

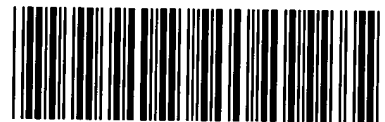
Registration number: 1396513

ASDA Group Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2020

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Company Information

Directors	R Burnley A Hemmerdinger D Lawlor R McWilliam A Murray (resigned 31 March 2020) A Shaw (appointed 20 January 2020 and resigned 4 December 2020) M Simpson (appointed 20 January 2020) H Tatum
Company secretary	H Selby (appointed 6 April 2020) P Titchmarsh (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 Group Limited ("the Company") is an intermediate holding company. The principal activities of ASDA Group Limited and its subsidiaries (together referred to as "ASDA" or "the Group") are the retailing of food, clothing, general merchandise products, fuel and services throughout the United Kingdom and online.

Change in ownership

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 Group's assets and liabilities at 31 December 2020.

Operational headlines and strategic priorities

Sales and operating profit

During the year, adjusted like-for-like sales growth (excluding fuel)¹ was 3.5%.

Revenue excluding fuel increased by 3.6% during the year to £20,313.1m (2019: £19,611.0m) driven by an increase in grocery sales offset by decreases in clothing and general merchandise. Revenue including fuel decreased by 0.6% to £22,759.7m (2019: £22,899.2m) due to a reduction in fuel sales.

Operating profit of £486.5m (2019: £584.2m) has decreased 16.7% 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 £63.0m which was incurred in the prior year (see note 3 for further detail).

In March 2020, as part of a number of measures to support businesses during the COVID-19 pandemic, the UK government, the Scottish government and the devolved administrations for Wales and Northern Ireland announced full relief for rates charges applicable to certain eligible commercial properties for the rates year beginning in April 2020. During the year, the Group announced that it would voluntarily repay the relief originally given and the full cost of this for the period from 1 April 2020 to 31 December 2020 amounting to £251.6m has been recognised within the Income Statement. Without this voluntary repayment decision operating profit for the year would have been £738.1m.

Profit before tax decreased to £469.2m (2019: £556.6m) in line with the reduction in operating profit noted above. Financial costs for the year are £67.0m (2019: £82.4m), this is due to a reduction in the net interest cost on the pension scheme due to the buy-in that took place in October 2019, see note 17.

Profit after tax for the year was £368.8m (2019: £487.0m). The tax charge for the year was £100.4m (2019: £69.6m), this increase is due to a reduction in group relief received from a fellow wholly owned subsidiary.

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

EBITDA

EBITDA¹ of £1,075.4m (2019: £1,183.5m) has decreased 9.1% in the year due to the decrease in operating profit as described above. Without voluntary business rates repayment EBITDA would have been £1,327.0m representing an increase of 12.1% year-on-year.

Cashflow

An overall net improvement in the net cashflow of £295.0m (2020: £691.8m net outflow, 2019: £986.8m net outflow) was driven by the following:

Increase in net cash inflows from operating activities of £1,415.4m (2020: £1,376.7m inflow, 2019: £38.7m outflow) - driven primarily by:

- £791.3m decrease in pension contributions following the October 2019 buy-in relating to the ASDA Group Pension Scheme;
- £734.9m impact due to an inflow in trade and other payables driven by an additional weekly supplier payment run in the prior year and an accrual for repayment of business rates relief in the current year; partially offset by,
- £118.2m decrease in profit after tax (see detail above).

Decrease in net cash outflow from investing activities of £516.4m (2020: £97.8m outflow, 2019: £614.2m outflow) - driven by the 2019 buy-in of the ASDA Group Pension Scheme ("the Scheme"). The Scheme made repayments to the Group during the year relating to the buy-in loan which was advanced to the Scheme in the prior year. (£559.2m impact (2020: £251.0m inflow, 2019: £308.2m outflow)).

Increase in outflow attributable to financing activities of £1,636.8m (2020: £1,970.7m outflow, 2019: £333.9m outflow) - driven primarily by cash dividends paid during the year to the Group's immediate parent company totalling £1,650.0m (2019: £nil).

Capital expenditure

Capital Expenditure¹ of £398.4m (2019: £378.3m) has increased 5.3% in the year with a continued focus on store refresh and asset replacement programmes, and on the acceleration of strategic change programmes, as well as increasing online fulfilment capacity.

Balance Sheet

Net assets of £7,253.0m (2019: £9,884.1m) have decreased in the year due to dividends paid in the year offset by profit after tax of £368.8m. Total dividends of £2,919.5m were paid during the year (2019: £nil). £1,650.0m was paid in cash and the Group declared a dividend in specie of £1,269.5m settled by a distribution of an intercompany receivable balance from Wal-Mart Stores (UK) Limited as described in note 21.

Intercompany receivables of £14.3m (2019: £3,833.6m) have decreased due to the dividend in specie of £1,269.5m as described above. Following that distribution, the remainder of the outstanding receivable balance from Wal-Mart Stores (UK) Limited was used as consideration to part settle the Group's liability to ASDA Holdings UK Limited.

Intercompany payables of £417.1m (2019: £3,099.3m) have decreased due to part settlement of the Group's liability to ASDA Holdings UK Limited as described above.

¹ Adjusted like-for-like sales growth (excluding fuel), like-for-like sales growth (excluding fuel), EBITDA and Capital Expenditure are non-IFRS financial measures, see "non-IFRS financial measures" on pages 19-20 for a definition of each of these. During the year, like-for-like sales growth (excluding fuel) was 3.8%.

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

KPI's

	Year ended 31 December 2020	Year ended 31 December 2019
<i>Unaudited</i>		
<i>(£millions, unless otherwise indicated)</i>		
Adjusted like-for-like sales growth (excluding fuel) (%) ⁽¹⁾	3.5	(0.7)
Total Revenue excluding fuel ⁽²⁾	20,313.1	19,611.0
Total Revenue including fuel	22,759.7	22,899.2
EBITDA ⁽¹⁾⁽³⁾	1,075.4	1,183.5
EBITDA margin (%)	4.7	5.2
Capital Expenditure ⁽¹⁾	398.4	378.3

Dividends

Total dividends of £2,919.5m were paid during the year (2019: £nil). £1,650.0m was paid in cash and the Group declared a dividend in specie of £1,269.5m settled by a distribution of an intercompany receivable balance. 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. For further detail see the Section 172 statement included within the Strategic Report.

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 27, 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 Group 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.

(1) Adjusted like-for-like sales growth (excluding fuel), like-for-like sales growth (excluding fuel), EBITDA and Capital Expenditure are non-IFRS financial measures, see "non-IFRS financial measures" on pages 19-20 for a definition of each of these. During the year, like-for-like sale growth (excluding fuel) was 3.8%.

(2) See note 2

(3) EBITDA includes a charge of £251.6m in 2020 for the repayment of business rates relief following the Group's decision to forgo this relief. Without the decision to forgo business rates relief EBITDA would have been £1,327.0m for the year ended 31 December 2020.

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

Amounts recharged by ultimate parent company

The Group incurred recharges during the year from the former ultimate parent company, Walmart Inc. relating 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 former ultimate parent company, Walmart Inc. and the accounting treatment of these share options is outlined in notes 1 and 17.

Post balance sheet events

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

Section 172 Statement

The following sections serve as our section 172 statement. Section 172 of the Companies Act 2006 recognises that whilst companies are run for the benefit of the 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 are fully aware of their responsibilities to promote the success of the Company in accordance with section 172 of the Companies Act 2006 and are keen to ensure proper reflection on stakeholder engagement and issues at Board level and promote continuous reflection on opportunities for development.

The Board regularly reviews the business's principal stakeholders and how we engage with them. The sections below set out a more detailed summary of the Group's relationships with its key stakeholders and how the business engages with those stakeholders.

During the year, the Board was comprised of the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief People Officer (CPO), Chief Operating Officer (COO), Chief Customer Officer (CCO), Chief Merchandising Officer (CMO) and a Chief Supply Chain Officer (CSCO).

In addition to a scheduled programme of monthly Board meetings, the Board and wider members of senior management meet weekly, during which feedback from various business areas, with particular focus on specific stakeholder groups, is fed back to the wider Board.

The outcome of stakeholder engagement generally, as fed back to the Board via the channels referred to above and below, influences the formulation and ongoing review of the long-term strategy and financial planning to ensure that our 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 - former ultimate parent company Walmart Inc. ("Walmart")

During the year, 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 with the Board, including detailed corporate governance sign-off procedures. In addition, both R Burnley (CEO) and R McWilliam (CFO) had direct reporting lines into Walmart. For details of the change in ownership after the Balance Sheet date see note 27.

Why?

During the year, our ultimate parent, Walmart, was ASDA's sole provider of investor capital. Their investment has enabled ASDA to fund growth where customers care and deliver long-term success.

As a wholly-owned subsidiary, Walmart required ASDA to deliver a return on their investment

As part of ensuring compliance with key legal, ethical and financial regulations, ASDA engaged directly with Walmart on these matters.

Compliance with Walmart risk management policies has enabled ASDA to safeguard the Company and promote its long-term sustainability. This includes the capital management policy which required the monitoring of cash levels and timing of funds available. This has ensured that ASDA has been able to meet day to day obligations as they fall due.

How we engage and key outcomes

We engaged with Walmart on significant capital projects where their approval was required over certain amounts. Principal investments during the year related to replacement of essential assets and refreshing the store estate.

Strategic plans and associated financial targets were discussed and signed off by both Walmart and the Directors. Following this there was regular communication between Walmart and the Directors of ASDA regarding performance against these financial targets.

During the year, certain functions in ASDA - including 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 regulations applied in ASDA. These include testing the design and operation of financial controls within the Sarbanes-Oxley financial control framework; testing and reporting on compliance with anti-bribery controls under the Foreign Corrupt Practices Act ("FCPA"); and reporting on any breaches of Walmart's Ethics guidance. Walmart also had formal oversight of these processes and played a role in ensuring that improvements were implemented where required.

Our enterprise risk management process is comprised of 12 functional risk groups, each with an individual risk register. There are also functional Boards responsible for owning and managing their risks. On a bi-annual basis the enterprise risk register is reviewed by the Board.

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

Employees

The CPO oversees colleague engagement. The CPO also chairs working group meetings of members of management dedicated to employee matters and ensuring that the results of the employee engagement mechanisms referred to below are provided to the Board. Both the CPO and the COO (noting that the Group'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 in the Boardroom. 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?

Our employees reflect the communities ASDA serves, which helps us to engage with our customers.

We believe in creating an inclusive culture that supports colleagues to thrive and reach their full potential.

How we engage and key outcomes

ASDA is committed to building an inclusive culture that enables all colleagues to bring their best and true selves to work every day. Our 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. We use Our Inclusion Network to help inform our key focusses and implement improvements that support colleagues to thrive and reach their full potential. Our Inclusion Working Groups are teams made up of six nominated colleagues from across the ASDA who each represent one of the core strands of diversity. The groups partner teams across our home offices on selected projects to act as an advisory board to make sure inclusivity is at the heart of what we do. Our commitment to creating an inclusive environment that reflects the communities we serve allows ASDA to attract, recruit and retain high calibre colleagues that represent our core values and the communities that ASDA serve.

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 business meets regularly with our elected bodies and trade unions to discuss business performance, proposed changes and proposed future initiatives. Meetings between trade union representatives and representatives of the Group, nominated by the Board, meet on a minimum of a quarterly basis. During collective consultation on proposed changes, meetings are held weekly. All meetings are chaired by a senior leader from ASDA, facilitated by the Labour Relations team. Information is fed directly back to the senior management both following scheduled quarterly meetings and, as required, on a more frequent and ad hoc basis.

Why?

We engage 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 Group.

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 Group.

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 Group 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 Group 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 CMO engages directly with key suppliers and together with the CSCO, brings suppliers' views into the Boardroom. The CMO's team includes people dedicated to supplier engagement and ensuring that the outcome of such engagement is fed back to the Board. 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?

We aim to maintain trust and engagement with our supplier base. We have clear communication channels to ensure our suppliers' views are heard.

We work with our suppliers to develop new and innovative products that appeal to the changing demands of our customers.

How we engage and key outcomes

ASDA is subject to the requirements of the Grocery Supplier Code of Practice ("GSCOP") and has formal policies in place around areas such as supplier payment, supplier queries and supplier income, which are in line with the guidance in GSCOP. Senior leadership, within the Trading function, also host and attend supplier conferences to ensure we continue to understand our suppliers' needs. ASDA agrees joint business plans with our suppliers each year and business plans with key suppliers are signed off by the Board.

During the year we have continued to work with our suppliers in order to reduce the amount of plastic we use within our packaging. The Sustain and Save exchange enables us to work with suppliers to help them understand how they can be more environmentally efficient in their operations. Furthermore, we have opened a new sustainability store in Middleton and partnered with a number of suppliers to help our customers reduce, reuse and recycle with ease. This is an area generating an increased level of interest among many of our stakeholders.

Customers

Through internal reporting lines the outcomes of customer engagement are fed back to the CCO who is responsible for customer matters. Accordingly, the CCO ensures that our customers' viewpoints are considered when making decisions in the Boardroom.

Why?

ASDA's mission is to be the most trusted retailer, and this is supported by our purpose to save customers money so they can live better. To deliver this, we need to understand the products where price is most critical to our customers.

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

How we engage and key outcomes

ASDA monitors external data on the prices of key product lines and sets category-specific targets for relative pricing against key competitors. This helps us to make targeted price investment decisions which best meet the needs of our customers.

ASDA provides customers with the opportunity to provide feedback on product quality. This is then disseminated amongst the Directors at Board meetings but is also discussed amongst senior colleagues at the monthly leaders' meeting and the Performance Board, which is attended by the Board and other members of senior management of the business.

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 ASDA'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?

ASDA 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.

How we engage and key outcomes

Annual communications to members of the AGPS are circulated by the ASDA Pensions team which 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 Board chair the "Giving Committee" meetings which are attended by senior leaders from relevant areas of the business. The "Giving Committee" operates under clearly documented terms of reference defining its scope of authority and regularly meets and reports back to the wider Board (at least monthly) to ensure that the Directors 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?

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

How we engage and key outcomes

The Community team, overseen by the Directors, working with our Community Champions in our stores and depots, promote and co-ordinate fundraising for nominated national and local charities. By identifying local causes and charities this allows ASDA to have a meaningful impact on the communities which we are a part of. Fundraising by ASDA'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 Board is aware of the need for environmental responsibility and the impact that ASDA can have on the environment. The Directors have promoted the continued acceleration of innovation and focus on sustainability.

Why?

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

How we engage and key outcomes

We have continued to reduce our carbon footprint through initiatives on energy use and fuel consumption and are accelerating our commitment to reduce use of single-use plastics in our supply chain. Please see the Streamlined Energy & Carbon Reporting section for further detail.

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

Key Principal Decisions

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 announced several initiatives to reduce the impact of the virus on our colleagues, customers and the general public.

Colleagues

In March 2020, the Board 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 Board 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 Group's supply chain, the Group 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 Group 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 Group in retail units adjacent to our stores. These measures reduced the adverse impact of the pandemic on stakeholders within ASDA supply chain and provided the wider economic benefits of helping those businesses to keep operating.

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

Customers

ASDA 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 ASDA stores to support social distancing measures and reduce contact time with others. ASDA 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. ASDA 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.

Community

The Board 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 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.

ASDA 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.

ASDA also donated a significant number of face masks to care homes in addition to offering priority delivery slots to both care homes and nurseries.

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

Dividends

In October 2019, the Group completed the buy-in of the ASDA Group Pension Scheme 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 Group's cashflows. As a result, this allowed the Group more flexibility with excess cash which had been generated through operations.

On 5 March 2020, the Board approved a cash dividend of £1,150.0m to ASDA Holdings UK 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 Group's investors, Walmart, and represents a return on their investment in ASDA.

On 21 December 2020, the Board approved dividends totalling £1,769.5m, including a dividend in specie of an intercompany receivable balance of £1,269.5m owed by ASDA Holdings UK Limited's immediate parent (Wal-Mart Stores (UK) Limited) and cash of £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 and intercompany receivables were required to be paid to the parent company. Prior to approving all dividends, the Board considered a severe but plausible cashflow forecast downside scenario and were satisfied that the Group would continue to meet liabilities as they fall due.

Future strategic intention

Our primary strategy is designed to "win on price" by narrowing our price gap with discounters while providing good value and maintaining our price leadership position against our 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 our appeal to customers. We serve our customers with our team of flexible and engaged colleagues, while increasing the number of self-serve opportunities and transforming the in-store experience. We focus our growth where customers care, expanding our 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, ASDA 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.

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

Principal risks and uncertainties (continued)

- **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 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.

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

Principal risks and uncertainties (continued)

- **Financial risk**

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

During the year, a key source of funding was through intercompany loans which could change from time to time. As detailed in note 27, 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 Group 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 Group 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 controls 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 Group has supplier audit procedures to monitor adherence to required standards as well as established policies on sourcing.

As a result of business critical sole goods not for resale 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 and the Streamlined Energy and Carbon Reporting section of the Directors’ Report for further detail.

- **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 an new IT infrastructure independent from Walmart.

Following the sale of its interest in the ordinary share capital of the Group, as described in note 27, 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.

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

Non-IFRS financial measures

In the reporting of financial information, the Group presents certain financial measures that are not required by or presented in accordance with IFRS (the "Non-IFRS Measures"). The Non-IFRS Measures included do not alone provide a sufficient basis to compare the Group's performance with that of other companies and should not be considered in isolation or as a substitute for an equivalent IFRS measure (if applicable) or any other generally accepted measure as an indicator of operating performance or liquidity. Such non-IFRS financial information is unaudited.

The primary Non-IFRS Measures are defined as follows:

EBITDA

EBITDA is calculated by adding back to the Group's profit for the period income tax expense, finance income, finance costs and amortisation and depreciation.

EBITDA Margin

EBITDA Margin means the Group's EBITDA as a percentage of total revenue for the relevant period.

The Group believes that EBITDA provides useful information about its results of operations for the following reasons: (a) it is among the measures used by the Group's Board of Directors and management to evaluate the ASDA Group's underlying operating performance, review business trends, identify strategies to improve results and make day-to-day operating decisions, and (b) it allows a comparison of the Group's results across periods and results across companies in the industry in which the ASDA Group operates on a consistent basis, by removing the effects on the ASDA Group's operating performance of its capital structure (such as the varying levels of interest expense), asset base and capital investment cycle (such as depreciation and amortisation) and items largely outside the control of management (such as income taxes).

Like-for-like sales growth (excluding fuel)

Like-for-like sales growth (excluding fuel) is a measure of annual growth of sales (excluding VAT) calculated as comparable current year sales minus prior year sales for the current year comparable sales divided by prior year sales for the current year comparable sales. Current year comparable sales includes all revenue except fuel sales, sales generated from stores in the first twelve complete calendar months following grand opening, sales generated from stores that have permanently closed, sales generated from stores that have been temporarily closed for more than two consecutive complete calendar months within the previous twelve full calendar months, financial services commissions, toyon sales and George international franchise sales. This is a commonly used measure to aid comparability of sales performance with other retailers.

Adjusted like-for-like sales growth (excluding fuel)

Adjusted like-for-like sales growth (excluding fuel) is as per the like-for-like sales growth (excluding fuel) definition above but has been adjusted to remove an additional day of trading due to the leap year. The adjustment of one day of trading represents the average daily trading performance across the year.

Capital expenditure

Capital expenditure is defined as the total cost of assets classified as property, plant and equipment and intangible assets that the Group takes ownership of within a financial period (as opposed to the IFRS measurement of capital expenditure, which is based on cash flows).

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

Reconciliation of Non-IFRS financial measures

We present a reconciliation of EBITDA to the most directly comparable measure calculated and presented in accordance with IFRS and discuss its limitations. The table below sets out this measure for the Group for the years ended 31 December 2019 and 2020. Unless noted otherwise below, this data is not derived from the Financial Statements, includes Non-IFRS Measures and is unaudited.

	Year ended 31 December 2020	Year ended 31 December 2019
<i>Unaudited - (£ millions, unless otherwise indicated)</i>		
EBITDA ⁽¹⁾⁽²⁾⁽³⁾	1,075.4	1,183.5
EBITDA margin (%)	4.7	5.2
Capital Expenditure ⁽¹⁾	398.4	378.3

(1) EBITDA and Capital Expenditure are not measures of ASDA's financial performance under IFRS.

(2) EBITDA includes a charge of £251.6m in 2020 for the repayment of business rates relief following the Group's decision to forgo this relief. Without the decision to forgo this business rates relief EBITDA would have been £1,327.0m for the year ended 31 December 2020.

(3) The following table sets forth EBITDA for the periods indicated, as well as a reconciliation to profit for the period.

	Year ended 31 December 2020	Year ended 31 December 2019
<i>Unaudited - (£ millions, unless otherwise indicated)</i>		
Profit for the year	368.8	487.0
Income tax expense	100.4	69.6
Bank interest receivable	(3.0)	(16.4)
Interest receivable on amounts owed by group undertakings	(46.6)	(38.4)
External interest payable	0.9	-
Finance lease interest	66.5	66.9
Interest capitalised	(0.4)	-
Net interest (income)/cost on pension scheme	(0.1)	15.5
Amortisation of intangible assets	46.8	42.4
Depreciation - owned assets	388.7	401.2
Depreciation - assets held under finance leases	153.4	155.7
EBITDA ^(A)	1,075.4	1,183.5

(A) EBITDA includes a charge of £251.6m in 2020 for the repayment of business rates relief following the Group's decision to repay this relief. Without this voluntary repayment decision EBITDA would have been £1,327.0m for the year ended 31 December 2020.

Approved by the Board on 17 May 2021 and signed on its behalf by:



R McWilliam
Director

Directors' Report for the Year Ended 31 December 2020

The Directors present their Report and the Consolidated Financial Statements for the year ended 31 December 2020.

Directors

The Directors, who held office during the year, were as follows:

R Burnley
A Hemmerdinger
D Lawlor
R McWilliam
A Murray (resigned 31 March 2020)
A Shaw (appointed 20 January 2020 and resigned 4 December 2020)
M Simpson (appointed 20 January 2020)
H Tatum

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 the going concern basis as the Directors have determined that the Group 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.

In assessing the Group's ability to adopt the going concern basis, the Directors have tested 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 our 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 (see Note 27). For the going concern period under review, the Directors 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 have been considered such as reducing non-essential capex and discretionary spend.

The 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 consider that such a significant deterioration of cashflows is implausible.

At the date of approval of the accounts, the Directors are satisfied that in the event of the severe but plausible downside scenario occurring, the Group would meet its liabilities as they fall due.

Dividends

Total dividends of £2,919.5m were declared and paid during the year (2019: £nil). £1,650.0m was paid in cash and the Group declared a dividend in specie of £1,269.5m settled by a distribution of an intercompany receivable balance. 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. For further detail see the Section 172 statement included within the Strategic Report.

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

Financial instruments

ASDA's financial risk and management objectives are detailed in the Strategic Report and policies are further discussed in notes 1 and 16.

Political donations

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 Group, 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 Group also contributed £3.5m to The ASDA Foundation, an affiliate charity of the Group (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 Group's affiliate charity, The ASDA Foundation totalled £4.5m (2019: £4.8m). The Group 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.

Streamlined Energy and Carbon Reporting

Greenhouse gas emissions

The Group has a commitment to reducing its Scope 1 and 2 emissions by 50% by 2025 (compared to a 2015 baseline), developing measurement of non-direct scope 3 emissions by 2025, and aims to have an end-to-end net zero carbon emissions business by 2040.

In accordance with the requirements of the Streamlined Energy and Carbon Reporting (SECR) regulation, the Group has reported its greenhouse gas (GHG) emissions for the first time for the year ended 31 December 2020.

The entire UK operations have been included within the scope of this reporting, including all offices, retail stores, depots and distribution centres. Also included within the boundary is International Procurement & Logistics (IPL), a subsidiary of ASDA providing sustainable supply chain solutions, and its subsidiaries Forza Foods Limited and Kober Limited.

The methodology used is the WBCSD/WRI Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition) in conjunction with UK Government environmental reporting guidelines including SECR guidance. An operational control approach has been taken. We have used the UK Government's Greenhouse Gas Reporting: Conversion Factors 2020 to calculate the Group's greenhouse gas emissions. Scope 2 emissions from purchased electricity have been measured using a location-based approach.

Scope 3 emissions includes emissions from business travel in rental cars and employee-owned vehicles. Other scope 3 emissions such as waste disposal and indirect emissions generated from transport provided by third parties are excluded.

Emissions Source	31 December 2020
<i>Energy usage to calculate emissions</i>	
Electricity (Location)	1,118,585,995
Direct Combustion	453,785,847
Fleet Vehicles	631,744,831
Business Travel	3,955,651
Total kWh*	2,208,072,324
<i>Greenhouse gas emissions</i>	
Direct Combustion (Scope 1)	83,653
Fugitive Emissions (Scope 1)*	63,301
Fleet vehicles (Scope 1)	150,116
Electricity (Location) (Scope 2)	258,201
Business Travel (Scope 3)	1,135
Total tCO₂e	556,406
Intensity ratio (tCO₂e/£million in sales)	24.45

*1 Fugitive gases used in the year of 34,338kg are excluded from kWh energy usage displayed above.

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

Energy Efficiency Actions

As part of the commitment to reduce the Group's Scope 1 and 2 emissions by 50% by 2025 ASDA has an energy strategy which focuses on three core areas:

1. Reduce energy intensity: Lower energy consumption and decrease the cost to sell;
2. Buy renewables: Lessen the impact of rising costs and reduce our reliance on fossil fuels; and,
3. Control the most efficient stores: Control energy efficiency and carbon reduction.

ASDA's energy governance group meets regularly to drive momentum towards our strategy and targets. For example, the group has agreed a plan to identify the best and most cost-effective ways to purchase electricity, including through Power Purchase Agreements and potential on-site generation activities (such as solar PV panels).

Refrigerant gases account for approximately 20% of our scope 1 emissions and the group has been switching to lower emission refrigerants and has invested in smart fridge technology which enables us to remotely fix issues reducing engineer visits to stores meaning fewer journeys on the road. Chilled and frozen food displays have been transformed by installing more energy and carbon-friendly technology to improve efficiency and the group has developed the world's first cost effective, low carbon refrigeration technology, which we will begin to roll out in 2022.

The Group's energy usage continues to be controlled and monitored 24 hours a day, seven days a week by a central energy centre utilising an automated monitoring and targeting platform to support the optimisation of energy use across the estate. Shop floor lighting has been converted to LED and is now remotely controlled by the energy centre resulting in more efficient lighting and reductions in wasted energy. The journey to convert lighting across our depots and distribution centres will continue in 2021. The rollout of in-store IoT networks allows more equipment to be centrally controlled enabling the optimisation of a greater percentage of store energy use.

From a transport perspective, the Group continues to operate one of the largest double-deck fleet in the UK allowing the movement of more products on single journeys to reduce trips, mileage and emissions. In the year, the Group has been trialling lighter weight home delivery vehicles, designed to drive down fuel usage and in preparation for the future move to heavier battery-powered vehicles. The Group has also accelerated the use of alternative fuels and now operates the largest gas-powered fleet in the UK. Our ambition is to have a fully gas-run HGV fleet in place by 2024.

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

Events since the Balance Sheet date

Change in ownership

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 Group's assets and liabilities at 31 December 2020.

During the year, £1,269.5m of the intercompany receivable due from Wal-Mart Stores (UK) Limited was distributed as a dividend in specie as described in note 21. The dividend was 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 and intercompany receivables were required to be paid to the parent company.

Following that distribution, the remainder of the outstanding balance on the Wal-Mart Stores (UK) Limited receivable was used as consideration to part settle the Group's intercompany liability to ASDA Holdings UK Limited. The Group's remaining liability to ASDA Holdings UK Limited along with other intercompany payables owed to WMT Netto S.a.r.l, Walmart EMEA Limited and Global George Limited, of £277.1m, £127.5m, £0.3m and £4.2m respectively and a receivable balance owed to the Group by Global George Limited of £5.8m, were settled in full on 16 February 2021, see note 25 for further detail.

Following the sale of its interest in the ordinary share capital of the Group, 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 Group 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 Group's share-based payment liabilities have not been adjusted as a result of this as the change in ownership of the Group'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 per guidance set out in IAS 10. All share based 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 Group 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 Group's assets and liabilities at the balance sheet date.

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

Security pledged over the Group's assets

On 16 February 2021, the Group 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 Group also pledged certain assets as security for the indebtedness of parent undertakings in the form of a first fixed charge over certain freehold properties, material bank accounts, intercompany receivables, the shares owned by the Company in ASDA Stores Limited, and a first ranking floating charge over all present and future assets of ASDA Group Limited and ASDA Stores Limited.

Part of the security pledged is in relation to one of the Group's existing supply chain finance agreements in the form of fixed and floating charges over certain of the Group's assets. There were no other changes to the terms of this supply chain finance agreement which impact on the nature of amounts owed to the bank under this arrangement. Given consideration of this and the other factors set out in note 1, the Directors have concluded that the substance of the Group's liabilities under this supply chain financing agreement remain consistent overall with that of a trade payable and accordingly will continue to be accounted for and classified as trade payables.

The likelihood of the guarantees being called upon is considered remote.

The total value of facilities over which security has been pledged by the Group is £5,883.0m. This includes £1,700.0m of short-term bridge loans.

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 ("the Company") in relation to the acquisition by Bellis Acquisition Company 3 Limited ("BAC3L") of the Company. The decision states that the CMA believes the transaction gives 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. These undertakings are currently under review by the CMA. The CMA considers that there are reasonable grounds for believing that the undertakings offered jointly by Mr Zuber Issa, Mr Mohsin Issa and TDR Capital LLP, or a modified version of them, might be accepted by the CMA under the Enterprise Act 2002. The IEO restrictions on the extent to which BAC3L, Mr Zuber Issa, Mr Mohsin Issa and TDR are able to participate in the governance of the Company remain in place at the date of approval of the financial statements.

Borrowing facilities

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

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 24 for further details.

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

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. However, a proportion of this insurance was paid by the Group.

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

Disclosure of information to the auditor

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 17 May 2021 and signed on its behalf by:



R McWilliam
Director

Statement of Directors' Responsibilities

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom 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 Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 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 Group and the company and of the profit or loss of the Group and the company for that period.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs (and in respect of the parent company financial statements, FRS 101) is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and company financial position and financial performance;
- in respect of the Group financial statements, state whether international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- in respect of the parent company financial statements, state whether applicable UK Accounting Standards, including FRS 101, have 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 appropriate to presume that the Company and/or the Group will not continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Company and the Group financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and parent company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and Directors' Report, that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Statement of Directors' Responsibilities (continued)

Directors' responsibility statement

The Directors confirm, to the best of their knowledge:

- that the consolidated financial statements, prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the parent company and undertakings included in the consolidation taken as a whole;
- that the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the Company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- that they consider the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

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

Opinion

We have audited the financial statements of ASDA Group Limited ('the parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2020 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated and parent company Balance Sheet, Consolidated and parent company Statement of Changes in Equity, Consolidated Statement of Cashflows and the related notes 1 to 27 and notes 1 to 13 for the parent company, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice). In our opinion:

- the financial statements give a true and fair view of the Group's and of the parent company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements 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. We are independent of the Group 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.

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 Group and parent company's ability to continue as a going concern for the 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 Group's ability to continue as a going concern.

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

Other information

The other information comprises the information included in the annual report set out on pages 2-27, 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.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 28, 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 Group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (International Accounting Standards in conformity with the requirements of the Companies Act 2006 for the group and United Kingdom Generally Accepted Accounting Practice for the parent) 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 Group Limited is complying with those frameworks by making enquiries of Group management, Group Legal, Group Ethics & Compliance, and Internal Audit. We corroborated our enquiries through our review of board minutes and papers and inspection of commentary in the group management accounts.
- We assessed the susceptibility of the Group'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 Group 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 consolidation journals, and journals indicating large or unusual transactions based on our understanding of the business; enquiries of Group management, Group Legal, Group Ethics & Compliance, and Internal Audit. In addition, we completed procedures to conclude on the compliance of the disclosures in the Group 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.

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

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: 18 May 2021

Consolidated Income Statement for the Year Ended 31 December 2020

	Note	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Revenue	2	22,759.7	22,899.2
Operating costs	3	<u>(22,273.2)</u>	<u>(22,315.0)</u>
Operating profit		486.5	584.2
Finance income	7	49.7	54.8
Finance costs	7	<u>(67.0)</u>	<u>(82.4)</u>
Profit on ordinary activities before tax		469.2	556.6
Income tax expense	8	<u>(100.4)</u>	<u>(69.6)</u>
Profit for the year		<u>368.8</u>	<u>487.0</u>

The above results were derived from continuing operations.

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2020

	Note	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Profit for the year		<u>368.8</u>	<u>487.0</u>
Items that will not be reclassified subsequently to profit or loss			
Total remeasurements on defined benefit obligation	17	(348.2)	(549.5)
Increase in value of plan assets excluding interest income	17	252.8	578.9
Impact of buy-in loss	17	-	(1,175.8)
Changes in onerous liability excluding interest expense	17	-	1,051.9
Tax credit on items recognised directly in other comprehensive income	8	28.8	22.2
		<u>(66.6)</u>	<u>(72.3)</u>
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges:			
Reclassification during the year to Income Statement		15.2	(38.0)
Net loss during the year on not-yet-matured contracts		(32.5)	(12.9)
Tax on cash flow hedges recognised directly in other comprehensive income	8	3.5	9.5
		<u>(13.8)</u>	<u>(41.4)</u>
Other comprehensive loss for the year		<u>(80.4)</u>	<u>(113.7)</u>
Total comprehensive income for the year		<u><u>288.4</u></u>	<u><u>373.3</u></u>

Consolidated Balance Sheet as at 31 December 2020

Registration number: 1396513

	Note	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Assets			
Non-current assets			
Deferred tax assets	8	-	40.6
Property, plant and equipment	9	8,441.6	8,509.3
Right-of-use assets	10	2,196.0	2,234.7
Intangible assets	11	675.0	636.0
Pension asset	17	63.4	314.3
Investments		0.5	-
		<u>11,376.5</u>	<u>11,734.9</u>
Current assets			
Assets held for sale	9	8.6	9.6
Inventories	12	1,054.9	1,140.9
Trade and other receivables	13	131.9	145.3
Intercompany receivables	13	14.3	3,833.6
Cash and cash equivalents	14	1,237.5	1,929.3
Income tax asset		60.9	10.2
		<u>2,508.1</u>	<u>7,068.9</u>
Total assets		<u>13,884.6</u>	<u>18,803.8</u>
Equity and liabilities			
Equity			
Share capital	19	-	-
Share premium	19	-	-
Other reserves	20	441.1	441.1
Cash flow hedge reserve	20	(25.6)	(11.8)
Retained earnings	20	6,837.5	9,454.8
Equity attributable to owners of the Company		<u>7,253.0</u>	<u>9,884.1</u>
Non-current liabilities			
Deferred tax liabilities	8	7.5	-
Lease liabilities	16	2,070.7	2,077.0
Employee benefits	17	50.5	59.5
Provisions	18	162.4	151.2
		<u>2,291.1</u>	<u>2,287.7</u>
Current liabilities			
Trade and other payables	15	3,686.9	3,311.0
Intercompany payables	15	417.1	3,099.3
Lease liabilities	16	119.0	116.7
Employee benefits	17	94.5	77.2
Provisions	18	23.0	27.8
		<u>4,340.5</u>	<u>6,632.0</u>
Total liabilities		<u>6,631.6</u>	<u>8,919.7</u>
Total equity and liabilities		<u>13,884.6</u>	<u>18,803.8</u>

Approved by the Board on 17 May 2021 and signed on its behalf by:

R. McWilliam

R McWilliam
Director

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

	Note	Share capital £ m	Share premium £ m	Cash flow hedging reserve £ m	Other reserves £ m	Retained earnings £ m	Total equity £ m
At 1 January 2019		-	-	29.6	441.1	9,040.1	9,510.8
Profit for the year	20	-	-	-	-	487.0	487.0
Cash flow hedges - reclassified during year to Income Statement	20	-	-	(38.0)	-	-	(38.0)
Cash flow hedges - net loss during year on not-yet matured contracts	20	-	-	(12.9)	-	-	(12.9)
Tax on cash flow hedges recognised directly in other comprehensive income	8	-	-	9.5	-	-	9.5
Total remeasurement on defined benefit obligation	17	-	-	-	-	(549.5)	(549.5)
Increase in value of plan assets excluding interest income	17	-	-	-	-	578.9	578.9
Changes in asset ceiling/onerous liability (excluding interest expense)	17	-	-	-	-	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		-	-	(41.4)	-	414.7	373.3
At 31 December 2019		-	-	(11.8)	441.1	9,454.8	9,884.1
Profit for the year	20	-	-	-	-	368.8	368.8
Cash flow hedges - reclassified during year to Income Statement	20	-	-	15.2	-	-	15.2
Cash flow hedges - net loss during year on not-yet-matured contracts	20	-	-	(32.5)	-	-	(32.5)
Tax on cash flow hedges recognised directly in other comprehensive income	8	-	-	3.5	-	-	3.5
Total remeasurements on defined benefit obligation	17	-	-	-	-	(348.2)	(348.2)
Increase in value of plan assets excluding interest income	17	-	-	-	-	252.8	252.8
Tax on net actuarial losses recognised directly in other comprehensive income	8	-	-	-	-	28.8	28.8
Total comprehensive income		-	-	(13.8)	-	302.2	288.4
Dividends paid	21	-	-	-	-	(2,919.5)	(2,919.5)
At 31 December 2020		-	-	(25.6)	441.1	6,837.5	7,253.0

Consolidated Statement of Cash Flows for the Year Ended 31 December 2020

	Note	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Cash flows from operating activities			
Profit for the year		368.8	487.0
Depreciation of property, plant and equipment	9	388.7	401.2
Depreciation of right-of-use assets	10	153.4	155.7
Amortisation of intangible assets	11	46.8	42.4
Impairment of property, plant and equipment	3	(0.8)	60.1
Impairment of right-of-use assets	10	2.5	2.9
Impairment of assets held for sale		1.0	-
Financial income	7	(49.7)	(54.8)
Financial costs	7	67.0	82.4
Loss on sale of property, plant and equipment	3	3.0	7.6
Loss on disposal of right-of-use assets	3	3.5	8.3
Tax on continuing operations	8	100.4	69.6
Pension contributions	17	(95.4)	(827.1)
Pension contributions (pre buy-in)	17	-	(59.6)
<i>Working capital adjustments</i>			
Decrease in trade and other receivables		10.3	84.0
Decrease in inventories		81.6	10.7
Increase/(decrease) in trade and other payables		349.9	(385.0)
Increase/(decrease) in provisions	18	6.4	(9.6)
Increase in share-based payment liability	17	8.3	16.1
Tax paid		(69.0)	(130.6)
Net cash flow from operating activities		<u>1,376.7</u>	<u>(38.7)</u>
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		4.8	9.8
Purchase of property, plant and equipment		(317.5)	(309.5)
Purchase of intangible assets	11	(85.8)	(61.1)
Buy-in loan advanced from Group to defined benefit pension scheme	17	-	(347.7)
Buy-in loan repayment	17	251.0	39.5
Interest received	7	49.7	54.8
Net cash flows from investing activities		<u>(97.8)</u>	<u>(614.2)</u>
Cash flows from financing activities			
Acquisition of non-controlling interest		(0.2)	-
External interest paid	7	(0.9)	-
Decrease/(increase) in intercompany receivables		2,549.8	(287.1)
(Decrease)/increase in intercompany payables	15	(2,682.2)	135.7
Interest payments relating to leases		(66.8)	(49.0)
Capital payments relating to leases		(120.4)	(133.5)
Dividends paid to parent	21	(1,650.0)	-
Net cash flows from financing activities		<u>(1,970.7)</u>	<u>(333.9)</u>
Net decrease in cash and cash equivalents		(691.8)	(986.8)
Cash and cash equivalents at 1 January		<u>1,929.3</u>	<u>2,916.1</u>
Cash and cash equivalents at 31 December	14	<u>1,237.5</u>	<u>1,929.3</u>

Notes to the Consolidated 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 1396513).

The address of its registered office is:

ASDA House
South Bank
Great Wilson Street
Leeds
LS11 5AD
UK

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as "the Group").

These financial statements were authorised for issue by the Board on 17 May 2021.

Statement of compliance

The Group financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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 financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The Group financial statements are presented in Sterling and all values are rounded to the nearest hundreds of thousands of pounds (£0.1m) except where otherwise stated.

As described in the Strategic Report, the main activities of the Group are the retailing of food, clothing, general merchandise products, fuel and services throughout the United Kingdom and online.

**Notes to the Consolidated 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 the going concern basis as the Directors have determined that the Group 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.

In assessing the Group's ability to adopt the going concern basis, the Directors have tested 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 our 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 (see Note 27). For the going concern period under review, the Directors 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 have been considered such as reducing non-essential capex and discretionary spend.

The 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 consider that such a significant deterioration of cashflows is implausible.

At the date of approval of the accounts, the Directors are satisfied that in the event of the severe but plausible downside scenario occurring, the Group would meet its liabilities as they fall due.

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 impact on the Group financial statements in future.

**Notes to the Consolidated 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 judgements, 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 Group applies judgement to whether an extension should be added to the non-cancellable lease term with reference to the following:

- 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 Group'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.

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.

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 Group reviews each arrangement against a number of characteristics to assess whether the substance of liabilities owed by the Group 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 Group 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 Group;
- Whether the banks require parent guarantees in respect of the Group's obligations;
- Whether the Group retains its rights to offset credits or withhold payment.

The nature of the Group's liabilities under supply chain financing arrangements when considering these characteristics supports classification of amounts owed by the Group under its supply chain financing arrangements as trade payables.

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

1 Accounting policies (continued)

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 prior year. As the Group 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, actuarial losses associated with the buy-in have been recognised in other comprehensive income, during the current and the prior year. Further detail is provided in note 17.

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 24).

Estimates

Insurance

The insurance provision (note 18) 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 Group 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 17.

Basis of consolidation

A subsidiary is an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

Intercompany transactions, balances and unrealised gains on transactions between the Company and its subsidiaries, which are related parties, are eliminated in full.

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

1 Accounting policies (continued)

Business combinations and goodwill

Business combinations are accounted for under IFRS 3 'Business Combinations' using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets is determined on a transaction-by-transaction basis. Acquisition costs incurred are expensed and included in operating costs. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. Identifiable intangible assets, meeting either the contractual-legal or separability criterion are recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition date fair value can be measured reliably.

If the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest is lower than the fair value of assets, liabilities and contingent liabilities and the fair value of any pre-existing interest held in the business acquired, the difference is recognised in the consolidated Income Statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit, or group of units, to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and not be larger than an operating segment before aggregation.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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

1 Accounting policies (continued)

Foreign currency

The presentational currency of the Group 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 the cashflow hedge reserve.

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.

The assets and liabilities of foreign operations are translated at the spot rate ruling at the Balance Sheet date. The income and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are recognised in other comprehensive income. They are released into the consolidated Income Statement upon disposal.

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 purchased goodwill of the Group and 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 Consolidated Financial Statements for the Year Ended 31 December 2020
(continued)**

1 Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is 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 that the assets are available for use.

All property, plant and equipment is 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
Leasehold improvements	Shorter of 20 - 50 years or the lease term
Plant, equipment, fixtures and fittings	3 - 20 years

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

1 Accounting policies (continued)

Impairment of non-financial assets

The carrying amounts of the Group'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 consolidated 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 first to reduce the carrying amount of any goodwill allocated to the CGU and second, to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

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

Assets held for sale

The Group 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 Consolidated Balance Sheet.

Provisions

A provision is recognised in the Balance Sheet when the Group has a present legal or constructive obligation as a result of a past event, 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.

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

1 Accounting policies (continued)

Leases

The Group as a lessee

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group 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 Group 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.

Lease liabilities are presented as separate current and non-current amounts in the Consolidated 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 Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

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

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

1 Accounting policies (continued)

Discount rate

When discounting payments to present value, the Group 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 Group 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 the lease includes an option to transfer ownership of the underlying asset, or the cost of the right-of-use asset reflects that the Group 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 Consolidated Balance Sheet.

The Group 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 of non-financial assets' policy above.

Non-lease components and variable rent expense

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group 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 Group does not have any rent payment terms linked to sales or other variable metrics.

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

1 Accounting policies (continued)

The Group as a lessor

The Group 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 Group 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 Group 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 Group currently has no leases classified as finance where it is the lessor.

Where the Group 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 Group 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 Group 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 Group 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 receivables and trade, other and intercompany payables. The Group's accounting policies relating to lease liabilities are described above.

Management determines the classification of its financial instruments at initial recognition.

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

Loans and receivables

The Group'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 bank loans and overdrafts are recorded initially at fair value plus directly attributable transaction costs. Subsequently, these liabilities are carried at amortised cost using the effective interest method. Gains or losses arising on repurchase, settlement or cancellation of liabilities are recognised respectively in finance income or finance cost.

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

1 Accounting policies (continued)

Offsetting of financial instruments

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

Fair values

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

Derivative financial instruments and hedging

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

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

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

All of the Group'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 would be recognised in the consolidated Income Statement. Amounts recognised in other comprehensive income are transferred to the Income Statement, within cost of inventories 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 the consolidated Income Statement. 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 inventories recognised as an expense.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments. Refer to note 16 for further details.

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

1 Accounting policies (continued)

Inventories

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

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

Taxation

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

Current tax is the expected tax payable or receivable 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:

- the initial recognition of goodwill or of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and,
- deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

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

Trade and other receivables

Trade and other receivables are stated at their original invoiced value (discounted if material) as reduced by appropriate allowances for estimated irrecoverable amounts. Impaired debts are derecognised when they are assessed as uncollectible.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand, to the extent that they are used, are included as a component of cash and cash equivalents for the purpose of the Consolidated Statement of Cash Flows.

Trade and other payables

Trade and other payables, other than intercompany loans, are non interest-bearing and are stated at their nominal value.

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

1 Accounting policies (continued)

Borrowing costs

Borrowing costs are recognised in the Group'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 Group'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 Group 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 17, a buy-in of the ASDA Group Pension Scheme ("the Scheme") was executed during the prior year. Other than contributions in respect of the buy-in loan described in note 17, the probability of the Group 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.

Dividend distributions

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

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

1 Accounting policies (continued)

Revenue recognition

Revenue represents sales to customers through retail outlets and online, excluding value added tax. Revenue is recognised net of intercompany transactions, 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 and other income.

Interest and dividend income

Interest income is recognised in the Income Statement as it accrues, using the effective interest method.

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 inventories 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 Group's financial year. In a small number of instances, contractual periods may extend over the Group's year end. In such cases the amount of any income accrued in relation to these agreements is supported by detailed calculations.

Supplier income is split into three classifications:

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

Unbilled amounts of income to which the Group 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.

**Notes to the Consolidated 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 Group has applied IFRS 2 'Share-Based Payments'.

The share option programmes allow Group employees to acquire shares of the ultimate parent company; these awards are granted by the Group. 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 remeasured 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.

Contingent liabilities

The Group 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 not considered probable but a liability is possible and may be material, such matters are disclosed as contingent liabilities.

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

2 Segment reporting

The Group 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 Group is not reliant on any individual major customers.

In line with the Group's reporting framework and management structure, key operating decisions are made by the Board which is considered to be the Chief Operating Decision Maker for the Group. All significant revenue is generated by the sale of goods through retail outlets in the UK and through the Group'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 Group has taken these factors into account together with the core principles of IFRS 8 in determining that it has a single reportable operating segment.

The analysis of the Group'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	20,313.1	19,611.0
Fuel	2,446.6	3,288.2
	<u>22,759.7</u>	<u>22,899.2</u>

**Notes to the Consolidated 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 inventories recognised as an expense		(16,555.9)	(16,801.8)
Cost of inventories written off in the year		(460.7)	(476.1)
Employment costs	5	(2,896.3)	(2,683.4)
Amortisation of intangible assets	11	(46.8)	(42.4)
Depreciation on property, plant and equipment	9	(388.7)	(401.2)
Depreciation on right-of-use assets	10	(153.4)	(155.7)
Rental income		8.9	13.0
Other income		28.7	38.0
Loss on sale of property, plant and equipment		(3.0)	(7.6)
Impairment reversal/(charge) of property, plant and equipment	9	0.8	(60.1)
Impairment of right-of-use assets	10	(2.5)	(2.9)
Foreign exchange gains		4.5	1.3
Loss on disposal of right-of-use assets		(3.5)	(8.3)
Impairment of assets held for sale	9	(1.0)	-

4 Auditors' remuneration

	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
<i>Within operating costs:</i>		
Fees payable to Company's auditor for the audit of parent company and consolidated financial statements	0.9	0.9
Fees payable to Company's auditor for other professional services	0.3	-

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

5 Employee numbers and costs

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

	Year ended 31 December 2020 No.	Year ended 31 December 2019 No.
<i>Total</i>		
Retail & Distribution	140,892	142,093
Home offices	4,370	4,252
	<u>145,262</u>	<u>146,345</u>
<i>Full time equivalents</i>		
Retail & Distribution	86,931	90,091
Home offices	4,214	4,104
	<u>91,145</u>	<u>94,195</u>

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

		Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
	Note		
Wages and salaries	17	2,522.8	2,314.6
Share-based payment expenses	17	102.6	129.3
Social security costs	17	152.2	142.2
Other pension costs	17	118.7	97.3
		<u>2,896.3</u>	<u>2,683.4</u>

Other pension costs comprise the cost of the defined contribution schemes. All pension-related costs and income are disclosed in note 17.

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

6 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	9.3	6.7
Share-based payments	3.3	3.0

During the year, there was no emoluments cost incurred by the Group in respect of compensation for loss of office (2019: £nil).

	Year ended 31 December 2020 No.	Year ended 31 December 2019 No.
Number of Directors who were active members of the defined benefit scheme during the year	-	-
Number of Directors who served during the year who exercised share options	5	7
Number of Directors who served during the year and were entitled to receive shares under long-term incentive schemes	5	7

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

	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Total remuneration excluding pensions	2.7	1.7
Total share-based payments	0.8	0.6
Total accrued pension at the year-end	-	-

Two Directors were deferred members of the defined benefit scheme (2019: one).

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

7 Finance income and costs

	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Finance income		
Bank interest receivable	3.0	16.4
Net interest income on pension scheme	0.1	-
Net interest receivable on amounts owed from group undertakings	46.6	38.4
Total finance income	49.7	54.8
Finance costs		
External interest payable	0.9	-
Interest on lease liabilities	66.5	66.9
Net interest cost on pension scheme (note 17)	-	15.5
Interest capitalised	(0.4)	-
Total finance costs	67.0	82.4

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	20.6	73.9
UK corporation tax adjustment to prior periods	(0.6)	1.3
Current tax charge for the year	20.0	75.2
Deferred taxation		
Arising from origination and reversal of temporary differences	70.0	(3.2)
Arising from changes in tax rates and laws	8.3	(1.5)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	2.1	(0.9)
Total deferred taxation	80.4	(5.6)
Tax expense in the Income Statement	100.4	69.6

Notes to the Consolidated 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
Profit before tax	469.2	556.6
Corporation tax at standard rate	89.1	105.8
Adjustment in respect of prior periods	1.5	0.3
Non-qualifying depreciation	18.4	15.0
Change in tax rate	8.3	(1.5)
Expenses not deductible	7.6	9.1
Movement recognised on capital losses	4.7	-
Group relief not paid for	(28.4)	(61.5)
Non-qualifying impairment	-	3.8
Gain on non-qualifying fixed assets	(0.8)	(1.6)
Other	-	0.2
Total tax charge	100.4	69.6

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 liability would have increased by £39.2m to £46.7m.

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

8 Income tax (continued)

Tax items credited/(charged) directly to the Consolidated 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 cash flow hedges	3.5	9.5
Total tax on items credited to Consolidated Statement of Comprehensive Income	32.3	31.7

The deferred tax credit on pensions includes adjustments arising from the change in tax rate of £11.1m (2019: £1.5m).

Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	Asset £ m	Liability £ m	Net deferred tax £ m
2020			
Property, plant and equipment	-	(128.2)	(128.2)
Employee benefits	106.5	-	106.5
Provisions	3.6	-	3.6
Other items	5.9	-	5.9
Capital losses	4.7	-	4.7
	120.7	(128.2)	(7.5)
2019			
Property, plant and equipment	-	(104.3)	(104.3)
Employee benefits	130.3	-	130.3
Provisions	3.3	-	3.3
Other items	2.3	-	2.3
Capital losses	9.0	-	9.0
	144.9	(104.3)	40.6

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

8 Income tax (continued)

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 Group has unrecognised brought forward capital losses of £359.5m (2019: £332.8m) available to reduce future capital gains. No deferred tax asset has been recognised in respect of these capital losses due to uncertainty of when they may be utilised.

Deferred tax movement during the year:

	At 1 January 2020 £ m	Recognised in income £ m	Recognised in other comprehensive income £ m	At 31 December 2020 £ m
Property, plant and equipment	(104.3)	(23.9)	-	(128.2)
Employee benefits	130.3	(52.6)	28.8	106.5
Provisions	3.3	0.3	-	3.6
Other items	2.3	0.1	3.5	5.9
Capital losses	9.0	(4.3)	-	4.7
Net tax assets/(liabilities)	<u>40.6</u>	<u>(80.4)</u>	<u>32.3</u>	<u>(7.5)</u>

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	(105.1)	0.8	-	(104.3)
Employee benefits	150.8	1.9	(22.4)	130.3
Provisions	2.5	0.8	-	3.3
Other items	(7.3)	0.1	9.5	2.3
Capital losses	7.0	2.0	-	9.0
Net tax assets/(liabilities)	<u>47.9</u>	<u>5.6</u>	<u>(12.9)</u>	<u>40.6</u>

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

9 Property, plant and equipment

	Freehold properties £ m	Leasehold improvements £ m	Plant, equipment, fixtures & fittings £ m	Assets under construction £ m	Total £ m
Cost					
At 1 January 2019	8,982.5	- 1,352.2	2,665.6	183.0	13,183.3
Additions	68.8	7.9	32.0	216.4	325.1
Disposals	(5.6)	-	(237.2)	(5.0)	(247.8)
Transfers	(32.1)	32.1	-	-	-
Transfers from Assets Under Construction	118.2	-	168.9	(287.1)	-
Impairment (charges)/reversals	(22.5)	4.6	(16.1)	-	(34.0)
Reclassification to assets held for resale	(9.6)	-	-	-	(9.6)
At 31 December 2019	9,099.7	1,396.8	2,613.2	107.3	13,217.0
At 1 January 2020	9,099.7	1,396.8	2,613.2	107.3	13,217.0
Additions	100.0	9.2	14.5	204.3	328.0
Disposals	(2.2)	-	(261.9)	(0.2)	(264.3)
Transfers from Assets Under Construction	84.3	-	153.4	(237.7)	-
Reclassification	(97.0)	97.0	-	-	-
At 31 December 2020	9,184.8	1,503.0	2,519.2	73.7	13,280.7
Accumulated depreciation and impairment					
At 1 January 2019	2,064.4	635.5	1,810.1	-	4,510.0
Charge for year	169.5	35.0	196.7	-	401.2
Eliminated on disposal	(0.4)	-	(229.2)	-	(229.6)
Impairment charges	0.7	0.3	25.1	-	26.1
Transfers	(0.9)	0.9	-	-	-
At 31 December 2019	2,233.3	671.7	1,802.7	-	4,707.7
At 1 January 2020	2,233.3	671.7	1,802.7	-	4,707.7
Charge for the year	170.4	35.2	183.1	-	388.7
Eliminated on disposal	(0.6)	-	(255.9)	-	(256.5)
Impairment (reversals)/charges	(1.3)	(0.5)	1.0	-	(0.8)
Reclassification	(18.8)	18.8	-	-	-
At 31 December 2020	2,383.0	725.2	1,730.9	-	4,839.1
Net book value					
At 31 December 2019	6,866.4	725.1	810.5	107.3	8,509.3
At 31 December 2020	6,801.8	777.8	788.3	73.7	8,441.6

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

9 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 is expected to be sold within 12 months of the Balance Sheet date.

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 were recognised in operating costs during the year. (2019: £60.1m charge).

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

The net impairment credit recognised during the year is driven primarily by a part reversal of £2.0m of charges, relating to two of the fulfilment centres described above, following an update to the fair value estimates for those sites.

Reclassification

Assets with an original cost of £97.0m and a net book value of £78.2m 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 fixed assets is £273.4m (2019: £273.0m).

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

10 Right-of-use assets

	Land and Buildings £ m	Plant and Equipment £ m	Total £ m
Cost			
At 1 January 2019	406.4	-	406.4
Transition additions	1,816.6	130.2	1,946.8
Additions	88.4	49.3	137.7
Disposals	(9.2)	(9.5)	(18.7)
At 31 December 2019	2,302.2	170.0	2,472.2
At 1 January 2020	2,302.2	170.0	2,472.2
Additions	70.2	50.5	120.7
Disposals	(4.1)	(20.7)	(24.8)
At 31 December 2020	2,368.3	199.8	2,568.1
Accumulated depreciation and impairment			
At 1 January 2019	90.2	-	90.2
Transition Additions	(0.9)	-	(0.9)
Charge for the year	105.3	50.4	155.7
Eliminated on disposal	(0.9)	(9.5)	(10.4)
Impairment	2.9	-	2.9
At 31 December 2019	196.6	40.9	237.5
At 1 January 2020	196.6	40.9	237.5
Charge for the year	104.7	48.7	153.4
Eliminated on disposal	(1.4)	(19.9)	(21.3)
Impairment	2.5	-	2.5
At 31 December 2020	302.4	69.7	372.1
Net book value			
At 31 December 2019	2,105.6	129.1	2,234.7
At 31 December 2020	2,065.9	130.1	2,196.0

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

10 Right-of-use assets (continued)

The Group 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 33 years. Seven property right-of-use assets 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 land and buildings, and new leases for plant, vehicles and equipment.

For further details of lease liabilities please see note 22.

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

11 Intangible assets

	Brand licence £ m	Goodwill £ m	Software and development costs £ m	Other £ m	Total £ m
Cost					
At 1 January 2019	31.9	508.0	219.3	2.1	761.3
Additions	-	-	61.1	-	61.1
Disposals	-	-	(0.4)	(2.0)	(2.4)
At 31 December 2019	31.9	508.0	280.0	0.1	820.0
At 1 January 2020	31.9	508.0	280.0	0.1	820.0
Additions	-	-	85.8	-	85.8
Disposals	-	-	(3.7)	-	(3.7)
At 31 December 2020	31.9	508.0	362.1	0.1	902.1
Amortisation					
At 1 January 2019	14.6	-	127.3	2.1	144.0
Amortisation charge	-	-	42.4	-	42.4
Amortisation eliminated on disposals	-	-	(0.4)	(2.0)	(2.4)
At 31 December 2019	14.6	-	169.3	0.1	184.0
At 1 January 2020	14.6	-	169.3	0.1	184.0
Amortisation charge	-	-	46.8	-	46.8
Amortisation eliminated on disposals	-	-	(3.7)	-	(3.7)
At 31 December 2020	14.6	-	212.4	0.1	227.1
Net book value					
At 31 December 2019	17.3	508.0	110.7	-	636.0
At 31 December 2020	17.3	508.0	149.7	-	675.0

The George brand licence has a carrying value of £17.3m (2019: £17.3m) and is generating positive cash flows. There are no plans to exit the brand and no legal limits on its use by the Group.

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

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

11 Intangible assets (continued)

Impairment testing of goodwill

Netto Acquisition

Goodwill of £482.3m (2019: £482.3m) arose on the acquisition of Netto Foodstores Limited on 13 April 2011. This has been tested for impairment as at 31 December 2020 by allocating costs directly attributable to Netto stores and a reasonable allocation of central costs, to the chain of converted Netto stores along with other related assets. This represents the lowest level to which management monitors goodwill.

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. This is the period to which specific reliable forecasts have been made. 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 the specific forecast period is 0.6%.

The calculation of value in use is most sensitive to the assumptions of sales growth, gross margin, operating costs, growth rate used to extrapolate cash flows beyond the initial forecast period, and the discount rate.

Sales growth - sales expectations are initially formed based on management expectations of growth of small-format stores for the foreseeable future. This takes into account historic data and current performance as well as future market expectations from internal and external sources.

Gross profit - Margin assumptions are formed based on management expectations of realistic future margin forecasts. These expectations are based on historic and current performance combined with internal and external factors expected to affect gross profit margin in future years.

Operating costs - some costs are directly attributable to individual stores. Other costs derive from central or shared costs for the whole Group and must be allocated to the chain on a reasonable basis. Operating cost forecasts for the Netto chain reflect a combination of experience since acquisition and existing similar stores from 2011 to 2020 extrapolated as a proportion of sales, and known impacts to costs in future years

Growth rate used to extrapolate cash flows beyond the initial forecast period - long-term growth rate forecasts are based on a combination of long-term grocery retail and economic GDP growth forecasts for the UK and internal management growth expectations.

Discount rate - the pre-tax discount rate used in calculating the value in use represents an assessment of the rate of return a market participant would expect for an equally risky investment. This has been calculated by estimating the weighted average cost of capital of other likely acquirers as well as that of the Group.

Sensitivity to changes in assumptions

With regard to the assessment of value in use, based upon calculations performed, management believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of the chain of Netto stores to exceed its recoverable amount.

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

11 Intangible assets (continued)

Turkmen Tedarik Hizmetleri Acquisition

Goodwill of £17.0m (2019: £17.0m) arose on the acquisition of Turkmen Tedarik Hizmetleri on 26 April 2012. This has been tested for impairment as at 31 December 2020 by assessing the present value of forecasted cash savings arising from the synergies achieved as a result of the acquisition. Goodwill is allocated to a single cash-generating unit, being the acquired sourcing company.

The recoverable amount is determined based on a value in use calculation using cashflow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to the cashflow projections is 6.8% (2019: 8.4%) and the growth rate used to extrapolate the cashflows beyond specific forecast period is 0.0%.

The calculation of value in use is most sensitive to the assumptions of growth rate used to extrapolate cash flows beyond the initial forecast period and the discount rate.

Growth rate used to extrapolate cash flows beyond the initial forecast period - long-term growth rate forecasts are based on long-term economic GDP growth forecasts for the UK, management expectation of category sales growth and management forecasts of the geographical split of purchases.

Discount rate - the pre-tax discount rate used in calculating the value in use represents an assessment of the rate of return a market participant would expect for an equally risky investment. This has been calculated by estimating the weighted average costs of capital of other likely acquirers as well as that of the Group.

Sensitivity to changes in assumptions

With regard to the assessment of value in use, 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 carrying value of the Turkmen goodwill to exceed its recoverable amount.

Impairment testing of indefinite life intangibles

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.

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

12 Inventories

	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Goods held for resale	1,053.2	1,138.8
Goods not held for resale	1.7	2.1
	<u>1,054.9</u>	<u>1,140.9</u>

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

13 Trade and other receivables

	Year ended 31 December 2020	Year ended 31 December 2019
	£ m	£ m
Trade receivables	82.5	84.3
Allowance for expected credit losses	(3.3)	(4.1)
Other receivables	43.2	51.0
Prepayments and accrued income	9.5	11.0
Derivative assets	-	3.1
	<u>131.9</u>	<u>145.3</u>
Intercompany receivables	<u>14.3</u>	<u>3,833.6</u>

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 15) (2019: £193.6m). The trade receivable prior to the offset is £289.7m (2019: £277.9m).

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 as per the requirements of IFRS 9 and the impact is £nil (2019: £nil).

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

As at 31 December 2020, trade receivables at nominal value of £3.3m (2019: £4.1m) were impaired and fully provided for. Movements in the allowance for expected credit losses in the year were as follows:

	31 December 2020	31 December 2019
	£ m	£ m
At 1 January	4.1	3.9
Provision for expected credit losses	1.6	3.1
Provision utilised during the year	(0.3)	(0.5)
Unused amounts reversed during the year	<u>(2.1)</u>	<u>(2.4)</u>
At 31 December	<u>3.3</u>	<u>4.1</u>

The Group has not made any provision for intercompany receivables.

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

14 Cash and cash equivalents

	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Cash in hand and bank balances	322.5	68.8
Money market funds and deposits	915.0	1,860.5
	<u>1,237.5</u>	<u>1,929.3</u>

15 Trade and other payables

	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Trade payables	2,761.2	2,560.0
Other taxes and social security	179.5	205.8
Other payables	81.0	192.2
Accrued expenses	625.0	333.9
Derivative liabilities	40.2	19.1
	<u>3,686.9</u>	<u>3,311.0</u>
Intercompany payables	<u>417.1</u>	<u>3,099.3</u>

The Group 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 Group's policy to abide by these terms when satisfactory invoices have been received.

Trade receivables are presented net where a legally enforceable right of offset exists. Included in the above is an offset of £207.2m (note 13) (2019: £193.6m). The trade payable prior to the offset is £2,968.4m (2019: £2,753.6m).

For terms and conditions relating to amounts owed to related parties, refer to note 25.

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

16 Financial instruments

Financial assets and liabilities

The carrying value and classification of financial assets and liabilities are disclosed in the following tables.

	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
<i>Non-interest-bearing financial assets at amortised cost</i>		
Trade receivables	79.2	80.2
Other receivables	43.2	51.0
	<u>122.4</u>	<u>131.2</u>
<i>Interest-bearing financial assets at amortised cost</i>		
Intercompany receivables	14.3	3,833.6
<i>Derivatives designated as hedging instrument</i>		
Derivative assets	-	3.1
<i>Other financial assets</i>		
Cash and cash equivalents	<u>1,237.5</u>	<u>1,929.3</u>
Total financial assets	<u><u>1,374.2</u></u>	<u><u>5,897.2</u></u>

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

16 Financial instruments (continued)

	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
<i>Non-interest-bearing financial liabilities at amortised cost</i>		
Trade payables	2,761.2	2,560.0
Other payables	81.0	192.2
Accrued expenses	625.0	333.9
	<u>3,467.2</u>	<u>3,086.1</u>
<i>Derivatives designated as hedging instrument</i>		
Derivative liabilities	40.2	19.1
Amounts included in trade and other payables	<u>3,507.4</u>	<u>3,105.2</u>
<i>Interest-bearing financial liabilities at amortised cost</i>		
Intercompany payables	417.1	3,099.3
<i>Current interest-bearing borrowings</i>		
Lease liabilities	119.0	116.7
<i>Non-current interest-bearing borrowings</i>		
Lease liabilities	<u>2,070.7</u>	<u>2,077.0</u>
Total financial liabilities	<u><u>6,114.2</u></u>	<u><u>8,398.2</u></u>

As at 31 December 2020 and 31 December 2019, all borrowings were in Sterling at fixed rates of interest. The interest rate of fixed rate debt is 0.05% - 15.5% (2019: 0.8% - 15.5%), this comprises intercompany payables and lease liabilities.

Intercompany payables are disclosed in note 25. Details of obligations under leases are included in note 22.

Movements in liabilities arising from financing activities

During the year, £1,269.5m of the receivable due from Wal-Mart Stores (UK) Limited was distributed as a dividend in specie and a further £1,650.0m was distributed as a cash dividend, as described in note 21. Following those distributions, the remainder of the outstanding balance on the Wal-Mart Stores (UK) Limited receivable was used as consideration to part settle the Group's liability to ASDA Holdings UK Limited. This has led to a decrease in both the intercompany payables and intercompany receivables within the year.

Total lease cash outflow in the year was £205.7m (2019: £199.4m). This has been presented in financing activities in the cash flow statement and breaks down as cash payments for the principal portion of the lease liability £120.4m (2019: £133.5m) and cash payments for the interest portion of the lease liability £66.8m (2019: £49.0m). £18.5m has been included in operating activities in the cash flow statement and relates to short term and variable lease expenses (2019: £16.9m).

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

16 Financial instruments (continued)

Fair values of financial assets and financial liabilities

The Group's principal financial instruments during the year comprised cash, cash equivalents, intercompany payables and receivables, derivatives classified as hedges and lease liabilities. Other financial assets and liabilities, such as trade receivables, other receivables, trade payables, other payables, and accruals arise directly from the Group's operating activities. The difference between the carrying value and the fair value of the Group's financial instruments is not material.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

Fixed rate borrowings - the fair value of fixed rate borrowings is estimated by discounting the future contracted cash flow using appropriate interest rates to net present value.

Derivatives - derivatives are measured at fair value by estimating the future settlement rates of forward contracts entered into and are split between in the money (assets) and out of the money (liabilities). At 31 December 2020 the Group held £nil (2019: £3.1m) in the money assets, and £40.2m (2019: £19.1m) out of the money liabilities in respect of its forward contracts. During the year, the Group recognised net gains on revaluation of hedged monetary assets and liabilities from historical cost to year-end spot rate of £8.2m (2019: £1.2m net gain).

The fair values of the Group's financial derivatives and fixed rate borrowings with fellow subsidiaries of the ultimate parent company have been calculated at observable unquoted interest rates, and are categorised as Level 2 within the fair value hierarchy in accordance with IFRS 13 'Fair Value Measurement'. Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Interest rate risk

The Group's short-term borrowings at 31 December 2020 are all held with entities which are part of the Walmart Inc. group and are at fixed rates of interest. Amounts owed to fellow subsidiaries (note 25) attract interest at a rate of 5.448% - 6% (2019: 5.448 - 6%). As interest rates are fixed on all of the Group's debt at 31 December 2020, interest rate movements would not have an impact on profitability, cash flow or equity at the balance sheet date.

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

16 Financial instruments (continued)

Foreign currency risk

The Group purchases goods and services denominated in currencies other than Sterling. Cash flows can be affected by movements in exchange rates, primarily US Dollars and Euros. Some purchases in US Dollars are managed through the use of forward contracts.

The Group implements hedge accounting and has forward currency hedging contracts outstanding at 31 December 2020, designated as hedges of expected future purchases from suppliers in US dollars. The forward currency contracts are being used to hedge the foreign currency risk of the future purchases. The terms of the forward currency hedging contracts have been negotiated to match the terms of the commitments and none exceed a period of more than 12 months after 31 December 2020. Amounts recognised in other comprehensive income are transferred to the Income Statement when the hedged transaction affects profit or loss.

The cash flow hedges of the expected future purchases were assessed to be highly effective and as at 31 December 2020, a net unrealised loss of £25.6m (2019: £11.8m loss) was included in the hedge reserve in respect of hedging contracts. The net loss recognised in other comprehensive income during the year in respect of these hedging contracts was £13.8m (2019: £41.4m loss). This consists of a £32.5m loss on not-yet-matured contracts during the year (2019: £12.9m loss), partially offset by £15.2m of losses reclassified to the Income Statement during the year (2019: £38.0m of gains) and a £3.5m taxation credit (2019: £9.5m credit).

Under the Group's hedging policy, the only items for which forward currency contracts are in place are forecast purchases of goods for resale. The Group hedges up to 95% of forecast cash flows. Gains and losses attributable to forward contracts are transferred to cost of inventories recognised as an expense within the Income Statement at the point of sale. Forward contracts entered into which are not in line with forecast cash flows would be the principal source of hedge ineffectiveness. No instances of this have occurred during the year (2019: none), therefore amounts recognised in the Income Statement in relation to ineffective hedges is £nil (2019: £nil).

As the Group manages much of its foreign currency exposure through the use of forward currency contracts, changes in exchange rates are not expected to have a significant impact on short-term profitability or cash flow. It is anticipated that a 5% movement in the US Dollar/Sterling exchange rate, which represents management's assessment of a reasonably possible change, would give rise to a movement in the cash flow hedge reserve of £33.4m (2019: £29.7m).

Credit risk

There is no significant credit risk within the Group at the balance sheet date. The maximum credit risk exposure relating to financial assets is included in their carrying value as at the Balance Sheet date. See note 13 for further information on trade receivables and details of recoverability.

The Group has established procedures to minimise the risk of default in relation to trade receivables including detailed credit checks undertaken before a customer is accepted. Historically, these procedures have proved effective in minimising the level of impaired and past due receivables.

Surplus cash is placed on short-term deposit with various global financial institutions. This is managed by the Group Treasury function which actively monitors the market in order to identify the best terms of deposit. Deposit limits and approved financial institutions were dictated during the year by the investment policy of the ultimate parent company.

Intercompany receivables have been considered in relation to the expected credit losses model under IFRS 9 and no impairment is required.

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

16 Financial instruments (continued)

Liquidity risk

The Group's Treasury function ensures that the Group continues to have sufficient funding by monitoring rolling forecasts of the Group's cash flows. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of operating cash flows and intercompany balances. At 31 December 2020, the Group had no external borrowings, other than lease liabilities (2019: none).

As at 31 December 2020, the Group held cash of £1,237.5m (2019: £1,929.3m), utilised along with overdrafts where necessary, to secure short-term flexibility. At 31 December 2020, the Group had committed overdraft facilities of £30.0m (2019: £30.0m), standby credit facilities, including bonds of £96.2m (2019: £96.7m), and committed line of credit facilities of £30.0m (2019: £30.0m). The Group also had access to a facility during the year which was available to other subsidiaries of the ultimate parent, the limit of which depended on the usage by fellow subsidiaries.

The following table summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments. The disclosed financial derivative instruments are the gross undiscounted cash flows. However, these amounts may be settled gross or net.

	Within 1 year £ m	Between 1 and 5 years £ m	After 5 years £ m	Total £ m
Year ended 31 December 2020				
Lease obligations	184.2	614.9	2,839.2	3,638.3
Financial derivatives	705.7	-	-	705.7
Trade and other payables	3,467.2	-	-	3,467.2
Amounts owed to fellow UK group companies	275.0	-	-	275.0
Amounts owed to ultimate parent company	9.7	-	-	9.7
Amounts owed to fellow subsidiaries of ultimate parent company	132.4	-	-	132.4
	<u>4,774.2</u>	<u>614.9</u>	<u>2,839.2</u>	<u>8,228.3</u>
Year ended 31 December 2019				
Finance lease obligations	183.1	603.0	2,895.2	3,681.3
Financial derivatives	797.5	-	-	797.5
Trade and other payables	3,086.1	-	-	3,086.1
Amounts owed to immediate parent company	2,958.8	-	-	2,958.8
Amounts owed to ultimate parent company	7.8	-	-	7.8
Amounts owed to fellow subsidiaries of ultimate parent company	132.7	-	-	132.7
	<u>7,166.0</u>	<u>603.0</u>	<u>2,895.2</u>	<u>10,664.2</u>

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

16 Financial instruments (continued)

Liquidity and capital risk 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 27, 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 Group has access to short-term external borrowing facilities, 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.

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

17 Employee benefits

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the Consolidated Balance Sheet are as follows:

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

As described in note 27, on 16 February 2021, the Group's immediate 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 Group to Bellis Acquisition Company 3 Limited. As a condition of the transaction, all share options held by employees of the Group 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 Group's share-based payment liabilities have not been adjusted as a result of this as the change in ownership of the Group'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 per guidance set out in IAS 10.

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

17 Employee benefits (continued)

Pension plans

Total costs charged to the Consolidated Income Statement in respect of employee benefits:

	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Wages and salaries	2,522.8	2,314.6
Share-based payments charge	102.6	129.3
Social security costs	152.2	142.2
Total cost before pension costs	2,777.6	2,586.1
Defined benefit pension scheme		
Net interest (income)/expense on pension scheme	(0.1)	15.5
Total defined benefit scheme (income)/expense	(0.1)	15.5
Pension costs, defined contribution scheme	118.7	97.3
Total pension expense	118.6	112.8
Total employee benefit expense	2,896.2	2,698.9

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

17 Employee benefits (continued)

Defined benefit pension schemes

Historically, the Group 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 (17 October 2019) through the purchase of a bulk purchase annuity ("BPA") policy with the insurer Rothesay Life PLC, under which the benefits payable to all AGPS pensioners and deferred members have become fully insured.

In order to enable the AGPS to execute the buy-in, the Group 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 Group 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 Group and the Trustees agreed during the year that the Group 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).

In the prior year, the total amount which the Group expected to pay as contributions under the BTB Agreement was £119.6m and this amount was classified along with the buy-in contribution of £707.5m as an operating cashflow in the prior year (i.e. total operating cash outflow of £827.1m). During the current year, an amount of £93.9m - being the contribution made during the year under the BTB agreement in excess of the amount classified as operating in the prior year - has been classified as an operating cash outflow. Total net cash inflows relating to the AGPS and UURBS during the year of £155.6m are classified in the consolidated Statement of Cashflows as an operating outflow of £95.4m and an investing inflow of £251.0m (2019: £1,194.9m outflow; being an operating outflow £886.7m and an investing outflow of £308.2m).

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

17 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 Group, 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 actuarial 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 Group 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 Group 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 Group 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 Group 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 Consolidated Financial Statements for the Year Ended 31 December 2020
(continued)**

17 Employee benefits (continued)

Scheme liabilities

Changes in the present value of defined benefit obligation:

	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
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	<u>(2,953.6)</u>	<u>(2,661.0)</u>

Scheme assets

Changes in the fair value of scheme assets are as follows:

	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Fair value at start of year	2,975.3	2,411.7
Interest income	59.5	75.5
Increase/(decrease) 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
Repayment of buy-in loan	(370.6)	(39.5)
Benefits paid	(110.7)	(109.0)
Impact of buy-in loss	-	(1,175.8)
Administrative expenses	(4.3)	(0.9)
Fair value at end of year	<u>3,017.0</u>	<u>2,975.3</u>

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

17 Employee benefits (continued)

Amounts recognised in the Consolidated Income Statement

	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Amounts recognised in finance income or costs		
Net interest income on plan assets and liabilities	4.9	15.0
Past service cost	(0.5)	-
Interest expense on effect of onerous liability	-	(29.6)
Administrative expenses	(4.3)	(0.9)
Total Income Statement credit/(charge)	<u>0.1</u>	<u>(15.5)</u>

Amounts credited/(charged) in the Statement of Other Comprehensive Income

	Year ended 31 December 2020 £ m	Year ended 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	<u>(95.4)</u>	<u>(94.5)</u>

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

17 Employee benefits (continued)

Fair value of plan assets:

The fair value of the plan assets were as follows:

	31 December 2020			31 December 2019		
		£m			£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 Balance Sheet date are as follows:

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

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:

	Year ended 31 December 2020 Years	Year ended 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

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

17 Employee benefits (continued)

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:

	Year ended 31 December 2020	Year ended 31 December 2019
	+ 0.1%	+ 0.1%
	£ m	£ m
Adjustment to discount rate		
Decrease in scheme liabilities	79.6	56.4
Decrease in finance costs	-	0.2
	Year ended 31 December 2020	Year ended 31 December 2019
	+ 0.1%	+ 0.1%
	£ m	£ m
Adjustment to rate of inflation		
Increase in scheme liabilities	32.6	13.1
Increase in finance costs	-	-
	Year ended 31 December 2020	Year ended 31 December 2019
	+ 1 Year	+ 1 Year
	£ m	£ m
Adjustment to mortality age rating assumption		
Increase in scheme liability	121.8	92.5
Increase in finance costs	-	-

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

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 Balance Sheet.

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

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

17 Employee benefits (continued)

Share-based payments

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

During the year, the Group offered four share-based payment schemes to employees to enable them to own shares in the ultimate parent company, Walmart Inc. The Group 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 Group 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 17, on 16 February 2021, the immediate 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 Group to Bellis Acquisition Company 3 Limited. See earlier narrative for an explanation of how this impacts the Group'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:

	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Cash-settled share-based payment charge	102.6	129.3
Total carrying amount of liabilities - current	94.5	77.2
Total carrying amount of liabilities - non-current	50.5	59.5
	145.0	136.7

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

17 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:

	Year ended 31 December 2020	Year ended 31 December 2019
	Number (thousands)	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	<u>4,157</u>	<u>4,442</u>
Exercisable, end of year	<u>18</u>	<u>17</u>

	Year ended 31 December 2020	Year ended 31 December 2019
	Price (£)	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	<u>62.39</u>	<u>53.26</u>
Exercisable, end of year	<u>47.12</u>	<u>38.69</u>

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 on date of grant.

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

17 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.

	Year ended 31 December 2020	Year ended 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 on the grant agreement. The options under this scheme are treated as cash-settled.

	Year ended 31 December 2020	Year ended 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 Consolidated Financial Statements for the Year Ended 31 December 2020
(continued)**

17 Employee benefits (continued)

Share-based payments (continued)

Restricted Stock Rights (RSR) scheme

The RSR 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 two or 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 share awards under the RSR scheme is as follows:

	Year ended 31 December 2020 Number (thousands)	Year ended 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	<u>418</u>	<u>477</u>
Exercisable, end of year	<u>-</u>	<u>-</u>

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 Group 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 and senior management 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 Consolidated Financial Statements for the Year Ended 31 December 2020
(continued)**

17 Employee benefits (continued)

Share-based payments (continued)

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

	Year ended 31 December 2020 Number (thousands)	Year ended 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	<u>129</u>	<u>136</u>
Exercisable, end of year	<u>-</u>	<u>-</u>

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.

	Year ended 31 December 2020	Year ended 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 (£)	<u>62.39</u>	<u>53.26</u>

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 Group 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 Consolidated Financial Statements for the Year Ended 31 December 2020
(continued)

18 Provisions

	Dilapidations	Insurance	Total
	£ m	£ m	£ m
At 1 January 2020	83.8	95.2	179.0
Provided during the year	0.2	42.4	42.6
Provisions used	(0.8)	(23.0)	(23.8)
Unused provision reversed	(0.7)	(21.5)	(22.2)
Increase due to unwinding of discount and rate changes	9.8	-	9.8
At 31 December 2020	<u>92.3</u>	<u>93.1</u>	<u>185.4</u>
Current liabilities	<u>-</u>	<u>23.0</u>	<u>23.0</u>
Non-current liabilities	<u>92.3</u>	<u>70.1</u>	<u>162.4</u>

The insurance provision above 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 dilapidation 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 Consolidated Financial Statements for the Year Ended 31 December 2020
 (continued)**

19 Share capital and premium

	Number of shares	Share capital £ m	Share premium £ m	Total £ m
Authorised, allotted, called up and fully paid				
Ordinary shares of 25p each at 31 December 2020 and 31 December 2019	4	-	-	-

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

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

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

20 Reserves

Reconciliation of movement in reserves is as follows:

	Other reserve £ m	Cash flow hedge reserve £ m	Retained earnings £ m	Total £ m
At 1 January 2019	441.1	29.6	9,040.1	9,510.8
Profit for the year	-	-	487.0	487.0
Cash flow hedges - reclassified during year to Income Statement	-	(38.0)	-	(38.0)
Cash flow hedges - net loss during year on not-yet-matured contracts	-	(12.9)	-	(12.9)
Tax on cash flow hedges recognised directly in other comprehensive income	-	9.5	-	9.5
Total remeasurements on defined benefit obligation	-	-	(549.5)	(549.5)
Increase in value of 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	441.1	(11.8)	9,454.8	9,884.1
At 1 January 2020	441.1	(11.8)	9,454.8	9,884.1
Profit for the year	-	-	368.8	368.8
Cash flow hedges - reclassified during year to Income Statement	-	15.2	-	15.2
Cash flow hedges - net loss during year on not-yet matured contracts	-	(32.5)	-	(32.5)
Tax on cash flow hedges recognised directly in other comprehensive income	-	3.5	-	3.5
Total remeasurements on defined benefit obligation	-	-	(348.2)	(348.2)
Increase in value of 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	-	-	(2,919.5)	(2,919.5)
At 31 December 2020	441.1	(25.6)	6,837.5	7,253.0

The other reserve relates to a revaluation reserve previously 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 Consolidated Financial Statements for the Year Ended 31 December 2020
(continued)**

21 Dividends proposed and paid

	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Dividends Declared	2,919.5	-

Dividends of £2,919.5m were proposed and paid in the year ended 31 December 2020 (£729.9m per share) to the Group's immediate parent undertaking, during the year, ASDA Holdings UK Limited. £1,650.0m was paid in cash and £1,269.5m was declared as a dividend in specie settled via a distribution of an intercompany receivable balance. During the prior year, no dividends were proposed nor paid.

22 Obligations under leases

Lease Liabilities

Lease agreements where the group is a lessee

Future minimum lease payments are due as follows:

	31 December 2020 £ m	31 December 2019 £ m
<i>Future minimum payments due:</i>		
No later than one year	184.2	183.1
Later than one year and no later than two years	174.6	169.3
Later than two years and no later than three years	158.8	159.5
Later than three years and no later than four years	145.0	143.5
Later than four years and no later than five years	136.5	130.7
Later than five years	2,839.2	2,895.2
	<u>3,638.3</u>	<u>3,681.3</u>
Lease finance charges allocated to future periods	(1,448.6)	(1,487.6)
Present value of minimum lease payments	<u>2,189.7</u>	<u>2,193.7</u>

Total lease cash outflow in the year was £205.7m (2019: £199.4m). This has been presented in financing activities in the cash flow statement and breaks down as cash payments for the principal portion of the lease liability £120.4m (2019: £133.5m) and cash payments for the interest portion of the lease liability £66.8m (2019: £49.0m). £18.5m has been included in operating activities in the cash flow statement and relates to short term and variable lease expenses (2019: £16.9m).

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

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

22 Obligations under leases (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:

	Note	31 December 2020 £ m	31 December 2019 £ m
Depreciation - land and buildings right-of-use assets		104.7	105.3
Depreciation - plant and equipment right-of-use assets		48.7	50.4
Impairment - land and buildings right-of-use assets		2.5	2.9
Short-term lease expense ¹		1.8	1.8
Variable lease expense ²		16.7	15.1
Sub-lease income		(6.8)	(9.2)
		<u>167.6</u>	<u>166.3</u>
Interest expense related to lease liabilities	7	<u>66.5</u>	<u>66.9</u>
Total amount recognised in Income Statement		<u>234.1</u>	<u>233.2</u>

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 8.2% of overall lease payments in 2020 (2019: 7.5%).

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

22 Obligations under leases (continued)

Operating leases

Operating lease agreements where Group is lessor

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

	Year ended 31 December 2020 £ m	Year ended 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
	<u>72.7</u>	<u>72.3</u>

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

23 Commitments

Capital commitments

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

Other financial commitments

As at 31 December 2020, the Group had entered into contracts to purchase US Dollars for £732.8m (2019: £793.2m) and energy for £40.3m (2019: £53.7m).

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

24 Contingent liabilities

Equal Value Claims: ASDA Stores Limited, a wholly-owned subsidiary of the Group, has been served with circa 42,000 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.

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

25 Related parties

Identity of related parties

The following transactions were carried out with group companies:

	Year ended 31 December 2020 £ m	Year ended 31 December 2019 £ m
Technical assistance, services and royalties paid to Walmart Inc.*	121.0	140.5
Interest payable on loans from ASDA Holdings UK Limited	175.8	171.8
Interest payable on loans from WMT Netto S.a r.l.	7.4	7.3
Interest receivable on loans to Wal-Mart Stores (UK) Limited	229.8	217.5
Loans from ASDA Holdings UK Limited	275.0	2,958.8
Loans from WMT Netto S.a r.l.	126.5	126.5
Loans from WMGS Co. Limited	1.4	1.7
Loans from Global George Limited	4.2	4.2
Loans from Walmart EMEA Limited	0.3	0.3
Loans from Walmart Inc. *	9.7	7.8
Loans to Walmart Inc.	8.5	-
Loans to ASDA Holdings UK Limited	-	34.6
Loans to Global George Limited	5.8	5.8
Loans to Wal-Mart Stores (UK) Limited	-	3,793.2

* identifies balances/transactions with the ultimate parent company, Walmart Inc., all other balances and transactions are with fellow subsidiary companies of Walmart Inc.

Interest on intercompany loans with fellow subsidiary undertakings of Walmart Inc. is charged on an arm's length basis at a rate of 5.448% - 6% (2019: 5.448% - 6%). All intercompany loans are unsecured and repayable upon demand.

Amounts owed by fellow group entities totalled £14.3m at 31 December 2020 (2019: £3,833.6m), as disclosed in note 13.

Amounts owed to fellow group entities totalled £417.1m at 31 December 2020 (2019: £3,099.3m), as disclosed in note 15.

During the year, £1,269.5m of the receivable due from Wal-Mart Stores (UK) Limited was distributed as a dividend in specie as described in note 21. Following that distribution, the remainder of the outstanding balance on the Wal-Mart Stores (UK) Limited receivable was used as consideration to part settle the Group's liability to ASDA Holdings UK Limited. The Group's remaining liability to ASDA Holdings UK Limited along with other intercompany payables owed to WMT Netto S.a.r.l, Walmart EMEA Limited and Global George Limited, and a receivable balance owed to the Group by Global George Limited, were settled in full on 16 February 2021.

Other related party transactions

Key management are the statutory Directors and transactions with them are disclosed in note 6.

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

26 Ultimate parent company and parent company of larger group

During the year, the Company's immediate parent was ASDA Holdings UK Limited, a company incorporated in England and Wales.

During the year, the ultimate parent company and controlling party was Walmart Inc. which is incorporated in the USA. Copies of its consolidated financial statements, which include this Group, 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 27 for changes since the Balance Sheet date.

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

27 Events since the Balance Sheet date

Change in ownership

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 Group's assets and liabilities at 31 December 2020.

During the year, £1,269.5m of the intercompany receivable due from Wal-Mart Stores (UK) Limited was distributed as a dividend in specie as described in note 21. The dividend was 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 and intercompany receivables were required to be paid to the parent company.

Following that distribution, the remainder of the outstanding balance on the Wal-Mart Stores (UK) Limited receivable was used as consideration to part settle the Group's intercompany liability to ASDA Holdings UK Limited. The Group's remaining liability to ASDA Holdings UK Limited along with other intercompany payables owed to WMT Netto S.a.r.l, Walmart EMEA Limited and Global George Limited, of £277.1m, £127.5m, £0.3m and £4.2m respectively and a receivable balance owed to the Group by Global George Limited of £5.8m, were settled in full on 16 February 2021, see note 25 for further detail.

Following the sale of its interest in the ordinary share capital of the Group, 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 Group 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 Group's share-based payment liabilities have not been adjusted as a result of this as the change in ownership of the Group'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 per guidance set out in IAS 10. All share based 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 Group 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 Group's assets and liabilities at the balance sheet date.

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

(continued)

27 Events since the Balance Sheet date (continued)

Security pledged over the Group's assets
On 16 February 2021, the Group 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 Group also pledged certain assets as security for the indebtedness of parent undertakings in the form of a first fixed charge over certain freehold properties, material bank accounts, intercompany receivables, the shares owned by the Company in ASDA Stores Limited, and a first ranking floating charge over all present and future assets of ASDA Group Limited and ASDA Stores Limited.

Part of the security pledged is in relation to one of the Group's existing supply chain finance agreements in the form of fixed and floating charges over certain of the Group's assets. There were no other changes to the terms of this supply chain finance agreement which impact on the nature of amounts owed to the bank under this arrangement. Given consideration of this and the other factors set out in note 1, the Directors have concluded that the substance of the Group's liabilities under this supply chain financing agreement remain consistent overall with that of a trade payable and accordingly will continue to be accounted for and classified as trade payables.

The likelihood of the guarantees being called upon is considered remote.

The total value of facilities over which security has been pledged by the Group is £5,883.0m. This includes £1,700.0m of short-term bridge loans.

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 ("the Company") in relation to the acquisition by Bellis Acquisition Company 3 Limited ("BAC3L") of the Company. The decision states that the CMA believes the transaction gives 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. These undertakings are currently under review by the CMA. The CMA considers that there are reasonable grounds for believing that the undertakings offered jointly by Mr Zuber Issa, Mr Mohsin Issa and TDR Capital LLP, or a modified version of them, might be accepted by the CMA under the Enterprise Act 2002. The IEO restrictions on the extent to which BAC3L, Mr Zuber Issa, Mr Mohsin Issa and TDR are able to participate in the governance of the Company remain in place at the date of approval of the financial statements.

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

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 24 for further details.

Company Balance Sheet as at 31 December 2020

Registration number: 1396513

ASDA Group Limited - Parent Company

	Note	31 December 2020 £ m	31 December 2019 £ m
Assets			
Non-current assets			
Investments	4	3,021.5	3,021.5
Current assets			
Trade and other receivables	5	869.3	4,668.4
Cash and cash equivalents	6	915.5	1,860.6
		<u>1,784.8</u>	<u>6,529.0</u>
Total assets		<u>4,806.3</u>	<u>9,550.5</u>
Equity and liabilities			
Equity			
Share capital	7	-	-
Other reserves	9	160.2	160.2
Retained earnings	9	<u>2,795.5</u>	<u>4,070.1</u>
Total equity		2,955.7	4,230.3
Current liabilities			
Trade and other payables	10	<u>1,850.6</u>	<u>5,320.2</u>
Total equity and liabilities		<u>4,806.3</u>	<u>9,550.5</u>

In accordance with the exemptions given by Section 408 of the Companies Act 2006, the Company has not presented its own Income Statement.

The profit for the financial year in the financial statements of the Company was £1,644.9m (2019: £61.5m loss).

There were no other items of comprehensive income during the year.

Approved by the Board on 17 May 2021 and signed on its behalf by:

R. McWilliam

R McWilliam
Director

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

	Share capital £ m	Share premium £ m	Other reserves £ m	Retained earnings £ m	Total £ m
At 1 January 2019	-	-	160.2	4,131.6	4,291.8
Loss for the year	-	-	-	(61.5)	(61.5)
At 31 December 2019	-	-	160.2	4,070.1	4,230.3
At 1 January 2020	-	-	160.2	4,070.1	4,230.3
Profit for the year	-	-	-	1,644.9	1,644.9
Dividends paid	-	-	-	(2,919.5)	(2,919.5)
At 31 December 2020	-	-	160.2	2,795.5	2,955.7

Notes to the Parent Company Statements for the Year Ended 31 December 2020

1 Accounting policies

The following accounting policies have been applied consistently in the year.

Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of ASDA Group Limited (the "Company") for the year ended 31 December 2020 were authorised for issue by the Board of Directors on 17 May 2021 and the Balance Sheet was signed on behalf of the Directors by R McWilliam. The Company is incorporated and domiciled in England under the Companies Act 2006 (registration number 1396513).

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.

The Company's financial statements are presented in Sterling and all values are rounded to the nearest hundred thousand pounds (£0.1m) except when otherwise indicated. The presentational currency is also the Company's functional currency.

Basis of preparation

The Directors have assessed the Company's ability to continue as a going concern including a review of the forecast cash flows, future trading performance and existing borrowings in place. Whilst the Company is currently in a net current liabilities position, based on the reviews previously described, the Directors confirm that the Company has adequate resources to continue to operate for the foreseeable future and accordingly the going concern basis continues to be appropriate for the preparation of the Financial Statements.

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;
- 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'; and
- 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.

Where applicable, equivalent disclosures are included in the Consolidated Financial Statements of ASDA Group Limited, in which the Company is consolidated.

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

1 Accounting policies (continued)

Impairment of non-current assets

The carrying amounts of the Company's non-current 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.

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 if no impairment loss had been recognised.

Investments

Investments in subsidiaries are stated at cost less provision for impairment.

Trade and other receivables

Trade and other receivables are initially recorded at fair value and subsequently recognised at amortised cost. Intercompany receivables are interest-bearing (2.95% - 6%), unsecured and are repayable on demand.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand, to the extent that they are used, are included as a component of cash and cash equivalents for the purpose of the Consolidated Statement of Cash Flows.

Trade and other payables

Trade and other payables are initially recorded at fair value and subsequently recognised at amortised cost. Intercompany payables are interest-bearing (6%), unsecured and are repayable on demand.

2 Auditors' remuneration

The Company's audit fee for the year ended 31 December 2020 was £2,800 (2019: £2,800). The Company's audit costs are paid by another group company. There were no non-audit fees paid to the Company's auditor (2019: none).

3 Employee numbers and costs

The Company is an intermediate holding company and has no employees other than Directors.

Directors' remuneration is paid by another group company. Directors' time is spent predominantly in relation to ASDA Stores Limited, with limited time spent in relation to ASDA Group Limited as a company. It is therefore not deemed practical to allocate a portion of these costs to ASDA Group Limited as a company.

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

4 Investments

Group subsidiaries

	Investment in subsidiaries £ m
Cost or valuation	
At 1 January 2020 and 31 December 2020	-3,034.8
Provision	
At 1 January 2020 and 31 December 2020	<u>(13.3)</u>
Carrying amount	
At 31 December 2020	<u>3,021.5</u>
At 31 December 2019	<u>, 3,021.5</u>

Following a review of the carrying value of investments held by the Company, no impairment charge (2019: £nil) has been recognised.

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

4 Investments (continued)

Subsidiary undertakings

As at 31 December 2020, the following companies were subsidiary undertakings.

	Country of incorporation and principal place of business	% equity held
ASDA Delivery Limited	United Kingdom	100%
ASDA Employee Share Schemes Trustee Limited	United Kingdom	100%
ASDA Finance Limited	Jersey	100%
ASDA Financial Services Limited	United Kingdom	100%
ASDA Guernsey Limited	Guernsey	100%
ASDA Home Shopping Cards Limited	Republic of Ireland	100%
ASDA Pension Plan Trustees Limited	United Kingdom	100%
ASDA Quest Trustee Limited	United Kingdom	100%
ASDA Southbank Limited	United Kingdom	100%
ASDA Storage Limited	United Kingdom	100%
ASDA Stores Limited	United Kingdom	100%
ASDA Supermarkets Limited	United Kingdom	100%
ASDA Stores (Belfast) Limited	United Kingdom	100%
Bandsound Limited	United Kingdom	100%
Chorley Renaissance Limited	United Kingdom	100%
Erteco U.K. Limited	United Kingdom	100%
Essencerealm Limited	United Kingdom	100%
Ever 1295 Limited	United Kingdom	100%
Ever 2010 Limited	United Kingdom	100%
Ever 2010 North Limited	United Kingdom	100%
Ever 2010 South Limited	United Kingdom	100%
Forza AW Limited	United Kingdom	100%
Forza Foods Limited	United Kingdom	100%
George Sourcing Services UK Limited	United Kingdom	100%
George Tedarik Hizmetleri A.S.	Turkey	100%
International Procurement and Logistics Limited	United Kingdom	100%
International Produce Sociedad Limitada	Spain	100%
Kent Nominee 1 Limited	Jersey	100%
Kent Nominee 2 Limited	Jersey	100%
Kober Limited	United Kingdom	100%
McLagan Investments Limited	United Kingdom	100%
Nordicline Limited	United Kingdom	100%
Porth Investments Limited	United Kingdom	100%
Power4all Limited	United Kingdom	100%
Reach Belvedere Limited	United Kingdom	100%
Selby Produce Limited	United Kingdom	100%
The Burwood House Group Limited	United Kingdom	100%
The George Davies Partnership Limited	United Kingdom	100%
Vinpack Limited	United Kingdom	100%
Westry Produce Limited	United Kingdom	100%

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

4 Investments (continued)

All investments listed above have 100% ordinary share capital, except for ASDA Finance Limited which includes 0.1% preference share capital as part of total 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 Finance Limited *12 Castle Street, St Helier, Jersey, JE2 3RT*

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

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

ASDA Stores (Belfast) Limited *ASDA, 150 Junction One International Outlet, Antrim, United Kingdom, BT41 4GY*

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

Kent Nominee 1 Limited & Kent Nominee 2 Limited *12 Castle Street, St Helier, Jersey, JE2 3RT*

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*

5 Trade and other receivables

	31 December 2020	31 December 2019
	£ m	£ m
Amounts owed by group entities	<u>869.3</u>	<u>4,668.4</u>

Intercompany receivables attract interest at a fixed rate of 2.95% - 6% (2019: 2.95% - 6%) and are repayable on demand.

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

6 Cash and cash equivalents

	31 December 2020	31 December 2019
	£ m	£ m
Cash in hand and bank balances	0.5	0.1
Money market funds and deposits	915.0	1,860.5
	<u>915.5</u>	<u>1,860.6</u>

Cash held by the Company is in short-term deposits with approved counterparties.

7 Share capital and premium

	Number of shares	£ m
Authorised, allotted, called up and fully paid		
Ordinary shares of 25p each at 31 December 2020 and 31 December 2019	4	-

8 Dividends proposed and paid

	Year ended 31 December 2020	Year ended 31 December 2019
	£ m	£ m
Dividend declared during the year	2,919.5	-

Dividends of £2,919.5m were proposed and paid in the year ended 31 December 2020 (£729.9m per share) to the Company's immediate parent undertaking, during the year, ASDA Holdings UK Limited. £1,650.0m was paid in cash and £1,269.5m was declared as a dividend in specie settled via a distribution of an intercompany receivable balance. During the prior year, no dividends were proposed nor paid.

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

9 Share premium and other reserves

The changes to each component of equity resulting from items of other comprehensive income for the current year were as follows:

	Share premium £ m	Other reserves £ m	Retained earnings £ m	Total £ m
At 1 January 2020	-	160.2	4,070.1	4,230.3
Profit for the year	-	-	1,644.9	1,644.9
Dividends	-	-	(2,919.5)	(2,919.5)
At 31 December 2020	-	160.2	2,795.5	2,955.7

10 Trade and other payables

	31 December 2020 £ m	31 December 2019 £ m
Amounts owed to group entities	1,850.6	5,320.2

Intercompany payables incur interest at a fixed rate of 6% (2019: 6%) and are repayable on demand.

Following the year end, the intercompany payable to ASDA Holdings UK Limited was settled as part of the Sale and Purchase Agreement.

11 Commitments

The Company has no financial commitments (2019: none).

12 Ultimate parent company and parent company of a larger group

During the year, the Company's immediate parent was ASDA Holdings UK Limited, a company incorporated in England and Wales.

During the year, the ultimate parent company and controlling party was Walmart Inc. which is incorporated in the USA. Copies of its consolidated financial statements, which include this Group, 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 13 for changes since the Balance Sheet date.

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

13 Events since the Balance Sheet date

Change of ownership

On 16 February 2021, the ultimate parent company and controlling party of ASDA Group Limited ("ASDA"), Walmart Inc. ("Walmart"), announced that 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, had together acquired 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 year end, the intercompany payable to ASDA Holdings UK Limited was settled as part of the Sale and Purchase Agreement.

Brexit

On 1 January 2021, the United Kingdom withdrew from the European Union, there has been no impact on the financial statements for the year ended 31 December 2020.

Interim 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 ("the Company") in relation to the acquisition by Bellis Acquisition Company 3 Limited ("BAC3L") of the Company. The decision states that the CMA believes the transaction gives 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. These undertakings are currently under review by the CMA. The CMA considers that there are reasonable grounds for believing that the undertakings offered jointly by Mr Zuber Issa, Mr Mohsin Issa and TDR Capital LLP, or a modified version of them, might be accepted by the CMA under the Enterprise Act 2002. The IEO restrictions on the extent to which BAC3L, Mr Zuber Issa, Mr Mohsin Issa and TDR are able to participate in the governance of the Company remain in place at the date of approval of the financial statements.

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

13 Events since the Balance Sheet date (continued)

Security pledged over the Group's assets

On 16 February 2021, 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 the shares held in ASDA Stores Limited, and a first ranking floating charge over all present and future assets.

The likelihood of the guarantees being called upon is considered remote.

Borrowing facilities

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

See note 27 of the consolidated financial statements for further detail.