John Lewis plc annual report and accounts 2006

233462

John Lewis
Waitrose

Contents

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

The John Lewis Partnership

The John Lewis Partnership is one of the UK's top ten retail businesses with 27 John Lewis department stores and 174 Waitrose supermarkets.

It is also the country's largest employee co-operative, with over 64,000 employees. The Partnership aims to ensure that everyone who works for it enjoys the experience of ownership, by sharing in the profits, by having access to information and by sharing in decision making.

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

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

The Partnership Board of John Lewis Partnership plc comprises twelve members – the Chairman, the Deputy Chairman, five members nominated by the Chairman and five by the Partnership Council, the elected body which represents all the members of the Partnership.

John Lewis Partnership plc and its subsidiary John Lewis plc have small issues of preference stock which have first claim on the profits.
The whole of the balance is available to be used for the benefit of the business and the Partners. The share of profits allocated to Partners, the Partnership Bonus, is fixed each year by the Partnership Board and is distributed as the same percentage of gross annual pay for all Partners. All Partners received a 15% bonus for the current year as their share of profits at a total cost of £120m.

Summary of results

for the year ended 28 January 2006

	2006 £m	2005 £m
Gross sales (including sale or return sales and VAT)	**5,764.4**	5,333.6
Revenue	**5,149.3**	4,757.5
Operating profit (after exceptional gains of £nil (£16.5m))	**281.6**	274.0
Net finance costs	**(34.9)**	(30.6)
Share of operating loss of associate (Ocado)	**(5.6)**	(14.1)
Exceptional gain on dilution of interest in associate	**10.8**	–
Profit before Partnership bonus and tax	**251.9**	229.3
Taxation	**(36.7)**	(34.3)
Balance available for profit sharing and retention in the business	**215.2**	195.0
Partnership bonus	**(120.3)**	(105.8)
Retained in the business for development	**94.9**	89.2
Net assets at the year end	**1,406.7**	1,309.1
Average number of employees (full time equivalents)	**42,200**	41,000
Number of shops – Department stores	**27**	26
– Supermarkets	**173**	166

Five year record

years ended January

	2006 £m	2005* £m	2004** £m	2003 £m	2002 £m
Gross sales (including sale or return sales and VAT)	**5,764.4**	5,333.6	5,046.8	4,679.3	4,459.4
Revenue	**5,149.3**	4,757.5	4,499.5	4,169.1	4,246.1
Operating profit before pension costs	**367.1**	357.6	284.2	266.6	252.6
Pension costs	**(85.5)**	(83.6)	(71.4)	(67.5)	(62.3)
Disposal of account card operation	–	–	4.3	–	–
Net finance costs	**(34.9)**	(30.6)	(28.4)	(34.1)	(31.0)
Share of operating loss of associate (Ocado)	**(5.6)**	(14.1)	(15.2)	(19.5)	(17.8)
Exceptional gain on dilution of interest in associate	**10.8**	–	–	–	–
Profit before Partnership bonus and tax	**251.9**	229.3	173.5	145.5	141.5
Taxation	**(36.7)**	(34.3)	(24.5)	(36.7)	(37.9)
Dividends	–	–	(0.2)	(0.4)	(0.3)
Net profit available for profit sharing and retention in the business	**215.2**	195.0	148.8	108.4	103.3
Partnership bonus	**(120.3)**	(105.8)	(87.3)	(67.6)	(57.3)
As a percentage of pay	**15**	14	12	10	9
Retained in the business	**94.9**	89.2	61.5	40.8	46.0
Net assets	**1,406.7**	1,309.1	1,541.4	1,479.9	1,439.1
Pay	**755.0**	713.8	689.7	653.7	611.4
Average number of employees	**63,700**	61,100	59,600	58,800	56,100
including part-time employees	**33,600**	31,100	29,400	28,000	25,600

* Restated under International Financial Reporting Standards (earlier years remain under UK GAAP).

** 53 week year.

Chairman's statement

In a year characterised by gloomy statements from retailers about the worst conditions for a decade, the Partnership increased its sales by 8 per cent and translated this into a profit before bonus and tax of £252m – an increase of 10 per cent on last year. This positive outcome rested heavily on very strong trading in the last three months of the year.

These financial results came alongside customer surveys by *Verdict* and *Which?* rating John Lewis and Waitrose as the UK's two favourite retailers – an endorsement of what we've achieved over the last year and a firm foundation for the year ahead.

The rate of distribution of Partnership Bonus was increased to 15% of Partners' pay (compared with 14% last year), at a total cost of £120m (last year £106m). This, together with an £86m charge for our final salary pension scheme (last year £84m), demonstrates the full sharing amongst 64,000 Partners of the fruits of our collective success. £95m has been retained for reinvestment in the business (last year £89m).

Waitrose

It was a memorable year for Waitrose, with the impact of recent acquisitions showing through strongly in sales and profit. At the end of the year we had 173 branches compared with 166 in January 2005, and the last two years have seen a total of 30 branches added to our estate – an increase of 33 per cent in selling space. The maturing effect of this investment will continue to accelerate our sales line for some time to come as new customers test out our offer and like what they find.

Gross sales for Waitrose rose to £3.3bn (+13 per cent), fuelled significantly by like-for-like sales in excess of 4 per cent – well ahead of the overall market performance and a credit to the standards of presentation and customer service achieved in our shops as well as to the ongoing innovation and diligence in our buying teams.

Alongside this core growth we have benefited from the ex-Safeway branches acquired in 2004 and those added during the year at Durham, East Grinstead, Hersham, Lewes, St Katharine Docks and Wilmslow, as well as the new branches we developed at Droitwich and Lichfield. The performance of our new shops has been an encouraging sign of the customer appeal of the Waitrose offer in all parts of the country.

We announced on 9 March that we had acquired five supermarkets from Somerfield, including our first Scottish locations for Waitrose. The stores are at Morningside and Comely Bank in Edinburgh, Buxton in Derbyshire and the Barbican and Balham in London. We will take ownership of the stores on a phased basis and expect to complete the process during May.

Although we remain a relatively small player in the grocery sector, our differentiated approach represents real consumer choice, and we continue to receive a warm welcome from local authorities looking at developing the retail credentials of their towns.

Scale continues to deliver advantages in buying terms, but there have also been numerous examples of improvements in supply chain and branch productivity and efficiency, which have offset the additional cost of operating a third distribution centre and the unwelcome additions of property costs and fuel prices.

Divisional profit increased by 19 per cent to £231m.

John Lewis

The well documented challenges of non-food retailing resulted in the first half-year seeing a 1 per cent sales decline for John Lewis – a slow pace which continued right through the autumn. The division focused on basic trading priorities – improvements in our assortment, better availability, stronger presentation and the informative and courteous service which we see as the heart of a department store offer. This drove greater footfall into our shops and achieved higher rates of conversion. It was as though a switch was thrown in November. Our sales built steadily all the way through to Christmas and continued strongly in January – a performance which secured our place at the top of the Christmas trading table.

We opened our new department store in the Trafford Centre in May – the first new space for John Lewis for four years – and we now are well placed to continue to develop our trade in the Manchester conurbation. Less happily, we have also had to take the difficult decision to close Caleys, our branch in Windsor. Closure provisions, together with the opening costs of Trafford, led to additional costs of £2m for the year.

The importance of being a multi-channel retailer becomes ever more evident. John Lewis Direct increased its sales by nearly 70 per cent – performing strongly throughout the year but delivering outstanding sales levels in the Christmas trading period without letting service and delivery standards slip. This part of our business is now firmly in profit. We are increasingly aware of the boost to our department store sales which results from the catalogues and on-line information associated with John Lewis Direct, and this year's experience gives us growing confidence in our ability to build trade through all channels on the basis of trust in the John Lewis brand.

Sales of audio/TV and electrical kitchen appliances were a driving force for the division, particularly since the introduction of the John Lewis-branded range, but clothing also fared well. Furnishing sales were generally more difficult through the year against a background of a slow housing market, but the final quarter saw a welcome change of trend.

Despite the shift in balance of merchandise sales, gross margin increased in percentage terms. Branch operating costs were well controlled, and further investment has been made during the year in initiatives to improve branch productivity. Higher head office costs reflect the strengthened teams now being established to cope with the growth of the division as new selling space comes on stream over the next few years.

Manufacturing continued to be loss-making, but the restructuring undertaken during the year (with one-off costs of more than £3m) has provided a platform for us to establish a viable operation for the future in testing market conditions.

Divisional profit had been down 21 per cent at the half-year stage, but the strong performance in the final quarter pulled the full year figure up to £192m, just 6 per cent down on last year. Excluding the one-off costs taken by the division, profit was broadly level with the previous year – a fine result in such tough circumstances.

Pensions and other costs

Our pension charge increased by £2m to £86m, and our readiness to keep open our non-contributory final salary scheme now makes us unique in retailing – an example of our being 'an employer of distinction' which we are proud to maintain.

The extension of Long Leave arrangements required provisions of £4m, and there is also a £3m additional charge resulting from the actuarial valuation of this liability. These extra costs have been included in the divisional profit figures.

Corporate and shared services costs fell by 3 per cent.

Chairman's statement

continued

Employment
The average number of Partners employed during the year was 63,700 and the total at the end of the year was 64,300 (1,100 more than a year earlier, with the split 57% Waitrose, 41% John Lewis and 2% for corporate departments).

Capital expenditure
Capital spending in 2005/6 was £288m compared with £556m in the previous year – inflated by the acquisition of stores from Morrisons. This year there has been a substantial net cash inflow to the business due to a strong sales performance and tighter working capital management. After this investment, net debt has fallen by £52m to £324m.

Ocado
Ocado's popularity with customers continued to win sales throughout the year as it expanded its geographical coverage, and it too enjoyed a powerful Christmas season which has carried over into the new year. As explained at the time of the half-year results, a change in accounting rules means that we shall no longer need to mark Ocado's losses against our own profits, to the extent that the investment is held at a nil value, and this shows in the reduced charge for the year.

The year ahead
Both divisions have made a healthy start to the new trading year. At Waitrose the increase at week 12 is 9 per cent, with like-for-like sales continuing to advance by 4 per cent. At John Lewis the robust pre-Christmas performance has carried over to the new year, and sales are currently showing an 11 per cent increase.

There's every indication that the year ahead will be a tough one, with the housing market remaining flat and indications of rising unemployment. Retailing in 2006 is not for the faint-hearted, but I'm confident we have the will, the skill and the stamina to build on last year's firm foundation.

Mr Ian Alexander
The death of Ian Alexander, our Deputy Chairman and Finance Director, on 27 November 2005 was a great loss to the Partnership. He made a substantial contribution during his long Board membership, and he will be sorely missed by the Board and Partners throughout the business.

Sir Stuart Hampson
Chairman
27 April 2006

Directors and advisers

DIRECTORS

Sir Stuart Hampson

Chairman

Steven Esom

Charlie Mayfield

Mark Price

Andy Street

OFFICERS AND ADVISERS

Company Secretary and Director of Legal Services

Terence Neville to 27 April 2006

Margaret Casely-Hayford from 28 April 2006

Director of Financial Control

Ros Haigh

Auditors

PricewaterhouseCoopers LLP

Solicitors

Lovells

Bankers

Royal Bank of Scotland PLC

Registered Office

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

Transfer Office

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

Directors' report

Directors

The directors of the company at the date of this report are listed on page 7. Mark Price was appointed as a director on 30 January 2005, and Ian Alexander, the Partnership's finance director, died unexpectedly on 27 November 2005. 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 27 John Lewis department stores, 174 Waitrose supermarkets, including one supermarket which opened after the year end, and ancillary manufacturing activities. A review of the business and future developments is included in the Chairman's statement.

Employees

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

The Partnership recruits people with disabilities to suitable vacancies on merit. All employees can benefit from our training and development policies. Where disability occurs during the period of employment, every effort is made to continue to provide suitable employment with the provision of appropriate training.

Corporate Governance

The ultimate purpose of the John Lewis Partnership is defined in its Constitution – "the happiness of all its members through their worthwhile and satisfying employment in a successful business". Its Principles and Rules encourage the widest possible sharing of profit, knowledge and power by all Partners and also set out the business's responsibilities to its suppliers, its customers and the community in which it operates.

The following paragraphs describe the key governance structures and internal controls operating within the Partnership. Through these mechanisms, the Partnership aims to apply the highest standards of corporate governance and to conform with the spirit of the 'Combined Code' in a manner framed to suit its unique democratic ownership structure.

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

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

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

Audit Committee
The Partnership has an Audit Committee, chaired by the Deputy Chairman and Director of Corporate Responsibility, Alastair McKay, and composed of two of the five elected directors chosen by that group, currently Johnny Aisher and Ken Temple, together with Jeff Hewitt, an independent external committee member. It meets at least three times a year and its purpose is to assist the Board in ensuring the Partnership's systems provide accurate and up to date information on its financial position, and that the Partnership's published financial statements represent a true and fair statement of this position. It also ensures that appropriate accounting policies and internal controls are in place and it reviews the performance, independence and objectivity of the external auditors. Its terms of reference, which are available for inspection, are reviewed annually and include responsibility for making recommendations to the Partnership Board in relation to the appointment, re-appointment and removal of external auditors. The external auditors attend its meetings as does the Head of Internal Audit. The Head of Internal Audit has separate meetings with the Chairman of the Audit Committee and the Committee monitors and reviews the scope of work of the Internal Audit department.

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

Remuneration Committee
The Partnership has a Remuneration Committee which makes a recommendation each year to the Partnership Board on the Chairman's pay, taking into account appropriate market data provided by an external remuneration consultant. The Committee considers the Chairman's remuneration proposals for the appointed Partnership Board directors and provides a commentary to the Board on whether they are appropriate in relation to the market. It also determines and agrees with the Partnership Board the broad policy for the remuneration of certain senior Partners, taking into account such factors as it considers appropriate, and reviews the ongoing appropriateness and relevance of that policy.

The Committee is chaired by the Deputy Chairman and Director of Corporate Responsibility, Alastair McKay, and is composed of the Director of Personnel, Andy Street, and two of the five directors elected by the Partnership Council, chosen by that group, currently David Jones and Anne Buckley. The Committee is supported by an external remuneration consultant who attends its meetings in an advisory capacity. The salaries of elected members of the Board are determined by their managers and do not include any element in recognition of their Board duties. Partnership Board directors do not receive fees as all members of the Board are paid a salary for their respective roles within the business, in accordance with the Partnership's pay policy, which requires salaries to be in line with 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.

Directors' report
continued

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 their business planning processes in accordance with the Partnership Business Plan.

The Partnership has a Risk Committee established as a committee of the Board. It is chaired by the Deputy Chairman and Director of Corporate Responsibility, Alastair McKay, and is composed of four other directors, currently Steven Esom, Charlie Mayfield, Mark Price and Andy Street, 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 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.

Health and Safety
The Director of Personnel, Andy Street, is the Partnership Board director with the remit for health and safety across the business. He chairs the Partnership Health and Safety Steering Group, comprising divisional board representatives from John Lewis and Waitrose and the Partnership's technical advisers for safety, occupational health, fire and risk management. This Group develops overall business strategy and policy in this area, sets standards and reviews performance. Considerable progress has been made towards the objectives that were set last year, and this work will continue in 2006.

Further progress has been made in improving technical expertise within the operating divisions and refining the structure for effective health and safety management. The health and safety data system is expected to be in place within Waitrose by mid-2006, and improvements that have been made to the system will also be implemented in John Lewis. This will improve the consistency and standard of accident investigation, and facilitate more effective management of health and safety.

Corporate Social Responsibility (CSR)
The terms of the Partnership's Constitution clearly define the behaviour expected towards customers, suppliers, the wider community, the environment and its Partners. Social responsibility programmes and governance structures have been developed from these provisions and the principal responsibility for managing and co-ordinating environmental, ethical and social issues resides with the Partnership's Deputy Chairman and Director of Corporate Responsibility, Alastair McKay.

In addition, the Partnership has a CSR Committee, a management committee reporting annually to the Partnership Board, which is representative of both divisions and corporate departments. The Committee is chaired by the Deputy Chairman and Director of Corporate Responsibility, and comprises several members of senior management. Its purpose is to define, stimulate and co-ordinate the Partnership's CSR policy and strategy, to lead the development of systems to manage them, to guide divisional and corporate implementation and to monitor and review performance. The policy is to integrate and align our CSR strategy with existing management structures.

The Partnership has made a public commitment to communicate its CSR programme and performance and promote good practice in general and considers this is best achieved through regular external reporting of its social and environmental progress. Both divisions publish Corporate Social Responsibility Reports on an annual basis, and more detaild information on current policies and procedures is also included on the Partnership website, www.johnlewispartnership.co.uk. Individual branches are further encouraged to contribute to locally inspired initiatives and our membership of Business in the Community (BITC) provides a platform to help co-ordinate these activities. The Partnership has also made a commitment to benchmark annually its CSR performance with other leading UK businesses. In 2005, the Partnership participated in the BITC Corporate Responsibility Index and we are pleased to report that our score moved from 94% to 96.5%, and we finished 14th overall.

Charitable and political donations

The Partnership was again awarded the BITC Percent Standard, given to companies who donate at least 1% of their pre tax profits to the community. The Partnership donated £2,040,000 (2005: £2,080,000) for charitable purposes during the year, comprising £1,580,000 (2005: £1,560,000) for welfare causes and £460,000 (2005: £520,000) 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.

Pensions

The principal pension scheme operated by the Partnership is a non-contributory defined benefit scheme, providing benefits based on final pensionable pay. The assets of this scheme are held in a separate, trustee administered fund. Details are contained in note 26.

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 28 January 2006 were equivalent to 25 days of purchases (2005: 27 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.

The group's policy is to have a mix of fixed and floating interest rate exposures, and it enters into interest rate swaps to achieve this. Borrowing requirements are managed in line with a five year cash forecast, which is revised annually, and borrowings are structured so as to achieve a range of maturity dates. The group enters into forward exchange contracts in respect of its currency exposures, so as to provide greater certainty on the cost of purchases from abroad.

Further details of the group's financial risk management arrangements are provided in note 25 to the financial statements.

Investments

In July 2005 the Partnership's associate company, Ocado Limited, repaid a loan of £17.7m, and the Partnership invested a further £1.5m in Ocado loan stock. In March 2006 Ocado raised a further £60m of funding from other investors, as a result of which the Partnership's shareholding reduced to 25.7%, or 29.7% on a fully diluted basis.

Dividends

Dividends on Preference Shares for 2005 were £125,000, and a dividend of £125,000 (2005: £125,000) was paid on the ordinary shares.

Directors' interests

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

Directors' report

continued

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

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.

For and by Order of the Board
Terence Neville
Secretary
27 April 2006

Consolidated income statement

for the year ended 28 January 2006

Notes		Year to 28 January 2006 £m	Year to 29 January 2005 £m
2	**Gross sales**	**5,764.4**	5,333.6
2	**Revenue**	**5,149.3**	4,757.5
	Cost of sales	**(3,438.4)**	(3,168.0)
	Gross profit	**1,710.9**	1,589.5
	Other operating income	**33.0**	29.1
	Operating expenses before exceptional items and pension costs	**(1,376.8)**	(1,277.5)
4	Exceptional items	**-**	16.5
26	Pension costs	**(85.5)**	(83.6)
3	Total operating expenses	**(1,462.3)**	(1,344.6)
2	**Operating profit**	**281.6**	274.0
5	Finance costs	**(45.4)**	(44.7)
5	Finance income	**10.5**	14.1
14	Share of post tax operating loss of associate	**(5.6)**	(14.1)
	Exceptional gain on dilution of interest in associate	**10.8**	–
	Net gain/(loss) in respect of associate	**5.2**	(14.1)
	Profit before Partnership bonus and tax	**251.9**	229.3
	Partnership bonus	**(120.3)**	(105.8)
6	**Profit before tax**	**131.6**	123.5
7	Taxation	**(36.7)**	(34.3)
	Profit for the period	**94.9**	89.2

Statement of recognised income and expenses

for the year ended 28 January 2006

Consolidated	**Year to 28 January 2006 £m**	Year to 29 January 2005 £m
Actuarial gains/(losses) on defined benefit pension schemes	**11.7**	(59.5)
Movement of deferred tax on pension scheme	**(3.4)**	17.9
Net gains/(losses) not recognised in the income statement	**8.3**	(41.6)
Profit for the period	**94.9**	89.2
Total recognised income and expenses for the period	**103.2**	47.6
Adoption of IAS 32 and IAS 39	**(5.5)**	
	97.7	

Company	**Year to 28 January 2006 £m**	Year to 29 January 2005 £m
Actuarial gains/(losses) on defined benefit pension scheme	**11.7**	(59.5)
Movement of deferred tax on pension scheme	**(3.4)**	17.9
Net gains/(losses) not recognised in the income statement	**8.3**	(41.6)
Loss for the period	**(8.0)**	(49.6)
Total recognised income and expenses for the period	**0.3**	(91.2)
Adoption of IAS 32 and IAS 39	**(5.5)**	
	(5.2)	

Consolidated balance sheet

for the year ended 28 January 2006

Notes		2006 £m	2005 £m
	Non-current assets		
12	Intangible assets	**52.2**	36.8
13	Property, plant and equipment	**2,682.5**	2,575.0
17	Trade and other receivables	**20.4**	11.5
14	Investment in associate	**–**	13.1
		2,755.1	2,636.4
	Current assets		
16	Inventories	**324.3**	340.0
17	Trade and other receivables	**121.2**	111.6
25	Derivative financial instruments	**4.1**	–
18	Cash and cash equivalents	**282.8**	194.4
		732.4	646.0
	Total assets	**3,487.5**	3,282.4
	Current liabilities		
20	Borrowings and overdrafts	**(100.3)**	(39.9)
21	Trade and other payables	**(660.9)**	(622.4)
	Current tax payable	**(23.4)**	(5.7)
22	Finance lease liabilities	**(0.8)**	(0.6)
23	Provisions	**(44.5)**	(33.2)
		(829.9)	(701.8)
	Non-current liabilities		
20	Borrowings	**(506.4)**	(530.0)
21	Trade and other payables	**(29.0)**	(24.2)
22	Finance lease liabilities	**(31.9)**	(31.0)
23	Provisions	**(76.7)**	(63.3)
24	Deferred tax liabilities	**(127.9)**	(138.0)
26	Retirement benefit obligations	**(479.0)**	(485.0)
		(1,250.9)	(1,271.5)
	Total liabilities	**(2,080.8)**	(1,973.3)
	Net assets	**1,406.7**	1,309.1
	Equity		
28	Share capital	**6.7**	9.0
29	Share premium	**0.9**	1.1
29	Other reserves	**1.4**	1.4
29	Retained earnings	**1,397.7**	1,297.6
	Total equity	**1,406.7**	1,309.1

Approved by the Board on 27 April 2006
Sir Stuart Hampson

Balance sheet of the company

for the year ended 28 January 2006

Notes		2006 £m	2005 £m
	Non-current assets		
12	Intangible assets	**49.0**	34.6
13	Property, plant and equipment	**673.8**	659.0
17	Trade and other receivables	**20.4**	11.5
15	Investments	**886.5**	838.8
		1,629.7	1,543.9
	Current assets		
16	Inventories	**196.8**	206.3
17	Trade and other receivables	**49.2**	51.9
24	Deferred tax asset	**73.1**	63.2
	Current tax receivable	**13.1**	22.4
25	Derivative financial instruments	**4.1**	–
18	Cash and cash equivalents	**196.1**	119.9
		532.4	463.7
	Total assets	**2,162.1**	2,007.6
	Current liabilities		
20	Borrowings and overdrafts	**(100.0)**	(44.4)
21	Trade and other payables	**(666.2)**	(561.5)
22	Finance lease liabilities	**(0.3)**	(0.1)
23	Provisions	**(37.7)**	(31.1)
		(804.2)	(637.1)
	Non-current liabilities		
20	Borrowings	**(506.4)**	(530.0)
21	Trade and other payables	**(27.3)**	(21.8)
22	Finance lease liabilities	**(15.8)**	(15.6)
23	Provisions	**(65.6)**	(49.1)
26	Retirement benefit obligations	**(479.0)**	(485.0)
		(1,094.1)	(1,101.5)
	Total liabilities	**(1,898.3)**	(1,738.6)
	Net assets	**263.8**	269.0
	Equity		
28	Share capital	**6.7**	9.0
29	Share premium	**0.9**	1.1
29	Retained earnings	**256.2**	258.9
	Total equity	**263.8**	269.0

Approved by the Board on 27 April 2006
Sir Stuart Hampson

Consolidated cash flow statement

for the year ended 28 January 2006

Notes		Year to 28 January 2006 £m	Year to 29 January 2005 £m
30	**Cash generated from operations**	**483.7**	453.7
	Taxation paid	**(32.5)**	(29.3)
	Partnership bonus paid	**(105.8)**	(87.3)
	Finance costs paid	**(11.9)**	(5.2)
	Net cash generated from operating activities	**333.5**	331.9
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(255.7)**	(534.8)
	Purchase of intangible assets	**(27.9)**	(12.0)
	Proceeds from sale of property, plant and equipment	**14.6**	50.8
	Proceeds from sale of other assets	**–**	3.3
	Loans (advanced to)/repaid by associate	**16.2**	(8.6)
	Finance income received	**12.7**	8.5
	Net cash used in investing activities	**(240.1)**	(492.8)
	Cash flows from financing activities		
	Interest paid on bonds	**(34.8)**	(15.6)
	Payment of capital element of finance leases	**(0.5)**	(2.1)
	Payments to preference shareholders	**(0.1)**	(0.3)
	Cash inflow from borrowings	**20.0**	30.0
	Net cash used in financing activities	**(15.4)**	12.0
	Increase/(decrease) in net cash and cash equivalents	**78.0**	(148.9)
	Net cash and cash equivalents at beginning of period	**154.5**	303.4
	Net cash and cash equivalents at end of period	**232.5**	154.5
18	**Net cash and cash equivalents comprise:**		
	Cash	**71.9**	79.4
	Short term deposits	**210.9**	115.0
	Bank overdrafts	**(50.3)**	(39.9)
		232.5	154.5

Cashflow of the company

for the year ended 28 January 2006

Notes		Year to 28 January 2006 £m	Year to 29 January 2005 £m
30	**Cash generated from operations**	**220.4**	238.7
	Taxation paid	**(5.3)**	(2.7)
	Partnership bonus paid	**(49.4)**	(39.7)
	Finance costs paid	**(10.5)**	(5.1)
	Net cash generated from operating activities	**155.2**	191.2
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(80.2)**	(86.5)
	Purchase of intangible assets	**(25.7)**	(15.6)
	Proceeds from sale of property, plant and equipment	**0.9**	2.1
	Dividends received	**0.6**	0.8
	Loans (advanced to)/repaid by group companies	**6.0**	(267.7)
	Loans (advanced to)/repaid by associate	**16.2**	(8.6)
	Finance income received	**12.6**	8.4
	Net cash used in investing activities	**(69.6)**	(367.1)
	Cash flows from financing activities		
	Interest paid on bonds	**(34.8)**	(15.6)
	Payment of capital element of finance leases	**(0.1)**	(0.6)
	Payments to preference shareholders	**(0.1)**	(0.1)
	Cash inflow from borrowings	**20.0**	30.0
	Net cash used in financing activities	**(15.0)**	13.7
	Increase/(decrease) in net cash and cash equivalents	**70.6**	(162.2)
	Net cash and cash equivalents at beginning of period	**75.5**	237.7
	Net cash and cash equivalents at end of period	**146.1**	75.5
18	**Net cash and cash equivalents comprise:**		
	Cash	**10.1**	4.9
	Short term deposits	**186.0**	115.0
	Bank overdraft	**(50.0)**	(44.4)
		146.1	75.5

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 the Companies Act 1985 and applicable accounting standards. The consolidated income statement and balance sheet include the accounts of the company and all its subsidiary and associated undertakings. The group's share of the profit or loss of associated undertakings is included in the consolidated income statement, and the share of net assets is included in the consolidated balance sheet, using the equity accounting method. The results included are based on the latest audited accounts, or management accounts where their accounting date is not co-terminous with the group's year end.

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

Prior to 30 January 2005 the John Lewis plc group ("the group") and the company prepared their financial statements under UK Generally Accepted Accounting Principles (UK GAAP). From 30 January 2005 the group is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and implemented in the UK, and has also chosen to adopt IFRS for the company's financial statements. The group's date of transition to IFRS is 1 February 2004, and the 2004/05 comparatives have been restated to IFRS. The group's restatement of results can be found on its website, http://www.johnlewispartnership.co.uk.

The rules for first time adoption of IFRS are set out in IFRS1, "First-time Adoption of International Financial Reporting Standards". IFRS1 requires the use of the same accounting policies in the IFRS transition balance sheet and for all periods presented thereafter. The accounting policies must comply with all IFRS effective at the reporting date for the first financial reporting under IFRS, which is 28 January 2006. The transition date to IFRS for the group was 1 February 2004.

IFRS1 permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. These consolidated financial statements have been prepared on the basis of taking the following exemptions:

- Acquisitions prior to 1 February 2004 have not been restated to comply with IFRS3 Business Combinations;
- All cumulative actuarial gains and losses with respect to employee benefits have been recognised in equity at 1 February 2004;
- The group's freehold and long leasehold properties were revalued on transition to IFRS, and these values are treated as deemed cost at 1 February 2004;
- IAS 32 Financial Instruments: Disclosure of Presentation and IAS 39 Financial Instruments: Recognition and Measurement have been adopted from 31 January 2005, with no restatement of comparative information.

The group has adopted early the amendment to IAS 19. Employee Benefits which enables actuarial gains and losses to be recorded in The Statement of Recognised Income and Expenses.

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 29 January 2006 or later periods, but which the Group has not early adopted. These are not expected to have a material impact on the group's financial statements.

Notes to the accounts

continued

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' 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.

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

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

Freehold and long leasehold buildings – 2% to 4%
Other leaseholds – over the remaining period of the lease
Buildings fixtures – 2.5% to 10%
Fixtures and fittings – 10% to 33%

1 Accounting policies (continued)

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. Rentals payable under operating leases are charged to the income statement on an accruals basis.

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.

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.

Notes to the accounts

continued

1 Accounting policies (continued)

Financial instruments
Up to 29 January 2005: The group uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange rates and interest rates. Derivative instruments used by the group are primarily interest rate swaps and forward currency contracts. Amounts payable or receivable in respect of interest rate swaps were recognised as adjustments to the interest charge over the period of the contract. Forward currency contracts were accounted for by carrying the difference between the spot and forward rate on the balance sheet, with the instrument's impact on profit deferred until the underlying transaction was recognised in the income statement.

After 29 January 2005: The group uses derivative financial instruments such as foreign currency contracts to manage the risks associated with foreign currency fluctuations. Such derivative financial instruments are measured at fair value. The gains or losses on re-measurement are taken to the income statement. The fair value of a derivative financial instrument represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the forward rates of exchange prevailing at the balance sheet date.

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

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 on-going basis. This effectiveness testing is re-performed at each period end to ensure that the hedge remains highly effective.

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

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

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

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

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

Exceptional items
Items which are both material and non-recurring are presented as exceptional items within their relevant consolidated income statement category. The separate reporting of exceptional items helps provide a better indication of the group's underlying business

1 Accounting policies (continued)

performance. Events which may give rise to the classification of items as exceptional include gains or losses on the disposal of properties, 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.

Rent inducements
Rent inducements received are recorded on the balance sheet, and amortised over the life of the lease.

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

Offsetting (after 29 January 2005 only)
Balance sheet netting only occurs to the extent that there is the legal ability and intention to settle net. As such, bank overdrafts are presented in current liabilities to the extent that there is no intention to offset with any cash balances.

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

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

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

Investments
Investments are valued at cost, less allowances for impairment.

2 Segmental reporting

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

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

Notes to the accounts

continued

2 Segmental reporting (continued)

28 January 2006	John Lewis Retail £m	John Lewis Other £m	John Lewis Total £m	Waitrose £m	Unallocated £m	Group £m
Total sales	2,407.0	35.0	2,442.0	3,341.5	–	5,783.5
Inter-segment sales	–	(19.1)	(19.1)	–	–	(19.1)
Gross sales	2,407.0	15.9	2,442.9	3,341.5	–	5,764.4
Adjustments for sale or return sales	(92.8)	–	(92.8)	–	–	(92.8)
Value added tax	(337.8)	(1.9)	(339.7)	(182.6)	–	(522.3)
Revenue	1,976.4	14.0	1,990.4	3,158.9	–	5,149.3
Divisional profit	197.6	(6.0)*	191.6	231.4	–	423.0
Corporate and other costs	(29.6)	–	(29.6)	(26.3)	–	(55.9)
Pension costs	(49.5)	(1.3)	(50.8)	(34.7)	–	(85.5)
Operating profit	118.5	(7.3)	111.2	170.4	–	281.6
Interest expense	–	–	–	–	(45.4)	(45.4)
Interest income	–	–	–	–	10.5	10.5
Share of operating loss of associate	–	–	–	–	(5.6)	(5.6)
Exceptional gain on dilution of interest in associate	–	–	–	–	10.8	10.8
Partnership bonus	–	–	–	–	(120.3)	(120.3)
Profit before tax	118.5	(7.3)	111.2	170.4	(150.0)	131.6
Taxation	–	–	–	–	(36.7)	(36.7)
Profit for the period	118.5	(7.3)	111.2	170.4	(186.7)	94.9
Segment assets	1,376.2	14.2	1,390.4	1,806.5	3.7	3,200.6
Unallocated assets						
– group cash	–	–	–	–	282.8	282.8
– other	–	–	–	–	4.1	4.1
Total assets	1,376.2	14.2	1,390.4	1,806.5	290.6	3,487.5
Segment liabilities	(268.8)	(3.7)	(272.5)	(311.4)	(283.3)	(867.2)
Unallocated liabilities						
– group borrowings	–	–	–	–	(606.7)	(606.7)
– deferred tax liabilities	–	–	–	–	(127.9)	(127.9)
– retirement benefit obligations	–	–	–	–	(479.0)	(479.0)
Total liabilities	(268.8)	(3.7)	(272.5)	(311.4)	(1,496.9)	(2,080.8)
Net assets	1,107.4	10.5	1,117.9	1,495.1	(1,206.3)	1,406.7
Other segment items:						
– Depreciation	53.4	0.7	54.1	72.9	15.3	142.3
– Amortisation of intangible assets	3.5	–	3.5	4.9	2.3	10.7
– Capital expenditure – property, plant and equipment	56.6	1.5	58.1	180.2	21.4	259.7
– Capital expenditure – intangible assets	8.1	–	8.1	10.6	9.2	27.9
– Movement in provisions	15.4	0.3	15.7	0.5	9.9	26.0

* Includes £3m in redundancy costs.

2 Segmental reporting (continued)

29 January 2005	John Lewis Retail £m	John Lewis Other £m	John Lewis Total £m	Waitrose £m	Unallocated £m	Group £m
Total sales	2,358.6	42.0	2,400.6	2,955.4	–	5,356.0
Inter-segment sales	–	(22.4)	(22.4)	–	–	(22.4)
Gross sales	2,358.6	19.6	2,378.2	2,955.4	–	5,333.6
Adjustments for sale or return sales	(89.2)	–	(89.2)	–	–	(89.2)
Value added tax	(325.7)	(2.5)	(328.2)	(158.7)	–	(486.9)
Revenue	1,943.7	17.1	1,960.8	2,796.7	–	4,757.5
Divisional profit	206.2	(2.1)	204.1	194.5	–	398.6
Corporate and other costs	(31.8)	–	(31.8)	(25.7)	–	(57.5)
Exceptional items	10.5	(8.1)	2.4	14.1	–	16.5
Pension costs	(50.2)	(1.1)	(51.3)	(32.3)	–	(83.6)
Operating profit	134.7	(11.3)	123.4	150.6	–	274.0
Interest expense	–	–	–	–	(44.7)	(44.7)
Interest income	–	–	–	–	14.1	14.1
Share of operating loss of associate	–	–	–	–	(14.1)	(14.1)
Partnership bonus	–	–	–	–	(105.8)	(105.8)
Profit before tax	134.7	(11.3)	123.4	150.6	(150.5)	123.5
Taxation	–	–	–	–	(34.3)	(34.3)
Profit for the period	134.7	(11.3)	123.4	150.6	(184.8)	89.2
Segment assets	1,363.8	18.6	1,382.4	1,682.9	22.7	3,088.0
Unallocated assets – group cash	–	–	–	–	194.4	194.4
Total assets	1,363.8	18.6	1,382.4	1,682.9	217.1	3,282.4
Segment liabilities	(239.9)	(3.3)	(243.2)	(290.0)	(247.2)	(780.4)
Unallocated liabilities						
– group borrowings	–	–	–	–	(569.9)	(569.9)
– deferred tax liabilities	–	–	–	–	(138.0)	(138.0)
– retirement benefit obligations	–	–	–	–	(485.0)	(485.0)
Total liabilities	(239.9)	(3.3)	(243.2)	(290.0)	(1,440.1)	(1,973.3)
Net assets	1,123.9	15.3	1,139.2	1,392.9	1,223.0	1,309.1
Other segment items:						
– Depreciation	49.3	1.8	51.1	58.7	15.3	125.1
– Amortisation of goodwill	0.2	–	0.2	–	–	0.2
– Amortisation of intangible assets	2.6	–	2.6	4.4	2.3	9.3
– Impairment	–	6.2	6.2	–	–	6.2
– Capital expenditure – property, plant and equipment	75.6	1.5	77.1	438.5	21.6	537.2
– Capital expenditure – intangible assets	4.8	–	4.8	6.7	6.8	18.3
– Movement in provisions	5.6	–	5.6	2.3	5.1	13.0

Notes to the accounts

continued

3 Operating expenses

	2006 £m	2005 £m
Branch operating expenses	**1,054.2**	986.9
Administrative expenses	**322.6**	274.1
Pension costs	**85.5**	83.6
	1,462.3	1,344.6

4 Exceptional items

	2006 £m	2005 £m
Exceptional items comprise the following (charges) and credits:		
Operating expenses:		
Asset impairments	–	(6.2)
Asset write offs	–	(1.3)
Reorganisation costs	–	(2.6)
Gain on disposal of account card operation	–	5.4
Gain on property disposals	–	21.2
	–	16.5

There are no exceptional items for 2006. Exceptional items for 2005 include asset impairments, following a review of the group's manufacturing fixed asset interests, carried out in accordance with the requirements of IAS 36, Impairment of Assets, asset write off and reorganisation costs within the John Lewis division, the phased recognition of the premium received in connection with disposal of the group's account card operation in 2003/04, and gains on property disposals.

5 Net finance costs

	2006 £m	2005 £m
Finance costs		
Interest payable on:		
Bank loans and overdrafts	**8.8**	5.7
Other loans repayable within 5 years	**5.1**	7.7
Loans repayable in more than 5 years	**29.6**	29.5
Finance lease interest payable	**1.6**	1.6
Amortisation of issue costs of bonds	**0.2**	0.2
Preference dividends	**0.1**	–
	45.4	44.7
Finance income		
Interest receivable	**(9.8)**	(14.1)
Fair value gains	**(0.7)**	–
	(10.5)	(14.1)
Net finance costs	**34.9**	30.6

6 Profit on ordinary activities before taxation

		2006 £m	2005 £m
Profit on ordinary activities before taxation is stated after charging/(crediting) the following:			
Staff costs		**1,033.5**	966.0
Depreciation – owned assets		**141.5**	130.5
Depreciation – assets held under finance leases		**0.8**	0.8
Amortisation of intangible assets		**10.7**	9.3
(Profit)/loss on sale of tangible and intangible fixed assets		**(2.9)**	(21.2)
Inventory – cost of inventory recognised as an expense		**3,444.2**	3,168.0
Restructuring costs		**7.5**	2.6
Operating lease rentals	– land and buildings	**59.3**	56.3
	– plant and machinery	**0.8**	1.7
Sub lease income	– land and buildings	**(3.3)**	(4.7)
Auditors' remuneration	– audit of group	**0.6**	0.5
	– audit of company (included in the above)	**0.2**	0.1
	– taxation	**0.1**	0.1
	– other non audit	**0.3**	0.1

In addition to the above, the group's auditor also acted as auditor to the group's pension schemes. The aggregate fee for audit services to the pension schemes during the year was £36,000 (2005: £36,000).

Contingency rents expensed during the year were £8.8m (2005: £9.2m). Contingency rents are determined based on store revenues.

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7 Tax on profit on ordinary activities

Analysis of tax charge	2006 £m	2005 £m
Corporation tax – current year	**50.7**	32.5
Corporation tax – prior years	**(0.5)**	(3.9)
Total current tax charge	**50.2**	28.6
Deferred tax	**(13.5)**	5.7
	36.7	34.3

Tax on items charged to equity	2006 £m	2005 £m
Deferred tax on pension liability	**(3.4)**	17.9

Tax credit attributable to exceptional items	2006 £m	2005 £m
Current tax	–	0.4
Deferred tax	–	(1.8)
	–	(1.4)

The tax charge for the period is lower (2005: lower) than the standard corporation tax rate of 30% (2005: 30%). The differences are explained below:

	2006 £m	2005 £m
Profit before tax	**131.6**	123.5
Profit before tax multiplied by standard rate of corporation tax in the UK of 30% (2005: 30%)	**39.5**	37.1
Effects of:		
Adjustment to current tax in respect of prior years	**(0.5)**	(3.9)
Depreciation on assets not qualifying for tax relief	**4.1**	3.3
Difference between accounting and tax base for land and buildings	**(5.6)**	(11.2)
Non-allowable share of associate company gain/loss	**(1.6)**	4.5
Sundry disallowables	**0.8**	4.5
Total tax charge	**36.7**	34.3

8 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 £8.0m loss (2005: £49.6m loss).

9 Dividends

	2006 £m	2005 £m
Non equity interests		
5% First Cumulative Preference Stock		
and 7% Cumulative Preference Stock		
(5 pence and 7 pence per share, respectively)	–	0.1
Equity interests		
Ordinary shares		
(20 pence per share)	**0.1**	0.1

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

Following the group's transition to IFRS, and the adoption of IAS 32 and IAS 39 on 30 January 2005, preference stock has been reclassified from equity to non-current liabilities, as explained in note 35. Accordingly, preference dividends for 2006 are treated as finance costs, as disclosed in note 5.

10 Directors' emoluments

	2006 £000	2005 £000
Directors' remuneration including Partnership bonus of 15% (14%)	**2,986**	3,156

The emoluments of the Chairman, who was also the highest paid director, were £752,000 (2005: £700,000), including Partnership bonus of £96,000 (2005: £84,000). The Chairman's aggregate pension entitlement from the age of 60 accrued at the end of the year was £430,000 per annum (2005: £391,000 per annum). The transfer value of the increase in accrued entitlement during the year was £318,000.

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

	2006	2005		2006	2005
£300,001 - £350,000	–	3	£450,001 - £500,000	**1**	–
£350,001 - £400,000	**1**	–	£500,001 - £550,000	–	2
£400,001 - £450,000	**2**	1	£550,001 - £600,000	**1**	–

As noted in last year's Report and Accounts, for the year to January 2005 one director was paid compensation for loss of office totalling £591,000 in salary, car and other benefits and £426,000 in respect of pension arrangements, subject to deduction of tax.

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 benefit from private medical insurance paid by the Partnership.

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

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10 Directors' emoluments (continued)

scheme which provides additional benefits intended to produce a total pension worth two-thirds of pensionable pay on retirement at age 60, after at least 20 or 30 years' service, depending on the level of benefit. The Inland Revenue introduced a ceiling on tax-exempt pension benefits in 1989. The group has given an undertaking that three directors who are affected by this ceiling will have their pensions made up to the same level as other directors benefiting from the senior pension scheme. The obligation is unfunded but provision has been made for this liability.

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

	2006	2005		2006	2005
£0 - £50,000	–	1	£100,001 - £150,000	**3**	1
£50,001 - £100,000	**1**	2	£200,001 - £250,000	**1**	1

The aggregate pension entitlement accrued at the end of the year for all directors, excluding the Chairman, who served on the Board during any part of the year, and the prior year amount for the same individuals, was £664,000 per annum (2005: £538,000 per annum). The increase in accrued pension reflects the combined effect of a further year's service and of an increase in pay during the year. In addition, all directors are entitled to temporary pensions payable from the age 60 until their State pension starts.

The amounts of these temporary pensions are all less than the State pensions they expect to receive. The aggregate entitlement to temporary pensions was £12,000 per annum (2005: £11,000 per annum). The transfer value of the aggregate increase in accrued entitlement, including temporary pensions, during the year was £948,000.

11 Employees

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

Consolidated	**2006**	2005
John Lewis	**26,600**	27,000
Waitrose	**35,400**	32,500
Other	**1,700**	1,600
	63,700	61,100

11 Employees (continued)

Employment and related costs were as follows:

Consolidated	2006 £m	2005 £m
Staff costs:		
Wages and salaries	**755.0**	713.8
Social security costs	**60.6**	57.9
Partnership bonus	**107.1**	94.2
Employers national insurance on Partnership bonus	**13.2**	11.6
Pension costs	**85.5**	83.6
Partner discounts (deducted from revenue)	**18.7**	18.1
Long leave cost	**12.1**	5.0
Included above are the following amounts in respect of key management compensation:		
Salaries and short term benefits	**10.6**	9.9
Pension benefits	**3.7**	3.5
Termination benefits	**0.1**	1.1

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

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

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

Company	2006	2005
John Lewis division	**26,000**	26,300
Other	**1,700**	1,600
	27,700	27,900

Notes to the accounts

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11 Employees (continued)

Employment and related costs were as follows:

Company	2006 £m	2005 £m
Staff costs:		
Wages and salaries	**399.5**	369.0
Social security costs	**34.8**	34.4
Partnership bonus	**56.8**	51.9
Employers national insurance on Partnership bonus	**7.0**	6.4
Pension costs	**50.8**	51.2
Partner discounts (deducted from revenue)	**9.6**	10.0
Long leave cost	**7.3**	3.0
Included above are the following amounts in respect of key management compensation:		
Salaries and short term benefits	**7.5**	6.9
Pension benefits	**2.5**	2.4
Compensation for loss of office	**–**	1.1

12 Intangible assets

Consolidated	Computer software Purchased £m	Computer software Internally developed £m	Work in progress £m	Total £m
Cost				
At 31 January 2004	14.8	20.2	10.2	45.2
Additions	3.1	5.8	9.4	18.3
Transfers	–	5.8	(5.8)	–
Disposals	(0.5)	–	–	(0.5)
At 29 January 2005	17.4	31.8	13.8	63.0
Additions	6.1	5.4	16.4	27.9
Transfers	–	3.5	(3.5)	–
Disposals	(2.3)	–	(0.1)	(2.4)
At 28 January 2006	**21.2**	**40.7**	**26.6**	**88.5**
Aggregate amortisation				
At 31 January 2004	9.6	7.8	–	17.4
Charge for the year	2.4	6.9	–	9.3
Disposals	(0.5)	–	–	(0.5)
At 29 January 2005	11.5	14.7	–	26.2
Charge for the year	3.0	7.7	–	10.7
Disposals	(0.6)	–	–	(0.6)
At 28 January 2006	**13.9**	**22.4**	**–**	**36.3**
Net book value at 29 January 2005	5.9	17.1	13.8	36.8
Net book value at 28 January 2006	**7.3**	**18.3**	**26.6**	**52.2**

12 Intangible assets (continued)

For the year to January 2006 computer systems totalling £3.5m 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.

	Computer software			
Company	**Purchased £m**	**Internally developed £m**	**Work in progress £m**	**Total £m**
Cost				
At 31 January 2004	10.7	20.1	10.2	41.0
Additions	2.6	5.8	9.4	17.8
Transfers	–	5.8	(5.8)	–
Disposals	(0.5)	–	–	(0.5)
At 29 January 2005	12.8	31.7	13.8	58.3
Additions	4.6	5.2	15.9	25.7
Transfers	–	3.5	(3.5)	–
Disposals	(2.3)	–	(0.1)	(2.4)
At 28 January 2006	**15.1**	**40.4**	**26.1**	**81.6**
Aggregate amortisation				
At 31 January 2004	8.2	7.8	–	16.0
Charge for the year	1.3	6.9	–	8.2
Disposals	(0.5)	–	–	(0.5)
At 29 January 2005	9.0	14.7	–	23.7
Charge for the year	1.7	7.7	–	9.4
Disposals	(0.5)	–	–	(0.5)
At 28 January 2006	**10.2**	**22.4**	–	**32.6**
Net book value at 29 January 2005	3.8	17.0	13.8	34.6
Net book value at 28 January 2006	**4.9**	**18.0**	**26.1**	**49.0**

Notes to the accounts

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13 Property, plant and equipment

Consolidated	Land and buildings £m	Fixtures and fittings £m	Assets in course of construction £m	Total £m
Cost				
At 31 January 2004	1,966.7	956.9	61.2	2,984.8
Additions	217.0	92.0	228.2	537.2
Transfers	138.2	69.4	(207.6)	–
Disposals	(30.6)	(62.6)	–	(93.2)
At 29 January 2005	2,291.3	1,055.7	81.8	3,428.8
Additions	2.0	27.3	230.4	259.7
Transfers	139.5	90.2	(229.7)	–
Disposals	(12.4)	(28.6)	–	(41.0)
At 28 January 2006	**2,420.4**	**1,144.6**	**82.5**	**3,647.5**
Accumulated depreciation				
At 31 January 2004	211.3	573.1	–	784.4
Charges for the year	39.1	92.2	–	131.3
Disposals	(3.3)	(58.6)	–	(61.9)
At 29 January 2005	247.1	606.7	–	853.8
Charges for the year	47.1	95.2	–	142.3
Disposals	(3.5)	(27.6)	–	(31.1)
At 28 January 2006	**290.7**	**674.3**	**–**	**965.0**
Net book values at 29 January 2005	2,044.2	449.0	81.8	2,575.0
Net book values at 28 January 2006	**2,129.7**	**470.3**	**82.5**	**2,682.5**

Included above are land and buildings assets held under finance leases with a net book value of £22.9m (2005: £22.6m).

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 31 January 2004	445.0	477.9	15.9	938.8
Additions	–	7.4	76.3	83.7
Transfers	12.1	50.7	(62.8)	–
Disposals	–	(26.6)	–	(26.6)
At 29 January 2005	457.1	509.4	29.4	995.9
Additions	–	7.4	68.0	75.4
Transfers	30.2	42.9	(73.1)	–
Disposals	(0.4)	(16.5)	–	(16.9)
At 28 January 2006	**486.9**	**543.2**	**24.3**	**1,054.4**
Accumulated depreciation				
At 31 January 2004	39.1	266.6	–	305.7
Charges for the year	7.7	46.6	–	54.3
Disposals	–	(23.1)	–	(23.1)
At 29 January 2005	46.8	290.1	–	336.9
Charges for the year	9.7	50.9	–	60.6
Disposals	(0.2)	(16.7)	–	(16.9)
At 28 January 2006	**56.3**	**324.3**	**–**	**380.6**
Net book values at 29 January 2005	410.3	219.3	29.4	659.0
Net book values at 28 January 2006	**430.6**	**218.9**	**24.3**	**673.8**

Included above are land and buildings assets held under finance leases with a net book value of £14.4m (2005: £14.7m).

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14 Investment in associate

	Share of net assets £m	Loans £m	Goodwill £m	Total £m
Cost				
At 31 January 2004	(10.3)	30.0	16.5	36.2
Addition in year	–	8.6	–	8.6
Share of retained loss	(14.1)	–	–	(14.1)
Dilution of interest	9.6	–	(1.4)	8.2
At 29 January 2005	(14.8)	38.6	15.1	38.9
Discounting of loan on adoption of IAS 39	–	(2.1)	–	(2.1)
At 30 January 2005	(14.8)	36.5	15.1	36.8
Net repayment in year	–	(16.2)	–	(16.2)
Share of retained loss	(5.6)	–	–	(5.6)
Dilution of interest	10.8	–	–	10.8
At 28 January 2006	**(9.6)**	**20.3**	**15.1**	**25.8**
Amounts written off				
At 31 January 2004	–	(1.1)	(16.5)	(17.6)
Dilution of interest	–	–	1.4	1.4
Credit arising on dilution of interest	–	(9.6)	–	(9.6)
At 29 January 2005 and 28 January 2006	**–**	**(10.7)**	**(15.1)**	**(25.8)**
Net book value				
At 29 January 2005	(14.8)	27.9	–	13.1
At 28 January 2006	**(9.6)**	**9.6**	**–**	**–**

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

	2006 £m	2005 £m
Current assets	**4.2**	9.0
Long-term assets	**17.2**	14.0
Current liabilities	**(8.7)**	(5.5)
Long-term liabilities	**(30.8)**	(32.3)
Losses not consolidated	**8.5**	–
Share of net assets of associate	**(9.6)**	(14.8)
Revenue	**50.9**	36.0
Expenses	**(65.0)**	(50.1)
Losses not consolidated	**8.5**	–
Share of operating loss of associate	**(5.6)**	(14.1)

Notes to the accounts

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14 Investment in associate (continued)

Investments represent 0.1% of the Ordinary Shares and 45% of the Convertible Preference Shares of Ocado Limited which equates to 29.4% of the issued share capital.

The total revenue of Ocado Limited for the year to 28 January 2006 was £167.6m. Ocado's results are included in the group's accounts based on their statutory accounts to 27 November 2005, and management accounts from that date to the group's year end.

Losses totalling £8.5m (2005: £nil) 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.

During 2004/5 preference shares were issued to other investors providing funding and, as a result, the Partnership's holding reduced from 35.6% to 32.5% of the issued share capital. These transactions gave rise to credits of £9.6m on the dilution of the holding; however, the Directors did not believe it was appropriate to recognise such credits at that stage in Ocado's development. Accordingly, the amount was taken against loan balances owed to the group by Ocado.

In July 2005 Ocado repaid a loan of £17.7m, and the Partnership invested a further £1.5m in Ocado Unsecured Convertible Redeemable loan stock 2009. During the year preference shares were issued to other investors providing funding and, as a result, the Partnership's holding reduced from 32.5% to 29.4% of the issued share capital. These transactions gave rise to a credit of £10.8m on the dilution of the holding, which is recorded in the income statement as an exceptional gain.

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 can be 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 33.4%.

In March 2006 Ocado raised a further £60m of funding from other investors, as a result of which the Partnership's shareholding reduced to 25.7%, or 29.7% on a fully diluted basis.

Notes to the accounts

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15 Fixed asset 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 29 January 2005	81.1	729.8	–	27.9	838.8
Movements	–	31.6	45.8	(18.3)	59.1
Provisions	(1.0)	(10.4)	–	–	(11.4)
At 28 January 2006	**80.1**	**751.0**	**45.8**	**9.6**	**886.5**

During the year ownership of the group's stake in its associate company, Ocado Limited, was transferred to John Lewis plc at cost.

A list of subsidiary undertakings is provided in note 36.

16 Inventories

	2006 £m	2005 £m
Consolidated		
Raw materials	**6.4**	8.8
Work in progress	**1.6**	2.2
Finished goods and goods for resale	**316.3**	329.0
	324.3	340.0
Company		
Raw materials	**3.1**	4.1
Finished goods and goods for resale	**193.7**	202.2
	196.8	206.3

The cost of inventory recognised as an expense by the group in the period was £3,444.2m (2005: £3,168.0m). Provisions against inventories of £2.2m (2005: £1.8m) were recognised in operating expenses.

17 Trade and other receivables

Consolidated	2006 £m	2005 £m
Current:		
Trade receivables	**36.1**	28.4
Other receivables	**33.9**	30.7
Due from associated undertaking	**5.4**	5.1
Prepayments	**45.8**	47.4
	121.2	111.6
Non-current:		
Prepayments	**20.4**	11.5

Company		
Current:		
Trade receivables	**4.7**	0.6
Other receivables	**20.2**	20.4
Prepayments	**24.3**	30.9
	49.2	51.9
Non-current:		
Prepayments	**20.4**	11.5

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.

18 Cash and cash equivalents

Consolidated	2006 £m	2005 £m
Cash at bank and in hand	**71.9**	79.4
Short term bank deposits	**210.9**	115.0
	282.8	194.4

Company		
Cash at bank and in hand	**10.1**	4.9
Short term bank deposits	**186.0**	115.0
	196.1	119.9

For 2005, the effective interest rate on short-term deposits was 4.3% and these deposits had an average maturity of 1 day.

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18 Cash and cash equivalents (continued)

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

Consolidated	2006 £m	2005 £m
Cash and cash equivalents, as above	**282.8**	194.4
Less bank overdrafts	**(50.3)**	(39.9)
Net cash and cash equivalents	**232.5**	154.5
Company		
Cash and cash equivalents, as above	**196.1**	119.9
Less bank overdrafts	**(50.0)**	(44.4)
Net cash and cash equivalents	**146.1**	75.5

19 Analysis of financial assets

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

Interest rate and currency analysis	Effective interest rate %	Floating rate £m	Non interest bearing £m	Total £m
Sterling	4.6%	271.6	48.9	320.5
Euro	1.2%	1.6	–	1.6
Other	2.7%	1.4	–	1.4
At 28 January 2006		**274.6**	**48.9**	**323.5**
Sterling	4.3%	201.5	40.3	241.8
Euro	1.3%	2.0	–	2.0
Other	0.9%	0.7	–	0.7
At 29 January 2005		204.2	40.3	244.5

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

20 Borrowings

Consolidated	**2006 £m**	2005 £m
Current:		
Bank overdraft	**50.3**	39.9
10¼% Bonds, 2006	**50.0**	–
	100.3	39.9
Non-current:		
Loans, repayable 2007	**100.0**	80.0
10¼% Bonds, 2006	**–**	50.0
6⅜% Bonds, 2012	**300.0**	300.0
Interest rate swap on the above	**4.1**	–
10½% Bonds, 2014	**100.0**	100.0
5% First Cumulative Preference Stock	**1.5**	–
7% Cumulative Preference Stock	**0.8**	–
	506.4	530.0

Company	**2006 £m**	2005 £m
Current:		
Bank overdraft	**50.0**	44.4
10¼% Bonds, 2006	**50.0**	–
	100.0	44.4
Non-current:		
Loans, repayable 2007	**100.0**	80.0
10¼% Bonds, 2006	**–**	50.0
6⅜% Bonds, 2012	**300.0**	300.0
Interest rate swap on the above	**4.1**	–
10½% Bonds, 2014	**100.0**	100.0
5% First Cumulative Preference Stock	**1.5**	–
7% Cumulative Preference Stock	**0.8**	–
	506.4	530.0

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

Following the group's transition to IFRS, and the adoption of IAS 32 and IAS 39 on 30 January 2005, preference stock has been reclassified from equity to non-current liabilities, as explained in note 35.

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.

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21 Trade and other payables

Consolidated	2006 £m	2005 £m
Current:		
Trade payables	**309.5**	300.2
Amounts owed to parent undertaking	**1.7**	1.7
Amounts owed to associated undertaking	**2.0**	1.9
Other payables	**64.4**	76.3
Other taxation and social security	**91.2**	58.6
Accruals	**70.8**	70.2
Deferred income	**14.2**	19.3
Partnership bonus	**107.1**	94.2
	660.9	622.4
Non-current:		
Accruals	**2.2**	–
Deferred income	**26.8**	24.2
	29.0	24.2
Company		
Current:		
Trade payables	**130.4**	114.6
Amounts owed to parent undertaking	**1.7**	1.7
Amounts owed to group companies	**256.2**	184.2
Other payables	**35.2**	64.7
Other taxation and social security	**74.9**	52.4
Accruals	**48.9**	46.8
Deferred income	**13.4**	4.4
Partnership bonus	**105.5**	92.7
	666.2	561.5
Non-current:		
Accruals	**2.2**	–
Deferred income	**25.1**	21.8
	27.3	21.8

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

22 Finance lease liabilities

Consolidated	2006 £m	2005 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	**2.4**	2.1
Later than one year but not more than five	**9.5**	10.3
More than five years	**57.6**	53.9
	69.5	66.3
Future finance charge on finance leases	**(36.8)**	(34.7)
Present value of finance lease liabilities	**32.7**	31.6
Of which:		
Current	**0.8**	0.6
Non-current	**31.9**	31.0

Company		
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	**0.6**	0.5
Later than one year but not more than five	**2.4**	2.0
More than five years	**27.9**	28.3
	30.9	30.8
Future finance charge on finance leases	**(14.8)**	(15.1)
Present value of finance lease liabilities	**16.1**	15.7
Of which:		
Current	**0.3**	0.1
Non-current	**15.8**	15.6

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

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23 Provisions

Consolidated	Long leave £m	Other £m	Total £m
At 29 January 2005	60.7	35.8	96.5
Charged to income statement	12.1	37.0	49.1
Utilised	(2.8)	(21.6)	(24.4)
At 28 January 2006	**70.0**	**51.2**	**121.2**
Of which:			
Current	19.2	25.3	44.5
Non-current	50.8	25.9	76.7

Company			
At 29 January 2005	60.7	19.5	80.2
Charged to income statement	12.1	27.2	39.3
Utilised	(2.8)	(13.4)	(16.2)
At 28 January 2006	**70.0**	**33.3**	**103.3**
Of which:			
Current	19.2	18.5	37.7
Non-current	50.8	14.8	65.6

The Partnership has a Long Leave scheme, open to all employees, that provides up to six months paid leave after 25 years service. There is no proportional entitlement for shorter periods of service. The provision for the scheme is assessed on an actuarial basis, reflecting employees expected service profiles, and using economic assumptions consistent with those used for the group's retirement benefit obligations (note 26), so as to accrue the cost over employees' service periods.

Other provisions include insurance claim provisions, where the group's liabilities are assessed on an actuarial basis, provisions for service guarantee costs, which reflect the expected failure rate and unit repair costs for the classes of goods sold, reorganisation costs, accrued holiday pay, and property related costs. The exact timing of utilisation of these provisions will vary according to the individual circumstances. However, the group's best estimate of utilisation is provided above, and in note 27.

24 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% (2005: 30%).

The movement on the deferred tax account is shown below:

	Group		Company	
	2006	2005	**2006**	2005
	£m	£m	**£m**	£m
Opening liability/(asset)	**138.0**	150.2	**(63.2)**	(53.0)
Charged/(credited) to income statement	**(13.5)**	5.7	**(13.3)**	7.7
Charged/credited to equity	**3.4**	(17.9)	**3.4**	(17.9)
Closing liability/(asset)	**127.9**	138.0	**(73.1)**	(63.2)

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	**Accelerated tax depreciation £m**	**Revaluation of land and buildings £m**	**Rollover gains £m**	**Other £m**	**Total £m**
At 31 January 2004	131.6	140.5	13.6	8.4	294.1
Charged/(credited) to income statement	13.1	(13.3)	6.1	3.7	9.6
At 29 January 2005	144.7	127.2	19.7	12.1	303.7
Charged/(credited) to income statement	11.3	(10.0)	0.2	(10.8)	(9.3)
At 28 January 2006	**156.0**	**117.2**	**19.9**	**1.3**	**294.4**

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24 Deferred tax (continued)

Deferred tax assets	Pensions and provisions £m	Capital losses £m	Total £m
At 31 January 2004	(142.0)	(1.9)	(143.9)
Charged/(credited) to income statement	(3.9)	–	(3.9)
Charged/(credited) to equity	(17.9)	–	(17.9)
At 29 January 2005	(163.8)	(1.9)	(165.7)
Charged/(credited) to income statement	(4.2)	–	(4.2)
Charged/(credited) to equity	3.4	–	3.4
At 28 January 2006	**(164.6)**	**(1.9)**	**(166.5)**

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 £24.2m (2005: £22.7m).

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax provision at 28 January 2006 was £127.9m (2005: £138.0m). The deferred tax liability due after more than one year is £127.9m (2005: £138.0m).

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

	2006 £m	2005 £m
Deferred tax charged/(credited) on pension fund provision	**3.4**	(17.9)

25 Fair values of financial instruments

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

Interest rate risk
The group's policy is to have a mix of fixed and floating interest rate exposures, using interest rate swaps to achieve this. At 28 January 2006 total fixed rate financial liabilities were £400m (2005: £400m), with £237m (2005: £202m) at floating rates, as detailed in note 27. At the year end interest rate swaps were in place on £50m (2005: £50m) of the 6⅜% fixed rate borrowing, converting it to floating rate. These swaps have a maturity and payment profile which matches the underlying debt, with a remaining term of 6 years, expiring in January 2012, and have been accounted for as hedges.

25 Fair values of financial instruments (continued)

Liquidity risk
Borrowing requirements are managed in line with a five year cash forecast, revised annually, to ensure that the group has a suitable range of facilities with a spread of maturity dates. At the year end the group had committed revolving borrowing facilities of £490m (2005: £300m), £230m of which is available to February 2010 and £260m to December 2008. In addition to these facilities, the group has a £100m (2005: £80m) loan, repayable in December 2007, together with bonds totalling £450m, £50m of which matures in 2006, £300m in 2012, and £100m in 2014. These loans are not subject to repricing, and have interest rates and maturity profiles as set out in note 27.

Currency risk
The group is subject to exposure in respect of foreign currency denominated purchases of goods for resale. Forward exchange contracts are entered into for all major exposures, so as to provide greater certainty on the sterling cost. At the year end £5.8m (2005: £5.8m) of a total of £6.1m (2005: £6.2m) of liabilities denominated in foreign currency were covered in this way. In addition, forward exchange contracts had been entered into for £12.6m (2005: £15.4m) of commitments under forward orders.

Credit risk
The group has no significant customer credit risk. Cash deposits and other financial instruments give rise to credit risk on the amounts due from bank counterparties. These risks are managed by restricting such transactions to approved banks, and limiting the aggregate exposure to any one counterparty. The group holds convertible loan stock in its associate company, Ocado Limited, with a book value of £9.6m.

The group has taken the exemption available under IFRS 1 not to present comparative information, and to apply IAS 32 and IAS 39 prospectively from 30 January 2005. Accordingly, the 2005 comparatives have been presented in accordance with the UK GAAP standard, FRS 13, Derivative and Other Financial Instruments in the latter part of this note.

Fair value of derivative financial instruments	**2006 Assets £m**	**2006 Liabilities £m**
Interest rate swap – fair value hedge	**4.1**	–
Forward currency contracts	**0.6**	(0.1)

	2006 £m	**2006 £m**
Gain/(loss) recorded in income statement	**0.7**	–

Details of these swaps are set out below:

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

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25 Fair values of financial instruments (continued)

The fair value of the group's bonds and preference stock is shown below. For cash, provisions, and other financial liabilities book values approximate to fair value.

	2006 £m
Bonds – current	**50.7**
Bonds – non-current	**457.6**
Preference stock	**2.1**

Prior to 29 January 2005 financial instruments were accounted for on a UK GAAP basis. The comparative values are shown below.

	2005 Book value £m	2005 Fair value £m
Derivatives		
Interest rate swap	–	3.5
Forward currency contracts		
– to hedge existing creditors	–	(0.1)
– to hedge future purchases	–	(0.5)
Assets		
Short term deposits	115.0	115.0
Cash at bank and in hand	79.4	79.4
Loans to associated undertaking	27.9	24.8
Liabilities		
Short term borrowings	(39.9)	(39.9)
Long term borrowings	(530.0)	(586.8)
Provisions	(39.3)	(39.3)
Non equity shares		
Preference shares	(2.3)	(1.9)

Market values were used to determine the fair value of derivatives, long term borrowings and preference shares. The fair value of loans was assessed on a discounted basis. For other assets and liabilities carrying value represents fair value. There were no material exchange rate or other gains or losses recognised in the year to January 2005, or unrecognised as at the year end. Short term debtors and creditors, apart from borrowings and items covered by forward currency contracts, are excluded from this analysis.

26 Retirement benefit obligations

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

The fund was last valued by an independent professionally qualified actuary as at 31 March 2004, using the projected unit method. The assumption which has the most significant effect on the results of the valuation is the relative rate of return on the investments of the fund compared with increases in pay and pensions. It was assumed for this purpose that, on average, the annual return on investments would exceed increases in pay and pensions by 3.1% and 4.2% respectively. The market value of the assets of the fund as at 31 March 2004 was £1,094m. The actuarial valuation of these assets showed that they were sufficient to cover 85% of the benefits which had accrued to members.

The actuaries have recommended a normal future contribution rate of 8.2% of total pay, together with an additional 1.8% of total pay in respect of the past-service deficit arising from the actuarial valuation. The next actuarial valuation of the fund will take place as at 31 March 2007.

As explained in note 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 £1.9m for the year to January 2007, increasing at 6% annually, with an additional charge for new entrants to the scheme.

The contributions expected to be paid to the pension schemes during the year to 27 January 2007 amount to £79.4m.

Pension commitments have been calculated based on the most recent actuarial valuations, as at 31 March 2004, which have been updated by the actuaries to assess the assets and liabilities of the schemes as at 28 January 2006.

Scheme assets are stated at market values at 28 January 2006. The following financial assumptions have been used:

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

The expected return on assets is a weighted average of the individual asset categories and their expected rates of return. Increases in earnings are projected at 1% above inflation, with increases in pensions being in line with inflation.

A review of the mortality experience of the John Lewis Partnership Trust for Pensions and UK pension schemes generally was carried out as part of the March 2004 actuarial valuation. This review indicated that the current mortality assumptions include reasonable allowance for future improvements in longevity and therefore these assumptions have been used for both 2006 and 2005. The mortality table PXA92, adjusted to reflect improvements in longevity to the year 2010, was used for current pensioners and the same table, adjusted to reflect improvements in longevity to the year 2020, was used for scheme members who have yet to retire.

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26 Retirement benefit obligations (continued)

The average life expectancies assumed for both 2006 and 2005 were as follows:

	Men	Women
Average life expectancy (in years) for a 60-year-old	23.5	26.5
Average life expectancy (in years) at age 60, for a 40-year-old	24.4	27.4

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

Amounts recognised in the income statement	Year ended 28 January 2006 £m	Year ended 29 January 2005 £m
Current service cost	**87.8**	82.4
Interest cost on liabilities	**93.7**	82.8
Expected return on assets	**(97.3)**	(82.8)
Pension expense	**84.2**	82.4
Administrative costs	**1.3**	1.2
Total pension charge	**85.5**	83.6

Amounts recognised in equity	Year ended 28 January 2006 £m	Year ended 29 January 2005 £m
Actuarial (gain)/loss on assets	**(233.8)**	(91.5)
Actuarial (gain)/loss on defined benefit obligation	**222.1**	151.0
Total (gain)/loss recognised in equity	**(11.7)**	59.5
Cumulative (gain)/loss recognised in equity	**47.8**	59.5

26 Retirement benefit obligations (continued)

Reconciliation of defined benefit liability	**2006 £m**	2005 £m
Defined benefit liability at beginning of year	**(485.0)**	(415.0)
Pension expense	**(84.2)**	(82.4)
Contributions	**78.5**	71.9
Total gain/(loss) recognised in equity	**11.7**	(59.5)
Defined benefit liability at end of year	**(479.0)**	(485.0)

Reconciliation of defined benefit obligation	**2006 £m**	2005 £m
Defined benefit obligation at the beginning of year	**1,766.0**	1,507.0
Current service cost	**87.8**	82.4
Interest on pension liabilities	**93.7**	82.8
Actuarial (gains)/losses	**222.1**	151.0
Benefits paid	**(60.6)**	(57.2)
Defined benefit obligation at the end of year	**2,109.0**	1,766.0

Reconciliation of value of assets	**2006 £m**	2005 £m
Value of assets at the beginning of year	**1,281.0**	1,092.0
Expected return on assets	**97.3**	82.8
Actuarial gains/(losses)	**233.8**	91.5
Benefits paid	**(60.6)**	(57.2)
Partnership contributions	**78.5**	71.9
Value of assets at the end of year	**1,630.0**	1,281.0

Analysis of assets	**2006 %**	**2006 £m**	2005 %	2005 £m
Equities	**71%**	**1,165.0**	70%	895.0
Bonds	**15%**	**246.0**	17%	222.0
Properties	**12%**	**191.0**	12%	159.0
Other assets	**2%**	**28.0**	1%	5.0
		1,630.0		1,281.0

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26 Pension commitments (continued)

Actual return on assets	2006 £m	2005 £m
Expected return on assets	**97.3**	82.8
Actuarial gains/(losses)	**233.8**	91.5
Actual return on assets	**331.1**	174.3

History of experience of gains and losses	2006 £m	2005 £m
(Gain)/loss on assets	**(233.8)**	(91.5)
% of assets at the end of the period	**(14%)**	(7%)
Experience (gain)/loss on defined benefit obligation	**10.0**	72.0
% of defined benefit obligation at the end of the period	**0%**	4%

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

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

The John Lewis Partnership Senior Pension Scheme – £1.9m for the year to January 2007, increasing at 6% annually, with an additional charge for new entrants to the scheme.

27 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 29 January 2005	400.0	201.7	96.3	698.0
At 28 January 2006	**402.3**	**237.1**	**121.2**	**760.6**

For 2005, floating rate borrowings were at interest rates linked to LIBOR. The weighted average rate for fixed rate borrowings was 7.9%, with a weighted average period to maturity of 6.8 years. The analysis of financial liabilities for 2005 excludes preference share capital of £2.3m, which is detailed in note 25.

For 2006, preference stock is included in borrowings.

27 Analysis of financial liabilities (continued)

Maturity of financial liabilities	2006 Effective interest rate	2006 £m	2005 Effective interest rate	2005 £m
Repayable in one year				
Bank overdrafts and other borrowing	5.1%	50.3	4.9%	39.9
Provisions		44.5		33.2
Finance lease liabilities	7.6%	0.8	7.6%	0.6
Bonds	10.3%	50.0	–	–
		145.6		73.7
Repayable between one and two years				
Provisions		16.8		13.7
Finance lease liabilities	7.6%	1.1	7.6%	0.6
Bonds	–	–	10.3%	50.0
		17.9		64.3
Repayable between two and five years				
Provisions		24.9		19.5
Finance lease liabilities	7.6%	2.0	7.6%	2.1
Loans	5.2%	100.0	4.9%	80.0
		126.9		101.6
Repayable in more than five years				
Provisions		35.0		30.1
Finance lease liabilities	7.6%	28.8	7.6%	28.3
Bonds	7.4%	400.0	7.4%	400.0
Interest rate swap on the above		4.1		–
Preference stock	5.6%	2.3	–	–
		470.2		458.4
		760.6		698.0

28 Share capital

	2006 £m	2005 £m
Authorised, issued and fully paid:		
Equity		
Ordinary shares		
6,750,000 of £1 each	6.7	6.7
Non equity		
5% First Cumulative Preference Stock		
1,500,000 of £1 each	–	1.5
7% Cumulative Preference Stock		
750,000 of £1 each	–	0.8
	6.7	9.0

The rights attaching to preference stock are described in note 20.

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29 Reconciliation of changes in equity

Consolidated	Share capital £m	Share premium £m	Capital redemption reserves £m	Retained earnings £m	Total equity £m
Balance at 31 January 2004	9.0	1.4	1.4	1,249.9	1,261.7
Profit for the year	–	–	–	89.2	89.2
Transfers	–	(0.3)	–	0.3	–
Actuarial losses	–	–	–	(59.5)	(59.5)
Tax on items recognised in equity	–	–	–	17.9	17.9
Dividend paid	–	–	–	(0.2)	(0.2)
Balance at 29 January 2005	9.0	1.1	1.4	1,297.6	1,309.1
Adoption of IAS 32 and IAS 39	(2.3)	–	–	(3.2)	(5.5)
Balance at 30 January 2005	6.7	1.1	1.4	1,294.4	1,303.6
Profit for the year	–	–	–	94.9	94.9
Transfers	–	(0.2)	–	0.2	–
Actuarial losses	–	–	–	11.7	11.7
Tax on items recognised in equity	–	–	–	(3.4)	(3.4)
Dividend paid	–	–	–	(0.1)	(0.1)
Balance at 28 January 2006	**6.7**	**0.9**	**1.4**	**1,397.7**	**1,406.7**

The cumulative amount of goodwill written off to reserves is £10.9m (2005: £10.9m). Retained earnings comprise £950.1m of distributable and £447.6m of non distributable reserves.

29 Reconciliation of changes in equity (continued)

Company	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
Balance at 31 January 2004	9.0	1.4	350.0	360.4
Profit for the year	–	–	(49.6)	(49.6)
Transfers	–	(0.3)	0.3	–
Actuarial losses	–	–	(59.5)	(59.5)
Tax on items recognised in equity	–	–	17.9	17.9
Dividend paid	–	–	(0.2)	(0.2)
Balance at 29 January 2005	9.0	1.1	258.9	269.0
Adoption of IAS 32 and IAS 39	(2.3)	–	(3.2)	(5.5)
Balance at 30 January 2005	6.7	1.1	255.7	263.5
Loss for the year	–	–	(7.9)	(7.9)
Transfers	–	(0.2)	0.2	–
Actuarial losses	–	–	11.7	11.7
Tax on items recognised in equity	–	–	(3.4)	(3.4)
Dividend paid	–	–	(0.1)	(0.1)
Balance at 28 January 2006	**6.7**	**0.9**	**256.2**	**263.8**

The cumulative amount of goodwill written off to reserves is £10.9m (2005: £10.9m).

30 Reconciliation of profit before tax to cash generated from operations

Consolidated	Year to 28 January 2006 £m	Year to 29 January 2005 £m
Profit before tax	**131.6**	123.5
Amortisation of intangible assets	**10.7**	9.3
Depreciation	**142.3**	131.3
Net finance costs	**34.9**	30.6
Gain/(loss) in respect of associate	**(5.2)**	14.1
Partnership bonus provision	**120.3**	105.8
(Profit)/loss on disposal of property, plant and equipment	**(2.9)**	(21.2)
(Profit)/loss on disposal of other assets	–	(5.4)
(Increase)/decrease in inventories	**15.0**	(10.8)
(Increase)/decrease in receivables	**(21.3)**	(27.7)
Increase/(decrease) in payables	**33.6**	80.9
Increase/(decrease) in provisions	**24.7**	23.3
Cash generated from operations	**483.7**	453.7

Cash flows for 2005 have been represented to include cash flows in respect of exceptional items within the relevant lines above.

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

Company	Year to 28 January 2006 £m	Year to 29 January 2005 £m
Loss before tax	**(7.1)**	(34.8)
Amortisation of intangible assets	**9.4**	8.2
Depreciation	**60.6**	54.3
Net finance costs	**33.7**	29.5
Partnership bonus provision	**63.8**	58.3
(Profit)/loss on disposal of property, plant and equipment	**0.9**	1.4
(Increase)/decrease in inventories	**8.8**	14.7
(Increase)/decrease in receivables	**(9.0)**	(18.3)
Increase/(decrease) in payables	**36.2**	105.0
Increase/(decrease) in provisions	**23.1**	20.4
Cash generated from operations	**220.4**	238.7

31 Reconciliation of net cash flow to net debt

Consolidated	Year to 28 January 2006 £m	Year to 29 January 2005 £m
Increase/(decrease) in cash in the year	**(17.9)**	50.1
Cash inflow from increase in debt and lease financing	**(20.0)**	(30.0)
Cash (inflow)/outflow from increase in liquid resources	**95.9**	(199.0)
Movement in debt for the year	**58.0**	(178.9)
Opening net debt	**(375.5)**	(196.6)
Adoption of IAS 32 and IAS 39	**(6.4)**	-
Closing net debt	**(323.9)**	(375.5)

32 Commitments and contingent liabilities

At 28 January 2006 contracts had been entered into for future capital expenditure of £24.2m (2005: £43.4m) for the group, and £8.3m (2005: £19.9m) for the company.

John Lewis plc has entered into bank guarantees in favour of subsidiary companies amounting to £11m, and lease guarantees in favour of the group's associate company, Ocado Limited, of £6.8m.

In March 2006 the group entered into a contract with Somerfield Property Company Limited and Somerfield Stores Limited to acquire 5 stores. The total cost of these stores including conversion costs is expected to be £37m. Title to the stores transfers to the group on a phased basis, completing during May 2006.

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33 Operating lease commitments

Total commitments under non-cancellable operating leases expiring:	2006 Land and buildings £m	2006 Plant and machinery £m	2005 Land and buildings £m	2005 Plant and machinery £m
Consolidated:				
Within one year	**60.0**	**0.6**	56.5	0.8
Later than one year and less than five years	**231.7**	**0.7**	220.3	1.3
After five years	**1,744.8**	-	1,706.3	-
Company:				
Within one year	**21.4**	**0.5**	21.5	0.6
Later than one year and less than five years	**80.7**	**0.6**	82.3	1.0
After five years	**956.5**	-	972.9	-

Total future sub-lease payments relating to the above operating leases amounted to £13.6m (2005: £14.7m) for the group, and £2.8m (2005: £3.2m) for the company.

34 Related party transactions

During the year John Lewis plc entered into transactions with other group companies in respect of credit card acquisition charges £34.8m (2005: £40.2m), the supply of goods for resale and associated services £23.2m (2005: £20.2m), purchase of goods for resale £17.4m (2005: £18.3m), the supply of IT and related services £19.3m (2005: £21.6m), and the hire of vehicles £8.4m (2005: £7.4m).

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

During the year the group entered into transactions with its associate company, Ocado Limited, for the supply of goods at cost totalling £49.8m (2005: £36.7m), provision of distribution and other services totalling £2.1m (2005: £1.8m) and interest charges of £2.8m (2005: £0.5m). Included within trade and other receivables is a balance of £5.4m (2005: £5.1m) due from Ocado Limited in respect of these transactions. Included within trade and other payables is a balance of £2.0m (2005: £1.9m) due to Ocado in connection with the supply of goods.

Notes to the accounts

continued

35 Reconciliation of net asset and profit under UK GAAP to IFRS

Prior to 30 January 2005 John Lewis plc ("the group") prepared its consolidated financial statements under UK Generally Accepted Accounting Principles (UK GAAP). From 30 January 2005 the group is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and implemented in the UK. The group's date of transition to IFRS is 1 February 2004, and the 2004/05 comparatives have been restated to IFRS.

The principal adjustments on transition to IFRS were as follows:

- Recognition on the balance sheet of the net pension deficit in connection with the group's defined benefit pension schemes, together with a provision for the cost of long service leave;
- Revaluation of freehold and long leasehold property and a reassessment of their associated residual values;
- Classification of certain leases as finance leases, and the amortisation of lease inducements over the full term of the related lease;
- Recognition of a small number of impairments, following a review carried out at the date of transition, the assumptions for which are explained below;
- Capitalisation of the cost of internally developed IT systems, which had previously been expensed as incurred.

The group published its estimated restatement of information under IFRS in September 2005. There have been a number of small changes resulting in an increase in net assets of £0.6m, compared to that expected at the time of the restatement announcement. The main changes were a reduction of £2.6m in the property revaluation gain, a reclassification of £4.2m between property, plant and equipment and intangible assets, and reductions in provisions for deferred tax liabilities of £1.9m, and retirement benefit obligation of £1.0m.

The reconciliation of income and net assets from UK GAAP to IFRS is as follows:

Consolidated **Reconciliation of income from UK GAAP to IFRS** (net of deferred tax effects)	Year ended 29 January 2005 £m
Profit retained under UK GAAP	70.3
Pensions and employee benefits	(2.8)
Property valuation	17.9
Finance leases and operating lease inducements	(3.0)
Impairments	2.3
Capitalisation of internally developed IT systems	4.5
Profit retained under IFRS	89.2
Actuarial losses under defined benefit schemes	(59.5)
Tax on items recognised directly in equity	17.9
Dividends	(0.2)
Total recognised income and expense under IFRS	47.4

Notes to the accounts

continued

35 Reconciliation of net asset and profit under UK GAAP to IFRS (continued)

Consolidated

Reconciliation of net assets from UK GAAP to IFRS (net of deferred tax effects)	29 January 2005 £m	1 February 2004 £m
Net assets under UK GAAP	1,611.5	1,541.4
Pensions and employee benefits	(365.9)	(321.4)
Property valuation	95.1	77.2
Finance leases and operating lease inducements	(33.9)	(30.8)
Impairments	(19.6)	(21.9)
Intangible assets	21.9	17.4
Net assets under IFRS	1,309.1	1,261.9
Adoption of IAS 32 and IAS 39	(5.5)	
Net assets at 30 January 2005 under IFRS	1,303.6	

Company

Reconciliation of income from UK GAAP to IFRS (net of deferred tax effects)	Year ended 29 January 2005 £m
Profit retained under UK GAAP	(44.4)
Pensions and employee benefits	(6.1)
Property valuation	(0.8)
Finance leases and operating lease inducements	(2.8)
Capitalisation of internally developed IT systems	4.5
Profit retained under IFRS	(49.6)
Actuarial losses under defined benefit schemes	(59.5)
Tax on items recognised directly in equity	17.9
Dividends (including non-equity interests)	(0.2)
Total recognised income and expense under IFRS	(91.4)

Company

Reconciliation of net assets from UK GAAP to IFRS (net of deferred tax effects)	29 January 2005 £m	1 February 2004 £m
Net assets under UK GAAP	657.2	701.6
Pensions and employee benefits	(369.1)	(321.3)
Property valuation	(15.6)	(14.8)
Finance leases and operating lease inducements	(25.4)	(22.6)
Intangible assets	21.9	17.4
Net assets under IFRS	269.0	360.3
Adoption of IAS 32 and IAS 39	(5.5)	
Net assets at 30 January 2005 under IFRS	263.5	

Notes to the accounts

continued

35 Reconciliation of net asset and profit under UK GAAP to IFRS (continued)

The group conducted an impairment review as part of its transition to IFRS as at 1 February 2004, comparing asset carrying values to the higher of value in use and fair value.

Value in use is calculated as the present value of estimated future cash flows expected to result from the use of the assets. The discount rate is based on the group's weighted average cost of capital, together with any risk premium deemed appropriate. Discount rates of 12.4% were used for John Lewis, and 9.1% for Waitrose. Fair value was determined by reference to open market value less an allowance for disposal costs.

As noted above, a total of £21.9m of impairments were recognised on transition to IFRS. All impairments were in respect of supermarket properties.

As indicated above, the group adopted IAS 32 and IAS 39 on 30 January 2005. The resultant adjustments to net assets were as follows:

Consolidated and company	**£m**
Adjustment to valuation of stocks	(0.5)
Fair value of forward exchange contracts	(0.6)
Fair value adjustment on loans to associate	(2.2)
Reclassification of preference stock from equity to non-current liabilities	(2.2)
Adoption of IAS 32 and IAS 39	(5.5)

Notes to the accounts

continued

36 Subsidiary and associated undertakings

Subsidiary companies as at 28 January 2006 were as follows:
Findlater Mackie Todd & Co. Limited *(Wholesale including export; subsidiary of Waitrose Limited)*
Herbert Parkinson Limited *(Weaving and making up)*
J.H.Birtwistle & Company, Limited *(Textile weaving)*
JLP Holdings BV *(Investment holding company; incorporated and operating 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 Card Services Limited *(Credit card handling)*
John Lewis Properties plc *(Property holding company)*
John Lewis Transport Limited *(Vehicle leasing)*
Stead, McAlpin & Company, Limited *(Textile printing)*
Waitrose Limited *(Food retailing)*
Waitrose Card Services Limited *(Credit card handling; subsidiary of Waitrose Limited)*

Associate company:
Ocado Limited *(e-commerce grocery; year end 27 November)*

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

John Lewis Partnership plc is the company's immediate and ultimate parent company and prepares consolidated accounts which include the accounts of the company.

Ultimate control rests with John Lewis Partnership Trust Limited, which holds the equity of John Lewis Partnership plc in trust for the benefit of the employees. Both of these companies are registered in England and Wales.

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

Directors' responsibilities for financial statements

The directors are required by UK company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing the financial statements suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made. Relevant accounting standards have been followed. The directors are responsible for maintaining adequate accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group, and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking steps for preventing and detecting fraud and other irregularities.

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 28 January 2006 which comprise the group income statement, the group and company balance sheets, the group and company cash flow statements, the group and company statement 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 (IFRS) 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. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and 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 and the Chairman's statement and the five year record. 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 opinion

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

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

Independent auditors' report to the members of John Lewis plc

continued

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 28 January 2006 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 28 January 2006 and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
and Registered Auditors

1 Embankment Place
London WC2N 6RH
27 April 2006

Retail branches

Department Stores

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

Waitrose Supermarkets

London

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

Southern England

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

Midlands, East Anglia, Wales and Northern England

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

In addition to the shops listed above, the Partnership operates the following businesses
John Lewis Direct *Internet retail*
Waitrose Direct (including Findlater Mackie Todd) *Internet retail, mail order and wholesale including export*
Stead McAlpin, Carlisle *Textile Printing*
J. H. Birtwistle, Haslingden *Textile weaving*
Herbert Parkinson, Darwen *Weaving and making up*
Leckford Estate, Stockbridge *Farming*

Notice of AGM

Notice is hereby given that the seventy-eighth annual general meeting of the company will be held at 12.15 pm on 21 June 2006 at 171 Victoria Street, London SW1E 5NN:

- To receive the directors' report and accounts for the year 2005/06.
- 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
10 May 2006

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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