Registration number: 00464777

ASDA Stores Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019

Contents

Company Information

Directors	R Burnley A Simpson (resigned 27 August 2019) R McWilliam
Company secretary	H Selby (appointed 6 April 2020) A Simpson (resigned 27 August 2019) P Titchmarsh (appointed 27 August 2019 and resigned 6 April 2020)
Registered office	ASDA House South Bank Great Wilson Street Leeds LS11 5AD UK
Auditors	Ernst & Young LLP 1 Bridgewater Place Water Lane Leeds LS11 5QR

Strategic Report for the Year Ended 31 December 2019

The Directors present their Strategic Report for the year ended 31 December 2019.

Principal activity

The principal activity of ASDA Stores Limited (referred to as "the Company" or "ASDA") is the retail of food, clothing, general merchandise, fuel and services throughout the United Kingdom and online. The results of the Company are included in the consolidated financial statements of ASDA Group Limited (referred to as "the Group" and / or "ASDA").

Operational headlines and strategic priorities

Sales, operating profit and profit before tax
Against a backdrop of low consumer confidence and a highly competitive market, sales excluding fuel and VAT decreased by 0.5% in the year.

Headline operating profit of £305.1m (2018: £344.4m) was adversely impacted by a number of one-off costs in the year, including impairment charges of £62.6m following a strategic review of the property estate (see note 3); and an increase in the recharge from the ultimate parent company in respect of share-based payments of £84.8m, which was driven by an increase in the share price of the ultimate parent company - Walmart Inc. (see note 5).

During the year, we invested incrementally in our customer offer, delivering lower prices to millions of customers and improving the quality of thousands of own brand products through use of healthier ingredients and more sustainable packaging. We also refreshed 37 stores with our latest proposition.

The Company experienced operational cost headwinds in 2019, including an increase in the national living wage and the impact of investing strongly in our new retail colleague contract, which were partially offset by a business-wide program of cost savings.

These impacts were partially offset by an increase in operating profit of £209.4m due to the adoption of IFRS 16 - Leases (see note 1 for details).

Profit before tax of £108.3m (2018: £484.8m) was adversely impacted by an increase in finance lease interest of £342.6m following the adoption of IFRS 16 - Leases in the year.

Balance Sheet
During the year, the trustees of the ASDA Group Pension Scheme ("AGPS" or "the Scheme") entered into an agreement for a bulk annuity insurance 'buy-in' of the Scheme. This agreement secures the benefits of members - providing certainty and security for all of the Scheme's approximately 12,300 members (4,800 pensioners and 7,500 deferred pensioners). Further, the transaction will de-risk and simplify the Balance Sheet at a cost that is below the expected future cost of funding internally. Further detail of the impacts of this transaction on the Balance Sheet for the year is provided in note 20.

On 1 January 2019, the Company adopted IFRS 16, recognising an additional £12,034.3m of assets and £12,039.3m of liabilities. The Company transitioned using the modified retrospective approach. As a result, prior year comparatives have not been restated and cannot be directly compared with current year numbers. Key judgements made on application of IFRS 16, changes to accounting policies and a full illustrative breakdown of the impacts to the opening Balance Sheet can be found in note 1 of these financial statements.

Strategic Report for the Year Ended 31 December 2019 (continued)

Results and dividends

Revenue for the year increased by 0.1% to £22,874.7m (2018: £22,842.8m), while operating profit decreased by £39.3m to £305.1m (2018: £344.4m).

Profit after tax for the year was £73.7m (2018: £391.0m) a decrease of 81.2%. Following the implementation of IFRS 16 - Leases during the year, there was a year on year decrease in pre-tax profit of £133.2m related to lease expenses and interest as described further in note 1.

No dividends were paid during the year (2018: £nil).

Events since the balance sheet date

On 5 March 2020, the Company proposed and paid a cash dividend of £850.0m to ASDA Group Limited, the immediate parent undertaking.

The Directors recognise that the impact of COVID-19 on forecast cashflows of the Company is difficult to estimate and could result in future revisions of certain estimates such as the recoverable amount of long lived assets

Amounts recharged by ultimate parent company

The Company incurs recharges from the ultimate parent company, Walmart Inc. These recharges relate to the cost of share options, the cost of services received (mainly relating to IT) and royalties. The share options granted to colleagues by ASDA are in the ultimate parent company, Walmart Inc. and the accounting treatment of these share options is outlined in notes 1 and 20.

KPIs

- Total sales excluding fuel and VAT decreased by 0.5% (2018: 3.1% increase) (note 2); total sales including fuel and excluding VAT increased by 0.1% (2018: 4.1% increase).
- Operating profit decreased by 11.4% (2018: 24.0% increase).
- Market share down 0.3%, to 15.0% (source: Kantar 52 weeks to 29 December 2019). This is the Company's percentage share of the total grocers' market, and includes all Company revenue, excluding petrol and in-store concessions.

Other highlights

- In June 2019, ASDA won The Grocer Magazine's G33 Price Award for the twenty-second consecutive year.
- ASDA won 92 awards at the Quality Food and Drink Awards including 'Retailer of the year'.
- Our total Consumer Promoter Score ("CPS") has increased by 0.6 points in 2019 compared to the previous year.
- Sales in our online area have grown ahead of the market in 2019 supported by further improvement in our online CPS measure.

Strategic Report for the Year Ended 31 December 2019 (continued)

Capital management

As a wholly owned subsidiary, the capital of the Company is monitored in accordance with the overall capital management policy of the ultimate parent company Walmart Inc. and the primary objective of ASDA's capital management policy is to be consistent with the requirements of the ultimate parent.

A key element of funding is through intercompany loans which can change from time to time. Cash levels are monitored to ensure the Company is able to fulfil its day to day obligations as they fall due. The consolidated financial statements of the ultimate parent company disclose how Walmart Inc. define and manage capital and meet the Group capital objectives.

Section 172 Statement

The following sections serve as the Section 172 statement of ASDA Stores Limited (the "Company"), pursuant to the requirements of The Companies (Miscellaneous Reporting) Regulations 2018. Section 172 of the Companies Act 2006 ("CA 2006") recognises that whilst companies are run for the benefit of its shareholders, a business's long-term success and reputation are dependent upon maintaining relationships with stakeholders and an appreciation of the external impact of its activities.

The directors of the Company (the "Directors") are fully aware of their responsibilities to promote the success of the Company in accordance with section 172 of the CA 2006 and are keen to ensure proper reflection on stakeholder engagement and issues at Director level and promote continuous reflection on opportunities for development.

As more particularly detailed in the Company's Wates Statement included in the Directors' Report, the Company's immediate parent undertaking, ASDA Group Limited plays an important role in the governance of the operations of the Company (being the principal trading entity within the ASDA group of companies), including consideration and approval of key commercial decisions which materially impact the Company and its operations.

The board of ASDA Group Limited (the "Board") meets monthly and includes both of the Company's Directors. Where individuals are directors of separate legal entities within the Group, they are aware of their responsibilities regarding each of these legal entities. Additionally, a group which comprises the senior leadership of the Company, including all of the members of the Board and the Directors of the Company (the "Executive Team") meets at least weekly to discuss and make operational decisions of the Company and to consider and implement decisions of the Board. In this forum, feedback from various business areas, with particular focus on specific stakeholder groups, is reviewed and considered by the Executive Team.

Details of the Board of ASDA Group Limited who served during the year are included in the financial statements of ASDA Group Limited which are available at ASDA House, Southbank, Great Wilson Street, Leeds LS11 5AD.

As the Board considers and makes decisions which impact the Company (which are then considered and if deemed appropriate, implemented by the Directors) it is important that the Board, the Directors and the wider Executive Team are involved in, and aware of the output of, engagement with stakeholders.

The Directors regularly review the Company's principal stakeholders and how the Directors and (wider Executive Team) engage with them. The sections below set out a more detailed summary of the Company's relationships with its key stakeholders and how the Directors engage with those stakeholders.

Strategic Report for the Year Ended 31 December 2019 (continued)

In addition to a scheduled programme of monthly Board meetings, the Executive Team meet weekly, during which feedback from various business areas, with particular focus on specific stakeholder groups, is reviewed and considered by the Directors and the Executive Team. The same information is also shared with the Board.

The outcome of stakeholder engagement generally influences the formulation and ongoing review of the long-term strategy and financial planning to ensure that the Company's approach continues to deliver sustainable returns and promotes reputational reward. The Directors aim to take the needs and priorities of each stakeholder group into account as part of their decision-making processes, recognising that the pertinence of a particular stakeholder group may vary depending upon the matter under discussion.

Key Stakeholder Engagement

Investors - Walmart Inc. ("Walmart")
Corporate governance policies and procedures are in place (largely derived from the governance framework mandated by Walmart) which provide for a continuous and structured dialogue between Walmart and the Directors, including regular visits and detailed corporate governance sign-off procedures. In addition, both R Burnley (CEO) and R McWilliam (CFO), both being Directors, have direct reporting lines into Walmart.

Why?	***How we engage and key outcomes***
The Company's ultimate parent, Walmart, is the Company's sole provider of investor capital. Their investment enables the Company to fund growth where customers care and deliver long-term success.	The Directors engage with Walmart on significant capital projects and approval is required over certain amounts. Principal investments during the year relate to replacement of essential assets and refreshing the store estate.
As a wholly-owned subsidiary, Walmart requires the Company to deliver a return on their investment.	Strategic plans and associated financial targets are discussed and approved by Walmart, the Board and the Company. Following this there is regular communication between Walmart and the Directors regarding performance against these financial targets. Please see the KPIs section included within the Strategic Report for highlights of the year.
As part of ensuring compliance with key legal, ethical and financial regulations, the Company engages directly with Walmart on these matters.	Certain business functions within the Company - including Finance, Legal, Internal Audit and Compliance – have an independent direct reporting line into Walmart and, on behalf of Walmart, these functions formally test and report on compliance with key laws and regulations applied in the Company. These include testing the design and operation of financial controls within the Sarbanes-Oxley financial control framework; testing and reporting on compliance with anti-bribery controls under the Foreign Corrupt Practices Act ("FCPA"); and reporting on any breaches of Walmart's Ethics guidance. Walmart also has formal oversight of these processes and plays a role in ensuring that improvements are implemented where required.
Compliance with Walmart risk management policies enables the Company to promote its long-term sustainability. This includes the capital management policy which requires the monitoring of cash levels and timing of funds available. This ensures that the Company is able to meet day to day obligations as they fall due.	The Company's enterprise risk management process is comprised of 12 functional risk groups, each with an individual risk register. There are also functional teams responsible for owning and managing their risks. On a bi-annual basis the enterprise risk register is reviewed by the Board, including the Directors.

Strategic Report for the Year Ended 31 December 2019 (continued)

Employees

The Group's Chief People Officer (CPO) oversees colleague engagement. The CPO also chairs working group meetings of members of management dedicated to employee matters and ensures that the results of the employee engagement mechanisms referred to below are provided to the Company. Both the CPO and the Group's Chief Operations Officer (COO), who are members of the Executive Team (noting that the Company's workforce is predominantly made up of employees working in the operational retail areas of the business) ensure that the employee perspective is vocalised and considered by the Directors.

Why?	***How we engage and key outcomes***
The Company's employees reflect the communities the Company serves, which helps the Company to engage with its customers.	The Company is committed to promoting diversity and wellbeing across the colleague base and this is formally documented in the Diversity & Inclusion Policy. Colleague resource groups are in place to identify and implement improvements to the Company which ensure that the needs of the Company's diverse colleague base are met. These groups consist of employees across a number of different levels in the organisation and are each chaired by one of the Executive Team. The Company's commitment to diversity allows the Company to attract, recruit and retain high calibre colleagues who represent the customers and communities which the Company serves.
The Company believe in creating an inclusive culture and providing required support to colleagues.	This is achieved through colleague resource groups, two-way communication through the 'Write to Roger scheme', Colleague Voice Groups, "Your Voice" colleague engagement survey and WalmartOne intranet. Results of the Your Voice survey are available by functional area and members of the Executive Team are accountable for their own action plan. Colleague engagement is maintained through open communication both to share information about the Company and provide feedback about working for the Company.

Strategic Report for the Year Ended 31 December 2019 (continued)

Trade unions and elected representatives

In addition to the employee engagement mechanisms referred to above, the Company meets regularly with its elected bodies and trade unions to discuss business performance, proposed changes and future initiatives. Meetings between trade union representatives and representatives of the Company, (nominated by the Directors or certain members of the Executive Team), meet on a minimum of a quarterly basis. During collective consultation activity, meetings are held weekly for the duration of the process. All meetings are chaired by a senior leader from the Company, facilitated by the Labour Relations team. Information is fed directly back to the Board, the Directors and the Executive Team, both following scheduled quarterly meetings and, as required, on a more frequent and ad hoc basis.

Why?	***How we engage and key outcomes***
The Company engages with trade unions, which act as representatives of the Company's employees, to ensure that the best interests of the Company's employees are considered and that concerns can be raised and discussed to reach a mutually agreed outcome.	There is a partnership agreement between the Company and the GMB Union for consultation purposes for all hourly paid retail employees in England, Scotland and Wales, who are GMB members. A retail Forum of 10 representatives meet with the Company and during the year, collective consultation was undertaken between April and June 2019 on the proposed new retail contract. Please see the 'Key Principal Decisions' section below for further details. There is a collective bargaining agreement for negotiation of pay and terms between the Company and USDAW for all hourly paid retail employees in Northern Ireland. A Joint National Council (JNC) of 6 representatives meet with the Company. During the year, wage negotiations with USDAW were held and led to mutual agreement of the new retail contract. Please see the 'Key Principal Decisions' section below for further details. National Colleague Voice (NCV) groups represent salaried retail managers, salaried distribution managers and hourly paid retail colleagues across the UK. Each NCV (26 representatives on the retail groups and 13 representatives on distribution) meet with the Company on a regular basis.

Strategic Report for the Year Ended 31 December 2019 (continued)

Suppliers

The Group's Chief Merchandising Officer (CMO) engages directly with key suppliers and together with the Group's Chief Supply Chain Officer (CSCO), shares suppliers' views with the Directors and the wider Executive Team. The CMO's team includes people dedicated to supplier engagement and ensuring that the outcome of such engagement is fed back to the Directors and Executive Team. The joint business plans referred to below are a result of ongoing mutual engagement during which supplier interests and issues are vocalised and accommodated in a mutually acceptable manner.

Why?	*How we engage and key outcomes*
The Company aims to maintain trust and engagement with its supplier base. There are clear communication channels to ensure suppliers' views are heard.	The Company is subject to the requirements of the Grocery Supplier Code of Practice ("GSCOP") and has formal policies in place around areas such as supplier payment, supplier queries and supplier income, which are in line with the guidance in GSCOP. Senior leadership, within the Company's Trading function, also host and attend supplier conferences to ensure the Company continues to understand suppliers' needs. The Company agrees joint business plans with its suppliers each year and business plans with key suppliers are signed off by members of the Executive Team.
The Company works with its suppliers to develop new and innovative products that appeal to the changing demands of its customers.	During the year the Company has continued to work with its suppliers in order to reduce the amount of plastic used in packaging. The Sustain and Save exchange enables the Company to work with suppliers to help them understand how they can be more environmentally efficient in their operations. This is an area generating an increased level of interest among many of the Company's stakeholders. For more detail on how the Company and the Directors have tackled this issue see the 'Key Principal Decisions' section below.

Customers

Through internal reporting lines the outcomes of customer engagement are fed back to the CCO (who is a member of the Executive Team) who is responsible for customer matters. Accordingly, the CCO ensures that the Company's customers' viewpoints are vocalised to the Directors and the wider Executive Team and considered when making decisions.

Why?	*How we engage and key outcomes*
The Company's mission is to be the most trusted retailer, and this is supported by its purpose to save customers money so they can live better. To deliver this, the Company needs to understand the products where price is most critical to its customers.	The Company monitors external data on the prices of key product lines and sets category-specific targets for relative pricing against key competitors. This helps the Company to make targeted price investment decisions which best meet the needs of its customers.
Delivering a consistent, trusted shopping experience is critical to attracting and retaining customers.	Customers provide feedback to the Company which enables it to calculate and report on its Easy, Fast and Friendly ("EFF") and Customer Promoter Score ("CPS") metrics at both the store, online and total company level. Store and Home Office bonus pay-out percentages are directly linked to EFF and CPS measures.

Strategic Report for the Year Ended 31 December 2019 (continued)

Providing customers with a high standard of product is a key component of attracting and retaining customers.

The Company provides customers with the opportunity to provide feedback on product quality. This is then disseminated amongst the Directors, at meetings of the Executive Team, at the Company's monthly leaders' meeting (a meeting of all senior Company employees) and the Performance Board (a meeting of senior Company colleagues).

Trustees and members of the ASDA Group Pension Scheme ("AGPS" or "the Scheme")

In addition to the Joint Governance Forum referred to in the Key Principal Decisions section below, a "Pensions Investment & Funding Committee" exists to create a vehicle for direct and ongoing dialogue between the Company, as scheme employer, and the trustees of the ASDA Group Pension Scheme ("AGPS") and the ASDA Pension Plan respectively. It is chaired by the Company CFO and meets as and when the trustees of the pension scheme wish to consult with the Company.

Why?

The Company works closely with the trustees of the AGPS to ensure that, as sponsoring employer, the Company provides sufficient funding to enable the Scheme to meet its liabilities to members as they fall due.

How we engage and key outcomes

Annual communications to members of the AGPS are circulated by the Company's Pensions team who communicate the financial position of the AGPS and the current value of individuals' pension entitlement.

Community and Charitable Causes

Members of the Executive Team chair the "Giving Committee" meetings which are attended by senior leaders from relevant areas of the Company. The "Giving Committee" operates under clearly documented terms of reference defining its scope of authority and regularly meets and reports back to the Directors and the Executive Team (at least monthly) ensuring that the Directors and the wider Executive Team are engaged in the decisions taken and aware of key outputs and actions. This is separate and distinct from the ASDA Foundation which is the responsibility of and under the governance of the trustees of the ASDA Foundation.

Why?

The Company is committed to providing funding to the good causes that its colleagues and customers support, providing a positive contribution to communities in which the Company operates.

How we engage and key outcomes

The "Community team", working with the Company's Community Champions in stores and depots, promote and co-ordinate fundraising for nominated national and local charities. By identifying local causes and charities this allows the Company to have a meaningful impact on the communities which it is part of. Fundraising by the Company's colleagues, customers and suppliers has enabled donations to charities including; Trussell Trust, Fareshare, Breast Cancer Now and local charities and community groups. Further detail of donations during the year is provided in the Directors' Report.

Environment

The Directors and the wider Executive Team are aware of the need for environmental responsibility and the impact that the Company can have on the environment. The Directors have promoted the continued acceleration of innovation and focus on sustainability.

Why?

The Company has a responsibility to minimise the adverse impact its business activities have on the environment, which will also prevent financial penalties and long-term damage to its reputation.

How we engage and key outcomes

The Company has continued to reduce its carbon footprint through initiatives on energy use and fuel consumption and are accelerating its commitment to reduce use of single-use plastics in its supply chain.

Strategic Report for the Year Ended 31 December 2019 (continued)

Key Principal Decisions

As referred to above ASDA Group Limited plays an important role in the governance of the operations of the Company. This includes consideration and approval of key commercial decisions which materially impact the Company and its operations and so the decisions specified below were all taken in consultation with the wider Board, which includes the Directors.

Streamlined Retail Contracts

During the year, the Directors and the wider Executive Team took the decision to introduce a standardised contract across its hourly paid store colleagues employed by the Company. Previously, there were several contracts across the retail employee base, which resulted in differences in terms for different groups of colleagues. To promote fairness and equality across these employees a new contract was introduced.

This contract gives the Company the flexibility it needs to ensure it can respond to its customers' changing demands. The implementation of this contract represents an investment of over £80m and provides a real-terms increase in pay for over 100,000 colleagues. Further, it ensures consistency for all the Company's colleagues. These changes bring the Company into line with industry standards.

The Company has participated in a collective consultation process and used the individual meetings with every colleague to acknowledge and consider its colleagues' concerns. Proposals were modified by the Directors and the wider Executive Team as a result of collective bargaining with USDAW and representations made by colleague representatives and the GMB during the course of this consultation. The Company has carried out training for all management teams to help them manage changes thoughtfully and be understanding of colleagues' commitments outside of work.

The Directors and the wider Executive Team believe the contract will enable the Company to meet customers' changing demands and enhance the in-store shopping experience of its customers, by ensuring it has its colleagues where its customers need them to be.

Pension Buy-In

Following discussions between ASDA nominated representatives, Walmart and the Trustees of the ASDA Group Pension Scheme ("AGPS" or "the Scheme"), a Joint Governance Forum ("JGF") including representatives from each party was formed during the year to formally discuss the potential for a buy-in of the Scheme. The JGF ensured that the interests of each stakeholder were represented in decision making and on 18 October 2019, with the approval of the JGF, the trustees of the AGPS entered into an agreement for a bulk annuity insurance 'buy-in' of the AGPS with Rothesay Life PLC. This agreement secures the benefits of members - providing certainty and security for all of the Scheme's approximately 12,300 members (4,800 pensioners and 7,500 deferred pensioners).

The transaction will de-risk and simplify the Company Balance Sheet at a cost which is below the expected future cost of funding internally. The parties have made the decision to take this step now having agreed jointly that market conditions are favourable and because pension liabilities can be more effectively managed by a large insurer, such as Rothesay Life PLC, given their scale and expertise in this area.

While this has impacted the cashflows within the year, it was considered more beneficial to reduce the level of risk with regards to the AGPS, than using the cashflows for other beneficial purposes. This is an excellent outcome for the Scheme members, the Company and Walmart.

Strategic Report for the Year Ended 31 December 2019 (continued)

Plastic Initiatives
All stakeholders are aligned in their commitment to reducing the use of plastics in products and the adverse impact this can have on the environment. During the year, the Directors and the wider Executive Team have accelerated plans to reduce plastic usage across the Company's own brand products and continue to work on plastic innovation.

The Directors and the wider Executive Team have brought forward the target to reach 30% recycled content in the Company's plastic packaging to the end of 2020, five years ahead of the original deadline, helping the Company avoid the usage of 19,500 tonnes of 'virgin' plastic. This has involved a key effort from the Company and its suppliers to improve recycling rates and cut the overall level of plastic used in its products.

The Company has also introduced a new target to reduce the total amount of plastic used in its own-brand packaging by 15% by February 2021. Additionally, the Company will also trial a number of new refillable and reusable packaging solutions during 2020 as part of its 'test and learn' approach to innovation.

Since February 2018, the Company has been reviewing plastic use across its entire business, removing more than 8,000 tonnes of plastic packaging from its own brand range - equivalent to the weight of 600 million plastic bottles. Furthermore, the Company's target is that all own-brand packaging will be made 100% recyclable by 2025. Relevant suppliers have also been engaged through the above mentioned channels in relation to its ambitions in this regard and their feedback has been factored into the determination of targets. Through engaging and working with its suppliers the Company can achieve these mutually beneficial targets, which will benefit the Company, its suppliers, its customers and importantly, the environment.

The new targets follow the Company's decision, within the year, to stop providing single-use plastic carrier bags with online grocery orders, which has helped reduce the consumption of single-use plastic bags by 85 million bags each year, saving over 500 tonnes of plastic. The decision makes the Company the first supermarket to eliminate single-use carrier bags from its operations, having stopped offering single-use bags in its stores in 2018. In total, the Company's customers will now consume 375 million fewer single-use plastic bags each year.

Through listening to its customers, the Company know that elimination of avoidable plastic, and crucially single-use plastic, is at the top of its customers' minds and the Company understands that it and its suppliers have a significant role to play in achieving this.

Future strategic intention
The Company's mission is to be the most trusted retailer and its purpose is to help its customers save money and live better.

The mission and purpose have been developed in line with those of the ultimate parent, Walmart, and are at the heart of the Company's strategy which is summarised as follows:
- Win on price
- Providing a consistent and trusted customer experience
- Providing growth where customers care

Principal risks and uncertainties

Risk is an inevitable part of business. On an ongoing basis, ASDA identifies principal risks, assesses their likelihood and impacts, and develops and monitors appropriate controls. The Board has overall responsibility for risk management and ensuring that this is aligned with business strategy and objectives. The Board is supported by the Compliance, Ethics and Audit Committee that meets monthly.

Strategic Report for the Year Ended 31 December 2019 (continued)

Principal risks and uncertainties (continued)

- **Economic risk**

COVID-19
The Directors are working with the government and closely monitoring the guidance around COVID-19 or "Coronavirus" to support customers, colleagues, communities and suppliers.

At the date of approval of the Accounts, the Directors recognise that the UK is experiencing high levels of economic and social uncertainty surrounding the outbreak and spread of COVID-19. As such, in assessing the Company's ability to adopt the going concern basis in preparation of the Financial Statements, the Directors have considered the financial impact that COVID-19 may have on the Group's operating cashflows in the foreseeable future based on data available at the date of approval. Specifically as part of this assessment, the Directors have tested the ability of the Company to meet its liabilities as they fall due in the 12 months following the date of approval in the event of various cashflow scenarios, including a severe downside reduction in revenue - based on independent estimates of the range of forecast impacts on UK GDP - versus expected revenue for the 12 months following the date of approval. Based on the range of cashflow forecasts modelled, and considering the Company's and Group's financial position at the date of approval of the Accounts along with the Group's access to borrowing facilities via the ultimate parent company or an alternative lender as required, the Directors have adopted the going concern basis in preparation of the Financial Statements.

Factors specifically considered which support this conclusion include a balanced assessment of the principal financial impacts which the Directors expect to impact the Company in the 12 month period following the date of approval of the Accounts:
• Expected net increase in demand for groceries purchased through retail outlets during the period of national disruption given restrictions in place on customers' ability to purchase food from non-retail outlets such as restaurants;
• The Company's ability to fulfil demand for groceries through a variety of fulfilment channels, including a significant online presence through ASDA.com;
• Incremental costs related to a significant expected increase in colleague absence;
• Expected cost savings in the 12 month period following the date of approval of the accounts due primarily to UK government support announced prior to the date of approval of the accounts to provide financial support to retailers; and,
• The ability of the Group to access significant short-term borrowing facilities via the ultimate parent company or an alternative lender as required in the event of short-term liquidity issues.

The Directors consider that the principal risks and uncertainties associated with COVID-19 that could lead to a significant financial impact on the Company are product availability, colleague absence and restrictions on customers' ability to physically access stores. At the date of approval, the Directors have plans in place to protect product availability, to provide cover for the anticipated increase in levels of colleague absence and to maximise access to ASDA for customers who are considered most vulnerable to the impacts of COVID-19.

Strategic Report for the Year Ended 31 December 2019 (continued)

Principal risks and uncertainties (continued)

Economic risk (continued)

UK departure from European Union
The Company has considered the economic impact of the UK's withdrawal from the European Union including the effect on the price and availability of products. A cross-functional working group is in place and its main objective is to manage the impacts to ASDA of the UK's withdrawal in order to minimise disruption to our customers by protecting availability of key imported products, including the use of additional EU and UK ports. The Company has also considered the potential tariff impact and the Customs regime in relation to products imported from the European Union and has plans in place to reduce risk.

- **Competitive risk**
  In the highly competitive retail industry, success depends on satisfying changing customer needs more effectively than the competition. Failure to meet consumer demands is a competitive disadvantage and ASDA may therefore be exposed to a loss of market share.

  ASDA regularly reviews relevant data on aspects such as price position, product availability and other measures of quality and service that are important to our customers. We constantly monitor market information to understand our position relative to competitors and enable action to be taken on a timely basis.

- **Reputational risk**
  Failure to protect our reputation could lead to a loss of trust in the ASDA brand and consequent erosion of customer loyalty. ASDA regularly engages with customers, both directly and through the monitoring of available external data, in order to ensure that our positive customer perception is maintained.

  We maintain strong relationships with our suppliers by operating on terms that are mutually agreed and updated as appropriate to reflect changes in both parties' respective needs.

  Our colleagues are critical to maintaining our customer and supplier relationships and ultimately protecting our reputation as a business.

- **Strategic risk**
  In challenging market conditions, the Board invests significant time into formulating, reviewing and communicating strategy to ensure that our approach continues to deliver sustainable returns. There are strategic programmes in place with an allocated programme team tasked with delivering the objectives set out.

- **Supplier risk**
  The financial profile of our suppliers is monitored to identify risk to the continuity of supply so that any mitigating actions can be taken early.

- **Resourcing and capability risk**
  Retention of key individuals is important for long-term stability and success. There is a risk that we lose key individuals and talent. For further detail on how we drive colleague engagement please see the section 172 statement above.

Strategic Report for the Year Ended 31 December 2019 (continued)

Principal risks and uncertainties (continued)

- **Financial risk**
  ASDA's principal financial risk is having funds available at the right time to meet business needs. This risk is managed by the Treasury function, which forecasts cash flows and ensures that adequate short-term funds and borrowing facilities are in place to meet liabilities to suppliers, colleagues and our shareholder.

  As a wholly-owned subsidiary, the capital of the Company is monitored in accordance with the overall capital management policy of the ultimate parent company Walmart Inc. and the primary objective of ASDA's capital management policy is to be consistent with the requirements of the ultimate parent.

  A key element of funding is through intercompany loans which can change from time to time. Group cash levels and timing of funds available are monitored to ensure the Company is able to fulfil its day to day obligations as they fall due. The consolidated financial statements of the ultimate parent company disclose how Walmart Inc. define and manage capital and meet the Group's capital objectives.

  Certain transactions with suppliers and with the Company's ultimate parent undertaking are denominated in foreign currencies. The Commercial Finance function forecasts the timing and level of foreign currency requirements and the Treasury function buys forward contracts accordingly for certain product categories. Other currency requirements are purchased on the spot market. It is ASDA's policy not to buy or hold foreign currency speculatively. Currency forward contracts are hedge accounted for at fair value.

- **Regulatory and compliance risk**
  We recognise that ASDA operates in an environment where we can be impacted by changes in Government policy. In response to this, we continue to risk assess all regulatory developments and test compliance with internal processes designed to mitigate risks, making improvements where required.

  ASDA is also required to comply with legislation such as GSCOP and the Competition Act. Failure to do so may result in an investigation by the Grocery Code Adjudicator and could lead to significant fines and reputational damage. We have an established Ethics & Compliance Programme in place designed to comply with relevant legal requirements across 14 key subject areas, including those noted above.

- **Fraud risk**
  We have a control framework in place to help prevent and detect potential fraud and dishonest activity. The Statement of Ethics also provides clear guidance to colleagues on appropriate behaviour, including guidance on how to raise any business conduct concerns they may have. Colleagues can raise issues by contacting the independent ethics hotline, or by contacting the ethics team directly by email, phone or online. In addition, procedures are in place in respect of compliance with the UK Bribery Act and the US Foreign Corrupt Practices Act.

- **Health and safety risk**
  In the event of non-compliance with applicable health and safety laws there is a risk that colleagues or customers are harmed which could lead to significant fines and reputational damage. The Group has a health and safety policy as well as procedures and training in place across all sites. There is also established health and safety metrics and accident reporting to monitor the risk and an established Ethics & Compliance Programme as discussed above.

Strategic Report for the Year Ended 31 December 2019 (continued)

Principal risks and uncertainties (continued)

- **Sourcing and supply chain risk**
  There is a risk that products are not sourced in a responsible and sustainable way that could lead to breach of regulations, reputational damage or harm to colleagues or customers. The Company has supplier audit procedures to monitor adherence to required standards as well as established policies on sourcing.

  As a result of business critical sole GNFR supplier failure there is a risk that ASDA is unable to meet customer demand which could lead to loss of income, operational disruption, customer dissatisfaction and loss of market share. There are key procurement policies and processes in place including key supplier performance management, vendor set up and contract management.

- **Cyber security risk**
  There is a risk that ASDA systems are vulnerable to cyber-attacks which could lead to significant limitations in ability to operate, loss of earnings, reputational damage and regulatory fines. ASDA's well established Cyber Security team provides insight and detailed analysis of risks and remediations and is continually developing ways to mitigate potential risks.

- **Data protection risk**
  In the event of non-compliance with the requirements of General Data Policy Regulations ("GDPR"), there is a risk of data loss or misuse or other data breaches which could lead to significant fines and reputational damage. ASDA continues to invest in its GDPR team to ensure all required areas of expertise and process for the program is fit for purpose and for the future.

- **Systems risk**
  A number of disaster recovery plans are in place in the event of an incident which could severely affect ASDA's ability to trade. A comprehensive Incident Response Plan exists to ensure business continuity in the event of a major incident.

- **Environmental risk**
  As a retailer, we recognise that we have a responsibility to minimise the adverse impact that our business activities have on the environment. Failure to do this may result not only in adverse environmental impacts, but also financial penalties and long-term damage to our reputation. For further detail on how we address our environmental risks please see the Section 172 Statement and Key Principal Decisions above.

- **Union relationship risk**
  Strategic management of the various union relationships across all formats is critical to business continuity. These relationships are managed through regular leadership meetings between ASDA and the trade unions, alongside continued local relationship building and communication. Further detail is provided in the Section 172 Statement.

Approved by the Board on 16 June 2020 and signed on its behalf by:

R McWilliam
Director

Directors' Report for the Year Ended 31 December 2019

The Directors present their report and the financial statements for the year ended 31 December 2019.

Future developments

ASDA's future developments are detailed in the Strategic Report.

Going concern

At the date of approval of the Accounts, the Directors recognise that the UK is experiencing high levels of economic and social uncertainty surrounding the outbreak and spread of COVID-19. As such, in assessing the Company's ability to adopt the going concern basis in preparation of the Financial Statements, the Directors have considered the financial impact that COVID-19 may have on the Company's operating cashflows in the foreseeable future based on data available at the date of approval. Specifically as part of this assessment, the Directors have tested the ability of the Company to meet its liabilities as they fall due in the 12 months following the date of approval in the event of various cashflow scenarios, including a severe downside reduction in revenue - based on independent estimates of the range of forecast impacts on UK GDP - versus expected revenue for the 12 months following the date of approval. Based on the range of cashflow forecasts modelled, and considering the Company's and Group's financial position at the date of approval of the Accounts along with the Group's access to borrowing facilities via the ultimate parent company or an alternative lender as required, the Directors have adopted the going concern basis in preparation of the Financial Statements.

Factors specifically considered which support this conclusion include a balanced assessment of the principal financial impacts which the Directors expect to impact the Company in the 12 month period following the date of approval of the Accounts:

- Expected net increase in demand for groceries purchased through retail outlets during the period of national disruption given restrictions in place on customers' ability to purchase food from non-retail outlets such as restaurants;
- The Company's ability to fulfil demand for groceries through a variety of fulfilment channels, including a significant online presence through ASDA.com;
- Incremental costs related to a significant expected increase in colleague absence;
- Expected cost savings in the 12 month period following the date of approval of the accounts due primarily to UK government support announced prior to the date of approval of the accounts to provide financial support to retailers; and,
- The ability of the Group to access significant short-term borrowing facilities via the ultimate parent company or an alternative lender as required in the event of short-term liquidity issues.

Dividends

No dividends were paid during the year (2018: £nil).

Directors' Report for the Year Ended 31 December 2019 (continued)

Wates corporate governance principles for large private companies

Introduction

The Companies (Miscellaneous Reporting) Regulations 2018 require certain large companies to include a statement as to which corporate governance code has been applied and how during the financial year. ASDA Stores Limited (the "Company") qualifies for this disclosure and has chosen to adopt the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website), which incorporates 6 key principles: Purpose & Leadership, Board Composition, Director Responsibilities, Opportunity & Risk, Remuneration and Stakeholder Relationships & Engagement.

These new corporate governance reporting requirements apply to companies reporting for financial years starting on or after 1 January 2019 and companies are able to adopt the Wates Corporate Governance Principles as an appropriate framework when making a disclosure regarding their corporate governance arrangements.

Role of ASDA Group Limited

ASDA Group Limited, the immediate parent undertaking of the Company, is not required by the regulations to report on which corporate governance code it has applied but it plays an important role in the governance of the operations of the Company. The narrative below therefore discusses the governance arrangements of the Company and how its governance arrangements interact with ASDA Group Limited's governance arrangements, given that a holistic view of the Company's governance arrangements would not be visible if the focus were limited to the Company. The Company is the principal trading entity within the ASDA group of companies (the "Group"). The principal activity of the Company is included in the Strategic Report.

The board of ASDA Group Limited (the "Board"), described in more detail below, meets monthly and includes both directors of the Company. Additionally, a group which comprises the senior leadership of the Company, including all the members of the Board (the "Executive Team") meets at least weekly to discuss and make operational decisions of the Company and to consider and implement decisions of the Board. Details of the directors of ASDA Group Limited who served during the year are included in the financial statements of ASDA Group Limited which are available at ASDA House, Southbank, Great Wilson Street, Leeds LS11 5AD.

Purpose and Leadership

Mission, Purpose and Strategy

The Company's mission is to be the most trusted retailer and its purpose is to help customers save money and live better. The purpose is continuously communicated to colleagues and features in most internal and external communications.

The mission and purpose have been developed in line with those of the Company's ultimate parent, Walmart Inc. ("Walmart"), and are at the heart of the Company's strategy which is summarised as follows:
- Win on price;
- Providing a consistent and trusted customer experience; and,
- Providing growth where customers care.

Beliefs, Values and Culture

The Company's strategy has been developed to deliver the purpose. Similarly, the Company has developed and adopted specific values and a culture which also supports delivery of the purpose.

The Company observes four core values:
- Service to customers;
- Respect for the individual;
- Strive for excellence; and,
- Act with integrity.

Directors' Report for the Year Ended 31 December 2019 (continued)

These values are deeply embedded across the business and are supported by "Being ASDA", a set of behaviours which are expected to be adopted and demonstrated by all colleagues across stores, distribution centres and home offices:

- I have a customer mindset;
- I am results orientated;
- I am a team player;
- I engage people;
- I am innovative;and,
- I do the right thing.

These behaviours are key to the Company's culture and are embedded in the Company's ways of working. These behaviours are exhibited by the Board and the Executive Team and various mechanisms have been adopted to ensure that these behaviours are continually communicated to colleagues, such as through inductions, ongoing training, appraisals and company-wide briefings. The Company also seeks to recruit colleagues who are aligned to these values by assessing a potential candidate's suitability for a particular role based on these behaviours. Importantly, the Company appraisal process measures not only what colleagues have delivered but how they have delivered against these behaviours. In addition, the level of colleague bonus pay out is partially determined by reference to customer satisfaction measures which helps to further embed Company values and behaviours into the culture.

The Board and Executive Team monitor culture through an annual colleague "Your Voice" survey. This provides colleagues with the chance to provide anonymous feedback and helps the Board and Executive Team to take action to address any colleague concerns and feedback, as well as any issues with levels of engagement with the Company, its strategy, its culture and each colleague's role in that journey. The survey and any resulting action plans have Board and Executive Team input and visibility, which ensures the Board and Executive Team are closely monitoring colleagues' views and company culture. In the past year, the frequency of the "Your Voice" survey has been increased to more closely monitor these areas. Details as to how engagement with colleagues impacts decision-making can be found in the Section 172 statement within the Strategic Report. Other key means of maintaining open and constructive communication and engagement between colleagues, the Board and Executive Team include: "write to Roger" (an initiative encouraging colleagues to write to the CEO with new ideas), the "store connector programme" (an initiative connecting store managers to home offices), "colleague voice" (a working group focused on making improvements to the working environment for colleagues), an open door policy, annual and quarterly company-wide business meetings and interaction with trade unions.

The Company also has a well-established process for colleagues to report misconduct and other unethical behaviour. Colleagues can report such matters via email to the ethics team, by telephone using the ethics hotline or through the ethics website. The methods for reporting are well publicised around home offices and colleague areas in stores and depots. Reports can be made anonymously and are confidential. Furthermore, the Company operates a policy of no retaliation to protect colleagues and encourage them to report any unethical behaviours, without the threat of repercussion. The independence of the Company's ethics team is achieved by the team reporting directly into the ultimate parent, Walmart. The ethics policy is also aligned with the ASDA behaviours noted above. The Board has also established a committee (further detail of which is included below) which includes responsibility for ethics. The output of this committee is shared with the Board and Executive Team.

Board and Executive Team communications to colleagues of the Company's performance is delivered regularly through a variety of methods including monthly leadership meetings, annual and quarterly company-wide meetings and company-wide email communications from the Board, Executive Team and colleague communications team. There is an established process for weekly team huddles where key business performance data and key business news is cascaded to all areas of the Company.

Directors' Report for the Year Ended 31 December 2019 (continued)

The Company is also committed to supporting the wider community and its external shareholders. For example, the Company donates to several national and local charities to provide a positive contribution to the communities in which the Company operates. Furthermore, the Company is fully aware of its environmental responsibilities and has recently enacted several initiatives to reduce the impact it may have on the environment. For further details please see Section 172 within the Strategic Report.

Board Composition
As noted above the Board (being the board of directors of the immediate parent ASDA Group Limited) plays a key role in the Company's governance. The below section focuses on the composition of the Board as this is the forum where key decisions affecting the Company (and the Group) are taken. The Board meets monthly and makes key decisions which are then carefully considered and if deemed appropriate, implemented by the Company (by the Company directors and the Executive Team). Both directors of the Company and the majority of the Executive Team are also directors of ASDA Group Limited.

Chair
Board meetings of ASDA Group Limited and the Company are chaired by Roger Burnley (the Company's Chief Executive Officer), who is responsible for the board's overall effectiveness, promoting open debate and facilitating constructive discussion. Whilst Roger acts as both the chair and Chief Executive Officer, he has a direct reporting line into the ultimate parent company, Walmart; this structure provides independent review and scrutiny of the operation of the Board and the Company and individual director effectiveness.

Balance, Diversity, Size & Structure
During the year the Board was comprised of: Chief Executive Officer, Chief Financial Officer, Chief People Officer, Chief Operating Officer, Chief Merchandising Officer, Chief Customer Officer and Company Secretary. The directors of the Company during the year were comprised of the Chief Executive Officer and the Chief Financial Officer. Further detail on each director is provided in the following web link: https://corporate.asda.com/our-story/leadership.

This size and composition of the Board is appropriate for the size of the business. In particular, each of the Company's key business functions are represented on the Board and each director is skilled and experienced in the function that they represent. The variety of backgrounds, skills, experience and knowledge ensures decisions relevant to the Company are being made in a diverse forum. The diversity of thought and expertise provided by the respective Board members promotes balanced and holistic decision making which assesses the impacts of decisions on the various stakeholders who have an interest in the business and who are affected by the decisions made. The structure of the Board enables effective long-term decision-making which in turn supports delivery of the Group's (and therefore the Company's strategic objectives.) The Board meets on a monthly basis. In turn, the size and composition of the Company board is appropriate for the consideration and implementation of the decisions made by the Board. It is considered that these two directors have the appropriate balance of background, skills, experience and knowledge to make and execute Company decisions, working closely with the Board and the wider Executive Team.

The scrutiny, review and support provided by the ultimate parent, Walmart, provides an appropriate amount of independent rigour and challenge to the operation and decisions of the Board and the Company. This includes participation in appointments to the Board, monitoring the effectiveness of the Board through routine and structured interactions including regular visits, detailed corporate governance sign-off procedures as well as involvement in Board member appraisals. Furthermore, the General Counsel, the Chief Executive Officer, the Chief Financial Officer and the Chief Ethics and Compliance Officer each have individual reporting lines into Walmart which provides an additional degree of independence.

Directors' Report for the Year Ended 31 December 2019 (continued)

The Board and the Company observe a Diversity and Inclusion policy. The Board and the directors of the Company continuously strive to increase diversity at all levels of the organisation.

There are also several committees which oversee key areas (see further detail provided in the Directors' Responsibilities section).

Effectiveness
Board members have a formal appraisal process twice annually which considers performance and reward. Furthermore, there are periodic evaluations of the constitution and effectiveness of the Board and additional appointments are made where necessary to deliver the appropriate diversity and expertise.

The Company is committed to on-going professional development of its employees, which includes the Board members (who are also employees of the Company). This is delivered through a variety of means such as mentoring programmes, officer development days and various Company and Walmart training courses, which ensure that employees of the Company (including members of the Board and directors of the Company), have the most up to date knowledge and skills to ensure they are effective in their roles.

For further details on how the Board and Executive Team engage with the Company's stakeholders and promote the success of the Company, please refer to the Section 172 Statement.

Director Responsibilities
Accountability
The Board, including the directors of the Company, receive a detailed on-boarding pack detailing their accountabilities and obligations as directors (including conflict management). Individual responsibilities are clearly defined by the Human Resources team and any changes to a director's areas of responsibility and/or reporting lines are briefed to the whole business via colleague email communications. The business as a whole therefore has a clear understanding of each director's responsibilities and remit. Where individuals are directors of separate legal entities within the Group, they are aware of their responsibilities regarding each of these legal entities.

Furthermore, the directors and the Board observe detailed corporate governance procedures and policies, much of which is derived from the corporate governance framework mandated by Walmart. This sets out clear guidelines as to which internal stakeholders within the Company and Walmart need to be informed of, consulted with or be the approver of, certain matters, which ensure that there are appropriate checks and balances before making decisions. The Company's implementation of decisions is reviewed by the Board when the Board assesses Company performance. The corporate governance framework also allows Walmart to provide independent challenge to the Board and Executive Team during its review and consideration of any matter that requires Walmart approval pursuant to the Walmart governance policies and procedures. As discussed elsewhere within this section and in the section 172 statement (included in the Strategic Report), Walmart has policies in place which for example cover financial controls, capital expenditure, director remuneration, ethics, approval of strategic and financial plans and a number of other areas. The policies in place are reviewed periodically.

Conflicts are carefully managed and monitored by Walmart. An annual process is completed to identify any conflicts. Additionally, on an on-going basis the Board, including the directors of the Company, are asked to consider and report on any conflicts. Appropriate measures would be implemented in the event of any conflict.

Directors' Report for the Year Ended 31 December 2019 (continued)

Committees
Members of the Board chair the following committees: the (i) Compliance, Ethics, Risk & Audit Committee (CERA); (ii) Giving Committee; (iii) Real Estate and Investment Committee; and (iv) Pension Investment & Funding Committee and the Board remains responsible for all decisions taken by the respective committees. The CERA committee reviews and monitors the Company's system of internal controls and risk management, internal audit process and compliance with laws, regulations and ethical codes of practice. The Giving Committee is responsible for the development and execution of the Company's donations and corporate sponsorship strategy and ensuring that all donations and sponsorships are executed in accordance with the Walmart procedures. The Real Estate and Investment Committee oversees the Group's (including the Company) capital expenditure programme and certain real estate matters. The Pension Investment & Funding Committee is the vehicle for direct consultation between the Company (as scheme employer) and the trustees of the ASDA Group Pension Scheme and the ASDA Pension Plan.

These committees operate under clearly documented terms of reference which clearly define the scope of authority of such committees. Save for the Pension Investment & Funding Committee (which meets as and when the trustees of the pension scheme wish to consult with the Company), each of these committees has a formal schedule of meetings, which works in sequence with the meetings of the Board. The remit of the committees is regularly reviewed, and the terms of reference are updated as and when required. The committees are also attended by senior leaders and subject matter experts of the relevant business area.

The Board, including directors of the Company, are actively engaged in the decisions of these committees as various members of the Board chair and attend these committee meetings. In addition, the output of all committee meetings is reported to the Board monthly and there is a standing agenda item at each monthly Board meeting for the Board to review and consider those papers and decisions made.

Certain key business matters relevant to the Company are documented as being reserved for a decision by the Board, such as approval of the overall commercial and operating strategy and approval of the annual financial plans. The directors of the Company observe this and ensure that any matters falling within that remit, are considered in the forum of a Board meeting of Asda Group Limited. The Company, through its directors, would then be responsible for considering and implementing the output of such a Board decision.

Integrity of information
Board members are provided with pre-read materials (all the materials to be presented during the meeting) via an electronic portal in advance of Board meetings to ensure optimal use of Board meeting time. This includes a view of all key aspects of the Company and its performance and includes a review of performance against agreed key performance indicators across the core areas of the Company, some of which are referred to within the Strategic Report. The same information is available to the directors of the Company in their consideration of decisions to be implemented by the Company.

The Board has established formal and robust internal processes which ensure that the systems and controls in place are operating effectively. This ensures the quality and integrity of information provided to the Board and the directors of the Company is reliable, which allows for better and more informed decision making. As a wholly owned subsidiary of a publicly listed US-based company, the Company applies the financial control framework set out in Section 404 of the Sarbanes-Oxley Act, which mandates robust internal controls designed to prevent or detect material errors in the financial statements and ensures they are documented and certified to Walmart. Key controls within this framework are tested annually by the Company's and Walmart's internal audit functions, which act independently to monitor the Company's systems and controls and report any deficiencies in design or operation of controls to management such that appropriate and timely resolution actions can be taken.

Directors' Report for the Year Ended 31 December 2019 (continued)

Opportunity and Risk

In order to promote the long-term sustainable success of the Company, the Board and Executive Team identify both risks and opportunities to achieving this. Further detail on how the Board and Executive Team achieve this is included below.

Risk

The Company has a risk management programme which facilitates identification, mitigation and ongoing monitoring of significant risks. The policies that facilitate delivery of the risk management programme are developed and overseen by the CERA committee. Please see the strategic report for full details of the risks identified and assessed. The Company's enterprise risk management process is comprised of 12 functional risk groups spanning the Company's key operational functions, each with an individual risk register and an overarching enterprise wide risk register. Each key business function has a nominated risk manager who is responsible for updating their respective registers managed through the functional boards. The risk managers also meet on a quarterly basis at the risk manager working group to report information on common risks, share learning and the latest developments in risk management. The CERA committee, which is made up of members of the senior leadership of the Company and members of the Board, monitors the management of the enterprise risks through risk deep dives each month. On a bi-annual basis the enterprise risk register is reviewed by the Board and new and emerging risks are added to the register as they arise.

The Board, which includes Company directors, monitors progress against enterprise risk actions and targets and each risk is owned by a member of the Board.

Opportunity

The Strategy Delivery Forum, a cross functional team made up of senior leadership of the Company, meets monthly to assess progress against key strategic initiatives and opportunities. This allows the Company to create and preserve value in the long-term and engage other stakeholders where opportunities are identified. The Strategy Delivery Forum also reports to the Board on the key value opportunities, which allows further visibility and review at Board level. Additionally, the Company has launched an innovation fund programme during the year, to encourage identification of opportunities and to launch new initiatives. This is open to all colleagues, which allows input from all areas of the business across all levels, fostering a culture of entrepreneurship and innovation.

Remuneration

The ultimate parent company, Walmart, is heavily involved in the setting of remuneration and policies that affect the directors of the Company and the members of the Board.

Setting remuneration

When setting director remuneration for the Board and the directors of the Company there is a key focus on the performance of the Company, both in terms of annual results and the long-term sustainable success of the Group. Bonuses are set on annual metrics including profit, sales and customer promoter score to ensure a balanced focus on creating value for the Company's shareholder whilst improving the shopping experience for the Company's customers and ensuring the Company culture is reflected in the customer experience. Furthermore, Board members, including the directors of the Company, also have a long-term incentive plan which is linked to the Walmart share price together with the Group's sales, profit and cashflow management. This promotes a balanced focus on all key financial metrics that the Board, including the directors of the Company, are responsible for, which in turn helps Walmart to deliver their financial objectives and promotes the long-term sustainable success of the Company.

Additionally, pay of the Board, including the directors of the Company, is regularly benchmarked against competitors and remuneration and reward packages are revisited annually in light of this to ensure the appropriate individuals, who have the ability to deliver the Company's strategic objectives, are secured and retained.

Directors' Report for the Year Ended 31 December 2019 (continued)

Policies
Walmart, as the sole shareholder, has full transparency and visibility of executive remuneration policies and Walmart approval is required for any changes made. Furthermore, as set out above, a significant proportion of executive pay is based on the financial and non-financial performance of the Company against targets signed off by Walmart.

Stakeholder Relationships and Engagement
The Company primarily engages its customers through surveys, via both in-store and online engagement and satisfaction surveys. This is overlaid with market wide data insight which is reported monthly to the Board and enables them to collate customers' views and opinions and make any necessary changes to improve the shopping experience with the Company. Engagement with the Company's customers is a key method in achieving the Company's purpose and ensuring that the Company delivers a consistent and trusted experience and creates growth where customers care.

Whilst suppliers have direct relationships with buyers within the Company, they are also engaged on a macro level through various methods. This allows the Board and Executive Team to understand suppliers' needs and work in a way that mutually benefits both parties.

The Company engages with its colleagues through a variety of methods. Please see earlier sections of this report for more details.

The Company's ultimate parent company, Walmart, is engaged through a variety of means. As described above, there are multiple reporting lines directly into Walmart to ensure that certain areas of the Company's business operate with a degree of independence and have the benefit of additional checks and balances from Walmart. This objective is also achieved through the Walmart corporate governance policies and procedures which ensures engagement with Walmart prior to proceeding with certain types of business.

For more information regarding how the Company considers its key stakeholders in the decision-making process and the effect of its key decisions on these stakeholders, please refer to the detail set out in the Company's Strategic report.

Political contributions

ASDA did not make any political donations during the year (2018: £nil).

Charitable donations

During the year, cash donations to charitable organisations made by the Company, including monies raised through in-store collections and product sales, totalled £17.6m (2018: £15.0m). The increase was driven by the campaign with The Trussell Trust and Fareshare to support foodbanks across the UK, to which £9.4m was donated in the year (2018: £7.0m). The Company also contributed £3.8m to The ASDA Foundation, an affiliate charity of the Group (2018: £4.2m), £1.9m to Breast Cancer Now (2018: £1.2m) and £2.5m to Children in Need (2018: £2.5m)

During the year, cash donations to charitable organisations and other community projects made by the Company's affiliate charity, The ASDA Foundation totalled £4.8m (2018: £6.1m). The Company itself contributed a further £4.1m (2018: £nil) in addition to the £17.6m noted above to these causes. For further detail on our relationships with our affiliate charities please see the Strategic Report.

Directors' Report for the Year Ended 31 December 2019 (continued)

Colleagues with a disability or impairment

ASDA is a proud member of the Business Disability Forum. We continue to deliver on our commitment to attract, recruit and retain colleagues who reflect the customers and the communities that ASDA serves.

ASDA is an Equal Opportunities Employer, meaning that selection, training, development and promotion is accessible and inclusive. We have a duty to make reasonable adjustments throughout the employment lifecycle to ensure everyone can perform to the best of their ability.

Colleague involvement

The business met regularly with our elected bodies and trade unions to discuss business performance, proposed changes and future initiatives. Further detail is provided in the Section 172 Statement.

Our Appraisal and Talent Management Process provides colleagues with support and feedback in order to benefit their development and enables our leaders to drive a high-performance culture. Our Academy training offer and access to high-quality third-party training programmes provides opportunities for colleagues to develop both business-specific and leadership skills. This is supported through a relevant and engaging curriculum managed through the Learning Management System and apprentice programmes in place across ASDA.

We continue to review our apprentice programme offer to support the skill needs of the business, offering 37 apprenticeships. The wide range of apprenticeships we offer enabled over 1,500 colleagues to earn while they learned in 2019.

For further details on how we engage with our colleagues please see the Strategic Report.

Engagement with UK employees, and regard for suppliers, customers and others

The statements required by Part 4, paragraphs 11(1)(b) and 11B(1) (Engagement with UK employees, and regard for suppliers, customers and others) of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 are also included within the Strategic Report.

Events since the balance sheet date

On 5 March 2020, the Company proposed and paid a cash dividend of £850.0m to ASDA Group Limited, the immediate parent undertaking.

The Directors recognise that the impact of COVID-19 on forecast cashflows of the Company is difficult to estimate and could result in future revisions of certain estimates such as the recoverable amount of long lived assets.

Directors' Report for the Year Ended 31 December 2019 (continued)

Directors' liabilities

The Directors are insured against liability in respect of proceedings brought by third parties, subject to the limitations set out in the Companies Act 2006. Such insurance remains in force as at the date of approving the Directors' Report.

The insurance is controlled and paid centrally by the ultimate parent company. However, a proportion of this insurance is paid by the Group.

For a list of Directors who held office during the year please refer to the beginning of these financial statements.

Disclosure of information to the auditors

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Reappointment of auditors

In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of Ernst & Young LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 16 June 2020 and signed on its behalf by:

R McWilliam
Director

Statement of Directors' Responsibilities

The Directors acknowledge their responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Members of ASDA Stores Limited

Opinion

We have audited the financial statements of ASDA Stores Limited for the year ended 31 December 2019 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 26, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditor's Report to the Members of ASDA Stores Limited (continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report to the Members of ASDA Stores Limited (continued)

Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Ernst & Young LLP

Victoria Venning (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds

Date: 17 June 2020

Income Statement for the Year Ended 31 December 2019

	Note	Year Ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Revenue	2	22,874.7	22,842.8
Operating costs	3	(22,569.6)	(22,498.4)
Operating profit		305.1	344.4
Financial income	6	211.5	206.9
Financial costs	7	(408.3)	(66.5)
Profit on ordinary activities before tax		108.3	484.8
Income tax expense	8	(34.6)	(93.8)
Profit for the financial year		73.7	391.0

The above results were derived from continuing operations.

IFRS 16 was adopted on 1 January 2019. The modified retrospective approach was taken, hence prior year comparatives have not been restated. The primary statements are therefore shown on an IFRS 16 basis for 2019 and an IAS 17 basis for 2018.

Adoption of IFRS 16 in the 12 months to 31 December 2019 resulted in a decrease to operating costs of £209.4m and an increase to finance costs of £342.6m compared with lease-related expenses charged in the prior year under IAS 17.

Statement of Comprehensive Income for the Year Ended 31 December 2019

	Note	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Profit for the year		73.7	391.0
Items that will not be reclassified subsequently to profit or loss			
Total remeasurements on defined benefit obligation	20	(549.5)	197.6
Increase/(decrease) in value of plan assets (excluding interest income)	20	578.9	(109.9)
Changes in asset ceiling/onerous liability (excluding interest expense)	20	1,051.9	(53.3)
Impact of buy-in loss	20	(1,175.8)	-
Tax credit/(charge) on items recognised directly in other comprehensive income	8	22.2	(4.9)
		(72.3)	29.5
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges:			
Reclassification during the year to income statement	17	(37.5)	23.3
Net (loss)/gain during the year of the not-yet matured contracts	17	(12.7)	37.8
Tax on cash flow hedges recognised directly in other comprehensive income	8	9.3	(11.7)
		(40.9)	49.4
Other comprehensive (loss)/income for the year		(113.2)	78.9
Total comprehensive (loss)/income for the year		(39.5)	469.9

Balance Sheet as at 31 December 2019

(Registration number: 00464777)

	Note	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Assets			
Non-current assets			
Intangible assets	9	128.3	200.1
Property, plant and equipment	10	4,042.2	4,350.1
Investments	12	769.7	769.7
Operating lease prepayments	13	-	36.0
Deferred tax assets	8	95.1	80.2
Right-of-use asset	11	12,054.9	-
Pension asset	20	314.3	-
		17,404.5	5,436.1
Current assets			
Inventories	14	1,056.9	1,073.7
Trade and other receivables	15	3,450.6	4,460.3
Income tax asset		22.6	-
Cash and cash equivalents		56.1	192.1
Operating lease prepayments	13	-	0.8
Assets held for sale	10	9.6	-
		4,595.8	5,726.9
		22,000.3	11,163.0
Equity and liabilities			
Called up share capital	16	757.6	757.6
Share premium account	17	950.3	950.3
Cash flow hedge reserve	17	(11.7)	29.2
Other reserves	17	118.0	118.0
Retained earnings	17	3,812.9	3,816.5
Equity attributable to the shareholders		5,627.1	5,671.6
Liabilities			
Non-current liabilities			
Lease liabilities	18	11,839.5	230.4
Provisions	19	139.3	147.2
Employee benefits	20	59.5	819.8
		12,038.3	1,197.4
Current liabilities			
Trade and other payables	21	3,924.8	4,123.0
Income tax liability	21	-	52.5
Lease liabilities	18	305.1	15.7
Employee benefits	20	77.2	71.5
Provisions	19	27.8	31.3
		4,334.9	4,294.0
Total liabilities		16,373.2	5,491.4
Total equity and liabilities		22,000.3	11,163.0

Approved by the Board on 16 June 2020 and signed on its behalf by:

R McWilliam (Director)

Statement of Changes in Equity for the Year Ended 31 December 2019

	Note	Called up share capital £ m	Share premium account £ m	Other reserves £ m	Cash flow hedge £ m	Retained earnings £ m	Total £ m
At 1 January 2018		757.6	950.3	118.0	(20.2)	3,396.0	5,201.7
Profit for the year		-	-	-	-	391.0	391.0
Cash flow hedges - reclassified during the year to income statement		-	-	-	23.3	-	23.3
Cash flow hedges - net gain during year on not-yet matured contracts		-	-	-	37.8	-	37.8
Tax on cash flow hedges recognised directly in other comprehensive income	8	-	-	-	(11.7)	-	(11.7)
Total remeasurements on defined benefit obligation	20	-	-	-	-	197.6	197.6
Decrease in value of plan assets excluding interest income	20	-	-	-	-	(109.9)	(109.9)
Changes in asset ceiling/onerous liability (excluding interest expense)	20	-	-	-	-	(53.3)	(53.3)
Tax on net actuarial gains recognised directly in other comprehensive income	8	-	-	-	-	(4.9)	(4.9)
Total comprehensive income		-	-	-	49.4	420.5	469.9
At 31 December 2018		757.6	950.3	118.0	29.2	3,816.5	5,671.6
Change in accounting policy - IFRS 16 - Leases		-	-	-	-	(5.0)	(5.0)
At 1 January 2019		757.6	950.3	118.0	29.2	3,811.5	5,666.6
Profit for the year		-	-	-	-	73.7	73.7
Cash flow hedges - reclassified during the year to income statement		-	-	-	(37.5)	-	(37.5)
Cash flow hedges - net loss during year on not-yet matured contracts		-	-	-	(12.7)	-	(12.7)
Tax on cash flow hedges recognised directly in other comprehensive income	8	-	-	-	9.3	-	9.3
Total remeasurements on defined benefit obligation	20	-	-	-	-	(549.5)	(549.5)
Increase in value of plan assets excluding interest income	20	-	-	-	-	578.9	578.9
Changes in asset ceiling/onerous liability (excluding interest expense)	20	-	-	-	-	1,051.9	1,051.9
Change in value of plan assets due to buy-in		-	-	-	-	(1,175.8)	(1,175.8)
Tax on net actuarial losses recognised directly in other comprehensive income	8	-	-	-	-	22.2	22.2
Total comprehensive income		-	-	-	(40.9)	1.4	(39.5)
At 31 December 2019		757.6	950.3	118.0	(11.7)	3,812.9	5,627.1

Notes to the Financial Statements for the Year Ended 31 December 2019

1 Accounting policies

General information
The Company is a private company limited by share capital, incorporated and domiciled in England under the Companies Act 2006 (registration number 00464777).

The address of the registered office is:
ASDA House
Southbank
Great Wilson Street
Leeds
LS11 5AD
UK

These financial statements were authorised for issue by the Board on 16 June 2020.

Statement of compliance
These financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with historical cost convention, the Companies Act 2006 and applicable accounting standards.

Summary of significant accounting policies and key accounting estimates
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation
The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of ASDA Group Limited. The results of the Company are included in the consolidated financial statements of ASDA Group Limited, which are available from ASDA House, Southbank, Great Wilson Street, Leeds, LS11 5AD. These financial statements are therefore separate financial statements of the Company only.

The Company's financial statements are presented in Sterling and all values are rounded to the nearest million pounds (£m) except when otherwise indicated. The presentational currency is also the Company functional currency.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

Going concern

At the date of approval of the Accounts, the Directors recognise that the UK is experiencing high levels of economic and social uncertainty surrounding the outbreak and spread of COVID-19. As such, in assessing the Company's ability to adopt the going concern basis in preparation of the Financial Statements, the Directors have considered the financial impact that COVID-19 may have on the Company's operating cashflows in the foreseeable future based on data available at the date of approval. Specifically as part of this assessment, the Directors have tested the ability of the Company to meet its liabilities as they fall due in the 12 months following the date of approval in the event of various cashflow scenarios, including a severe downside reduction in revenue - based on independent estimates of the range of forecast impacts on UK GDP - versus expected revenue for the 12 months following the date of approval. Based on the range of cashflow forecasts modelled, and considering the Company's and Group's financial position at the date of approval of the Accounts along with the Group's access to borrowing facilities via the ultimate parent company or an alternative lender as required, the Directors have adopted the going concern basis in preparation of the Financial Statements.

Factors specifically considered which support this conclusion include a balanced assessment of the principal financial impacts which the Directors expect to impact the Group in the 12 month period following the date of approval of the Accounts:

• Expected net increase in demand for groceries purchased through retail outlets during the period of national disruption given restrictions in place on customers' ability to purchase food from non-retail outlets such as restaurants;

• The Company's ability to fulfil demand for groceries through a variety of fulfilment channels, including a significant online presence through ASDA.com;

• Incremental costs related to a significant expected increase in colleague absence;

• Expected cost savings in the 12 month period following the date of approval of the accounts due primarily to UK government support announced prior to the date of approval of the accounts to provide financial support to retailers; and,

• The ability of the Group to access significant short-term borrowing facilities via the ultimate parent company or an alternative lender as required in the event of short-term liquidity issues.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

Changes in accounting policy

New standards, interpretations and amendments effective
The following have been applied for the first time from 1 January 2019.

IFRS 16 - Leases
In the current year, the Company has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019. This replaces IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease'.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The date of initial application of IFRS 16 for the Company is 1 January 2019.

Impact on lessee accounting
IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were recorded off-Balance Sheet.

Applying IFRS 16, for all leases including intercompany leases (except as noted below), the Company:
a) recognises right-of-use assets and lease liabilities in the Balance Sheet, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Balance Sheet immediately before the date of transition.
b) recognises depreciation of right-of-use assets and interest on lease liabilities in the Income Statement.

Lease incentives (e.g. rent free periods) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive accrual, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For leases that were classified as finance leases before the transition date, the carrying amount of these leases has been reclassified to right-of-use assets and lease liabilities respectively

Impact on lessor accounting
IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. Where the Company is an intermediate lessor, the classification under IFRS 16 is required to be made with reference to the right-of-use asset that arises under the headlease. On transition to IFRS 16, there has been no change to how leases where the Company is a head or intermediate lessor are accounted for.

Practical expedients and policy choices
The Company has applied IFRS 16 using the modified retrospective approach which:
- requires the Company to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application; and,
- does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

IFRS 16 allows for certain transition and accounting policy options for companies taking the modified retrospective approach. The Company has applied the following practical expedients at transition date, but no others:

- To rely on the previous identification of a lease (as provided by IAS 17 or IFRIC 4) for all contracts that existed on the transition date; and,
- To exclude initial direct costs other than those arising from lease buy-outs (see note 11) from the measurement of the right-of-use asset on the transition date.

With respect to all leases previously classified as operating under IAS 17, the Company has elected to measure right-of-use assets recognised on the transition date at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Balance Sheet immediately before the transition date.

The Company has taken the following ongoing policy choices from the adoption date:

- To account for any lease with a term of less than 12 months as a short term lease, recognising cost in the Income Statement on a straight line basis over the lease term and not recognising a right-of-use asset and lease liability at the contract date;
- To apply the IFRS 16 low value asset exemption threshold based on the value of the asset when new, on an individual asset basis if deemed appropriate;
- To apply a materiality threshold to all leases on and post transition. Costs relating to leases with total undiscounted cash flows over the life of the lease below a documented threshold will be expensed as incurred and no right-of-use asset or lease liability will be recognised at the contract date;
- To elect to combine lease and non-lease components prospectively after the transition date. This applies to all leases with the exception of IT and printer leases.

Financial impact of adoption

In the year of adoption, the overall impact to the Income Statement was a reduction in profit before tax of £133.2m, split as a decrease to operating costs of £209.4m and an increase to finance costs of £342.6m.

The table on the following page illustrates the impacts to the Balance Sheet at the transition date.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

	Note	Year ended 31 December 2018 Under IAS 17 £ m	IFRS 16 Impact	Balance as at 1 January 2019 Under IFRS 16 £m
Assets				
Non-current assets				
Property, plant and equipment	1	4,350.1	(214.9)	4,135.2
Intangible assets	2	200.1	(90.8)	109.3
Investments		769.7	-	769.7
Right-of-use assets		-	12,378.8	12,378.8
Operating lease prepayments	3	36.0	(36.0)	-
Deferred tax assets		80.2	0.8	81.0
		5,436.1	12,037.9	17,474.0
Current assets				
Inventories		1,073.7	-	1,073.7
Trade and other receivables	4	4,460.3	(2.8)	4,457.5
Cash and cash equivalents		192.1	-	192.1
Operating lease prepayments	3	0.8	(0.8)	-
		5,726.9	(3.6)	5,723.3
		11,163.0	12,034.3	23,197.3
Equity and liabilities				
Equity attributable to the shareholders				
Share capital		757.6	-	757.6
Share premium		950.3	-	950.3
Other reserves		118.0	-	118.0
Cash flow hedge reserve		29.2	-	29.2
Retained earnings	5	3,816.5	(5.0)	3,811.5
		5,671.6	(5.0)	5,666.6
Liabilities				
Non-current liabilities				
Lease liabilities		230.4	11,785.4	12,015.8
Employee benefits		819.8	-	819.8
Provisions		147.2	-	147.2
		1,197.4	11,785.4	12,982.8
Current liabilities				
Trade and other payables	6	4,123.0	(64.3)	4,058.7
Income tax liability		52.5	-	52.5
Lease liabilities		15.7	321.8	337.5
Employee benefits		71.5	-	71.5
Provisions	7	31.3	(3.6)	27.7
		4,294.0	253.9	4,547.9
Total liabilities		5,491.4	12,039.3	17,530.7
Total equity and liabilities		11,163.0	12,034.3	23,197.3

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

1) Finance lease assets previously presented within Property, Plant and Equipment. These have been moved to be presented within lease right-of-use assets.
2) Lease buy outs were previously classified as intangible assets. These balances are now included in the lease right-of-use asset.
3) Operating lease prepayments relate to lease premiums prepaid and amortised over the remaining term of the lease. These balances are now included in the lease right-of-use asset.
4) Amount relating to a landlord debt owed as part of one of the leases where the Company is a lessee. This balance is now included in the lease liability.
5) Retained earnings impact on transition relates primarily to impairment on transition of two leases.
6) Amounts relating to accruals for straight-line rentals. These balances are now included in the lease liability.
7) Amounts previously provided for onerous leases. On transition these leases have been deemed impaired and these balances therefore included in the related lease right-of-use asset.

The following reconciliation presents the differences between liabilities carried forward at 31 December 2018 under IAS 17 and liabilities brought forward at 1 January 2019 under IFRS 16:

	£'m
Future undiscounted operating lease commitments under IAS 17 as at 31 December 2018	2,137.0
Impact of discounting[1]	(961.5)
Lease Term[2]	10,925.7
Other	0.9
	12,102.1
Finance lease liability under IAS17 at 31 December 2018	250.5
Finance lease liability differences on IFRS 16 inception	0.7
	12,353.3

Notes

1) Discount rate on transition. Liabilities on transition were discounted using a weighted average incremental borrowing rate ("IBR") of 4.04%. IBR has been determined on a lease-by-lease basis based on a Company specific borrowing rate with reference to the remaining lease term. IBRs applied range between 0.8% to 15.5%.
2) Lease term. Under IAS 17, future operating lease commitments were disclosed to the contractual end date only. Under IFRS 16, additional consideration has been given to contractual lease extension options and extension rights when assessing lease term. Future cash flows are therefore higher under IFRS 16 where extensions have been included in addition to the contractual term. This has been particularly impactful in the area of intercompany leases. Please see key judgements section within note 1 for further information.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

New standards, interpretations and amendments not yet effective

There are no issued but not yet effective standards, interpretations and amendments, which have not been applied in these financial statements, that will or may have an effect on the financial statements in future.

Summary of disclosures exemption

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- The requirements of IFRS 7 'Financial Instruments: Disclosures';
- The requirements of paragraphs 91-99 of IFRS 13 'Fair Value Measurement';
- The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - Paragraph 79(a)(iv) of IAS 1;
  - Paragraph 73(e) of IAS 16 'Property, Plant and Equipment'; and
  - Paragraph 118(e) of IAS 38 'Intangible Assets'.
- The requirements of paragraphs 10(d), 10(f), 16, 38A-D, 40A-D, 111 and 134-136 of IAS 1 'Presentation of Financial Statements';
- The requirements of IAS 7 'Statement of Cash Flows';
- The requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';
- The requirements of paragraphs 17 and 18A of IAS 24 'Related Party Disclosures';
- The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 'Impairment of Assets'.

Where applicable, equivalent disclosures are included in the consolidated financial statements of ASDA Group Limited, in which the Company is consolidated.

Judgements, estimates and assumptions

Management are required to make judgements, estimates and assumptions that affect the application of policies and reported assets and liabilities, income and expenses. Judgements, estimates and assumptions are continually evaluated and are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key estimates and assumptions impacting the carrying value of assets and liabilities are discussed further below.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

Supplier income

Supplier incentives, rebates, fixed income and discounts are collectively known as "supplier income". Accounting for the amount and timing of recognition of certain elements of supplier income may require the exercise of judgement. The three key types of supplier income are explained elsewhere in note 1. The areas requiring a level of judgement and estimation involved are considered below:

- Annual supplier rebates - typically these are earned and billed within the financial year of the Company. A small proportion of rebate agreements may extend beyond the year end and in these cases, estimations may be required of projected sales volumes and judgement may also need to be applied to determine the rebate level earned if agreements involve multiple tiers. All income accruals are supported by detailed calculations, based on the explicit terms in each agreement and judgements are minimal, due to the small number of agreements spanning the year end.
- Fixed amount supplier income - the majority of this income is earned and billed within the financial year of the Company. A small proportion of agreements may not be coterminous with the year end and, in these cases, any income accrued is supported by detailed calculations. These require judgement to determine when the terms of the agreement are satisfied and that amounts are recognised in the correct period.

Supplier income recognised in the income statement and accounted for as an offset within trade payables (note 21) at the year-end for which estimation and judgement is required is £2.0m (2018: £0.6m). This represents the net amount of accrued income (£2.0m) (2018: £0.6m) and deferred income (£nil) (2018: £nil) on deals running across the year end.

IFRS 16 lease term

IFRS 16 defines the lease term as the non-cancellable period of a lease together with the period covered by options to extend the lease if the lessee is reasonably certain to exercise the option, and the period covered by an option to terminate the lease if the lessee is reasonably certain not to exercise the option. The Company applies judgement to whether an extension should be added to the non-cancellable lease term with reference to the following:

External Leases:

- Extension options in the contract. Consideration as to whether any option is reasonably certain to be exercised is based on whether an economic incentive exists to do so. This incentive is assessed by reference to multiple factors including but not limited to current operational performance of the site and future performance projections, length of time to the option exercise date and future capital requirements. The majority of the Company's leases do not have extension options in the contract but, where they do, most lease terms include the extension period.
- Geographical factors. A term extension on any lease for sites in England and Wales may be judged reasonably certain on the basis of security of tenure if an economic incentive to remain in the lease beyond the contractual term is deemed to exist. This incentive is assessed by reference to the same factors listed above. If an extension is judged reasonably certain, the typical additional term applied is 10 years. Geographical factors are not considered for sites outside England and Wales.

Intercompany leases:

- Average life of the associated leasehold improvement assets. Intercompany leases have a non-cancellable lease term of 30 days but management do not expect to exercise the right to cancel beyond this point as long as there is economic incentive for each site to continue trading. Intercompany lease terms are therefore calculated with reference to the remaining life of associated leasehold improvements with remaining book value, capped at 35 years.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

In the event of changing circumstances or new information that may impact judgements taken, lease terms will be re-assessed on a lease by lease basis. A quarterly review is performed to identify where re-assessments may be required. Any change in lease term could result in a recalculation of the lease liability and a material adjustment to the associated right-of-use asset. There are no examples of term reassessment in 2019.

Other

The insurance provision (note 19) relates to liabilities arising from past events which are not covered by third party insurance. This includes both known and potential claims from stores and depots. Estimates are made with regards to determining the provision required either by actuarial assessment or based on historical experience.

Judgement is made in determining whether any provision is required with regard to litigation. In accordance with IAS 37, no provision is made where a loss is not considered to be probable; disclosures of relevant matters are made in contingent liabilities (note 23).

Share-based payment transactions

The Company estimates fair value for share-based payment transactions depending on the terms and conditions of the grants. This estimate also requires determining the most appropriate inputs to the valuation model including assumptions of the expected life of the share option, share price, volatility and dividend yield. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 20.

Pension buy-in

Judgement has been applied in accounting for the buy-in of the defined benefit ASDA Group Pension Scheme ("the Scheme") during the year. As the Company retains an obligation to fund pension liabilities of the Scheme in the event of insurer default, the buy-in does not meet the criteria of a settlement event as set out in IAS 19 - Employee Benefits. As such, the actuarial loss associated with the buy-in has been recognised in other comprehensive income. Further detail is provided in note 20.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences are recognised in the income statement, except when hedge accounting is applied and differences are recognised in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Intangible assets

Intangible assets acquired are carried initially at cost. Following initial recognition, the historic cost model is applied, with intangible assets being carried at cost less accumulated amortisation and accumulated impairment losses.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

Amortisation

Intangible assets with a finite life have no residual value and are amortised on a straight line basis over their expected useful lives, with charges included in operating costs, as follows:

Software and development costs	4 to 8 years
Lease buy out costs*	over the lease term
Other intangibles	3 years

The brand licence intangibles are regarded as having an indefinite useful economic life and in accordance with IAS 38, are not amortised but are subject to annual tests for impairment.

*As described in note 11, on 1 January 2019 following adoption of IFRS 16 - Leases, lease buy-out assets are now classified as right-of-use assets and are amortised over the lease term.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Certain items of property, plant and equipment that had been revalued to fair value prior to 1 January 2004, the date of transition to IFRSs, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Items of property, plant and equipment under construction are valued at cost and not depreciated. Depreciation is charged from the date the assets are available for use.

Assets acquired by way of a finance lease are stated at an amount equal to lower of fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Following the adoption of IFRS 16 'Leases' at 1 January 2019, these amounts are classified as right-of-use assets (see note 11 for details).

All property, plant and equipment are reviewed for impairment in accordance with IAS 36 'Impairment of Assets'.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement.

Depreciation

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Freehold properties	20 - 50 years
Finance leases and leasehold improvements	Shorter of 20 - 50 years or the lease term
Plant, equipment, fixtures and fittings	3 - 20 years

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each Balance Sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash flows that are largely independent from those of other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time-value of money and the risks specific to the asset. Impairment losses on continuing operations are recognised in the Income Statement in those expense categories consistent with the function of the impaired asset.

Impairment losses recognised in respect of cash-generating units ("CGU") are allocated to reduce the carrying amount of the non-current assets in the unit on a pro-rata basis. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Assets held for sale

The Company classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the Balance Sheet.

Investments

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less amounts written off. Provision against the underlying value of the investments in subsidiary undertakings is made where, in the opinion of the directors, there is impairment to the value of the underlying business.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Leases

Company as a lessee

The Company assesses whether a contract is or contains a lease at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (defined as leases where the cost of the underlying asset is below an internally set materiality threshold). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liability

The lease liability is initially measured at the value of the lease payments that are not paid at the commencement date, discounted to present value.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and,
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as separate current and non-current lines in the Balance Sheet.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect the lease payments made.

The Company re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using the current discount rate;
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate; or
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

Discount Rate

When discounting payments to present value, the Company uses the interest rate implicit in the lease if this rate can be readily determined. For a small volume of high value leases, the rate implicit in the lease can be calculated and has therefore been used.

Otherwise, for the majority of leases the rate used is based on an estimated incremental borrowing rate. Rates are determined with reference to UK rates available to the Company adjusted for lease term. Rates are updated on a quarterly basis.

Right-of-use Assets

Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day (including lease buy out payments made to previous tenants) less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the lease term. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation is charged from the commencement date of the lease. Right-of-use assets are presented as a separate line in the Balance Sheet.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Impairment' policy above.

Non-lease components and variable rent expense

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has taken this election with the exception of IT and printer leases where other charges included in the contract (maintenance and replenishment) are accounted for separately within related cost lines.

The primary non-lease components recognised within lease payments are property costs (service charges and insurances) paid to landlords and included within the terms of lease contracts. These costs are included within the lease payments at commencement date if fixed, or within variable rent expense as incurred if not. The majority of these payments are variable and therefore not included in the lease liability.

As a lessee, the Company does not have any rent payment terms linked to sales or other variable metrics.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

Company as a lessor

The Company enters into lease agreements as a lessor with respect to a small amount of its excess property and space inside operational stores. Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Where the Company is an intermediate lessor, the head lease and sub-lease are accounted for as two separate contracts and assessment of classification is made with reference to the right-of-use asset resulting from the head lease rather than the underlying asset. The Company currently has no leases classified as finance where it is the lessor.

Where the Company owns the freehold, assets are included in property, plant and equipment and depreciated over their useful economic lives. Rental income from operating leases, including the effect of lease incentives, is recognised on a straight-line basis over the lease term.

Third party lessees are subject to credit checks prior to entering into a lease contract with the Company and may be required to provide a guarantor depending on the outcome of these checks. Additionally, some leases contain clauses enabling upwards revision of the rental charge according to prevailing market condition at points within the lease contracts.

Financial instruments

Financial assets and liabilities are recognised when the Company becomes party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions.

Financial assets and liabilities

The Company classifies its financial assets and liabilities in the following categories: trade and other receivables, intercompany receivables, derivatives designated as hedges, cash and cash equivalents, interest bearing loans and borrowings, trade and other payables, and intercompany payables. The Company' accounting policy relating to lease liabilities are described above.

Management determines the classification of its investments at initial recognition.

All financial assets and liabilities are recognised initially at fair value. The Company assesses financial assets for impairment using the expected credit losses model and recognises impairment losses as required.

Loans and receivables

The Company's loans and receivables, including amounts owed by fellow subsidiaries of the ultimate parent company, are held with the sole objective of collecting contractual cash flows and are therefore carried at amortised cost. They are included in current assets except for those with maturities greater than 12 months after the balance sheet date.

Interest bearing loans and borrowings

Interest bearing loans and overdrafts are recorded initially at fair value plus directly attributable transaction costs. Subsequently, these liabilities are carried at cost and amortised using a constant rate on the carrying amount. Gains or losses arising on repurchase, settlement or cancellation of liabilities are recognised respectively in finance income or finance cost.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

Offsetting of financial instruments
Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Fair values
Fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length transactions, reference to the current value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

Derivative financial instruments and hedging
Derivative financial instruments ("derivatives") are used to manage risks arising from foreign currency exchange rate fluctuations.

Derivatives are stated at their fair value. The fair value of foreign currency derivative contracts is their market value at the balance sheet date. Market values are calculated using mathematical models and are based on the duration of derivative together with quoted market data including interest rates, foreign exchange rates and market volatility at the balance sheet date.

For those derivatives designated as hedges and for which hedge accounting is applied, the hedging relationship is formally designated and documented at its inception. This documentation identifies the risk management objective and strategy for undertaking the hedge, the nature of the risk being hedged and how effectiveness will be measured throughout its duration.

All of the Company's hedges are considered to be cash flow hedges, hedging exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income, while the ineffective portion is recognised in profit and loss. Amounts recognised in other comprehensive income are transferred to the income statement, within cost of inventory recognised as an expense, when the hedged transaction affects profit or loss, such as when a forecast purchase occurs.

If a forecast transaction is no longer expected to occur, the amounts previously recognised in other comprehensive income are transferred to profit and loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or its designation as a hedge is revoked, amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs and are transferred to the income statement, within cost of inventory recognised as an expense.

The Company uses forward currency contracts as hedges of its exposure to foreign currency risk in forecasted transactions and firm commitments.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

Inventories

Inventories comprise goods for resale and goods not for resale and are stated at the lower of cost and net realisable value.

Goods at warehouses are valued at weighted average cost. Expenditure incurred in acquiring the goods and bringing them to their existing location and condition (including applicable supplier income) are included in inventories. Inventories at retail outlets are valued at average cost prices. Goods not for resale primarily comprise fuel and are valued on a first in, first out basis.

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

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

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes except:

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The amount of deferred tax provided is measured on an undiscounted basis based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Trade and other receivables

Trade and other receivables are stated at their original invoiced value (discounted if material) and reduced by appropriate allowances for estimated irrecoverable amounts. Impaired debts are derecognised when they are assessed as uncollectible. Intercompany receivables are interest bearing (6%), unsecured, are repayable on demand and are measured at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity of three months or less.

Trade and other payables

Trade and other payables, other than intercompany loans, are not interest bearing and are stated at their nominal value. Intercompany payables are interest bearing (6%), unsecured and are repayable on demand. Bank overdrafts that are repayable on demand, to the extent that they are used, are included as a component of current liabilities.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

Borrowing costs

Borrowing costs are recognised in the Company's income statement except for costs that are directly attributable to the construction of buildings which are capitalised and included within the initial cost of a building. Capitalisation of borrowing costs ceases when the property is ready for use. The interest rate applied is based on the average rate of general borrowings outstanding during a period.

Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are recognised as an operating expense in the income statement as incurred.

Defined benefit pension assets and liabilities

The Company's net asset or liability in respect of its defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. The financing costs of the scheme are recognised in the period in which they arise.

Actuarial gains and losses are recognised in full in the Statement of Other Comprehensive Income in the period in which they occur.

In the prior year, the Company was subject to minimum funding requirements in the UK and did not have an unconditional right to a refund of a surplus. This resulted in an obligation which was recognised as an additional liability and a reduction to other comprehensive income. As described in note 20, a buy-in of the ASDA Group Pension Scheme ("the Scheme") was executed during the year. Other than estimated contributions in respect of the buy-in loan described in note 20, the probability of the Company having to make further contributions to the Scheme in the future in respect of pension liabilities is deemed to be remote. As such, the liability relating to the minimum funding obligation has been released in full with a corresponding gain being recognised in other comprehensive income.

Share based payments

For all liabilities arising from share-based payment arrangements the Company has applied IFRS 2 'Share-Based Payments'.

The share option programmes allow Company employees to acquire shares of the ultimate parent company; these awards are granted by the Company. The fair value of options granted is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The charge is recognised as an employee expense, with a corresponding increase in liabilities.

The fair value of the share option is measured based on an option valuation model, taking into account the terms and conditions upon which the instruments were granted. The liability is re-measured at each balance sheet date and at settlement date and any changes in fair value are recognised in the income statement during the vesting period. These share based payment transactions are accounted for as cash settled.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

Revenue recognition

Revenue represents sales to customers through retail outlets and online, excluding value added tax. Revenue is recognised net of staff discounts, coupons and the free element of multi-save transactions.

Income from concessions and commissions

Income from concessions and commissions is based on the terms of the contract and is included within rental income.

Financial income and costs policy

Interest payable and receivable comprises interest on funds borrowed or invested as well as on amounts owed to or by other group undertakings. Interest income and interest payable is recognised in the income statement as it accrues, at a constant rate on the carrying amount.

Supplier income

Supplier incentives, rebates, fixed income and discounts (collectively known as "supplier income") are recognised, as a deduction from cost of inventory recognised as an expense, as they accrue in accordance with the terms of each relevant supplier agreement. All supplier income is supported by agreements and, in the majority of instances, these agreements begin and end within the Company's financial year. In a small number of instances, contractual periods may extend over the Company's year end. In such cases the amount of any income accrued in relation to these agreements is supported by detailed calculations.

Supplier income is split into three classifications:

- Supplier incentives and discounts - which are usually expressed in the supplier agreement as an agreed amount per item sold. This type of supplier income is mechanically calculated and therefore no judgement is required in determining the amount of income to record in the financial year;
- Annual supplier rebates - these are earned and billed within the Group's financial year in the majority of cases. The rebates are linked to pre-agreed volumes of sales or purchases of specific products and are supported by explicit contractual terms.
- Fixed amount supplier income - this is earned and billed within the Group's financial year in the majority of cases. Fixed monetary amounts are agreed with suppliers relating to certain promotional activities including, for example, new product listings, increased product distribution or specific promotional events.

Unbilled amounts of income to which the Company is contractually entitled are included in trade and other receivables, or offset against corresponding trade payables, however these amounts are not considered material. Billed amounts unpaid at year end are included in trade receivables or offset against corresponding trade payables where a contractual right of offset exists.

Dividend distributions

Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Contingent liabilities

The Company may, from time to time, be subject to legal proceedings. Where a liability is not probable or the amount cannot be reasonably estimated a liability is not recognised. However, where a loss is considered probable but a liability is possible and may be material, such matters are disclosed as contingent liabilities.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

Policies applicable prior to 1 January 2019

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Company as a lessee

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Other leases are classified as operating leases. Where land and buildings are held under leases the determination of the land is considered separately from that of the buildings.

Finance leases

Assets acquired by way of a finance lease are recognised at an amount equal to the lower of the fair value and the present value, calculated using the interest rate implicit in the lease, of the minimum lease payments at inception of the lease with a corresponding liability as an obligation to pay future rentals. Lease payments are apportioned between the finance charge and the outstanding obligation so as to produce a constant rate of interest on the remaining balance of the liability. Assets are depreciated over the term of the lease.

Operating leases

Rental payments are expensed to the Income Statement on a straight-line basis over the lease term. Leases that contain predetermined fixed rental increases are accounted for such that the increases are recognised on a straight-line basis over the lease term. Lease incentives received are recognised in the Income Statement over the lease term.

Prepaid operating lease rentals are recognised on a straight-line basis over the lease term.

Company as a lessor

Assets leased out under operating leases are included in property, plant and equipment and depreciated over their useful economic lives. Rental income, including the effect of lease incentives, is recognised on a straight-line basis over the lease term.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Segment reporting

The Company is engaged in a single reportable operating segment of business, being the retailing of food, clothing, general merchandise, fuel and services in a single geographical segment, the United Kingdom and online. The Company is not reliant on any individual major customers.

In line with the Company's reporting framework and management structure, key operating decisions are made by the Executive Board which is considered to be the Chief Operating Decision Maker for the Company. All significant revenue is generated by the sale of goods through retail outlets in the UK and through the Company's online channels. The operations of all product areas of the business are subject to similar economic characteristics and are sold in a similar retail environment.

The Company has taken these factors into account and the core principles of IFRS 8 in determining that it has a single reportable operating segment.

The analysis of the company's revenue for the year from continuing operations is as follows:

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Sale of goods	19,586.6	19,676.0
Fuel	3,288.1	3,166.8
	22,874.7	22,842.8

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

3 Operating costs

The operating profit from continuing operations is stated after (charging)/crediting the following:

	Note	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Cost of inventory recognised as an expense		(16,920.3)	(16,877.3)
Cost of inventory written off in the year		(476.0)	(448.9)
Employment costs	5	(2,577.8)	(2,497.4)
Operating lease expense - payments to fellow group undertakings		-	(487.0)
Amortisation of intangible assets	9	(42.4)	(38.1)
Depreciation on property, plant and equipment	10	(314.5)	(318.6)
Depreciation on right-of-use assets	11	(456.3)	-
Depreciation on assets held under finance lease		-	(6.2)
Operating lease expense - property		-	(119.1)
Operating lease expense - plant and equipment		-	(56.2)
Rental income		12.9	13.5
Other income		38.0	36.0
Loss on disposal of property, plant and equipment		(8.6)	(8.7)
Impairment of property, plant and equipment	10	(59.8)	(1.3)
Impairment of right-of-use assets	11	(2.8)	-
Foreign exchange gains/(losses)		1.3	(3.6)
Amounts paid to auditors			
Fees payable to the company's auditors for the audit of the company and group financial statements		(0.6)	(0.3)
Fees payable to the company's auditors for other assurance services		-	(0.2)

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

4 Directors' remuneration

The Directors' remuneration for the year was as follows:

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Directors' remuneration	2.7	4.5
Share-based payments	0.8	1.0

During the year, an emoluments cost of £nil was incurred by the Company in respect of compensation for loss of office (2018: £nil). This is not included in the directors' remuneration disclosed above.

	No.	No.
Number of directors who exercised share options	2	3
Number of directors entitled to receive shares under long term incentive schemes	2	4

Amounts in respect of the highest paid director are as follows:

	£ m	£ m
Total remuneration excluding pensions	1.7	2.6
Total share-based payments	0.6	0.3
Total accrued pension at the year end	-	-

The remuneration of the directors is in respect of their services to ASDA Group Limited as a whole. It is not possible to allocate their remuneration to the companies within the group.

One director was a deferred member of the defined benefit scheme (2018: one).

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

5 Employee numbers and costs

The average number of persons employed by the Company (including Directors) during the year, analysed by category was as follows:

	Year ended 31 December 2019 No.	Year ended 31 December 2018 No.
Total		
Retail & Distribution	138,442	142,260
Home offices	3,802	3,737
	142,244	145,997
Full time equivalents		
Retail & Distribution	86,526	89,760
Home offices	3,673	3,610
	90,199	93,370

The aggregate payroll costs (including Directors' remuneration) were as follows:

	Note	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Wages and salaries	20	2,219.0	2,254.5
Share-based payment expenses	20	129.4	44.6
Social security costs	20	132.1	130.6
Other pension costs	20	97.3	67.7
		2,577.8	2,497.4

Other pension costs comprise the cost of the defined contribution schemes. All pension related costs and income are disclosed in note 20.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

6 Financial income

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
External interest receivable and similar income	0.1	0.1
Intercompany interest receivable	211.4	206.8
	211.5	206.9

7 Financial costs

	Note	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Other interest payable		-	0.5
Intercompany interest payable		36.1	30.3
Lease interest		356.8	14.2
Net interest cost on pension scheme	20	15.4	21.5
		408.3	66.5

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

8 Income tax

Tax charged/(credited) in the income statement:

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Current taxation		
UK corporation tax on profit for the year	61.3	107.4
UK corporation tax adjustment to prior periods	0.5	0.3
Current tax charge for the year	61.8	107.7
Deferred taxation		
Arising from origination and reversal of temporary differences	(27.0)	(9.2)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	(1.2)	(4.9)
Arising from changes in tax rates and laws	1.0	0.2
Total deferred taxation	(27.2)	(13.9)
Tax expense in the income statement	34.6	93.8

The standard rate of corporation tax in the United Kingdom for the year is 19% (2018: 19%). On 15 September 2016, the Finance Act 2016 received Royal Assent and enacted a reduction in the main rate of corporation tax to 17% with effect from 1 April 2020. This will supersede the previously enacted rate change which would have reduced the corporation tax rate to 18% on this date. Deferred tax has been provided at the rate at which the Group estimated the temporary differences would reverse, based on rates substantively enacted and enacted at the balance sheet date.

On 11 March 2020, it was announced in the UK Budget that the reduction in the corporation tax rate to 17% on 1 April 2020 would be reversed, and the standard rate of corporation tax in the United Kingdom will remain at 19%. The impact of providing for deferred tax at a rate of 19% would be an increase in deferred tax assets of the Group totalling £2.4m. This has not been recognised in the year ended 31 December 2019 as the change was not substantively enacted at the balance sheet date.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

8 Income tax (continued)

A reconciliation of the total tax charge compared to the standard rate of corporation tax in the UK of 19% (2018: 19%) applied to the profit on ordinary activities before tax is as follows:

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Profit before tax	108.3	484.8
Corporation tax at standard rate	20.6	92.1
Expenses not deductible for tax purposes	8.0	3.1
Non-qualifying depreciation	3.4	3.2
Gain on sale of non-qualifying fixed assets	(1.4)	(0.3)
Adjustments in respect of prior periods	(0.8)	(4.6)
Change in tax rate	1.0	0.2
Non-qualifying impairment	3.8	-
Other	-	0.1
Total tax charge for the year	34.6	93.8

Tax on items credited/(charged) directly to the statement of comprehensive income

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Current tax credit on pensions	44.6	9.2
Deferred tax charge on pensions	(22.4)	(14.1)
Deferred tax credit/(charge) on cashflow hedges	9.3	(11.7)
Total tax on items credited/(charged) to the statement of comprehensive income	31.5	(16.6)

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

8 Income tax (continued)

Deferred tax

Deferred tax assets and liabilities are attributable to the following:

2019	Asset £ m	Liability £ m	Net deferred tax asset £ m
Property, plant and equipment	-	45.8	(45.8)
Employee benefits	131.1	-	131.1
Provisions	3.3	-	3.3
Other items	2.0	-	2.0
Capital losses	4.5	-	4.5
	140.9	45.8	95.1

2018	Asset £ m	Liability £ m	Net deferred tax asset £ m
Property, plant and equipment	-	(69.2)	(69.2)
Employee benefits	150.9	-	150.9
Provisions	2.6	-	2.6
Other items	-	(7.4)	(7.4)
Capital losses	3.3	-	3.3
	156.8	(76.6)	80.2

Certain properties have been revalued to their fair value prior to 1 January 2004. The tax base of certain land and buildings has also been adjusted to include within it any rolled-over gains which might subsequently become chargeable on a future sale of relevant properties. Where it has been calculated that indexation allowance exists to reduce the temporary difference on these assets, no deferred tax liability is recognised to the extent that indexation allowance is available.

The Company has unrecognised brought forward capital losses of £17.1m (2018: £18.3m) available to reduce future capital gains. No deferred tax asset has been recognised in respect of these capital losses due to uncertainty of when they may be used.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

8 Income tax (continued)

Figures in £'m	**31 December 2018**	**IFRS 16 Transition**	**1 January 2019**	**Recognised in income**	**Recognised in other comprehensive income**	**31 December 2019**
Property, plant and equipment	(69.2)	0.8	(68.4)	22.6	-	(45.8)
Employee Benefits	150.9	-	150.9	2.6	(22.4)	131.1
Provisions	2.6	-	2.6	0.7	-	3.3
Other items	(7.4)	-	(7.4)	0.1	9.3	2.0
Capital Losses	3.3	-	3.3	1.2	-	4.5
	80.2	0.8	81.0	27.2	(13.1)	95.1

Deferred tax movement during the prior year:

	At 1 January 2018 £ m	**Recognised in income £ m**	**Recognised in other comprehensive income £ m**	**At 31 December 2018 £ m**
Property, plant and equipment	(78.4)	9.2	-	(69.2)
Employee benefits	164.3	0.7	(14.1)	150.9
Provisions	1.9	0.7	-	2.6
Other items	4.3	-	(11.7)	(7.4)
Capital losses	-	3.3	-	3.3
Net tax assets/(liabilities)	92.1	13.9	(25.8)	80.2

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

9 Intangible assets

	Brand licence £ m	Software and development costs £ m	Other £ m	Lease buy out costs £ m	Total £ m
Cost					
At 31 December 2018	31.9	219.4	2.1	139.4	392.8
Reclassification to right-of-use assets - IFRS 16	-	-	-	(139.4)	(139.4)
At 1 January 2019	31.9	219.4	2.1	-	253.4
Additions	-	61.4	-	-	61.4
Disposals	-	(0.4)	(2.0)	-	(2.4)
At 31 December 2019	31.9	280.4	0.1	-	312.4
Amortisation					
At 31 December 2018	14.6	127.4	2.1	48.6	192.7
Reclassification to right-of-use assets - IFRS 16	-	-	-	(48.6)	(48.6)
At 1 January 2019	14.6	127.4	2.1	-	144.1
Amortisation charge	-	42.4	-	-	42.4
Disposals	-	(0.4)	(2.0)	-	(2.4)
At 31 December 2019	14.6	169.4	0.1	-	184.1
Net book value					
At 31 December 2019	17.3	111.0	-	-	128.3
At 31 December 2018	17.3	92.0	-	90.8	200.1

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

9 Intangible assets (continued)

The George brand licence has a carrying value of £17.3m (2018: £17.3m). The George brand licence is generating positive cash flows. There are no plans to exit the brand and no legal limits on its use by the Company. Other brand assets are fully amortised (£14.6m cost and accumulated amortisation).

Lease buy out costs represent amounts paid to third parties to enter a leasehold property. These costs are being amortised over the term of the lease. On transition to IFRS 16 - Leases, lease buy-out costs with a cost of £139.4m and accumulated depreciation of £48.6m were reclassified to right-of-use assets (see note 11).

Software and development costs are amortised on a straight line basis over their estimated useful life of 4 to 8 years.

Other intangible assets are amortised on a straight line basis over an estimated useful life of 3 years and are fully amortised.

Impairment testing of George brand licence
This asset relates to the acquisition in 2006 of a perpetual licence to use the George brand and has a carrying value of £17.3m (2018: £17.3m). This has been tested for impairment as at 31 December 2019 by assessing the present value of forecasted cash flows arising from the George clothing business.

The recoverable amount is determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a three-year period. The pre-tax discount rate applied to the cash flow projections is 8.4% and the growth rate used to extrapolate the cash flows beyond specific forecast period is 0.3%.

Based upon calculations performed and sensitivity analysis undertaken, management believe that no reasonably possible change in any of the above key assumptions would cause the recoverable amount to be lower than the carrying value of the George brand licence.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

10 Property, plant and equipment

	Freehold properties £ m	Finance leases and leasehold improvements £ m	Plant, fixtures and fittings £ m	Assets under construction £ m	Total £ m
Cost or valuation					
At 31 December 2018	3,456.3	1,423.8	2,576.9	161.9	7,618.9
Reclassification to right-of-use assets - IFRS 16	-	(254.9)	-	-	(254.9)
At 1 January 2019	3,456.3	1,168.9	2,576.9	161.9	7,364.0
Additions	68.8	6.1	16.6	216.3	307.8
Disposals	(4.6)	-	(234.7)	(5.0)	(244.3)
Transfers from Assets Under Construction	118.2	-	168.9	(287.1)	-
Transfers	(32.1)	32.1	-	-	-
Impairments	(7.5)	4.2	(16.1)	-	(19.4)
Reclassification to assets held for sale	(9.6)	-	-	-	(9.6)
At 31 December 2019	3,589.5	1,211.3	2,511.6	86.1	7,398.5
Depreciation					
At 31 December 2018	929.9	571.8	1,767.1	-	3,268.8
Reclassification to right-of-use assets - IFRS 16	-	(40.0)	-	-	(40.0)
At 1 January 2019	929.9	531.8	1,767.1	-	3,228.8
Charge for the year	100.2	31.0	183.3	-	314.5
Disposals	(0.3)	-	(227.1)	-	(227.4)
Transfers	(0.9)	0.9	-	-	-
Impairments	15.1	0.3	25.0	-	40.4
At 31 December 2019	1,044.0	564.0	1,748.3	-	3,356.3
Net book value					
At 31 December 2019	2,545.5	647.3	763.3	86.1	4,042.2
At 31 December 2018	2,526.4	852.0	809.8	161.9	4,350.1

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

10 Property, plant and equipment (continued)

Finance lease assets with a cost of £254.9m and accumulated depreciation of £40.0m were reclassified to right-of-use assets on 1 January 2019 following transition to IFRS 16 - Leases (see note 11).

Impairment
Both the operational and non-operational estate are regularly reviewed for indicators of impairment. Following reviews in the year, impairment charges of £59.8m (2018: £1.3m) were recognised in operating costs during the year.

Impairment charges primarily relate to three fulfilment centres. Following a strategic review of the estate, which included a detailed assessment by the Directors of the financial performance of individual sites in the property estate, updates were made to forecasts of future site by site profitability and consequently, the value in use of these three sites was determined to be lower than both book value and fair value. Carrying value at 31 December 2019 for the three sites impaired during the year represents fair value less expected costs to sell.

Reclassifications
During the year, £9.6m of assets were reclassified to assets held for sale within current assets (2018: £nil). Assets held for sale consist of one non-operational fulfilment centre. Following a management decision to sell, a third party has been contracted to actively market the site in its current condition. Active marketing commenced in December 2019 and the site is currently expected to be sold in 2020. The value reclassified represents advertised sale price less expected costs to sell.

Capitalised Interest
The cumulative amount of capitalised interest included in the cost of property, plant and equipment is £86.0m (2018: £86.0m).

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

11 Right-of-use assets

	Land and buildings £ m	Plant and Equipment £ m	Total £ m
Cost			
Reclassification from property, plant and equipment	254.9	-	254.9
Reclassification from intangible assets	139.4	-	139.4
Transition additions	11,944.4	127.8	12,072.2
Additions	90.0	49.3	139.3
Disposals	(5.1)	(9.3)	(14.4)
At 31 December 2019	12,423.6	167.8	12,591.4
Depreciation			
Reclassification from property, plant and equipment	40.0	-	40.0
Reclassification from intangible assets	48.6	-	48.6
Finance lease depreciation on transition	(1.0)	-	(1.0)
Charge for the year	406.9	49.4	456.3
Impairment	2.8	-	2.8
Disposals	(0.9)	(9.3)	(10.2)
At 31 December 2019	496.4	40.1	536.5
Carrying amount			
At 31 December 2019	11,927.2	127.7	12,054.9

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

11 Right-of-use assets (continued)

On transition to IFRS 16 - Leases at 1 January 2019, assets with a cost of £254.9m and accumulated depreciation of £40.0m were reclassified from property, plant and equipment (see note 10). Additionally, at this date assets relating to lease buy-outs with a cost of £139.4m and accumulated amortisation of £48.6m were reclassified from intangible assets (see note 9).

The Company leases various offices, stores, warehouses, vehicles and equipment under agreements within the scope of IFRS 16.

Leases of land and buildings have various terms, escalation clauses and renewal rights, however they commonly include either a market rent review or index linked rent review with a cap and collar. The timing of when rent reviews take place differs for each lease. They have no purchase options. The average remaining lease term is 34 years. One property right-of-use asset was impaired in the year.

Leases of plant, vehicles and equipment have various terms but typically do not include mid-term rent reviews or extension options. They have no purchase options. The average remaining lease term is 3 years.

Additions in the year primarily relate to renewals or modifications of previously existing leases.

For further details of lease liabilities and lease expenses please see note 18.

At 31 December 2018, the Company held operating lease prepayments with a carrying value of £36.8m (£36.0m non-current and £0.8m current). On transition to IFRS 16 - Leases, these amounts were reclassified to right-of-use assets at 1 January 2019 and are included in the transition additions set out in the table above.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

12 Investments

	£ m
Cost and net book value at 1 January 2019 and 31 December 2019	769.7

Following a review of the carrying value of investments held by the Company, no impairment charge (2018: £nil) has been recognised in the year.

Subsidiary undertakings

Name of subsidiary	Registered office	% equity held	Ownership
ASDA Delivery Limited*	United Kingdom	100%	Direct
ASDA Guernsey Limited*	Guernsey	100%	Direct
ASDA Home Shopping Cards Limited*	Republic of Ireland	100%	Direct
ASDA Pension Plan Trustees Limited*	United Kingdom	100%	Direct
ASDA Storage Limited*	United Kingdom	100%	Direct
ASDA Supermarkets Limited*	United Kingdom	100%	Direct
Erteco UK Limited	United Kingdom	100%	Indirect
Essencerealm Limited*	United Kingdom	100%	Direct
Ever 1295 Limited*	United Kingdom	100%	Direct
Ever 2010 Limited*	United Kingdom	100%	Direct
Ever 2010 North Limited	United Kingdom	100%	Indirect
Ever 2010 South Limited	United Kingdom	100%	Indirect
Forza AW Limited	United Kingdom	100%	Indirect
Forza Foods Limited	United Kingdom	100%	Indirect
George Sourcing Services UK Limited*	United Kingdom	100%	Direct
George Tedarik Hizmetleri A.S.*	Turkey	100%	Direct
International Procurement and Logistics Limited*	United Kingdom	100%	Direct
International Produce Sociedad Limitada	Spain	100%	Indirect
Kober Limited	United Kingdom	100%	Indirect
Nordicline Limited*	United Kingdom	100%	Direct
Selby Produce Limited	United Kingdom	100%	Indirect
Vinpack Limited	United Kingdom	100%	Indirect
Westry Produce Limited	United Kingdom	100%	Indirect

* indicates direct investment of ASDA Stores Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

12 Investments (continued)

All investments listed above have 100% ordinary share capital.

The registered address of the entities listed above is ASDA House, Southbank, Great Wilson Street, Leeds, LS11 5AD. The exceptions to this are as follows:

ASDA Guernsey Limited *PO Box 25, Regency Court, Glategny Esplanade, St Peter Port, Guernsey, GY1 3AP*

ASDA Home Shopping Cards Limited *Temple Chambers, 3 Burlington Road, Dublin 4*

Forza AW Limited, Forza Foods Limited & Kober Limited *Unit 1 Foxbridge Way, Normanton Industrial Estate, Normanton, Wakefield, WF6 1TN*

George Tedarik Hizmetleri A.S. *Mecidiyekoy mah. Oguz Sok. No:4A Sisli, Istanbul, Turkey*

International Produce Sociedad Limitada *Calle Venecia No.1-1izq, 30700 Torre Pacheco, Murcia, Spain*

13 Operating lease prepayments

	31 December 2019 £ m	31 December 2018 £ m
Operating lease prepayments - current	-	0.8
Operating lease prepayments - non current	-	36.0
	-	36.8

Operating lease prepayments are amortised over the associated lease term. On transition to IFRS 16 - Leases, operating lease prepayments with a carrying value of £36.8m were reclassified to right of use assets on 1 January 2019 (see note 11).

14 Inventories

	31 December 2019 £ m	31 December 2018 £ m
Goods held for resale	1,054.8	1,071.9
Goods not held for resale	2.1	1.8
	1,056.9	1,073.7

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

15 Trade and other receivables

	31 December 2019 £ m	31 December 2018 £ m
Trade receivables	84.3	133.5
Allowance for expected credit losses	(4.1)	(3.9)
Intercompany receivables	3,328.1	4,218.1
Other receivables	32.6	36.7
Prepayments and accrued income	6.7	35.5
Derivative assets	3.0	40.4
	3,450.6	4,460.3

Trade receivables are non-interest bearing and are generally on 30 day terms. Trade receivable balances have been assessed to determine the value of expected credit losses ("ECLs") using the simplified approach in IFRS 9.

Trade receivables are presented net where a legally enforceable right of set off exists. Included in the above is an offset of £193.6m (note 21) (2018: £108.8m). The gross trade receivable prior to the offset is £277.9m (2018: £242.3m).

As at 31 December 2019, trade receivables at nominal value of £4.1m (2018: £3.9m) were impaired and fully provided for on the basis of the age of the debt and estimated ability of the customer to make payment.

The Company considers its trade and other receivables in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a trade or other receivable to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A trade or other receivable is written off when there is no reasonable expectation of recovering the contractual cash flows.

Other receivables are non-interest bearing and are generally on 60 day terms. Other receivable balances have been assessed to determine the value of ECLs in IFRS 9 and the impact is £nil.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

16 Called up share capital

	Redeemable ordinary shares of £1 each No.	Ordinary shares of £1 each No.	Total No.
At 1 January 2019 and 31 December 2019	566,781,240	190,805,129	757,586,369

Value of authorised, allotted, called up and fully paid

	Redeemable ordinary shares of £1 each £ m	Ordinary shares of £1 each £ m	Total £ m
At 1 January 2019 and 31 December 2019	566.8	190.8	757.6

The par value of share capital is £1 per share.

Redeemable ordinary shares
The redeemable ordinary shares rank in all respects pari passu with, and have the same rights as the ordinary shares except that they are redeemable at par together with any arrears or accruals of dividend calculated up to and including the due date for redemption.

The redeemable shares are redeemable at the option of the Company on or before 31 December 2099.

Ordinary shares
The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

The share premium account is used to record amounts received in excess of the nominal value of shares on issue of new shares.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

17 Reserves

Reconciliation of movement in reserves is as follows:

	Share premium £ m	Other reserves £ m	Cash flow hedging reserve £ m	Retained earnings £ m	Total £ m
At 1 January 2018	950.3	118.0	(20.2)	3,396.0	4,444.1
Profit for the year	-	-	-	391.0	391.0
Cash flow hedges - reclassified during the year to income statement	-	-	23.3	-	23.3
Cash flow hedges - net gain during year on not-yet matured contracts	-	-	37.8	-	37.8
Tax on cash flow hedges recognised directly in other comprehensive income	-	-	(11.7)	-	(11.7)
Total remeasurements on defined benefit obligation	-	-	-	197.6	197.6
Decrease in plan assets excluding interest income	-	-	-	(109.9)	(109.9)
Changes in asset ceiling/onerous liability (excluding interest expense)	-	-	-	(53.3)	(53.3)
Tax on net actuarial gains recognised directly in other comprehensive income	-	-	-	(4.9)	(4.9)
At 31 December 2018	950.3	118.0	29.2	3,816.5	4,914.0
Change in accounting policy - IFRS 16 - Leases	-	-	-	(5.0)	(5.0)
At 1 January 2019	950.3	118.0	29.2	3,811.5	4,909.0
Profit for the year	-	-	-	73.7	73.7
Cash flow hedges - reclassified during the year to income statement	-	-	(37.5)	-	(37.5)
Cash flow hedges - net loss during the year on not-yet matured contracts	-	-	(12.7)	-	(12.7)
Tax on cash flow hedges recognised directly in other comprehensive income	-	-	9.3	-	9.3
Total remeasurements on defined benefit obligation	-	-	-	(549.5)	(549.5)
Increase in plan assets excluding interest income	-	-	-	578.9	578.9
Changes in asset ceiling/onerous liability (excluding interest expense)	-	-	-	1,051.9	1,051.9
Change in value of plan assets due to buy-in	-	-	-	(1,175.8)	(1,175.8)
Tax on net actuarial losses recognised directly in other comprehensive income	-	-	-	22.2	22.2
At 31 December 2019	950.3	118.0	(11.7)	3,812.9	4,869.5

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

17 Reserves (continued)

The other reserves relate to a revaluation reserve disclosed separately from retained earnings for information purposes.

The cash flow hedge reserve represents the gains and losses arising on revaluation of derivatives, being forward currency contracts, and the revaluation of hedged monetary assets and liabilities from historical cost to year-end spot rate.

18 Lease liabilities

Lease Liabilities
Lease agreements where the group is a lessee

	31 December 2019 £ m	31 December 2018 £ m
Current lease liability	305.1	15.7
Non-current lease liability	11,839.5	230.4
	12,144.6	246.1
Future minimum undiscounted payments due:		
No later than one year	655.9	15.7
Later than one year and no later than two years	642.3	16.1
Later than two years and no later than three years	632.7	16.4
Later than three years and no later than four years	616.8	16.6
Later than four years and no later than five years	604.1	16.9
Later than five years	16,000.8	483.0
Total future minimum undiscounted payments	19,152.6	564.7
Finance charges allocated to future periods	(7,008.0)	(318.6)
Present value of minimum lease payments	12,144.6	246.1

There are no instances at 31 December 2019 where future rental payments have been committed but not yet included in the lease liability.

Total lease cash outflow in the year was £670.7m

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

18 Lease liabilities (continued)

Amounts recognised in Income Statement

The following table shows the breakdown of the lease expense between amounts charged to operating profit and amounts charged to finance costs:

	31 December 2019 £ m
Depreciation - Land and Buildings	406.9
Depreciation - Plant and Equipment	49.4
Impairment - Land and Buildings	2.8
Short term lease expense[1]	1.8
Low value lease expense	-
Variable lease expense[2]	14.9
Sub-lease income	(9.2)
Total charge to operating profit	466.6
Interest expense related to lease liabilities	356.8
Charge to profit before taxation for leases	823.4

Notes

[1] Short-term lease expense consists primarily of rental of equipment for temporary purposes during the year.

[2] Variable lease expense consists primarily of contractual land and building service and insurance charges as a result of the Group election to combine lease and non-lease components. These are not fixed payments and therefore are not included in the lease liability. Variable payments represent 2.2% of overall lease payments in 2019.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

18 Lease liabilities (continued)

Operating lease agreements where Company is lessor

Future undiscounted minimum lease income under non-cancellable agreements is receivable as follows:

	31 December 2019 £ m	31 December 2018 £ m
No later than one year	9.9	9.6
Later than one year and no later than five years	25.6	25.1
Later than five years	36.8	38.4
	72.3	73.1

The Company sub-lets buildings of various natures under non-cancellable agreements. The leases have various terms and renewal rights.

19 Provisions

	Property provisions £ m	Insurance £ m	Total £ m
At 31 December 2018	68.1	110.4	178.5
Change in accounting policy - IFRS 16	(3.6)	-	(3.6)
At 1 January 2019	64.5	110.4	174.9
Provided during the year	2.2	45.6	47.8
Provision used	(0.5)	(27.8)	(28.3)
Unused provisions reversed	(1.2)	(33.0)	(34.2)
Increase due to discount changes and unwinding	6.9	-	6.9
	71.9	95.2	167.1
Current liabilities	-	27.8	27.8
Non-current liabilities	71.9	67.4	139.3

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

19 Provisions (continued)

The insurance provision relates to claims liabilities arising from past events such as accidents in our depots and stores which are not covered by third party insurance. The value of the provision is established using independent actuarial assessments or a reasonable estimate based on past experience. These provisions are expected to crystallise within 5 years.

The dilapidations provision represents provisions for the cost of works required to remove leasehold improvements within leasehold properties at the end of their lease term. The amount provided during the year is accounted for within additions as an increase in the cost of property, plant and equipment and the impact of this will be recognised as additional depreciation over the lease terms of the sites to which the provision relates.

Within property provisions at 31 December 2018 were amounts totalling £3.6m in respect of future rental relating to leases which, per guidance in IAS 17, were classified as onerous. On 1 January 2019, the Group adopted IFRS 16 - Leases, as described in note 1. On transition, this provision has been reclassified to right-of-use assets.

20 Employee benefits

Reconciliation of scheme assets and liabilities to assets and liabilities recognised
The amounts recognised in the Balance Sheet are as follows:

	31 December 2019 £ m
Fair value of scheme assets	2,975.3
Present value of scheme liabilities	(2,661.0)
Net asset for defined benefit pension schemes	314.3
Cash-settled share based payment transactions liability - non-current	(59.5)
Cash-settled share based payment transactions liability - current	(77.2)

	31 December 2018 £ m
Fair value of scheme assets	2,411.7
Present value of scheme liabilities	(2,160.0)
Effect of minimum funding requirement	(1,022.4)
Net liability for defined benefit pension scheme	(770.7)
Cash-settled share based payment transactions liability - non-current	(49.1)
Cash-settled share based payment transactions liability - current	(71.5)

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

20 Employee benefits (continued)

Pension plans

Total costs charged to the income statement in respect of employee benefits:

	31 December 2019 £ m	31 December 2018 £ m
Wages and salaries	2,219.0	2,254.5
Share-based payments charge	129.4	44.6
Social security costs	132.1	130.6
Total cost before pension costs	2,480.5	2,429.7
Defined benefit pension scheme		
Net interest on pension scheme	15.4	21.5
Total defined benefit scheme loss	15.4	21.5
Pensions costs, defined contribution scheme	97.3	67.7
Total pension expense	112.7	89.2
Total employee benefit expense	2,593.2	2,518.9

Historically, the Company has provided retirement benefits for eligible employees through two defined benefit plans in the UK - one funded, the ASDA Group Pension Scheme ("AGPS" or "the Scheme") and one unfunded, the Unapproved Unfunded Retirement Benefit Scheme ("UURBS").

The AGPS was subject to a buy-in transaction ("the buy-in") on 17 October 2019 through the purchase of a bulk purchase annuity ("BPA") policy with the insurer Rothesay Life PLC, under which the benefits payable to all AGPS pensioners and deferred members have become fully insured.

In order to enable the AGPS to execute the buy-in, the Company made a contribution to the AGPS of £707.5m and advanced a loan to the scheme with a book value of £467.3m ("the buy-in loan"). Interest is charged at an arms-length rate on this loan.

A pre-tax loss of £1,175.8m has been recognised in other comprehensive income in relation to the buy-in representing the difference between the cost of the BPA and the accounting value of the liabilities insured.

Prior to the buy-in, the Company was obliged to fund the deficit on the AGPS on a secondary funding objective basis by April 2032 under a schedule of contributions for which the Company was liable. A liability was recognised in previous years in relation to this obligation, known as a minimum funding requirement ("MFR"), under guidance set out in IFRIC 14. Other than additional contributions under a back-to-back agreement with the Scheme which are described below, following the buy-in, the probability of the Company being required to make future contributions to the AGPS in respect of pension liabilities is considered remote and as such the MFR liability has been released in full during the year, with a corresponding pre-tax gain of £1,051.9m being recognised in other comprehensive income.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

20 Employee benefits (continued)

The Scheme has repaid £39.5m of the pre buy-in loan during the year and as such, the outstanding balance on the buy-in loan at 31 December 2019 was £427.8m. The Scheme has retained ownership of various assets, including illiquid investments and cash, some of which will be required to meet ongoing expenses incurred by the Scheme and the remainder of which the Scheme intends to liquidate to repay the buy-in loan. To the extent that the Scheme is unable to settle the loan balance in full out of the proceeds realised through the liquidation of these assets, the Company is contractually obliged under a back-to-back agreement to make a contribution to the Scheme to the value of the shortfall between the assets in the Scheme and the outstanding balance on the buy-in loan. Based on the fair value of Scheme assets at 31 December 2019, and a forecast of the ongoing expenses to be incurred by the Scheme, total expected contributions under the back-to-back agreement are expected to be £119.6m. As the illiquid assets and cash are held within the Scheme as a separate legal entity from the Company, and could be used to settle pension liabilities in the event of a shortfall from the BPA, they meet the definition of pension assets under IAS 19 - Employee Benefits. As such, the difference between fair value of Scheme assets at 31 December 2019 and the book value of the buy-in loan at that date has been accounted for as an actuarial loss in other comprehensive income and is included in the buy-in loss amount of £1,175.8m.

The Company remains liable for pension benefits payable to members of the UURBS and these liabilities with a fair value at 31 December 2019 of £14.0m (2018: £11.0m) are accounted for in line with IAS 19. This amount is included in the Scheme liabilities set out in the table below.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

20 Employee benefits (continued)

	31 December 2019 £ m	31 December 2018 £ m
Scheme liabilities		
Movements in present value of defined benefit obligation:		
Present value at start of year	(2,160.0)	(2,458.1)
Interest cost	(60.5)	(57.9)
Effect of changes in financial assumptions	(524.3)	226.9
Effect of experience adjustments	(25.2)	(29.3)
Benefits paid	109.0	158.4
Present value at end of year	(2,661.0)	(2,160.0)
Scheme assets		
Movements in fair value of plan assets:		
Fair value at start of year	2,411.7	2,549.9
Interest income	75.5	61.1
Increase/(decrease) in value of plan assets excluding interest income	578.9	(109.9)
Employer contributions (normal)	59.6	70.0
Employer contributions (buy-in)	827.1	-
Buy-in loan	347.7	-
Part-repayment of loan	(39.5)	-
Benefits paid	(109.0)	(158.4)
Impact of buy-in loss	(1,175.8)	-
Administrative expenses paid	(0.9)	(1.0)
Fair value at end of year	2,975.3	2,411.7

Amounts recognised in the Income Statement

	31 December 2019 £ m	31 December 2018 £ m
Amounts recognised in finance income or costs		
Net interest income on plan assets and liabilities	15.1	3.2
Interest expense on effect of onerous liability	(29.6)	(23.7)
Administrative expenses	(0.9)	(1.0)
Total Income Statement charge	(15.4)	(21.5)

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

20 Employee benefits (continued)

Amounts (charged)/credited to the Statement of Comprehensive Income

	31 December 2019 £ m	31 December 2018 £ m
Effect of change in financial assumptions	(524.3)	226.9
Effect of experience adjustments	(25.2)	(29.3)
Increase/(decrease) in value of plan assets excluding interest income	578.9	(109.9)
Buy-in loss	(1,175.8)	-
Changes in onerous liability excluding interest expense	1,051.9	(53.3)
Amounts recognised in the Statement of Comprehensive Income	(94.5)	34.4

The fair value of the plan assets were as follows:

	31 December 2019 £m			31 December 2018 £m		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bulk purchase annuity	-	2,647.0	2,647.0	-	-	-
Cash and cash equivalents	-	107.8	107.8	-	3.0	3.0
Equity securities	-	-	-	346.4	288.3	634.7
Debt securities	-	-	-	1,081.2	-	1,081.2
Property	-	52.8	52.8	-	210.9	210.9
Investment funds	-	167.7	167.7	31.4	354.2	385.6
Other	-	-	-	96.3	-	96.3
	-	2,975.3	2,975.3	1,555.3	856.4	2,411.7

Following the buy-in in October 2019, the Scheme holds a bulk purchase annuity which fully insures the pension liabilities of the Scheme. Further, the Scheme retains ownership of a variety of illiquid assets and cash balances which are measured at fair value and described earlier in this note.

Principal actuarial assumptions (expressed as weighted averages)

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	31 December 2019 %	31 December 2018 %
Discount rate	2.1	2.9
Inflation - CPI	1.9	2.1
Inflation - RPI	2.9	3.1
Future pension increases	2.9	3.0

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

20 Employee benefits (continued)

Post retirement mortality assumptions

The following table illustrates the residual life expectancy for an average member on reaching age 65, according to the mortality assumptions used to calculate the pension liabilities:

	31 December 2019 Years	31 December 2018 Years
Current UK pensioners at retirement age - male	22.6	22.8
Current UK pensioners at retirement age - female	24.5	24.7
Future UK pensioners at retirement age - male	24.4	24.6
Future UK pensioners at retirement age - female	26.4	26.6

Sensitivity analysis

The assumptions on the discount rate, inflation, and life expectancy all have a significant effect on the measurement of the present value of the scheme liabilities. The following table provides an indication of the sensitivity of the IAS 19 pension liability at 31 December 2019, and of the income statement charge for 2018, to changes in these assumptions.

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

	31 December 2019 + 0.1%	31 December 2018 + 0.1%
Adjustment to discount rate	**£ m**	**£ m**
Decrease in liability	56.4	44.3
Decrease in finance costs	0.2	1.6

	31 December 2019 + 0.1%	31 December 2018 + 0.1%
Adjustment to rate of inflation	**£ m**	**£ m**
Increase in liability	13.1	43.9
Increase in finance costs	-	1.3

	31 December 2019 + 0.1%	31 December 2018 + 0.1%
Adjustment to rate of salary growth	**£ m**	**£ m**
Increase in liability	92.5	70.7
Increase in finance costs	-	2.1

Following execution of the buy-in, changes in the accounting value of liabilities are offset by equivalent changes in the BPA asset and therefore, there would be no material impact on the net amount recognised in the Balance Sheet, within the Income Statement, or within the Statement of Comprehensive Income.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

20 Employee benefits (continued)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to changes in actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position. These sensitivities exclude the impact of the onerous liability.

The methods and changes in assumptions used in preparing the sensitivity analysis are the same as those used in the previous period.

Share-based payments

Share-based payment transactions are accounted for in accordance with IFRS 2 'Share-Based Payments'.

The Company offers four share-based payment schemes to employees to enable them to own shares in the ultimate parent company, Walmart Inc. The Company has the obligation to settle the liabilities for the schemes, including employment taxes for participating employees, and therefore these schemes are accounted for as cash settled liabilities.

The impact is eliminated in the consolidated financial statements of Walmart Inc. and the share options would not be revalued if the Company were granting options on its own shares in a way consistent with UK public limited companies. Two of these schemes involve the granting of options to employees to acquire shares in the ultimate parent company at pre-determined exercise prices and two of the schemes involve the granting of rights to receive shares in the ultimate parent company for nil consideration. The Performance Share Plan ("PSP") has performance conditions relating to the total payout of options issued. No other scheme has any performance conditions attached to the scheme.

The total expenses recognised for the year arising from share based payments and the associated amounts recognised in the Balance Sheet are as follows:

	31 December 2019 £ m	31 December 2018 £ m
Cash-settled share based payment charge	129.4	44.6
Total carrying amount of liability - current	77.2	71.5
Total carrying amount of liability - non-current	59.5	49.1
	136.7	120.6

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

20 Employee benefits (continued)

Share-based payments (continued)

The number and weighted average exercise prices for the Sharesave and Walmart Stock Incentive Plan schemes, which involve the granting of options to employees to acquire shares in the ultimate parent company at predetermined exercise prices, are as follows:

	31 December 2019 Number (thousands)	31 December 2018 Number (thousands)
Outstanding, start of year	5,059	4,990
Exercised during the year	(1,723)	(1,161)
Granted during the year	1,602	1,886
Forfeited during the year	(496)	(656)
Outstanding, end of year	4,442	5,059
Exercisable, end of year	17	25

	31 December 2019 Price (£)	31 December 2018 Price (£)
Outstanding, start of year	45.27	42.04
Exercised during the year	(37.23)	(43.72)
Granted during the year	61.08	53.01
Forfeited during the year	(52.84)	(45.85)
Outstanding, end of year	53.26	45.27
Exercisable, end of year	38.69	49.14

Share options were exercised on a regular basis throughout the year. The average exercise price during the year to 31 December 2019 was £37.23 (2018: £43.72). The related shares are denominated in US dollars being the reporting currency of the ultimate parent company. The sterling exercise price of the Sharesave scheme options is fixed at the exchange rate at the date of the grant.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

20 Employee benefits (continued)

Share-based payments (continued)

Sharesave scheme

The scheme has been in existence for employees since 1982 and gained HMRC approval in 2000. Employees with six months' service are invited to join the scheme annually. Options are granted annually to employees who elect to join, and are exercisable in three or five years from date of grant, depending on the year of grant. Currently only three year grants are being offered. The options under this scheme are treated as cash-settled. The exercise price of the options granted is equal to the market price of the shares less 20% on the date of grant.

	31 December 2019	31 December 2018
Weighted average exercise price (£)	53.25	45.23
Number of share options outstanding (thousands)	4,435	5,037
Expected weighted average remaining life (years)	1.5	1.5

The range of exercise price in the year was £36.99 to £61.07 (2018: £35.21 to £53.00).

The fair value of the options outstanding under the Sharesave scheme at 31 December 2019 is £97.4m (2018: £85.8m).

Walmart Stock Incentive Plan (WSIP) scheme

The scheme has been in existence since 1999. Options are granted to employees annually and are exercisable in five or seven years from date of grant, depending on the grant agreement. The options under this scheme are treated as cash-settled.

	31 December 2019	31 December 2018
Weighted average exercise price (£)	52.42	55.69
Number of share options outstanding (thousands)	7	22
Expected weighted average remaining life (years)	1.2	0.5

The range of exercise price in the year was £38.64 to £65.81 (2018: £39.88 to £67.93).
The fair value of the options outstanding under the WSIP scheme at 31 December 2019 is £0.2m (2018: £0.4m).

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

20 Employee benefits (continued)

Share-based payments (continued)

Restricted Stock Rights (RSR) scheme
The scheme was introduced in 2008 as an alternative to the WSIP scheme. Under the RSR scheme, employees are awarded the right to receive a predetermined number of shares in the ultimate parent company three years from the award date. All RSRs are classed as unapproved from an Income Tax and National Insurance perspective. RSR awards are treated as cash-settled.

The number of shares under the RSR scheme is as follows:

	31 December 2019 Number (thousands)	31 December 2018 Number (thousands)
Outstanding, start of year	437	483
Exercised during the year	(164)	(140)
Granted during the year	248	150
Forfeited during the year	(44)	(56)
Outstanding, end of year	477	437
Exercisable, end of year	-	-

The fair value of the options outstanding under the RSR scheme at 31 December 2019 is £30.8m (2018: £22.4m).

Performance Share Plan (PSP) scheme
The Company offers a PSP scheme, for which conditions exist in relation to exercise as described below.

The scheme came into existence on 20 July 2006. Under the scheme, selected executives are granted the right to receive shares in Walmart Inc. provided certain pre-determined performance goals are met. These pre-determined goals are in respect of sales growth and return on investment. All share awards under the PSP scheme have been issued for nil consideration and have a contractual life of between 1 and 3 years. The share awards under this scheme are treated as cash-settled.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

20 Employee benefits (continued)

Share-based payments (continued)

The number of share awards under the PSP scheme is as follows:

	31 December 2019 Number (thousands)	31 December 2018 Number (thousands)
Outstanding, start of year	179	196
Exercised during the year	(60)	(68)
Granted during the year	54	88
Forfeited during the year	(37)	(37)
Outstanding, end of year	136	179
Exercisable, end of year	-	-

The fair value of the options outstanding under the PSP scheme at 31 December 2019 is £8.3m (2018: £12.0m).

The fair value of share options is measured using a Black-Scholes model taking into account the terms and conditions upon which the instruments were granted.

The following table gives the weighted average assumptions applied to the options granted during the year and are outstanding in the respective periods shown.

	31 December 2019	31 December 2018
Expected dividend yield (%)	1.78	2.22
Expected volatility (%)	15.79	22.44
Risk-free interest rate (%)	1.59	2.63
Weighted average fair value of options granted (£)	19.77	13.67
Weighted average exercise price (£)	53.26	45.27

The expected life of the option in the year was 1 to 3 years (2018: 1 to 3 years).

Volatility is a measure of the amount by which a price is expected to fluctuate during the year. The Company has used historical volatilities that correlate with the expected term of the options.

Share options are exercisable in US dollars and the risk free interest rate is based on the applicable US treasury rate.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

21 Trade and other payables

	31 December 2019 £ m	31 December 2018 £ m
Trade payables	2,560.1	2,861.9
Intercompany payables	663.3	576.3
Social security and other taxes	202.6	204.5
Other payables	192.2	178.4
Accrued expenses	202.9	301.3
Derivative liabilities	18.2	0.6
Taxation	-	52.5
Cash and cash equivalents	85.5	-
	3,924.8	4,175.5

The Company deals with over ten thousand separate suppliers and has established trading terms which are appropriate to the particular relationship and product supplied. Whenever an order is placed the parties will be aware of the payment terms and it is the Company's policy to abide by these terms when satisfactory invoices have been received.

Trade receivables are presented net where a legally enforceable right of set off exists. Included in the above is an offset of £193.6m (note 15) (2018: £108.8m). The gross trade payable prior to the offset is £2,753.7m (2018: £2,970.7m).

22 Commitments

As at 31 December 2019, the Company had not entered into any contracts to purchase property, plant and equipment. (2018: £nil).

As at 31 December 2019, the Company had entered into contracts to purchase US dollars for £779.3m (2018: £688.0m).

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

22 Commitments (continued)

Operating lease commitments - prior year

As described in note 1, in the prior year, the Company accounted for leases under IAS 17. Undiscounted minimum lease payments under non-cancellable agreements which were classified as operating leases under IAS 17 were as follows at 31 December 2018. At 1 January 2019, the Company adopted IFRS 16 'Leases' on a modified retrospective basis and as such, all leases with a material commitment and a term in excess of 12 months are now accounted for as lease liabilities (see note 18).

	Land and Buildings 31 December 2018 £m	Other 31 December 2018 £m
No later than one year	150.7	46.6
Later than one year and no later than five years	375.2	82.7
Later than five years	1,480.4	1.4
	2,006.3	130.7

23 Contingent liabilities

Equal Value Claims: ASDA Stores Limited has been served with circa 39,000 employment tribunal claims that have been presented on behalf of current and former ASDA store employees, who allege that their work in ASDA's stores is of equal value in terms of the demands of their jobs to that of employees working in ASDA's distribution centres, and that the differences in pay and terms and conditions between the different jobs are not objectively justified. The claimants are requesting differential back pay based on higher wage rates in the distribution centres and those higher wage rates and more favourable terms and conditions on a prospective basis as part of these equal value proceedings. ASDA believes that further claims may be served. At present, the Directors cannot predict the number of claims that may be served, and cannot reasonably estimate any loss or range of loss that may arise from these proceedings. The Directors believe that there are substantial factual and legal defences to these claims, and intend to defend the claims vigorously. No provision has been recognised on the basis that any potential liability arising is not considered probable.

24 Related party transactions

As a wholly owned subsidiary, the Company has taken advantage of the exemption in paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries of the Walmart Inc. group.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

25 Parent undertaking and controlling party

The company's immediate parent is ASDA Group Limited, a company incorporated in England and Wales.

The smallest group at which consolidated financial statements are prepared is ASDA Group Limited. Copies of these financial statements are available from the registered office, ASDA House, South Bank, Great Wilson Street, Leeds, LS11 5AD.

In the directors' opinion, the ultimate parent undertaking and controlling party is Walmart Inc. which is incorporated in the USA. Copies of its consolidated financial statements, which include this Company, can be obtained from the Company Secretary, Walmart Inc., Corporate Offices, 702 SW 8th Street, Bentonville, AR72716, USA.

26 Events since the balance sheet date

On 5 March 2020, the Company proposed and paid a cash dividend of £850.0m to ASDA Group Limited, the immediate parent undertaking.

The outbreak and spread of COVID-19 was confirmed in the UK in early 2020 and at the date of approval of the accounts, is resulting in a high level of disruption to UK economic, social and political activity. The Company considers the outbreak to be a non-adjusting post Balance Sheet event. The Directors recognise that the impact on forecast cashflows of the Company is difficult to estimate and have therefore considered a range of scenarios as described in note 1.