Registration number: 00464777

ASDA Stores Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2020

Contents

Company Information

Directors	R Burnley (resigned 6 August 2021) R McWilliam (resigned 31 July 2021) M Issa (appointed 18 June 2021) Z Issa (appointed 18 June 2021) M Dale (appointed 18 June 2021) G Lindsay (appointed 18 June 2021) J Fallon (appointed 31 July 2021)
Company secretary	H Selby (appointed 6 April 2020) 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 2020

The Directors present their Strategic Report for the year ended 31 December 2020.

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").

Change in ownership

The immediate parent undertaking of the Company is ASDA Group Limited. On 16 February 2021, the ultimate parent company and controlling party of ASDA Group Limited, ("ASDA"), Walmart Inc. ("Walmart"), completed the sale to Mohsin and Zuber Issa, founders and co-CEOs of EG Group, a global convenience and forecourts retailer, headquartered in Blackburn, UK, and investment funds managed by TDR Capital LLP ("TDR Capital"), a leading UK-based private equity firm, of Walmart's equity interest in ASDA. Following this transaction Mohsin and Zuber Issa and TDR Capital will jointly control ASDA. This is a non-adjusting post balance sheet event and has no impact on the carrying value of the Company's assets and liabilities at 31 December 2020.

Operational headlines and strategic priorities

Sales, operating profit and profit before tax
During the year, sales excluding fuel and VAT increased by 3.6% to £20,297.1m (2019: £19,586.6m) driven by an increase in grocery sales offset by decreases in clothing and general merchandise sales. Revenue including fuel decreased by 0.6% to £22,743.7m (2019: £22,874.7m) due to a reduction in fuel sales.

Operating profit of £210.6m (2019: £305.1m) has decreased 31.0% during the year due primarily to profit headwinds resulting from the impact of COVID 19, which include:

- Additional operating costs relating to backfilling of colleagues who were shielding or absent due to illness;
- A 'Thank you' payment of an additional week's pay was made to our colleagues in recognition of their extra efforts that protected the health of their colleagues who needed to step away during this time;
- Costs of enhanced cleaning measures, personal protective equipment and other measures to create a safe shopping environment for our colleagues and customers;
- Goodwill payments to suppliers relating to cancellation of purchase orders.

These impacts have been partially offset by the impact of increased sales volumes and a one-off impairment charge of £62.6m which was incurred in the prior year (see note 3 for further detail).

A deterioration of £141.9m to a loss before tax of £33.6m (2019: £108.3m profit) is due to the reduction in operating profit noted above and a reduction in financial income of £61.9m due to a decrease in intercompany interest receivable.

A deterioration of £176.9m to a loss after tax of £103.2m (2019: £73.7m profit) is due to the reduction in pre-tax profit noted above and an increase in the tax expense for the year of £35.0m (2020: £69.6m compared to 2019: £34.6m) due to the reversal of temporary differences in deferred tax.

Balance Sheet
Net assets of £4,094.6m (2019: £5,627.1m) have decreased in the year due to dividends paid in the year of £1,350.0m (2019: £nil) and the loss after tax of £103.2m.

Strategic Report for the Year Ended 31 December 2020 (continued)

Events since the balance sheet date

For details of events since the Balance Sheet date see the Directors' Report.

Amounts recharged by ultimate parent company

The Company incurred recharges during the year 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.

Liquidity and capital management

Capital management 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 investors.

During the year, a key source of funding was through intercompany loans which could change from time to time. As detailed in note 26, on 16 February 2021, the ultimate parent company and controlling party of ASDA Stores Limited ("ASDA"), Walmart Inc. ("Walmart"), completed the sale to Mohsin and Zuber Issa, founders and co-CEOs of EG Group, a global convenience and forecourts retailer, headquartered in Blackburn, UK, and investment funds managed by TDR Capital LLP ("TDR Capital") of the entire issued share capital of ASDA Group Limited, the Company's immediate parent. Following this transaction, the Company has access to external borrowing facilities for short-term liquidity requirements, and continues to forecast cash flows to ensure that liabilities can be met as they fall due.

Certain transactions with suppliers 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 at fair value.

Strategic Report for the Year Ended 31 December 2020 (continued)

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, its stakeholders 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 separate 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, who are material to the Company's long-term success, 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.

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 is taken into account in 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.

Strategic Report for the Year Ended 31 December 2020 (continued)

Key Stakeholder Engagement

Investors - Walmart Inc. ("Walmart")

During the year ended 31 December 2020, corporate governance policies and procedures were in place (largely derived from the governance framework mandated by Walmart) which provided for a continuous and structured dialogue between Walmart and the Directors, including detailed corporate governance sign-off procedures. In addition, both R Burnley (CEO) and R McWilliam (CFO), both being Directors, had direct reporting lines into Walmart. For details of the change in ownership after the balance sheet date see note 26 of the financial statements.

Why?	***How we engage and key outcomes***
During the year, the Company's ultimate parent, Walmart, was the Company's sole provider of investor capital. Their investment enabled the Company to fund growth where customers care and deliver long-term success.	The Directors engaged with Walmart on all significant capital projects and approval was required over certain amounts. Principal investments during the year related to replacement of essential assets and refreshing the store estate.
As a wholly-owned subsidiary, Walmart required the Company to deliver a return on their investment.	Strategic plans and associated financial targets were discussed and signed off by both Walmart, the Board and the Directors. Following this there was regular communication between Walmart and the Directors regarding performance against these financial targets.
As part of ensuring compliance with key legal, ethical and financial regulations, the Company engaged directly with Walmart on these matters.	During the year, certain business functions within the Company - including Finance, Legal, Internal Audit and Compliance – had an independent direct reporting line into Walmart and, on behalf of Walmart, these functions formally tested and reported on compliance with key laws and regulations applied in the Company. These included 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 had formal oversight of these processes and played a role in ensuring that improvements were implemented where required.
Compliance with Walmart risk management policies enabled the Company to promote its long-term sustainability. This included the capital management policy which required the monitoring of cash levels and timing of funds available. This ensured that the Company was able to meet day to day obligations as they fell 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 2020 (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. All members of the Board also sit on a quarterly Inclusion Forum meeting to maintain involvement and provide decision making on Diversity and Inclusion initiatives and activities.

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 believes in creating an inclusive culture that supports colleagues to thrive and reach their full potential.	The Company is committed to building an inclusive culture that enables all colleagues to bring their best and true selves to work every day. The Company's Inclusion Network is a digital platform that enables all colleagues across the business to engage on Diversity and Inclusion topics, share their experiences and ask questions. The Company uses Our Inclusion Network to help inform the Company's key focusses and implement improvements that support colleagues to thrive and reach their full potential. The Company's Inclusion Working Groups are teams made up of six nominated colleagues from across the Company who each represent one of the core strands of diversity. Partner teams across the Company's home offices act as an advisory board on selected projects to make sure inclusivity is at the heart of what we do. The Company's commitment to creating an inclusive environment that reflects the communities we serve allows the Company to attract, recruit and retain high calibre colleagues that represent the Company's core values and the communities that the Company serves. This is achieved through Our Inclusion Network, Inclusion Working Groups, Colleague Voice Groups,the 'Write to Roger' scheme', YourVoice engagement survey and OneAsda intranet site. Outputs from colleague engagement mechanisms are reviewed by the relevant teams who agitate change through engaging with the Board and relevant functional areas. Colleague engagement is maintained through open communication both to share information about the business, inform how colleague feedback has led to improvements or new implementations, and to provide feedback about working at ASDA.

Strategic Report for the Year Ended 31 December 2020 (continued)

Trade unions and elected representatives

In addition to the employee engagement mechanisms referred to above, the Company meets regularly with its selected 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 on proposed changes, 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?

The Company engages with trade unions and other elected colleague representatives, as one of many ways to ensure that the best interests of our employees are considered and that concerns can be raised and discussed to reach, where applicable, a mutually agreed outcome.

How we engage and key outcomes

We have regular engagement with the following groups:

Retail Trade Union (Great Britain) - There is a partnership agreement with the GMB Union for information and 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.

Retail Trade Union (Northern Ireland) - There is a collective bargaining agreement for negotiation of pay and terms with USDAW for all hourly paid retail employees in Northern Ireland. A Joint National Council (JNC) of 4 representatives meet with the Company.

In ASDA Logistics Services Distribution, there is a collective bargaining agreement for negotiation of pay and terms in place with the GMB for our hourly paid colleagues. The National Joint Council (NJC) comprises 10 colleague representatives who meet with the Company on a regular basis.

Colleague Voice Representatives - National Colleague Voice (NCV) groups represent salaried retail managers, salaried distribution managers and hourly paid retail colleagues across the UK. Each NCV (15 representatives on the retail groups and 13 representatives on distribution) meet with the Company on a regular basis.

Throughout 2020, we have had regular discussions with representatives on our response to COVID-19, informed and consulted on proposed organisational change, updated on employment policy change and provided regular updates on business performance.

Strategic Report for the Year Ended 31 December 2020 (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 Groceries Supply 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. Furthermore, the Company has opened a new sustainability store in Middleton and partnered with a number of suppliers to help the Company's customers reduce, reuse and recycle with ease. This is an area generating an increased level of interest among many of the Company's stakeholders.

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 taken into account 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.
Providing customers with a high standard of product is a key component of attracting and retaining customers.	The Company provides customers with the facility 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).

Strategic Report for the Year Ended 31 December 2020 (continued)

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

A Joint Governance Forum ("JGF") which included the Company's nominated representatives, Walmart and Trustees of the AGPS was in place during the year. The JGF ensured that the interests of each stakeholder were represented in the decision-making process.

Why?	***How we engage and key outcomes***
The Company works closely with the trustees of the AGPS and the insurer to ensure that sufficient funding is in place on a timely basis to enable the Scheme to meet its liabilities to members as they fall due.	Annual communications to members of the AGPS are circulated by the Company's Pensions team who communicate the financial position of the scheme and the current value of individuals' pension entitlement. Members have also been kept updated on the progress of the buy-out.

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?	***How we engage and key outcomes***
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.	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, Children in Need 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?	***How we engage and key outcomes***
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.	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. See the Streamlined Energy & Carbon Reporting section of the ASDA Group Limited financial statements for further detail.

Strategic Report for the Year Ended 31 December 2020 (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, its stakeholders and its operations and so the decisions specified below were all taken in consultation with the wider Board, which includes the Directors.

COVID-19
The outbreak of COVID-19 was confirmed in the UK in early 2020 and has been prominent throughout the year. This led to a high level of disruption to UK economic, social and political activity. The Directors and Executive Team announced several initiatives to reduce the impact of the virus on our colleagues, customers and the general public.

Colleagues
In March 2020, the Company announced that all vulnerable colleagues, including the carers of extremely vulnerable people, would be able to self-isolate for a period of 12 weeks, thereby reducing the risk of them contracting the virus, whilst still continuing to receive full pay. Furthermore a 'Thank you' payment of an additional week's pay was made to our colleagues in recognition of their extra efforts that protected the health of their colleagues who needed to step away during this time. The Company also recruited additional colleagues over this period to ensure that the business could still operate and meet customers' needs despite both increased demand and increased levels of colleague absence. This had the additional benefit of offering temporary employment for individuals who had lost work as a result of the pandemic.

Suppliers
Due to reduced demand for certain products and significant impacts on certain parts of the Company's supply chain, the Company cancelled purchase orders for a small number of non-food items that had not yet been dispatched to the business. In recognition of the impact of the pandemic the Company made voluntary compensation payments to those suppliers.

In addition, ASDA confirmed that it would pay small suppliers on shorter payment terms to support their cashflows. Furthermore, a rent-free period was provided to around 250 small business tenants, who operate concessions in our stores or are lessees of the Company in retail units adjacent to our stores. These measures reduced the adverse impact of the pandemic on stakeholders within the supply chain and provided the wider economic benefits of helping those businesses to keep operating.

Customers
The Company also introduced several measures which reduced the risk to our customers of contracting the virus in our stores. This includes rolling out Scan and Go to all stores to support social distancing measures and reduce contact time with others. The Company has also increased the number of delivery slots available through our online channel, allowing us to keep pace with increasing customer demand for online shopping due to the pandemic. In addition, we offered priority delivery slots to vulnerable customers. The Company also introduced a number of in-store measures to improve customer and colleague safety such as dedicated safety marshals, customer counting technology, cleaning stations, signage and checkout screens. This was recognised when ASDA was named the safest place to shop during COVID-19 by the independent trade magazine The Grocer.

Strategic Report for the Year Ended 31 December 2020 (continued)

Community

The Directors and Executive Team made the decision in December 2020 to voluntarily repay the rates relief benefit provided by the government as part of their measures to help businesses during the pandemic. The relief provided in late March 2020 was vital in ensuring that ASDA could continue its important role in feeding the nation and meet the unexpected costs that came with this such as paying shielding colleagues and investing in COVID safety measures in stores, which outweighed the relief received. The Board's and Directors' decision to repay the rates relief was based on the recognition that there are other industries and businesses for whom the adverse impacts of COVID-19 will be much more long-lasting and whose survival is essential to thousands of jobs so repaying the rates relief will allow the government to re-invest this in providing financial support to those who need this the most.

The Company also made a donation of £5.0m to its partners Fareshare and Trussell Trust to help the country's most vulnerable people through COVID-19, this extensive package of measures provided meals to families in poverty impacted by Coronavirus. The Company also donated a significant number of face masks to care homes in addition to offering priority delivery slots to both care homes and nurseries.

Dividends

In October 2019, the trustees of the ASDA Group Pension Scheme ("AGPS") completed the buy-in of the AGPS and thereby secured the interests of the scheme members and trustees. Alongside creating greater security for pension scheme members this also reduced the potential risk to the Company's cashflows. As a result, this allowed the Company more flexibility with excess cash which had been generated through operations.

On 5 March 2020, the Board approved a cash dividend of £850.0m to ASDA Group Limited, the immediate parent undertaking at that time. This dividend was then subsequently paid up to the ultimate parent undertaking, at that time, Walmart Inc.. The dividend was paid out of surplus cash which had been generated over the 3 years since the last dividend paid to the Company's investors, Walmart, and represents a return on their investment in ASDA.

On 21 December 2020, the Directors approved dividends totalling £500.0m. The dividends were paid in accordance with the terms of the Sale and Purchase agreement between ASDA Holdings UK Limited and Bellis Acquisition Company 3 Limited relating to the sale of ASDA Group Limited on a cash-free, debt-free basis. As such, all surplus cash was required to be paid from the Group and Company to the intermediate parent company. Prior to approving all dividends, the Directors considered a severe but plausible cashflow forecast downside scenario and were satisfied that the Company would continue to meet liabilities as they fall due.

Future strategic intention

The Company's primary strategy is designed to "win on price" by narrowing the Company's price gap with discounters while providing good value and maintaining the Company's price leadership position against the Company's traditional grocery peers, which we expect to further enhance customer loyalty. We aim to provide a consistent, trusted experience, incentivising customers not to shop elsewhere, through the creation of attractive store propositions and partnerships that increase the Company's appeal to customers. We serve the Company's customers with the Company's team of flexible and engaged colleagues, while increasing the number of self-serve opportunities and transforming the in-store experience. We focus the Company's growth where customers care, expanding the Company's addressable markets in online grocery, wholesale and community convenience.

Strategic Report for the Year Ended 31 December 2020 (continued)

Principal risks and uncertainties

Risk is an inevitable part of business. On an ongoing basis, the Company identifies principal long, medium and short-term 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, Risk and Audit Committee that meets monthly. The following risks have been disclosed as required by section 414C of the Companies Act 2006.

- **Economic risk**
  COVID-19
  At the date of approval of the Accounts, the Directors recognise that there is still significant economic and social uncertainty surrounding the outbreak and spread of COVID-19. The key risks to the business include;
  • changes in customer trends impacting demand for our products or the way in which they wish to shop;
  • disruption due to outbreaks of COVID-19 at locations within our supply chain, or other related disruption at suppliers, which impacts on availability; and
  • operational impacts due to the maintenance of social distancing and other measures to protect customers and colleagues.

- **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**
  Our brand and reputation constitute a significant part of our value proposition. Our success has been founded in part on our ability to develop our brand as a leading UK retailer of quality, competitively priced grocery, clothing and general merchandise. Maintaining the reputation of and value associated with our brand is central to the success of our business. The brand names of our own-brand products also represent an important asset of our business. Certain of these own-brand items are manufactured and/or packaged by third parties, and while our policies set out quality control standards, we do not control these third parties or their quality control, employment, ethics or other business practices.

  Any event, such as a significant product recall or negative press reaction to statements made or actions taken could damage our brand or reputation or cause customers to lose confidence in the safety and quality of the products we sell.

  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 Report for the Year Ended 31 December 2020 (continued)

Principal risks and uncertainties (continued)

- **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.

- **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.

- **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 investors.

  During the year, a key source of funding was through intercompany loans which could change from time to time. As detailed in note 26, on 16 February 2021, the ultimate parent company and controlling party of ASDA Group Limited ("ASDA"), Walmart Inc. ("Walmart"), completed the sale to Mohsin and Zuber Issa, founders and co-CEOs of EG Group, a global convenience and forecourts retailer, headquartered in Blackburn, UK, and investment funds managed by TDR Capital LLP ("TDR Capital") of the entire issued share capital of the Group. Following this transaction, the Company has access to external borrowing facilities for short-term liquidity requirements, and continues to forecast cash flows to ensure that liabilities can be met as they fall due.

  Certain transactions with suppliers 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 at fair value.

  There is no significant liquidity risk in relation to supply chain finance as suppliers using supply chain finance are on industry standard terms and were this to be withdrawn there would be no immediate impact on the Company as payments would be made directly to suppliers on the same terms. Furthermore, the liquidity risk is spread across a number of different financial institutions.

Strategic Report for the Year Ended 31 December 2020 (continued)

Principal risks and uncertainties (continued)

- **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 GCA and could lead to significant fines and reputational damage.

  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 are also established health and safety metrics and accident reporting to monitor the risk.

  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.

  Any claims could result in litigation against the Group and could also result in regulatory or legal proceedings being brought against the Group. Often these cases raise complex factual, accounting and legal issues, which are subject to risks and uncertainties and which could require significant management time and legal expenses.

- **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 were in place during the year in respect of compliance with the UK Bribery Act and the US Foreign Corrupt Practices Act.

- **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.

Strategic Report for the Year Ended 31 December 2020 (continued)

Principal risks and uncertainties (continued)

- **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.

- **Separation risk**
  The separation of ASDA from Walmart is a complex transaction that will require significant management attention and poses a number of risks including, but not limited to, the implementation a new IT infrastructure independent from Walmart.

  Following the sale of its interest in the ordinary share capital of the Company's immediate parent ASDA Group Limited, as described in note 26, Walmart will continue to provide a reduced selection of services to ASDA on a transitional basis under a Transitional Services Agreement. This includes continuity of existing IT services and support whilst independent systems are developed and implemented.

Approved by the Board on 23 September 2021 and signed on its behalf by:

J. Fallon

J Fallon
Director

Directors' Report for the Year Ended 31 December 2020

The Directors present their report and the financial statements for the year ended 31 December 2020.

Future developments

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

Going concern

The financial statements for the year ended 31 December 2020 have been prepared on a going concern basis as the Directors have determined that the Company has sufficient resources and liquidity facilities to meet its liabilities as they fall due for the period from the date of approval of the accounts to 31 December 2022. The directors of ASDA Group Limited have provided a letter of support to the Company stating that ASDA Group Limited will provide financial support to the Company to enable it to continue to meet its liabilities as they fall due from the date of approval of the financial statements up to 31 December 2022.

In assessing ASDA Group Limited's ability to adopt the going concern basis, the directors of ASDA Group Limited have assessed the ability of the Group to meet its liabilities as they fall due from the date of approval of the accounts up to 31 December 2022, in the event of various cashflow scenarios, including a severe but plausible downside scenario. This scenario applies severe but plausible economic downsides to a base case forecast resulting from the continued economic and social uncertainty surrounding the outbreak and spread of COVID-19, including a potential decline in sales due to the re-opening of non-essential retail and hospitality in line with the UK Government's roadmap out of lockdown.

As a result of the change in ownership, the Group is now a guarantor to external debt raised by new parent undertakings. For the going concern period under review, the directors of ASDA Group Limited have assumed that interest payments relating to this external debt will be serviced from the Group's cashflows. As such, interest cashflows relating to this debt have been reflected in both the base case and severe but plausible downside modelling. Mitigating actions that are in the control of management, such as reducing non-essential capex and discretionary spend, have been considered.

The ASDA Group Limited model has been reverse stress tested to determine the extent of deterioration of cashflows that would lead to the Group breaching the level of available facilities. The Directors of the Company and of the Group consider that such a significant deterioration of cashflows is implausible.

Further details of the going concern assessment undertaken by the directors of ASDA Group Limited are provided in the annual report of ASDA Group Limited, for which copies are available on request from the registered office of that company.

Dividends

Dividends of £1,350.0m were paid during the year (2019: £nil).

Directors' Report for the Year Ended 31 December 2020 (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 adopted 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.

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.

Directors' Report for the Year Ended 31 December 2020 (continued)

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 Walmart Inc, which was the Company's ultimate parent during the year ("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.

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.

Directors' Report for the Year Ended 31 December 2020 (continued)

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. 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), "colleague voice" (a working group focused on making improvements to the working environment for colleagues), Our Inclusion Network and Inclusion Working Groups (a working group focused on creating an inclusive culture which supports colleagues to thrive and reach their full potential), 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 during the year has been achieved by the team reporting directly into the ultimate parent during the year, 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. The Company also engages with employee representatives and trade unions where applicable to ensure that the best interests of the employees are considered. For further detail of the Company's engagement with trade unions please see Section 172 within the Strategic Report.

The Company is also committed to supporting the wider community and its external stakeholders. 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.

Directors' Report for the Year Ended 31 December 2020 (continued)

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, during the year he had a direct reporting line into the ultimate parent company, Walmart; this structure provided 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 Supply Chain Officer and Company Secretary. The directors of the Company during the year were comprised of the Chief Executive Officer and the Chief Financial Officer.

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 in meetings of 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 during the year, Walmart, provided an appropriate amount of independent rigour and challenge to the operation and decisions of the Board and the Company. This included participation in appointments to the Board, monitoring the effectiveness of the Board through routine and structured interactions, and detailed corporate governance sign-off procedures. Furthermore, the General Counsel, the Chief Executive Officer, the Chief Financial Officer and the Chief Ethics and Compliance Officer each had individual reporting lines into Walmart during the year which provided an additional degree of independence.

Directors' Report for the Year Ended 31 December 2020 (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 People 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. This sets out clear guidelines as to which internal stakeholders within the Company and ownership structure need to be informed, 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 allowed the ultimate parent company during the year, Walmart, to provide independent challenge to the Board and Executive Team during its review and consideration of any matter that required Walmart approval pursuant to the Walmart governance policies and procedures in place during the year. As discussed elsewhere within this section and in the section 172 statement (included in the Strategic Report), Walmart had policies in place which for example covered financial controls, capital expenditure, director remuneration, ethics, approval of strategic and financial plans and a number of other areas. The policies that were in place were reviewed periodically.

Directors' Report for the Year Ended 31 December 2020 (continued)

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

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.

Directors' Report for the Year Ended 31 December 2020 (continued)

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 during the year, the Company applied the financial control framework set out in Section 404 of the Sarbanes-Oxley Act, which mandated robust internal controls designed to prevent or detect material errors in the financial statements and ensured they were documented and certified to Walmart. Key controls within this framework were tested during the year by the Company's and Walmart's internal audit functions, which acted independently to monitor the Company's systems and controls and reported any deficiencies in design or operation of controls to management such that appropriate and timely resolution actions were taken.

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.

Remuneration
The ultimate parent company during the year, Walmart, was heavily involved in the setting of remuneration and policies that affected the directors of the Company and the members of the Board.

Directors' Report for the Year Ended 31 December 2020 (continued)

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 and sales to ensure a balanced focus on creating value for the Company's investors 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 had a long-term incentive plan which was linked to the Walmart share price together with the Group's sales, profit and cashflow management. This promoted a balanced focus on all key financial metrics that the Board, including the directors of the Company, are responsible for, which in turn helped the ultimate parent during the year, Walmart, to deliver their financial objectives and promoted 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.

Policies

Walmart, as the sole shareholder during the year, had full transparency and visibility of executive remuneration policies and Walmart approval was required for any changes made. Furthermore, as set out above, a significant proportion of executive pay was based on the performance of the Company against targets that had been 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 and Section 172 of the strategic report for more details.

The Company's ultimate parent company during the year, Walmart, was engaged through a variety of means. As described above, there were multiple reporting lines directly into Walmart to ensure that certain areas of the Company operated with a degree of independence and had the benefit of additional checks and balances from Walmart. This objective was also achieved through the Walmart corporate governance policies and procedures which ensured 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.

Directors' Report for the Year Ended 31 December 2020 (continued)

Political contributions

ASDA did not make any political donations during the year (2019: £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 £15.4m (2019: £17.6m). The decrease was driven by the decision to cease charging for single-use carrier bags where this income was previously donated to Fight Hunger, £7.9m was donated in the year (2019: £9.4m). The Company also contributed £3.5m to The ASDA Foundation, an affiliate charity of the Company (2019: £3.8m), £2.3m to Breast Cancer Now (2019: £1.9m) and £1.7m to Children in Need (2019: £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 £4.5m (2019: £4.8m). The Company itself contributed a further £1.7m (2019: £4.1m) to these causes. For further detail on our relationships with our affiliate charities please see the Strategic Report.

Colleagues with a disability or impairment

ASDA is a proud member of the Business Disability Forum and is an accredited Disability Confident Employer. 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 2020.

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

Directors' Report for the Year Ended 31 December 2020 (continued)

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

Change in ownership

The immediate parent undertaking is ASDA Group Limited. On 16 February 2021, the ultimate parent company and controlling party of ASDA Group Limited ("ASDA"), Walmart Inc. ("Walmart"), completed the sale to Mohsin and Zuber Issa, founders and co-CEOs of EG Group, a global convenience and forecourts retailer, headquartered in Blackburn, UK, and investment funds managed by TDR Capital LLP ("TDR Capital"), a leading UK-based private equity firm, of Walmart's equity interest in ASDA for an enterprise value of £6.8 billion, on a debt-free and cash-free basis. Under the new ownership structure, Mohsin and Zuber Issa and TDR Capital own 100% of the ordinary shares in Bellis Acquisition Company 3 Limited ("BAC3L") which in turn has acquired the entire issued share capital of ASDA from ASDA's immediate parent at the balance sheet date - ASDA Holdings UK Limited ("AHUKL") - and as such, Mohsin and Zuber Issa and TDR Capital will jointly control ASDA. This is a non-adjusting post balance sheet event and has no impact on the carrying value of the Company's assets and liabilities at 31 December 2020.

Following the sales of its interest in the ordinary share capital of the immediate parent company, Walmart will continue to provide a reduced selection of services to ASDA, including services such as IT and access to innovation and know-how under the Transitional Services Agreement and the Ancillary Services Agreement, for a transitional period.

As a condition of the transaction, all share options held by employees of the Company have vested on or before 16 August 2021 on a pro-rata basis according to the proportion of the original vesting period which has elapsed at the date of vesting. The carrying amount and classification of the Company's share-based payment liabilities have not been adjusted as a result of this as the change in ownership of the immediate parent company's issued share capital was not a condition which existed at the Balance Sheet date and as such, this is a non-adjusting post Balance Sheet event per guidance set out in IAS 10. All share based payment liabilities classified as non-current liabilities at the 31 December 2020 will be settled within 12 months of the Balance Sheet date as a result of the transaction.

Brexit

On 1 January 2021, the United Kingdom withdrew from the European Union. The Company has put in place measures to mitigate the impact of this on customers and colleagues and the Directors do not believe that there is any significant impact on the carrying value of the Company's assets and liabilities at the balance sheet date.

Directors' Report for the Year Ended 31 December 2020 (continued)

Security pledged over the Company's assets

On 16 February 2021, alongside the immediate parent company and fellow wholly-owned subsidiaries, the Company entered into financial guarantee contracts to guarantee the indebtedness of parent undertakings. These guarantees are to be treated as contingent liabilities as it is not considered probable that they will be called upon.

The Company also pledged certain assets as security for the indebtedness of parent undertakings in the form of a first fixed charge over freehold properties, material bank accounts, intergroup receivables and a first ranking floating charge over all present and future assets. The likelihood of the guarantees being called upon is considered remote.

On 13 July 2021, as a result of Bellis Noncore 2 Limited repaying its secured term facility from the proceeds of the sale and leaseback transaction (described below), the Company was released from its fixed and floating charges that were provided as security for this loan.

On 13 August 2021, the Company granted first-priority security interests over their Material Real Property to secure the obligations of Bellis Acquisition Company PLC under the Senior Secured Notes issued, the Term Loan Facilities and Forecourt Bridge Facility borrowed and the Revolving Credit Facility made available. With the completion of this step, the Group has discharged the requirement to deliver post-closing collateral under the various financing arrangements established in connection with the acquisition of the Group by entities controlled by the Issa brothers and TDR Capital.

Security pledged over other freehold properties owned by the Company remains in place at the date of approval of the financial statements.

Initial Enforcement Order

On 20 April 2021, the Competition and Markets Authority ("CMA") published its Phase 1 decision on the Initial Enforcement Order ("IEO") which it previously issued under section 72(2) of the Enterprise Act 2002 on Mr Zuber Issa, Mr Mohsin Issa, TDR Capital LLP ("TDR"), TDR Capital III Holdings L.P., TDR Capital III Investments (2019) L.P., and ASDA Group Limited ("ASDA") in relation to the acquisition by Bellis Acquisition Company 3 Limited ("BAC3L") of ASDA. The decision stated that the CMA believed the transaction gave rise to a realistic prospect of a substantial lessening of competition in the retail supply of road fuel in 36 local areas; and in the retail supply of auto-LPG in one local area.

On 5 May 2021, the CMA announced that Mr Zuber Issa, Mr Mohsin Issa and TDR Capital LLP jointly offered undertakings to the CMA, which involve divesting 27 EG Group Limited petrol filling stations to address the CMA's competition concerns ("undertakings in lieu of reference").

On 16 June 2021, the CMA announced that it had accepted the undertakings in lieu of reference. The IEO put in place by the CMA at completion of the acquisition has been lifted as of 16 June 2021.

Directors' Report for the Year Ended 31 December 2020 (continued)

Cash pooling arrangement

On 15 June 2021, the ASDA Group entered into a Notional Cash Pooling Agreement. The cash pool is a cash management facility and is secured by means of a composite guarantee which allows the Company, the immediate parent company ASDA Group Limited and certain other wholly owned subsidiaries of ASDA Group Limited to borrow an amount no greater than the aggregate credit balances in the cash pooled accounts, up to a maximum of £100m, and the Company is party to this guarantee. An interest rate of 5% p.a. is applicable on any net aggregate debit balance incurred in the Cash Pool.

Borrowing facilities

On 16 February 2021, the Company entered into two Revolving Credit Facilities (RCF) totalling £690.0m with £190.0m maturing in February 2022 and £500.0m maturing in July 2025.

On 16 September 2021, the Directors agreed that the £190.0m facility was no longer required to meet the liquidity needs of the Group so effective from that date, the facility has been voluntarily cancelled.

Equal Value Claim

On 26 March 2021, the Supreme Court upheld the Court of Appeal's decision, that the work of hourly-paid workers in distribution centres and the work of hourly-paid workers in stores can be compared. See note 23 for further details.

ASDA Group Pension Scheme ("AGPS") buy-out

On 9 July 2021, the trustees of the ASDA Group Pension Scheme ("AGPS") completed a full buy-out of the Scheme with Rothesay Life PLC ("the buy-out"). Following this transaction, from the date of the buy-out, Rothesay Life PLC have become directly responsible for the Scheme liabilities1 and as such, the Scheme assets and Scheme liabilities will be de-recognised in the Company balance sheet in the year ended 31 December 2021.

From the date of the buy-out, the outstanding balance on the buy-in loan will be accounted for as a financial asset in line with the requirements of IFRS 9. Any differences between the fair value of the buy-in loan and the pension asset at the date of the buy-in will be accounted for as a loss or gain within other comprehensive income or the Income Statement depending on their nature. The directors do not anticipate material amounts to be recognised in respect of these differences individually or in aggregate.

The buy-out is a non-adjusting post balance sheet event per the guidance set out in IAS 10 as the buy-out contract was executed after the balance sheet date.

Directors' Report for the Year Ended 31 December 2020 (continued)

Sale and Leaseback

On 23 June 2021, the Company sold a number of its freehold properties with a net book value at 31 December 2020 of £250.4m to Bellis Select Warehouses Limited ("BSWL") - a fellow wholly-owned subsidiary of the ultimate parent company at that date, Bellis Holdco Limited - in exchange for an intercompany receivable from BSWL equivalent to the fair value of the properties at that date which is in excess of the net book value of the properties.

On 13 July 2021 these properties were subsequently sold to a third party. These properties have been leased back to the Company. The Directors anticipate that the sale of properties will result in a taxable gain on disposal but that this will be partially mitigated by utilisation of previously unrecognised capital losses.

Furthermore, certain properties - which at the Balance Sheet date were owned by fellow wholly owned subsidiary undertakings of the Group and leased to the Company - were sold to BSWL on 23 June 2021. On 13 July 2021, BSWL sold these properties to a third party and the Company continues to lease these properties from that third party. The right of use assets and lease liabilities relating to these properties have been adjusted to reflect the amended terms of the leases at that date.

This is a non-adjusting post balance sheet event as the conditions relating to the asset sale and subsequent lease back were not in place at the balance sheet date and therefore there is no impact on the carrying value of the Company's assets at the balance sheet date.

Directors' liabilities

During the year, the Directors were insured against liability in respect of proceedings brought by third parties, subject to the limitations set out in the Companies Act 2006. The insurance was controlled and paid centrally by the ultimate parent company during the year. However, a proportion of this insurance was paid by the Company.

At the point of the sale of the share capital of ASDA Group Limited, the Company's immediate parent, from ASDA Holdings UK Limited to Bellis Acquisition 3 Limited, a new insurance policy was taken out by the Company. Such insurance remains in force at the date of approving the Directors' Report.

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

The auditors Ernst & Young LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 23 September 2021 and signed on its behalf by:

J. Fallon

J Fallon
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 2020 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 of the Company's affairs as at 31 December 2020 and of its loss 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included the following procedures:

- We note the company has received a formal letter of support from ASDA Group Limited ("the Group"), and the directors have considered the ability of the Group to provide support.
- We inspected the formal letter of support, noting it does not contain any caveats.
- To assess the ability of ASDA Group Limited to offer the support we obtained management's going concern assessment, including the cash forecast and forecast covenant calculation which covers the period to 31 December 2022. The Group has modelled a base scenario and a severe but plausible downside scenario in their cash forecasts in order to incorporate unexpected changes to the forecasted liquidity of the Group.
    - We have tested the assumptions included in each modelled scenario for the cash forecast and covenant calculation and we have considered the impact of COVID-19 on the going concern assessment performed by the Directors.
    - We challenged the appropriateness of the methods used to calculate the cash forecasts and covenant calculations and determined that they were appropriately sophisticated to be able to make an assessment on going concern.
    - We have performed procedures over the integrity of the modelling, challenged the cash flows included against external benchmarks and market consensus and the availability of funding included in the assessment.
    - We considered the mitigating factors included in the cash forecasts and covenant calculations that are within control of the Group and agree that they provide potential further liquidity if required. We also verified the credit facilities available to the Group.
    - We have performed reverse stress testing in order to identify what factors would lead to the Group utilising all liquidity or breaching the financial covenant during the going concern period.
    - We reviewed the company's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

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

Following the agreed sale of ASDA Group Limited in February 2021, we have verified that the new financing in place has been entered into post-year end. The financing is held by Bellis Finco plc and Bellis Acquisition plc, however, the ASDA group is responsible for servicing the debt, and as such we have ensured that the Directors have included these costs within their assessment and forecasts. Management does not expect the forecasts supporting the ASDA Group Limited going concern assessment to be significantly impacted by COVID-19 given the essential nature of the business and past experience of trading strongly throughout the pandemic.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period through 31 December 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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 contained within the annual report.

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.

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 course of 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 themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the 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.

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

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 30, 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.

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

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

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant frameworks directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (United Kingdom Generally Accepted Accounting Practice) and the relevant tax laws and regulations in the UK. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being those laws and regulations relating to health and safety and employee matters.
- We understood how ASDA Stores Limited is complying with those frameworks by making enquiries of management, Legal, Ethics & Compliance, and Internal Audit. We corroborated our enquiries through our review of board minutes and papers and inspection of commentary in the management accounts.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was a susceptibility to fraud. We also considered performance targets and their propensity to influence efforts made by management to manage earnings. We considered the programmes and controls that the Company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from material fraud and error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing on the full population of journals, with a focus on manual journals, and journals indicating large or unusual transactions based on our understanding of the business; enquiries of management, Legal, Ethics & Compliance, and Internal Audit. In addition, we completed procedures to conclude on the compliance of the disclosures in the Financial Statements with the requirements of the relevant accounting standards, and UK legislation.

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: 24 September 2021

Income Statement for the Year Ended 31 December 2020

	Note	Year Ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Revenue	2	22,743.7	22,874.7
Operating costs	3	(22,533.1)	(22,569.6)
Operating profit		210.6	305.1
Financial income	6	149.6	211.5
Financial costs	7	(393.8)	(408.3)
(Loss)/profit on ordinary activities before tax		(33.6)	108.3
Income tax expense	8	(69.6)	(34.6)
(Loss)/profit for the financial year		(103.2)	73.7

The above results were derived from continuing operations.

Statement of Comprehensive Income for the Year Ended 31 December 2020

	Note	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
(Loss)/profit for the year		(103.2)	73.7
Items that will not be reclassified subsequently to profit or loss			
Total remeasurements on defined benefit obligation	20	(348.2)	(549.5)
Increase in value of plan assets (excluding interest income)	20	252.8	578.9
Changes in asset ceiling/onerous liability (excluding interest expense)	20	-	1,051.9
Impact of buy-in loss	20	-	(1,175.8)
Tax credit on items recognised directly in other comprehensive income	8	28.8	22.2
		(66.6)	(72.3)
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges:			
Reclassification during the year to income statement	17	15.5	(37.5)
Net loss during the year of the not-yet matured contracts	17	(31.4)	(12.7)
Tax on cash flow hedges recognised directly in other comprehensive income	8	3.2	9.3
		(12.7)	(40.9)
Other comprehensive loss for the year		(79.3)	(113.2)
Total comprehensive loss for the year		(182.5)	(39.5)

Balance Sheet as at 31 December 2020

(Registration number: 00464777)	**Note**	**Year ended 31 December 2020 £ m**	**Year ended 31 December 2019 £ m**
Assets			
Non-current assets			
Intangible assets	9	167.0	128.3
Property, plant and equipment	10	4,034.3	4,042.2
Investments	12	770.2	769.7
Deferred tax assets	8	55.3	95.1
Right-of-use assets	11	11,735.2	12,054.9
Pension asset	20	63.4	314.3
		16,825.4	17,404.5
Current assets			
Inventories	13	976.1	1,056.9
Trade and other receivables	14	2,641.1	3,450.6
Income tax asset		59.3	22.6
Cash and cash equivalents		177.4	56.1
Assets held for sale	10	8.6	9.6
		3,862.5	4,595.8
		20,687.9	22,000.3
Equity and liabilities			
Called up share capital	15	757.6	757.6
Share premium account	17	950.3	950.3
Cash flow hedge reserve	17	(24.4)	(11.7)
Other reserves	17	118.0	118.0
Retained earnings	17	2,293.1	3,812.9
Equity attributable to the shareholders		4,094.6	5,627.1
Liabilities			
Non-current liabilities			
Lease liabilities	18	11,664.9	11,839.5
Provisions	19	148.6	139.3
Employee benefits	20	50.5	59.5
		11,864.0	12,038.3
Current liabilities			
Trade and other payables	21	4,304.2	3,924.8
Lease liabilities	18	307.6	305.1
Employee benefits	20	94.5	77.2
Provisions	19	23.0	27.8
		4,729.3	4,334.9
Total liabilities		16,593.3	16,373.2
Total equity and liabilities		20,687.9	22,000.3

Approved by the Board on 23 September 2021 and signed on its behalf by:

J. Fallon

J Fallon
Director

Statement of Changes in Equity for the Year Ended 31 December 2020

	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 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 1 January 2020		757.6	950.3	118.0	(11.7)	3,812.9	5,627.1
Loss for the year		-	-	-	-	(103.2)	(103.2)
Cash flow hedges - reclassified during the year to income statement		-	-	-	15.5	-	15.5
Cash flow hedges - net loss during year on not-yet matured contracts		-	-	-	(31.4)	-	(31.4)
Tax on cash flow hedges recognised directly in other comprehensive income	8	-	-	-	3.2	-	3.2
Total remeasurements on defined benefit obligation	20	-	-	-	-	(348.2)	(348.2)
Increase in value of plan assets excluding interest income	20	-	-	-	-	252.8	252.8
Tax on net actuarial losses recognised directly in other comprehensive income	8	-	-	-	-	28.8	28.8
Total comprehensive income		-	-	-	(12.7)	(169.8)	(182.5)
Dividends	16	-	-	-	-	(1,350.0)	(1,350.0)
At 31 December 2020		757.6	950.3	118.0	(24.4)	2,293.1	4,094.6

Notes to the Financial Statements for the Year Ended 31 December 2020

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 23 September 2021.

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 one hundred thousand (£0.1m) except when otherwise indicated. The presentational currency is also the Company functional currency.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

Going concern

The financial statements for the year ended 31 December 2020 have been prepared on a going concern basis as the Directors have determined that the Company has sufficient resources and liquidity facilities to meet its liabilities as they fall due for the period from the date of approval of the accounts up to 31 December 2022. The directors of ASDA Group Limited have provided a letter of support to the Company stating that ASDA Group Limited will provide financial support to the Company to enable it to continue to meet its liabilities as they fall due from the date of approval of the financial statements up to 31 December 2022.

In assessing ASDA Group Limited's ability to adopt the going concern basis, the directors of ASDA Group Limited have assessed the ability of the Group to meet its liabilities as they fall due from the date of approval of the accounts up to 31 December 2022, in the event of various cashflow scenarios, including a severe but plausible downside scenario. This scenario applies severe but plausible economic downsides to a base case forecast resulting from the continued economic and social uncertainty surrounding the outbreak and spread of COVID-19, including a potential decline in sales due to the re-opening of non-essential retail and hospitality in line with the UK Government's roadmap out of lockdown.

As a result of the change in ownership, the Group is now a guarantor to external debt raised by new parent undertakings. For the going concern period under review, the directors of ASDA Group Limited have assumed that interest payments relating to this external debt will be serviced from the Group's cashflows. As such, interest cashflows relating to this debt have been reflected in both the base case and severe but plausible downside modelling. Mitigating actions that are in the control of management, such as reducing non-essential capex and discretionary spend, have been considered.

The ASDA Group Limited model has been reverse stress tested to determine the extent of deterioration of cashflows that would lead to the Group breaching the level of available facilities. The Directors of the Company and of the Group consider that such a significant deterioration of cashflows is implausible.

Further details of the going concern assessment undertaken by the directors of ASDA Group Limited are provided in the annual report of ASDA Group Limited, for which copies are available on request from the registered office of that company.

Changes in accounting policy

None of the standards, interpretations and amendments effective for the first time from 1 January 2020 have had a material impact on the financial statements.

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 a material effect on the financial statements in future.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

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.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

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.

Judgements

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.

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 2020.

Litigation
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).

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

Supply Chain Finance

Judgement is made in determining whether balances under supply chain financing arrangements should be classified as trade payables or as another line item on the Balance Sheet. In determining the classification, the Company reviews each arrangement against a number of characteristics to assess whether the substance of liabilities owed by the Company to the participating banks under the contractual terms of the arrangements is consistent with other trade payables. These include:
• Whether participation in the schemes is voluntary for suppliers;
• Whether the Company is involved in the negotiations and agreements between the banks and suppliers or tri-party agreements exist;
• Whether payment terms have been extended outside industry norms for trade payables;
• Whether interest is accrued on outstanding balances or fees are receivable by the Company;
• Whether the banks require parent guarantees in respect of the Company's obligations;
• Whether the Company retains its rights to offset credits or withhold payment.
The nature of the Company's liabilities under supply chain financing arrangements when considering these characteristics supports classification of amounts owed by the Company under its supply chain financing arrangements as trade payables.

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.

Estimates

Insurance
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.

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.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

Foreign currency

The presentational currency of the Company is Sterling. The primary functional currency of the parent and subsidiary companies is also Sterling.

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.

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
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.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

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.

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

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.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

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.

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.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

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.

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.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

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.

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.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

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.

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.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

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.

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.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

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.

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.

During 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 prior 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 was released in full in the prior year with a corresponding gain being recognised in other comprehensive income.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

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 (during the year, Walmart Inc); 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.

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.

Dividend income is recognised in the Company's profit on the date the Company's right to receive payments is established.

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 Company'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 Company'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.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

Supplier income (continued)

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.

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 2020 £ m	Year ended 31 December 2019 £ m
Sale of goods	20,297.1	19,586.6
Fuel	2,446.6	3,288.1
	22,743.7	22,874.7

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

3 Operating costs

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

	Note	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Cost of inventory recognised as an expense		(16,689.7)	(16,920.3)
Cost of inventory written off in the year		(460.6)	(476.0)
Employment costs	5	(2,787.5)	(2,577.8)
Amortisation of intangible assets	9	(46.7)	(42.4)
Depreciation on property, plant and equipment	10	(306.1)	(314.5)
Depreciation on right-of-use assets	11	(454.9)	(456.3)
Rental income		8.9	12.9
Other income		28.7	38.0
Loss on disposal of property, plant and equipment		(5.5)	(8.6)
Impairment reversal/(charge) of property, plant and equipment	10	0.8	(59.8)
Impairment of right-of-use assets	11	(2.5)	(2.8)
Foreign exchange gains		4.5	1.3
Amounts paid to auditors			
Fees payable to the Company's auditors for the audit of the Company and Group financial statements		(0.9)	(0.6)
Fees payable to the company's auditors for other assurance services		(0.3)	-

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

4 Directors' remuneration

The Directors' remuneration for the year was as follows:

	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Directors' remuneration	4.0	2.7
Share-based payments	0.8	0.8

During the year, an emoluments cost of £nil was incurred by the Company in respect of compensation for loss of office (2019: £nil). This is not included in the directors' remuneration disclosed above.

	No.	No.
Number of directors who exercised share options	1	2
Number of directors entitled to receive shares under long term incentive schemes	1	2

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

	£ m	£ m
Total remuneration excluding pensions	2.7	1.7
Total share-based payments	0.8	0.6
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 (2019: one).

Notes to the Financial Statements for the Year Ended 31 December 2020 (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 2020 No.	Year ended 31 December 2019 No.
Total		
Retail & Distribution	137,257	138,442
Home offices	3,898	3,802
	141,155	142,244
Full time equivalents		
Retail & Distribution	83,337	86,526
Home offices	3,758	3,673
	87,095	90,199

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

	Note	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Wages and salaries	20	2,424.9	2,219.0
Share-based payment expenses	20	102.6	129.4
Social security costs	20	141.3	132.1
Other pension costs	20	118.7	97.3
		2,787.5	2,577.8

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 2020 (continued)

6 Financial income

	Note	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
External interest receivable and similar income		-	0.1
Dividend income from subsidiary undertakings		1.3	-
Net interest income on pension scheme	20	0.1	-
Intercompany interest receivable		148.2	211.4
		149.6	211.5

7 Financial costs

	Note	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Intercompany interest payable		42.3	36.1
Lease interest		351.5	356.8
Net interest cost on pension scheme	20	-	15.4
		393.8	408.3

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

8 Income tax

Tax charged/(credited) in the income statement:

	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Current taxation		
UK corporation tax on profit for the year	0.7	61.3
UK corporation tax adjustment to prior periods	(2.9)	0.5
Current tax (credit)/charge for the year	(2.2)	61.8
Deferred taxation		
Arising from origination and reversal of temporary differences	65.0	(27.0)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	4.7	(1.2)
Arising from changes in tax rates and laws	2.1	1.0
Total deferred taxation	71.8	(27.2)
Tax expense in the income statement	69.6	34.6

The standard rate of corporation tax in the United Kingdom for the year is 19% (2019: 19%).

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 would remain at 19%.

On 3 March 2021, it was announced in the UK Budget that the standard rate of corporation tax in the United Kingdom will increase to 25% on 1 April 2023. The impact of this rate change has not been recognised in the year ended 31 December 2020 as the change was not substantively enacted at the balance sheet date. Had this rate change been substantively enacted, the deferred tax asset would have decreased by £14.3m to £41.0m.

Notes to the Financial Statements for the Year Ended 31 December 2020 (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% (2019: 19%) applied to the profit on ordinary activities before tax is as follows:

	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
(Loss)/profit before tax	(33.6)	108.3
Corporation tax at standard rate	(6.4)	20.6
Expenses not deductible for tax purposes	8.1	8.0
Non-qualifying depreciation	6.5	3.4
Loss/(profit) on sale of non-qualifying fixed assets	0.2	(1.4)
Adjustments in respect of prior periods	1.8	(0.8)
Change in tax rate	2.2	1.0
Losses surrendered to fellow group undertakings for no payment	54.3	-
Movement on recognised capital losses	2.9	-
Non-qualifying impairment	-	3.8
Total tax charge for the year	69.6	34.6

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

	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Current tax credit on pensions	-	44.6
Deferred tax credit/(charge) on pensions	28.8	(22.4)
Deferred tax credit on cashflow hedges	3.2	9.3
Total tax on items credited to the statement of comprehensive income	32.0	31.5

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

8 Income tax (continued)

Deferred tax

Deferred tax assets and liabilities are attributable to the following:

2020	**Asset £ m**	**Liability £ m**	**Net deferred tax asset £ m**
Property, plant and equipment	-	(47.7)	(47.7)
Employee benefits	91.3	-	91.3
Provisions	3.5	-	3.5
Other items	5.3	-	5.3
Capital losses	2.9	-	2.9
	103.0	(47.7)	55.3

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

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 £27.6m (2019: £17.1m) available to reduce future capital gains. No deferred tax asset has been recognised in respect of these capital losses as, at the Balance Sheet date, it was not considered probable that the losses would be used.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

8 Income tax (continued)

	1 January 2020	Recognised in income	Recognised in other comprehensive income	31 December 2020
Property, plant and equipment	(45.8)	(1.9)	-	(47.7)
Employee Benefits	131.1	(68.6)	28.8	91.3
Provisions	3.3	0.2	-	3.5
Other items	2.0	0.1	3.2	5.3
Capital Losses	4.5	(1.6)	-	2.9
Net tax assets/(liabilities)	95.1	(71.8)	32.0	55.3

Deferred tax movement during the prior year:

	At 1 January 2019 £ m	Recognised in income £ m	Recognised in other comprehensive income £ m	At 31 December 2019 £ m
Property, plant and equipment	(68.4)	22.6	-	(45.8)
Employee benefits	150.9	2.6	(22.4)	131.1
Provisions	2.6	0.7	-	3.3
Other items	(7.4)	0.1	9.3	2.0
Capital losses	3.3	1.2	-	4.5
Net tax assets/(liabilities)	81.0	27.2	(13.1)	95.1

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

9 Intangible assets

	Brand licence £ m	Software and development costs £ m	Other £ m	Total £ m
Cost or valuation				
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
At 1 January 2020	31.9	280.4	0.1	312.4
Additions	-	85.4	-	85.4
Disposals	-	(3.7)	-	(3.7)
At 31 December 2020	31.9	362.1	0.1	394.1
Amortisation				
At 1 January 2019	14.6	127.4	2.1	144.1
Amortisation charge	-	42.4	-	42.4
Amortisation eliminated on disposals	-	(0.4)	(2.0)	(2.4)
At 31 December 2019	14.6	169.4	0.1	184.1
At 1 January 2020	14.6	169.4	0.1	184.1
Amortisation charge	-	46.7	-	46.7
Amortisation eliminated on disposals	-	(3.7)	-	(3.7)
At 31 December 2020	14.6	212.4	0.1	227.1
Carrying amount				
At 31 December 2020	17.3	149.7	-	167.0
At 31 December 2019	17.3	111.0	-	128.3

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

9 Intangible assets (continued)

The George brand licence has a carrying value of £17.3m (2019: £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).

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

Impairment testing of George brand licence
This asset relates to the acquisition in 2006 of a perpetual licence to use the George brand in the UK and elsewhere in Europe and has a carrying value of £17.3m (2019: £17.3m). This has been tested for impairment as at 31 December 2020 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 five-year period. The pre-tax discount rate applied to the cash flow projections is 6.8% (2019: 8.4%) and the growth rate used to extrapolate the cash flows beyond specific forecast period is 0.1%.

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 2020 (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 1 January 2020	3,589.5	1,211.3	2,511.6	86.1	7,398.5
Additions	99.4	6.9	2.1	204.5	312.9
Disposals	(15.8)	(0.1)	(260.7)	(0.2)	(276.8)
Intercompany transfer	-	-	-	(9.1)	(9.1)
Transfers from Assets Under Construction	72.5	-	153.4	(225.9)	-
Reclassification	(91.0)	91.0	-	-	-
At 31 December 2020	3,654.6	1,309.1	2,406.4	55.4	7,425.5
Depreciation					
At 1 January 2020	1,044.0	564.0	1,748.3	-	3,356.3
Charge for the year	105.4	31.4	169.3	-	306.1
Disposals	(15.7)	-	(254.7)	-	(270.4)
Impairments	(1.3)	(0.5)	1.0	-	(0.8)
Reclassification	(15.6)	15.6	-	-	-
At 31 December 2020	1,116.8	610.5	1,663.9	-	3,391.2
Net book value					
At 31 December 2020	2,537.8	698.6	742.5	55.4	4,034.3
At 31 December 2019	2,545.5	647.3	763.3	86.1	4,042.2

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

10 Property, plant and equipment (continued)

Assets held for sale

During the prior year, £9.6m of assets were reclassified to assets held for sale within current assets. The assets that were held for sale consisted of one non-operational fulfilment centre. Following a management decision to sell, a third party was contracted to actively market the site in its current condition. Active marketing commenced in December 2019. During the year, an impairment charge of £1.0m was recognised on the asset held for sale and the carrying value at the 31 December 2020 was £8.6m. The asset held for sale was sold on 4 June 2021 and no significant loss or profit on disposal was recognised.

Impairment

Both the operational and non-operational estate are regularly reviewed for indicators of impairment. Following reviews in the year, impairment credits of £0.8m (2019: £59.8m charge) were recognised in operating costs during the year.

Reclassifications

Assets with an original cost of £91.0m and a net book value of £75.4m were reclassified from freehold properties to leasehold improvements during the year to better reflect the nature of these assets.

Capitalised Interest

The cumulative amount of capitalised interest included in the cost of property, plant and equipment is £86.0m (2019: £86.0m).

Intercompany transfer

An intercompany transfer took place relating to a new store which was completed during the year. A fellow wholly owned subsidiary of the Group has legal ownership of this store and therefore this transfer was undertaken in order to reflect this.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

11 Right-of-use assets

	Land and buildings £ m	Plant and Equipment £ m	Total £ m
Cost			
At 1 January 2020	12,423.6	167.8	12,591.4
Additions	89.6	49.9	139.5
Disposals	(1.4)	(20.0)	(21.4)
At 31 December 2020	12,511.8	197.7	12,709.5
Depreciation			
At 1 January 2020	496.4	40.1	536.5
Charge for the year	407.0	47.9	454.9
Impairment	2.5	-	2.5
Disposals	(0.2)	(19.4)	(19.6)
At 31 December 2020	905.7	68.6	974.3
Carrying amount			
At 31 December 2020	11,606.1	129.1	11,735.2
At 31 December 2019	11,927.2	127.7	12,054.9

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 32 years. Seven property right-of-use asset were impaired in the year (2019: one).

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 4 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.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

12 Investments

	£ m
At 1 January 2020	769.7
Additions	0.5
At 31 December 2020	770.2

Following a review of the carrying value of investments held by the Company, no impairment charge (2019: £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 Stores (Belfast) 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 2020 (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*

ASDA Stores Limited made a £0.5m investment in Starstock Ltd in 2020. This company is registered at the following address: *Dane Mill, Broadhurst Lane, Congleton, Cheshire, CW12 1LA.* This is a minority equity stake and the directors do not believe that the Company has significant influence over this entity.

13 Inventories

	31 December 2020 £ m	31 December 2019 £ m
Goods held for resale	974.4	1,054.8
Goods not held for resale	1.7	2.1
	976.1	1,056.9

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

14 Trade and other receivables

	31 December 2020 £ m	31 December 2019 £ m
Trade receivables	82.5	84.3
Allowance for expected credit losses	(3.3)	(4.1)
Intercompany receivables	2,524.7	3,328.1
Other receivables	28.4	32.6
Prepayments and accrued income	8.8	6.7
Derivative assets	-	3.0
	2,641.1	3,450.6

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 £207.2m (note 21) (2019: £193.6m). The gross trade receivable prior to the offset is £289.7m (2019: £277.9m).

As at 31 December 2020, trade receivables at nominal value of £3.3m (2019: £4.1m) 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 (2019: £nil).

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

15 Called up share capital

	Redeemable ordinary shares of £1 each No.	Ordinary shares of £1 each No.	Total No.
At 1 January 2020 and 31 December 2020	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 2020 and 31 December 2020	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.

16 Dividends proposed and paid

Dividends of £1,350.0m (£1.78 per share) were proposed and paid in the year ended 31 December 2020 to ASDA Group Limited, the immediate parent undertaking (2019: £nil).

Notes to the Financial Statements for the Year Ended 31 December 2020 (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 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 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
At 1 January 2020	950.3	118.0	(11.7)	3,812.9	4,869.5
Loss for the year	-	-	-	(103.2)	(103.2)
Cash flow hedges - reclassified during the year to income statement	-	-	15.5	-	15.5
Cash flow hedges - net loss during the year on not-yet matured contracts	-	-	(31.4)	-	(31.4)
Tax on cash flow hedges recognised directly in other comprehensive income	-	-	3.2	-	3.2
Total remeasurements on defined benefit obligation	-	-	-	(348.2)	(348.2)
Increase in plan assets excluding interest income	-	-	-	252.8	252.8
Tax on net actuarial losses recognised directly in other comprehensive income	-	-	-	28.8	28.8
Dividends paid	-	-	-	(1,350.0)	(1,350.0)
At 31 December 2020	950.3	118.0	(24.4)	2,293.1	3,337.0

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.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

18 Lease liabilities

Lease Liabilities
Lease agreements where the group is a lessee

	31 December 2020 £ m	31 December 2019 £ m
Current lease liability	307.6	305.1
Non-current lease liability	11,664.9	11,839.5
	11,972.5	12,144.6
Future minimum undiscounted payments due:		
No later than one year	658.1	655.9
Later than one year and no later than two years	648.8	642.3
Later than two years and no later than three years	633.2	632.7
Later than three years and no later than four years	619.6	616.8
Later than four years and no later than five years	611.0	604.1
Later than five years	15,493.5	16,000.8
Total future minimum undiscounted payments	18,664.2	19,152.6
Finance charges allocated to future periods	(6,691.7)	(7,008.0)
Present value of minimum lease payments	11,972.5	12,144.6

There are no instances at 31 December 2020 where future rental payments have been committed but not yet included in the lease liability (2019: £nil).

Total lease cash outflow in the year was £679.2m (2019: £670.7m).

Notes to the Financial Statements for the Year Ended 31 December 2020 (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 2020 £ m	31 December 2019 £ m
Depreciation - Land and Buildings	407.0	406.9
Depreciation - Plant and Equipment	47.9	49.4
Impairment - Land and Buildings	2.5	2.8
Short term lease expense	1.8	1.8
Variable lease expense	16.4	14.9
Sub-lease income	(6.8)	(9.2)
Total charge to operating profit	468.8	466.6
Interest expense related to lease liabilities	351.5	356.8
Charge to profit before taxation for leases	820.3	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 2.4% of overall lease payments in 2020 (2019: 2.2%).

Notes to the Financial Statements for the Year Ended 31 December 2020 (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 2020 £ m	31 December 2019 £ m
No later than one year	9.8	9.9
Later than one year and no later than five years	26.7	25.6
Later than five years	36.2	36.8
	72.7	72.3

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 2019	71.9	95.2	167.1
Provided during the year	0.3	42.4	42.7
Provision used	(0.7)	(23.0)	(23.7)
Unused provisions reversed	(0.6)	(21.5)	(22.1)
Increase due to unwinding of discount and rate changes	7.6	-	7.6
	78.5	93.1	171.6
Current liabilities	-	23.0	23.0
Non-current liabilities	78.5	70.1	148.6

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. A discount rate of 0.8% has been used in determining this provision. The provision will be utilised at the end of the respective terms of the leases giving rise to these liabilities.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

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 2020 £ m	31 December 2019 £ m
Fair value of scheme assets	3,017.0	2,975.3
Present value of scheme liabilities	(2,953.6)	(2,661.0)
Net asset for defined benefit pension scheme	63.4	314.3
Cash-settled share based payment liability - non-current	(50.5)	(59.5)
Cash-settled share based payment liability - current	(94.5)	(77.2)

As described in note 26, on 16 February 2021, the Company's intermediate parent undertaking, ASDA Holdings UK Limited, a wholly owned subsidiary of Walmart Inc., disposed of its interest in the entire issued share capital of the Company's immediate parent company ASDA Group Limited to Bellis Acquisition Company 3 Limited. As a condition of the transaction, all share options held by employees of the Company will vest on or before 16 August 2021 on a pro-rata basis according to the proportion of the original vesting period which has elapsed at the date of vesting. The carrying amount and classification of the Company's share-based payment liabilities have not been adjusted as a result of this as the change in ownership of the immediate parent Company's issued share capital was not a condition which existed at the Balance Sheet date and as such, this is a non-adjusting post Balance Sheet event per guidance set out in IAS 10.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

20 Employee benefits (continued)

Pension plans

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

	31 December 2020 £ m	31 December 2019 £ m
Wages and salaries	2,424.9	2,219.0
Share-based payments charge	102.6	129.4
Social security costs	141.3	132.1
Total cost before pension costs	2,668.8	2,480.5
Defined benefit pension scheme		
Net interest on pension scheme	(0.1)	15.4
Total defined benefit scheme (credit)/expense	(0.1)	15.4
Pensions costs, defined contribution scheme	118.7	97.3
Total pension expense	118.6	112.7
Total employee benefit expense	2,787.4	2,593.2

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

20 Employee benefits (continued)

Defined benefit pension scheme

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").

Background to the AGPS buy-in

The AGPS was subject to a buy-in transaction ("the buy-in") during the prior year 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 in the prior year to the AGPS of £707.5m ("the buy-in contribution") and advanced a loan to the scheme with an original book value of £467.3m ("the buy-in loan"). Interest is charged at an arms-length rate on this loan.

At the point of the buy-in, the Scheme 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.

Classification of buy-in cashflows

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 ("the BTB 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, the proceeds of which can be used by the Scheme to settle outstanding amounts on the buy-in loan.

Taking into account the amount realised during the year by the Scheme from the sale of illiquid assets since the buy-in, the Company and the Trustees agreed during the year that the Company would make a contribution to the Scheme on 30 December 2020 under the BTB Agreement of £213.5m and that the Scheme would repay this amount of the buy-in loan. The Scheme made further repayments during the year of principal on the buy-in loan of £147.0m (2019: £39.5m) and interest repayments of £10.1m (2019: £nil) using proceeds from the sale of illiquid assets. As such, total principal repayments of the buy-in loan during the year were £360.5m (2019: £39.5m). The total amount of principal outstanding on the buy-in loan at 31 December 2020 is £67.3m (2019: £427.8m).

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

20 Employee benefits (continued)

Amounts recognised in Other Comprehensive Income - current year

As the remaining illiquid assets and cash of the AGPS 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 2020 and the book value of the buy-in loan at that date has been accounted for as an actuarial loss in other comprehensive income.

Taking into account proceeds realised by the Scheme from the sale of illiquid assets during the year compared to previously estimated fair value, and following an assessment of the fair value of assets remaining in the Scheme at 31 December 2020, a loss of £93.9m has been included in the total acturial loss of £95.4m recognised in other comprehensive income during the year.

Amounts recognised in Other Comprehensive Income - prior year

During the prior year, a pre-tax loss of £1,175.8m was 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 above, 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 was released in full during the prior year, with a corresponding pre-tax gain of £1,051.9m being recognised in other comprehensive income in the prior year.

The Company remains liable for pension benefits payable to members of the UURBS and these liabilities with a fair value at 31 December 2020 of £14.3m (2019: £14.0m) 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 2020 (continued)

20 Employee benefits (continued)

	31 December 2020 £ m	31 December 2019 £ m
Scheme liabilities		
Movements in present value of defined benefit obligation:		
Present value at start of year	(2,661.0)	(2,160.0)
Interest cost	(54.6)	(60.5)
Past service cost	(0.5)	-
Effect of changes in financial assumptions	(525.0)	(524.3)
Effect of experience adjustments	176.8	(25.2)
Benefits paid	110.7	109.0
Present value at end of year	(2,953.6)	(2,661.0)
Scheme assets		
Movements in fair value of plan assets:		
Fair value at start of year	2,975.3	2,411.7
Interest income	59.5	75.5
Increase in value of plan assets excluding interest income	252.8	578.9
Employer contributions (normal)	1.5	59.6
Employer contributions (buy-in)	213.5	827.1
Buy-in loan	-	347.7
Part-repayment of loan	(370.6)	(39.5)
Benefits paid	(110.7)	(109.0)
Impact of buy-in loss	-	(1,175.8)
Administrative expenses paid	(4.3)	(0.9)
Fair value at end of year	3,017.0	2,975.3

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

20 Employee benefits (continued)

Amounts recognised in the Income Statement

	31 December 2020 £ m	31 December 2019 £ m
Amounts recognised in finance income or costs		
Net interest income on plan assets and liabilities	4.9	15.1
Interest expense on effect of onerous liability	-	(29.6)
Administrative expenses	(4.3)	(0.9)
Past service cost	(0.5)	-
Total Income Statement credit/(charge)	0.1	(15.4)

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

20 Employee benefits (continued)

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

	31 December 2020 £ m	31 December 2019 £ m
Effect of change in financial assumptions	(525.0)	(524.3)
Effect of experience adjustments	176.8	(25.2)
Increase in value of plan assets excluding interest income	252.8	578.9
Buy-in loss	-	(1,175.8)
Changes in onerous liability excluding interest expense	-	1,051.9
Amounts recognised in the Statement of Comprehensive Income	(95.4)	(94.5)

The fair value of the plan assets were as follows:

	31 December 2020 £m			31 December 2019 £m		
	Quoted	**Unquoted**	**Total**	**Quoted**	**Unquoted**	**Total**
Bulk purchase annuity	-	2,938.8	2,938.8	-	2,647.0	2,647.0
Cash and cash equivalents	-	43.4	43.4	-	107.8	107.8
Property	-	0.1	0.1	-	52.8	52.8
Investment funds	-	34.7	34.7	-	167.7	167.7
	-	3,017.0	3,017.0	-	2,975.3	2,975.3

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 2020 %	31 December 2019 %
Discount rate	1.3	2.1
Inflation - CPI	2.1	1.9
Inflation - RPI	2.9	2.9
Future pension increases	2.9	2.9

Notes to the Financial Statements for the Year Ended 31 December 2020 (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 2020 Years	31 December 2019 Years
Current UK pensioners at retirement age - male	22.1	22.6
Current UK pensioners at retirement age - female	23.5	24.5
Future UK pensioners at retirement age - male	23.5	24.4
Future UK pensioners at retirement age - female	25.9	26.4

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 2020 and 31 December 2019 and of the Income Statement charge for 2020 and 2019, to changes in these assumptions

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

	31 December 2020 + 0.1%	31 December 2019 + 0.1%
Adjustment to discount rate	**£ m**	**£ m**
Decrease in scheme liabilities	79.6	56.4
Decrease in finance costs	-	0.2

	31 December 2020 + 0.1%	31 December 2019 + 0.1%
Adjustment to rate of inflation	**£ m**	**£ m**
Increase in scheme liabilities	32.6	13.1
Increase in finance costs	-	-

	31 December 2020 + 0.1%	31 December 2019 + 0.1%
Adjustment to rate of salary growth	**£ m**	**£ m**
Increase in scheme liabilities	121.8	92.5
Increase in finance costs	-	-

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 2020 (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.

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

Share-based payments

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

During the year, the Company offered 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 during the vesting period 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.

As described earlier in note 20, on 16 February 2021, the intermediate parent company, ASDA Holdings UK Limited, a wholly-owned subsidiary of Walmart Inc., disposed of its interest in the entire issued share capital of the immediate parent company ASDA Group Limited to Bellis Acquisition Company 3 Limited. See earlier narrative for an explanation of how this impacts the Company's share-based payment transactions.

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 2020 £ m	31 December 2019 £ m
Cash-settled share based payment charge	102.6	129.4
Total carrying amount of liability - current	94.5	77.2
Total carrying amount of liability - non-current	50.5	59.5
	145.0	136.7

Notes to the Financial Statements for the Year Ended 31 December 2020 (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 2020 Number (thousands)	31 December 2019 Number (thousands)
Outstanding, start of year	4,442	5,059
Exercised during the year	(1,478)	(1,723)
Granted during the year	1,531	1,602
Forfeited during the year	(338)	(496)
Outstanding, end of year	4,157	4,442
Exercisable, end of year	18	17

	31 December 2020 Price (£)	31 December 2019 Price (£)
Outstanding, start of year	53.26	45.27
Exercised during the year	(45.83)	(37.23)
Granted during the year	73.07	61.08
Forfeited during the year	(61.53)	(52.84)
Outstanding, end of year	62.39	53.26
Exercisable, end of year	47.12	38.69

Share options were exercised on a regular basis throughout the year. The average exercise price during the year to 31 December 2020 was £45.83 (2019: £37.23). 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 2020 (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 2020	31 December 2019
Weighted average exercise price (£)	46.06	53.25
Number of share options outstanding (thousands)	4,150	4,435
Expected weighted average remaining life (years)	1.5	1.5

The range of exercise price in the year was £36.99 to £73.06 (2019: £36.99 to £61.07).

The fair value of the options outstanding under the Sharesave scheme at 31 December 2020 is £102.9m (2019: £97.4m).

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 the grant agreement. The options under this scheme are treated as cash-settled.

	31 December 2020	31 December 2019
Weighted average exercise price (£)	58.42	52.42
Number of share options outstanding (thousands)	7	7
Expected weighted average remaining life (years)	1.0	1.2

The range of exercise price in the year was £50.49 to £72.43 (2019: £38.64 to £65.81).
The fair value of the options outstanding under the WSIP scheme at 31 December 2020 is £0.3m (2019: £0.2m).

Notes to the Financial Statements for the Year Ended 31 December 2020 (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 2020 Number (thousands)	31 December 2019 Number (thousands)
Outstanding, start of year	477	437
Exercised during the year	(155)	(164)
Granted during the year	190	248
Forfeited during the year	(94)	(44)
Outstanding, end of year	418	477
Exercisable, end of year	-	-

The fair value of the options outstanding under the RSR scheme at 31 December 2020 is £33.6m (2019: £30.8m).

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 2020 (continued)

20 Employee benefits (continued)

Share-based payments (continued)

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

	31 December 2020 Number (thousands)	31 December 2019 Number (thousands)
Outstanding, start of year	136	179
Exercised during the year	(42)	(60)
Granted during the year	51	54
Forfeited during the year	(16)	(37)
Outstanding, end of year	129	136
Exercisable, end of year	-	-

The fair value of the options outstanding under the PSP scheme at 31 December 2020 is £8.2m (2019: £8.3m).

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 2020	31 December 2019
Expected dividend yield (%)	1.50	1.78
Expected volatility (%)	16.05	15.79
Risk-free interest rate (%)	0.10	1.59
Weighted average fair value of options granted (£)	27.60	19.77
Weighted average exercise price (£)	62.39	53.26

The expected life of the option in the year was 1 to 3 years (2019: 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 2020 (continued)

21 Trade and other payables

	31 December 2020 £ m	31 December 2019 £ m
Trade payables	2,761.2	2,560.1
Intercompany payables	765.0	663.3
Social security and other taxes	176.2	202.6
Other payables	81.0	192.2
Accrued expenses	481.8	202.9
Derivative liabilities	39.0	18.2
Cash and cash equivalents	-	85.5
	4,304.2	3,924.8

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 £207.2m (note 14) (2019: £193.6m). The gross trade payable prior to the offset is £2,968.4m (2019: £2,753.7m).

22 Commitments

As at 31 December 2020, the Company had not entered into any contracts to purchase property, plant and equipment. (2019: £nil).

As at 31 December 2020, the Company had entered into contracts to purchase US dollars for £710.2m (2019: £779.3m).

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

23 Contingent liabilities

Equal Value Claims: ASDA Stores Limited has been served with circa 44,000 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. On 26 March 2021, the Supreme Court upheld the Court of Appeal's decision, that the work of hourly-paid workers in distribution centres and the work of hourly-paid workers in stores can be compared. Despite this ruling, the Directors believe that there are substantial factual and legal defences to these claims, and intend to defend the claims vigorously. No provision continues to be recognised on the basis that any potential liability is only a possible obligation, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits.

As a result of the change of ownership on 16 February 2021, ASDA and its new parent company Bellis Acquisition Company 3 Limited ("BAC3L") have entered into an indemnification agreement with the former ultimate parent, Walmart Inc. ("Walmart") with respect to these claims. Walmart has indemnified ASDA and BAC3L for these claims up to a contractually agreed amount.

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.

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.

During the year, in the directors' opinion, the ultimate parent undertaking and controlling party was 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.

At the date of approval of the financial statements, the ultimate parent company is Bellis Holdco Limited which is jointly controlled by the Issa brothers and TDR Capital LLP. See note 26 for details of changes since the Balance Sheet date.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

26 Events since the balance sheet date

Change in ownership

The immediate parent undertaking is ASDA Group Limited. On 16 February 2021, the ultimate parent company and controlling party of ASDA Group Limited ("ASDA"), Walmart Inc. ("Walmart"), completed the sale to Mohsin and Zuber Issa, founders and co-CEOs of EG Group, a global convenience and forecourts retailer, headquartered in Blackburn, UK, and investment funds managed by TDR Capital LLP ("TDR Capital"), a leading UK-based private equity firm, of Walmart's equity interest in ASDA for an enterprise value of £6.8 billion, on a debt-free and cash-free basis. Under the new ownership structure, Mohsin and Zuber Issa and TDR Capital own 100% of the ordinary shares in Bellis Acquisition Company 3 Limited ("BAC3L") which in turn has acquired the entire issued share capital of ASDA from ASDA's immediate parent at the balance sheet date - ASDA Holdings UK Limited ("AHUKL") - and as such, Mohsin and Zuber Issa and TDR Capital will jointly control ASDA. This is a non-adjusting post balance sheet event and has no impact on the carrying value of the Company's assets and liabilities at 31 December 2020.

Following the sales of its interest in the ordinary share capital of the immediate parent company, Walmart will continue to provide a reduced selection of services to ASDA, including services such as IT and access to innovation and know-how under the Transitional Services Agreement and the Ancillary Services Agreement, for a transitional period.

As a condition of the transaction, all share options held by employees of the Company have vested on or before 16 August 2021 on a pro-rata basis according to the proportion of the original vesting period which has elapsed at the date of vesting. The carrying amount and classification of the Company's share-based payment liabilities have not been adjusted as a result of this as the change in ownership of the immediate parent company's issued share capital was not a condition which existed at the Balance Sheet date and as such, this is a non-adjusting post Balance Sheet event per guidance set out in IAS 10. All share based payment liabilities classified as non-current liabilities at the 31 December 2020 will be settled within 12 months of the Balance Sheet date as a result of the transaction.

Brexit

On 1 January 2021, the United Kingdom withdrew from the European Union. The Company has put in place measures to mitigate the impact of this on customers and colleagues and the Directors do not believe that there is any significant impact on the carrying value of the Company's assets and liabilities at the balance sheet date.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

26 Events since the balance sheet date (continued)

Security pledged over the Company's assets

On 16 February 2021, alongside the immediate parent company and fellow wholly-owned subsidiaries, the Company entered into financial guarantee contracts to guarantee the indebtedness of parent undertakings. These guarantees are to be treated as contingent liabilities as it is not considered probable that they will be called upon.

The Company also pledged certain assets as security for the indebtedness of parent undertakings in the form of a first fixed charge over freehold properties, material bank accounts, intergroup receivables and a first ranking floating charge over all present and future assets. The likelihood of the guarantees being called upon is considered remote.

On 13 July 2021, as a result of Bellis Noncore 2 Limited repaying its secured term facility from the proceeds of the sale and leaseback transaction (described below), the Company was released from its fixed and floating charges that were provided as security for this loan.

On 13 August 2021, the Company granted first-priority security interests over their Material Real Property to secure the obligations of Bellis Acquisition Company PLC under the Senior Secured Notes issued, the Term Loan Facilities and Forecourt Bridge Facility borrowed and the Revolving Credit Facility made available. With the completion of this step, the Group has discharged the requirement to deliver post-closing collateral under the various financing arrangements established in connection with the acquisition of the Group by entities controlled by the Issa brothers and TDR Capital.

Security pledged over other freehold properties owned by the Company remains in place at the date of approval of the financial statements.

Initial Enforcement Order

On 20 April 2021, the Competition and Markets Authority ("CMA") published its Phase 1 decision on the Initial Enforcement Order ("IEO") which it previously issued under section 72(2) of the Enterprise Act 2002 on Mr Zuber Issa, Mr Mohsin Issa, TDR Capital LLP ("TDR"), TDR Capital III Holdings L.P., TDR Capital III Investments (2019) L.P., and ASDA Group Limited ("ASDA") in relation to the acquisition by Bellis Acquisition Company 3 Limited ("BAC3L") of ASDA. The decision stated that the CMA believed the transaction gave rise to a realistic prospect of a substantial lessening of competition in the retail supply of road fuel in 36 local areas; and in the retail supply of auto-LPG in one local area.

On 5 May 2021, the CMA announced that Mr Zuber Issa, Mr Mohsin Issa and TDR Capital LLP jointly offered undertakings to the CMA, which involve divesting 27 EG Group Limited petrol filling stations to address the CMA's competition concerns ("undertakings in lieu of reference").

On 16 June 2021, the CMA announced that it had accepted the undertakings in lieu of reference. The IEO put in place by the CMA at completion of the acquisition has been lifted as of 16 June 2021.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

26 Events since the balance sheet date (continued)

Cash pooling arrangement

On 15 June 2021, the ASDA Group entered into a Notional Cash Pooling Agreement. The cash pool is a cash management facility and is secured by means of a composite guarantee which allows the Company, the immediate parent company ASDA Group Limited and certain other wholly owned subsidiaries of ASDA Group Limited to borrow an amount no greater than the aggregate credit balances in the cash pooled accounts, up to a maximum of £100m, and the Company is party to this guarantee. An interest rate of 5% p.a. is applicable on any net aggregate debit balance incurred in the Cash Pool.

Borrowing facilities

On 16 February 2021, the Company entered into two Revolving Credit Facilities (RCF) totalling £690.0m with £190.0m maturing in February 2022 and £500.0m maturing in July 2025.

On 16 September 2021, the Directors agreed that the £190.0m facility was no longer required to meet the liquidity needs of the Group so effective from that date, the facility has been voluntarily cancelled.

Equal Value Claim

On 26 March 2021, the Supreme Court upheld the Court of Appeal's decision, that the work of hourly-paid workers in distribution centres and the work of hourly-paid workers in stores can be compared. See note 23 for further details.

ASDA Group Pension Scheme ("AGPS") buy-out

On 9 July 2021, the trustees of the ASDA Group Pension Scheme ("AGPS") completed a full buy-out of the Scheme with Rothesay Life PLC ("the buy-out"). Following this transaction, from the date of the buy-out, Rothesay Life PLC have become directly responsible for the Scheme liabilities[1] and as such, the Scheme assets and Scheme liabilities will be de-recognised in the Company balance sheet in the year ended 31 December 2021.

From the date of the buy-out, the outstanding balance on the buy-in loan will be accounted for as a financial asset in line with the requirements of IFRS 9. Any differences between the fair value of the buy-in loan and the pension asset at the date of the buy-in will be accounted for as a loss or gain within other comprehensive income or the Income Statement depending on their nature. The directors do not anticipate material amounts to be recognised in respect of these differences individually or in aggregate.

The buy-out is a non-adjusting post balance sheet event per the guidance set out in IAS 10 as the buy-out contract was executed after the balance sheet date.

1 Rothesay Life PLC will assume responsibility for all Scheme liabilities other than an immaterial proportion with an estimated value of approximately £1.0m. These amounts will continue to be accounted for as pension liabilities in line with the requirements of IAS 19.

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

26 Events since the balance sheet date (continued)

Sale and Leaseback

On 23 June 2021, the Company sold a number of its freehold properties with a net book value at 31 December 2020 of £250.4m to Bellis Select Warehouses Limited ("BSWL") - a fellow wholly-owned subsidiary of the ultimate parent company at that date, Bellis Holdco Limited - in exchange for an intercompany receivable from BSWL equivalent to the fair value of the properties at that date which is in excess of the net book value of the properties.

On 13 July 2021 these properties were subsequently sold to a third party. These properties have been leased back to the Company. The Directors anticipate that the sale of properties will result in a taxable gain on disposal but that this will be partially mitigated by utilisation of previously unrecognised capital losses.

Furthermore, certain properties - which at the Balance Sheet date were owned by fellow wholly owned subsidiary undertakings of the Group and leased to the Company - were sold to BSWL on 23 June 2021. On 13 July 2021, BSWL sold these properties to a third party and the Company continues to lease these properties from that third party. The right of use assets and lease liabilities relating to these properties have been adjusted to reflect the amended terms of the leases at that date.

This is a non-adjusting post balance sheet event as the conditions relating to the asset sale and subsequent lease back were not in place at the balance sheet date and therefore there is no impact on the carrying value of the Company's assets at the balance sheet date.