Company number: 99405

WAITROSE LIMITED

Financial statements for the year ended 25 January 2020

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WAITROSE LIMITED

Company information

Directors:	Sharon White (Chairman) Patrick Lewis
Company Secretary:	Peter Simpson
Registered Office:	171 Victoria Street, London, SW1E 5NN
Company Number:	99405
Independent Auditor:	KPMG LLP

Strategic report for the year ended 25 January 2020

Review of Performance

Key performance indicators

	2020	2019
(Decline)/growth in gross sales – total	(1.1)%	1.2%
(Decline)/growth in gross sales – like for like (excludes fuel sales) [1]	(0.2)%	1.3%
Company profit per average FTE (£000s) [2]	2.6	3.3
(Decline)/growth in number of 'high spending' customers [3]	(4.7)%	1.7%
Net promoter score	+21	+22

Business review

Waitrose Limited ('Waitrose' or 'the Company') achieved gross sales of £6.6bn, down 1.1%, with like-for-like sales, excluding fuel, down by 0.2%. Like-for-like sales growth increased in the second half, from (0.3)% in H1 to +0.1% in H2. Operating profit before exceptional items and Partnership Bonus was £162.1m, up 50.8%, with the improvement in gross margins and a strong operational performance being offset by cost inflation, including investment in non-management Partner pay.

Waitrose seek to provide our customers with exceptional service and over the past few months we have been going above and beyond for our customers as we deal with the impact of Coronavirus. This is Waitrose at its best, coming together for collective good, supporting the community and helping the most vulnerable at a time of national crisis. At moments like this, our purpose - people and community before profit - and the trust it instils in our brand comes to the fore.

We saw strong progress against our plans to strengthen our online capabilities, as we build towards trebling the size of Waitrose.com over the next three years. In 2019/20, we saw growth of 13%. After a successful 19 years together, we announced our commercial relationship with Ocado would end in September 2020. This means the only place you will be able to buy our products online in future is via Waitrose.com. We've been running the Ocado relationship alongside Waitrose.com for a number of years and seen strong online growth.

We announced the sale of five shops to other retailers, and then closed a further seven later in the year. We also announced in March that a further three Waitrose shops will close later this year. Going forwards, we continue to focus on 'right sizing' our estate as part of the Strategic Review in order to drive maximum value from our existing stores.

We completed 59 category reviews, alongside launching our largest summer food range – Scrumptious Summer – and relaunching Waitrose No.1 with 200 new and improved product lines. Over 300 new and improved Waitrose Christmas products launched and at Christmas we also won 27 taste tests across major national publications, which is more than any other retailer.

85% of all our own-brand packaging is now widely recyclable and 99% of own-brand black plastic has been removed. Loose fruit and vegetable bags were replaced with home compostable alternatives and 5p single-use Waitrose carrier bags removed, saving in total 134 million plastic bags a year. As a result, Waitrose moved up two places in this year's Greenpeace plastics survey to first position on their score card, reflecting our efforts to eliminate unnecessary packaging. Nevertheless, we appreciate that we still have a huge amount of work to do. We set a new target that no good food will be wasted in our UK operations and we are committed to helping halve food waste by 2030 to ensure any food that is safe to eat is utilised.

[1] Comparison of sales between two periods in time (e.g. this year to last year), removing the impact of branch openings and closures. Like-for-like sales excludes fuel.

[2] Calculated as profit before Partnership Bonus, tax and exceptional items divided by average full-time equivalent Partners for the year. Prior year figure restated on this basis.

[3] Percentage change in high spending customers during the reporting period. High-spending customers are those customers who exceed particular spend and frequency thresholds over a given time frame. As time passes, the level of data available relating to customer spend increases; primarily returns data and the ability to link spend to a specific customer. The prior year figure is therefore restated each year to reflect the most recent data available.

Strategic report for the year ended 25 January 2020 (continued)

Outlook 2020/21
Our financial strategy is focused on improving our financial strength and flexibility and managing cash and liquidity tightly. This will be even more vital during 2020 as the business adapts to the impact of Coronavirus. In 2020, we will also undertake a Strategic Review of the business, to create a growth plan for the future.

Principal risks and uncertainties
The principal risks and uncertainties facing the Company are in line with John Lewis Partnership plc ('the Partnership') and are managed and evaluated in line with the risk and control mechanisms established for the Partnership. These risks are:

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

Details of key mitigations to these principal risks and uncertainties are presented on pages 46 to 50 of the Partnership's Annual Report and Accounts. The trading environment over the past year was challenging. It is now both changed and unprecedented as a result of the Coronavirus pandemic, the impacts of which are being actively managed in relation to our customers, Partners and business, most significantly across our supply chain, stores and online operations. Brexit continues to provide a less immediate but nevertheless uncertain backdrop and the Company has continued to take a proactive approach to preparing for Brexit. Further information is presented on page 50 of the Partnership's Annual Report and Accounts.

Section 172(1) Statement and Statements on engagement with suppliers, customers and others
This section acts as the Company's Section 172(1) statement. In accordance with The Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), this section also constitutes the Company's statement on engagement with, and having due regard to the interest of our key stakeholders.The Company's ultimate parent company is John Lewis Partnership plc ('the Partnership'), which is owned in Trust for the benefit of its members, the Partners employed in the Partnership. Whilst being Directors of Waitrose Limited, and having acted in a way they consider is most likely to promote the success of the Company, the Directors on the Board are also members of the Partnership's Executive Team which manages the Partnership's business as part of the Partnership's governance structure. In carrying out their duties, the Directors had in mind the Principles of the Partnership set out in the Partnership's Constitution (available online at www.johnlewispartnership.co.uk). These Principles are consistent with the requirements of Section 172(1) in that they say how the Partnership - including the Company - should operate and how it should conduct its relationships with Partners (both as the Company's members and as employees of John Lewis plc assigned to work for the Company), customers, suppliers and other stakeholders and the communities in which it operates. Further information on decision-making and engagement with stakeholders in the Partnership can be found in the Partnership's Annual Report and Accounts available at www.johnlewispartnership.co.uk

The purpose of the Partnership is set out in Principle 1 of the Constitution: "The Partnership's ultimate purpose is the happiness of all its members, through their worthwhile and satisfying employment in a successful business". Principle 3 of the Constitution says that "the Partnership aims to make sufficient profit from its trading operations to sustain its commercial vitality, to finance its continued development, to distribute a share of those profits each year to its members, and to enable it to undertake other activities consistent with its ultimate purpose". These two Principles are the core fundamentals that underpin the Company's strategic direction. In setting the strategic direction of the Company, Directors also take into account the principal risks facing the business.

Strategic report for the year ended 25 January 2020 (continued)

Section 172(1) Statement and Statements on engagement with suppliers, customers and others (continued)

Decision-making at the Board
All matters which under the Company's governance arrangements are reserved for decision by the Directors are presented at Board meetings. Directors are briefed on any potential impacts and risks for our customers, Partners and other stakeholders including our suppliers, the community and environment and how they are to be managed. The Directors take these factors into account before making a final decision which together they believe is in the best interests of the Company and its members - our Partners.

Stakeholders
Our key stakeholders are our Partners, who are at the heart of our purpose and work in service of our customers. We are focused on responding to the needs of, and building long-term relationships with, our customers. Other key stakeholders are the producers and suppliers who we purchase goods and services from, and the communities in which we operate.

Long-term sustainability
We aim to make sufficient profit to sustain the Partnership's commercial vitality. This is balanced against the needs of our customers, Partners and other stakeholders and the community to ensure we are conducting all our business relationships with integrity. The long-term sustainability of the Company is at the forefront of decision-making, particularly in response to the challenging conditions in retail and, since the year-end, the Coronavirus pandemic.

Partners
Information on the engagement methods in the Partnership, which are used by the Company's Directors, are in the Partnership's Annual Report and Accounts available at www.johnlewispartnership.co.uk

Customers
The Customer Research Team collects data through surveys, face to face research, customer feedback to our Partners and contact centres and external data sources. Regular customer reports are produced for management and are regularly shared with Directors.

Producers and Suppliers
We work closely with producers and our supply chain. The Partnership's Audit and Risk Committee monitors the Company's compliance with the Groceries Supply Code of Practice. The Company has taken measures to prevent modern slavery and human trafficking in its business and supply chains. Further information is available at www.johnlewispartnership.co.uk/csr

Financial Stakeholders
The Company seeks to make information available to financial stakeholders as part of information provided about and by the Partnership. This includes contact details should stakeholders wish to discuss anything directly. Directors regularly participate in financial updates and announcements made by the Partnership, which gives stakeholders an opportunity to engage directly with them.

Community and environment
The Partnership's Constitution requires Directors to take all reasonable steps to minimise any detrimental impact the Company's operations may have on the environment. The Company also supports a range of charitable and community activity, based on customer input and coordinated through branches. Full detail of activities designed to help Partners and communities thrive, such as the Waitrose & Partners Foundation and The Golden Jubilee Trust, is available in the Partnership's Annual Report and Accounts and at www.johnlewispartnership.co.uk/csr

Strategic report for the year ended 25 January 2020 (continued)

Section 172(1) Statement and Statements on engagement with suppliers, customers and others (continued)

Business Conduct
The Company aims to conduct all its business relationships with integrity and courtesy, and scrupulously to honour every business agreement.

Acting fairly as between the Company's owners
Because the Partnership is held in Trust for the benefit of its members, all Partners share an obligation to improve the Company in the knowledge that they share the rewards of success. The share of profit is in the form of Partnership Bonus.

Approved by the Directors and signed on behalf of the Board

Patrick Lewis
Director
15 April 2020

Directors' report for the year ended 25 January 2020

The Directors present their report and the audited financial statements for the year ended 25 January 2020.

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 Limited's 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:

Sharon White (Chairman) (appointed as Chairman on 4 February 2020)
Sir Charlie Mayfield (Chairman) (resigned as Chairman on 4 February 2020)
Patrick Lewis
Rob Collins (resigned 23 January 2020)
Peter Simpson (Company Secretary)

Results and dividends
The Company's profit on ordinary activities before taxation for the year ended 25 January 2020 is £44.9m (2019: £84.8m). The share capital of the Company is wholly owned by John Lewis plc. No dividend (2019: £5.4m) 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 John Lewis Partnership plc ('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.

Directors' report for the year ended 25 January 2020 (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 81 to 84 and Democratic vitality section on page 85 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
The Company is committed to promoting equal opportunities in employment for existing Partners and prospective Partners throughout the recruitment process. All Partners and job applicants will receive equal treatment regardless of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation (these are known as "Protected Characteristics").

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. In particular, we know adjustments are of utmost importance for our Partners with disabilities, be they physical or cognitive, and arrange reasonable adjustments required at an individual level to ensure our disabled applicants and Partners are supported.

The John Lewis Partnership, of which Waitrose is a part, achieved Disability Confident Leader status which is the highest accreditation awarded by a government scheme and recognises and supports employers who recruit and retain people with disabilities.

Employee Health and Wellbeing
The John Lewis Partnership, of which Waitrose Limited is a part, continues to offer comprehensive health and wellbeing services, investing over £20 million a year to enable Partners to feel well, enjoy life and have support when they need it. Partnership Health Services provide a number of services to Partners, including physiotherapy sessions, psychological therapy sessions and podiatry treatments. People managers have attended Mental Health Awareness training and across the Partnership almost 8,000 Partners have downloaded Unmind, a mental health platform and app. These measures underpin the Partnership's ambition to become Britain's Healthiest Workplace by 2025. In addition, we have further expanded our Wellbeing Champions Network, with 713 Wellbeing Champions in the business across 213 Partnership locations. We have provided funding to support the use of Partner dining rooms for social interaction as well as healthy food. And, with The Liminal Space and the Wellcome Trust, we have trialled a specific intervention for those working at night: night shift Partners from our distribution sites had the opportunity to learn about the science of sleep and how it affects the body, speak to nutritionists and sleep specialists and try healthy food and drinks.

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 places Partners on secondments at a charity of their choice for up to six months, while still on full pay and benefits.

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.

Directors' report for the year ended 25 January 2020 (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.

Section 172(1)
In accordance with The Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Company's statement on engagement with, and having due regard to, the interests of key stakeholders is contained within the Section 172(1) statement in the Strategic report.

Directors' responsibilities
The Statement of Directors' responsibilities in relation to the Strategic report, Directors' report and financial statements is set out on page 40.

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, having reviewed the Company's current performance, forecasts and financing arrangements, including specific consideration of the current Coronavirus outbreak (see the Partnership's Annual Report and Accounts, page 51), consider, at the approval date of these accounts, that the Company has sufficient resources to continue in operation and meet its liabilities as they fall due. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the Company's financial statements.

Directors' and Officers' liability insurance
The Directors and key managers (Officers) of the Company are beneficiaries of Directors' and Officers' liability insurance providing cover for claims made, subject to certain limitations and exclusions, which is purchased and maintained throughout the year by the Partnership. The Partnership also provides an indemnity for the benefit of each Trustee of the Partnership's Pension Fund, in respect of liabilities that may attach to them in their capacity as a Trustee. As a former Trustee of the Partnership's Pension Fund, Patrick Lewis has the benefit of this indemnity in relation to his term as Trustee from August 2009 to September 2015.

Directors' report for the year ended 25 January 2020 (continued)

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/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information; and
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.

Peter Simpson
Company Secretary
15 April 2020

Statement of comprehensive income
for the year ended 25 January 2020

Notes		2020[1] £m	2019 £m
	Gross sales	**6,621.6**	6,698.4
	Revenue	**6,235.0**	6,296.7
	Cost of sales	**(4,409.0)**	(4,484.6)
	Gross profit	**1,826.0**	1,812.1
	Other operating income	**66.1**	62.2
3	Operating expenses before exceptional items and Partnership Bonus	**(1,730.0)**	(1,766.8)
	Operating profit before exceptional items and Partnership Bonus	**162.1**	107.5
4	Exceptional items	**(30.6)**	(4.0)
	Operating profit before Partnership Bonus	**131.5**	103.5
7	Net finance (expense)/income	**(70.3)**	4.9
	Profit before Partnership Bonus and tax	**61.2**	108.4
	Partnership Bonus	**(16.3)**	(23.6)
2	**Profit on ordinary activities before taxation**	**44.9**	84.8
8	Taxation	**(0.5)**	(14.8)
	Profit for the financial year	**44.4**	70.0

[1] The Company has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application (see note 1).

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

WAITROSE LIMITED

Balance sheet
as at 25 January 2020

Company number - 99405

Notes		**2020[1]** **£m**	2019 £m
	Non-current assets		
9	Intangible assets	**163.1**	142.3
10	Property, plant and equipment	**1,873.3**	2,042.8
10	Right-of-use-assets	**1,387.3**	-
12	Investments	**160.7**	160.7
14	Trade and other receivables	**-**	3.6
		3,584.4	2,349.4
	Current assets		
13	Inventories	**219.4**	223.4
14	Trade and other receivables	**91.0**	100.1
	Current tax receivable	**8.7**	-
11	Assets held for sale	**1.0**	13.7
	Cash and cash equivalents	**60.2**	62.9
		380.3	400.1
	Total assets	**3,964.7**	2,749.5
	Current liabilities		
15	Trade and other payables	**(1,464.9)**	(1,705.2)
	Current tax payable	**-**	(26.9)
16	Lease liabilities	**(75.9)**	(0.5)
17	Provisions	**(4.7)**	(4.7)
		(1,545.5)	(1,737.3)
	Non-current liabilities		
15	Trade and other payables	**(8.2)**	(56.9)
16	Lease liabilities	**(1,405.4)**	(6.2)
17	Provisions	**-**	(3.3)
8	Deferred tax liability	**(52.4)**	(39.7)
		(1,466.0)	(106.1)
	Total liabilities	**(3,011.5)**	(1,843.4)
	Net assets	**953.2**	906.1
	Equity		
18	Share capital	**1.0**	1.0
	Retained earnings	**952.2**	905.1
	Total equity	**953.2**	906.1

[1] The Company has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application (see note 1).

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

The financial statements on pages 11 to 39 were approved by the Board of Directors on 15 April 2020 and signed on its behalf by

Patrick Lewis
Director
15 April 2020

Statement of changes in equity
for the year ended 25 January 2020

	Share capital £m	Retained earnings £m	Total equity £m
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)
Balance as at 26 January 2019	1.0	905.1	906.1
Adjustment on initial application of IFRS 16[1]	-	2.7	2.7
Adjusted balance at 27 January 2019	1.0	907.8	908.8
Profit for the year	-	44.4	44.4
Balance as at 25 January 2020	**1.0**	**952.2**	**953.2**

[1] The Company has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application (see note 1).

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

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 25 January 2020 (prior year: 52 weeks ended 26 January 2019).

Going concern
In determining the appropriate basis of preparation of the financial statements for the year ended 25 January 2020, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future. The Directors has concluded that it is appropriate to adopt the going concern basis, having undertaken an assessment of the financial forecasts with specific consideration to the trading position of the Company in the context of the current Coronavirus pandemic.

As at 25 January 2020, the Company had total assets less current liabilities of £2,419m and net assets of £953m. Liquidity for the Partnership as a whole as at that date was £1.4bn, made up of cash and cash equivalents, short term investments and undrawn committed credit facilities of £500m. To date the Company has seen no adverse impact with an increase in sales above targets as a result of increased grocery spend. Both Waitrose stores and its online activities continue to operate given that they have been designated by the UK government as part of an 'essential industry'. Nevertheless, the full impact of the Coronavirus outbreak is unknown at this time and is unpredictable, and our key priority is the health and wellbeing of our Partners and customers, while we maintain our high standards of service.

The Directors have reviewed the rapidly evolving situation relating to Coronavirus and are expecting that the Company will remains operational in stores and online to a level of activity consistent with prior years notwithstanding that current levels of activity both in store and online are significantly ahead of last year.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Amendments to accounting standards
The following policy was adopted by the Company for the 52 weeks ended 25 January 2020 and has had a significant impact on the Company's profit for the year, equity and disclosures:

IFRS 16 'Leases' *(applicable for the period beginning 27 January 2019)*
IFRS 16 'Leases' specifies how to recognise, measure, present and disclose leases and replaces IAS 17 'Leases'. The Company has adopted IFRS 16 from 27 January 2019 using a modified retrospective transition approach, under which the cumulative effect of initial application is recognised in retained earnings at 27 January 2019. The comparative information presented for the year ended 26 January 2019 has not been restated and therefore continues to be shown under IAS 17.

The main impact of IFRS 16 for the Company is the recognition of all future lease liabilities on the balance sheet. Corresponding right-of-use assets have also been recognised on the balance sheet representing the economic benefits of the Company's right to use the underlying leased assets. The Company's activities as a lessor are not material and therefore the Company has not recognised any changes to lessor accounting as a result of the transition to IFRS 16.

Definition of a lease
Previously the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 'Determining Whether an Arrangement Contains a Lease'. The Company now assesses whether a contract is or contains a lease based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

Exemptions on transition to IFRS 16
On transition to IFRS 16, the Company has elected to apply the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Excluding initial direct costs from measuring the right-of-use assets at the transition date;
- Using hindsight when determining the lease term where the contract contains options to break or renew; and
- For leases determined to be onerous before the transition date, relying on this assessment as an indicator of impairment as an alternative to performing an impairment review.

On transition to IFRS 16, the Company did not elect to grandfather the assessment of which contracts are leases.

IAS 17 – Operating leases
For all periods prior to 27 January 2019, the Company classified the majority of its property leases as operating leases under IAS 17. Operating lease rental payments were recognised as an expense in the income statement on a straight-line basis over the lease term.

On transition to IFRS 16, these lease liabilities recognised were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at 27 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities at 27 January 2019 was 5.1%.

IAS 17 – Finance leases
For all periods prior to 27 January 2019, the Company classified its vehicle and equipment leases as finance leases under IAS 17. These leases are on terms that transfer to the Company substantially all the risks and rewards of ownership. The accounting treatment for finance leases under IAS 17 is similar to the accounting treatment for leases under IFRS 16.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Amendments to accounting standards (continued)
Leased assets are capitalised at inception at fair value or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a 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 the finance lease rentals is charged to the income statement and the capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. For finance leases the carrying amounts of the right-of-use assets and the lease liabilities on transition at 27 January 2019 were equal to the carrying amounts of the finance lease assets and finance lease liabilities recognised at the 26 January 2019 year-end under IAS 17.

The Company also previously held finance leases in relation to the building elements of a small number of long leasehold property leases. The land elements of these leases remained classified as operating leases under IAS 17. Under IFRS 16, there is no longer a distinction between operating and finance leases. As a result, these property leases have been remeasured on transition to account for the land and building elements as part of the same lease, with future lease payments discounted at the incremental borrowing rate applicable on 27 January 2019. The existing finance lease assets and finance lease liabilities in relation to these property leases have been written off to reserves on transition. The following table presents the reconciliation of lease liabilities at 27 January 2019:

	£m
Minimum lease payments under non-cancellable operating leases at 26 January 2019	(2,044.0)
Minimum lease payments under non-cancellable finance leases at 26 January 2019	(10.9)
Discounted using the incremental borrowing rate at 27 January 2019	**(1,426.9)**
Leases recognised under IFRS 16, previously not identified as leases under IAS 17	(3.5)
Lease liabilities recognised at 27 January 2019	**(1,430.4)**

Transition
The opening balance sheet position as at 27 January 2019 has been restated on transition to IFRS 16. The Company recognised additional right-of-use assets, lease liabilities and deferred tax liabilities as well as a reduction in prepayments, deferred income, provisions and property, plant and equipment (including finance lease assets and the corresponding liabilities), recognising the difference in retained earnings. Comparative periods have not been restated.

	£m
Assets:	**Increase/ (decrease)**
Property, plant and equipment	2.0
Right-of-use assets	1,392.9
Prepayments	(23.1)
Liabilities:	**(Increase)/ Decrease**
Lease liabilities – current	(67.7)
Lease liabilities – non-current	(1,362.7)
Finance lease liabilities – current	0.5
Finance lease liabilities – non-current	6.2
Deferred income – current	51.2
Deferred tax liabilities	(0.6)
Provisions	4.0
Equity:	**(Increase)/ decrease**
Retained earnings	(2.7)

Notes to the financial statements (continued)

1 Accounting policies (continued)

Amendments to accounting standards (continued)
The following standards, amendments and interpretations were applicable for the period beginning 27 January 2019, and were adopted by the Company for the year ended 25 January 2020. They have not had a significant impact on the Company's profit for the year, equity or disclosures:

- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- IFRIC 23: Uncertainty over Income Tax Treatments
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Annual Improvements to IFRS Standards 2015-2017 Cycle

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 based on assumptions regarding non-redemption rates and time to expiry.

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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Supplier income (shown as part of accrued income) (continued)
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 Partnership Bonus. This is based on the population of Partners working within Waitrose Limited compared to total Partners employed within the Partnership.

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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Employee benefits
Partners working in Waitrose Limited are members of the John Lewis Partnership Trust for Pensions. The accounting policy adopted by Partnership 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.

On 15 May 2019, the Partnership Council voted in favour of proposals by the Partnership Board to close the defined benefit section of the scheme to future accrual from 1 April 2020. At this date, all active members of the scheme moved to become deferred members. Following closure, members' deferred pensions will now increase annually by inflation up to five per cent per annum (measured using the Consumer Price Index, CPI), which is generally lower than the previous pay growth assumption, resulting in a reduction of the defined benefit obligation. There will be no further current or past service costs from 1 April 2020.

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.

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 Partnership's 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 Partnership's 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's consolidated income statement. The long leave operating costs charged to the Waitrose Limited statement of comprehensive income represents a proportion of total pay of Partners working in Waitrose.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Intangible assets
Intangible assets, comprising both purchased and internally developed computer software, are carried at cost less accumulated amortisation and impairments. The cost of internally developed software, including all directly attributable costs necessary to 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.

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.

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.

Right-of-use assets
Right-of-use assets are initially measured at cost, which is an amount equal to the corresponding lease liabilities adjusted for any lease payments made at or before the commencement date, less any lease incentives received.

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) which are branches including an allocation of online, being the lowest level of separately identifiable cash flows. An impairment loss is recognised for the value 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, discounted at a pre-tax rate, which reflects the asset specific risks and the time value of money.

When an impairment loss subsequently reverses, the carrying amount of the CGU is increased to the revised estimate of the recoverable amount, but ensuring 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 as a credit to the income statement when recovery of performance is considered reasonably certain.

Notes to the financial statements (continued)

1 Accounting policies (continued)

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 economic life (UELs), at the following rates:

- Freehold and long leasehold buildings – 25 to 50 years;
- Other leaseholds – over the shorter of the useful economic life and the remaining period of the lease;
- Building fixtures – 10 to 40 years;
- Fixtures and fittings (including vehicles and information technology equipment) – 3 to 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 economic lives are reviewed and adjusted if appropriate at least at each balance sheet date.

For right-of-use assets depreciation is calculated on a straight-line basis over the expected useful economic life of the lease. Judgement is applied to estimate the lease UEL. This is done on an individual lease basis and considers the lease terms and the enforceable period of the lease.

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, using the simplified approach under IFRS 9. 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.

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

Notes to the financial statements (continued)

1 Accounting policies (continued)

Lease liabilities
The Company assesses whether a contract is or contains a lease based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

Under IFRS 16, the Company recognises right-of-use assets and lease liabilities at the lease commencement date. The lease liabilities are initially measured at the present value of the lease payments that are not yet paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses the incremental borrowing rate as the discount rate and this rate is determined on a portfolio basis, in relation to asset type and location.

Lease liabilities are subsequently measured at amortised cost and are increased by the interest charge and decreased by the lease payments made. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a renewal or purchase option is reasonably certain to be exercised or a break clause is reasonably certain not to be exercised.

The Company has elected to apply the exemption for recognising right-of-use assets and lease liabilities on the balance sheet for leases where the underlying asset is of low value. Lease expenses relating to low value assets will be recognised in the income statement on a straight-line basis.

In relation specifically to vehicle leases, the Company has also elected to apply the exemption for short-term leases and therefore will not recognise right-of-use assets and lease liabilities on the balance sheet for vehicle leases of less than 12 months in duration.

Contingent rentals are recognised as an expense in the income statement when incurred.

Sub-lease income is recognised as other operating income on a straight-line basis over the sub-lease term, less allowances 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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

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

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.

Impairment
In line with the Company's accounting policy, management must assess the value in use of each CGU when testing for impairment. This requires estimation of the present value of future cash flows expected to arise from the continued operation of the CGU. These estimates require assumptions over future sales performance, future costs and long term growth rates, as well as the application of an appropriate discount rate. The value in use calculation is based on three-year cash flow projections using the latest budget and forecast data. Any changes in sales performance and costs are based on past experience and expectations of future changes in the market. The forecasts are then extrapolated beyond the three-year period using a long-term growth rate of 1.5%. A pre-tax discount rate of 7% (2019: 8%) has been used, calculated by reference to the Company's Weighted Average Cost of Capital (WACC) which now includes Company lease debt under IFRS 16.

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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Critical accounting estimates and key judgements (continued)

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.

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 depreciation 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.

Lease terms
The Company has applied judgement to determine the lease term for those lease contracts that include a renewal or break option. The assessment of whether the Company is reasonably certain to exercise a renewal option or reasonably certain not to exercise a break option significantly impacts the value of lease liabilities and right-of-use assets recognised on the balance sheet.

Extension options and break clauses are included in a number of the Company's leases. These are used to maximise flexibility in terms of managing the assets used in the Company's operations. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not utilise a break clause.

Extension options (or periods after break clauses) are only included in the lease term if the lease is reasonably certain to be extended (or break clause not utilised).

For leases of branches, distribution centres, offices and vehicles, the following factors are considered the most relevant:

- If there are significant penalties to break leases (or not extend), the Company is typically reasonably certain to extend (or not to utilise the break clause);
- If any leasehold improvements are expected to have significant remaining value, the Company is typically reasonably certain to extend (or not utilise the break clause); and
- The Company considers other factors including the likely value of future rentals, the importance of the underlying assets to the Company's operations, whether the asset is specialised in nature and the costs and business disruption required to replace the leased asset.

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 criterion 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.

Notes to the financial statements (continued)

2 Profit on ordinary activities before taxation

	2020 £m	2019 £m
Profit on ordinary activities before taxation is stated after (charging)/crediting the following:		
Staff costs (note 6)	**(985.4)**	(981.1)
Depreciation	**(221.3)**	(137.2)
Amortisation of intangible assets	**(35.4)**	(32.4)
Net profit on sale of property	**15.3**	1.7
Loss on disposal of other plant and equipment and intangible assets	**(4.0)**	(1.5)
Inventory recognised as an expense	**(4,409.0)**	(4,484.6)
Operating lease charges[1]		
- land and buildings	**(1.9)**	(131.9)
- plant and machinery	**(0.7)**	-
Sub lease income		
- land and buildings	**4.7**	4.5
Fees payable to the Company's auditor for audit services:	**(0.3)**	(0.2)

[1] Since transition to IFRS 16 on 27 January 2019, only operating lease rentals that are contingent rents or relate to low value assets or have short-term leases have been charged to the income statement.

Included within depreciation is a net impairment charge of £1.2m (2019: £3.9m). During the year, a further £6.3m impairment charge was recorded as exceptional.

Included within amortisation of intangible assets is a net impairment charge of £2.9m (2019: £0.2m).

3 Operating expenses before exceptional items

	2020 £m	2019 £m
Branch operating expenses	**(1,277.6)**	(1,298.7)
Administrative expenses	**(452.4)**	(468.1)
	(1,730.0)	(1766.8)

4 Exceptional items

	2020 Operating (expenses)/ income	2020 Taxation credit/ (charge)	2019 Operating expenses	2019 Taxation Credit
	£m	£m	£m	£m
Strategic restructuring and redundancy				
Head office reviews	**(5.1)**	**0.9**	(0.6)	0.1
Physical estate	**(38.2)**	**6.3**	(2.1)	0.6
Shop operations	**(0.6)**	**0.1**	(1.3)	0.2
	(43.9)	**7.3**	(4.0)	0.9
Branch impairments	**13.3**	**(1.7)**	-	-
	(30.6)	**5.6**	(4.0)	0.9

Notes to the financial statements (continued)

4 Exceptional items (continued)

Exceptional items in the year to 25 January 2020 are as follows:

Strategic restructuring and redundancy: The Partnership, incorporating Waitrose, is currently undergoing an unprecedented level of internal change. Over the past three years, we have accelerated our strategic transformation programme in order to ensure the Partnership's success over the long-term. We anticipated last year that as we move closer to delivering our strategic vision, transformation programmes in other areas may be required. We announced in October 2019 a bold and ambitious plan to further transform our business for the future as part of Future Partnership, and with a new Leadership now in place a Strategic Review was launched in March 2020, which will consider how we further develop our existing services and products as well as new services outside of retail. The scale of the changes to date and the programme of activity that will follow will take a number of years to deliver, with costs expected to recur across a number of financial years. Over the life of the strategic transformation 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 2020 is detailed below:

> **Head office review:** The transformation of pan-Partnership functions, incorporating Waitrose, and other head office operations continues at pace. The main focus includes reviews of a number of functions which began at the end of 2017. Given the scale of the change, the delivery of these was expected to take four years, and is now well progressed, but further costs are expected over at least the next two years as we finalise the reviews of the remaining functions. These timescales are to be reassessed as a result of the ongoing uncertainty and volatility relating to Coronavirus. In 2020 we have incurred costs of £5.1m (2019: £0.6m) in relation to these reviews. The charge principally relates to redundancy costs.
>
> **Physical estate:** We have continued with our programme of optimising our existing estate. This includes ensuring that the size and shape of our physical estate is delivering on both our customer proposition, and financial returns. We expect this programme, (which commenced in 2017), and the associated costs and incomes to take a total of approximately five years to deliver. This year we have recognised a net exceptional charge of £38.2m (2019: £2.1m). The net charge 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 and, where closure has been approved and announced, redundancy costs.
>
> **Shop operations:** Alongside the assessment of our physical estate, we also identified that the way in which we run and manage our shops would require adjustment. In order to improve the customer experience and efficiencies in our stores, we have made a number of changes in our shop operating models. This has included reviewing store management structures, the centralisation of certain functions, and aligning regional offerings in order to deliver a more flexible, multi-skilled and productive model. This programme is now largely complete with costs of £0.6m (2019: £1.3m) recognised this year. The expenses in the current year principally include redundancy costs, where announced, as specific elements of our shop operating models are restructured.

Branch impairments: In 2020, a credit of £13.3m has been released as a result of improved branch performance for branch impairments previously charged as exceptional.

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. 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 scheme. The assets of the pension scheme are held separately from the Partnership.

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

On 15 May 2019, the Partnership Council voted in favour of proposals by the Partnership Board to close the defined benefit section of the scheme to future accrual from 1 April 2020. At this date, all active members of the scheme moved to become deferred members. For Partners in the defined contribution section of the scheme, from 1 April 2020 there was an increase in the level of contributions that the Partnership matches from 4.5% to 8% of pay. The Partnership will also contribute 4% of pay to a Partner's pension after three years of service, whether they pay in or not.

The pension costs charged in the Waitrose Limited financial statements are £91.6m (2019: £90.3m). The basis of allocation of pension costs of the Partnership 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 Partnership's defined benefit section of the pension scheme. The Partnership's pension deficit as at 25 January 2020 is provided in note 6 of the Partnership's Annual Report and Accounts.

Notes to the financial statements (continued)

6 Partners

6.1 Partner numbers

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

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

	2020	2019
Selling and distribution	**48,000**	49,200
Administration	**2,600**	2,600
	50,600	51,800

6.2 Partner benefits

Employment and related costs were as follows:

	2020 £m	2019 £m
Staff costs:		
Wages and salaries	**(796.3)**	(782.8)
Social security costs	**(52.1)**	(52.3)
Partnership Bonus	**(14.4)**	(21.0)
Employers' National Insurance on Partnership Bonus	**(1.9)**	(2.6)
Other pension costs	**(91.6)**	(90.3)
Long leave cost	**(3.6)**	(3.5)
Total before Partner discounts	**(959.9)**	(952.5)
Partner discounts (deducted from revenue)	**(25.5)**	(28.6)
	(985.4)	(981.1)

6.3 Directors' emoluments

	2020 £m	2019 £m
Directors' emoluments including Partnership Bonus of 2% (2019: 3%)	**(1.0)**	(1.3)

At the year end, there were two Directors of the Company. Two Directors held office for the duration of the year. One Director 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 one other Director 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 one other Director has been excluded, on the basis that their principal duties relate to other areas of the Partnership.

For the Director that left during the year, emoluments are only included for their time on the Board.

Notes to the financial statements (continued)

6.3 Directors' emoluments (continued)

For the one Director (2019: one) whose remuneration is included in the table above, the following information is relevant:

The Director (2019: one Director) 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 (2019: £0.2m). The aggregate defined benefit pension entitlement accrued at the end of the year was £0.1m (2019: £0.1m).

7 Net finance (expense)/income

	2020 **£m**	2019 £m
Dividend income	-	5.4
Lease interest expense[1]	**(70.3)**	(0.5)
Net finance (expense)/income	**(70.3)**	4.9

[1] The Company has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application.

8 Taxation

8.1 Analysis of tax charge for the year

	2020 **£m**	2019 £m
Recognised in the statement of comprehensive income		
Current tax – current year	**8.7**	(28.4)
Current tax – adjustment in respect of prior years	**2.9**	8.9
Total current tax credit/(charge)	**11.6**	(19.5)
Deferred tax – current year	**(15.4)**	3.3
Deferred tax – rate change	**3.1**	(0.2)
Deferred tax – adjustment in respect of prior years	**0.2**	1.6
	(0.5)	(14.8)

Notes to the financial statements (continued)

8 Taxation (continued)

8.2 Factors affecting tax charge in the year

The tax charge for the year is lower (2019: lower) than the standard corporation tax rate of 19.0% (2019: 19.0%). The differences are explained below:

	2020 £m	2019 £m
Profit before tax	**44.9**	84.8
Profit before tax multiplied by standard rate of corporation tax in the UK of 19.0% (2019: 19.0%)	**(8.5)**	(16.1)
Effects of:		
Changes in tax rate	**3.1**	(0.2)
Adjustment in respect of prior years	**3.1**	10.5
Expenses not deductible	**-**	0.4
Non-taxable dividends	**-**	1.0
Depreciation on assets not qualifying for tax relief	**(6.8)**	(8.0)
Difference between accounting and tax base for land and buildings	**8.6**	(1.0)
Current year adjustments only impacting deferred tax	**-**	(1.4)
Total tax charge	**(0.5)**	(14.8)
Effective tax rate (%)	***1.1%***	*17.5%*

Waitrose Limited's effective tax rate for the current year is 1.1% (2019: 17.5%).

8.3 Deferred tax

Deferred tax is calculated on temporary differences using a rate of 19% where assets or liabilities were expected to reverse during the accounting period to 25 January 2020, 17.33% for those expected to reverse during the accounting period to 30 January 2021 and 17% for those expected to reverse in later periods.

The movement on the deferred tax account is shown below:

	2020 £m	2019 £m
Opening net liability	**(39.7)**	(44.4)
Adjustment on initial application of IFRS 16[1]	**(0.6)**	-
Adjusted opening net liability	**(40.3)**	(44.4)
(Charge)/credit to statement of comprehensive income	**(12.1)**	4.7
Closing net liability	**(52.4)**	(39.7)

[1] The Company has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application.

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.

Notes to the financial statements (continued)

8.3 Deferred tax (continued)

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

Deferred tax assets/(liabilities)	Capital gains tax on land and buildings £m	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Pensions and provisions £m	Rollover gains £m	Other £m	Total £m
At 26 January 2019	2.0	(26.2)	(0.3)	(16.8)	(3.3)	4.9	(39.7)
Adjustment on initial application of IFRS 16[1]	-	-	-	-	-	(0.6)	(0.6)
At 27 January 2019	2.0	(26.2)	(0.3)	(16.8)	(3.3)	4.3	(40.3)
Credit/(charge) to statement of comprehensive income	1.9	0.3	(0.3)	(18.4)	-	4.4	(12.1)
At 25 January 2020	**3.9**	**(25.9)**	**(0.6)**	**(35.2)**	**(3.3)**	**8.7**	**(52.4)**

[1] The Company has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application. As a result, the Company recognised a deferred tax liability of £0.6m in relation to this adjustment to retained earnings.

The net deferred tax liability at 25 January 2020 was £52.4m (2019: £39.7m).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 (Finance Act 2016) to reduce the corporation tax rate from 19% to 17% from 1 April 2020. However the Government announced in the Spring Budget on 11 March 2020 that the corporation tax rate will remain at 19%. At the balance sheet date legislation had not yet been amended and therefore the substantively enacted rate for the purposes of determining the deferred tax recognition rate for assets and liabilities expected to reverse in periods overlapping 1 April 2020 and later remains at 17%.

If the corporation tax rate of 19% had been substantively enacted as at 25 January 2020 the deferred tax movement would have been as follows:

	2020 £m
Opening net liability	**(39.7)**
Adjustment on initial application of IFRS 16	**(0.6)**
Adjusted opening net liability	**(40.3)**
Charge to statement of comprehensive income	**(16.5)**
Closing net liability	**(56.8)**

The movement largely relates to accelerated tax depreciation.

Notes to the financial statements (continued)

9 Intangible assets

	Purchased £m	Internally generated £m	Work in progress £m	Total £m
Cost				
At 26 January 2019	99.1	178.5	82.8	360.4
Additions	-	-	59.1	59.1
Transfers	0.5	73.1	(73.6)	-
Disposals and write-offs	(11.7)	(11.6)	(2.4)	(25.7)
At 25 January 2020	**87.9**	**240.0**	**65.9**	**393.8**
Accumulated amortisation				
At 26 January 2019	(74.1)	(144.0)	-	(218.1)
Charge for the year*	(11.7)	(23.7)	-	(35.4)
Disposals and write-offs	11.7	11.1	-	22.8
At 25 January 2020	**(74.1)**	**(156.6)**	**-**	**(230.7)**
Net book value at 26 January 2019	25.0	34.5	82.8	142.3
Net book value at 25 January 2020	**13.8**	**83.4**	**65.9**	**163.1**

* Charge for the year ending 25 January 2020 includes an impairment charge of £2.9m (2019: £0.2m).

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

Notes to the financial statements (continued)

10 Property, plant and equipment and right-of-use-assets

Property, plant and equipment	Land and buildings £m	Fixtures and Fittings £m	Assets in the course of construction £m	Total £m
Cost				
At 26 January 2019	2,612.7	948.8	31.2	3,592.7
Adjustment on initial application of IFRS 16[1]	(7.6)	-	-	(7.6)
At 27 January 2019	**2,605.1**	**948.8**	**31.2**	**3,585.1**
Additions	-	-	81.2	81.2
Transfers	31.0	30.1	(61.1)	-
Disposals and write-offs	(178.4)	(61.3)	(2.4)	(242.1)
Transfers to assets held for sale	(4.9)	-	-	(4.9)
At 25 January 2020	**2,452.8**	**917.6**	**48.9**	**3,419.3**
Accumulated depreciation				
At 26 January 2019	(831.7)	(718.2)	-	(1,549.9)
Adjustment on initial application of IFRS 16[1]	9.6	-	-	9.6
At 27 January 2019	**(822.1)**	**(718.2)**	**-**	**(1,540.3)**
Charge for the year[2]	(53.7)	(62.7)	-	(116.4)
Disposals and write-offs	48.7	58.1	-	106.8
Transfers to assets held for sale	3.9	-	-	3.9
At 25 January 2020	**(823.2)**	**(722.8)**	**-**	**(1,546.0)**
Net book value at 26 January 2019	1,781.0	230.6	31.2	2,042.8
Net book value at 25 January 2020	**1,629.6**	**194.8**	**48.9**	**1,873.3**

[1] The Company has initially applied IFRS 16 at 27 January 2019 which requires the recognition of right-of-use assets in place of finance lease assets. As a result, at 27 January 2019, land and building assets held under finance leases with a net book value of £2.6m have been reallocated and recognised as right-of-use assets. A further (£4.6m) of lease inducements has also been reclassified to right-of-use assets on transition to IFRS 16. The Company has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated (see note 1).

[2] For the year ended 25 January 2020, this includes an impairment charge of £7.0m in land and buildings (2019: £6.0m) and £0.5m in fixtures and fittings (2019: £nil).

Notes to the financial statements (continued)

10 Property, plant and equipment and right-of-use-assets (continued)

Right-of-use assets	Land and buildings £m	Fixtures and Fittings £m	Total £m
Cost			
Recognition of right-of-use assets on initial application of IFRS 16 at 27 January 2019[1]	1,388.0	4.9	1,392.9
Additions	114.0	-	114.0
Disposals and write-offs	(16.3)	-	(16.3)
At 25 January 2020	**1,485.7**	**4.9**	**1,490.6**
Accumulated depreciation			
Recognition of right-of-use assets on initial application of IFRS 16 at 27 January 2019[1]	-	-	-
Charge for the year	(103.9)	(1.0)	(104.9)
Disposals and write-offs	1.6	-	1.6
At 25 January 2020	**(102.3)**	**(1.0)**	**(103.3)**
Net book value on initial application of IFRS16 at 27 January 2019[1]	1,388.0	4.9	1,392.9
Net book value at 25 January 2020	**1,383.4**	**3.9**	**1,387.3**

1 The Company has initially applied IFRS 16 at 27 January 2019 which requires the recognition of right-of-use assets in relation to the Company's lease liabilities. As a result, at 27 January 2019, the Company recognised £1,392.9m of right-of-use assets related to those lease liabilities. The Company has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated (see note 1).

Having applied the methodology and assumptions described under note 1, Waitrose recognised a net impairment release of £13.8m. This includes releases of impairment charges following the exit of previously impaired stores and impairment reversals due to improved store performance which has been judged to be sustainable. These reversals have been offset by new impairment charges, principally relating to stores approved for closure.

The impairment estimation is most sensitive to a change in the long-term growth rate. Reducing the long-term growth rate to nil would reduce the impairment release to £3.9m.

11 Assets held for sale

At 25 January 2020, one property was recorded as held for sale with a total carrying value of £1.0m. This sale is expected to complete within the next 12 months.

At 26 January 2019, five property assets were recorded as held for sale with a total carrying value of £13.7m.

Notes to the financial statements (continued)

12 Investments in subsidiary undertakings

	2020 £m	2019 £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 30.4% 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.

13 Inventories

Inventory	2020 £m	2019 £m
Raw materials	**0.8**	0.8
Work in progress	**0.2**	0.1
Finished goods and goods for resale	**218.4**	222.5
	219.4	223.4

Provisions against inventories of £0.4m (2019: £1.9m) were charged under cost of sales.

14 Trade and other receivables

	2020 £m	2019 £m
Current:		
Trade receivables	**30.3**	30.4
Other receivables	**5.4**	5.6
Prepayments[1]	**30.7**	46.4
Accrued income	**24.6**	17.7
	91.0	100.1
Non-current:		
Prepayments	**-**	3.6
	-	3.6
Total trade and other receivables	**91.0**	103.7

[1] The Company has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application (see note 1).

Trade receivables are non-interest bearing and generally on credit terms of less than 90 days. Concentrations of credit risk are considered to be very limited. The carrying amount of trade and other receivables approximates to fair value and is denominated in sterling. Within accrued income, there is £3.7m (2019: £1.3m) in relation to supplier income which has not yet been invoiced. Additionally, accrued income includes £20.9m (2019: £16.6m) 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.

Notes to the financial statements (continued)

14 Trade and other receivables (continued)

The Company recognises loss allowances for expected credit losses within branch operating expenses in the income statement. As at 25 January 2020, trade and other receivables of £0.4m (2019: £1.4m) were partially or fully impaired.

As at 25 January 2020, trade and other receivables of £7.5m (2019: £4.3m) were past due but not impaired. The ageing analysis of the past due amounts are as follows:

	2020 £m	2019 £m
Up to 3 months past due	**7.1**	4.2
3 to 12 months past due	**0.4**	0.1
Over 12 months past due	**-**	-
At end of year	**7.5**	4.3

15 Trade and other payables

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

	2020 £m	2019 £m
Current:		
Trade payables	**(487.9)**	(499.2)
Other payables	**(27.4)**	(43.2)
Other taxation and social security	**(33.4)**	(36.3)
Accruals	**(48.7)**	(56.1)
Deferred income[1]	**(5.4)**	(7.7)
Amounts owed to other Partnership companies	**(862.1)**	(1,062.7)
	(1,464.9)	(1,705.2)
Non-current:		
Other payables	**(0.1)**	(0.2)
Deferred income	**(8.1)**	(56.7)
	(8.2)	(56.9)

[1] The Company has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application (see note 1).

Included within non-current deferred income is £nil (2019: £44.1m) due after more than five years.

16 Lease liabilities

	2020 £m	2019 £m
Depreciation charge for right-of-use assets (see note 10)	(104.9)	-
Interest expense on lease liabilities	(70.3)	-
Expense relating to short-term leases	(0.1)	-
Expense relating to leases of low value assets that are not shown above as short-term leases	(0.6)	-
Expense relating to variable lease payments not included in lease liabilities	(1.9)	-
Total cash outflow for leases comprising interest and capital payments	(142.0)	-
Additions to right-of-use assets (see note 10)	114.0	-
Carrying amount of right-of-use assets (see note 10)	1,387.3	-
Carrying amount of lease liabilities – current	(75.9)	-
Carrying amount of lease liabilities – non-current	(1,405.4)	-

Notes to the financial statements (continued)

16 Lease liabilities (continued)

Prior to 27 January 2019, the Company recognised leases in line with IAS 17. Leases where the Company retained substantially all the risks and rewards of ownership of the asset were classified as finance leases. These leases were 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 were 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 was charged to the income statement. From the 27 January 2019, the Company no longer recognises finance leases in line with IAS 17 and instead recognises right-of-use assets and lease liabilities in line with IFRS 16 (see above). Therefore the minimum lease payments under finance leases as at 25 January 2020 are deemed to be £nil (see note 1).

	2020 £m	2019 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	-	(0.9)
Later than one year but not more than five	-	(3.1)
More than five years	-	(6.9)
	-	(10.9)
Future finance charge on finance leases	-	4.2
Present value of finance lease liabilities	-	(6.7)
Of which:		
Not later than one year	-	(0.5)
Later than one year but not more than five	-	(3.1)
More than five years	-	(3.1)

Prior to 27 January 2019, the Company recognised leases in line with IAS 17. Leases where the Company did not retain substantially all the risks and rewards of ownership of the asset were classified as operating leases. From the 27 January 2019, the Company no longer recognises operating leases in line with IAS 17 and instead recognises right-of-use assets and lease liabilities in line with IFRS 16 (see above). Therefore the future aggregate minimum lease payments payable under non-cancellable operating leases as at 25 January 2020 are deemed to be £nil (see note 1).

Future aggregate minimum lease payments under non-cancellable operating leases, payable:	**2020 £m**	2019 £m
Within one year	-	(131.0)
Later than one year and less than five years	-	(522.1)
After five years	-	(1,390.9)

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years comprise the following:	**2020 £m**	2019 £m
Later than five years and less than 10 years	-	(569.1)
Later than 10 years and less than 20 years	-	(625.0)
Later than 20 years and less than 40 years	-	(142.1)
Later than 40 years and less than 80 years	-	(31.5)
After 80 years	-	(23.2)
	-	(1,390.9)

Notes to the financial statements (continued)

17 Provisions

	£m
At 26 January 2019	(8.0)
Adjustment on initial application of IFRS16[1]	4.0
At 27 January 2019	**(4.0)**
Charged to statement of comprehensive income	(24.9)
Released to statement of comprehensive income	2.7
Utilised	21.5
At 25 January 2020	**(4.7)**
Of which:	
Current	(4.7)
Non-current	-

[1] The Company has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application. On transition, management has taken the exemption to reclassify onerous lease provisions as impairments of the right-of-use assets recognised on transition as at 27 January 2019 (see note 1).

Provisions include reorganisation and property related costs.

18 Share capital

	2020 £m	2019 £m
Equity		
Allotted and fully paid ordinary shares	**1.0**	1.0
1,000,000 of £1	**1.0**	1.0

19 Commitments

At 25 January 2020, contracts had been entered into for future capital expenditure of £10.5m (2019: £24.4m) of which £6.2m (2019: £14.6m) relates to property, plant and equipment and £4.3m (2019: £9.8m) relates to intangible assets.

20 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.

Notes to the financial statements (continued)

21 Subsequent events

21.1 Coronavirus

The Coronavirus outbreak has developed rapidly in 2020 after our results were announced and with hindsight would have had a material impact on a number of judgements made in these accounts.

At 25 January 2020 the emerging Coronavirus outbreak was largely restricted to China with a few contained cases reported around the world. Whilst this presented a threat to the supply chain it was not forecast to impact day to day operations and therefore no impact was reflected in our sales performance and cost forecasts.

The Government announced on 23 March 2020 that shops selling "non-essential goods" including clothes and electronics stores will be closed immediately.

Whether the impact of Coronavirus is an adjusting or non-adjusting post balance sheet event is a significant judgement which impacts its treatment in these accounts. A post balance sheet event is adjusting if it provides more information about circumstances that existed at the year-end. The Company has concluded that Coronavirus is a non-adjusting post balance sheet event at 25 January 2020 on the basis that at that date:

- The World Health Organisation had not declared a global health emergency;
- There was no significant spread of the virus outside of China; and
- There were no cases in the UK and no evidence that the virus was not contained in Europe at that stage.

Events such as the announcement or enactment of new measures to contain the virus or decisions taken by management are generally considered to be non-adjusting. As a non-adjusting event we have therefore made no adjustments in these financial statements to account for the impact of Coronavirus above that which was known at 25 January 2020.

21.2 Waitrose store closures

On 5 March 2020, Waitrose & Partners informed Partners that three shops will close later this year at Helensburgh, Four Oaks and Waterlooville. As a result of the Coronavirus pandemic in recent weeks, the closure of two of these shops is to be delayed. No accounting for potential redundancies was recorded for the year ended 25 January 2020 in respect of these shop disposals on the basis that the announcement to partners was after the year end. All three branches are fully impaired, however, it is not anticipated that an extension of the closure period would significantly alter the impairment judgement.

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

Waitrose Limited

15 April 2020

171 Victoria Street, London, SW1E 5NN

KPMG

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 25 January 2020 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 25 January 2020 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 Company or to cease its operations, and as they have concluded that 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 its 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 Company will continue in operation.

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.

KPMG

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

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; or

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 40, 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.

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.

M Maloney

Michael Maloney (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
15 April 2020