

Company number: 99405

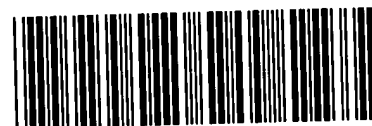
## WAITROSE LIMITED

Financial statements for the year ended 26 January 2019

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## **WAITROSE LIMITED**

### **Company information**

|                      |  |
|----------------------|--|
| Directors:           | Sir Charlie Mayfield (Chairman)<br>Patrick Lewis<br>Rob Collins<br>Tom Athron (resigned on 27 April 2018)<br>Loraine Woodhouse (resigned on 26 October 2018) |
| Company Secretary:   | Peter Simpson  |
| Registered Office:   | 171 Victoria Street, London, SW1E 5NN  |
| Company Number:      | 99405  |
| Independent Auditor: | KPMG LLP   |

# WAITROSE LIMITED

## Strategic report for the year ended 26 January 2019

### Review of Performance

#### *Key performance indicators*

|  | 2019   | 2018 |
|--|--------|------|
| Growth in gross sales – total  | 1.2%   | 1.8% |
| Growth in gross sales – like for like (excludes fuel sales)          | 1.3%   | 0.9% |
| Company profit per average FTE (£000s) <sup>1</sup>                  | 5.7    | 4.7  |
| (Decline)/growth in number of 'High spending' customers <sup>2</sup> | (1.5)% | 1.2% |
| Net promoter score   | +22    | +29  |

#### *Business review*

Waitrose achieved gross sales of £6.7bn, up 1.2%, with like-for-like sales, excluding fuel, up by 1.3%. Like-for-like sales growth declined in the second half, from 2.2% in H1 to (0.1)% in H2. This decline reflected a reduction in promotional participation and simplifying the offer to our customers. Operating profit before exceptional items and Partnership Bonus was £107.5m, up 14.2%, as our margin and control of costs improved.

Our strategy is to offer something meaningfully different to our customers, based on our core strengths of delicious high quality products and truly outstanding customer service. We will make our difference count for more with a clear focus on innovation, even better quality and a unique customer service experience delivered by our expert and committed Partners. We have made significant progress this year thanks to the skill, dedication and hard work of our Partners.

Own-brand products now account for more than half of our total sales, and we have plans to extend this further in the coming year. We also developed our health and wellbeing offer in products and services with our Good Health marque added to products across our own-brand ranges. Over the year we have launched 48 new own-label vegan and vegetarian products including pizzas, ready meals, snacks and ingredients, and introduced 18 new gluten-free and four lactose-free products to our own-label range. We also helped customers move towards healthier, lighter evening meals with our Beautifully Simple range of ingredients and revamped Cooks' Ingredients, featuring innovative items such as black limes, zhough and kimchi paste.

We completed 24 range reviews in the financial year, from breakfast cereals and sliced bread to meat and fish service counters. The reviews have ensured our ranges are absolutely right for customers, removing duplication and differentiating our ranges from those of our competitors. As a result, we have seen increased sales, profit, availability and own label share in these ranges, as well as improved branch efficiency.

We launched a new Waitrose & Partners Health magazine and now have over 100 trained Healthy Eating Specialists to help customers make healthier choices on the shop floor. Alongside these specialists we also have food ambassadors: Partners who not only love food but love talking to customers about food and have an interest in issues surrounding food, such as packaging, sourcing and animal welfare. Being a food ambassador is not about being a Michelin star chef, it is about everyone having an interest in, and knowledge of our food.

<sup>1</sup> Restated to include above market rewards and to be after tax. For more details see page 34 of the Partnership's Annual Report and Accounts.

<sup>2</sup> As time passes the level of data available on customer spend increases; primarily returns data and the ability to link spend to a specific customer. The historical KPIs are therefore restated each year to reflect the most recent data available.

# WAITROSE LIMITED

## Strategic report for the year ended 26 January 2019 (continued)

### *Business review(continued)*

We have continued to add to the service we offer our customers. This year Service Ambassadors were trialled, placing Partners at the front of stores to give a warm personal welcome to our customers and set the tone for fantastic service. Improvements in stock availability, Partner service, quality, and ease and speed of the checkout process, significantly improved customer satisfaction year on year. In 2018 Waitrose & Partners was named Retailer of the Year at the Institute of Grocery Distribution (IGD) Awards in a category voted for by shoppers. Significant investment in waitrose.com, new customer smartphone apps, and customer delivery services has led to a strong increase in online grocery sales of 14%, well ahead of the market, and increased online customer satisfaction.

### *Outlook 2019/20*

We expect trading to be volatile in 2019/20, with continuing economic uncertainty and no let up in competitive intensity. We therefore anticipate further pressure on profits. However, Waitrose Limited ('the Company') has a clear strategy which focuses on continued profit improvement and driving the delivery of strategic initiatives. Together these will strengthen our competitive position in 2019/20.

### **Principal risks and uncertainties**

The Company has established a risk committee which evaluates the Company's risk appetite. The principal risks and uncertainties facing the Company are in line with John Lewis Partnership plc ('the Partnership'). These risks are:

- Competitive customer proposition
- Operating model strain
- Information security
- Pension obligations
- Change delivery
- External environment
- Ownership model strain
- Brexit

Details of key mitigations to these principal risks and uncertainties are presented on pages 38 to 42 of the Partnership's Annual Report and Accounts.

Approved by the Directors and signed on behalf of the Board



Director/Company Secretary

11 April 2019 PETER SIMPSON

# WAITROSE LIMITED

## Directors' report for the year ended 26 January 2019

The Directors present their report and the audited financial statements for the year ended 26 January 2019.

### Principal activities

Waitrose Limited is incorporated and registered in England and Wales. Waitrose Limited operates supermarkets and convenience stores, including shops which operate under licence in the Middle East, online (waitrose.com) and Leckford Estate (the Waitrose Farm); there are also business to business contracts in the UK and abroad. Waitrose Limited is a wholly owned subsidiary of John Lewis plc, within the John Lewis Partnership. A review of Waitrose results and activities is given within the Strategic report.

### Directors and Company Secretary

The Directors and Company Secretary, who held office during the year, and up to the date of signing the financial statements unless otherwise stated, were as follows:

Sir Charlie Mayfield (Chairman)

Patrick Lewis

Rob Collins

Tom Athron (resigned 27 April 2018)

Nigel Keen (resigned 31 January 2018)

Loraine Woodhouse (resigned 26 October 2018)

Keith Hubber (resigned as Company Secretary on 31 January 2018)

Peter Simpson (appointed as Company Secretary on 31 January 2018)

### Results and dividends

The Company's profit on ordinary activities before taxation for the year ended 26 January 2019 is £84.8m (2018: £61.5m). The share capital of the Company is wholly owned by John Lewis plc. A dividend of £5.4m (2018: £18.0m) was declared and paid to John Lewis plc during the year.

### Future developments

The Directors expect the activities as detailed in the Strategic report to continue for the foreseeable future without material change.

### Financial risk management

Waitrose Limited's financial risks are managed within the framework of the John Lewis Partnership plc's arrangements. The principal financial risk the John Lewis Partnership plc group ('the Partnership') faces is the ability to generate sufficient funds to satisfy the Partnership's business needs, to meet our Partners' expectations for Partnership Bonus and to mitigate against any financial impact resulting from risks identified in the Partnership's business planning process crystallising.

Specific financial risks relevant to Waitrose Limited include liquidity risk, foreign currency risk, credit risk and energy risk. Details of the risk management policies in respect of these financial risks are included in note 7 of the Partnership's Annual Report and Accounts.

### Employees

The Company's policy for employment, training, career development and other employee related matters are aligned to those of the Partnership and are described below.

#### *Employee involvement in the Company's performance*

Our success depends on the collaboration and contribution of our Partners who, in return, receive a share of profits in the form of Partnership Bonus.

The Partnership operates BonusSave, a Share Incentive Plan ('the Plan'), which is available to all Partners in the UK and has been approved by HMRC. In conjunction with the announcement of the annual results, Partners are invited to enter into a savings contract under the Plan to save up to a maximum of £5,400 in any one year from Partnership Bonus. The Plan allows for the investment made by Partners to be held in shares in the Partnership, in a class created specifically for this purpose known as SIP Shares.

## WAITROSE LIMITED

### Directors' report for the year ended 26 January 2019 (continued)

#### **Employees (continued)**

##### *Employee involvement in the Company's performance(continued)*

Details of SIP Shares can be found in note 5.5 of the Partnership's Annual Report and Accounts. The SIP Shares do not carry voting rights, cannot be sold or transferred out of the Partnership and are, at all times, held in trust for the benefit of the respective Partners in the name of the Trust Company.

##### *Employee engagement: sharing knowledge and relations with Partners*

Partners are provided with the knowledge they need to fulfil their responsibilities as co-owners of the Partnership.

Please see the Partnership Council Report on pages 78 to 81 and Democratic vitality section on page 81 of the Partnership's Annual Report and Accounts for more information on how the Partnership shares information and engages with Partners.

##### *Equal opportunities, diversity and inclusion*

Our ultimate purpose is the happiness of our Partners through their worthwhile and satisfying employment in a successful business.

We aim to ensure that our Partners' experience of the Company is relevant, consistent and rewarding. Through our diversity strategy, we aim to treat Partners as individuals and to address their specific needs. We seek to provide support and adjustments to help all Partners reach their full potential. Diversity in our organisation is vital to both our commercial success and to the democratic vitality of our business.

This approach applies equally to all Partners covered by the protected characteristics of the Equality Act 2010 and we go to special lengths to ensure our disabled applicants and Partners are supported. The Company recruits people with disabilities to suitable vacancies on merit. We offer tailored support through the recruitment process for applicants who declare their disability. Where disability occurs during the period of employment, every effort is made to continue to provide suitable employment with the provision of appropriate and bespoke training, equipment and flexibility. The Recruitment Industry Disability Initiative (RIDl) awarded the Partnership's Personnel department a Getting Started award for making the recruitment process more accessible for disabled candidates. This now accompanies the Disability Confident Leader employer status we have also gained.

##### *Employee Health and Wellbeing*

The John Lewis Partnership, of which Waitrose Limited is a part, has a bold ambition to become Britain's Healthiest Workplace by 2025. We have already taken a number of important steps to achieve this, including launching a Wellbeing Champions Network with 430 Partners recruited in more than 130 locations across the country. The aim is to encourage and empower Partners to look after their health and wellbeing, provide information on available support and resources, and create a positive movement for change. In support of this, we are launching a range of innovative preventative health and wellbeing tools for Partners. One example is Unmind, a mental health platform and app which already has more than 5,000 users. We are also reviewing the food and drink we serve in our Partner dining rooms and how we use this space for social interaction as well as healthy food.

#### **Corporate Social Responsibility**

We encourage our Partners to actively forge links and become involved in the local communities in which they live and work. We offer one of the leading volunteering programmes in our industry: the Golden Jubilee Trust. The scheme offers Partners the opportunity to volunteer their time as a secondment to work with the charity of their choice for up to six months at full pay. In 2018, we focused a number of these secondments on supporting Samaritans, sharing our knowledge and experience with the charity's retail arm to improve their customer proposition.

#### **Political donations**

It is the Company's policy not to make donations to political groups. No political donations were made in respect of the year under review.

## WAITROSE LIMITED

### Directors' report for the year ended 26 January 2019 (continued)

#### Health and safety

The Company adopts the Partnership's arrangements in respect of 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. The Partnership 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.

#### Directors' responsibilities

The statement of Directors' responsibilities in relation to the Strategic report, Directors' report and financial statements is set out on page 32.

#### Directors' interests

Under the Constitution of the Partnership all the Directors, as employees of John Lewis plc, are necessarily interested in the 612,000 Deferred Ordinary Shares in John Lewis Partnership plc which are held in trust for the benefit of employees of John Lewis plc and of certain other Group companies. No Director has or had a material interest in any contract or arrangement to which the Company is or was a party.

#### Going concern

The Directors, after reviewing the Company's operating budgets, investment plans and financing arrangements, consider that the Company has sufficient financing available at the date of this report. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the financial statements.

#### Independent auditor

KPMG LLP has indicated their willingness to continue in office, and a resolution for their reappointment and remuneration will be proposed to the Directors.

#### Disclosure of information to the auditor

Each of the persons who are Directors at the date of approval of this report confirms that:

1. The Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information
2. So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware.

Approved by the Directors and signed on behalf of the Board.



~~Director~~/Company Secretary

11 April 2019 PETER SIMPSON

# WAITROSE LIMITED

## Statement of comprehensive income for the year ended 26 January 2019

| <i>Notes</i> |  | 2019<br>£m     | 2018<br>£m     |
|--------------|--|----------------|----------------|
|              | Gross sales  | 6,698.4        | 6,621.4        |
|              | Revenue  | 6,296.7        | 6,226.1        |
|              | Cost of sales  | (4,484.6)      | (4,458.5)      |
|              | <b>Gross profit</b>  | <b>1,812.1</b> | <b>1,767.6</b> |
|              | Other operating income   | 62.2           | 59.5           |
| 3            | Operating expenses before exceptional items and Partnership Bonus      | (1,766.8)      | (1,733.0)      |
|              | <b>Operating profit before exceptional items and Partnership Bonus</b> | <b>107.5</b>   | <b>94.1</b>    |
| 4            | Exceptional items  | (4.0)          | (11.0)         |
|              | <b>Operating profit before Partnership Bonus</b>                       | <b>103.5</b>   | <b>83.1</b>    |
| 7            | Net finance income/(expense)   | 4.9            | 17.4           |
|              | <b>Profit before Partnership Bonus and tax</b>                         | <b>108.4</b>   | <b>100.5</b>   |
|              | Partnership Bonus  | (23.6)         | (39.0)         |
| 2            | <b>Profit on ordinary activities before taxation</b>                   | <b>84.8</b>    | <b>61.5</b>    |
| 8            | Taxation   | (14.8)         | (8.7)          |
|              | <b>Profit for the financial year</b>                                   | <b>70.0</b>    | <b>52.8</b>    |

The accompanying notes are an integral part of these financial statements.



# WAITROSE LIMITED

## Balance sheet as at 26 January 2019

Company number - 99405

|                                  | 2019             | 2018             |
|----------------------------------|------------------|------------------|
| <i>Notes</i>                     | <i>£m</i>        | <i>£m</i>        |
| <b>Non-current assets</b>        |                  |                  |
| 9 Intangible assets              | 142.3            | 123.5            |
| 10 Property, plant and equipment | 2,042.8          | 2,121.0          |
| 12 Investments                   | 160.7            | 160.7            |
| 14 Trade and other receivables   | 3.6              | 5.5              |
|                                  | <b>2,349.4</b>   | <b>2,410.7</b>   |
| <b>Current assets</b>            |                  |                  |
| 13 Inventories                   | 223.4            | 252.1            |
| 14 Trade and other receivables   | 100.1            | 111.2            |
| 11 Assets held for sale          | 13.7             | -                |
| Cash and cash equivalents        | 62.9             | 65.1             |
|                                  | <b>400.1</b>     | <b>428.4</b>     |
| <b>Total assets</b>              | <b>2,749.5</b>   | <b>2,839.1</b>   |
| <b>Current liabilities</b>       |                  |                  |
| 15 Trade and other payables      | (1,705.2)        | (1,851.1)        |
| Current tax payable              | (26.9)           | (22.9)           |
| 16 Finance lease liabilities     | (0.5)            | (0.4)            |
| 17 Provisions                    | (4.7)            | (11.4)           |
|                                  | <b>(1,737.3)</b> | <b>(1,885.8)</b> |
| <b>Non-current liabilities</b>   |                  |                  |
| 15 Trade and other payables      | (56.9)           | (59.1)           |
| 16 Finance lease liabilities     | (6.2)            | (7.9)            |
| 17 Provisions                    | (3.3)            | (0.4)            |
| 8 Deferred tax liability         | (39.7)           | (44.4)           |
|                                  | <b>(106.1)</b>   | <b>(111.8)</b>   |
| <b>Total liabilities</b>         | <b>(1,843.4)</b> | <b>(1,997.6)</b> |
| <b>Net assets</b>                | <b>906.1</b>     | <b>841.5</b>     |
| <b>Equity</b>                    |                  |                  |
| 18 Share capital                 | 1.0              | 1.0              |
| Retained earnings                | 905.1            | 840.5            |
| <b>Total equity</b>              | <b>906.1</b>     | <b>841.5</b>     |

The accompanying notes are an integral part of these financial statements.

The financial statements on pages 8 to 31 were approved by the Board of Directors on 11 April 2019 and signed on its behalf by



Director **PATRICK LEWIS**  
11 April 2019

# WAITROSE LIMITED

## Statement of changes in equity for the year ended 26 January 2019

|                                      | Share<br>capital<br>£m | Retained<br>earnings<br>£m | Total<br>equity<br>£m |
|--------------------------------------|------------------------|----------------------------|-----------------------|
| Balance as at 28 January 2017        | 1.0                    | 805.7                      | 806.7                 |
| Profit for the year                  | -                      | 52.8                       | 52.8                  |
| Dividend                             | -                      | (18.0)                     | (18.0)                |
| Balance as at 27 January 2018        | 1.0                    | 840.5                      | 841.5                 |
| Profit for the year                  | -                      | 70.0                       | 70.0                  |
| Dividend                             | -                      | (5.4)                      | (5.4)                 |
| <b>Balance as at 26 January 2019</b> | <b>1.0</b>             | <b>905.1</b>               | <b>906.1</b>          |

The accompanying notes are an integral part of these financial statements.

# WAITROSE LIMITED

## Notes to the financial statements

### 1 Accounting policies

#### Accounting convention and basis of preparation

The financial statements are prepared in accordance with United Kingdom Accounting Standards, in particular Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006.

FRS 101 sets out a reduced disclosure framework for a “qualifying entity” as defined in the standard, which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of International Financial Reporting Standards (IFRS) as adopted by the European Union. The Company is a qualifying entity for the purposes of FRS 101.

The disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- The requirements of IAS 7 to present a cash flow statement
- The requirements of paragraph 17 of IAS 24, Related Party Disclosures, to disclose information related to key management personnel, and the requirements of IAS 24 to disclose related party transactions between two or more members of a group for wholly owned subsidiaries
- The requirements of IFRS 7 Financial Instruments: Disclosures
- The requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement
- The requirements of paragraphs 30 and 31 of IAS 8 to disclose information assessing the possible impact of new standards issued but which are not yet effective

The Company is an intermediate parent company and is exempt from preparing consolidated financial statements as noted in section 400 of the Companies Act 2006.

The financial year is the 52 weeks ended 26 January 2019 (prior year: 52 weeks ended 27 January 2018).

The following standards, amendments and interpretations were adopted by the Company for the 52 weeks ended 26 January 2019 and have not had a significant impact on the Company's profit for the year, equity or disclosures:

- Annual Improvements to IFRSs 2014-2016 Cycle – various standards (issued on 8 December 2016)
- IFRIC 22: Foreign Currency Transactions and Advance Consideration (issued on December 2016)
- Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016)
- IFRS 15 'Revenue from Contracts with Customers' (issued on 12 April 2016)
- Clarifications to IFRS 15 'Revenue from Contracts with Customers' (issued on 12 April 2016)
- IFRS 9 'Financial Instruments' (issued on 24 July 2014)

#### Going concern

The Directors, after reviewing the Company's operating budgets, investment plans and financing arrangements, consider that the Company has sufficient funding available at the date of approval of this report. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the financial statements.

# WAITROSE LIMITED

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### Revenue

Revenue from sale of goods and services is recognised when the Company has satisfied its performance obligation by transferring a promised good or service to a customer. The good or service is considered to be transferred when the customer obtains control of that good or service. Revenue is also net of Partner discounts and VAT. Revenue is recognised in respect of sales under bill and hold arrangements when the buyer takes control of the asset, even if it has not physically been transferred to the customer. Revenue under bill and hold arrangements is not recognised when there is simply an intention to acquire.

Revenue in respect of gift vouchers and gift cards are recognised when the gift vouchers or cards are redeemed. Non-redemption revenue is recognised in proportion to the pattern of rights exercised by the customer.

The business is predominantly carried out in the United Kingdom and gross sales and revenue derive almost entirely from that source.

#### Other operating income

Other operating income is income that does not relate to the main trading operations of the Company. Other operating income includes commission income, backhauling income and income from other services.

#### Supplier income (shown as part of accrued income)

The price that the Company pays suppliers for goods is determined through negotiations with suppliers regarding both the list price and a variety of rebates and discounts. The principal categories of rebate income are in the form of volume and marketing rebates. Supplier income is broadly split evenly between the two categories as follows:

- **Volume rebates:** Volume rebates are earned based on sales or purchase triggers set over specific periods, such as the number of units sold to customers or purchased from the supplier. Volume rebates are recognised over the period set out in the supplier agreement.
- **Marketing rebates:** Marketing rebates include promotions, mark downs or marketing support provided by suppliers. Marketing rebates are agreed with suppliers for specific periods and products.

Rebate income (shown as part of trade receivables) is recognised when the Company has contractual entitlement to the income, it can be estimated reliably and it is probable that it will be received.

Rebate income recognised is recorded against cost of sales and inventory, which is adjusted to reflect the lower purchase cost for the goods on which a rebate has been earned. Depending on the agreement with suppliers, rebates invoiced are either received in cash from the supplier or netted off against payments made to suppliers.

For promotions which are confirmed after the balance sheet date, the Company may be required to estimate the amounts due from suppliers at the year end. Estimates of supplier income are accrued within accrued income, and are based on a review of the supplier agreements in place and of relevant sales and purchase data.

The majority of rebates are confirmed before the year end, therefore the level of estimate and judgement required in determining the year end receivable is limited.

#### Partnership Bonus

The Partnership Bonus is announced and paid to Partners each March; it is determined in relation to the performance of the previous financial year. The charge in the Waitrose Limited statement of comprehensive income represents a share of the John Lewis Partnership plc group Partnership Bonus. This is based on the population of Partners working within Waitrose Limited compared to total Partners employed within the Partnership.

# WAITROSE LIMITED

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### Partnership Bonus (continued)

A liability for this Partnership Bonus is included in the year end financial statements, with the amount confirmed by the Partnership Board shortly after the year end. It is recorded in the year it relates to rather than the year it was declared because there is a constructive obligation to pay a Partnership Bonus and it can be reliably estimated once the results for the year are known.

#### Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred 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 enacted or substantively enacted at the balance sheet date and that are expected to apply to the period when the asset is realised or the liability is settled.

#### Employee benefits

Partners working in Waitrose Limited are members of the John Lewis Partnership Trust for Pensions. The accounting policy adopted by John Lewis Partnership plc in respect of pension costs is explained below.

The Partnership's retirement benefit scheme is a pension scheme made up of two parts: the defined benefit section and the defined contribution section. The defined benefit section of the scheme is a pension fund with assets held separately from the Partnership. The cost of providing benefits under the scheme is determined using the projected unit credit actuarial valuation method, which measures the liability based on service completed and allowing for projected future salary increases.

The current service cost is the increase in the present value of the retirement benefit obligation resulting from employee service in the current year. The current service cost is included within operating profit in the consolidated income statement.

The past service cost represents the change in the present value of the retirement benefit obligation in relation to employees' service in prior years. This may arise as a result of amendments made to the defined benefit scheme during the year, or a reduction in the number of employees covered by the scheme. Past service costs are also included within operating profit, along with any gains or losses on settlement.

Remeasurements of defined benefit pension schemes due to experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income during the period in which they arise.

# WAITROSE LIMITED

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### Employee benefits (continued)

There are a number of unfunded pension liabilities, where the actuarially assessed costs of providing the benefit are charged to the consolidated income statement. There are no assets supporting these arrangements.

Contributions to the Partnership's defined contribution section are charged to the income statement as they are incurred. The Partnership has no further obligation once the contributions have been made.

It is not possible to identify a proportionate share for Waitrose Limited of the assets and liabilities of the John Lewis Partnership plc scheme. The pension operating costs charged to the Waitrose Limited statement of comprehensive income represents a proportion of total pay of Partners working in Waitrose.

The Partnership also has a scheme to provide up to six months paid leave after 25 years' service (long leave). The cost of providing the benefits under the scheme is determined using the projected unit credit actuarial valuation method. The current service cost is included within operating profit in the consolidated income statement. The financing elements of long leave are included in finance costs in the consolidated income statement. Actuarial gains or losses are taken directly to the Partnership consolidated income statement.

#### 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 create, produce and prepare the software for use, is capitalised where the development meets the criteria for capitalisation required by IAS 38. This may include capitalised borrowing costs. 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 on a straight line basis over its useful economic life, which is deemed to be between three and ten years. The assets useful lives are reviewed and adjusted if appropriate at each balance sheet date.

#### Impairment

Assets are reviewed for impairment at least annually or whenever events or circumstances indicate that the net book value may not be recoverable. Impairment testing is performed on cash generating units ('CGUs'), this being the lowest level of separately identifiable cash flows. An impairment loss is recognised for the amount by which the asset's net book value exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to dispose and value in use. Value in use calculations are performed using cash flow projections and a discount rate derived from Waitrose's pre-tax weighted average cost of capital of 8.0% (2018: 8.0%).

Where an impairment loss subsequently reverses, the carrying amount of the CGU is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised for the CGU in prior years. A reversal of an impairment loss is recognised immediately as a credit to the statement of comprehensive income.

#### Property, plant and equipment

The cost of property, plant and equipment includes the purchase price and directly attributable costs of bringing the asset to its working condition for its intended use. This may include capitalised borrowing costs.

# WAITROSE LIMITED

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### **Property, plant and equipment (continued)**

The Company's freehold and long leasehold properties were last revalued to fair value by the Directors, after consultation with CB Richard Ellis, Chartered Surveyors, at 31 January 2004. These values have been incorporated as deemed cost, subject to the requirement to test for impairment in accordance with IAS 36. The Company decided not to adopt a policy of revaluation since 31 January 2004.

Other assets are held at cost.

#### *Depreciation*

No depreciation is charged on freehold land or assets in the course of construction. Depreciation is calculated for all other assets to write off the cost or valuation, less residual value, on a straight line basis over their expected useful life, at the following rates:

- Freehold and long leasehold buildings – 25 – 50 years;
- Other leaseholds – over the shorter of the useful economic life and the remaining period of the lease;
- Building fixtures – 10 – 40 years;
- Fixtures and fittings (including vehicles and information technology equipment) – 3 – 10 years.

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 and adjusted if appropriate at least at each balance sheet date.

#### **Assets held for sale**

Assets held for sale are non-current assets which are expected to be sold rather than held for continuing use in the Company. These have principally arisen as part of the Company's review of its physical estate. Assets held for sale have not been sold at the balance sheet date but are being actively marketed for sale, with a high probability of completion within 12 months.

#### **Investments**

Investments are valued at cost, less allowances for impairment. Impairment reviews are performed annually.

#### **Trade receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less an allowance for expected credit losses. Such allowances are based on an individual assessment of each receivable, which is informed by past experience, and are recognised at amounts equal to the losses expected to result from all possible default events over the life of each financial asset. The Partnership also performs analysis on a case by case basis for particular trade receivables with irregular payment patterns or history.

#### **Inventory valuation**

Inventory is stated at the lower of cost, which is computed on the basis of average unit cost, and net realisable value. Slow moving and obsolete inventory is assessed for impairment at each reporting period based on past experience and appropriate provision made. Inventory also includes a Right to return goods asset, which represents the value of inventory expected to be returned as a result of customers exercising their rights under the Company's policy. The expected level of returns is based on past experience.

#### **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 which are subject to an insignificant risk of changes in value.

# WAITROSE LIMITED

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

#### Leased assets

Assets used by the Company which have been funded through finance leases on terms that transfer to the Company 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 statement of comprehensive income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the Company 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 statement of comprehensive income on a straight-line basis over the lease term. Contingent rentals are recognised as an expense in the statement of comprehensive income when incurred.

Lease premiums and inducements are recognised in current and non-current assets or liabilities as appropriate, and amortised or released on a straight-line basis over the lease term.

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

#### Provisions

Provisions are recognised when the Company 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.

#### 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 exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges.

#### Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other relevant factors, including management's reasonable expectations of future events.

The preparation of the financial statements requires management to make estimates and judgements concerning the future. The resulting accounting estimates will, by definition, be likely to differ from the related actual results. The estimates and judgements 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:



# WAITROSE LIMITED

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### Critical accounting estimates and judgements (continued)

##### *Value of intangible Work in Progress*

The Company has incurred a significant amount of development expenditure in relation to intangible assets, in particular the development of IT systems and infrastructure to improve data management, online capability and the management of its supply chains. Development costs incurred as part of this work that are eligible for capitalisation under the accounting policy above, have been recorded within Work in Progress (WIP). Management has carried out a review of intangible WIP balances as at the reporting date, to identify any abortive costs or signs of obsolescence.

Following these reviews, Management has made the judgement that the intangible WIP balances presented at the reporting date are expected to result in assets that will deliver future economic benefits as set out in IAS 38.

##### *Application of Residual Values*

The application of residual values to shell assets on freehold and long-leasehold properties is a key accounting judgement that impacts the depreciation charge recognised in respect of these assets. Management have assessed that it is appropriate to apply residual values to these assets as the buildings will retain significant value both during and at the end of their useful economic life. This residual value could be realised through a sale of property or a subletting arrangement. Management has therefore concluded that the application of residual values is consistent with the definition set out in IAS 16.

Although the decision to apply residual values requires management to form an estimate of those residual values, management do not believe that movement in these estimates poses a significant risk of material adjustment to the carrying amount of these assets in the next financial year. They will however, affect the carrying amount of these assets over the longer term and therefore are reviewed annually to ensure that they remain appropriate in line with the policy above.

##### *Impairment*

For property, plant and equipment, in line with the Company's accounting policy, management must make an assessment of the value in use of each CGU on an annual basis. This requires the estimation of future cash flows expected to arise from the continuing operation of the CGU. The value in use calculation is based on three year cash flow projections using the latest budget and forecast data which is then extrapolated using a long-term growth rate. Any changes in sales performance and branch costs are based on past experience and expectations of future changes in the market. This is then discounted using the Company's weighted average cost of capital 8.0% (2018: 8.0%).

Intangible assets are assessed annually for impairment. Given the nature of these assets and the current pace of change within retail, there is a risk that assets may become obsolete or be superseded prior to the end of their UEL. Although the risk of a material impairment is reduced by capping intangible UELs at a maximum of 10 years and not applying residual values, these assets are assessed annually for indications of impairment, which requires a degree of subjectivity on the part of management.

##### *Amortisation*

Amortisation is recorded to write down intangible assets to a residual value of nil over their useful economic lives (UEL). Management must therefore estimate the appropriate UELs to apply to each class of intangible asset. Changes in the estimated UELs would alter the amount of amortisation charge each year, which could materially impact the carrying value of the assets in question over the longer term. UELs are reviewed on an annual basis to ensure that they are in line with policy and that those policies remain appropriate.

## WAITROSE LIMITED

### Notes to the financial statements (continued)

#### 1 Accounting policies (continued)

##### Critical accounting estimates and judgements (continued)

###### *Depreciation*

Depreciation is recorded to write down non-current assets to their residual values over their useful economic lives (UEL). Management must therefore estimate the appropriate UELs to apply to each class of asset as set out above. Changes in the estimated UELs would alter the amount of amortisation charge each year, which could materially impact the carrying value of the assets in question over the longer term. UELs are reviewed on an annual basis to ensure that they are in line with policy and that those policies remain appropriate.

###### *Exceptional items*

Exceptional items are those where, in management's opinion, their separate reporting provides a better indication of the company's underlying business performance; and which are significant by virtue of their size and nature. In considering the nature of an item, management's assessment includes, both individually and collectively, whether the item is outside the principal activities of the business; the specific circumstances which have led to the item arising; the likelihood of recurrence; and if the item is likely to recur, whether it is unusual by virtue of its size.

No single criteria alone classifies an item as exceptional, and therefore management must exercise judgement when determining whether, on balance, presenting an item as exceptional will help users of the financial statements understand the company's underlying business performance.

# WAITROSE LIMITED

## Notes to the financial statements (continued)

### 2 Profit on ordinary activities before taxation

|   | 2019<br>£m | 2018<br>£m |
|---|------------|------------|
| Profit on ordinary activities before taxation is stated after (charging)/crediting the following: |            |            |
| Staff costs (note 6)  | (981.1)    | (987.0)    |
| Depreciation - owned assets   | (136.7)    | (180.7)    |
| Depreciation - assets held under finance leases   | (0.5)      | (0.5)      |
| Amortisation of intangible assets   | (32.4)     | (38.2)     |
| Net profit on sale of property  | 1.7        | 2.8        |
| Loss on disposal of other plant and equipment and intangible assets                               | (1.5)      | (0.9)      |
| Inventory recognised as an expense  | (4,484.6)  | (4,458.5)  |
| Operating lease charges   |            |            |
| - land and buildings  | (131.9)    | (129.3)    |
| Sub lease income  |            |            |
| - land and buildings  | 4.5        | 4.6        |
| Fees payable to the Partnership's auditor for audit services:                                     | (0.2)      | (0.2)      |

Included within depreciation – owned assets is a net impairment charge of £3.9m (2018: £40.7m).

Included within amortisation of intangible assets is a net impairment charge of £0.2m (2018: £2.0m).

Contingent rents expensed during the year were £nil (2018: £nil). Contingent rents are determined based on individual store revenues.

### 3 Operating expenses before exceptional items

|                           | 2019<br>£m | 2018<br>£m |
|---------------------------|------------|------------|
| Branch operating expenses | (1,298.7)  | (1,300.6)  |
| Administrative expenses   | (468.1)    | (432.4)    |
|                           | (1,766.8)  | (1,733.0)  |

# WAITROSE LIMITED

## Notes to the financial statements (continued)

### 4 Exceptional items

|  | 2019      | 2019     | 2018      | 2018     |
|--|-----------|----------|-----------|----------|
|  | Operating | Taxation | Operating | Taxation |
|  | expenses  | Credit   | expenses  | credit   |
|  | £m        | £m       | £m        | £m       |
| Strategic restructuring and redundancy |           |          |           |          |
| Head office reviews                    | (0.6)     | 0.1      | -         | -        |
| Physical Estate                        | (2.1)     | 0.6      | (5.5)     | 0.4      |
| Shop operations                        | (1.3)     | 0.2      | (11.0)    | 2.1      |
|  | (4.0)     | 0.9      | (16.5)    | 2.5      |
| Branch Impairment                      | -         | -        | (35.7)    | 4.5      |
| Profit on disposal of property         | -         | -        | 41.2      | -        |
|  | (4.0)     | 0.9      | (11.0)    | 7.0      |

Exceptional items in the year to 26 January 2019 are as follows:

**Strategic restructuring and redundancy:** In June 2018, the John Lewis Partnership, incorporating Waitrose Limited, provided a strategy update outlining in more detail the key focus areas, fundamental to meeting its Profit objective. Given the scale of these changes, the programmes of activity will take a number of years to deliver. These costs form part of the strategic transformation programme and therefore will recur across a number of financial years. As it move towards delivering the strategic vision, transformation programmes in other areas may be required. Over the life of the programme they are significant in value and, given the level of change, they are significant in nature and therefore the Company considers them exceptional items. The financial impact of these for 2019 and 2018 is detailed below:

**Head office review:** Charge of £0.6m principally relates to projects costs in relation to the evaluation of head office functions.

**Physical Estate:** Charge of £2.1m includes the impairment of assets (reflecting the shortening of the useful economic life), accelerated depreciation of buildings, fixtures and fittings and management's best estimate of closure costs including onerous leases, dilapidations where branch closure has been approved. If applicable, redundancy costs are included.

**Shop operations:** Charge of £1.3m for restructuring and redundancy costs, principally in relation to our branch, distribution and retail operations. In 2017/18, the restructuring and redundancy charge of £11.0m was principally in relation to distribution and contact centres.

**Branch impairments:** In 2018, £38.9m of impairment charges were recognised in relation to Waitrose & Partners stores. Of this, £3.2m related to stores due for closure, which have now been relabelled as Physical estate within the 2018 comparative balances above. The remaining £35.7m was driven by continuing uncertainty with respect to Brexit outcomes and changes to the grocery market, leading us to review our approach and assumptions with respect to possible impairment in Waitrose & Partners, where margins were trending significantly lower. This £35.7m was recognised as exceptional given the nature of the exercise and the size of the cost. In 2019 no such impairment charges have been recognised as exceptional, and any impairments as a result of store closures are included within Physical estate, while any impairments resulting from poor store performance have been included within operating expenses.

**Profit on disposal:** In prior year Waitrose Ltd sold five branches to a member of the John Lewis Partnership plc group for a profit of £41.2m.

# WAITROSE LIMITED

## Notes to the financial statements (continued)

### 5 Retirement benefit obligations

Partners working in Waitrose Limited are members of the John Lewis Partnership Trust for Pensions. The scheme includes a funded final salary defined benefit pension section, providing pensions and death benefits to members, and is open to new members. The scheme also includes a defined contribution section. For Partners in the defined contribution section of the scheme, the Partnership will match employee contributions up to 4.5%. The assets of the pension scheme are held separately from the John Lewis Partnership plc group.

The defined contribution section of the scheme is available to all Partners with less than five years service (three years for those who joined the Company before 1 April 2015). Once Partners complete five years' service (three years' service for those who joined the Company before 1 April 2015) with the Partnership, they will automatically join the defined benefit section of the scheme.

John Lewis plc is the sponsoring employer for the scheme. The consolidated financial statements of John Lewis Partnership plc recognise and disclose the net defined benefit cost of the schemes.

The pension costs charged in the Waitrose Limited financial statements are £90.3m (2018: £89.6m). The basis of allocation of pension costs of the John Lewis Partnership plc to Waitrose is a fixed proportion of total pay based on the estimated long-term costs of providing the benefit.

It is not possible to identify a proportionate share for Waitrose Limited of the assets and liabilities of the John Lewis Partnership plc group scheme. The Partnership defined benefit scheme position as at 26 January 2019 is provided in note 6 of the Partnership's Annual Report and Accounts.

### 6 Partners

#### 6.1 Partner numbers

The Company has no direct employees. The Partner numbers and benefits referred to below relate to Partners working at Waitrose & Partners who are employees of the parent Company John Lewis plc.

During the year the average number of Partners was as follows:

|                          | 2019   | 2018   |
|--------------------------|--------|--------|
| Selling and distribution | 49,200 | 49,900 |
| Administration           | 2,600  | 2,690  |
|                          | 51,800 | 52,590 |

#### 6.2 Partner benefits

Employment and related costs were as follows:

|  | 2019<br>£m | 2018<br>£m |
|--|------------|------------|
| Staff costs:                                       |            |            |
| Wages and salaries                                 | (782.8)    | (773.2)    |
| Social security costs                              | (52.3)     | (53.7)     |
| Partnership Bonus                                  | (21.0)     | (34.6)     |
| Employers' national insurance on Partnership Bonus | (2.6)      | (4.4)      |
| Other pension costs                                | (90.3)     | (89.6)     |
| Long leave cost                                    | (3.5)      | (3.6)      |
| Total before Partner discounts                     | (952.5)    | (959.1)    |
| Partner discounts (deducted from revenue)          | (28.6)     | (27.9)     |
|  | (981.1)    | (987.0)    |

## WAITROSE LIMITED

### Notes to the financial statements (continued)

#### 6.3 Directors' emoluments

|  | 2019<br>£m | 2018<br>£m |
|--|------------|------------|
| Directors' emoluments including Partnership Bonus of 3% (2018: 5%) | (1.3)      | (1.9)      |

At the year end, there were three Directors of the Company. Three Directors held office for the duration of the year. Two Directors left the Board part way through the year.

Of those, the emoluments of the Chairman, who was also the highest paid Director, are paid by John Lewis plc and are disclosed in the financial statements of that company. The emoluments of two other Directors are also paid by John Lewis plc and are disclosed in the financial statements of that company. The Directors do not believe it is practicable to apportion the Chairman's remuneration and the remuneration of the two other Directors between services as a Director of this Company and services as a Director of the holding company, John Lewis plc. Consequently, the Chairman's remuneration and that of the two other Directors has been excluded, on the basis that their principal duties relate to other areas of the Partnership.

For the Directors that left during the year, emoluments are only included for their time on the Board. For the remaining one Director who served throughout the year, their emoluments are included in the table above.

For the one Director (2018: three) at the year-end whose remuneration is included in the table above, the following information is relevant:

The Director (2018: two Directors) has ceased to accrue further pension benefits in the Partnership's pension schemes but receives pension cash supplements. The Director's accrued pensions increase in line with either price inflation or future pay increases, depending on their individual arrangements. Where there are any accrued defined benefit pensions remaining on an unfunded basis, the Partnership has made provision for the associated liability. During the year, the total pension supplement paid to the Directors was £0.2m (2018: £0.3m). The aggregate defined benefit pension entitlement accrued at the end of the year was £0.1m (2018: £0.1m).

#### 7 Net finance income

|                                | 2019<br>£m | 2018<br>£m  |
|--------------------------------|------------|-------------|
| Dividend income                | 5.4        | 18.0        |
| Finance lease interest expense | (0.5)      | (0.6)       |
| <b>Net finance income</b>      | <b>4.9</b> | <b>17.4</b> |

# WAITROSE LIMITED

## Notes to the financial statements (continued)

### 8 Taxation

#### 8.1 Analysis of tax charge for the year

|  | 2019<br>£m | 2018<br>£m |
|--|------------|------------|
| <b>Recognised in the statement of comprehensive income</b> |            |            |
| Current tax - current year                                 | (28.4)     | (22.5)     |
| Current tax - adjustment in respect of prior years         | 8.9        | 16.1       |
| Total current tax charge                                   | (19.5)     | (6.4)      |
| Deferred tax - current year                                | 3.3        | 12.1       |
| Deferred tax - rate change                                 | (0.2)      | (1.3)      |
| Deferred tax - adjustment in respect of prior years        | 1.6        | (13.1)     |
|  | (14.8)     | (8.7)      |

#### 8.2 Factors affecting tax charge in the year

The tax charge for the year is lower (2018: lower) than the standard corporation tax rate of 19.0% (2018: 19.2%). The differences are explained below:

|   | 2019<br>£m | 2018<br>£m |
|---|------------|------------|
| Profit before tax   | 84.8       | 61.5       |
| Profit before tax multiplied by standard rate of corporation tax in the UK of 19.0% (2018: 19.2%) | (16.1)     | (11.8)     |
| Effects of:   |            |            |
| Changes in tax rate   | (0.2)      | (1.3)      |
| Adjustment in respect of prior years  | 10.5       | 3.0        |
| Expenses not deductible   | 0.4        | (0.1)      |
| Non-taxable dividends   | 1.0        | 3.5        |
| Depreciation on assets not qualifying for tax relief  | (8.0)      | (10.7)     |
| Difference between accounting and tax base for land and buildings                                 | (1.0)      | 8.7        |
| Current year adjustments only impacting deferred tax  | (1.4)      | -          |
| Total tax charge  | (14.8)     | (8.7)      |
| Effective tax rate (%)  | 17.5%      | 14.1%      |

Included in the adjustment to current tax in respect of prior years is a tax adjustment resulting from the one-off pension contribution made in the prior year.

Waitrose Limited's effective tax rate for the current year is 17.5% (2018: 14.1%).

# WAITROSE LIMITED

## Notes to the financial statements (continued)

### 8 Taxation (continued)

#### 8.3 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability. In the year to 26 January 2019, a tax rate of 19% was used for those assets expected to reverse before 1 April 2020, and 17% for those assets or liabilities expected to reverse after 1 April 2020.

The movement on the deferred tax account is shown below:

|  | 2019<br>£m | 2018<br>£m |
|--|------------|------------|
| Opening liability                                    | (44.4)     | (42.1)     |
| Credit/(charge) to statement of comprehensive income | 4.7        | (2.3)      |
| Closing liability                                    | (39.7)     | (44.4)     |

The movements in deferred tax assets and liabilities during the year (prior to the offsetting of balances within the same jurisdiction, as permitted by IAS 12) are shown below.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

|   | Capital gains<br>tax on land<br>and buildings | Accelerated<br>tax<br>depreciation | Revaluation<br>of land and<br>buildings | Pensions and<br>provisions | Rollover<br>gains | Other | Total  |
|---|---|------------------------------------|---|----------------------------|-------------------|-------|--------|
| Deferred tax<br>assets/(liabilities)                          | £m  | £m                                 | £m                                      | £m                         | £m                | £m    | £m     |
| At 28 January 2018  | 3.8   | (29.9)                             | (0.4)                                   | (19.8)                     | (3.3)             | 5.2   | (44.4) |
| Credit/(charge) to<br>statement of<br>comprehensive<br>income | (1.8)   | 3.7                                | 0.1                                     | 3.0                        | 0.0               | (0.3) | 4.7    |
| At 26 January 2019  | 2.0   | (26.2)                             | (0.3)                                   | (16.8)                     | (3.3)             | 4.9   | (39.7) |

The net deferred tax liability at 26 January 2019 was £39.7m (2018: £44.4m). The net deferred tax liability is recoverable after more than one year.

#### 8.4 Factors affecting tax charges in current and future years

Legislation has been enacted to reduce the UK corporation tax rate from 19% to 17% from 1 April 2020.



# WAITROSE LIMITED

## Notes to the financial statements (continued)

### 9 Intangible assets

|  | Purchased     | Internally generated | Work in progress | Total          |
|--|---------------|----------------------|------------------|----------------|
|  | £m            | £m                   | £m               | £m             |
| <b>Cost</b>                              |               |                      |                  |                |
| At 27 January 2018                       | 93.1          | 178.5                | 49.8             | 321.4          |
| Additions                                | -             | -                    | 52.6             | 52.6           |
| Transfers                                | 9.3           | 8.9                  | (18.2)           | -              |
| Disposals and write-offs                 | (3.3)         | (8.9)                | (1.4)            | (13.6)         |
| <b>At 26 January 2019</b>                | <b>99.1</b>   | <b>178.5</b>         | <b>82.8</b>      | <b>360.4</b>   |
| <b>Accumulated amortisation</b>          |               |                      |                  |                |
| At 27 January 2018                       | (64.6)        | (133.3)              | -                | (197.9)        |
| Charge for the year*                     | (12.8)        | (19.6)               | -                | (32.4)         |
| Disposals and write-offs                 | 3.3           | 8.9                  | -                | 12.2           |
| <b>At 26 January 2019</b>                | <b>(74.1)</b> | <b>(144.0)</b>       | <b>-</b>         | <b>(218.1)</b> |
| <b>Net book value at 27 January 2018</b> | <b>28.5</b>   | <b>45.2</b>          | <b>49.8</b>      | <b>123.5</b>   |
| <b>Net book value at 26 January 2019</b> | <b>25.0</b>   | <b>34.5</b>          | <b>82.8</b>      | <b>142.3</b>   |

\* Charge for the year ending 26 January 2019 includes a net impairment charge of £0.2m (2018: £2.0m).

Intangible assets have useful economic lives of up to 10 years. Amortisation of intangible assets is charged within operating expenses.

# WAITROSE LIMITED

## Notes to the financial statements (continued)

### 10 Property, plant and equipment

|  | Land and<br>buildings | Fixtures and<br>fittings | Assets in the<br>course of<br>construction | Total            |
|--|-----------------------|--------------------------|--|------------------|
|  | £m                    | £m                       | £m   | £m               |
| <b>Cost</b>                              |                       |                          |  |                  |
| At 27 January 2018                       | 2,636.6               | 954.5                    | 13.4                                       | 3,604.5          |
| Additions                                | 2.2                   | 0.3                      | 78.7                                       | 81.2             |
| Transfers                                | 22.3                  | 38.6                     | (60.9)                                     | -                |
| Disposals and write-offs                 | (22.2)                | (44.6)                   | -  | (66.8)           |
| Transfers to assets held for sale        | (26.2)                | -                        | -  | (26.2)           |
| <b>At 26 January 2019</b>                | <b>2,612.7</b>        | <b>948.8</b>             | <b>31.2</b>                                | <b>3,592.7</b>   |
| <b>Accumulated depreciation</b>          |                       |                          |  |                  |
| At 27 January 2018                       | (788.8)               | (694.7)                  | -  | (1,483.5)        |
| Charge for the year*                     | (69.5)                | (67.7)                   | -  | (137.2)          |
| Disposals and write-offs                 | 14.1                  | 44.2                     | -  | 58.3             |
| Transfers to assets held for sale        | 12.5                  | -                        | -  | 12.5             |
| <b>At 26 January 2019</b>                | <b>(831.7)</b>        | <b>(718.2)</b>           | <b>-</b>                                   | <b>(1,549.9)</b> |
| <b>Net book value at 27 January 2018</b> | <b>1,847.8</b>        | <b>259.8</b>             | <b>13.4</b>                                | <b>2,121.0</b>   |
| <b>Net book value at 26 January 2019</b> | <b>1,781.0</b>        | <b>230.6</b>             | <b>31.2</b>                                | <b>2,042.8</b>   |

\* Charge for the year ending 26 January 2019 includes a net impairment charge of £6.0m (2018: £40.7m) in relation to land and buildings of which £2.1m was recorded within exceptional items.

Included above are land and building assets held under finance leases with a net book value of £2.7m (2018: £3.2m).

Having applied the above methodology and assumptions describe under note 1, Waitrose recognised an impairment charge of £6.0m (2018: £40.7m) to land and buildings.

A reduction of 0.5% in the long term growth rate would result in an additional impairment charge of £1.5m (2018: £9.3m). An increase in the discount rate of 0.5% would result in an additional impairment charge of £0.9m (2018: £4.6m).

### 11 Assets held for sale

At 26 January 2019, five property assets were recorded as held for sale with a total carrying value of £13.7m. Two of these have been sold after year end and the remaining are expected to complete within the next 12 months.

At 27 January 2018, there were no assets recorded as held for sale.

## WAITROSE LIMITED

### Notes to the financial statements (continued)

#### 12 Investments in subsidiary undertakings

|                          | 2019  | 2018  |
|--------------------------|-------|-------|
|                          | £m    | £m    |
| Share in group companies | 160.7 | 160.7 |

Subsidiary undertakings comprise 100% of the issued ordinary share capital of Waitrose (Guernsey) Limited of £89.3m, incorporated and registered in Guernsey, Waitrose (Jersey) Limited of £71.4m, incorporated and registered in Jersey, 53% of the issued A Shares of £53 and 100% of the B Shares of £2 of Admiral Park Retail Management Limited, incorporated and registered in Jersey, and 30.9% of the issued B Shares of Park One Management Limited, incorporated and registered in England and Wales. Waitrose (Guernsey) Limited and Waitrose (Jersey) Limited operate Waitrose supermarkets, the food shops of the John Lewis Partnership. Admiral Park Retail Management Limited is a property holding company. Park One Management Limited provides management services.

The address of the registered office of Waitrose (Guernsey) Limited is Martello Court, Admiral Park, St Peter Port, Guernsey, GY1 3HB and Waitrose (Jersey) Limited is 44 Esplanade, St Helier Jersey, JE4 9WG respectively.

#### 13 Inventories

|                                     | 2019  | 2018  |
|-------------------------------------|-------|-------|
|                                     | £m    | £m    |
| <b>Inventory</b>                    |       |       |
| Raw materials                       | 0.8   | 0.5   |
| Work in progress                    | 0.1   | 0.1   |
| Finished goods and goods for resale | 222.5 | 251.5 |
|                                     | 223.4 | 252.1 |

Provisions against inventories of £1.9m (2018: £nil) were charged under cost of sales.

#### 14 Trade and other receivables

|  | 2019         | 2018         |
|--|--------------|--------------|
|  | £m           | £m           |
| Current:                                 |              |              |
| Trade receivables                        | 30.4         | 41.8         |
| Other receivables                        | 5.6          | 6.7          |
| Prepayments                              | 46.4         | 41.1         |
| Accrued income                           | 17.7         | 21.6         |
|  | 100.1        | 111.2        |
| Non-current:                             |              |              |
| Prepayments                              | 3.6          | 5.5          |
|  | 3.6          | 5.5          |
| <b>Total trade and other receivables</b> | <b>103.7</b> | <b>116.7</b> |

Trade receivables are non-interest bearing and generally on credit terms of less than 90 days.

## WAITROSE LIMITED

### Notes to the financial statements (continued)

#### 14 Trade and other receivables (continued)

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.

Within accrued income, there is £1.3m (2018: £0.3m) in relation to supplier income which has not yet been invoiced. Additionally, accrued income includes £16.6m (2018: £19.3m) in relation to other operating income items which has not been billed at the reporting date. The unbilled amounts of other operating income is made up of items that are individually not material for further disclosures and had no significant changes during the period.

The Company recognises loss allowances for expected credit losses (ECLs) within branch operating expenses in the income statement. As at 26 January 2019, trade and other receivables of £1.4m (2018: £0.9m) were partially or fully impaired.

As at 26 January 2019, trade and other receivables of £4.3m (2018: £8.1m) were past due but not impaired. The ageing analysis of the past due amounts are as follows:

|                         | 2019<br>£m | 2018<br>£m |
|-------------------------|------------|------------|
| Up to 3 months past due | 4.2        | 7.6        |
| 3 to 12 months past due | 0.1        | 0.4        |
| Over 12 months past due | -          | 0.1        |
| <b>At end of year</b>   | <b>4.3</b> | <b>8.1</b> |

#### 15 Trade and other payables

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

|                                       | 2019<br>£m       | 2018<br>£m       |
|---------------------------------------|------------------|------------------|
| Current:                              |                  |                  |
| Trade payables                        | (499.2)          | (530.3)          |
| Other payables                        | (43.2)           | (41.4)           |
| Other taxation and social security    | (36.3)           | (36.8)           |
| Accruals                              | (56.1)           | (51.6)           |
| Deferred income                       | (7.7)            | (9.0)            |
| Amounts owed to other Group companies | (1,062.7)        | (1,182.0)        |
|                                       | <b>(1,705.2)</b> | <b>(1,851.1)</b> |
| Non-current:                          |                  |                  |
| Other payables                        | (0.2)            | (0.3)            |
| Deferred income                       | (56.7)           | (58.8)           |
|                                       | <b>(56.9)</b>    | <b>(59.1)</b>    |

Included within non-current deferred income is £44.1m (2018: £46.5m) due after more than five years.

## WAITROSE LIMITED

### Notes to the financial statements (continued)

#### 16 Finance lease liabilities

|  | 2019<br>£m | 2018<br>£m |
|--|------------|------------|
| The minimum lease payments under finance leases fall due as follows: |            |            |
| Not later than one year  | (0.9)      | (1.0)      |
| Later than one year but not more than five                           | (3.1)      | (3.6)      |
| More than five years   | (6.9)      | (11.0)     |
|  | (10.9)     | (15.6)     |
| Future finance charge on finance leases                              | 4.2        | 7.3        |
| Present value of finance lease liabilities                           | (6.7)      | (8.3)      |
| Of which:  |            |            |
| Not later than one year  | (0.5)      | (0.4)      |
| Later than one year but not more than five                           | (3.1)      | (1.9)      |
| More than five years   | (3.1)      | (6.0)      |

The Company's finance lease liabilities relate to buildings and property, plant and equipment that have been recognised as finance leases in accordance with IAS 17.

#### 17 Provisions

|   | £m           |
|---|--------------|
| At 27 January 2018                            | (11.8)       |
| Charged to statement of comprehensive income  | (4.4)        |
| Released to statement of comprehensive income | 1.9          |
| Utilised                                      | 6.3          |
| <b>At 26 January 2019</b>                     | <b>(8.0)</b> |
| of which:                                     |              |
| Current                                       | (4.7)        |
| Non-current                                   | (3.3)        |

Provisions include reorganisation and property related costs.

#### 18 Share capital

|   | 2019<br>£m | 2018<br>£m |
|---|------------|------------|
| Equity                                  |            |            |
| Allotted and fully paid Ordinary Shares | 1.0        | 1.0        |
| 1,000,000 of £1 each                    | 1.0        | 1.0        |

#### 19 Commitments

At 26 January 2019, contracts had been entered into for future capital expenditure of £24.4m (2018: £21.1m) of which £14.6m (2018: £14.9m) relates to property, plant and equipment and £9.8m (2018: £6.2m) relates to intangible assets.

# WAITROSE LIMITED

## Notes to the financial statements (continued)

### 20 Lease commitments

|   | 2019               | 2018               |
|---|--------------------|--------------------|
|   | Land and buildings | Land and buildings |
|   | £m                 | £m                 |
| <b>Future aggregate minimum lease payments under non-cancellable operating leases, payable:</b>   |                    |                    |
| Within one year   | (131.0)            | (129.6)            |
| Later than one year and less than five years  | (522.1)            | (517.3)            |
| After five years  | (1,390.9)          | (1,476.7)          |
|   |                    |                    |
|   | 2019               | 2018               |
|   | Land and buildings | Land and buildings |
|   | £m                 | £m                 |
| <b>Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years comprise the following:</b> |                    |                    |
| Later than five years and less than ten years   | (569.1)            | (585.2)            |
| Later than ten years and less than twenty years   | (625.0)            | (678.6)            |
| Later than twenty years and less than forty years   | (142.1)            | (161.2)            |
| Later than forty years and less than eighty years   | (31.5)             | (25.0)             |
| After eighty years  | (23.2)             | (26.7)             |
|   | (1,390.9)          | (1,476.7)          |

Total future sub-lease payments receivable relating to the above operating leases amounted to £9.2m (2018: £9.4m).

### 21 Parent company

The immediate parent undertaking is John Lewis plc, which is also the parent company of the smallest group to consolidate the financial statements of the company. John Lewis Partnership plc, the Company's ultimate parent company, is the parent company of the largest group to consolidate these financial statements. Ultimate control rests with John Lewis Partnership Trust Limited, which holds the Deferred Ordinary Shares issued by John Lewis Partnership plc in trust for the benefit of employees. All of these companies are registered in England and Wales. Copies of these financial statements may be obtained from the Company Secretary, John Lewis Partnership, Partnership House, Carlisle Place, London SW1P 1BX.

The address of the registered office of John Lewis plc is 171 Victoria Street, London SW1E 5NN.

### 22 Subsequent events

#### Commercial Operating model

On 31 January 2019, Waitrose & Partners announced changes to the Commercial Operating Model in head offices. No accounting for potential redundancies was recorded for the year ended 26 January 2019 in respect of these changes.

#### Commercial agreement with Ocado

On 27 February 2019, Waitrose & Partners confirmed that following careful review of the relationship, the commercial arrangement with Ocado will come to an end in September 2020, in line with contractual terms. We have strengthened our own online business significantly in recent years, and said last summer that we will double waitrose.com within five years. This change will be a major part of achieving this, and in future, waitrose.com and our shops will be the exclusive places in the UK to buy Waitrose & Partners products. We plan to open a second fulfilment centre to support growing volumes in the London area.

## **WAITROSE LIMITED**

### **Notes to the financial statements (continued)**

#### **22 Subsequent events (continued)**

##### **Waitrose & Partners store closures**

On 6 March 2019, Waitrose & Partners informed partners that five shops will be sold to other retailers. No accounting for potential redundancies was recorded for the year ended 26 January 2019 in respect of these shop disposals.

## WAITROSE LIMITED

### STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Strategic Report, the Directors 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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period. In preparing these 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;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board



PATRICK LEWIS - DIRECTOR

171 Victoria Street, London, SW1E 5NN  
11 April 2019





## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WAITROSE LIMITED**

### **Opinion**

We have audited the financial statements of Waitrose Limited ("the company") for the year ended 26 January 2019 which comprise the statement of comprehensive income, balance sheet, statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 26 January 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

### **Other Matter - Impact of the uncertainty due to the UK exiting the European Union on our audit**

#### *The Risk*

All audits assess and challenge the reasonableness of estimates, in particular as described in carrying amount of PPE and the appropriateness of the going concern basis of preparation of the financial statements below. All of these depend on assessments of the future economic environment and the Partnership's future prospects and performance.

Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WAITROSE LIMITED (continued)**

### *Our Response*

We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:

**Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the Partnership and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.

**Sensitivity analysis:** When addressing carrying amount of PPE and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty.

**Assessing transparency:** As well as assessing individual disclosures as part of our procedures on carrying amount of PPE and other areas, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

### *Our Results*

As reported under carrying amount of PPE we found the resulting estimates and related disclosures and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict to unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WAITROSE LIMITED (continued)**

### **Directors' responsibilities**

As explained more fully in their statement set out on page 32, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

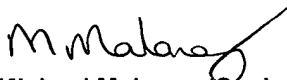
### **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

  
**Michael Maloney (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
15 Canada Square  
London  
E14 5GL  
11 April 2019