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John Lewis Partnership

annual report and accounts

2009

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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 201 Waitrose supermarkets.

It is also the country's largest employee co-operative, with 69,000 employees. The Partnership aims to ensure that everyone who works for it enjoys the experience of ownership, by sharing in the profits, by having access to information and by sharing in decision making.

The Partnership believes that the commitment of Partners to the business is a unique source of competitive advantage which has underpinned 80 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.

John Lewis Partnership plc and its subsidiary John Lewis plc have small issues of preference stock which have first claim on the profits. The whole of the remaining profit is available to be used for the benefit of the business and the Partners. The share of profits allocated to Partners, the Partnership bonus, is fixed each year by the Partnership Board and is distributed as the same percentage of gross annual pay for all Partners. All Partners received a 13% bonus for 2008/09 as their share of profits at a total cost of £125m.

Chairman's statement

Charlie Mayfield
Chairman

As the economic downturn gained momentum, the focus of the Partnership has been to achieve the right balance between continuing to meet the needs and expectations of our customers and Partners while making sufficient profit to support our growth plans, by controlling our costs tightly and managing our cash efficiently. The Partnership's full-year results reflect a sound performance, given the continuing and unexpected deterioration in the economic and trading environment over the year, which impacted both sales and profit.

Gross sales were just under £7.0bn for the 53-week year, an increase of £204.7m, or 3.0%, on last year (52 weeks' trading).

Before the exceptional gain on the transfer of the Partnership's interest in Ocado to our pension scheme, profit before Partnership bonus and tax was £279.6m, a decrease of £100.2m, or 26.4%, on last year. Including the £127.4m gain on the disposal of our shareholding in Ocado, which is one-off and exceptional in nature, profit before Partnership Bonus and tax was £407.0m, an increase of £27.2m, or 7.2%, on last year.

Our Partners worked very hard to produce these results and, as co-owners of the Partnership, every Partner, regardless of their role or seniority, received the same percentage of annual pay as a cash bonus. Partners shared £125.4m in cash, which is 13% of pay or the equivalent of almost 7 weeks' pay. Partnership bonus flexes from year to year, reflecting the actual annual performance of our business.

Our response to worsening trading conditions was to play to our strengths and to improve our price competitiveness appropriately, which allowed us to continue to trade with confidence. We maintained our commitment to quality and the distinctiveness of our customer offer both in Waitrose and John Lewis, while simultaneously responding to greater price competition. We managed costs tightly, and we saw our customers' reacting more and more positively to our initiatives through the year. Customers rated Waitrose and John Lewis as their most preferred retailers in independent surveys by Which?, Verdict and BBC Watchdog.

We saw the benefit in our profits from the improved trading performance as the year drew to a close. This, together with maintaining our strong balance sheet, has allowed us to continue to invest in areas we see as important for the future. In particular, we have developed and trialled new shop formats to reach more customers, strengthened our multi-channel offer and modernised our distribution operations.

2009/10 outlook
After eleven weeks, Partnership sales are 1% lower than last year. Waitrose sales increased by 2% and John Lewis sales are 7% lower than last year.

We expect trading conditions for 2009 to continue to be very tough, with ongoing pressures on consumer spend and low consumer confidence. As a result, we anticipate that price competition will be as intense as last year and we are well prepared to meet these challenges.

We will maintain the momentum in our plans and the Partnership has started the year by setting an ambitious pace of change. We have recently announced a three-year programme in John Lewis to reorganise our branch structures and the launch of a new 'essential Waitrose' range, which will offer over 1,400 everyday quality products at very competitive prices.

We remain committed to offering outstanding service and competitive pricing, and will continue to invest in existing and new shops and formats, develop our multi-channel offer and improve the efficiency of our business.

Our unique ownership structure means that we have highly motivated and experienced Partners who are determined to serve our customers well, drive sales growth and rebuild our profitability for the long term, providing the confidence we have that the Partnership will remain resilient through the recession and emerge even stronger as markets improve.

Charlie Mayfield
Chairman
20 April 2009

Business review

Business review

Review of performance

Financial highlights

- Gross sales for the group from continuing operations up £204.7m, 3.0%, to just under £7.0bn
- Operating profit (excluding property profits of £4.6m (2008: £9.1m)) down £66.9m, 17.3%, to £318.9m; including property, operating profit down £71.4m, 18.1%, to £323.5m
- Exceptional profit of £127.4m on disposal of our shareholding in Ocado
- Profit before Partnership bonus and tax up £27.2m, 7.2%, to £407.0m
- Profit margin before tax and Partnership bonus up 22 basis points against last year to 5.8%; excluding the exceptional profit on the disposal of Ocado profit margin is 4.0%
- Partnership bonus payment of £125.4m; down £55.7m (decrease of 30.8%); 13% of salary (equal to almost 7 weeks' pay)
- Return on invested capital of 6.8%, down from 8.5%

John Lewis

- Gross sales from continuing operations down £1.6m, 0.1%, to £2.8bn
- Operating profit (excluding property profits of £1.6m (2008: £0.5m)) down £54.6m, 27.4%, to £144.4m; including property, operating profit down £53.5m, 26.8%, to £146.0m
- Like-for-like sales down 3.4%
- John Lewis Direct sales up £64.9m, 24.2%, to £332.9m
- Operating margin down 195 basis points to 5.1% (excluding property profits)

Waitrose

- Gross sales up £206.3m, 5.2%, to £4.2bn
- Operating profit (excluding property profits of £3.0m (2008: £8.6m)) down £7.4m, 3.4%, to £211.6m; including property, operating profit down £13.0m, 5.7%, to £214.6m
- Like-for-like sales growth of 0.4% (excluding petrol)
- Operating margin down 45 basis points to 5.1% (excluding property profits)

Five year record – years ended January

	2009* £m	2008 Restated £m	2007 Restated £m	2006 Restated £m	2005 Restated £m
Gross sales (including sale or return sales and VAT)	**6,967.5**	6,762.8	6,362.3	5,764.4	5,333.6
Revenue					
John Lewis	**2,327.1**	2,315.0	2,188.9	1,990.4	1,960.8
Waitrose	**3,940.1**	3,737.2	3,497.3	3,158.9	2,796.7
Revenue	**6,267.2**	6,052.2	5,686.2	5,149.3	4,757.5
Operating profit[1][3]					
John Lewis	**146.0**	199.5	168.5	109.1	123.4
Waitrose	**214.6**	227.6	170.1	168.9	150.6
Group costs[2]	**(37.1)**	(32.2)	–	–	–
Operating profit	**323.5**	394.9	338.6	278.0	274.0
Net finance costs[3]	**(43.9)**	(15.1)	(18.5)	(31.4)	(30.6)
Share of post tax losses of associate (Ocado)	–	(8.0)	(18.0)	(5.6)	(14.1)
Exceptional gain in respect of associate (Ocado)	**127.4**	8.0	18.0	10.8	–
Profit before Partnership bonus and tax	**407.0**	379.8	320.1	251.8	229.3
Taxation	**(48.1)**	(59.4)	(56.9)	(42.5)	(34.3)
Net profit available for profit sharing and retention in the business	**358.9**	320.4	263.2	209.3	195.0
Partnership bonus	**(125.4)**	(181.1)	(154.1)	(120.3)	(105.8)
As a percentage of pay	***13%***	*20%*	*18%*	*15%*	*14%*
Discontinued operations	–	(9.1)	(0.7)	–	–
Retained in the business	**233.5**	130.2	108.4	89.0	89.2
Net assets	**1,722.8**	1,683.9	1,649.9	1,512.2	1,422.4
Pay	**908.0**	864.8	817.6	755.0	713.8
Average number of employees	**68,700**	68,200	66,800	63,700	61,100
including part-time employees	**35,900**	36,700	35,900	33,600	31,100
Average number of FTEs	**45,100**	44,900	43,900	42,200	41,000

*53 week year.

(1) Divisional operating profit is after charging relevant corporate costs based on the business segments' usage of corporate facilities and services. The basis of allocation has been revised and divisional operating profits for 2008 have been amended accordingly. Earlier years have not been restated.

(2) Group costs include corporate overheads, finance transformation costs and Greenbee investment.

(3) Operating profit and finance costs have been restated in respect of the financing element of pension costs, as explained in note 1 of the notes to the accounts.

Business review

Review of performance (continued)

Key performance indicators (KPIs)

	John Lewis 2009	Waitrose 2009	Group 2009	Group 2008
Trading performance:				
Gross sales growth – total continuing operations	**(0.1%)**	**5.2%**	**3.0%**	6.3%
Gross sales growth – like for like[1]	**(3.4%)**	**0.4%**	**(1.2%)**	4.3%
Operating margin[2]	**5.1%**	**5.1%**	**4.6%**	5.7%
Gross sales per selling FTE (£000s)	**157.6**	**211.5**		
Operating profit per FTE (£000s)[2]	**6.9**	**9.4**	**7.2**	8.8
Number of stores[3]	**27**	**197**		
Average selling space (m sq ft)[4]	**3.9**	**3.9**	**7.8**	7.3
Gross sales per selling sq ft	**723**	**1,051**	**889**	921
Operating profit per selling sq ft[2]	**38**	**54**	**41**	54
Cash flow and liquidity:				
Operating cash flow before Partnership bonus (£m)			**591.2**	546.3
Capital expenditure (£m)[5]	**140.1**	**233.9**	**404.2**	363.3
Interest cover[6]			**5.6**	6.5
Balance sheet:				
Net assets (£m)			**1,722.8**	1,683.9
Net debt (£m)[7]			**432.4**	384.2
Gearing[7]			**25.1%**	22.8%
Return on invested capital[8]			**6.8%**	8.5%

(1) Like for like sales exclude the impact of branch openings and closures.

(2) Operating profit has been restated in respect of the change in allocation of the financing element of pension costs, and excludes profits from the disposal of surplus property.

(3) The number of stores trading as at the year end date, rather than as at the date of this report which is 201 for Waitrose.

(4) Average selling space includes all customer facing areas of our shops, and excludes offices, warehouse space and staff facilities.

(5) Capital expenditure for the group includes £30.2m (2008: £12.8m) of spending on group-wide information technology systems, vehicles, offices and other assets, not allocated to the operating businesses.

(6) Interest cover is profit before net finance costs, net gain in respect of associate and tax, after Partnership bonus, divided by net finance costs excluding net pension finance costs and fair value adjustments.

(7) Gearing is net debt divided by net assets. The measurement of net debt has been revised to include derivative financial assets and finance lease payables, as detailed in note 31 to the accounts.

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

Group performance

The Partnership's full-year results reflect a sound performance. Gross sales were just under £7.0bn for the 53-week year, an increase of £204.7m, or 3.0% on last year (52 weeks' trading). Waitrose gross sales were £4.2bn, up 5.2%, while John Lewis gross sales were £2.8bn, a slight decrease of 0.1%.

Marisa Cassoni, Finance Director

Profit before Partnership bonus and tax, including the £127.4m gain on the disposal of our shareholding in Ocado, which is one-off and exceptional in nature and was therefore excluded from determining Partnership bonus, was £407m, an increase of £27.2m, or 7.2%, on last year. Operating profit margin decreased from 5.8% to 4.6%. Profit as a percentage of gross sales increased from 5.6% to 5.8%; excluding the exceptional profit on disposal of our shareholding in Ocado, profit as a percentage of gross sales was 4.0%.

Partnership bonus totals £125.4m, which equates to 13% of pay or the equivalent of almost 7 weeks' pay.

John Lewis Leicester Partners celebrating the bonus, which every Partner will receive as a percentage of their annual pay

Business review

Review of performance (continued)

Pensions

The pension accounting charge of £98.2m for the year to 31 January 2009 was slightly (£1.2m) down on last year. Actual pension cash contributions in respect of the year were £93.2m, compared to £85.0m for last year, reflecting contribution rates agreed following the recent actuarial valuation, together with increased membership of the scheme. The fund's investment assets have decreased by £237m (12.7%) to just over £1.6bn, which includes the £127.4m Ocado shareholding. Excluding this, the reduction in the value of the fund's investments was £364m (19.6%). The fund's deficit stood at £730m at the year end, up £176m (32%) on last year. During the year, 11,000 Partners joined our defined benefit pension scheme as a result of our decision to reduce the waiting period to three years (from five). A defined contribution scheme was also introduced to provide benefits during the waiting period. The most recent actuarial valuation of the fund took place as at 31 March 2007, and is used to determine current and future contributions to the scheme, including deficit contributions of £8.1m per year, in order to pay down the deficit over a ten year period.

Net finance costs

Net finance costs increased by £28.8m, from £15.1m to £43.9m, mainly because we have changed the presentation of the financing elements of pension costs (as explained in note 1) to bring us into line with common practice. The financing element of pension costs is the difference between the return on the scheme assets and the interest cost, which are market driven. Depending on the external markets, these can change materially from one year to the next. They have increased by £21.6m, from a credit of £16.2m last year to a charge of £5.4m this year. This explains most of the increase in net finance costs compared with last year. Excluding pensions, net finance costs increased by £7.2m, 23.0%, from £31.3m to £38.5m, reflecting an increase in average borrowings which led to a higher interest charge (up £1.7m), an increase in the year end fair value measurement and other adjustments (£3.3m charge compared with a £1.4m credit last year) and an increase in the dividend payable on shares issued in connection with the Partnership's BonusSave Scheme, Share Incentive Plan (SIP) shares (up £0.9m).

Ocado

The Partnership's shareholding in Ocado was transferred to the Pension fund in November 2008. In accordance with IFRS accounting practice, the Partnership's £68.1m investment in Ocado was written down in previous years to a nil carrying value. However, the value of the shareholding in Ocado was independently assessed at £127.7m and, net of disposal costs, this resulted in a profit of £127.4m.

Tax

The tax charge decreased compared with last year reflecting lower profits and a lower effective tax rate of 17.1%, compared to last year's rate of 29.9%, mainly because of the non-taxable gain on the sale of the investment in Ocado.

Capital expenditure

Capital spending in 2008/09 increased by £41m to £404m, compared with £363m last year. Waitrose invested £234m, mainly on 11 new stores acquired or built during the year. John Lewis invested £140m, mostly on the new stores in Liverpool and Leicester, and Magna Park, the division's new distribution centre in Milton Keynes. In addition, £30m of expenditure was incurred centrally, mainly on efficiency projects, including the new Oracle finance system which has recently been successfully implemented in Waitrose and our head office, and investment in maintaining and modernising our Information Technology platforms and the purchase of our new holiday centre at Bala Lake.

The new branch in Leicester was one of the projects in which John Lewis invested during the year

Cash flow and net debt

We generated £586.1m in operating cash flow (before Partnership bonus) up 7.3% on the prior year. However, in 2008 there was a £72.0m prepayment in respect of 2009 pension contributions and, adjusting for this, operating cash flows were £514.1m for 2009, compared to £618.3m for 2008, a reduction of £104.2m (16.9%). Our gearing ratio increased to 25.1% with year-end net debt increasing by £48.2m to £432.4m.

Business review

Review of performance (continued)

Return on invested capital
Return on invested capital (note 8, page 6) was 6.8%, 1.7% lower than last year's 8.5%, reflecting reduced profits.

Retained earnings
Retained earnings for the year, including the £127.4m gain on the disposal of our shareholding in Ocado, were £233.5m, up by £103.3m (79.3%) from £130.2m last year.

Net assets
Net assets increased by £38.9m (2.3%) to £1,722.8m. This is mainly due to significant investments in new stores, extensions and refurbishments, distribution and new information technology systems, an increase in deferred tax receivables, partly offset by the £176m increase in the pension fund deficit and a £48.2m increase in net debt.

John Lewis

Andy Street, Managing Director, John Lewis

Overall sales have held up well against an uncertain market, especially in fashion and electrical and home technology (EHT). However, sales in home-related categories were down significantly as a result of the collapse in the housing market. Total sales were slightly down, by 0.1%, at £2.8bn. Like-for-like sales were down 3.4%.

We saw total sales growth of 4.7% in Fashion and 2.9% in EHT, offset by a decline of 6.7% in Home. In Fashion and EHT we increased market share. Fashion sales were boosted by a combination of continued success in attracting new brands, and much improved design and value in JL-branded clothing and accessories. Success in EHT reflected great availability and an unstinting commitment to 'Never Knowingly Undersold.'

Sales per square foot fell by 9.2% to £723, from £796 last year, but sales per selling FTE grew by £4,000 (2.3%) to £158,000.

Our new shop in Leicester is building a firm foundation in this new location, and sales of our shop in Liverpool, following its relocation, exceeded expectations. John Lewis Cambridge celebrated a successful first year in its new location. Our shop in Oxford Street traded well in the face of increasing competition from the new Westfield shopping centre.

Success in electronics reflected our commitment to 'Never Knowingly Undersold'

Business review

Review of performance (continued)

John Lewis *(continued)*

John Lewis Direct continues to grow strongly, with sales up 24.2% (£64.8m) to £332.9m. Our multi-channel strategy continued to be a major advantage, helped by an increase in the number of lines available and a range of new services including 'Click and Collect' and Express delivery.

Profits from the disposal of surplus properties amounted to £1.6m compared with £0.5m last year.

John Lewis Direct continues to grow as part of our multi-channel strategy

Operating profit was down by 27.4% to £144.4m, excluding property profits, and operating profit margin (excluding property profits) deteriorated by 195 basis points. Including profits from the disposal of surplus properties, operating profit decreased by 26.8% to £146.0m.

Operating profit per square foot decreased by £18 (33.5%) to £38 and operating profit per FTE fell to £6,900.

Mark Price, Managing Director, Waitrose

Waitrose

In a challenging market Waitrose grew sales by 5.2% to over £4bn for the first time. Like-for-like sales grew 0.4%, excluding petrol.

Sales density rose by 1.3% to £1,051 per square foot. Our sales productivity per selling FTE increased to £211,000, up by £8,000 (4.0%) on last year.

We invested in product quality and innovation with £9m spent on product development, and we re-introduced 'Forgotten Cuts' – a range of lesser known, economical cuts of meat such as ox cheeks, beef skirt and lamb shoulder shanks. Waitrose stocks only 100% British fresh pork and last year we maintained our long-term support for UK agriculture by becoming the first major retailer to source 100% of our bacon from Britain. The customer response was encouraging with an increase in primary shoppers.

Waitrose is constantly investing in product quality and innovation

Business review

Review of performance (continued)

Waitrose *(continued)*
We continued to grow strongly with 11 new stores in the UK, including two new market town shops and our first new convenience shop format. We also converted an existing branch to become a third market town shop. We opened two Waitrose shops in Dubai under a licensing agreement with Finefare Food Market. Our online service Waitrose Deliver is now available in 100 branches. This is growing in parallel with Ocado, with whom Waitrose has a supply relationship. Our buying alliance with Booths, announced in September 2008, will allow us to build economies of scale and boost profitability in the long term.

Profits from the disposal of surplus properties amounted to £3.0m, primarily in respect of the disposal of the former Birch Hill branch and flats at Maidenhead, which compares with £8.6m achieved last year.

Operating profit, excluding profits from the disposal of surplus properties, fell by 3.4% to £211.6m. Including property disposals, operating profit decreased by 5.7% to £214.6m. Operating profit per square foot was down by £6, 9.2%, to £54 and operating profit per FTE decreased by £800 to £9,400.

Waitrose Deliver is now available in 100 branches

Business review

Business and strategy

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

The Partnership's commercial success contributes to the happiness of Partners

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

It is now clear that we will be pursuing our plans against a worse economic outlook for the UK than we had anticipated last year. Slower growth has intensified competition, creating margin pressure as retailers compete more aggressively on price to prop up volumes. Our priority remains to provide a distinctive offer and experience to our customers and to nurture *'an enterprising Partnership'* that delivers innovative customer solutions. We believe our model, where commercial success is a driving force but where the needs of Customers, Partners, and long-term financial ambitions are balanced, represents a sustainable, compassionate and fairer form of capitalism.

Over the last year, against the backdrop of a deteriorating market, we developed our strategy further. We continued to pursue profitable growth and also identified opportunities to improve our competitiveness and to enhance the appeal and reach of our customer offer in these recessionary times.

- **John Lewis** aims to expand through a combination of new department stores, enhanced assortment – particularly in fashion – and exploitation of our competitive on-line offer. Stores in Cambridge and Leicester were opened in the year and Liverpool was successfully relocated. John Lewis remains committed to opening full range department stores in suitable locations in the future. We are also investigating the possibility of opening smaller department stores. John Lewis' on-line offer has been further strengthened with a 35% increase in the number of lines available on our website and with the launch of the 'Click & Collect' service, the first step of a wider ambition to become truly multichannel. Recently, John Lewis announced 'Branch of the Future' a programme aiming at improving both customer service and efficiency through a re-balancing of the ratio of customer service and back office Partners in store. This initiative, together with the opening of our new distribution centre in Milton Keynes, Magna Park, illustrates our strategy to become more responsive and competitive without adversely impacting our customer offer.
- **Waitrose** aims to increase sales by continuing to extend its store presence while improving its core customer offer and addressing price perception. Waitrose opened 11 additional shops in 2008, and plan a further 22 openings in 2009. It remains committed to new store formats and channels to connect with customers currently out of reach. Market town and convenience stores were successfully trialled during the year. Waitrose enhanced its customer offer with a £51m investment in price, promotions, product development and new space in 2008. The 'essential Waitrose' range was launched recently, offering 1,400 everyday products 'with the Waitrose quality you'd expect, at prices you wouldn't'.
- **Greenbee**, our direct services business, builds on our reputation for providing selected services to our customers and their homes. These services are underpinned by our authority in customer service and take the Partnership into new markets. We provide a range of financial, leisure and home services, which are proving successful with customers as demonstrated by the high renewal rates experienced. We launched car insurance this year.

Business review

Resources and relationships

Partners

Recruitment, retention and training

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

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

Our intention is that every Partner fulfils their individual potential and that we offer each customer a high-quality experience

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

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

Benefits

Our aim is to have a reward policy which is market leading. This comprises competitive rates of pay which reflect market and individual performance and a range of benefits which are truly distinctive and include a non contributory defined benefit pension scheme to Partners who stay with us for three years, and leisure benefits that enable Partners to balance their working and home lives, and thus remain highly committed to the Partnership.

Corporate Social Responsibility (CSR)

Treating our Partners as individuals, with respect, honesty and fairness, sharing the rewards and responsibilities of ownership and conducting our business with integrity and courtesy are key aspects of the way we work. This drives our environmental policies, our involvement with local communities and our approach to responsible sourcing and trading.

The Partnership has made a commitment to annually benchmark our CSR performance with other leading UK businesses. The Partnership achieved platinum level status in the most recent Business in the Community (BITC) Corporate Responsibility Index. Platinum ranking is awarded to those companies reaching a score equal to or above 95%.

In 2008, our CSR performance was independently recognised at the BITC Awards for Excellence, where we received six 'Big Tick' awards for the following programmes: Waitrose Education; Waitrose Local and Regional Sourcing; Waitrose Responsible Sourcing and the Waitrose Foundation; the Golden Jubilee Trust (all reaccreditations); the John Lewis Newcastle vocational placement scheme; and John Lewis Glasgow school mentoring programme. These awards are made to companies demonstrating excellence in the way that they organise and integrate their responsible business practices and can show a positive impact both on society and business.

Suppliers and product

Provenance, traceability and trust

Full traceability of our products and ingredients is critical to our success and to consumer confidence, so our rigorous ethical sourcing policies supported by inspections and farm assurance schemes are used to ensure the highest standards of production, animal welfare and trading throughout our supply chain, We also work hard to inform our customers about sourcing issues, through Partner training, accessible information in-store and online, and on own-brand labelling which contains nutritional information, country of origin and certifications to relevant independently verified ethical standards such as the Marine Stewardship Council (MSC) and Forest Stewardship Council (FSC).

In John Lewis and Waitrose, dedicated technical departments, in conjunction with our buying teams, are responsible for ensuring that every product sold is safe to use and fit for purpose, and that all our own-label and exclusive products comply with all relevant consumer legislation and safety standards. Within Waitrose, our technologists also ensure the provenance and traceability of all our own-label foods.

Animal welfare

Waitrose is committed to providing the best conditions for animals at all stages of the supply chain and to combating cruel practices. Waitrose gained a 'Good Egg' Award from Compassion in World Farming in 2008 following our conversion to 100% free range eggs, as an ingredient in all own label products.

In addition to the national animal welfare standard Farm Assured, the Waitrose Farm Standards set the benchmark for quality and animal welfare across our meat, fish, poultry, milk and cream products. An example is our Waitrose British chickens which benefit from low stocking densities and live in environments with natural daylight, straw bales and the space to enjoy healthy, active lives. Waitrose has also not sold eggs laid by caged birds since 2001.

Waitrose is committed to providing the best conditions for animals and to combating cruel practices

Waitrose has been working on sustainable and responsible sourcing of all its fish for well over 10 years. We have a rigorous policy covering the management of the fishery, the species, method of capture and full traceability, with a clear mission to sell only responsibly caught fish. This policy extends to all our farmed fish which are reared with high regard for the quality and welfare of the fish, and impact on the environment.

Responsible sourcing

All our own-label suppliers must commit to meeting the requirements of our Partnership wide Responsible Sourcing Code of Practice and must register on the Supplier Ethical Data Exchange (Sedex) – the largest global database on labour standards. Supplier labour standards and working practices are then thoroughly assessed and all sites are subject to an independent ethical audit, where we have reason to suspect that standards may fail to meet our high standards. Should non-compliances be identified, we work directly with our suppliers and auditors to establish action programmes to help raise labour standards.

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

British and local sourcing

We nurture long-term relationships with our British suppliers, pay them a fair price and help them to reinvest in their businesses. All our beef, venison, duck, goose, milk, cream and eggs are British, while all our turkey comes from Britain or Ireland. Our lamb comes from Britain when it is in season. We also now only use tender British chicken in our own-label Waitrose food and buy only British bacon. Our own Leckford estate supplies Waitrose shops with milk, poultry, mushrooms, apples, pears, cider apple juice, eggs and honey. John Lewis also supports British manufacturers and suppliers where it can, from Scottish wool to Sheffield steel.

Waitrose offers local and regional products, covering more than 465 producers supplying more than 1,400 lines

Waitrose 'Local and Regional Sourcing' is one of the most established local sourcing initiatives in its sector. All Waitrose shops have a local and regional offering, which covers in excess of 465 producers supplying over 1,400 product lines. To communicate our support for UK suppliers, and in response to customer feedback, we have developed new shelf-edge ticketing highlighting the county, exact origin and unique qualities of each product.

Waitrose initiatives like 'Meet the Buyer' and 'Meet the Farmer' events, which introduce local producers to customers and our co-sponsorship with *Country Living* magazine of the Made in Britain Awards, help to champion small producers and promote local food. Our 'Best of British' campaigns highlight seasonal British food and the people who grow, rear or produce it, and we

Business review

Resources and relationships (continued)

Suppliers and product (continued)

British and local sourcing *(continued)*
now have dedicated display areas for regional fruit and vegetables in 155 shops in nine regions. In 2008, Waitrose launched market town format shops which have an even stronger local and regional presence, with plans to extend this further still.

Sustainable timber
John Lewis is equally committed to ensuring the integrity of the products it sells. We never source from areas where we believe forest management is poor. Where necessary, timber is sourced from regions where certified products are not yet available. Where this is the case we support the suppliers, encouraging them to work towards forestry certification. This helps to raise forestry standards, increase the availability of certified timber and phase out timber from illegal unsustainable sources. Our target is to ensure all garden furniture is independently certified to the Forest Stewardship Council (FSC) standard by the end of 2009. Currently, as a result of our progress approximately 79% of the garden furniture we sold in 2008 was FSC certified. In 2008, we also expanded our timber policy to cover all wood-based products.

Fairtrade
In addition to working to ensure our own-label products are traded fairly, we support established schemes such as Fairtrade, which contribute to the sustainable development of the communities where farmers and workers live. The scheme guarantees a minimum price to cover production costs plus a 'Fairtrade premium' to be reinvested in farmers' businesses or the workers' local community. Waitrose Fairtrade products range from sugar to cereal bars and ice cream to bananas, as well as Fairtrade tea, coffee and sugar in Waitrose cafes. John Lewis products include flowers, wine and clothing available in our shops and coffee in our Place to Eat restaurants.

Waitrose Foundation
Set up four years ago, the 'Waitrose Foundation' is a partnership with our South African fruit supply chain. Instead of funding through a price premium, Waitrose, in conjunction with growers, importers and exporters, pass a percentage of profits into a trust to pay for educational, social and healthcare projects. In 2008, the Foundation raised over £700,000 and has over 90 projects involving 20,000 people, providing adult literacy programmes, crèches, sports facilities, health care and skills training. Education bursaries have been set up for the farm workers children and our first two students have completed their first year at college.

In November 2008 politicians attended the opening of a five-day Waitrose Foundation exhibition in the House of Commons

In line with the South African Government's aspirations for black economic empowerment, the programme will ultimately offer grants for buying land, to be held in trust on the workers' behalf. In 2009, the Foundation will be extended beyond South Africa – to Ghana (for all Waitrose prepared fruit) and to Kenya (encompassing flowers and vegetables). The range offered in Waitrose supermarkets will also increase to over 100 products including a new marmalade and two new wines.

Health and nutrition
Waitrose was the first retailer to implement the 'traffic light' labelling system proposed by the Food Standards Agency (FSA). Over 1,000 products now carry this labelling and all recipe cards and publications carry key nutritional information per serving. To make it easier for our customers to identify and understand nutrition messaging, all messages will be in a standard format by the end of 2009. Through our online Nutrition Advice Service customers and health professionals can also get help and advice on a wide range of food issues. On other Government initiatives such as salt reduction, we have already met many of the targets proposed by the FSA ahead of their 2010 timeline. We continue to work closely with suppliers to drive nutritional quality through appropriate ingredient selection.

As a leading drinks retailer we promote responsible drinking

As a leading drinks retailer we promote responsible drinking and prevent under age sales through a combination of labelling, signage and other communications with customers. In December 2008, we began introducing calorie and units of alcohol labelling, as well as the Department of Health's recommended limits on our own label products.

Community

Town centre regeneration

The development of our shops often forms a critical part of larger retail-led mixed use projects to create vibrant places with wider opportunities, better shopping and easier urban living. We believe our retail offering can play an essential role in the regeneration and long-term prosperity of town centres. As an employer and neighbour, we invest in creating positive experiences for shoppers, which will enhance an area's economic vitality and provide sustainable employment for local people.

When considering a new development, we fully explore all aspects and impacts of that development, from transport networks to architecture to public safety. If a development is given the go-ahead we welcome the opportunity to contribute towards its long-term prosperity, contributing to the consultation process with recommendations that consider both the needs of the local community, as well as our own.

An example of this is the Partnership's £50 million investment in the Stratford City retail and leisure development adjacent to the Olympic site in East London, which will provide a welcome boost to the local economy. We will establish about 800 jobs and help to regenerate the area for the local community, providing a lasting legacy long after 2012.

Community investment

Our Constitution states our aim 'to contribute to the wellbeing of the communities where we operate'. This involves developing strong, long-lasting partnerships at a local level, and devoting time and energy to building healthier communities.

The Partnership uses the community investment model of the London Benchmarking Group to provide us with a more complete picture of our overall community investment. As a result of applying this model we know that we annually invest the equivalent of around 1.5% of our pre-tax profits in our local communities.

Waitrose launched Community Matters in 2008, which allows customers to nominate local charities to support

In 2008, Waitrose rolled out a new community initiative – Waitrose Community Matters. The scheme enables customers and Partners at each shop to nominate local charities and community groups for company support, of which three are selected each month by Partners. Customers get a token at the checkout, which enables them to vote for one of the causes at the shop exit, and the number of votes determines each charity's share of a monthly donation of £1,000. Following its initial success, the scheme has been rolled out to our farm shop and nursery customers at Leckford, while Partners at our Aylesford Distribution Centre and Bracknell Head Office will vote on charities and local community groups.

In 2008, John Lewis Partners were again fundraising for their Charity of the Year, the Wallace and Gromit Children's Foundation, which helps to improve the quality of life for children in hospitals and hospices across the UK. During a special charities week, Partners in every shop got involved in activities, raising £194,500.

Golden Jubilee Trust

The Golden Jubilee Trust enables any Partner to apply for a volunteering secondment with a charity

The Golden Jubilee Trust (GJT), our employee volunteering scheme, has so far supported 382 Partners who have given over 160,000 hours to 379 UK charities. The GJT, established in 2000 as part of our Golden Jubilee celebrations, enables any Partner, regardless of age, seniority or length of service, to apply full or part-time for a volunteering secondment with a registered charity for up to six months. The placements have helped to create strong links with the community and provide charities with the resource and skills to meet their own objectives in serving the needs of the wider community. In 2008, the Golden Jubilee Trust was reaccredited with a Business in the Community 'Big Tick' Award for Excellence.

Business review

Resources and relationships (continued)

Community (continued)

Food education

As a leading food retailer, we recognise we have an important role to play in educating children about healthy eating. Through Waitrose Education we invested approximately £400,000 last year in initiatives designed to encourage children and young adult's interest in food health, nutrition and provenance. These include:

- a series of nutritional tips and meal plans for children aged under 10;
- the Food for Thought Activity Pack (developed with Farming and Countryside Education) to help children understand the impacts of food production, packaging and transport;
- food demonstrations at three Waitrose Food Studios;
- a mobile food pod which tours key events and shops; and
- support of the Specialised Chef's Scholarship, sponsored by renowned hotels and restaurants, where 30 students each year (220 to date) are trained under some of the industry's top chefs.

The Partnership supports the Specialised Chef's Scholarships through Waitrose Education

Over 2000 secondary schools – 52% of all English secondary schools – have requested the Food for Thought pack since its launch in November 2005 and last year our Food Studio and Food Pod provided free educational workshops to 600 schools involving more than 21,000 children. The Waitrose Education programme was reaccredited with a Business in the Community 'Big Tick' in 2008. In 2009, Waitrose, will be the main sponsor for the Royal Horticultural Society's Campaign for School Gardening, which aims to encourage and support schools to develop and actively use a school garden.

Environment

Carbon reduction

We are committed to reducing the carbon intensity of our operations, products and services and have set public targets to reduce our business CO_2 emissions by 60% by 2050, relative to our 2001 trade. As a growing business, our absolute carbon emissions are increasing, but as a result of our strict carbon management programme we remain on track to meet our 2020 interim target of a 20% reduction. We are currently reviewing interim and longer term targets for greenhouse gas emissions reduction. As part of this process we are refining our approach to calculating and reporting our carbon footprint for our business operations. This will be fully reported as part of Corporate Social Responsibility communications later this year.

We continue to source 100% of our electricity from green sources through an agreement with EDF Energy, who in turn have long term agreements with a range of suppliers, ensuring enough green energy is fed into the National Grid to meet our electricity needs. The energy purchased is derived from sources such as hydroelectric generation, wind farms, energy from waste and certified levy exempt combined heat and power operations. We continue to consider longer term opportunities for renewable energy investment including self generation and renewable energy options for our shops and offices.

With more shops and longer trading hours our absolute energy use continues to rise, although overall energy efficiency has improved. Our aim is to further improve the energy efficiency of all our shops by 20% by 2010 (based on 2003-04 baseline).

Transport

Owning a commercial fleet allows us to specify the types of vehicles we use and the technology they then use to reduce resistance and fuel consumption, as well as the advanced cooling systems needed for our refrigerated lorries. All our vehicles meet the Euro 3 engine requirements of London's Low Emission Zones. We introduced Euro 4 engines ahead of legislation and now only equip our fleet with the latest Euro 5 engines where they are available. We have also investigated many alternative lower carbon fuels. In our latest trial seven vehicles are now operating on pure plant oil (PPO), reducing their CO_2 emissions by 50%.

Technological innovations will reduce the impact of road haulage on the environment

Our goal is to reduce energy-related transport CO_2 emissions from store deliveries by 15% by 2013 (compared with 2005 levels). As a result of changes to our distribution arrangements and the mix of vehicles in our commercial fleet, including increased load weights to improve vehicle utilisation, commercial miles driven per £million of sales reduced by 1% in 2008/09 on the previous year but vehicle fuel efficiency reduced to 11.89 miles per gallon (previously 12.16).

In future, we believe the CO_2 emissions will provide the best measure of our distribution impacts. Initial estimates suggest that we have delivered a 6% improvement in 2008/09 on the previous year in terms of tonnes of CO_2 per £million sales.

Magna Park, the new Distribution Centre near Milton Keynes, has been built with sustainability in mind

Magna Park, our new John Lewis Distribution Centre near Milton Keynes will open on 29 May 2009 and will play a significant role in supporting our ambitious expansion plans. Handling an estimated 87,000 lines of stock, quickly, efficiently and accurately, seven days a week, the fully automated site will play a key role in avoiding unnecessary mileage and reducing journey times.

Building and operating sustainable shops

With ambitious retail development plans, new acquisitions and planned refurbishments for existing shops, we are committed to ensuring our shops are designed to suit their surroundings, built responsibly and operated sustainably. Our sustainable construction framework, containing sustainability objectives for each stage of the construction life cycle is being adopted in the planning, design, construction and operation of all new builds and refurbishments. In 2008, this policy was extended to identify ways to improve the sustainability impacts of the design and construction of interior fixtures and fittings for all shops across the Partnership.

Our Magna Park Distribution Centre exemplifies our sustainable approach to construction, with 15% of the roof made from roof lights to capture natural light, all wood used in construction coming from Forest Stewardship Council-certified sources, movement-activated lighting in the offices, solar thermal energy used to heat water and collected rainwater used in the low-flush toilets.

Waste

John Lewis diverted 4,814 tonnes from landfill last year, equivalent to 43% of its waste. Waitrose diverted 23,257 tonnes – 50% of its waste. The ultimate goal across both trading divisions is to divert 95% of our waste away from landfill by 2013.

The Partnership has recycled components of its waste for many years. More recently, to further maximise recycling opportunities, John Lewis and Waitrose have teamed up to backhaul cardboard and polythene from selected Waitrose shops to John Lewis Distribution Centres. As part of our efforts to tackle food waste from our operations, an increasing number of Waitrose shops now send their food waste to an anaerobic plant in Bedford to create 'green' electricity and high nutrient fertiliser, last year this accounted for 307 tonnes of waste. This process will be further trialled in John Lewis Oxford Street and Peter Jones in the first half of 2009. In 2008, John Lewis introduced a recycling scheme for mattresses and divan sets and has recently begun trials at Cribbs Causeway and Milton Keynes to recycle carpet waste.

John Lewis and Waitrose have teamed up to increase the amount of recycled materials

We also remain committed to recycling more of our building waste and increasing the use of recycled materials in new builds to 25%. Great progress was made in 2008, with over 90% of the fit-out waste being recycled during the building of our new John Lewis Leicester and Liverpool department stores.

Packaging

Both Waitrose and John Lewis continue to eliminate unnecessary packaging and balance reductions in packaging with ensuring our products remain protected both in transit and on the shelf. For example, Waitrose now transports fresh fish in vacuum packs rather than polystyrene and all John Lewis paper and card packaging now uses either recycled or Forest Stewardship Council-certified material. Waitrose, along with other Courtauld Commitment signatories, also helped to achieve the first collective Courtauld target of delivering zero packaging growth, despite an increase in sales.

Business review

Resources and relationships (continued)

Environment (continued)

Packaging *(continued)*

To help our customers to recycle more we have worked with the Waste Resources and Action Programme (WRAP), the British Retail Consortium and other retailers to agree a standard recycling labelling scheme for packaging. The voluntary initiative replaces the current array of recycling symbols and messages with a single RecycleNow logo and icon to indicate the recyclability of the packaging. John Lewis and Waitrose are introducing the new labelling for all own-brand products.

Carrier Bags

Through promoting our Bag for Life and other reusable bags, training in store Partners and introducing prominent communications prompting our customers to reuse their existing bags, last year Waitrose showed a 37.5% reduction in carrier bag usage against a 2006 baseline (a reduction of in excess of 80 million bags). Waitrose has also committed to supporting customers' actions in order to achieve a 50% reduction in the number of single-use carriers taken by spring 2009.

John Lewis has made great progress too in reducing carrier bag usage by providing a variety of reusable bags and introducing a reusable Bag for Life in all shops in March 2008, as well as standard plastic bags made from 95% recycled material.

Water

We are not big users of water, but we recognise the need to use less of this increasingly scarce resource. Our target is to reduce water consumption per full time equivalent by 10% by 2010 (against 2006 baseline). Our total water consumption in absolute terms has reduced by 12% and relative water consumption has improved by 19% since 2006 and is now 29 cubic metres per full time equivalent Partner. Accurately monitoring water consumption remains a challenge, although improvements have been made. The reduction in consumption can be largely attributable to the sale of our manufacturing unit in John Lewis in late 2007 which used a large volume of mains and abstracted water. Work to review our water data reporting is to be completed in 2009.

Sustainable agriculture

As farmers ourselves, we understand the challenges of maintaining high standards. We work with and support our suppliers, in Britain and overseas, to maintain best practice standards of agriculture and environmental sustainability, supported by our own inspections and farm assurance schemes.

Waitrose has been selling organic products grown under sustainable production methods for over 20 years. In the last four weeks of 2008, our share of the organic market was 19.4% through sales of more than 1600 products ranging from pet food to preserves and tea to toiletries.

Waitrose is the only UK retailer to insist that all our British fruit and vegetable and flower growers adopt the LEAF (Linking Environment and Farming) Marque certification standard. LEAF, an independent charitable organisation, helps farmers to improve standards of environmental stewardship through the use of crop rotations for good soil management, protecting and enhancing the countryside for wildlife and biodiversity, and minimising pesticide usage. The LEAF Marque has appeared on our UK fresh and frozen produce for 3 years and all our major British and Kenyan flower growers will also adopt these high environmental standards and achieve LEAF Marque. We are also working in partnership with LEAF and our suppliers to achieve this standard globally. Our own estate in Leckford, Hampshire is a LEAF demonstration farm, hosting visits and supporting Open Farm Sunday, when the public gets to see exactly how the food they buy is produced.

The Waitrose Milk scheme requires our dairy farmers to ensure that at least 10% of a farm's area is designated as 'wildlife habitat', encouraging greater diversity of animal and plant species to flourish. Through the scheme, each farm has been supplied with a purpose-built owl nesting box to help farmers to encourage barn owls to thrive.

All of Waitrose's organic milk farms actively promote natural habitats

The Waitrose Organic milk scheme also goes beyond the basic requirements. All of the Organic milk farms are managed as part of a conservation plan actively promoting natural habitats and therefore encouraging wildlife to flourish.

Business review

Risks and uncertainties

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

Economic

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

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

We continually focus on maintaining our pre-eminent product quality, customer service and supplier relationships

Regulatory and political

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

Financial and treasury risk

The principal financial risk which we face is the ability to generate sufficient funds to satisfy our business needs, to meet our Partners' expectations for Partnership bonus and to mitigate against any adverse financial impact resulting from risks identified in our business planning process. Other financial risks and mitigations are covered in more detail below and in note 24 to the accounts:

- **Funding and liquidity**
  Liquidity requirements are managed in line with short and long term cash flow forecasts and reviewed against the group's debt portfolio and maturity profile. Details of the group's borrowings, together with their interest rates and maturity profiles, are also provided in note 27 to the accounts.
- **Interest rate risk**
  In order to manage the risk of interest rate fluctuations the group targets a ratio of fixed and floating rate debt in line with treasury policy. Exposures to interest rate fluctuations are managed using interest rate swaps. Details of the group's borrowings and interest rate exposures are provided in note 27 to the accounts.
- **Foreign currency risk**
  The group uses derivatives to manage exposures to movements in exchange rates arising from transactions with foreign suppliers. Forward exchange contracts are entered into for all major exposures.
- **Credit risk**
  The group has no significant customer credit risk. Cash deposits and other financial instruments give rise to credit risk on the amounts due from bank counterparties. These risks are managed by restricting such transactions to counterparties with a credit rating not less than a Standard & Poor's equivalent 'A' rating.
- **Capital risk**
  The group's objective is to maintain a capital structure which is consistent with an investment grade credit rating.
- **Energy risk**
  The group operates risk management processes for the procurement of energy associated with its activities.
- **Insurance**
  The group's captive insurance company, JLP Insurance Limited, provides reinsurance of the group's employer's, public and vehicle third party liability insurances and of the group's healthcare insurance cover. It also insures ServicePlan Limited and reinsures Landmark Insurance Company Limited, third party providers of extended warranty products to customers of John Lewis.

Business review

Risks and uncertainties (continued)

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

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

Actuarial valuation of the pension funds
A formal actuarial valuation is carried out at least once every three years by an independent professionally qualified actuary, in order to assess the amount of assets that need to be set aside to meet the pension promises, and to determine the future level of funding that the Partnership should put into the schemes. For the primary pension scheme, the last formal valuation was carried out as at 31 March 2007. The market value of the assets of the fund as at 31 March 2007 was £1,843m. The actuarial valuation of these assets showed that they were sufficient to cover 97% of the benefits which had accrued to members.

There is also a senior scheme. The last valuation of this scheme was carried out as at 31 March 2007. The market value of the assets of the scheme as at 31 March 2007 was £22.0m. The actuarial valuation of these assets showed that they were sufficient to cover 73% of the benefits which had accrued to members.

The next formal actuarial valuation of both pension schemes is expected to take place as at 31 March 2010.

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

Pension commitments have been calculated based on the most recent actuarial valuations, which have been updated by the actuaries to assess the assets and liabilities of the schemes as at 31 January 2009.

The assets of the pension schemes as at 31 January 2009 were £1,622m (2008: £1,859m). The accounting liabilities of the pension funds (under IAS 19) were calculated to be £2,352m (2008: £2,413m). Taking the fund assets and accounting liabilities together, this resulted in an IAS 19 pension fund deficit of £730m (2008: £554m).

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

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

Health and safety
The Partnership is committed to going about its business in a way that avoids, so far as is reasonably practicable, causing harm to people or property, and to promoting, through its extensive occupational health service, the wellbeing of its workforce. This commitment underpins our approach to health and safety, with Board level responsibility being carried by the Director of Personnel, supported by specialist technical advisers in safety and occupational health employed within the two divisions. We have set ourselves the on-going target of reducing the causes of incidents through continuous improvements to our risk management process. We cannot expect to eliminate health and safety risk totally from the workplace but our current priority is to ensure that management at all levels know and understand the risks within their areas of responsibility. We are revisiting, across the business, the quality and effectiveness of our risk assessment and incident investigation processes and the completeness of our health and safety management systems. During 2009 we will further enhance our systems and measures which will support a more proactive approach to meeting our commitments to the safety and well being of our Partners, suppliers and customers.

The Partnership is committed, through its extensive occupational health service, to the wellbeing of its workforce

Business continuity and disaster recovery
Any significant incident, such as a terrorist attack, pandemic flu outbreak, e-crime, or an event which impacts upon our mainframe systems or key support functions, could severely compromise our ability to trade. We are continuing to refine our Business Continuity capability for all significant business areas.

Business review

Risks and uncertainties (continued)

Compliance statement

This review has been prepared in accordance with section 417 of the Companies Act 2006. The review's intent is to provide information to Partners, shareholders and the Partnership's other stakeholders. It should not be relied upon by any other party or for any other purpose.

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

Other information

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

Directors and advisers

DIRECTORS

Charlie Mayfield

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

Johnny Aisher †#

Clerk to the Partnership Council since 2004. Member of the Board since 1999. Joined the Partnership 1985.

David Barclay #‡

Deputy Chairman since March 2007. Joined the Board as a non-executive director in 2006. Also holds non-executive directorships with VT Group plc and Wessex Water Services Limited.

Anne Buckley †‡

Registrar, Group F, Waitrose since 2005. Member of the Board since 2003. Joined the Partnership 1985.

Marisa Cassoni

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

David Jones †‡

Divisional Registrar, John Lewis since February 2009. Member of the Board since 1999. Joined the Partnership 1982.

Tracey Killen

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

Patrick Lewis

Partners' Counsellor since February 2009 when he joined the Board. Joined the Partnership in 1994.

Kim Lowe †

General Manager, John Lewis, Aberdeen since January 2007. Member of the Board since July 2007. Joined the Partnership 1982.

Mark Price

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

Andy Street

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

Jane E Tozer #‡

Joined the Board as a non-executive director in 2006. Also holds non-executive directorships with JP Morgan Income & Growth plc, F&C Global Smaller Companies plc, Elexon plc, The Pension, Disability and Carers Service and Citizens' Advice in Three Rivers Ltd.

Martin Whitell †#

Department Manager, John Lewis, Knight & Lee since 1991. Member of the Board since July 2007. Joined the Partnership 1983.

†Under the Constitution of the John Lewis Partnership five of the directors hold office by biennial election of the Partnership Council.

 # Member of the Audit and Risk Committee

‡ Member of the Remuneration Committee

OFFICERS AND ADVISERS

Company Secretary and Director of Legal Services

Margaret Casely-Hayford

Auditors

PricewaterhouseCoopers LLP

Solicitors

Lovells

Bankers

Royal Bank of Scotland PLC

Director of Financial Control

Ros Haigh

Registered Office

171 Victoria Street, London SW1E 5NN, Registered in England No. 238937

Transfer Office

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

Directors' report

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, 201 Waitrose supermarkets, and ancillary manufacturing activities. A review of the business and likely future developments is included separately in the Business Review on pages 4 to 26, which forms part of this Directors' report.

Role of the Partnership Board

Margaret Casely-Hayford, Director of Legal Services

The Partnership Board comprises thirteen members – the Chairman, the non-executive Deputy Chairman, a further non-executive director, five other members nominated by the Chairman and five elected members nominated by the Partnership Council, the representative body of all the members of the Partnership (which is elected through a democratic election process). The elected directors are required to stand for re-election every two years. The two non-executive directors bring external experience and independence to the Board's deliberations.

Board meeting and Committee attendance during the year

	Board 8 meetings	Audit and Risk Committee 5 meetings	Remuneration Committee 4 meetings
Charlie Mayfield	8		
David Barclay	8	5	4
Johnny Aisher	7	4	
Anne Buckley	8		4
Marisa Cassoni	8		
Jeff Hewitt[1]		5	
David StJ. Jones	8		4
Tracey Killen	8		
Patrick Lewis[2]			
Kim Lowe	8		
Mark Price	8		
Andy Street	8		
Jane Tozer[3]	7		3
Martin Whitell	8	4	

[1] Jeff Hewitt is not a director but is chairman of the Audit and Risk Committee.
[2] Patrick Lewis was appointed to the Board on 2 February 2009 and has attended all meetings since his appointment.
[3] Jane Tozer was appointed to the Audit and Risk Committee on 8 September 2008 and has attended all meetings since her appointment.

The Partnership Board has responsibility for the overall management and performance of the Partnership and the approval of its long-term objectives and strategy. In particular, it agrees the Partnership strategy, business plan and annual budgets, including those of the Divisional Management Boards and monitors performance, including that of the two operating divisions, against business plans, budgets and forecasts. The Partnership Board delegates management of the business to the Chairman, assisted by the Group Executive comprising himself, the Finance Director, the Personnel Director, the two Divisional Managing Directors and the Partners' Counsellor. The Group Executive meets frequently as an informal committee to develop strategy, business plans and budgets and review major operational and management issues, financial results and forecasts and proposals for capital expenditure. There is a formal schedule of matters reserved for the Board by means of which it oversees the Partnership's affairs. The Board is assisted in carrying out its supervisory and assurance responsibilities by the Board committees. The responsibilities and terms of reference of the principal committees of the Board are described below. The Board may also delegate authority to ad hoc committees to facilitate finalising matters within agreed parameters.

Senior executives attend Board meetings as appropriate to support proposals on policy setting, investments and the results and strategies of their business units. Board members are given appropriate and timely documentation in advance of each Board and committee meeting. In addition to formal Board meetings, the Chairman maintains regular contact with all directors

Directors' report

continued

Role of the Partnership Board ***(continued)***
through meetings of the Group Executive Committee and informal meetings with the elected, non-executive and executive Board members.

The Board has approved a procedure for directors to take independent professional advice, if necessary, at the Partnership's expense. No such advice was sought by any director during the year.

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 co-ownership character of the Partnership is reflected in the respective roles and responsibilities of its three governing authorities, as established by the constitution: the Board of John Lewis Partnership plc (the Partnership Board), the elected Partnership Council and the Chairman.

In addition to compliance with the system of governance and accountabilities established by its own written constitution, the Partnership aims to apply the highest standards of corporate governance and, although not obliged to do so, seeks to conform with the Code of Best Practice set out in section 1 of the June 2008 Financial Reporting Council Combined Code on Corporate Governance in a manner framed to suit its democratic ownership structure. Further explanation of how the Code's principles have been applied is set out below.

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 have an active interest in promoting its commercial success. Elected councils and forums at all levels of the business provide regular opportunities for management to report to Partners. This provides opportunities to question management on any subject, while an open system of journalism both contributes to effective accountability and provides a means of sharing information extensively with all Partners. Partners also share in the profits of the business through Partnership bonus.

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

Internal Control
The directors have ultimate responsibility for the Partnership's systems of internal control, and also for reviewing its effectiveness. In recognition of that responsibility, the directors set policies and seek regular assurance that the system of internal control is operating effectively. Strategic, commercial, operational, financial and health and safety risk areas are all included within the scope of these activities.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. In pursuing these objectives, internal control can only provide reasonable, and not absolute, assurance against material misstatement or loss. The directors have reviewed the effectiveness of the Partnership's systems of internal control for the accounting period covered by this report.

Directors
Directors of the company at the date of this report are listed on page 28. Patrick Lewis joined the Board as an appointed director on 2 February 2009.

External directorships of Executive Directors
The Remuneration Committee has approved a policy relating to the holding of external directorships. The Board considers that executive directors can gain valuable experience and knowledge through such appointments. For the year under review, the Chairman was a director of

London First and the UK Commission for Employment and Skills, and the Finance Director held positions at GFI Group Inc, WSP Group plc, the Peabody Trust and the Accounting Standards Board.

Non-Executive Directors
The Board reviews the independence of all non-executive directors annually and has determined that both David Barclay and Jane Tozer are independent and have no cross-directorships or significant links which could adversely interfere with the exercise of their independent judgement. The non-executive directors are not Partners. They are not eligible to receive Partnership bonus or other benefits, and are not members of the Partnership's pensions schemes, thereby underlining their independence.

Partners' Counsellor
The Partners' Counsellor monitors and upholds the integrity of the business, its values and ethics as enshrined in its constitution. He is a member of the Board and performs the role of senior independent director in his interaction with Partners as co-owners of the business. He supports the elected directors in their contibution to the Board and thereby helps underpin their independence. The Partners' Counsellor convenes meetings with the elected directors, without other executive directors being present, as appropriate and at least once each year.

Terms of appointment
The elected directors are required to stand for re-election every two years. The non-executive directors are appointed for an initial term of three years, which may be renewed subject to satisfaction on the part of both the directors concerned and the Board. The terms and conditions of appointment for the non-executive directors are available on request from the Director of Legal Services and Company Secretary.

Directors' responsibilities
The Statement of directors' responsibilities in relation to the financial statements is set out on page 79.

Directors' interests
Under the constitution of the Partnership, the directors, apart from the two non-executive directors, as employees of John Lewis plc, are necessarily interested in the 612,000 Deferred Ordinary Shares in John Lewis Partnership plc which are held in trust for the benefit of employees of John Lewis plc and of certain other companies.

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

Board committees
The principal committees of the Partnership Board are the Audit and Risk Committee and the Remuneration Committee. Each committee has written terms of reference agreed by the Board. The Audit Committee and the Risk Committee were combined during the year to reflect the revised structure for managing risk within the business.

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

The Committee meets four times a year. Its principal roles are: assisting the Partnership Board in the discharge of its responsibilities in respect of statutory and financial reporting and reviewing and monitoring the effectiveness of the group's internal controls and risk management systems;

Directors' report

continued

Audit and Risk Committee (continued)
monitoring the effectiveness of the group's internal audit function; making recommendations to the Board on the appointment and dismissal of the external auditors; approving the remuneration and terms of engagement of the external auditors and monitoring and reviewing the external auditors' independence, objectivity and effectiveness, taking into account professional and regulatory requirements. The Committee keeps under review the nature and extent of non-audit services provided to the Partnership by the external auditors, and receives confirmation from them, at least annually, that in their professional judgement they are independent with respect to the audit. The Head of Internal Audit and Risk Management reports to the Committee and the Committee approves the Internal Audit work programme for each year and considers the results of internal audit work.

The Directors have ultimate responsibility for internal control and the management of risk throughout the business, and also for reviewing its effectiveness, and delegate to the Audit and Risk Committee the monitoring thereof. Executive management is responsible for identifying and evaluating the risks of business operations and for implementing and maintaining systems for managing those risks in an efficient and effective manner through the business planning process. The Committee monitors the development of policies and systems for identifying, evaluating and managing significant risk throughout the Group. It also monitors management's actions to manage those risks and reports annually to the Board. The operating divisions, John Lewis and Waitrose, and all corporate departments, include risk assessments as part of their business plans and quarterly reporting. A procedure is in place by which Partners may, in confidence, raise concerns about possible improprieties in matters of financial reporting or otherwise.

Non-Audit Services and Auditor Independence
The Board recognises that the independence of the external auditor is a fundamental safeguard for the interests of the Partnership's shareholders. The Board has agreed a policy setting out the categories of non-audit services that may be undertaken by the external auditor and at least once a year the Audit and Risk Committee reviews the cost and nature of all non-audit work performed by the external auditor and the assurance provided by them regarding their independence and objectivity.

Remuneration Committee
The Remuneration Committee is chaired by David Barclay, a non-executive director and the Partnership's Deputy Chairman. In addition to the chairman, the members are Jane Tozer, a non-executive director, and two of the five directors elected by the Partnership Council, chosen by that group, currently David Jones and Anne Buckley. The Committee is supported by the Director of Personnel, assisted by the Head of Reward, and an independent external remuneration consultant, Towers Perrin, a representative of which attends its meetings in an advisory capacity. The Committee makes a recommendation each year to the Partnership Board on the Chairman's pay and determines the pay of the Partnership Board's appointed directors on the basis of appropriate market data and the recommendation of the Chairman. The Chairman made a recommendation to the Partnership Board on the fees of the non-executive directors taking into account advice from Towers Perrin, the independent consultancy. Members of the Committee take no part in its deliberations with regard to their own remuneration. The Committee also makes a recommendation to the Partnership Board on the broad policy for the remuneration of senior Partners, on the advice of the Director of Personnel, assisted by the Head of Reward.

The salaries of elected members of the Partnership Board are determined by their managers and do not include any element in recognition of their Partnership Board duties. With the exception of the non-executive directors, Partnership Board directors do not receive fees as they are all paid a salary for their respective roles within the business, in accordance with the Partnership's pay policy. There are no annual incentive bonuses or long-term bonus schemes related to individual performance. Details of directors' emoluments are set out in note 9.

Board effectiveness
The company substantially applies the principles of the Combined Code, with the principal exception of provision A.2.1 of the code.

The combination of the roles of Chairman and Chief Executive Officer reflects the nature of the Chairman's role under the terms of the Partnership's Constitution. The Chairman's responsibilities are clearly defined under the Partnership's governance structure and include responsibility for retaining the distinctive character and democratic vitality of the Partnership, the leadership and management of the Group and the execution of the strategy approved by the Board. This structure provides for the Chairman to be accountable to the Partnership Council constitutionally, and to the Partnership Board which chooses to delegate its management duties to him under the Companies Act 2006.

On joining the Board, directors are given background information describing the Group and its activities and they also receive an induction pack of information relating to the business. Meetings are arranged with appropriate senior personnel, as well as site visits. Training seminars are held for the Board and recent topics include directors' duties and responsibilities under the Companies Act 2006. External training is arranged as appropriate.

A formal evaluation of the Board is currently in progress. The review combines a dialogue with an independent assessor and a questionnaire aimed at assessing Board and committee effectiveness and covered Board dynamics and processes and individual director contributions. The conclusions of the review are still to be finalised.

Group Secretary

The Director of Legal Services and Company Secretary, supported by the Deputy Company Secretary, is responsible for advising the Board on all corporate governance matters, ensuring that Board procedures are followed, ensuring good information flow, facilitating induction programmes for directors and assisting with directors' continuing professional development. All directors have access to the advice and services of the Director of Legal Services and Company Secretary and her deputy.

Treasury policy and financial risk management

The Board approves the group's treasury and financial risk management policies, which are delegated to the Partnership's Finance Director and Treasury team to implement and control. Further details of the group's financial risk management arrangements are provided in the Business Review and note 24 to the financial statements.

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 31 January 2009 were equivalent to 21 days of average purchases (2008: 24 days).

Corporate Social Responsibility

The terms of the Partnership's Constitution clearly define the behaviour expected towards customers, suppliers, the environment, the wider community and its Partners. Corporate Social Responsibility (CSR) programmes and governance structures have been developed from these provisions and the principal responsibility for managing and co-ordinating social, ethical and environmental issues resides with the Partnership's Director of Personnel. In addition, the Partnership has recently constituted a Responsible Business Group, a management committee which will be chaired by the Chairman and comprise several members of senior management. Its purpose is to co-ordinate the Partnership's CSR policy and strategy and to monitor and review performance. More detailed information on the Partnership's CSR policies and procedures are set out in the Business Review, and copies of its published CSR reports can be found on the Partnership website, www.johnlewispartnership.co.uk.

Charitable and political donations

The Partnership donated £2,893,000 (2008: £2,285,000) for charitable purposes during the year, comprising £2,404,000 (2008: £1,798,000) for welfare causes and £489,000 (2008: £487,000) 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.

Directors' report

continued

Investments
In November 2008, the Partnership disposed of its shareholding in Ocado to the Partnership's pension scheme.

Acquisition of stores
In November 2008, the group entered into a contract with the Co-operative Group Limited and Somerfield Limited to acquire 13 stores. Title to the stores will pass to the group on a phased basis from April 2009 to June 2009. The total costs of these stores, including conversion costs, taxes and fees to be paid by the Partnership, is expected to be £145m, of which a deposit of £10.5m was paid in November 2008.

Bond issue
In March 2009, John Lewis plc issued a £275m Sterling bond at a coupon of 8.375%, repayable in 2019. The proceeds were received on 8 April 2009, on which date the £250m bridge facility was cancelled in accordance with its terms. The group's total committed sources of funds at the date of signing the accounts are £1,275m, as explained in note 24 to the accounts.

Dividends
Dividends on Preference Shares for 2009 were £247,000 (2008: £247,000). Dividends on SIP shares (issued in connection with the BonusSave scheme) for 2009 were £1,534,000 (2008: £530,000).

Purchase of shares
At the annual general meeting held on 2 July 2008, the company was authorised to make market purchases of up to £3,696,995 nominal of the 5% Cumulative Preference Stock and up to £500,000 nominal of the 7.5% Cumulative Preference Stock representing the remaining stock in issue. No purchases were made during the year and shareholders will be invited to renew the authority at the annual general meeting, as detailed on page 83. The Board considers that these stocks are an inefficient form of fixed interest finance and that it would be advantageous to the company to acquire them over time, as suitable opportunities arise.

Going concern
The Directors, after reviewing the group's operating budgets, investment plans and financing arrangements, consider that the company and the group have adequate resources to continue in operation for the foreseeable future. A full description of the group's business activities, financial position, cash flows, liquidity position, committed facilities and borrowing position, together with the factors likely to affect its future development and performance, are set out in the Business Review and in the notes to the accounts. The group has, at the date of this report, sufficient financing available for its estimated requirements for the foreseeable future and, accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the financial statements.

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

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

For and by Order of the Board
Margaret Casely-Hayford
Secretary
20 April 2009

Consolidated income statement

for the year ended 31 January 2009

Notes	Continuing operations	Year to 31 January 2009 £m	Year to 26 January 2008 Restated £m
2	**Gross sales**	**6,967.5**	6,762.8
2	**Revenue**	**6,267.2**	6,052.2
	Cost of sales	**(4,195.4)**	(4,007.6)
	Gross profit	**2,071.8**	2,044.6
	Other operating income	**45.9**	41.6
3	Operating expenses	**(1,794.2)**	(1,691.3)
2	**Operating profit**	**323.5**	394.9
4	Finance costs	**(55.1)**	(40.0)
4	Finance income	**11.2**	24.9
13	Share of post tax losses of associate	**–**	(8.0)
13	Exceptional gain in respect of associate	**127.4**	8.0
	Net gain in respect of associate	**127.4**	–
	Profit before Partnership bonus and tax	**407.0**	379.8
	Partnership bonus	**(125.4)**	(181.1)
5	**Profit before tax**	**281.6**	198.7
6	Taxation	**(48.1)**	(59.4)
	Profit after tax from continuing operations	**233.5**	139.3
'8	Loss from discontinued operations	**–**	(9.1)
	Profit for the year	**233.5**	130.2

The notes on pages 41 to 78 form part of these financial statements.

Operating profit and net finance costs for the prior year have been restated in respect of the financing element of pension costs, as explained in note 1.

Statement of recognised income and expense

for the year ended 31 January 2009

Consolidated	Year to 31 January 2009 £m	Year to 26 January 2008 £m
Actuarial loss on defined benefit pension schemes	**(280.1)**	(123.4)
Movement of deferred tax on pension schemes	**78.5**	26.3
Net gain on cash flow hedges	**7.0**	0.9
Net loss not recognised in the income statement	**(194.6)**	(96.2)
Profit for the year	**233.5**	130.2
Total recognised income and expense for the year	**38.9**	34.0

Company	Year to 31 January 2009 £m	Year to 26 January 2008 £m
Profit for the year	**0.4**	0.2
Total recognised income and expense for the year	**0.4**	0.2

Consolidated balance sheet

as at 31 January 2009

Notes		2009 £m	2008 £m
	Non-current assets		
11	Intangible assets	**85.1**	66.9
12	Property, plant and equipment	**3,176.8**	3,021.8
16	Trade and other receivables	**44.4**	31.3
23	Deferred tax asset	**21.7**	–
		3,328.0	3,120.0
	Current assets		
15	Inventories	**352.3**	344.9
16	Trade and other receivables	**139.1**	211.7
	Current tax receivable	**–**	10.1
25	Derivative financial instruments	**23.4**	3.7
17	Cash and cash equivalents	**197.6**	121.6
		712.4	692.0
	Total assets	**4,040.4**	3,812.0
	Current liabilities		
19	Borrowings and overdrafts	**(75.8)**	(58.4)
20	Trade and other payables	**(703.7)**	(827.4)
	Current tax payable	**(17.9)**	–
21	Finance lease liabilities	**(0.6)**	(0.7)
22	Provisions	**(70.7)**	(54.3)
		(868.7)	(940.8)
	Non-current liabilities		
19	Borrowings	**(547.8)**	(420.3)
20	Trade and other payables	**(48.1)**	(40.1)
21	Finance lease liabilities	**(29.2)**	(30.1)
22	Provisions	**(93.8)**	(97.7)
23	Deferred tax liabilities	**–**	(45.1)
26	Retirement benefit obligations	**(730.0)**	(554.0)
		(1,448.9)	(1,187.3)
	Total liabilities	**(2,317.6)**	(2,128.1)
	Net assets	**1,722.8**	1,683.9
	Equity		
28	Share capital	**0.6**	0.6
29	Other reserves	**14.1**	7.1
29	Retained earnings	**1,707.7**	1,675.8
29	Minority interest in subsidiary	**0.4**	0.4
	Total equity	**1,722.8**	1,683.9

Approved by the Board on 20 April 2009
Charlie Mayfield
Marisa Cassoni
Directors

Balance sheet of the company

as at 31 January 2009

Notes		2009 £m	2008 £m
	Non-current assets		
14	Investments	**45.1**	29.4
	Total assets	**45.1**	29.4
	Current liabilities		
	Trade and other payables	**(1.6)**	(0.7)
	Non-current liabilities		
19	Borrowings	**(32.4)**	(18.0)
	Total liabilities	**(34.0)**	(18.7)
	Net assets	**11.1**	10.7
	Equity		
28	Share capital	**0.6**	0.6
29	Other reserves	**5.0**	5.0
29	Retained earnings	**5.5**	5.1
	Total equity	**11.1**	10.7

Approved by the Board on 20 April 2009
Charlie Mayfield
Marisa Cassoni
Directors

Consolidated cash flow statement

for the year ended 31 January 2009

Notes		Year to 31 January 2009 £m	Year to 26 January 2008 £m
30	**Cash generated from operations**	**586.1**	546.3
	Net taxation paid	**(8.4)**	(58.3)
	Partnership bonus paid	**(181.7)**	(153.8)
	Finance costs paid	**(20.6)**	(10.4)
	Net cash outflow from discontinued operations	**–**	(0.4)
	Net cash generated from operating activities	**375.4**	323.4
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(363.8)**	(341.1)
	Purchase of intangible assets	**(39.2)**	(23.4)
	Proceeds from sale of property, plant and equipment	**9.0**	16.8
	Net proceeds from sale of subsidiaries, net of cash disposed	**–**	0.8
	Finance income received	**12.7**	7.5
	Net cash flows from investing activities – discontinued operations	**–**	0.1
	Net cash used in investing activities	**(381.3)**	(339.3)
	Cash flows from financing activities		
	Finance costs in respect of bonds	**(48.7)**	(29.6)
	Payment of capital element of finance leases	**(1.0)**	(0.8)
	Premium paid on options	**–**	(0.2)
	Payments to preference shareholders	**(0.2)**	(0.2)
	Cash inflow/(outflow) from borrowings	**114.4**	(86.2)
	Net cash generated from/(used) in financing activities	**64.5**	(117.0)
	Increase/(decrease) in net cash and cash equivalents	**58.6**	(132.9)
	Net cash and cash equivalents at beginning of period	**63.2**	196.1
	Net cash and cash equivalents at end of period	**121.8**	63.2
17	**Net cash and cash equivalents comprise:**		
	Cash	**66.6**	71.9
	Short term deposits	**131.0**	49.7
	Bank overdraft	**(75.8)**	(58.4)
		121.8	63.2

There are no cash movements for the parent company and, accordingly, no cash flow statement is presented.

Notes to the accounts

1 Accounting policies

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

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

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

These policies have been consistently applied to all the years presented unless otherwise stated.

The following standards, amendments and interpretations were adopted by the group from 27 January 2008:

- IFRIC 12 Service Concession Arrangements.
- IFRIC 14 – IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction.

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

There are a number of new accounting standards and amendments to existing standards that have been published and are mandatory for the group's accounting periods beginning on or after 1 February 2009 or later periods, but which the group has not adopted early.

These are as follows:

- IFRS 8 Operating Segments.
- IFRIC 13 Customer Loyalty Programmes.
- Revision to IFRS 3 Business Combinations.
- Amendment to IAS 5 Non-current Assets held for Sale and Discontinued Operations.
- Amendment to IAS 1 Presentation of Financial Statements.
- Amendment to IFRS 7 Financial Instruments: Disclosures.
- Amendment to IAS 23 Borrowing Costs.
- Amendment to IAS 16 Property, Plant and Equipment.
- Amendment to IAS 19 Employee Benefits.
- Amendment to IAS 27 Consolidated and Separate Financial Statements.
- Amendment to IAS 28 Investments in Associates.
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement.

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

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

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

Employee benefits
The group's principal retirement benefit scheme is a defined benefit pension fund with assets held separately from the group. The cost of providing benefits under the scheme is determined using the projected unit credit actuarial valuation method. The current service cost and gains and losses on settlements and curtailments are included in operating expenses 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 were previously recognised in operating expenses. However, for the year ended 31 January 2009, the group has changed its accounting policy in respect of these financing elements of the pensions charge to include them in finance costs. This treatment of the financing elements of pension costs will provide more meaningful information in respect of business performance. The change in accounting policy has decreased operating expenses and increased finance costs by £5.4m for the year ended 31 January 2009. The prior year has been restated, resulting in increased operating expenses and increased finance income of £16.2m. Net assets and equity are unaffected by this change in accounting policy.

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 expense 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 group'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 expected useful life, at the following rates:

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

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

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

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

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

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

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

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

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

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

Notes to the accounts

continued

1 Accounting policies (continued)

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

Financial instruments
The group uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates and interest rates. Derivative financial instruments used by the group include interest rate swaps, forward currency contracts and vanilla currency options. Hedge accounting has been adopted for derivative financial instruments where possible. Such derivative financial instruments are measured at fair value. The fair value of a derivative financial instrument represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the forward rates of exchange and interest rates prevailing at the balance sheet date.

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

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

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

A cash flow hedge is a hedge of the exposure to variability of cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction. The effective portion of changes in the intrinsic fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. All other changes in fair value are recognised immediately in the income statement with other gains/losses. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. Derivative financial instruments qualifying for cash flow hedge accounting are principally forward currency contracts and currency options.

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

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

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

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

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

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

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

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

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

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

Net debt
Net debt incorporates the group's borrowings, bank overdrafts, fair value of derivatives and obligations under finance leases, less cash and cash equivalents. The measurement of net debt was revised during the year to include derivative assets and finance lease payables, as detailed in note 31.

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.

Notes to the accounts

continued

1 Accounting policies (continued)

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

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

Retirement benefits
Pension accounting requires certain assumptions to be made in order to value our obligations and to determine the charges to be made to the income statement. These figures are particularly sensitive to assumptions for discount rates, mortality, inflation rates and expected long-term rates of return on assets. Details of assumptions are given in note 26.

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

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

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

Impairment
The group is required to test whether assets in use in operations have suffered any impairment. The recoverable amounts of cash generating units have been determined based on the higher of fair value less costs to sell and value in use. The calculation of value in use requires the estimation of future cash flows expected to arise from the continuing operation of the cash generating unit and the selection of a suitable discount rate in order to calculate the present value. Given the degree of subjectivity involved, actual outcomes could vary significantly from these estimates.

2 Segmental reporting

The group is organised in two business segments, John Lewis and Waitrose. The operating profit of each is after charging relevant corporate costs based on the business segments' usage of corporate facilities and services. The basis of allocation has been revised and prior year figures have been amended accordingly. Unallocated group costs include corporate overheads, finance transformation costs and Greenbee investments.

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

2 Segmental reporting (continued)

31 January 2009	John Lewis £m	Waitrose £m	Unallocated £m	Group £m
Gross sales	2,811.1	4,156.4	–	6,967.5
Adjustment for sale or return sales	(109.0)	–	–	(109.0)
Value added tax	(375.0)	(216.3)	–	(591.3)
Revenue	2,327.1	3,940.1	–	6,267.2
Divisional operating profit	146.0	214.6	–	360.6
Group costs	–	–	(37.1)	(37.1)
Operating profit	146.0	214.6	(37.1)	323.5
Finance costs	–	–	(55.1)	(55.1)
Finance income	–	–	11.2	11.2
Exceptional gain in respect of associate	–	–	127.4	127.4
Partnership bonus	–	–	(125.4)	(125.4)
Profit before tax	146.0	214.6	(79.0)	281.6
Taxation	–	–	(48.1)	(48.1)
Profit after tax from continuing operations	146.0	214.6	(127.1)	233.5
Segment assets	1,593.8	2,200.6	–	3,794.4
Unallocated assets				
– group cash	–	–	197.6	197.6
– deferred tax assets	–	–	21.7	21.7
– other	–	–	26.7	26.7
Total assets	1,593.8	2,200.6	246.0	4,040.4
Segment liabilities	(388.2)	(365.1)	(210.7)	(964.0)
Unallocated liabilities				
– group borrowings	–	–	(623.6)	(623.6)
– retirement benefit obligations	–	–	(730.0)	(730.0)
Total liabilities	(388.2)	(365.1)	(1,564.3)	(2,317.6)
Net assets	1,205.6	1,835.5	(1,318.3)	1,722.8
Other segment items:				
– Depreciation	67.3	104.5	9.3	181.1
– Amortisation of intangible assets	7.2	8.9	4.9	21.0
– Capital expenditure – property, plant and equipment	128.2	223.4	13.4	365.0
– Capital expenditure – intangible assets	11.9	10.5	16.8	39.2
– Movement in provisions	(12.4)	1.4	(1.5)	(12.5)

Notes to the accounts

continued

2 Segmental reporting (continued)

26 January 2008	John Lewis Restated £m	Waitrose Restated £m	Unallocated Restated £m	Group Restated £m
Gross sales	2,812.7	3,950.1	–	6,762.8
Adjustment for sale or return sales	(103.0)	–	–	(103.0)
Value added tax	(394.7)	(212.9)	–	(607.6)
Revenue	2,315.0	3,737.2	–	6,052.2
Divisional operating profit	199.5	227.6	–	427.1
Group costs	–	–	(32.2)	(32.2)
Operating profit	199.5	227.6	(32.2)	394.9
Finance costs	–	–	(40.0)	(40.0)
Finance income	–	–	24.9	24.9
Share of post tax losses of associate	–	–	(8.0)	(8.0)
Exceptional gain in respect of associate	–	–	8.0	8.0
Partnership bonus	–	–	(181.1)	(181.1)
Profit before tax	199.5	227.6	(228.4)	198.7
Taxation	–	–	(59.4)	(59.4)
Profit after tax from continuing operations	199.5	227.6	(287.8)	139.3
Segment assets	1,542.5	2,058.1	–	3,600.6
Unallocated assets				
– group cash	–	–	121.6	121.6
– other	–	–	89.8	89.8
Total assets	1,542.5	2,058.1	211.4	3,812.0
Segment liabilities	(405.1)	(375.2)	(270.0)	(1,050.3)
Unallocated liabilities				
– group borrowings	–	–	(478.7)	(478.7)
– deferred tax liabilities	–	–	(45.1)	(45.1)
– retirement benefit obligations	–	–	(554.0)	(554.0)
Total liabilities	(405.1)	(375.2)	(1,347.8)	(2,128.1)
Net assets	1,137.4	1,682.9	(1,136.4)	1,683.9
Other segment items*:				
– Depreciation	61.6	98.6	9.0	169.2
– Amortisation of intangible assets	6.1	7.1	4.5	17.7
– Capital expenditure – property, plant and equipment	173.8	157.4	8.6	339.8
– Capital expenditure – intangible assets	11.0	8.2	4.2	23.4
– Movement in provisions	9.4	2.7	(3.1)	9.0

* Continuing operations only

Operating profit and net finance costs for the prior year have been restated in respect of the financing element of pension costs, as explained in note 1.

3 Operating expenses

	2009 £m	2008 Restated £m
Branch operating expenses	**1,365.7**	1,222.8
Administrative expenses	**330.3**	369.1
Pension costs	**98.2**	99.4
	1,794.2	1,691.3

Pension costs for the prior year have been restated to exclude the financing element of pension costs, as explained in note 1.

4 Net finance costs

	2009 £m	2008 Restated £m
Finance costs		
Interest payable on:		
Bank loans and overdrafts	**12.9**	7.6
Other loans repayable within 5 years	**19.4**	19.1
Loans repayable in more than 5 years	**10.6**	10.5
Finance lease interest payable	**1.5**	1.5
Amortisation of issue costs of bonds	**0.3**	0.3
Preference dividends	**0.3**	0.3
SIP dividends	**1.4**	0.5
Total finance costs in respect of borrowings	**46.4**	39.8
Fair value measurements and other	**3.3**	0.2
Net finance costs arising on defined benefit retirement schemes (note 26)	**5.4**	–
Total finance costs	**55.1**	40.0
Finance income		
Interest receivable	**(11.1)**	(7.0)
Preference dividends	**(0.1)**	(0.1)
Total finance income in respect of investments	**(11.2)**	(7.1)
Fair value measurements and other	**–**	(1.6)
Net finance income arising on defined benefit retirement schemes (note 26)	**–**	(16.2)
Total finance income	**(11.2)**	(24.9)
Net finance costs	**43.9**	15.1

	2009 £m	2008 Restated £m
Total finance costs in respect of borrowings	**46.4**	39.8
Total finance income in respect of investments	**(11.2)**	(7.1)
Net finance costs in respect of borrowings and investments	**35.2**	32.7
Fair value measurements and other	**3.3**	(1.4)
Net finance costs/(income) arising on defined benefit retirement schemes	**5.4**	(16.2)
Net finance costs	**43.9**	15.1

Net finance costs for the prior year have been restated in respect of the financing element of pension costs, as explained in note 1.

Notes to the accounts

continued

5 Profit on ordinary activities before taxation

	Continuing operations		Discontinued operations		Total	
	2009	2008 restated	2009	2008	2009	2008 restated
	£m	£m	£m	£m	£m	£m
Profit on ordinary activities before taxation is stated after charging/(crediting) the following:						
Staff costs (note 10)	**1,208.8**	1,208.8	–	5.8	**1,208.8**	1,214.6
Depreciation – owned assets	**180.5**	168.6	–	0.1	**180.5**	168.7
Depreciation – assets held under finance leases	**0.6**	0.6	–	–	**0.6**	0.6
Amortisation of intangible assets	**21.0**	17.7	–	–	**21.0**	17.7
Profit on sale of property	**(4.6)**	(9.1)	–	(0.5)	**(4.6)**	(9.6)
Loss on sale of other tangible and intangible fixed assets	**5.2**	8.9	–	0.3	**5.2**	9.2
Inventory – cost of inventory recognised as an expense	**4,195.4**	4,007.6	–	5.9	**4,195.4**	4,013.5
Restructuring costs	**4.1**	9.1	–	–	**4.1**	9.1
Operating lease rentals:						
– land and buildings	**85.2**	78.8	–	–	**85.2**	78.8
– plant and machinery	**0.5**	0.9	–	–	**0.5**	0.9
Sub lease income:						
– land and buildings	**(4.5)**	(4.3)	–	–	**(4.5)**	(4.3)
Fees payable to the group's auditors for audit services pursuant to legislation:						
– parent company and group audit	**0.3**	0.3	–	–	**0.3**	0.3
– subsidiary audits	**0.4**	0.4	–	–	**0.4**	0.4
Fees payable to the group's auditors and its associates for other services:						
– taxation services	**0.1**	0.1	–	–	**0.1**	0.1
– other non-audit services	**0.4**	0.1	–	–	**0.4**	0.1

Staff costs for the prior year have been restated in respect of the financing element of pension costs, as explained in note 1.

In addition to the above, the group's auditors also acted as auditors to the group's pension schemes. The aggregate fee for audit services to the pension schemes during the year was £48,600 (2008: £35,000).

Contingency rents expensed during the year were £8.0m (2008: £8.5m). Contingency rents are determined based on store revenues.

6 Tax on profit on ordinary activities

Analysis of tax charge	Continuing operations 2009 £m	Continuing operations 2008 £m	Discontinued operations 2009 £m	Discontinued operations 2008 £m	Total 2009 £m	Total 2008 £m
Corporation tax – current year	**48.3**	33.6	–	(0.4)	**48.3**	33.2
Corporation tax – prior years	**(11.9)**	(3.8)	–	–	**(11.9)**	(3.8)
Total current tax charge	**36.4**	29.8	–	(0.4)	**36.4**	29.4
Deferred tax – current year	**6.5**	29.6	–	0.1	**6.5**	29.7
Deferred tax – prior years	**5.2**	–	–	–	**5.2**	–
	48.1	59.4	–	(0.3)	**48.1**	59.1

Tax credited to equity	Continuing operations 2009 £m	Continuing operations 2008 £m	Discontinued operations 2009 £m	Discontinued operations 2008 £m	Total 2009 £m	Total 2008 £m
Deferred tax on pension liability	**(78.5)**	(26.3)	–	–	**(78.5)**	(26.3)

The tax charge for the period is lower (2008: lower) than the standard corporation tax rate of 28.33% (2008: 30%). The differences are explained below:

	Continuing operations 2009 £m	Continuing operations 2008 £m	Discontinued operations 2009 £m	Discontinued operations 2008 £m	Total 2009 £m	Total 2008 £m
Profit before tax	**281.6**	198.7	–	(9.4)	**281.6**	189.3
Profit before tax multiplied by standard rate of corporation tax in the UK of 28.33% (2008: 30%)	**79.8**	59.6	–	(2.8)	**79.8**	56.8
Effects of:						
Adjustment to current tax in respect of prior years	**(11.9)**	(3.8)	–	–	**(11.9)**	(3.8)
Restatement of brought forward deferred tax balance for reduction in the corporation tax rate to 28%	–	(10.9)	–	–	–	(10.9)
Depreciation on assets not qualifying for tax relief	**10.9**	12.1	–	–	**10.9**	12.1
Difference between accounting and tax base for land and buildings	**(1.9)**	0.5	–	–	**(1.9)**	0.5
Non-allowable costs of disposal of manufacturing companies	–	–	–	2.5	–	2.5
Non-taxable gain on disposal of associate	**(36.1)**	–	–	–	**(36.1)**	–
Adjustment to deferred tax in respect of prior years	**5.2**	–	–	–	**5.2**	–
Sundry disallowables	**2.1**	1.9	–	–	**2.1**	1.9
Total tax charge	**48.1**	59.4	–	(0.3)	**48.1**	59.1

Notes to the accounts

continued

7 Profit for the financial year

As permitted by Section 230 of the Companies Act 1985, John Lewis Partnership plc has not presented its own profit and loss account. The result dealt with in the accounts of the company amounted to £0.4m profit (2008: £0.2m profit).

8 Discontinued operations

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

The loss after tax for the prior year from the discontinued operations is analysed below:

	Year to 31 January 2009 £m	Year to 26 January 2008 £m
Gross sales	–	7.9
Revenue	–	7.4
Cost of sales	–	(5.9)
Gross profit	–	1.5
Operating expenses	–	(1.7)
Operating loss	–	(0.2)
Finance income	–	–
Loss before Partnership bonus and tax	–	(0.2)
Partnership bonus	–	–
Loss before tax	–	(0.2)
Taxation	–	–
Loss after tax	–	(0.2)

Net cash flows from discontinued operations were as follows:

	Year to 31 January 2009 £m	Year to 26 January 2008 £m
Net cash outflow from operating activities	–	(0.4)
Net cash inflow from investing activities	–	0.1

8 Discontinued operations (continued)

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

	14 September 2007 £m
Property, plant and equipment	1.5
Inventories	2.8
Trade and other receivables	2.8
Trade and other payables	(0.9)
Net assets disposed of	6.2

The loss on disposal of the discontinued operations was as follows:

	14 September 2007 £m
Total consideration, net of costs	0.8
Net assets disposed of	(6.2)
Provision for other disposal commitments	(3.8)
Loss on disposal before taxation	(9.2)
Income tax credit	0.3
Loss on disposal	(8.9)

Total loss from discontinued operations was as follows:

	Year to 31 January 2009 £m	Year to 26 January 2008 £m
Loss for the period from discontinued operations	–	(0.2)
Loss on disposal of discontinued operations	–	(8.9)
Loss from discontinued operations	–	(9.1)

9 Directors' emoluments

	2009 £000	2008 £000
Directors' remuneration including Partnership bonus of 13% (2008: 20%)	3,013	3,052

The emoluments of the Chairman who was also the highest paid director, were £830,000 (£772,000), including Partnership bonus of £94,000 (£126,000). The Chairman's aggregate pension entitlement from the age of 60 accrued at the end of the year was £168,000 per annum (2008: £117,000 per annum). The transfer value of the increase in accrued entitlement during the year was £340,000.

Notes to the accounts

continued

9 Directors' emoluments (continued)

The remuneration and benefits of five directors who are elected to the Board are excluded throughout this note on the basis that no part of their remuneration relates to their service as a member of the Board. Excluding pension fund contributions but including Partnership bonus, the emoluments of the other individual directors, excluding the Chairman, who served on the Board during any part of the year, were as follows:

	2009	2008		2009	2008
£0 - £50,000	–	2	£350,001 - £400,000	1	–
£50,001 - £100,000	2	1	£450,001 - £500,000	–	1
£150,001 - £200,000	–	1	£500,001 - £550,000	1	2
£250,001 - £300,000	–	1	£550,001 - £600,000	2	–

Contracts of employment for the Chairman and four directors provide for a notice period of one year. Contracts for all other directors provide for six months' notice.

Five 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.

The Chairman and four members of the Board who served during the year were entitled to the use of a company car, or its cash equivalent. They also benefited from private medical insurance paid by the Partnership.

Four members of the Board belong to the Partnership's non-contributory pension scheme. During the year four directors also belonged to a senior pension scheme which provides additional benefits intended to produce a total pension worth two-thirds of pensionable pay on retirement at age 60, after at least 20 or 30 years' service, depending on the level of benefit. Following changes to pension legislation in April 2006, four directors have opted to have part of their pension benefit provided on an unfunded basis, and the Partnership has given undertakings that these directors will have their pension made up to the same level as that provided by the senior pension scheme. The obligation is unfunded but provision has been made for this liability.

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:

	2009	2008		2009	2008
£50,001 - £100,000	–	1	£150,001 - £200,000	1	3
£100,001 - £150,000	1	1	£200,001 - £250,000	1	–

One director does not participate in the group's non-contributory pension scheme, but has an unfunded defined contribution arrangement under which the group accrued contributions of £332,000 (2008: £279,000) in the year.

The aggregate pension entitlement accrued at the end of the year for all directors, excluding the Chairman, who served on the Board during any part of the year, and the prior year amount for the same individuals, was £499,000 per annum (2008: £405,000 per annum). The increase in accrued pension reflects the combined effect of a further year's service and an increase in pay during the year. In addition, 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 £19,000 per annum (2008: £19,000 per annum). The transfer value of the aggregate increase in accrued entitlement, including temporary pensions, during the year was £723,000.

10 Employees

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

Consolidated	Continuing operations 2009	Continuing operations 2008	Discontinued operations 2009	Discontinued operations 2008	Total 2009	Total 2008
John Lewis	27,200	27,700	–	230	27,200	27,930
Waitrose	39,900	39,000	–	–	39,900	39,000
Other	1,600	1,500	–	–	1,600	1,500
	68,700	68,200	–	230	68,700	68,430

Employment and related costs were as follows:

Consolidated	Continuing operations 2009 £m	Continuing operations 2008 Restated £m	Discontinued operations 2009 £m	Discontinued operations 2008 £m	Total 2009 £m	Total 2008 Restated £m
Staff costs:						
Wages and salaries	908.0	859.7	–	5.1	908.0	864.8
Social security costs	73.7	68.0	–	0.3	73.7	68.3
Partnership bonus	112.2	162.3	–	–	112.2	162.3
Employers' national insurance on Partnership bonus	13.2	18.8	–	–	13.2	18.8
Pension costs	98.2	99.4	–	0.4	98.2	99.8
Partner discounts	24.0	21.8	–	0.1	24.0	21.9
Long leave cost	3.5	0.6	–	–	3.5	0.6
Included above are the following amounts in respect of key management compensation:						
Salaries and short-term benefits	9.4	10.4	–	0.1	9.4	10.5
Pension benefits	4.0	3.9	–	–	4.0	3.9
Termination benefits	–	0.8	–	0.1	–	0.9

Pension costs for the prior year have been restated to exclude the financing element of pension costs, as explained in note 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, private medical insurance and termination payments.

Key management participate in the group's Long Leave scheme, which is open to all employees and provides up to 6 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.

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11 Intangible assets

Consolidated	Computer software Purchased £m	Internally developed £m	Work in progress £m	Total £m
Cost				
At 27 January 2007	23.6	72.5	15.6	111.7
Additions	0.1	-	23.3	23.4
Transfers	5.3	24.8	(30.1)	-
Disposals	(2.4)	(0.1)	-	(2.5)
At 26 January 2008	26.6	97.2	8.8	132.6
Additions	1.0	-	38.2	39.2
Transfers	6.0	11.8	(17.8)	-
Disposals	(2.7)	(2.8)	-	(5.5)
At 31 January 2009	**30.9**	**106.2**	**29.2**	**166.3**
Aggregate amortisation				
At 27 January 2007	15.3	35.1	-	50.4
Charge for the year	4.0	13.7	-	17.7
Disposals	(2.3)	(0.1)	-	(2.4)
At 26 January 2008	17.0	48.7	-	65.7
Charge for the year	5.0	16.0	-	21.0
Disposals	(2.7)	(2.8)	-	(5.5)
At 31 January 2009	**19.3**	**61.9**	**-**	**81.2**
Net book value at 26 January 2008	9.6	48.5	8.8	66.9
Net book value at 31 January 2009	**11.6**	**44.3**	**29.2**	**85.1**

For the year to January 2009 computer systems totalling £17.8m (2008: £30.1m) 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.

12 Property, plant and equipment

Consolidated	Land and buildings £m	Fixtures and fittings £m	Assets in course of construction £m	Total £m
Cost				
At 27 January 2007	2,590.1	1,190.8	145.9	3,926.8
Additions	0.4	4.5	335.0	339.9
Transfers	170.1	169.5	(339.6)	–
Disposals – discontinued operations	(4.3)	(29.1)	–	(33.4)
Disposals – other	(15.1)	(77.2)	–	(92.3)
At 26 January 2008	2,741.2	1,258.5	141.3	4,141.0
Additions	–	3.5	361.5	365.0
Transfers	194.2	165.9	(360.1)	–
Disposals	(30.9)	(69.5)	–	(100.4)
At 31 January 2009	**2,904.5**	**1,358.4**	**142.7**	**4,405.6**
Accumulated depreciation				
At 27 January 2007	345.5	712.1	–	1,057.6
Charges for the year	59.4	109.9	–	169.3
Disposals – discontinued operations	(3.1)	(28.8)	–	(31.9)
Disposals – other	(5.2)	(70.6)	–	(75.8)
At 26 January 2008	396.6	722.6	–	1,119.2
Charges for the year	58.0	123.1	–	181.1
Disposals	(8.3)	(63.2)	–	(71.5)
At 31 January 2009	**446.3**	**782.5**	**–**	**1,228.8**
Net book values at 26 January 2008	2,344.6	535.9	141.3	3,021.8
Net book values at 31 January 2009	**2,458.2**	**575.9**	**142.7**	**3,176.8**

Included above are land and buildings assets held under finance leases with a net book value of £20.8m (2008: £21.4m).

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13 Investment in associate

	Share of net assets £m	Loans £m	Goodwill £m	Total £m
Cost				
At 27 January 2007	(9.6)	20.3	15.1	25.8
Share of post tax losses	(8.0)	–	–	(8.0)
Dilution of interest	8.0	–	–	8.0
At 26 January 2008	(9.6)	20.3	15.1	25.8
Disposal of associate	9.6	(20.3)	(15.1)	(25.8)
At 31 January 2009	–	–	–	–
Amounts written off				
At 26 January 2008	–	(10.7)	(15.1)	(25.8)
Disposal of associate	–	10.7	15.1	25.8
At 31 January 2009	–	–	–	–
Net book value				
At 26 January 2008	(9.6)	9.6	–	–
At 31 January 2009	–	–	–	–

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

	2009 £m	2008 £m
Current assets	–	6.1
Long-term assets	–	20.4
Current liabilities	–	(7.6)
Long-term liabilities	–	(30.4)
Losses not consolidated	–	1.9
Share of net assets of associate	–	(9.6)
Revenue	**61.9**	73.4
Expenses	**(69.6)**	(82.4)
Losses not consolidated	**7.7**	1.9
Share of operating loss of associate	–	(7.1)

On 5 November 2008, the group disposed of its investment in Ocado to the pension fund at its fair value of £127.7m, resulting in a profit on disposal of £127.4m, after deduction of costs associated with the disposal of £0.3m. The disposal proceeds have been treated as a contribution to the pension fund, as explained in note 26.

Ocado's results are included in the group's accounts based on their statutory accounts to 2 December 2007, and management accounts from that date to the date of disposal.

14 Investments

	Subsidiary		Other	
Company	Shares in John Lewis plc £m	Loan to John Lewis plc £m	Shares in John Lewis Partnership Trust Limited £m	Total £m
At 26 January 2008	13.0	16.3	0.1	29.4
Movements	–	15.7	–	15.7
At 31 January 2009	**13.0**	**32.0**	**0.1**	**45.1**

15 Inventories

	2009 £m	2008 £m
Consolidated		
Raw materials	**5.0**	5.0
Work in progress	**0.7**	0.7
Finished goods and goods for resale	**346.6**	339.2
	352.3	344.9

The cost of inventory recognised as an expense by the group in the period was £4,195.4m (2008: £4,007.6m). Provisions against inventories of £3.1m were charged (2008: £0.9m credited) in operating expenses.

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16 Trade and other receivables

Consolidated	2009 £m	2008 £m
Amounts falling due within one year:		
Trade receivables	**45.8**	40.5
Other receivables	**43.4**	33.2
Due from associated undertaking	**–**	3.6
Prepayments	**49.9**	134.4
	139.1	211.7
Amounts falling due after more than one year:		
Prepayments	**44.4**	31.3

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

As of 31 January 2009, trade and other receivables of £1.0m (2008: £0.7m) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2009 £m	2008 £m
At start of period	**(0.7)**	(0.2)
Charged to income statement	**(0.4)**	(0.5)
Utilised	**–**	–
Released	**0.1**	–
At end of period	**(1.0)**	(0.7)

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

As of 31 January 2009, trade and other receivables of £8.5m (2008: £11.3m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

	2009 £m	2008 £m
Up to 3 months past due	**7.3**	**9.2**
3 to 12 months past due	**0.9**	**1.8**
Over 12 months past due	**0.3**	**0.3**
	8.5	**11.3**

17 Cash and cash equivalents

	2009 £m	2008 £m
Cash at bank and in hand	**66.6**	71.9
Short-term investments	**131.0**	49.7
	197.6	121.6

For the year ended 31 January 2009, the effective interest rate on short-term investments was 3.8% (2008: 5.8%) and these deposits had an average maturity of 1 day (2008: 2 days).

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

	2009 £m	2008 £m
Cash and cash equivalents, as above	**197.6**	121.6
Less bank overdrafts	**(75.8)**	(58.4)
Net cash and cash equivalents	**121.8**	63.2

18 Analysis of financial assets

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

Interest rate and currency analysis	Effective interest rate %	Floating rate £m	Non interest bearing £m	Total £m
Sterling	3.8%	187.3	52.5	239.8
Euro	2.4%	0.1	-	0.1
Other	1.4%	0.1	-	0.1
At 31 January 2009		**187.5**	**52.5**	**240.0**
Sterling	5.8%	105.3	49.4	154.7
Euro	2.8%	2.8	-	2.8
Other	4.2%	3.7	-	3.7
At 26 January 2008		111.8	49.4	161.2

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

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19 Borrowings and overdrafts

Consolidated	2009 £m	2008 £m
Current:		
Bank overdraft	**75.8**	58.4
	75.8	58.4
Non-current:		
Medium-term borrowings, 2011	**100.0**	–
6⅞% Bonds, 2012	**300.0**	300.0
Fair value adjustment for hedged risk on bonds	**15.4**	2.3
10½% Bonds, 2014	**100.0**	100.0
5% Cumulative Preference Stock	**3.7**	3.7
7½% Cumulative Preference Stock	**0.5**	0.5
SIP Shares	**28.2**	13.8
	547.8	420.3

Company	2009 £m	2008 £m
Non-current:		
5% Cumulative Preference Stock	**3.7**	3.7
7½% Cumulative Preference Stock	**0.5**	0.5
SIP Shares	**28.2**	13.8
	32.4	18.0

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

Unless the preference dividends are in arrears, the 5% and 7½% Cumulative Preference Shares only have voting rights in relation to a variation of their class rights. The amounts receivable in a winding up would be limited to the amounts paid up, for the 5% Cumulative Preference Shares, and to one and a half times the amounts paid up for the 7½% Cumulative Preference Shares.

SIP shares are issued as part of the BonusSave scheme. The SIP shares that are allocated to Partners are entitled to a dividend, the amount of which is determined from year to year by the Partnership Board. The amounts receivable in a winding up would be limited to the amounts paid on the SIP shares.

20 Trade and other payables

Consolidated	2009 £m	2008 £m
Current:		
Trade payables	**318.9**	342.5
Amounts owed to associated undertaking	**–**	4.6
Other payables	**89.8**	98.1
Other taxation and social security	**86.3**	120.4
Accruals	**87.1**	93.4
Deferred income	**8.7**	4.9
Partnership bonus	**112.9**	163.5
	703.7	827.4
Non-current:		
Accruals	**1.5**	1.8
Deferred income	**46.6**	38.3
	48.1	40.1

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

21 Finance lease liabilities

	2009 £m	2008 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	**2.2**	2.2
Later than one year but not more than five	**8.4**	8.6
More than five years	**52.8**	54.9
	63.4	65.7
Future finance charge on finance leases	**(33.6)**	(34.9)
Present value of finance lease liabilities	**29.8**	30.8
Of which:		
Current	**0.6**	0.7
Non-current	**29.2**	30.1

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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22 Provisions

Consolidated	Long leave £m	Service guarantee costs £m	Insurance £m	Other £m	Total £m
At 26 January 2008	67.5	38.7	15.0	30.8	152.0
Charged to income statement	3.5	18.2	5.3	12.8	39.8
Utilised	(5.1)	(11.6)	(2.9)	(7.7)	(27.3)
At 31 January 2009	**65.9**	**45.3**	**17.4**	**35.9**	**164.5**
Of which:					
Current	23.7	14.3	4.0	28.7	70.7
Non-current	42.2	31.0	13.4	7.2	93.8

The Partnership has a Long Leave scheme, open to all employees, that provides up to 6 months' paid leave after 25 years' service. There is no proportional entitlement for shorter periods of service. The provision for the liabilities under 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), with the exception of the discount rate, where a rate appropriate to the shorter duration of the long leave liability is used, so as to accrue the cost over employees' service periods.

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

Provisions for insurance claims are in respect of the group's employer's, public and vehicle third party liability insurances and extended warranty products. Liabilities have been assessed on an actuarial basis.

Other provisions include reorganisation costs, accrued holiday pay, customer refunds 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.

23 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2008: 28%).

The movement on the deferred tax account is shown below:

Consolidated	2009 £m	2008 £m
Opening liability	**45.1**	41.7
Charged to income statement	**11.7**	29.7
Credited to equity	**(78.5)**	(26.3)
Closing (asset)/liability	**(21.7)**	45.1

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.

23 Deferred tax (continued)

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	Capital gains tax on land and buildings £m	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Rollover gains £m	Other £m	Total £m
At 27 January 2007	–	164.0	23.3	24.2	1.3	212.8
Charged/(credited) to income statement	–	2.7	(1.5)	(0.3)	0.1	1.0
At 26 January 2008	**–**	**166.7**	**21.8**	**23.9**	**1.4**	**213.8**
Charged/(credited) to income statement	0.2	2.6	(15.5)	0.2	(0.2)	(12.7)
At 31 January 2009	**0.2**	**169.3**	**6.3**	**24.1**	**1.2**	**201.1**

Deferred tax assets	Capital gains tax on land and buildings £m	Pensions and provisions £m	Capital losses £m	Total £m
At 27 January 2007	(15.1)	(154.7)	(1.3)	(171.1)
Charged to income statement	0.9	26.7	1.1	28.7
Credited to equity	–	(26.3)	–	(26.3)
At 26 January 2008	**(14.2)**	**(154.3)**	**(0.2)**	**(168.7)**
Charged to income statement	14.2	10.0	0.2	24.4
Credited to equity	–	(78.5)	–	(78.5)
At 31 January 2009	**–**	**(222.8)**	**–**	**(222.8)**

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. There were no unrecognised deferred tax assets in respect of losses for the year ended 31 January 2009 (2008: £23.7m).

All of the deferred tax liabilities were available for offset against deferred tax assets and hence the net deferred tax asset at 31 January 2009 was £21.7m (2008: liability of £45.1m). The net deferred tax asset is recoverable after more than one year.

The deferred income tax credited to equity during the year is as follows:

	2009 £m	2008 £m
Deferred tax credited on pension fund provision	**(78.5)**	(26.3)

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24 Management of financial risks

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

Liquidity risk

Liquidity requirements are managed in line with short and long-term cash flow forecasts and reviewed against the group's debt portfolio and maturity profile. At the year end the group had committed revolving borrowings facilities of £750m (2008: £430m), £230m of which is available to February 2010 and £270m to September 2013. Up to a further £250m was available under a bridge facility that was entered into during the year to finance the acquisition of 13 Somerfield supermarkets. In addition to these facilities, the group has bonds totalling £400m, £300m of which mature in 2012 and £100m in 2014 and a term loan of £100m maturing in March 2011. The bonds are not subject to repricing, and their interest rates and maturity profiles are set out in note 27.

In March 2009, John Lewis plc issued a £275m Sterling bond with a coupon of 8.375%, repayable in 2019. The proceeds were received on 8 April 2009, on which date the £250m bridge facility in place at 31 January 2009 was cancelled, in accordance with its terms. The group's total committed sources of funds at the date of signing these accounts are £1,275m.

The group's bank borrowing facilities each contain one financial covenant, based on either the level of tangible net worth or fixed charge cover. The minimum covenants that apply are that tangible net worth shall be at least equal to financial indebtedness and that consolidated EBITDAR to rent adjusted total net interest costs shall not be less than 2.5. Throughout the year the group maintained comfortable headroom against these covenants and is expected to do so into the foreseeable future.

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

	Due within 1 year £m	Due between 1 and 2 years £m	Due 2 years and beyond £m
Non-derivative financial liabilities			
Borrowings, excluding finance lease liabilities	–	–	(500.0)
Interest payments on borrowings	(31.6)	(32.4)	(50.8)
Finance lease liabilities	(2.2)	(2.2)	(59.0)
Trade and other payables	(695.0)	(1.5)	–
Derivative financial liabilities			
Derivative contracts – receipts	56.7	9.6	9.6
Derivative contracts – payments	(44.8)	(4.2)	(5.2)
At 31 January 2009	**(716.9)**	**(30.7)**	**(605.4)**
Non-derivative financial liabilities			
Borrowings, excluding finance lease liabilities	–	–	(400.0)
Interest payments on borrowings	(29.6)	(29.6)	(80.3)
Finance lease liabilities	(2.2)	(2.2)	(61.3)
Trade and other payables	(822.5)	(1.8)	–
Derivative financial liabilities			
Derivative contracts – receipts	19.2	3.2	6.4
Derivative contracts – payments	(18.5)	(2.9)	(5.8)
At 26 January 2008	(853.6)	(33.3)	(541.0)

24 Management of financial risks (continued)

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

For the purposes of this note, the foreign currency element of forward foreign currency contracts is translated at the spot rate prevailing at the year end.

Interest rate risk
In order to manage the risk of interest rate fluctuations the group targets a ratio of fixed and floating rate debt in line with the Board approved treasury policy. An analysis of the group's financial liabilities is detailed in note 27. Exposures to interest rate fluctuations are managed using interest rate swaps. Interest rate swaps have been used to convert £150.0m (2008: £50.0m) of fixed rate bond debt to floating rate. These swaps have a maturity and payment profile which matches the underlying 6.375% 2012 bond and have been accounted for as fair value hedges under IAS 39. The movement in the fair value of the swaps is £13.8m and the movement in the fair value of the underlying hedged item attributable to the hedged risk is £13.8m.

Foreign currency risk
The group uses derivatives to manage exposures to movements in exchange rates arising from transactions with foreign suppliers. Foreign currency exposures are hedged primarily using forward foreign exchange contracts covering up to 100% of forecast exposures on a rolling basis. Forward foreign exchange contracts used to hedge forecast currency requirements are designated as cash flow hedges with fair value movements recognised in equity. Derivatives that were designated as cash flow hedges during the year were fully effective. At the balance sheet date, forward currency contracts of £41.3m (2008: £12.7m) and currency options of £4.7m (2008: £7.5m) had been entered into to hedge purchases in foreign currencies. At the year end £7.3m (2008: £7.2m) of a total of £7.9m (2008: £7.4m) of liabilities denominated in foreign currency were covered in this way.

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

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

	2009 £m	2008 £m
Trade and other receivables	**89.2**	77.3
Cash and cash equivalents	**197.6**	121.6
	286.8	198.9

Notes to the accounts

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24 Management of financial risks (continued)

Capital risk

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

Energy risk

The group operates risk management processes for the group's energy costs associated with its activities. The group's energy policy is set out and reviewed by the energy committee which meets regularly to review pricing exposure to electricity and gas consumption and determines strategy for forward purchasing and hedging of energy costs.

Sensitivity analysis

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

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

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

The following assumptions have been made in calculating the sensitivity analysis:

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

	2009		2008	
	Income statement +/- £m	Equity +/- £m	Income statement +/- £m	Equity +/- £m
UK interest rates +/- 5%	**11.0**	**–**	5.2	–
US dollar exchange rate +/- 15%	**–**	**2.3**	0.3	–
Euro exchange rate +/- 10%	**–**	**2.3**	0.2	0.8
Hong Kong dollar exchange rate +/- 15%	**–**	**0.2**	–	–

25 Financial instruments

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

Details of the group's financial instruments, used to manage the financial risks as identified in note 24, are as follows:

Fair value of derivative financial instruments	2009 Assets £m	2009 Liabilities £m	2008 Assets £m	2008 Liabilities £m
Interest rate swap – fair value hedge	**15.4**	–	2.3	–
Currency derivatives	**8.0**	–	1.4	–
	23.4	–	3.7	–

Fair value gains/(losses) on derivative financial instruments	2009 £m	2008 £m
Gain/(loss) recorded in income statement	**(0.6)**	1.4

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

	2009 £m	2008 £m
Bonds	**409.4**	428.0
Preference stock	**3.2**	3.7

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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 2007 using the projected unit method. The assumptions which have the most significant effect on the results of the valuation are the mortality assumption and the relative rate of return on the investments of the fund compared with increases in pay and pensions. In respect of mortality, the assumptions reflected the results of a study of mortality of scheme members, which led to the adoption of the "00" series standard tables, together with medium cohort improvement factors with a year of use in 2007, adjusted by half a year. The resultant life expectancies are an average of 26.0 years for a 60 year old man, and 28.4 years for a 60 year old woman. In respect of investment returns, it was assumed that, on average, the annual return on investments would exceed increases in pay and pensions by 2.5% and 3.5% respectively. The market value of the assets of the fund as at 31 March 2007 was £1,843m. The actuarial valuation of these assets showed that they were sufficient to cover 97% of the benefits which had accrued to members.

The actuaries have recommended a normal future annual contribution rate of 12.8% of gross taxable pay of members, together with an additional £8.1m per year in respect of the past-service deficit arising from the actuarial valuation. The next triennial actuarial valuation of the fund will take place as at 31 March 2010.

As explained in note 9, there is also a senior pension scheme which provides additional benefits to certain members of senior management. The actuaries have recommended a contribution of £1.4m for the year to 31 January 2010.

The contributions expected to be paid to the pension schemes during the year to 30 January 2010 amount to £91m.

Pension commitments have been calculated based on the most recent actuarial valuations, as at 31 March 2007, which have been updated by the actuaries to assess the assets and liabilities of the schemes as at 31 January 2009.

Scheme assets are stated at market values at 31 January 2009. The following financial assumptions have been used:

	2009	2008
Future price inflation	**3.50%**	3.45%
Discount rate	**6.90%**	6.30%
Expected return on assets	**8.20%**	7.60%
Increases in earnings	**4.50%**	4.45%
Increases in pensions	**3.50%**	3.45%

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

The financial assumption which has the most significant effect on the valuation of scheme liabilities and the current service cost is the real discount rate, i.e. the discount rate less the rate of future price inflation. A movement in the real discount rate of 0.10% would have the effect on increasing or decreasing the IAS 19 defined benefit obligation by circa £40m, and would increase or decrease the current service cost by circa £2m.

26 Retirement benefit obligations (continued)

The post-retirement mortality assumptions used in valuing the pensions liabilities were based on the "00" series standard tables for all retirements, together with medium cohort improvement factors with a year of use of 2007, adjusted by half a year to reflect the outcome of a mortality study. It is assumed that younger members will live longer in retirement than older members. This reflects the expectation that mortality rates will continue to fall over time.

The average life expectancies assumed were as follows:

	2009 Men	2009 Women	2008 Men	2008 Women
Average life expectancy (in years) for a 60-year-old	**26.0**	**28.4**	26.0	28.4
Average life expectancy (in years) at age 60, for a 40-year-old	**27.3**	**29.5**	27.3	29.5

Amounts recognised in the balance sheet	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Defined benefit obligation for funded arrangements	**(2,334.0)**	(2,397.0)	(2,237.0)	(2,096.0)	(1,757.0)
Defined benefit obligation for unfunded arrangements	**(18.0)**	(16.0)	(14.0)	(13.0)	(9.0)
Total defined benefit obligation	**(2,352.0)**	(2,413.0)	(2,251.0)	(2,109.0)	(1,766.0)
Total value of assets	**1,622.0**	1,859.0	1,810.0	1,630.0	1,281.0
Defined benefit liability at end of year	**(730.0)**	(554.0)	(441.0)	(479.0)	(485.0)

Amounts recognised in the income statement	Year ended 31 January 2009 £m	Year ended 26 January 2008 £m
Current service cost	**96.1**	98.2
Contribution expense	**0.3**	-
Administrative costs	**1.8**	1.6
Operating cost	**98.2**	99.8
Interest cost on liabilities	**149.9**	117.5
Expected return on assets	**(144.5)**	(133.7)
Finance charges/(income)	**5.4**	(16.2)
Total pension charge	**103.6**	83.6

Notes to the accounts

continued

26 Retirement benefit obligations (continued)

Amounts recognised in equity	Year ended 31 January 2009 £m	Year ended 26 January 2008 £m
Actuarial loss on assets	**514.5**	110.3
Actuarial (gain)/loss on defined benefit obligation	**(234.4)**	13.1
Total loss recognised in equity	**280.1**	123.4
Cumulative loss recognised in equity	**409.1**	129.0

Reconciliation of defined benefit liability	2009 £m	2008 £m
Defined benefit liability at beginning of year	**(554.0)**	(441.0)
Pension expense	**(101.5)**	(82.0)
Contributions*	**205.6**	92.4
Total loss recognised in equity	**(280.1)**	(123.4)
Defined benefit liability at end of year	**(730.0)**	(554.0)

Reconciliation of defined benefit obligation	2009 £m	2008 £m
Defined benefit obligation at the beginning of year	**2,413.0**	2,251.0
Current service cost	**96.1**	98.2
Interest on pension liabilities	**149.9**	117.5
Actuarial (gains)/losses	**(234.4)**	13.1
Benefits paid	**(72.6)**	(66.8)
Defined benefit obligation at the end of year	**2,352.0**	2,413.0

Reconciliation of value of assets	2009 £m	2008 £m
Value of assets at the beginning of year	**1,859.0**	1,810.0
Expected return on assets	**144.5**	133.7
Actuarial losses	**(514.5)**	(110.3)
Benefits paid	**(72.6)**	(66.8)
Contributions*	**205.6**	92.4
Value of assets at the end of year	**1,622.0**	1,859.0

* £127.7m of contributions were received in respect of the group's disposal to the pension fund of its investment in Ocado, as explained in note 13.

26 Retirement benefit obligations (continued)

Analysis of assets	2009 %	2009 £m	2008 %	2008 £m
Equities*	**73**	**1,173.9**	64	1,201.0
Bonds	**15**	**250.9**	20	372.0
Properties	**11**	**172.9**	13	234.0
Other	**1**	**24.3**	3	52.0
		1,622.0		1,859.0

* Equities include the investment held in Ocado.

Actual return on assets	2009 £m	2008 £m
Expected return on assets	**144.5**	133.7
Actuarial losses	**(514.5)**	(110.3)
Actual return/(loss) on assets	**(370.0)**	23.4

History of experience of gains and losses	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Loss/(gain) on assets	**514.5**	110.3	(43.7)	(233.8)	(91.5)
% of assets at the end of the period	**32%**	6%	(2%)	(14%)	7%
Experience (gain)/loss on defined benefit obligation	**(17.4)**	60.6	1.5	10.0	72.0
% of defined benefit obligation at the end of the period	**(1%)**	3%	0%	0%	4%

Contributions will be as follows until the next actuarial valuation expected to be at 31 March 2010:

The John Lewis Partnership Trust for Pensions – 12.8% of scheme members' gross taxable pay (excluding Partnership bonus), together with £8.1m per year in respect of the past-service deficit.

For the John Lewis Partnership Senior Pension Scheme – £1.3m, or such other amount as certified by the scheme actuary based upon an analysis of the membership data at the start of the scheme year, plus an additional amount of £0.1m in respect of the past-service deficit.

27 Analysis of financial liabilities

The currency and interest rate exposure of the group's financial liabilities, after taking account of £150m (2008: £50m) of swaps from fixed 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 31 January 2009	**282.4**	**371.0**	**164.5**	**817.9**
At 26 January 2008	368.0	141.5	152.0	661.5

Notes to the accounts

continued

27 Analysis of financial liabilities (continued)

Maturity of financial liabilities	2009 Effective interest rate	2009 £m	2008 Effective interest rate	2008 £m
Repayable within one year				
Bank overdrafts and other borrowing	**3.8%**	**75.8**	5.8%	58.4
Provisions		**70.7**		54.3
Property finance leases	**7.6%**	**0.6**	7.6%	0.7
		147.1		113.4
Repayable between one and two years				
Provisions		**23.4**		26.1
Property finance leases	**7.6%**	**1.2**	7.6%	1.1
		24.6		27.2
Repayable between two and five years				
Provisions		**42.1**		33.1
Property finance leases	**7.6%**	**2.7**	7.6%	2.0
Bonds	**6.4%**	**300.0**	6.4%	300.0
Loans	**5.2%**	**100.0**		–
		444.8		335.1
Repayable in more than five years				
Provisions		**28.3**		38.5
Property finance leases	**7.6%**	**25.3**	7.6%	27.0
Bonds	**10.5%**	**100.0**	10.5%	100.0
Fair value adjustment for hedged risk on bonds		**15.4**		2.3
Preference stock	**5.3%**	**4.2**	5.3%	4.2
SIP shares		**28.2**	4.9%	13.8
		201.4		185.8
		817.9		661.5

28 Share capital

	2009 Authorised £m	2009 Issued and fully paid £m	2008 Authorised £m	2008 Issued and fully paid £m
Equity				
Deferred Ordinary Shares				
612,000 of £1 each	**0.6**	**0.6**	0.6	0.6
	0.6	**0.6**	0.6	0.6

The Deferred Ordinary Shares rank in all respects as equity shares except that each share has 1,000 votes in a vote taken on a poll.

The Deferred Ordinary Shares are held by John Lewis Partnership Trust Limited, with whom ultimate control rests.

29 Reconciliation of changes in equity

Consolidated	Share capital £m	Capital redemption reserve £m	Capital reserve £m	Hedging reserve £m	Retained earnings £m	Minority interests £m	Total equity £m
Balance at 27 January 2007	0.6	5.0	1.4	(0.2)	1,642.7	0.4	1,649.9
Profit for the year	–	–	–	–	130.2	–	130.2
Actuarial loss on defined benefit pension schemes	–	–	–	–	(123.4)	–	(123.4)
Tax on above items recognised in equity	–	–	–	–	26.3	–	26.3
Fair value gains on cash flow hedges	–	–	–	1.1	–	–	1.1
– Transfers to property, plant and equipment	–	–	–	(0.2)	–	–	(0.2)
Balance at 26 January 2008	0.6	5.0	1.4	0.7	1,675.8	0.4	1,683.9
Profit for the year	–	–	–	–	233.5	–	233.5
Actuarial loss on defined benefit pension schemes	–	–	–	–	(280.1)	–	(280.1)
Tax on above items recognised in equity	–	–	–	–	78.5	–	78.5
Fair value gains on cash flow hedges	–	–	–	11.6	–	–	11.6
– Transfers to property, plant and equipment	–	–	–	(0.7)	–	–	(0.7)
– Transfers to inventories	–	–	–	(3.9)	–	–	(3.9)
Balance at 31 January 2009	**0.6**	**5.0**	**1.4**	**7.7**	**1,707.7**	**0.4**	**1,722.8**

Retained earnings comprise £1,281.1m (2008: £1,242.1m) of distributable and £426.6m (2008: £433.7m) of non distributable reserves.

Company	Share capital £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 27 January 2007	0.6	5.0	4.9	10.5
Profit for the year	–	–	0.2	0.2
Balance at 26 January 2008	0.6	5.0	5.1	10.7
Profit for the year	–	–	0.4	0.4
Balance at 31 January 2009	**0.6**	**5.0**	**5.5**	**11.1**

Notes to the accounts

continued

30 Reconciliation of profit before tax to cash generated from operations

Consolidated	Year to 31 January 2009 £m	Year to 26 January 2008 Restated £m
Profit before tax	**281.6**	198.7
Amortisation of intangible assets	**21.0**	17.7
Depreciation	**181.1**	169.2
Net finance costs	**43.9**	15.1
Partnership bonus provision	**125.4**	181.1
Profit on disposal of associate	**(127.4)**	-
Loss/(profit) on disposal of property, plant and equipment	**0.6**	(0.2)
(Increase)/decrease in inventories	**(7.4)**	1.6
Decrease/(increase) in receivables	**75.7**	(91.8)
(Decrease)/increase in payables	**(40.6)**	44.1
Increase/(decrease) in retirement benefit obligations	**18.2**	5.8
Increase in provisions	**14.0**	5.0
Cash generated from operations	**586.1**	546.3

Prior year figures have been restated in respect of the financing element of pension costs, as explained in note 1.

31 Analysis of net debt

	26 January 2008 £m	Adjustment[1] £m	26 January 2008 Restated £m	Cash flow £m	Other non-cash movements £m	31 January 2009 £m
Current assets						
Cash and cash equivalents	121.6	-	121.6	76.0	-	**197.6**
Derivative financial instruments	-	3.7	3.7	-	19.7	**23.4**
	121.6	3.7	125.3	76.0	19.7	**221.0**
Current liabilities						
Bank overdrafts	(58.4)	-	(58.4)	(17.4)	-	**(75.8)**
Finance leases	-	(0.7)	(0.7)	0.1	-	**(0.6)**
	(58.4)	(0.7)	(59.1)	(17.3)	-	**(76.4)**
Non-current liabilities						
Borrowings	(418.0)	-	(418.0)	(114.4)	-	**(532.4)**
Fair value adjustment for hedged risk on bonds	(2.3)	-	(2.3)	-	(13.1)	**(15.4)**
Finance leases	-	(30.1)	(30.1)	0.9	-	**(29.2)**
	(420.3)	(30.1)	(450.4)	(113.5)	(13.1)	**(577.0)**
Total net debt	(357.1)	(27.1)	(384.2)	(54.8)	6.6	**(432.4)**

[1]The measurement of net debt has been revised to include derivative financial instruments assets and finance lease payables.

31 Analysis of net debt (continued)

Reconciliation of net cash flow to net debt

Consolidated	Year to 31 January 2009 £m	Year to 26 January 2008 Restated £m
Increase/(decrease) in cash in the year	**58.6**	(132.9)
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	**(113.4)**	87.0
Movement in debt for the year	**(54.8)**	(45.9)
Opening net debt	**(384.2)**	(309.6)
Adjustment for derivative financial instruments asset and finance lease payments[1]	**–**	(31.2)
Adjusted opening net debt	**(384.2)**	(340.8)
Non-cash movements	**6.6**	2.5
Closing net debt	**(432.4)**	(384.2)

[1]The measurement of net debt has been revised to include derivative financial instruments assets and finance lease payables.

32 Commitments

At 31 January 2009 contracts had been entered into for future capital expenditure of £49.6m (2008: £28.0m).

John Lewis plc continues to provide lease guarantees in favour of the group's former associate company, Ocado Limited, of £6.8m (2008: £6.8m).

33 Operating lease commitments

Future aggregate minimum lease payments under non-cancellable operating leases, payable:	2009 Land and buildings £m	2009 Plant and machinery £m	2008 Land and buildings £m	2008 Plant and machinery £m
Within one year	**75.5**	**0.4**	70.7	0.4
Later than one year and less than five years	**289.6**	**0.4**	262.5	0.5
After five years	**1,462.9**	**–**	1,401.5	–

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years comprise the following:	2009 Land and buildings £m	2008 Land and buildings £m
Later than five years and less than ten years	**301.9**	276.9
Later than ten years and less than twenty years	**406.2**	379.2
Later than twenty years and less than forty years	**221.5**	225.5
Later than forty years and less than eighty years	**224.2**	214.7
After eighty years	**309.1**	305.2
	1,462.9	1,401.5

Total future sub-lease payments receivable relating to the above operating leases amounted to £18.8m (2008: £20.4m).

Notes to the accounts

continued

34 Related party transactions

On 5 November 2008 the group disposed of its interest in its associate company, Ocado. During the period until that date the group entered into transactions with Ocado for the supply of goods totalling £37.1m (2008: £42.3m) and provision of distribution and other services totalling £1.0m (2008: £1.3m). There are no balances held with related parties as at 31 January 2009. At 26 January 2008, included within receivables is a balance of £3.6m due from Ocado in respect of the transactions for that year and included within payables is a balance of £4.6m due to Ocado in connection with the supply of goods.

Key management compensation has been disclosed in note 10.

35 Post balance sheet events

Acquisition of stores
In November 2008, the group entered into a contract with the Co-operative Group Limited and Somerfield Limited to acquire 13 supermarkets. Title to the stores will pass to the group on a phased basis from April 2009 to June 2009. The total cost of these stores, including conversion costs, taxes and fees to be paid by the Partnership, is expected to be £145m, of which a deposit of £10.5m was paid in November 2008.

Bond issue
In March 2009, John Lewis plc issued a £275m Sterling bond at a coupon of 8.375%, repayable in 2019. The proceeds were received on 8 April 2009, on which date the £250m bridge facility in place at 31 January 2009 was cancelled, in accordance with its terms. The group's total committed sources of funds at the date of signing these accounts are £1,275m, as explained in note 24 to the accounts.

36 Subsidiary and associated undertakings

Principal subsidiary companies as at 31 January 2009 were as follows:

John Lewis plc *(Department Store retailing)*
Ordinary shares – 100%
5% First Cumulative Preference Stock – 83.3%
7% Cumulative Preference Stock – 75.6%

Subsidiaries of John Lewis plc:
Findlater Mackie Todd & Co. Limited *(Wholesale including export; subsidiary of Waitrose Limited)*
Herbert Parkinson Limited *(Weaving and making up)*
JLP Holdings BV *(Investment holding company; incorporated in Holland; subsidiary of JLP Victoria Limited)*
JLP Insurance Limited *(Insurance; incorporated and operating in Guernsey)*
JLP Victoria Limited *(Investment holding company)*
John Lewis Car Finance Limited *(Car finance)*
John Lewis Properties plc *(Property holding company)*
John Lewis Transport Limited *(Vehicle leasing)*
Waitrose Limited *(Food retailing)*

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.

Statement of directors' responsibilities for the annual report and the financial statements

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

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

In preparing those financial statements, the directors are required to:

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

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

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

Each of the directors, whose names and functions are listed in the directors and advisers, confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the group; and
- the business review includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Charlie Mayfield
Marisa Cassoni

Directors

20 April 2009

Independent auditors' report to the members of John Lewis Partnership plc

We have audited the group and parent company financial statements (the "financial statements") of John Lewis Partnership plc for the year ended 31 January 2009 which comprise the consolidated income statement, the consolidated and company statement of recognised income and expense, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985, and, as regards the group financial statements, Article 4 of the IAS regulation. We also report to you whether, in our opinion, the directors' report is consistent with the financial statements. The information given in the directors' report includes that specific information presented in the business review that is cross referred from the principal activity and business review section of the directors' report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report, the chairman's statement, the business review and all of the other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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

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

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

Opinion
In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 January 2009 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 31 January 2009;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
and Registered Auditors

1 Embankment Place
London WC2N 6RH
20 April 2009

Retail branches

Department Stores

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

Waitrose Supermarkets

London

Balham	Bromley	Enfield	Kingston	South Harrow	Wandsworth
Barbican	Bromley South	Finchley	Marylebone	South Woodford	West Ealing
Barnet	Canary Wharf	Fulham	Mill Hill	Staines	Westfield
Bayswater	Chelsea	Gloucester Road	New Malden	St Katharine Docks	Worcester Park
Beckenham	Chiswick	Green Street Green	Putney	Surbiton	Whetstone
Belgravia	Clapham	Harrow Weald	Richmond	Swiss Cottage	
Bloomsbury	East Sheen	Holloway Road	Ruislip	Temple Fortune	
Brent Cross	Edgware Road	Kensington	Sanderstead	Twickenham	

Southern England

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

Midlands, East Anglia, Wales, Northern England and Scotland

Abergavenny	Droitwich	Hexham	Newark	Rushden	Willerby
Barry	Ely	Huntingdon	Newmarket	Saffron Walden	Wilmslow
Blaby	Evington	Kenilworth	Newport	Sandbach	Wolverhampton
Bury St Edmunds	Formby	Kingsthorpe	Norwich	Sheffield	Wymondham
Buxton	Four Oaks	Lichfield	Nottingham	St Ives	
Cambridge	Great Malvern	Lincoln	Otley	St Neots	
Cheadle Hulme	Hall Green	Monmouth	Parkstone	Stourbridge	
Comely Bank	Harborne	Morningside	Peterborough	Sudbury	
Daventry	Harrogate	Newcastle	Pontprennau	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*
Herbert Parkinson, Darwen *Weaving and making up*
Leckford Estate, Stockbridge *Farming*

Notice of AGM

Notice is hereby given that the eightieth annual general meeting of the company will be held at 12.20 pm on 16 July 2009 at 171 Victoria Street, London SW1E 5NN:

- To receive the directors' report and accounts for the year 2008/09.
- To consider the re-election of retiring directors.
- To consider the re-appointment of the auditors.
- To consider the remuneration of the auditors.
- To consider the following, which will be proposed as an Ordinary Resolution.

That pursuant to the Company's Articles of Association;

(a) The Company be and is hereby authorised to purchase by way of market purchase on a recognised stock exchange;

(i) up to 3,696,995 in nominal amount of 5 per cent Cumulative Preference Stock ('the 5 per cent Stock') in the Company at a minimum price of 60p and a maximum price of 95p per £1 nominal of the 5 per cent Stock; and

(ii) up to £500,000 in nominal amount of 7½ per cent Cumulative Preference Stock ('the 7½ per cent Stock') in the Company at a minimum price of 80p and a maximum price of 125p per £1 nominal of the 7½ per cent Stock; and

(b) this authority shall expire at the close of the annual general meeting of the Company held in 2009 or 16 October 2010 whichever is earlier.

By Order of the Board
Margaret Casely-Hayford
Secretary
171 Victoria Street, London SW1E 5NN
29 April 2009

The report and accounts are sent to all members, but only the members holding Deferred Ordinary Shares are entitled to attend and vote at this meeting.

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.

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