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NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the seventieth annual general meeting of the company will be held at 12.20pm on 24th June 1998 at 171 Victoria Street, London SW1E 5NN:

To receive the directors' report and accounts for the year 1997/98.


To consider the final dividend.

To consider the re-election of retiring directors.

To consider the re-appointment of the auditors.

To consider the remuneration of the auditors.

By order of the Board
B J Pritchard Secretary
171 Victoria Street, London SW1E 5NN
20th May 1998



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

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

BOARD OF DIRECTORS

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

OFFICERS AND PROFESSIONAL ADVISERS

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

Registered in England No. 233462

SUMMARY OF RESULTS FOR THE YEAR ENDED 31ST JANUARY 1998

| | 1998 | 1997 |
|--|---------|---------|
| | £m | £m |
| Turnover (including VAT) | 3,460.1 | 3,160.5 |
| Trading profit | 271.7 | 238.9 |
| Interest | (21.4) | (21.8) |
| Profit before Partnership bonus and taxation | 250.3 | 217.1 |
| Taxation | (49.9) | (45.2) |
| Dividends | (0.3) | (0.3) |
| Balance available for profit sharing and retention in the business | 200.1 | 171.6 |
| Partnership bonus | (97.7) | (81.7) |
| Retained in the business for development | 102.4 | 89.9 |
| Net assets employed at the year end | 1,193.2 | 1,060.4 |
| Number of employees (weighted for part-timers) | 33,300 | 32,400 |
| Number of shops – Department stores | 23 | 23 |
| – Supermarkets | 117 | 115 |

FIVE YEAR RECORD

| | 1998* | 1997 | Years ended January | | |
|---|---------|---------|---------------------|---------|---------|
| | £m | £m | 1996 | 1995 | 1994 |
| | £m | £m | £m | £m | £m |
| Turnover (including VAT) | 3,460.1 | 3,160.5 | 2,815.7 | 2,575.5 | 2,420.2 |
| Profit before pension costs | 300.7 | 262.3 | 195.4 | 159.4 | 134.1 |
| Pension costs | (29.0) | (23.4) | (22.6) | (18.0) | (17.6) |
| Interest | (21.4) | (21.8) | (22.8) | (24.5) | (23.3) |
| Profit before Partnership bonus and taxation | 250.3 | 217.1 | 150.0 | 116.9 | 93.2 |
| Taxation | (49.9) | (45.2) | (28.6) | (22.5) | (16.2) |
| Dividends | (0.3) | (0.3) | (0.3) | (0.3) | (0.3) |
| Net profit available for profit sharing and retention in the business | 200.1 | 171.6 | 121.1 | 94.1 | 76.7 |
| Partnership bonus | (97.7) | (81.7) | (57.0) | (43.1) | (34.5) |
| As a percentage of ranking pay | 22 | 20 | 15 | 12 | 10 |
| Retained in the business | 102.4 | 89.9 | 64.1 | 51.0 | 42.2 |
| Net assets employed | 1,193.2 | 1,060.4 | 950.0 | 859.8 | 806.7 |
| Pay | 442.1 | 402.3 | 371.3 | 351.8 | 335.3 |
| Number of employees | 45,300 | 43,700 | 41,100 | 39,600 | 38,800 |
| including part-time employees | 18,800 | 17,800 | 16,300 | 15,200 | 14,700 |

* 53 week year

STATEMENT BY THE CHAIRMAN

Partnership sales were just under £3.5bn, giving an increase over last year of 9%, albeit this included an extra week of trading this year. Profit before Partnership bonus and taxation increased by 15% to £250m, comfortably beating last year's record. £103m of profit after tax was retained in the business, leaving £98m to be distributed to Partners by way of bonus at 22% of pay. Once again, in sterling terms, this was a record.

Department store sales were 10% ahead of last year. Sales in the first half year were no doubt helped by the proceeds of the demutualisation of building societies and insurance companies. Sales in the second half year were more difficult but good Clearance sales brought the year to a satisfactory conclusion. Sales for the manufacturing units were flat but they have continued to give good support to our furnishing trade. Continuing control of costs and maintenance of the gross margin meant that the department store division's trading profit reached £197m, 17% ahead of the previous year.

The Waitrose sales increase was 9% with the pattern reversed: the first half year was difficult with very low food price inflation hampering progress; the second half year, with new branches opening at Newark and Salisbury, brought stronger sales. Despite intense competition in this market, the gross margin moved slightly ahead and Waitrose trading profit increased by 5% to £75m.

Capital spending of £155m was well ahead of last year's £87m, boosted by the cost of three new department stores under construction. The net interest charge fell for the third year and interest cover increased from 11 times to 13 times. Year-end gearing fell to 14% from 21%.

This year has already seen the transfer of the Bristol department store to Cribbs Causeway and Waitrose expects to open two new branches this year. Work will intensify on two other department stores at Bluewater in Kent and Glasgow, both opening in Spring 1999. In January we announced a new branch to be built at Solihull and this is in addition to our proposed relocation of Tyrrell & Green within Southampton.

After 12 weeks of the current trading year, sales are 7% ahead in department stores and 6% in Waitrose. It is too early to see how the economy will influence sales this year but driving our profit forward is bound to be challenging, with little further stimulus from windfalls, the pre-opening costs of two new department stores coming through in addition to the costs of ensuring that all our computer systems are 'millennium-proof'. All this and only 52 weeks to put against a 53-week year.

S Hampson
Chairman
30th April 1998



DIRECTORS' REPORT FOR THE YEAR ENDED 31ST JANUARY 1998

Directors

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

Principal activity

The company controls the businesses listed on page 27 comprising 23 department stores, 117 Waitrose supermarkets and ancillary manufacturing activities.

Employees

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

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

Corporate governance

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

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

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST JANUARY 1998 *continued*

Corporate governance *(continued)*

The Partnership has an Audit Committee, the members of which are the Chairman, the General Inspector and one other Director (not an Executive Director), nominated by the Chairman, currently Mr Temple, the Chief Registrar. It meets at least twice a year. Its purpose is to assist the Board of John Lewis Partnership plc in ensuring that the group's systems provide accurate and up to date information on its financial position, and that the group's published financial statements represent a true and fair reflection of this position. It also ensures that appropriate accounting policies and internal financial controls are in place. The external auditors attend its meetings, as does the Head of Internal Audit.

Year 2000

The group has a detailed plan in place to ensure that its computer systems are able to function effectively in the year 2000 and thereafter. It is estimated that work on converting the group's computer software to deal with the year 2000 date change will cost £4.7m in total, of which £1.0m has been incurred in 1997/98. The majority of these costs will be charged to the Profit and Loss account as incurred. Work is also in hand to identify the extent of problems with embedded chips. The cost of the remedial work cannot be quantified at present, but it is not expected to be material in the context of the group's financial resources.

In addition to the costs identified above, a number of projects have been brought forward to avoid the need to modify old systems. The total cost of these projects is expected to be £2.7m, of which £1.0m has been incurred in 1997/98. The costs will be capitalised as appropriate.

The group plans to complete the majority of this work by the end of 1998. This is a challenging target, but the work is proceeding to plan and progress is reviewed on a monthly basis at a senior level.

Payments to suppliers

The Partnership's policy for the payment of its suppliers is to agree the terms of payment in advance and, provided a supplier fulfils the agreement, to pay promptly in accordance with such terms. The group's trade creditors as at 31st January 1998 were equivalent to 22 days of purchases during the year ended on that date.

Directors' remuneration

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

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

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

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST JANUARY 1998 *continued***Properties**

The group's freehold and long leasehold department store properties were valued by the directors at 31st December 1997 on the basis of existing use value. This valuation has been incorporated in the consolidated balance sheet at 31st January 1998, resulting in a surplus of £30.4m, which has been credited to the revaluation reserve.

The group's supermarket and distribution properties are stated at depreciated historical cost. The directors are satisfied that the current market value of these properties is not materially different from their carrying value, as at 31st January 1998.

Use of profits

Preference dividends absorbed £89,250 and a final dividend of £200,000 has been proposed on the Ordinary Shares leaving £102,400,000 to be transferred to reserves.

Review of the business

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

Directors' interests

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

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

Substantial shareholdings

As at 30th April 1998 the Company has been notified of the following interests in its preference shares, these interests being recorded in the register maintained under the provisions of Section 211 of the Companies Act 1985.

| 5% First Cumulative Preference | % of Class | 7% Cumulative Preference | % of Class |
|--|-------------------|---------------------------------|-------------------|
| John Lewis Partnership plc | 81.0% | John Lewis Partnership plc | 75.6% |
| Prudential Client (MSS) Nominees Limited | 7.5% | Cleaning Tokens Limited | 5.5% |
| CUIM Nominee Ltd | 6.7% | J H M MacGowan | 3.6% |
| | | CUIM Nominee Ltd | 3.3% |

Charitable donations

The group donated £1,420,000 for charitable purposes during the year but made no political donations.

For and by order of the Board
B J Pritchard Secretary
30th April 1998



**CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED
31ST JANUARY 1998**

| Notes | 1998 £m | 1997 £m |
|--|----------------|----------------|
| 2 Turnover | 3,460.1 | 3,160.5 |
| Value added tax | (342.7) | (310.8) |
| | <u>3,117.4</u> | <u>2,849.7</u> |
| Cost of sales | (2,130.7) | (1,962.8) |
| Gross profit | 986.7 | 886.9 |
| Selling and distribution costs | (613.5) | (558.6) |
| Administrative expenses | (72.5) | (66.0) |
| 3 Pension costs | (29.0) | (23.4) |
| | <u>271.7</u> | <u>238.9</u> |
| 2 Trading profit | 271.7 | 238.9 |
| 4 Net interest payable | (21.4) | (21.8) |
| | <u>250.3</u> | <u>217.1</u> |
| Profit before Partnership bonus and taxation | 250.3 | 217.1 |
| Partnership bonus | (97.7) | (81.7) |
| | <u>152.6</u> | <u>135.4</u> |
| 5 Profit on ordinary activities before taxation | 152.6 | 135.4 |
| 6 Tax on profit on ordinary activities | (49.9) | (45.2) |
| | <u>102.7</u> | <u>90.2</u> |
| 7 Profit for the financial year | 102.7 | 90.2 |
| 8 Dividends (including non equity interests) | (0.3) | (0.3) |
| | <u>102.4</u> | <u>89.9</u> |
| 17 Profit retained | <u>102.4</u> | <u>89.9</u> |

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| | | |
|--|--------------|--------------|
| | 102.7 | 90.2 |
| Profit for the financial year | 102.7 | 90.2 |
| 17 Unrealised surplus on revaluation of department store properties | 30.4 | 20.5 |
| | <u>133.1</u> | <u>110.7</u> |
| Total recognised gains and losses for the year | <u>133.1</u> | <u>110.7</u> |

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

CONSOLIDATED BALANCE SHEET AS AT 31ST JANUARY 1998

| Notes | 1998 £m | 1997 £m |
|---|------------|------------|
| Fixed assets | | |
| 11 Tangible assets | 1,234.6 | 1,122.0 |
| Current assets | | |
| 13 Stocks | 259.4 | 239.1 |
| 14 Debtors | 290.0 | 328.1 |
| Cash at bank and in hand | 58.7 | 107.2 |
| | 608.1 | 674.4 |
| Creditors | | |
| 15 Amounts falling due within one year | (486.9) | (567.2) |
| Net current assets | 121.2 | 107.2 |
| Total assets less current liabilities | 1,355.8 | 1,229.2 |
| Creditors | | |
| 15 Amounts falling due after more than one year | (162.6) | (168.8) |
| Net assets | 1,193.2 | 1,060.4 |
| Capital and reserves | | |
| 16 Called up share capital – equity | 6.8 | 6.8 |
| – non equity | 2.2 | 2.2 |
| Total share capital | 9.0 | 9.0 |
| 17 Share premium account | 1.9 | 1.9 |
| 17 Revaluation reserve | 205.2 | 177.0 |
| 17 Capital reserve | 1.4 | 1.4 |
| 17 Profit and loss account | 975.7 | 871.1 |
| Total shareholders' funds (including non equity interests) | 1,193.2 | 1,060.4 |

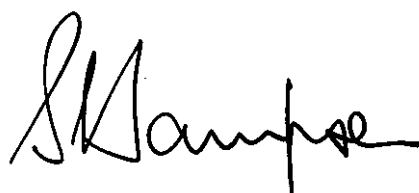
Approved by the Board on 30th April 1998
S Hampson



BALANCE SHEET OF THE COMPANY AS AT 31ST JANUARY 1998

| Notes | 1998 £m | 1997 £m |
|---|---------------|---------------|
| Fixed assets | | |
| 11 Tangible assets | 360.7 | 301.5 |
| 12 Investments in subsidiary undertakings | 362.2 | 340.1 |
| | <u>722.9</u> | <u>641.6</u> |
| Current assets | | |
| 13 Stocks | 164.3 | 154.7 |
| 14 Debtors | 258.4 | 300.9 |
| Cash at bank and in hand | 42.0 | 95.8 |
| | <u>464.7</u> | <u>551.4</u> |
| Creditors | | |
| 15 Amounts falling due within one year | (554.4) | (651.2) |
| Net current liabilities | <u>(89.7)</u> | <u>(99.8)</u> |
| Total assets less current liabilities | 633.2 | 541.8 |
| Creditors | | |
| 15 Amounts falling due after more than one year | (150.0) | (150.0) |
| Net assets | <u>483.2</u> | <u>391.8</u> |
| Capital and reserves | | |
| 16 Called up share capital – equity | 6.8 | 6.8 |
| – non equity | 2.2 | 2.2 |
| Total share capital | <u>9.0</u> | <u>9.0</u> |
| 17 Share premium account | 1.9 | 1.9 |
| 17 Revaluation reserve | 27.2 | 13.8 |
| 17 Profit and loss account | 445.1 | 367.1 |
| Total shareholders' funds (including non equity interests) | <u>483.2</u> | <u>391.8</u> |

Approved by the Board on 30th April 1998
S Hampson



**CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED
31ST JANUARY 1998**

| Notes | 1998 £m | 1997 £m |
|--|----------------|---------------|
| 19 Net cash inflow from operating activities | 170.5 | 212.0 |
| Returns on investments and servicing of finance | — | |
| Interest received | 7.2 | 7.0 |
| Interest paid | (27.8) | (28.2) |
| Interest element of finance lease rental payments | (0.5) | (0.7) |
| Preference dividends paid | (0.1) | (0.1) |
| Net cash outflow from returns on investments and servicing of finance | (21.2) | (22.0) |
| Taxation | (42.6) | (25.2) |
| Capital expenditure and financial investment | | |
| Purchases of tangible fixed assets | (154.5) | (86.7) |
| Proceeds of sales of tangible fixed assets | 2.5 | 2.6 |
| Proceeds of sale of call option | 49.3 | — |
| Net cash outflow from capital expenditure and financial investment | (102.7) | (84.1) |
| Equity dividends paid | (0.2) | (0.2) |
| Net cash inflow before liquid resources and financing | 3.8 | 80.5 |
| Management of liquid resources (Short term loans/deposits) | 28.7 | (68.5) |
| Financing | | |
| Repayment of 10 ³ / ₈ % Bonds, 1998 | (100.0) | — |
| Loan repayments | (3.7) | (3.5) |
| Capital element of finance lease rental payments | (2.5) | (1.8) |
| Net cash outflow from financing | (106.2) | (5.3) |
| (Decrease)/increase in cash in the year | (73.7) | 6.7 |

NOTES TO THE ACCOUNTS

1 Accounting policies

Accounting convention and basis of consolidation

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

Turnover

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

Stock valuation

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

Pension costs

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

Property valuation

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

Depreciation

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

Freehold and long leasehold buildings — 1% to 4%

Other leaseholds — over the remaining period of the lease

Fixtures and fittings — 10% to 33%

Leased assets

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

Deferred taxation

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

Goodwill

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

NOTES TO THE ACCOUNTS *continued***2 Divisional analysis of turnover and trading profit**

| | <i>Turnover</i> | | <i>Trading profit</i> | |
|-------------------|-----------------|----------------|-----------------------|--------------|
| | <i>1998</i> | <i>1997</i> | <i>1998</i> | <i>1997</i> |
| | <i>£m</i> | <i>£m</i> | <i>£m</i> | <i>£m</i> |
| Department stores | 1,788.2 | 1,620.7 | 197.2 | 168.1 |
| Supermarkets | 1,671.9 | 1,539.8 | 74.5 | 70.8 |
| | <u>3,460.1</u> | <u>3,160.5</u> | <u>271.7</u> | <u>238.9</u> |

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

3 Pension costs

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

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

The actuaries have recommended a normal future contribution rate of 8.0% of total pay. For several years the charge will continue to be reduced by taking into account the past-service surplus arising from the actuarial valuation at March 1992, together with a small adjustment arising from the March 1995 valuation. The pension charge for the year, calculated according to the provisions of SSAP 24, was equivalent to 6.3% (5.6%) of total pay and amounted to £28.0m (£22.6m), including notional interest of £0.4m (£0.7m) on the pension charge accrued in the consolidated balance sheet. During the year the Committee for Management of the pension scheme, with the consent of the Board, amended the scheme rules to provide certain benefit enhancements. This resulted in an additional pension charge of £1.1m. The impact of the 1997 Finance Act change to Advance Corporation Tax for pension funds was to increase the pension charge by a further £1.5m. The next actuarial valuation of the fund will take place as at 31st March 1998.

As explained in note 9, there is also a senior pension scheme which provides additional benefits to certain members of senior management. The actuaries have recommended a funding rate of 11.9% or 18.6% of total pay, depending on the level of benefits provided. The charge for the year was £0.9m (£0.7m). Provision has also been made for certain unfunded benefits amounting to £0.1m (£0.1m). Both of these amounts are included in the total pension cost of £29.0m (£23.4m).

4 Net interest payable

| | <i>1998</i> | <i>1997</i> |
|--|-------------|-------------|
| | <i>£m</i> | <i>£m</i> |
| Interest payable: | | |
| On bank loans, overdrafts and other loans repayable within 5 years | 12.0 | 12.6 |
| On finance leases | 0.5 | 0.7 |
| On all other loans | 15.9 | 15.5 |
| Interest receivable | (7.0) | (7.0) |
| | <u>21.4</u> | <u>21.8</u> |

NOTES TO THE ACCOUNTS *continued*

| 5 Profit on ordinary activities before taxation | 1998 | 1997 |
|---|-------------|-------------|
| Profit on ordinary activities before taxation is stated after charging the following: | £m | £m |
| Staff costs: | | |
| Wages and salaries | 442.1 | 402.3 |
| Social security costs | 36.3 | 33.3 |
| Partnership bonus | 88.4 | 73.7 |
| Employer's national insurance on Partnership bonus | 9.3 | 8.0 |
| Pension costs | 29.0 | 23.4 |
| Depreciation – owned assets | 67.4 | 62.2 |
| – assets held under finance leases | 2.4 | 2.4 |
| Auditors' remuneration – audit of group | 0.4 | 0.4 |
| – audit of company (included in the above) | 0.2 | 0.2 |
| – non audit services | – | 0.2 |
| Operating lease rentals – land and buildings | 39.5 | 39.2 |
| – other | 1.2 | 0.6 |

6 Tax on profit on ordinary activities

| | | |
|--|-------------|-------------|
| Corporation tax based on the profit for the year | 47.5 | 41.1 |
| Corporation tax – previous years | – | (0.2) |
| Deferred tax | 2.4 | 4.3 |
| | 49.9 | 45.2 |

The tax charge is based on a corporation tax rate of 31% (33%) and has been reduced by £2.8m (£2.4m) as a result of capital allowances in excess of depreciation.

Total taxation deferred and unprovided in respect of capital allowances in excess of depreciation amounts to £84.6m (£89.6m) based on corporation tax at 31% (33%).

No provision has been made in these accounts for the liability to taxation of £20.2m (£16.6m) on capital gains, which would arise if properties were to be sold at the amounts at which they have been revalued and included in these accounts.

7 Profit for the financial year

As permitted by Section 230 of the Companies Act 1985, John Lewis plc has not presented its own profit and loss account. The profit dealt with in the accounts of the company amounted to £78.0m (£62.3m).

| 8 Dividends | 1998 | 1997 |
|---|-------------|-------------|
| | £m | £m |
| Non equity interests | | |
| 5% (now 3.5% plus tax credit) First Cumulative Preference Stock | | |
| and 7% (now 4.9% plus tax credit) Cumulative Preference Stock | 0.1 | 0.1 |
| Equity interests | | |
| Ordinary shares | 0.2 | 0.2 |
| | 0.3 | 0.3 |

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

NOTES TO THE ACCOUNTS *continued*

| 9 Directors' emoluments | 1998 | 1997 |
|--|-------|-------|
| | £000 | £000 |
| Directors' remuneration including Partnership bonus of 22% (20%) | 2,334 | 2,136 |

The emoluments of the Chairman, who was also the highest paid director, were £435,000 (£384,000), including Partnership bonus of £76,000 (£62,000). The Chairman's aggregate pension entitlement from the age of 60 accrued at the end of the year was £168,000 per annum (£141,000 per annum), with a further temporary pension, payable from the age of 60 until the State pension starts, of £1,000 per annum (£1,000 per annum). The transfer value of the increase in accrued entitlement, including temporary pension, during the year was £315,000.

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:

| | 1998 | 1997 | | 1998 | 1997 |
|---------------------|------|------|---------------------|------|------|
| £50,001 - £100,000 | — | 1 | £200,001 - £250,000 | 1 | 1 |
| £100,001 - £150,000 | 1 | 2 | £250,001 - £300,000 | 1 | 3 |
| £150,001 - £200,000 | 2 | 2 | £300,001 - £350,000 | 3 | — |

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

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

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

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, were as follows:

| | 1998 | 1997 | | 1998 | 1997 |
|--------------------|------|------|---------------------|------|------|
| £0 - £50,000 | 1 | 3 | £100,001 - £150,000 | 2 | 1 |
| £50,001 - £100,000 | 4 | 4 | £150,001 - £200,000 | 1 | — |

The aggregate pension entitlement at the end of the year for all directors, excluding the Chairman, who served on the Board during any part of the year was £666,000 per annum (£560,000 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, most of the 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 £9,000 per annum (£5,000 per annum). The transfer value of the aggregate increase in accrued entitlement, including temporary pensions, during the year was £1,353,000.

NOTES TO THE ACCOUNTS *continued***10 Employees**

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

| | 1998 | 1997 |
|-------------------|---------------|---------------|
| Department stores | 22,500 | 22,100 |
| Supermarkets | 21,300 | 20,200 |
| Other | 1,500 | 1,400 |
| | <u>45,300</u> | <u>43,700</u> |

11 Tangible fixed assets

| Consolidated | <i>Land and buildings £m</i> | <i>Fixtures and fittings £m</i> | <i>Payments on account and assets in course of construction £m</i> | <i>Total £m</i> |
|---|--------------------------------------|---|--|---------------------|
| Cost or valuation | | | | |
| At 25th January 1997 | 965.2 | 516.9 | 36.0 | 1,518.1 |
| Additions at cost | 28.6 | 45.2 | 80.7 | 154.5 |
| Transfers | 40.5 | 7.7 | (48.2) | — |
| Disposals | (1.0) | (13.4) | — | (14.4) |
| Revaluation adjustments | 25.1 | — | — | 25.1 |
| At 31st January 1998 | <u>1,058.4</u> | <u>556.4</u> | <u>68.5</u> | <u>1,683.3</u> |
| At cost | 551.9 | 556.4 | 68.5 | 1,176.8 |
| At valuation 1988 | 21.1 | — | — | 21.1 |
| At valuation 1998 | 485.4 | — | — | 485.4 |
| At 31st January 1998 | <u>1,058.4</u> | <u>556.4</u> | <u>68.5</u> | <u>1,683.3</u> |
| Depreciation | | | | |
| At 25th January 1997 | 89.1 | 307.0 | — | 396.1 |
| Charges for the year | 20.7 | 49.1 | — | 69.8 |
| Disposals | — | (11.9) | — | (11.9) |
| Revaluation adjustments | (5.3) | — | — | (5.3) |
| At 31st January 1998 | <u>104.5</u> | <u>344.2</u> | <u>—</u> | <u>448.7</u> |
| Net book values at 25th January 1997 | <u>876.1</u> | <u>209.9</u> | <u>36.0</u> | <u>1,122.0</u> |
| Net book values at 31st January 1998 | <u>953.9</u> | <u>212.2</u> | <u>68.5</u> | <u>1,234.6</u> |

| | 1998 £m | 1997 £m |
|--|----------------|--------------|
| Land and buildings at cost or valuation: | | |
| Freehold property | 657.0 | 581.5 |
| Leaschold property, 50 years or more unexpired | 317.7 | 310.1 |
| Leaschold property, less than 50 years unexpired | 83.7 | 73.6 |
| | <u>1,058.4</u> | <u>965.2</u> |

NOTES TO THE ACCOUNTS *continued***11 Tangible fixed assets** *(continued)*

In 1988 Hillier Parker, chartered surveyors, valued most of the group's freehold and long leasehold properties. This valuation was on the basis of existing use value. At 31st December 1997, the directors, after consultation with Hillier Parker, revalued the group's department store properties on the same basis, and this valuation has been incorporated into the accounts as at 31st January 1998. The £30.4m surplus arising from this revaluation has been credited to revaluation reserve.

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

Certain amenity properties, which represent less than 2% of the group's total property assets, are carried in the accounts at their 1988 valuation, which was carried out by external valuers, depreciated as appropriate.

Included in land and buildings at 31st January 1998 is land valued at £216.2m, which is not subject to depreciation. At 31st January 1998 land and buildings would have been included at the following amounts, if they had not been revalued:

| | 1998 £m | 1997 £m |
|--------------------------|--------------|--------------|
| Cost | 893.0 | 824.9 |
| Accumulated depreciation | (144.3) | (125.8) |
| | <u>748.7</u> | <u>699.1</u> |

The gross cost of assets held under finance leases is £12.3m (£12.3m) with accumulated depreciation in respect of those assets of £8.3m (£5.9m).

| Company | Land and buildings £m | Fixtures and fittings £m | Payments on account and assets in course of construction £m | Total £m |
|---|-----------------------------|--------------------------------|--|--------------|
| Cost or valuation | | | | |
| At 25th January 1997 | 212.6 | 246.3 | 7.0 | 465.9 |
| Additions at cost | 3.3 | 25.3 | 44.3 | 72.9 |
| Transfers | 0.5 | — | (0.5) | — |
| Disposals | — | (8.7) | — | (8.7) |
| Revaluation adjustments | 11.7 | — | — | 11.7 |
| At 31st January 1998 | <u>228.1</u> | <u>262.9</u> | <u>50.8</u> | <u>541.8</u> |
| At cost | 46.8 | 262.9 | 50.8 | 360.5 |
| At valuation 1988 | 0.1 | — | — | 0.1 |
| At valuation 1998 | <u>181.2</u> | <u>—</u> | <u>—</u> | <u>181.2</u> |
| At 31st January 1998 | <u>228.1</u> | <u>262.9</u> | <u>50.8</u> | <u>541.8</u> |
| Depreciation | | | | |
| At 25th January 1997 | 7.1 | 157.3 | — | 164.4 |
| Charges for the year | 3.4 | 22.4 | — | 25.8 |
| Disposals | — | (7.4) | — | (7.4) |
| Revaluation adjustments | (1.7) | — | — | (1.7) |
| At 31st January 1998 | <u>8.8</u> | <u>172.3</u> | <u>—</u> | <u>181.1</u> |
| Net book values at 25th January 1997 | <u>205.5</u> | <u>89.0</u> | <u>7.0</u> | <u>301.5</u> |
| Net book values at 31st January 1998 | <u>219.3</u> | <u>90.6</u> | <u>50.8</u> | <u>360.7</u> |

NOTES TO THE ACCOUNTS *continued*11 Tangible fixed assets (*continued*)

| | 1998 | 1997 |
|--|--------------|--------------|
| | £m | £m |
| Land and buildings at cost or valuation: | | |
| Freehold property | 51.1 | 49.8 |
| Leasehold property, 50 years or more unexpired | 160.0 | 153.5 |
| Leasehold property, less than 50 years unexpired | 17.0 | 9.3 |
| | <u>228.1</u> | <u>212.6</u> |

Included in land and buildings at 31st January 1998 is land valued at £12.2m, which is not subject to depreciation. At 31st January 1998 land and buildings would have been included at the following amounts, if they had not been revalued:

| | | |
|--------------------------|--------------|--------------|
| Cost | 252.4 | 248.7 |
| Accumulated depreciation | (28.2) | (24.7) |
| | <u>224.2</u> | <u>224.0</u> |

12 Investments in subsidiary undertakings

| Company | Shares in group companies £m | Loans to group companies £m | Total £m |
|----------------------|---------------------------------------|--------------------------------------|--------------|
| At 25th January 1997 | 53.6 | 286.5 | 340.1 |
| Movements | 0.3 | 19.6 | 19.9 |
| Dividends receivable | — | 2.2 | 2.2 |
| At 31st January 1998 | <u>53.9</u> | <u>308.3</u> | <u>362.2</u> |

13 Stocks

| | 1998 | 1997 |
|-------------------------------------|--------------|--------------|
| | £m | £m |
| Consolidated | | |
| Raw materials and work-in-progress | 12.0 | 10.0 |
| Finished goods and goods for resale | 247.4 | 229.1 |
| | <u>259.4</u> | <u>239.1</u> |
| Company | | |
| Raw materials and work-in-progress | 0.6 | 0.9 |
| Finished goods and goods for resale | 163.7 | 153.8 |
| | <u>164.3</u> | <u>154.7</u> |

NOTES TO THE ACCOUNTS *continued*

| 14 Debtors | 1998 £m | 1997 £m |
|---|--------------|--------------|
| Consolidated | | |
| Amounts falling due within one year: | | |
| Trade debtors | 195.7 | 192.0 |
| Other debtors | 20.4 | 62.8 |
| Prepayments and accrued income | 14.3 | 15.2 |
| | <u>230.4</u> | <u>270.0</u> |
| Amounts falling due after more than one year: | | |
| Trade debtors | 54.1 | 50.2 |
| Deferred tax | 5.5 | 7.9 |
| | <u>290.0</u> | <u>328.1</u> |
| Company | | |
| Amounts falling due within one year: | | |
| Trade debtors | 49.7 | 66.7 |
| Amounts owed by group companies | 136.1 | 118.9 |
| Other debtors | 7.4 | 50.5 |
| Prepayments and accrued income | 8.1 | 10.0 |
| | <u>201.3</u> | <u>246.1</u> |
| Amounts falling due after more than one year: | | |
| Trade debtors | 54.1 | 50.2 |
| Deferred tax | 3.0 | 4.6 |
| | <u>258.4</u> | <u>300.9</u> |

Other debtors due within one year for 1997 for both the company and the group included the net present value of deferred consideration totalling £46.2m relating to the sale of a call option, which was subsequently received in January 1998.

15 Creditors

Consolidated

Amounts falling due within one year:

| | | |
|------------------------------------|--------------|--------------|
| Bank overdraft | 53.9 | — |
| Trade creditors | 154.9 | 189.7 |
| 10%% Bonds, 1998 | — | 100.0 |
| Holding company | 2.1 | 1.9 |
| Other creditors | 36.9 | 19.5 |
| Obligations under finance leases | 1.6 | 2.0 |
| Loans | 4.1 | 3.7 |
| Corporation tax | 46.6 | 41.7 |
| Other taxation and social security | 64.5 | 87.6 |
| Pension fund accrual | 16.3 | 24.9 |
| Accruals and deferred income | 17.4 | 22.3 |
| Proposed dividend | 0.2 | 0.2 |
| Partnership bonus | 88.4 | 73.7 |
| | <u>486.9</u> | <u>567.2</u> |

NOTES TO THE ACCOUNTS *continued***15 Creditors** (*continued*)

| | 1998 | 1997 |
|---|--------------|--------------|
| | £m | £m |
| Amounts falling due after more than one year: | | |
| Due between 1 and 2 years | | |
| – Obligations under finance leases | 2.3 | 2.1 |
| – Loans | 4.4 | 4.1 |
| Due between 2 and 5 years | | |
| – Obligations under finance leases | 1.2 | 3.5 |
| – Loans | 4.7 | 9.1 |
| Due other than by instalments after 5 years | | |
| – 10¼% Bonds, 2006 | 50.0 | 50.0 |
| – 10½% Bonds, 2014 | 100.0 | 100.0 |
| | <u>162.6</u> | <u>168.8</u> |

Company

Amounts falling due within one year:

| | | |
|------------------------------------|--------------|--------------|
| Bank overdraft | 49.8 | – |
| Trade creditors | 118.4 | 163.2 |
| 10¼% Bonds, 1998 | – | 100.0 |
| Holding company | 1.8 | 1.8 |
| Owed to group companies | 173.7 | 170.2 |
| Other creditors | 21.8 | 13.9 |
| Corporation tax | 29.2 | 26.4 |
| Other taxation and social security | 41.4 | 66.8 |
| Pension fund accrual | 16.3 | 24.9 |
| Accruals and deferred income | 16.0 | 12.4 |
| Proposed dividend | 0.2 | 0.2 |
| Partnership bonus | 85.8 | 71.4 |
| | <u>554.4</u> | <u>651.2</u> |

Amounts falling due after more than one year:

| | | |
|---|--------------|--------------|
| Due other than by instalments after 5 years | | |
| – 10¼% Bonds, 2006 | 50.0 | 50.0 |
| – 10½% Bonds, 2014 | 100.0 | 100.0 |
| | <u>150.0</u> | <u>150.0</u> |

16 Share capital

Authorised, issued and fully paid :

| | | |
|---|------------|------------|
| Equity | | |
| Ordinary shares of £1 each | 6.8 | 6.8 |
| Non equity | | |
| Cumulative Preference Stock of £1 each | | |
| 5% (now 3.5% plus tax credit) First Cumulative Preference Stock | 1.5 | 1.5 |
| 7% (now 4.9% plus tax credit) Cumulative Preference Stock | 0.7 | 0.7 |
| | <u>9.0</u> | <u>9.0</u> |

NOTES TO THE ACCOUNTS *continued***16 Share capital** *(continued)*

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

17 Reserves

| Consolidated | <i>Profit and loss account £m</i> | <i>Capital reserve £m</i> | <i>Share premium £m</i> | <i>Revaluation reserve £m</i> | <i>Total reserves £m</i> |
|----------------------|---|-----------------------------------|---------------------------------|---------------------------------------|----------------------------------|
| At 25th January 1997 | 871.1 | 1.4 | 1.9 | 177.0 | 1,051.4 |
| Profit retained | 102.4 | — | — | — | 102.4 |
| Transfers | 2.2 | — | — | (2.2) | — |
| Revaluation surplus | — | — | — | 30.4 | 30.4 |
| At 31st January 1998 | 975.7 | 1.4 | 1.9 | 205.2 | 1,184.2 |

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

| Company | <i>Profit and loss account £m</i> | <i>Share premium £m</i> | <i>Revaluation reserve £m</i> | <i>Total reserves £m</i> |
|----------------------|---|---------------------------------|---------------------------------------|----------------------------------|
| At 25th January 1997 | 367.1 | 1.9 | 13.8 | 382.8 |
| Profit retained | 78.0 | — | — | 78.0 |
| Revaluation surplus | — | — | 13.4 | 13.4 |
| At 31st January 1998 | 445.1 | 1.9 | 27.2 | 474.2 |

All of the reserves are attributable to equity shareholders.

18 Reconciliation of movements in shareholders' funds

| Consolidated | <i>1998 £m</i> | <i>1997 £m</i> |
|-------------------------------------|--------------------|--------------------|
| Profit for the financial year | 102.7 | 90.2 |
| Dividends | (0.3) | (0.3) |
| Revaluation surplus | 30.4 | 20.5 |
| Net addition to shareholders' funds | 132.8 | 110.4 |
| Opening shareholders' funds | 1,060.4 | 950.0 |
| Closing shareholders' funds | 1,193.2 | 1,060.4 |

NOTES TO THE ACCOUNTS *continued***18 Reconciliation of movements in shareholders' funds (continued)**

| Company | 1998 £m | 1997 £m |
|-------------------------------------|--------------------------|--------------------------|
| Profit for the financial year | 78.3 | 62.6 |
| Dividends | (0.3) | (0.3) |
| Revaluation surplus | 13.4 | 8.2 |
| Net addition to shareholders' funds | 91.4 | 70.5 |
| Opening shareholders' funds | 391.8 | 321.3 |
| Closing shareholders' funds | 483.2 | 391.8 |

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

| | | |
|---|--------|--------|
| Trading profit | 271.7 | 238.9 |
| Depreciation charged | 69.8 | 64.6 |
| Increase in debtors | (13.8) | (39.5) |
| (Decrease)/increase in creditors | (46.6) | 32.6 |
| Decrease in pension fund accrual | (8.6) | (8.0) |
| Increase in stocks | (20.3) | (19.6) |
| Partnership bonus paid for previous year | (81.7) | (57.0) |
| Net cash inflow from operating activities | 170.5 | 212.0 |

20 Reconciliation of net cash flow to net debt

| | | |
|--|---------|---------|
| (Decrease)/increase in cash in the year | (73.7) | 6.7 |
| Cash outflow from decrease in debt and lease financing | 106.2 | 5.3 |
| Cash (inflow)/outflow from (decrease)/increase in liquid resources | (28.7) | 68.5 |
| Change in net debt resulting from cash flows | 3.8 | 80.5 |
| New finance leases | — | (0.2) |
| Movement in net debt for the year | 3.8 | 80.3 |
| Opening net debt | (167.3) | (247.6) |
| Closing net debt | (163.5) | (167.3) |

NOTES TO THE ACCOUNTS *continued*

21 Analysis of changes in net debt

| | 1997 | Cash flows | Other changes | 1998 |
|--------------------------|---------|------------|---------------|---------|
| | £m | £m | £m | £m |
| Cash balances | 39.2 | (19.8) | — | 19.4 |
| Overdrafts | — | (53.9) | — | (53.9) |
| | 39.2 | (73.7) | — | (34.5) |
| Debt due within one year | (103.7) | 103.7 | (4.1) | (4.1) |
| Debt due after one year | (163.2) | — | 4.1 | (159.1) |
| Finance leases | (7.6) | 2.5 | — | (5.1) |
| Short term deposits | 68.0 | (28.7) | — | 39.3 |
| Net debt | (167.3) | 3.8 | — | (163.5) |

22 Commitments

At 31st January 1998 contracts had been placed for future capital expenditure of £54.8m (£12.4m), which have not been provided for in these accounts.

John Lewis plc has entered into bank guarantees in favour of subsidiary companies amounting to £15m.

23 Lease commitments

| | 1998 | 1998 | 1997 | 1997 |
|---|--------------------|-------|--------------------|-------|
| | Land and Buildings | Other | Land and Buildings | Other |
| | £m | £m | £m | £m |
| Operating leases | | | | |
| Rentals for the next financial year on operating leases expiring: | | | | |
| Within 1 year | 0.5 | 0.2 | 0.2 | 0.1 |
| Between 1 and 5 years | 0.5 | 1.1 | 0.6 | 0.6 |
| Over 5 years | 38.5 | 0.1 | 38.1 | 0.1 |

24 Subsidiary undertakings

Subsidiary companies of John Lewis plc as at 31st January 1998 were as follows:

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

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

NOTES TO THE ACCOUNTS *continued*

25 Related party transactions

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

26 Parent Company

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

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

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

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

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

REPORT OF THE AUDITORS TO THE MEMBERS OF JOHN LEWIS plc

We have audited the financial statements of John Lewis plc set out on pages 9 to 25 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on page 13.

Respective responsibilities of directors and auditors

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

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31st January 1998 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Price Waterhouse
Chartered Accountants
and Registered Auditors

Southwark Towers
32 London Bridge Street
London SE1 9SY
30th April 1998

RETAIL BRANCHES

Department Stores

London

John Lewis, Oxford Street

John Lewis, Brent Cross

Peter Jones, Sloane Square

Southern England

Caleys, Windsor

Heelas, Reading

John Lewis, Cribbs Causeway

John Lewis, High Wycombe

John Lewis, Kingston

John Lewis, Milton Keynes

John Lewis, Welwyn

Knight & Lee, Southsea

Trewins, Watford

Tyrrell & Green, Southampton

*Midlands, East Anglia**Northern England and Scotland*

Bainbridge, Newcastle

Bonds, Norwich

Cole Brothers, Sheffield

George Henry Lee, Liverpool

Jessop & Son, Nottingham

John Lewis, Aberdeen

John Lewis, Cheadle

John Lewis, Edinburgh

John Lewis, Peterborough

Robert Sayle, Cambridge

Waitrose Supermarkets

London

Barnet

East Sheen

Harrow Weald

Putney

Swiss Cottage

West Ealing

Brent Cross

Enfield

Holloway Road

South Harrow

Temple Fortune

Whetstone

Chelsea

Finchley

Southern England

Abingdon

Burgess Hill

Epsom

Horsham

Richmond

Tilehurst

Allington Park

Caterham

Esher

Kingston

Ringwood

Wallingford

Andover

Caversham

Fleet

Leighton Buzzard

Romsey

Wantage

Banstead

Chelmsford

Gillingham

Longfield

Ruislip

Welwyn Garden City

Bath

Chesham

Godalming

Lymington

Salisbury

Westbourne

Beaconsfield

Chichester

Goldsworth Park

Maidenhead

St Albans

Westbury Park

Beckenham

Cirencester

Gosport

Marlborough

Sevenoaks

West Byfleet

Berkhamsted

Cobham

Green Street Green

Marlow

Southend

Weybridge

Birch Hill

Coulsdon

Harpenden

Milton Keynes

Southsea

Windsor

Bishop's Stortford

Cowplain

Havant

New Malden

Stevenage

Winton

Brighton

Crowborough

Hayes

Northwood

Stroud

Witney

Bromley

Dibden

Henley

Petersfield

Sunningdale

Wokingham

Bromley South

Dorchester

Hertford

Ramsgate

Tenterden

Woodley

Buckhurst Hill

Dorking

Horley

Reading

Thame

Yateley

Midlands, East Anglia and Wales

Blaby

Evington

Huntingdon

Monmouth

Norwich

St Neots

Bury St Edmunds

Four Oaks

Kidderminster

Newark

Peterborough

Saffron Walden

Daventry

Hall Green

Kingsthorpe

Newmarket

St Ives

Stourbridge

Ely

*In addition to the shops listed above, the Partnership operates the following businesses*Stead, McAlpin, Carlisle (*Textile Printing*)

Taylor & Penton, Weybridge

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