**	12 2
Cost of sales	**(5 9)**	(9 1)
Gross profit	**1 5**	3 1
Operating expenses	**(1 7)**	(4 1)
Operating loss	**(0 2)**	(1 0)
Finance income	–	0 1
Loss before Partnership bonus and tax	**(0 2)**	(0 9)
Partnership bonus	–	(1 1)
Loss before tax	**(0 2)**	(2 0)
Taxation	–	1 3
Loss after tax	**(0 2)**	(0 7)

Net cash flows from discontinued operations are as follows

	Year to 26 January 2008 £m	Year to 27 January 2007 £m
Net cash outflow from operating activities	**(0 4)**	(1 2)
Net cash inflow/(outflow) from investing activities	**0 1**	(0 2)

Notes to the accounts

continued

8 Discontinued operations (continued)

The net assets of the discontinued operations at the date of disposal were as follows

	14 September 2007 £m
Property, plant and equipment	1 5
Inventories	2 8
Trade and other receivables	2 8
Trade and other payables	(0 9)
Net assets disposed of	6 2

The loss on disposal of the discontinued operations is as follows

	14 September 2007 £m
Total consideration, net of costs	0 8
Net assets disposed of	(6 2)
Provision for other disposal commitments	(3 8)
Loss on disposal before taxation	(9 2)
Income tax credit	0 3
Loss on disposal	(8 9)

Total loss from discontinued operations is as follows

	Year to 26 January 2008 £m	Year to 27 January 2007 £m
Loss for the period from discontinued operations	**(0 2)**	(0 7)
Loss on disposal of discontinued operations	**(8 9)**	–
Loss from discontinued operations	**(9 1)**	(0 7)

9 Dividends

	2008 £m	2007 £m
Equity interests		
Ordinary shares		
(20 pence per share, 2007, 41 pence per share)	**0 1**	0 3

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

10 Directors' emoluments

	2008 £000	2007 £000
Directors' remuneration including Partnership bonus of 20% (18%)	**2,907**	3,187

The emoluments of Charlie Mayfield, who held the post of Chairman from 27 March 2007 to 26 January 2008 and was also the highest paid director for that year, were £772,000, including Partnership bonus of £126,000 For the purposes of this note, all references to the Chairman are to Charlie Mayfield The Chairman's aggregate pension entitlement from the age of 60 accrued at the end of the year was £117,000 per annum (2007 £69,000 per annum) The transfer value of the increase in accrued entitlement during the year was £245,000

For the year to 27 January 2007 the Chairman and highest paid director was Sir Stuart Hampson His emoluments were £833,000, including Partnership bonus of £125,000

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

	2008	2007		**2008**	2007
£150,001 - £200,000	**1**	–	£450,001 - £500,000	**1**	–
£250,001 - £300,000	**1**	1	£500,001 - £550,000	**2**	1
£400,001 - £450,000	**–**	2	£700,001 - £750,000	**–**	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 former Chairman and three 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, five 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

10 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 and the former Chairman, who served on the Board during any part of the year, and the prior year amounts for the same individuals, were as follows

	2008	2007		2008	2007
£100,001 - £150,000	1	2	£150,001 - £200,000	2	1

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 £279,000 (2007 £150,000) in the year

The aggregate pension entitlement accrued at the end of the year for all directors, excluding the Chairman and the former 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 (2007 £434,000 per annum) The increase in accrued pension reflects the combined effect of a further year's service and 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 (2007 £12,000 per annum) The transfer value of the aggregate increase in accrued entitlement, including temporary pensions, during the year was £408,000

11 Employees

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

	Continuing operations		Discontinued operations		Total	
Consolidated	2008	2007	2008	2007	2008	2007
John Lewis	27,700	27,300	230	270	27,930	27,570
Waitrose	39,000	37,900	–	–	39,000	37,900
Other	1,500	1,600	–	–	1,500	1,600
	68,200	66,800	230	270	68,430	67,070

11 Employees (continued)

Employment and related costs were as follows

Consolidated	Continuing operations 2008 £m	Continuing operations 2007 £m	Discontinued operations 2008 £m	Discontinued operations 2007 £m	Total 2008 £m	Total 2007 £m
Staff costs						
Wages and salaries	**859.7**	811 7	**5 1**	5 9	**864 8**	817 6
Social security costs	**68 0**	65 7	**0 3**	0 5	**68 3**	66 2
Partnership bonus	**162 3**	137 4	–	1 0	**162 3**	138 4
Employers national insurance on Partnership bonus	**18 8**	16 7	–	0 1	**18 8**	16 8
Pension costs	**83 2**	84 3	**0 4**	0 8	**83 6**	85 1
Partner discounts (deducted from revenue)	**21 8**	19 1	**0.1**	0 1	**21 9**	19 2
Long leave cost	**0 6**	5 6	–	–	**0 6**	5 6
Included above are the following amounts in respect of key management compensation						
Salaries and short term benefits	**10 4**	10 6	**0 1**	0 1	**10 5**	10 7
Pension benefits	**3.9**	3 5	–	–	**3 9**	3 5
Termination benefits	**0 8**	–	**0 1**	–	**0.9**	–

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, private medical insurance and termination payments

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	2008	2007
John Lewis	**27,700**	27,300
Other	**1,500**	1,600
	29,200	28,900

Notes to the accounts

continued

11 Employees (continued)

Employment and related costs were as follows

Company	2008 £m	2007 £m
Staff costs		
Wages and salaries	**440 2**	408 9
Social security costs	**36.8**	36 3
Partnership bonus	**82 3**	70 9
Employers national insurance on Partnership bonus	**9 6**	8 6
Pension costs	**45 2**	49 3
Partner discounts (deducted from revenue)	**13 8**	9 8
Long leave cost	**0 4**	3 4
Included above are the following amounts in respect of key management compensation		
Salaries and short term benefits	**6 9**	7 9
Pension benefits	**2 6**	2 7

12 Intangible assets

Consolidated	Computer software Purchased £m	Computer software Internally developed £m	Work in progress £m	Total £m
Cost				
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
Additions	0 1	–	23 3	23 4
Transfers	5 3	24 8	(30 1)	-
Disposals	(2 4)	(0 1)	–	(2 5)
At 26 January 2008	**26 6**	**97 2**	**8 8**	**132 6**
Aggregate amortisation				
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
Charge for the year	4 0	13 7	–	17 7
Disposals	(2 3)	(0 1)	–	(2 4)
At 26 January 2008	**17 0**	**48 7**	**–**	**65.7**
Net book value at 27 January 2007	8 3	37 4	15 6	61 3
Net book value at 26 January 2008	**9 6**	**48 5**	**8 8**	**66 9**

12 Intangible assets (continued)

For the year to January 2008 computer systems totalling £30 1m (2007 £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 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
Additions	0 1	–	21 7	21 8
Transfers	3 7	24 8	(28 5)	–
Disposals	(2 3)	(0 1)	–	(2 4)
At 26 January 2008	**18 9**	**94.7**	**8 8**	**122 4**
Aggregate amortisation				
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
Charge for the year	2 7	13 7	–	16 4
Disposals	(2 2)	(0 1)	–	(2 3)
At 26 January 2008	**12 1**	**46 9**	**–**	**59 0**
Net book value at 27 January 2007	5 8	36 7	15 6	58 1
Net book value at 26 January 2008	**6 8**	**47 8**	**8 8**	**63 4**

Notes to the accounts

continued

13 Property, plant and equipment

Consolidated	Land and buildings £m	Fixtures and fittings £m	Assets in course of construction £m	Total £m
Cost				
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
Additions	0 4	4 5	335 0	339 9
Transfers	170 1	169 5	(339 6)	–
Disposals – discontinued operations	(4 3)	(29 1)	–	(33 4)
Disposals – others	(15 1)	(77 2)	–	(92 3)
At 26 January 2008	**2,741 2**	**1,258 5**	**141 3**	**4,141 0**
Accumulated depreciation				
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
Charges for the year	59 4	109 9	–	169 3
Disposals – discontinued operations	(3 1)	(28 8)	–	(31 9)
Disposals – others	(5 2)	(70 6)	–	(75 8)
At 26 January 2008	**396 6**	**722 6**	**–**	**1,119 2**
Net book values at 27 January 2007	2,244 6	478 7	145 9	2,869 2
Net book values at 26 January 2008	**2,344 6**	**535 9**	**141 3**	**3,021 8**

Included above are land and buildings assets held under finance leases with a net book value of £21 4m (2007 £22 2m)

13 Property, plant and equipment (continued)

Company	Land and buildings £m	Fixtures and fittings £m	Assets in course of construction £m	Total £m
Cost				
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
Additions	0 3	3 8	154 8	158 9
Transfers	26 7	86 6	(113 3)	–
Disposals	(2 9)	(31 7)	–	(34 6)
At 26 January 2008	**516 2**	**608.1**	**90 2**	**1,214 5**
Accumulated depreciation				
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**
Charges for the year	10 4	53 3	–	63 7
Disposals	(2 8)	(27 9)	–	(30 7)
At 26 January 2008	**74 5**	**372 6**	**–**	**447 1**
Net book values at 27 January 2007	425 2	202 2	48 7	676 1
Net book values at 26 January 2008	**441 7**	**235 5**	**90 2**	**767 4**

Included above are land and buildings assets held under finance leases with a net book value of £14 0m (2007 £14 2m)

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14 Investment in associate

	Share of net assets £m	Loans £m	Goodwill £m	Total £m
Cost				
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**
Share of post tax losses*	(8 0)			(8 0)
Dilution of interest	8 0			8 0
At 26 January 2008	**(9 6)**	**20 3**	**15 1**	**25 8**
Amounts written off				
At 27 January 2007 and 26 January 2008	**–**	**(10.7)**	**(15 1)**	**(25 8)**
Net book value				
At 27 January 2007 and 26 January 2008	**(9 6)**	**9 6**	**–**	**–**

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

	2008 £m	2007 £m
Current assets	**6 1**	4 6
Long-term assets	**20.4**	19 8
Current liabilities	**(7 6)**	(7 9)
Long-term liabilities	**(30 4)**	(27 0)
Losses not consolidated*	**1.9**	0 9
Share of net assets of associate	**(9.6)**	(9 6)
Revenue	**73 4**	64 0
Expenses	**(82 4)**	(74 4)
Losses not consolidated*	**1 9**	0 9
Share of operating loss of associate	**(7 1)**	(9 5)

*Post tax losses comprise £0 9m of losses not consolidated from the year to 27 January 2007, together with £7 1m of losses in respect of the year to 26 January 2008 As at 26 January 2008 a total of £1 9m of losses remain unconsolidated

Investments at 26 January 2008 represent 0 1% of the Ordinary Shares and 37 4% of the Convertible Preference Shares of Ocado Limited which equates to 24 1% of the issued share capital

The total revenue of Ocado Limited for the year to 26 January 2008 was £301 4m Ocado's results are included in the group's accounts based on their statutory accounts to 2 December 2007, and management accounts from that date to the group's year end

14 Investment in associate (continued)

Losses totalling £1 9m (2007 £0 9m) 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 2007 Ocado raised £30m of funding from other investors, as a result of which the Partnership's shareholding reduced to 24 1%, or 28 1% on a fully diluted basis These transactions gave rise to a credit of £8 0m on the dilution of the holding, which is recorded in the income statement as an exceptional gain for the year ended 26 January 2008

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 28 1%

15 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 27 January 2007	81 7	843 3	45 8	9 6	980 4
Movements	(2 6)	(62 0)	–	–	(64 6)
At 26 January 2008	**79 1**	**781.3**	**45 8**	**9 6**	**915 8**

A list of subsidiary undertakings is provided in note 36

Notes to the accounts

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16 Inventories

	2008 £m	2007 £m
Consolidated		
Raw materials	**5 0**	6 2
Work in progress	**0 7**	1 4
Finished goods and goods for resale	**339 2**	342 0
	344 9	349 6
Company		
Raw materials	**3 6**	3 6
Finished goods and goods for resale	**201 4**	212 1
	205 0	215 7

The cost of inventory recognised as an expense by the group in the period was £4,007 6m (2007 £3,785 0m) Provisions against inventories of £0 9m credit (2007 £3 7m) were recognised in operating expenses

17 Trade and other receivables

Consolidated	2008 £m	2007 £m
Current		
Trade receivables	**40 5**	47 3
Other receivables	**33 0**	26 9
Due from associated undertaking	**3 6**	4 6
Prepayments	**134 4**	55 7
	211 5	134 5
Non-current		
Prepayments	**31 3**	19 7
Company		
Current		
Trade receivables	**4 1**	2 7
Other receivables	**18 6**	17 2
Prepayments	**106 6**	30 5
	129 3	50 4
Non-current		
Prepayments	**31 3**	19 7

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 and is denominated in sterling

17 Trade and other receivables (continued)

As of 26 January 2008, group trade and other receivables of £0.7m (2007: £0.2m) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2008 £m	2007 £m
At start of period	**(0.2)**	(0.3)
Charged to income statement	**(0.5)**	(0.1)
Utilised	**–**	0.1
Released	**–**	0.1
At end of period	**(0.7)**	(0.2)

The creation and release of the provision for impaired receivables have been included in operating expenses in the income statement.

As of 26 January 2008 the company had no impaired trade and other receivables (2007: nil).

As of 26 January 2008, group trade and other receivables of £11.3m (2007: £7.6m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

	2008 £m	2007 £m
Up to 3 months past due	**9.2**	5.8
3 to 12 months past due	**1.8**	1.8
Over 12 months past due	**0.3**	–
	11.3	7.6

As of 26 January 2008, amounts due from associated undertaking were neither past due nor impaired (2007: £1.7m up to 3 months past due but not impaired).

As of 26 January 2008, company trade and other receivables of £3.9m (2007: £0.9m) were past due but not impaired. The ageing analysis of past due amounts is as follows:

	2008 £m	2007 £m
Up to 3 months past due	**3.1**	0.5
3 to 12 months past due	**0.5**	0.4
Over 12 months past due	**0.3**	–
	3.9	0.9

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18 Cash and cash equivalents

Consolidated	2008 £m	2007 £m
Cash at bank and in hand	**71 9**	77 6
Short term bank deposits	**49 7**	170 4
	121 6	248 0
Company		
Cash at bank and in hand	**25 4**	25 2
Short term bank deposits	**21 6**	144 0
	47 0	169 2

For the year ended 26 January 2008, the effective interest rate on short-term investments was 5 8% (2007 4 7%) and these deposits had an average maturity of 2 days (2007 2 days)

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

Consolidated	2008 £m	2007 £m
Cash and cash equivalents, as above	**121 6**	248 0
Less bank overdrafts	**(58 4)**	(51 9)
Net cash and cash equivalents	**63 2**	196 1
Company		
Cash and cash equivalents, as above	**47 0**	169 2
Less bank overdrafts	**(58 3)**	(51 7)
Net cash and cash equivalents	**(11.3)**	117 5

19 Analysis of financial assets

The currency and interest rate exposures of the group's financial assets are 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	5 8%	105 3	60 1	165 4
Euro	2 8%	2 8	–	2 8
Other	4 2%	3 7	–	3 7
At 26 January 2008		**111 8**	**60 1**	**171.9**
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

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

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20 Borrowings and overdrafts

Consolidated	2008 £m	2007 £m
Current		
Bank overdraft	**58 4**	51 9
Loans, repayable 2007	**–**	100 0
	58 4	151 9
Non-current		
6⅜% Bonds, 2012	**300.0**	300 0
Interest rate swap on the above	**2.3**	1 5
10½% Bonds, 2014	**100 0**	100 0
5% First Cumulative Preference Stock	**1 5**	1 5
7% Cumulative Preference Stock	**0 8**	0 8
	404 6	403 8

Company	2008 £m	2007 £m
Current		
Bank overdraft	**58 3**	51 7
Loans, repayable 2007	**–**	100 0
	58 3	151 7
Non-current		
6⅜% Bonds, 2012	**300 0**	300 0
Interest rate swap on the above	**2.3**	1 5
10½% Bonds, 2014	**100 0**	100 0
5% First Cumulative Preference Stock	**1 5**	1 5
7% Cumulative Preference Stock	**0 8**	0 8
	404 6	403 8

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

21 Trade and other payables

Consolidated	2008 £m	2007 £m
Current		
Trade payables	**342 5**	326 3
Amounts owed to parent undertaking	**16.3**	1 8
Amounts owed to associated undertaking	**4.6**	5 6
Other payables	**97.3**	78 9
Other taxation and social security	**120 4**	120 0
Accruals	**93 4**	89 4
Deferred income	**4.9**	3 3
Partnership bonus	**163.5**	138 4
	842 9	763 7
Non-current		
Accruals	**1 8**	2 0
Deferred income	**38 3**	35 0
	40 1	37 0
Company		
Current		
Trade payables	**131 6**	135 4
Amounts owed to parent undertaking	**16 3**	1 8
Amounts owed to group companies	**282.7**	279 4
Other payables	**79 4**	55 1
Other taxation and social security	**94 9**	94 9
Accruals	**62 5**	54 5
Deferred income	**4 3**	2 9
Partnership bonus	**162 7**	136 8
	834.4	760 8
Non-current		
Accruals	**1 8**	2 0
Deferred income	**35 8**	32 9
	37 6	34 9

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

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22 Finance lease liabilities

Consolidated	2008 £m	2007 £m
The minimum lease payments under finance leases fall due as follows		
Not later than one year	**2 2**	2 2
Later than one year but not more than five	**8 6**	8 6
More than five years	**54.9**	57 1
	65 7	67 9
Future finance charge on finance leases	**(34 9)**	(36 3)
Present value of finance lease liabilities	**30 8**	31 6
Of which		
Current	**0 7**	1 3
Non-current	**30 1**	30 3

Company	2008 £m	2007 £m
The minimum lease payments under finance leases fall due as follows		
Not later than one year	**0 5**	0 5
Later than one year but not more than five	**2 0**	2 0
More than five years	**26 9**	27 3
	29 4	29 8
Future finance charge on finance leases	**(14 1)**	(14 4)
Present value of finance lease liabilities	**15 3**	15 4
Of which		
Current	**0 1**	0 1
Non-current	**15 2**	15 3

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

23 Provisions

Consolidated	Long leave £m	Service guarantee costs £m	Other £m	Total £m
At 27 January 2007	71 7	31 3	40 0	143 0
Charged to income statement	0 6	19 5	10 3	30 4
Utilised	(4 8)	(12 1)	(4 5)	(21 4)
At 26 January 2008	**67.5**	**38 7**	**45 8**	**152 0**
Of which				
Current	18 6	12 4	23 3	54 3
Non-current	48 9	26 3	22 5	97 7

Company	Long leave £m	Service guarantee costs £m	Other £m	Total £m
At 27 January 2007	71 7	31 3	20 4	123 4
Charged to income statement	0 6	19 5	11 8	31 9
Utilised	(4 8)	(12 1)	(8 9)	(25 8)
At 26 January 2008	**67 5**	**38 7**	**23 3**	**129 5**
Of which				
Current	18 6	12 4	14 8	45 8
Non-current	48 9	26 3	8 5	83 7

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 27) with the exception of the discount rate, where a rate appropriate to shorter duration of the long leave liability is used, so as to accrue the cost over employees' service periods

Provisions for service guarantee costs reflect the group's expected liability for future repair costs based on expected failure rates and unit repair costs for the classes of goods sold

Other provisions include insurance claim provisions, where the group's liabilities are assessed on an actuarial basis, 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 28

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24 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2007 30%)

The movement on the deferred tax account is shown below

Consolidated	2008 £m	2007 £m
Opening liability	**41.7**	22 0
Charged to income statement	**29 7**	7 0
Charged/(credited) to equity	**(26 3)**	12 7
Closing liability	**45.1**	41 7

Company	2008 £m	2007 £m
Opening asset	**(81 5)**	(92 7)
Charged/(credited) to income statement	**11 8**	(1 5)
Charged/(credited) to equity	**(26 3)**	12 7
Closing asset	**(96 0)**	(81 5)

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 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
Charged/(credited) to income statement	2 7	(1 5)	(0 3)	0 1	1 0
At 26 January 2008	**166 7**	**21 8**	**23 9**	**1 4**	**213 8**

24 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 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)
Charged to income statement	0 9	26 7	1 1	28 7
Credited to equity	–	(26 3)	–	(26 3)
At 26 January 2008	**(14 2)**	**(154 3)**	**(0 2)**	**(168 7)**

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 £23 7m (2007 £25 5m)

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax provision at 26 January 2008 was £45 1m (2007 £41 7m) The net deferred tax liability is due after more than one year

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

	2008 £m	2007 £m
Deferred tax (credited)/charged on pension fund provision	**(26 3)**	12 7

25 Management of financial risks

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

Liquidity risk
Liquidity requirements are managed in line with short and long term cash flow forecasts and reviewed against the group's debt portfolio and maturity profile At the year end the group had committed revolving borrowings facilities of £430m (2007 £475m), £200m of which is available to December 2008 and £230m to February 2010 In addition to these facilities, the group has bonds totalling £400m, £300m of which matures in 2012 and £100m in 2014 These bonds are not subject to repricing, and their interest rates and maturity profiles are set out in note 28

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25 Management of financial risks (continued)

The following analysis shows the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities at the balance sheet date

	Due within 1 year £m	Due between 1 and 2 years £m	Due 2 years and beyond £m
Non-derivative financial liabilities			
Borrowings, excluding finance lease liabilities	–	–	(400 0)
Interest payments on borrowings	(29 6)	(29 6)	(80 3)
Finance lease liabilities	(2 2)	(2 2)	(61 3)
Trade and other payables	(838 0)	(1 8)	–
Derivative financial liabilities			
Derivative contracts – receipts	19 2	3 2	6 4
Derivative contracts – payments	(18 5)	(2 9)	(5 8)
At 26 January 2008	**(869 1)**	**(33 3)**	**(541 0)**
Non-derivative financial liabilities			
Borrowings, excluding finance lease liabilities	(100 0)	–	(400 0)
Interest payments on borrowings	(32 4)	(29 6)	(109 9)
Finance lease liabilities	(2 2)	(2 2)	(63 5)
Trade and other payables	(760 4)	(2 0)	–
Derivative financial liabilities			
Derivative contracts – receipts	26 1	3 2	9 6
Derivative contracts – payments	(26 0)	(3 3)	(9 5)
At 27 January 2007	(894 9)	(33 9)	(573 3)

25 Management of financial risks (continued)

Interest on borrowings is calculated based on the borrowing position at the financial year end without taking account of future issues Future floating rate interest liabilities are estimated using the forward interest rate curve as at the relevant year end date

For the purposes of this note, the foreign currency leg of forward foreign currency contracts are translated at the spot rate prevailing at the year end

Interest rate risk

In order to manage the risk of interest rate fluctuations the group targets a ratio of fixed and floating rate debt in line with the Board approved treasury policy An analysis of the group's financial liabilities is detailed in note 28 Exposures to interest rate fluctuations are managed using interest rate swaps Interest rate swaps have been used to convert £50 0m (2007 £50 0m) of fixed rate bond debt to floating rate These swaps have a maturity and payment profile which matches the underlying 6 375% 2012 bond and have been accounted for as fair value hedges under IAS 39 The movement in the fair value of the swaps is £1 0m and the movement in the fair value of the underlying hedged item attributable to the hedged risk is £1 0m

Currency risk

The group uses derivatives to manage exposures to movements in exchange rates arising from transactions with foreign suppliers Such derivative contracts are entered into when a firm commitment is made to purchase goods Forward foreign exchange contracts of £12 7m (2007 £12 1m) and currency options of £7 5m (2007 nil) have been entered into to hedge purchases in foreign currencies At the year end £7 2m (2007 £7 7m) of a total of £7 4m (2007 £8 0m) of liabilities denominated in foreign currency were covered in this way Derivatives that were designated as cashflow hedges during the year were fully effective

Credit risk

The group has no significant exposure to customer credit risk Cash deposits and other financial instruments give rise to credit risk on the amounts due from counterparties These risks are managed by restricting such transactions to counterparties with a credit rating not less than a Standard & Poor's equivalent 'A' rating

The group considers its maximum exposure to credit risk is as follows

	2008 £m	2007 £m
Trade and other receivables	**77 1**	78 8
Cash and cash equivalents	**121 6**	248 0
	198 7	326 8

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25 Management of financial risks (continued)

Capital risk
The group's objectives are to maintain a capital structure which is consistent with an investment grade credit rating Although the group does not have a credit rating, it monitors capital risk using a number of capital ratios commonly used by rating agencies to assess risk These ratios help the Board to establish levels of debt that the group should not exceed, other than for relatively short periods of time

Sensitivity analysis
The following analysis, required by IFRS 7, illustrates the sensitivity of the group's financial instruments to changes in market variables, namely UK interest rates and the US dollar, euro and Hong Kong dollar to sterling exchange rates

The analysis excludes the impact of movements in market variables on the carrying value of pension and other post-retirement obligations and provisions

The analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating rate borrowings and the proportion of financial instruments in foreign currencies are constant throughout the year, based on average balances and rates during the year As a consequence, this sensitivity analysis is not representative of the financial years in total

The following assumptions have been made in calculating the sensitivity analysis

- the sensitivity of accrued interest to movements in interest rates is calculated on average floating rate debt and investment balances prevailing during the financial year,
- changes in the carrying value of derivatives designated as fair value hedges arising from movements in interest rates are assumed to have no effect on net assets,
- changes in the carrying value of derivative financial instruments not in hedging relationships are assumed only to affect the income statement, and
- all derivative instruments designated as hedges are assumed to be fully effective

	2008 Income statement +/- £m	**2008** Equity +/- £m	2007 Income statement +/- £m	2007 Equity +/- £m
UK interest rates +/- 1%	**1 0**	**–**	1 0	–
US dollar exchange rate +/- 10%	**0 2**	**–**	0 3	–
Euro exchange rate +/- 5%	**0 1**	**0 4**	0 2	0 4
Hong Kong dollar exchange rate +/- 10%	**–**	**–**	0 1	–

26 Financial instruments

All financial assets and liabilities are held at amortised cost with the exception of financial derivatives which are held at fair value

Details of the group's financial instruments, used to manage the financial risks as identified in note 25, are as follows

Fair value of derivative financial instruments	**2008 Assets £m**	**2008 Liabilities £m**	2007 Assets £m	2007 Liabilities £m
Interest rate swap – fair value hedge	**2 3**	**–**	1 5	–
Currency derivatives	**1 4**	**–**	–	(1 1)
	3 7	**–**	1 5	(1 1)

Fair value gains/(losses) on derivative financial instruments	**2008 £m**	2007 £m
Gain/(loss) recorded in income statement	**1 4**	(0 7)

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 and other financial liabilities, book values approximate to fair value

	2008 £m	2007 £m
Bonds	**428 0**	429 2
Preference stock	**2 3**	2 5

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27 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 2007 using the projected unit method The assumptions which have the most significant effect on the results of the valuation are the mortality assumption and the relative rate of return on the investments of the fund compared with increases in pay and pensions In respect of mortality, the assumptions reflected the results of a study of mortality of scheme members, which led to the adoption of the "00" series standard tables, together with medium cohort improvement factors with a year of use in 2007, adjusted by half a year The resultant life expectancies are an average of 26 0 years for a 60 year old man, and 28 4 years for a 60 year old woman In respect of investment returns, it was assumed that, on average, the annual return on investments would exceed increases in pay and pensions by 2 5% and 3 5% respectively The market value of the assets of the fund as at 31 March 2007 was £1,843m The actuarial valuation of these assets showed that they were sufficient to cover 97% of the benefits which had accrued to members

The actuaries have recommended a normal future annual contribution rate of 14% of gross taxable pay of members, together with an additional £8 1m per year 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 2010

As explained in note 10, there is also a senior pension scheme which provides additional benefits to certain members of senior management The actuaries have recommended a contribution of £2 15m for the year to 31 January 2009, with an additional charge for new entrants to the scheme

The contributions expected to be paid to the pension schemes during the year to 31 January 2009 amount to £84m, of which £72m was paid in advance in January 2008

Pension commitments have been calculated based on the most recent actuarial valuations, as at 31 March 2007 for the principal scheme, and the draft valuation as at 31 March 2007 for the senior pension scheme, which have been updated by the actuaries to assess the assets and liabilities of the schemes as at 26 January 2008

Scheme assets are stated at market values at 26 January 2008 The following financial assumptions have been used

	2008	2007
Future price inflation	**3.45%**	2 95%
Discount rate	**6 30%**	5 30%
Expected return on assets	**7 60%**	7 30%
Increases in earnings	**4 45%**	3 95%
Increases in pensions	**3.45%**	2 95%

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

27 Retirement benefit obligations (continued)

For 2008 the post-retirement mortality assumptions used in valuing the pensions liabilities were based on the "00" series standard tables for all retirements, together with medium cohort improvement factors with a year of use of 2007, adjusted by half a year to reflect the outcome of a mortality study 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 2007 the post-retirement mortality assumptions were also based on the "00" series standard tables, adjusted in line with the actual experience of the John Lewis pensioner population relative to the standard rates

The average life expectancies assumed were as follows

	2008		2007	
	Men	**Women**	Men	Women
Average life expectancy (in years) for a 60-year-old	**26.0**	**28 4**	25 0	27 6
Average life expectancy (in years) at age 60, for a 40-year-old	**27 3**	**29 5**	26 3	29 1

Amounts recognised in the balance sheet	**2008 £m**	2007 £m	2006 £m	2005 £m
Defined benefit obligation for funded arrangements	**(2,397 0)**	(2,237 0)	(2,096 0)	(1,757 0)
Defined benefit obligation for unfunded arrangements	**(16 0)**	(14 0)	(13 0)	(9 0)
Total defined benefit obligation	**(2,413 0)**	(2,251 0)	(2,109 0)	(1,766 0)
Total value of assets	**1,859.0**	1,810 0	1,630 0	1,281 0
Defined benefit liability at end of year	**(554 0)**	(441 0)	(479 0)	(485 0)

Amounts recognised in the income statement	**Year ended 26 January 2008 £m**	Year ended 27 January 2007 £m
Current service cost	**98 2**	100 4
Interest cost on liabilities	**117 5**	102 7
Expected return on assets	**(133 7)**	(119 4)
Net pension expense	**82 0**	83 7
Administrative costs	**1.6**	1 4
Total pension charge	**83 6**	85 1

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27 Retirement benefit obligations (continued)

Amounts recognised in equity	Year ended 26 January 2008 £m	Year ended 27 January 2007 £m
Actuarial (gain)/loss on assets	**110 3**	(43 7)
Actuarial (gain)/loss on defined benefit obligation	**13.1**	1 5
Total (gain)/loss recognised in equity	**123 4**	(42 2)
Cumulative (gain)/loss recognised in equity	**129 0**	5 6

Reconciliation of defined benefit liability	2008 £m	2007 £m
Defined benefit liability at beginning of year	**(441 0)**	(479 0)
Pension expense	**(82.0)**	(83 7)
Contributions	**92 4**	79 5
Total gain/(loss) recognised in equity	**(123 4)**	42 2
Defined benefit liability at end of year	**(554 0)**	(441 0)

Reconciliation of defined benefit obligation	2008 £m	2007 £m
Defined benefit obligation at the beginning of year	**2,251 0**	2,109 0
Current service cost	**98 2**	100 4
Interest on pension liabilities	**117 5**	102 7
Actuarial (gains)/losses	**13 1**	1 5
Benefits paid	**(66.8)**	(62 6)
Defined benefit obligation at the end of year	**2,413.0**	2,251 0

Reconciliation of value of assets	2008 £m	2007 £m
Value of assets at the beginning of year	**1,810 0**	1,630 0
Expected return on assets	**133 7**	119 4
Actuarial gains/(losses)	**(110 3)**	43 7
Benefits paid	**(66 8)**	(62 6)
Partnership contributions	**92 4**	79 5
Value of assets at the end of year	**1,859 0**	1,810 0

27 Retirement benefit obligations (continued)

Analysis of assets	2008 %	2008 £m	2007 %	2007 £m
Equities	**64**	**1,201 0**	69	1,254 0
Bonds	**20**	**372 0**	16	285 0
Properties	**13**	**234 0**	14	256 0
Other	**3**	**52 0**	1	15 0
		1,859 0		1,810 0

Actual return on assets	2008 £m	2007 £m
Expected return on assets	**133 7**	119 4
Actuarial gains/(losses)	**(110 3)**	43 7
Actual return on assets	**23 4**	163 1

History of experience of gains and losses	2008 £m	2007 £m	2006 £m	2005 £m
(Gain)/loss on assets	**110 3**	(43 7)	(233 8)	(91 5)
% of assets at the end of the period	**6%**	(2%)	(14%)	(7%)
Experience (gain)/loss on defined benefit obligation	**60 6**	1 5	10 0	72 0
% of defined benefit obligation at the end of the period	**3%**	0%	0%	4%

Contributions will be as follows until the next actuarial valuations due as at 31 March 2010

The John Lewis Partnership Trust for Pensions – 14% of members' gross taxable pay (excluding Partnership bonus), together with £8 1m per year in respect of the past-service benefit

The John Lewis Partnership Senior Pension Scheme – the actuarial valuation as at 31 March 2007 has yet to be agreed, and contributions will, in the meantime, be £2 15m for the year to January 2009, with an additional charge for new entrants to the scheme Contribution rates will be revised following completion of the 31 March 2007 actuarial valuation

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28 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 26 January 2008	**402.3**	**91 5**	**152 0**	**645 8**
At 27 January 2007	402 3	185 0	143 0	730 3

Maturity of financial liabilities	2008 Effective interest rate	2008 £m	2007 Effective interest rate	2007 £m
Repayable in one year				
Bank overdrafts and other borrowing	**5 8%**	**58 4**	5 2%	51 9
Provisions		**54 3**		52 2
Property finance leases	**7 6%**	**0.7**	7 6%	1 3
Loans		**–**	5 2%	100 0
		113 4		205 4
Repayable between one and two years				
Provisions		**26 1**		19 0
Property finance leases	**7 6%**	**1 1**	7 6%	1 1
		27 2		20 1
Repayable between two and five years				
Provisions		**33 1**		36 0
Property finance leases	**7.6%**	**2 0**	7 6%	2 0
Bonds	**6 4%**	**300 0**		–
		335.1		38 0
Repayable in more than five years				
Provisions		**38.5**		35 8
Property finance leases	**7 6%**	**27.0**	7 6%	27 2
Bonds	**10 5%**	**100.0**	7 4%	400 0
Interest rate swap		**2.3**		1 5
Preference stock	**5 6%**	**2.3**	5 6%	2 3
		170 1		466 8
		645 8		730 3

29 Share capital

	2008 £m	2007 £m
Authorised, issued and fully paid		
Equity		
Ordinary shares		
6,750,000 of £1 each	**6.7**	6 7
	6.7	6 7

30 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 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
Profit for the year	–	–	–	–	130 1	130 1
Transfers	–	(0 3)	–	–	0 3	–
Actuarial losses	–	–	–	–	(123 4)	(123 4)
Tax on items recognised in equity	–	–	–	–	26 3	26 3
Net gain on cash flow hedges	–	–	–	1 1	–	1 1
Transfers to property, plant and equipment	–	–	–	(0 2)	–	(0 2)
Dividends	–	–	–	–	(0 1)	(0 1)
Balance at 26 January 2008	**6 7**	**0 3**	**1 4**	**0 7**	**1,674 8**	**1,683 9**

The cumulative amount of goodwill written off to reserves is £10 9m (2007 £10 9m). Retained earnings comprise £1,241 1m (2007 £1,202 7m) of distributable and £433 7m (2007 £438 9m) of non distributable reserves

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

Notes to the accounts

continued

30 Reconciliation of changes in equity (continued)

Company	Share capital £m	Share premium £m	Hedging reserve £m	Retained earnings £m	Total equity £m
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
Profit for the year	–	–	–	22.7	22.7
Transfers	–	(0.3)	–	0.3	–
Actuarial losses	–	–	–	(123.4)	(123.4)
Tax on items recognised in equity	–	–	–	26.3	26.3
Net gain on cash flow hedges	–	–	1.1	–	1.1
Transfers to property, plant and equipment	–	–	(0.2)	–	(0.2)
Dividends	–	–	–	2.1	2.1
Balance at 26 January 2008	**6.7**	**0.3**	**0.7**	**262.0**	**269.7**

The cumulative amount of goodwill written off to reserves is £10.9m (2007 £10.9m)

31 Reconciliation of profit before tax to cash generated from operations

Consolidated	Year to 26 January 2008 £m	Year to 27 January 2007 £m
Profit before tax	**198.6**	166.1
Amortisation of intangible assets	**17.7**	14.6
Depreciation	**169.2**	165.1
Net finance costs	**30.6**	35.1
Partnership bonus provision	**181.1**	154.1
(Profit)/loss on disposal of property, plant and equipment	**(0.2)**	(8.6)
(Increase)/decrease in inventories	**1.3**	(26.2)
(Increase)/decrease in receivables	**(91.7)**	(13.1)
Increase/(decrease) in payables	**58.0**	74.6
Increase/(decrease) in retirement benefit obligations	**(10.4)**	4.2
Increase/(decrease) in provisions	**5.2**	22.1
Cash generated from operations	**559.4**	588.0

The presentation of prior year figures has been amended in respect of discontinued operations, as detailed in note 8

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

Company	Year to 26 January 2008 £m	Year to 27 January 2007 £m
Profit/(loss) before tax	**33 8**	36 8
Amortisation of intangible assets	**16 4**	12 6
Depreciation	**63 7**	63 9
Net finance costs	**29 5**	33 8
Partnership bonus provision	**91 9**	79 5
(Profit)/loss on disposal of property, plant and equipment	**3 1**	0 9
(Increase)/decrease in inventories	**10 7**	(18 9)
(Increase)/decrease in receivables	**(90.8)**	(0 6)
Increase/(decrease) in payables	**27 1**	42 2
Increase/(decrease) in retirement benefit obligations	**(10 4)**	4 2
Increase/(decrease) in provisions	**6 1**	20 1
Cash generated from operations	**181.1**	274 5

32 Reconciliation of net cash flow to net debt

Consolidated	Year to 26 January 2008 £m	Year to 27 January 2007 £m
Increase/(decrease) in cash in the year	**(12 2)**	4 1
Cash (inflow)/outflow from debt and lease financing	**100 0**	50 0
Cash (inflow)/outflow from liquid resources	**(120 7)**	(40 5)
Movement in debt for the year	**(32 9)**	13 6
Opening net debt	**(307 7)**	(323 9)
Non cash movements	**(0.8)**	2 6
Closing net debt	**(341 4)**	(307 7)

33 Commitments and contingent liabilities

At 26 January 2008 contracts had been entered into for future capital expenditure of £28 0m (2007 £49 1m) for the group, and £24 0m (2007 £32 7m) for the company

John Lewis plc has entered into lease guarantees in favour of the group's associate company, Ocado Limited, of £6 8m (2007 £6 8m)

Notes to the accounts

continued

34 Operating lease commitments

Future aggregate minimum lease payments under non-cancellable operating leases, payable	2008 Land and buildings £m	2008 Plant and machinery £m	2007 Land and buildings £m	2007 Plant and machinery £m
Consolidated·				
Within one year	**70 7**	**0 5**	66 2	0 4
Later than one year and less than five years	**262 5**	**1 9**	250 8	0 5
After five years	**1,401 5**	**–**	1,410 8	–
Company				
Within one year	**24 5**	**0 5**	24 2	0 3
Later than one year and less than five years	**83 6**	**1 9**	87 9	0 4
After five years	**741 9**	**–**	759 1	–

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years comprise the following	2008 Land and buildings £m	2007 Land and buildings £m
Consolidated		
Later than five years and less than ten years	**276 9**	274 0
Later than ten years and less than twenty years	**379 2**	366 0
Later than twenty years and less than forty years	**225 5**	247 3
Later than forty years and less than eighty years	**214 7**	215 9
After eighty years	**305.2**	307 6
	1,401 5	1,410 8
Company		
Later than five years and less than ten years	**81 9**	93 4
Later than ten years and less than twenty years	**138 7**	140 3
Later than twenty years and less than forty years	**135.0**	144 6
Later than forty years and less than eighty years	**113 3**	113 4
After eighty years	**273.0**	267 4
	741 9	759 1

Total future sub-lease payments receivable relating to the above operating leases amounted to £20 4m (2007 £12 4m) for the group, and £5 9m (2007 £2 5m) for the company

35 Related party transactions

During the year John Lewis plc entered into transactions with other group companies in respect of the supply of goods for resale and associated services totalling £17 3m (2007 £17 9m), purchase of goods for resale totalling £14 5m (2007 £18 7m), the supply of IT and related services totalling £24 0m (2007 £21 2m), and the hire of vehicles totalling £8 0m (2007 £6 9m)

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 £42 3m (2007 £48 8m) and provision of distribution and other services totalling £1 3m (2007 £1 2m) Included within trade and other receivables is a balance of £3 6m (2007 £4 6m) due from Ocado Limited in respect of these transactions Included within trade and other payables is a balance of £4 6m (2007 £5 6m) due to Ocado in connection with the supply of goods

Key management compensation has been disclosed in note 11

36 Subsidiary and associated undertakings

Principal subsidiary companies as at 26 January 2008 were as follows
Findlater Mackie Todd & Co Limited *(Wholesale including export, subsidiary of Waitrose Limited)*
Herbert Parkinson Limited *(Weaving and making up)*
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)*
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 the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- state that the financial statements comply with IFRSs as adopted by the European Union

The directors confirm that they have complied with the above requirements in preparing the financial statements

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

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

By order of the Board

Charlie Mayfield
Marisa Cassoni

Directors

7 April 2008

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 26 January 2008 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, as regards the group financial statements, 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

In addition we 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

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 26 January 2008 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 26 January 2008 and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, 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
7 April 2008

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, Cambridge
Peter Jones, Sloane Square	John Lewis, High Wycombe	John Lewis, Cheadle
	John Lewis, Kingston	John Lewis, Edinburgh
	John Lewis, Milton Keynes	John Lewis, Glasgow
	John Lewis, Reading	John Lewis, Liverpool
	John Lewis, Southampton	John Lewis, Newcastle
	John Lewis, Watford	John Lewis, Norwich
	John Lewis, Welwyn	John Lewis, Nottingham
	Knight & Lee, Southsea	John Lewis, Peterborough
		John Lewis, Sheffield
		John Lewis, Solihull
		John Lewis, Trafford

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

Midlands, East Anglia, Wales, Northern England and Scotland

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

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*

Herbert Parkinson, Darwen *Weaving and making up*

Leckford Estate, Stockbridge *Farming*

Notice of AGM

Notice is hereby given that the eightieth annual general meeting of the company will be held at 12 15 pm on 2 July 2008 at 171 Victoria Street, London SW1E 5NN

- To receive the directors' report and accounts for the year 2007/08
- 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
16 April 2008

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

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John Lewis
Waitrose
greenbee