

MCLAGAN INVESTMENTS LIMITED

Reports and Financial Statements
31 December 2016

Registered Number: 2127156

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McLagan Investments Limited

Registered No. 2127156

DIRECTORS

R Burnley Appointed 7 November 2016
A J Clarke Resigned 25 July 2016
S Clarke Appointed 11 July 2016
A Russo

SECRETARY

A Simpson

AUDITORS

Ernst & Young LLP
1 Bridgewater Place
Water Lane
Leeds
LS11 5QR

REGISTERED OFFICE

ASDA House
Southbank
Great Wilson Street
Leeds
LS11 5AD

BANKERS

National Westminster Bank plc
Leeds City Office
8 Park Row
Leeds
LS1 1QS

McLagan Investments Limited

Registered No. 2127156

STRATEGIC REPORT

The directors present their Strategic Report for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the company are retail property investment, development and management. The business will continue to trade on the same basis for the foreseeable future.

The company holds the title for a number of trading sites and receives rental income in relation to these sites from fellow group undertakings of ASDA Group Limited ("the Group"). For an assessment of the risks and uncertainties which are applicable to the Group, as tenants to the company, please refer to the ASDA Group Limited consolidated financial statements.

Due to the inter-company nature of the business, key performance indicators are not applicable.

RESULTS AND DIVIDENDS

The profit on ordinary activities after taxation amounted to £189,609,000 (2015: £195,661,000).

No dividends were paid in the year (2015: £nil).

POST BALANCE SHEET EVENTS

On 10 January 2017, the company made a bonus issue of 181,792,000 ordinary shares at £1 per share, increasing share capital to £449,392,000.

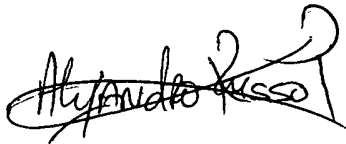
On 10 January 2017, the company received a dividend of in specie of £674,302,000, and a further dividend in the form of a loan note of £250,000,000 from The Burwood House Group Limited, a fellow group company. These dividends were proposed after the balance sheet date (see note 21).

On 10 January 2017, the Company proposed and paid a dividend of £1,768,000,000 to ASDA Group Limited in the form of a loan note issued by the Company to ASDA Group Limited, a fellow group company (see note 21).

KEY PERFORMANCE INDICATORS, RISKS AND UNCERTAINTIES

The key performance indicators, risks and uncertainties of the Group, which includes this company, are noted in the Strategic Report of the Group's Report and Financial Statements, which does not form part of this Report.

On behalf of the board



A Russo
Director
19 July 2017

McLagan Investments Limited

Registered No. 2127156

DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31 December 2016.

FUTURE DEVELOPMENTS

The company's future developments are detailed in the Strategic Report on page 2.

GOING CONCERN

The use of the going concern basis of accounting is appropriate because there are no material uncertainties related to events or conditions that may cast significant doubt about the ability of the company to continue as a going concern.

DIRECTORS' LIABILITIES

ASDA has granted an indemnity to each of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity remains in force as at the date of approving the Directors' Report.

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

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

DIVIDENDS

Dividends paid are detailed in the Strategic Report on page 2.

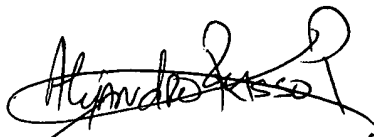
DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

AUDITORS

A resolution to re-appoint Ernst & Young LLP as the company's auditor will be put to the members at the Annual General Meeting.

On behalf of the board



A Russo
Director
19 July 2017

McLagan Investments Limited

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the 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'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MCLAGAN INVESTMENTS LIMITED

We have audited the financial statements of McLagan Investments Limited for the year ended 31 December 2016 which comprises the Income Statement, the Statement of Changes in Equity, the Balance Sheet and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Reports and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework" and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

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

21 July 2017

McLagan Investments Limited

INCOME STATEMENT

for the year ended 31 December 2016

		<i>Year Ended 31 December 2016</i>	<i>Year Ended 31 December 2015</i>
	<i>Notes</i>	<i>£'000</i>	<i>£'000</i>
Revenue	2	419,464	407,999
Operating expenses	3	(66,743)	(43,325)
Operating profit		352,721	364,674
Financial income	5	750	706
Financial costs	6	(130,393)	(140,494)
Profit on ordinary activities before taxation		223,078	224,886
Income tax expense	7	(33,469)	(29,225)
Profit and total comprehensive income for the financial year		189,609	195,661

There were no other items of comprehensive income in the year (2015: None).

The results above are all attributable to continuing operations.

McLagan Investments Limited

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2016

	<i>Share capital</i>	<i>Share premium</i>	<i>Other reserves</i>	<i>Retained Earnings</i>	<i>Total</i>
<i>Notes</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Balance at 1 January 2015	267,600	347,569	181,792	867,774	1,664,735
Profit for the year	-	-	-	195,661	195,661
Balance at 31 December 2015	267,600	347,569	181,792	1,063,435	1,860,396
Balance at 1 January 2016	267,600	347,569	181,792	1,063,435	1,860,396
Profit for the year	14 -	-	-	189,609	189,609
Balance at 31 December 2016	267,600	347,569	181,792	1,253,044	2,050,005

BALANCE SHEET
 as at 31 December 2016

		31 December 2016 £'000	31 December 2015 £'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Intangible assets	8	10,656	21,419
Investment property	9	4,150,113	4,188,914
Investments	10	187,167	187,167
Operating lease prepayments	11	1,348	1,081
		<u>4,349,284</u>	<u>4,398,581</u>
CURRENT ASSETS			
Trade and other receivables	12	12,903	33,253
Cash and cash equivalents		626	557
Operating lease prepayments	11	43	43
		<u>13,572</u>	<u>33,853</u>
TOTAL ASSETS		<u>4,362,856</u>	<u>4,432,434</u>
EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS			
Called up share capital	13	267,600	267,600
Share premium account	14	347,569	347,569
Other reserves	14	181,792	181,792
Retained earnings	14	1,253,044	1,063,435
TOTAL EQUITY		<u>2,050,005</u>	<u>1,860,396</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Deferred tax liabilities	15	13,639	12,243
Provisions	16	2,201	2,151
		<u>15,840</u>	<u>14,394</u>
CURRENT LIABILITIES			
Trade and other payables	17	2,264,000	2,527,304
Income tax liability		33,011	30,340
		<u>2,297,011</u>	<u>2,557,644</u>
TOTAL LIABILITIES		<u>2,312,851</u>	<u>2,572,038</u>
TOTAL EQUITY AND LIABILITIES		<u>4,362,856</u>	<u>4,432,434</u>

The financial statements were approved by the Board of Directors and signed on its behalf by:



A Russo
 Director
 19 July 2017

McLagan Investments Limited

NOTES TO THE ACCOUNTS

as at 31 December 2016

1. ACCOUNTING POLICIES

Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of McLagan Investments Limited (the "Company") for the year ended 31 December 2016 were authorised for issue by the board of directors on 19 July 2017 and the balance sheet was signed on behalf of the directors by A Russo. The company is incorporated and domiciled in England and Wales under the Companies Act 2006 (registration number 2127156).

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 thousand pounds (£'000) except when otherwise indicated.

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

The accounting policies below have, unless otherwise stated, been applied consistently to all periods presented in these Company financial statements.

Basis of preparation

The financial statements are prepared on the going concern basis as there are no material uncertainties related to events or conditions that may cast significant doubt about the ability of the Company to continue as a going concern.

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

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

McLagan Investments Limited

NOTES TO THE ACCOUNTS as at 31 December 2016

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.

There are no estimates and assumptions that are judged to have significant risk of causing a material adjustment to the carrying value of assets and liabilities of the Company.

Revenue

Revenue represents rental income arising from operating leases, with other group undertakings, on investment properties is accounted for on a straight-line basis over the lease term and is included in revenue in the income statement due to its operating nature.

Financial income and costs

Interest income and expenses are recognised on an accruals basis, monthly and on a compound basis.

Intangible assets

Intangible assets relate to the buy-out of lease contracts from third parties and are recorded on initial acquisition 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. 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 expenses. Lease buy out costs are amortised over the lease term.

Investment Property

Property held to earn rental income is classified as investment property and is measured initially at cost, including transaction costs. Following initial recognition, investment properties are carried at cost less any accumulated depreciation and accumulated impairment losses.

Investment properties are depreciated over their estimated useful life, on a straight line basis, as follows:

Freehold Buildings	20-50 years
Leasehold Improvements	Over the shorter of estimated useful life or lease term

There is no depreciation on freehold land. Investment property under construction is held at cost until such time as the property is available for use. Properties held under operating leases are not treated as investment property with the exception of leasehold improvements relating to the leased properties.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognised in the income statement in the period of de-recognition. Transfers are made to or from investment property only when there is a change in use.

McLagan Investments Limited

NOTES TO THE ACCOUNTS

as at 31 December 2016

1. ACCOUNTING POLICIES (CONTINUED)

Capitalisation of interest

Interest costs relating to the financing of properties in the course of construction for trading occupation by the Company or fellow group companies are capitalised gross.

Interest costs incurred in funding land and construction work in progress in respect of property development projects are capitalised over the period of development. The interest rate applied is based on the average rate of general borrowings outstanding for the Group during a period. This was 6.0% during the year ended 31 December 2016 (2015: 6.0%).

All other interest is recognised through the Income Statement on an accruals basis.

Investments

Investments in subsidiary undertakings and partnerships are stated at cost less amounts written off. Provision against the underlying value of investments in subsidiaries is made where, in the opinion of the directors, there is impairment to the value of the underlying business.

Impairment of non-financial assets

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

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash flows that are largely independent from those of other assets or groups of assets. A cash generating unit 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.

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 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. 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, net of depreciation or amortisation, if no impairment loss had been recognised.

Trade and other receivables

Trade and other receivables, other than intercompany loans, are not interest bearing and are stated at their nominal value. Intercompany receivables are interest bearing (6%), unsecured, with no fixed repayment date and are measured at amortised cost.

Receivables and payables 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. Net interest receivable or payable is charged and settled on the net balance.

Trade and other payables

Trade and other payables, other than intercompany loans, are not interest bearing and are stated at their nominal value. Intercompany payables are interest bearing (6%), unsecured, with no fixed repayment date.

Receivables and payables 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. Net interest receivable or payable is charged and settled on the net balance.

McLagan Investments Limited

NOTES TO THE ACCOUNTS

as at 31 December 2016

1. ACCOUNTING POLICIES (CONTINUED)

Leases

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

Company as a lessee

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Other leases are classified as operating leases.

Operating Leases

Rental payments, prepayments and rent free periods are taken to the Income Statement on a straight line basis over the lease term. Lease incentives are recognised in the Income Statement over the lease term.

Provisions

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

Taxation

Taxation comprises current and deferred tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of non-current assets, and gains on disposal of non-current assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold; and
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

McLagan Investments Limited

NOTES TO THE ACCOUNTS

as at 31 December 2016

2. REVENUE AND SEGMENTAL ANALYSIS

Revenue comprises rental income from other companies in the Group. Revenue is derived from the principal activities in the United Kingdom.

The Company is engaged in a single reportable operating segment of business, being retail property investment, development and management in a single geographical segment, the United Kingdom.

All revenue is generated from the rental of investment properties for the purpose of retail trading and distribution. Rental income in the year was £419,464,000 (2015: £407,999,000).

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

3. OPERATING EXPENSES

Operating profit is stated after charging/(crediting):

	<i>Year Ended 31 December 2016 £'000</i>	<i>Year Ended 31 December 2015 £'000</i>
Profit on disposal of investment property	(3,389)	(26,269)
Depreciation of investment properties (note 9)	65,239	58,919
Management fee (income)/expense	(2,969)	331
Rent	7,691	6,253
Amortisation of lease prepayments	18	25
Amortisation of intangible assets (note 8)	135	136
Other costs	18	3,930
	<u>66,743</u>	<u>43,325</u>

McLagan Investments Limited is a guarantor for the ASDA Group Pension Scheme, for which it has received a fee of £200,000 (2015: £200,000). This is included within management fee income above.

4. DIRECTORS' AND AUDITOR'S REMUNERATION

The directors did not receive any remuneration for their qualifying services as statutory directors of the Company during the year. The directors provided qualifying services to other group companies and their remuneration is paid and disclosed in the financial statements of ASDA Stores Limited (2015: £nil). Other than the directors, the Company does not have any employees (2015: nil).

The Company's audit costs of £5,000 (2015: £5,000) are paid by ASDA Stores Limited.

McLagan Investments Limited

NOTES TO THE ACCOUNTS as at 31 December 2016

5. FINANCIAL INCOME

	<i>Year Ended 31 December 2016 £'000</i>	<i>Year Ended 31 December 2015 £'000</i>
Intercompany interest receivable	<u>750</u>	<u>706</u>

6. FINANCIAL COSTS

	<i>Year Ended 31 December 2016 £'000</i>	<i>Year Ended 31 December 2015 £'000</i>
Intercompany interest payable	132,556	143,373
Interest capitalised	<u>(2,163)</u>	<u>(2,879)</u>
	<u>130,393</u>	<u>140,494</u>

McLagan Investments Limited

NOTES TO THE ACCOUNTS

as at 31 December 2016

7. INCOME TAX EXPENSE

The charge for UK corporation tax for the year arises as follows:

	<i>Year Ended 31 December 2016</i>	<i>Year Ended 31 December 2015</i>
	<i>£'000</i>	<i>£'000</i>
CURRENT TAX		
UK corporation tax on profit for the year	32,689	30,340
Adjustments in respect of prior periods	(616)	(223)
TOTAL CURRENT TAX	32,073	30,117
DEFERRED TAX		
Deferred tax on profits of the year	(441)	87
Adjustments in respect of previous periods	2,595	382
Effect of rate change	(758)	(1,361)
TOTAL DEFERRED TAX (note 15)	1,396	(892)
TAX ON PROFIT ON ORDINARY ACTIVITIES	33,469	29,225

A reconciliation of the current tax charge compared to the standard rate of corporation tax in the UK of 20.00% (2015: 20.25%) applied to the profit on ordinary activities before tax is as follows:

	<i>Year Ended 31 December 2016</i>	<i>Year Ended 31 December 2015</i>
	<i>£'000</i>	<i>£'000</i>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	223,078	224,886
PROFIT ON ORDINARY ACTIVITIES MULTIPLIED BY THE STANDARD RATE OF UK CORPORATION TAX 20.00% (2015: 20.25%)	44,616	45,533
Effects of:		
Non-qualifying depreciation	12,165	11,427
Gain on sale of non-qualifying assets	(678)	(5,319)
(Income not taxable)/expenses not deductible for tax purposes	(14)	796
Losses surrendered from group company for no payment	(23,841)	(22,010)
Adjustments in respect of prior periods	1,979	159
Change in tax rate	(758)	(1,361)
TOTAL TAX CHARGE FOR YEAR	33,469	29,225

The standard rate of corporation tax in the United Kingdom for the year is 20.00% (2015: 20.25%). On 15 September 2016 the Finance Act 2016 received Royal Assent and enacted a reduction in the main rate of corporation tax to 17% with effect from 1 April 2020. This will supersede the previously enacted rate change which would have reduced the corporation tax rate to 18% on this date.

Deferred tax has been provided at the rate of 17%, based on the Company's estimate of when timing differences are likely to reverse.

McLagan Investments Limited

NOTES TO THE ACCOUNTS as at 31 December 2016

8. INTANGIBLE ASSETS

	<i>Lease buy out costs</i> <i>£'000</i>
COST	
Balance at 1 January 2016	22,628
Reclassification (note 9)	(10,628)
At 31 December 2016	12,000
AMORTISATION	
Balance at 1 January 2016	1,209
Amortisation during the year	135
At 31 December 2016	1,344
NET BOOK VALUE	
At 31 December 2016	10,656
At 31 December 2015	21,419

Lease buy out costs are being amortised over the lease term.

Reclassification

Lease buy out assets relating to locations where the Company holds long leases with peppercorn rentals were reclassified from intangible assets to investment properties to better reflect the nature of these items. Assets transferred had a gross cost of £10,628,000 and accumulated amortisation of £nil (see note 9).

McLagan Investments Limited

NOTES TO THE ACCOUNTS as at 31 December 2016

9. INVESTMENT PROPERTY

	<i>Investment Properties £'000</i>	<i>Investment Properties under construction £'000</i>	<i>Total £'000</i>
COST			
Balance at 1 January 2016	4,951,666	97,616	5,049,282
Additions	14,143	2,301	16,444
Disposals	(7,666)	-	(7,666)
Transfers from Properties Under Construction	60,174	(60,174)	-
Reclassification (note 8)	10,628	-	10,628
At 31 December 2016	5,028,945	39,743	5,068,688
DEPRECIATION			
Balance at 1 January 2016	860,368	-	860,368
Charge for the year	65,239	-	65,239
Disposals	(7,032)	-	(7,032)
At 31 December 2016	918,575	-	918,575
NET BOOK VALUE AT 31 DECEMBER 2016	4,110,370	39,743	4,150,113
NET BOOK VALUE AT 31 DECEMBER 2015	4,091,298	97,616	4,188,914

All additions are as a result of purchases in the year.

Reclassifications

Lease buy out costs were reclassified from Intangibles to Investment Property to better reflect the nature of these items. Assets transferred had a gross cost of £10,628,000 and accumulated depreciation of £nil (see note 8).

Fair Value of Investment Property

The cost model is applied to investment properties under IAS 40. The estimated fair value of the investment property portfolio at 31 December 2016 is £6,266.4m (2015: £6,257.4m).

Fair Value Techniques

Investment property fair values are calculated on a rental value per square foot and yield basis based on location. Average observable market rates and yields have been used but have been adjusted based on unobservable inputs such as site size and format. Consequently, properties are classified as having unobservable inputs in the *IFRS 3 Fair Value Measurement* fair value hierarchy (Level 3). Whilst independent valuers have been used to provide these inputs, no formal independent valuation has been obtained for each site and instead, internal expertise is relied upon to value the portfolio.

McLagan Investments Limited

NOTES TO THE ACCOUNTS

as at 31 December 2016

9. INVESTMENT PROPERTY (CONTINUED)

Investment property under construction is included at cost within the estimated fair value of the portfolio because the fair value cannot be reliably measured due to the lack of an active market for such property.

Management have not identified any indicators of impairment.

Items in the Income Statement

Rental income received on investment properties was £419,464,000 (2015: £407,999,000). Direct operating expenses relating to investment properties with rental income are borne by the lessee. There were no operating expenses relating to investment properties where no rental income was received in the year.

Contractual Obligations

As at 31 December 2016, the Company had not entered into any contracts to purchase investment property (2015: £3,500,000).

Capitalised Interest

Cumulative amount of capitalised interest included in the cost of investment properties is £175,906,000 (2015: £173,743,000). Additions in the year include capitalised interest of £2,163,000 (2015: £2,879,000).

10. INVESTMENTS

	£'000
Investment in subsidiary undertakings at 31 December 2015 and 31 December 2016	187,167

Subsidiary undertakings

	<i>Country of incorporation</i>	<i>% of equity held</i>
The Burwood House Group Limited	England & Wales	100
Reach Belvedere Limited	England & Wales	100
Chorley Renaissance Limited	England & Wales	100
Kent Nominees 1 Limited *	Jersey	100
Kent Nominees 2 Limited *	Jersey	100

All investments listed above have 100% ordinary share capital, except for the Burwood House Group which includes 25.3% preference share capital as part of total capital.

All companies are registered at ASDA House, Great Wilson Street, Leeds, LS11 5AD apart from the companies marked * which are registered at Lime Green House, Green Street, St Helier, Jersey, JE1 2ST.

11. OPERATING LEASE PREPAYMENTS

		<i>31 December 2016 £'000</i>	<i>31 December 2015 £'000</i>
Operating lease prepayments	- non current	1,348	1,081
	- current	43	43
		<u>1,391</u>	<u>1,124</u>

Prepayments are amortised over the lease term.

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NOTES TO THE ACCOUNTS

as at 31 December 2016

12. TRADE AND OTHER RECEIVABLES

	31 December 2016 £'000	31 December 2015 £'000
Intercompany receivables	12,903	12,153
Other receivables	-	21,100
	<u>12,903</u>	<u>33,253</u>

As at 31 December 2016, intercompany receivables were in Sterling at a fixed rate of interest and repayable on demand. The fixed interest rate of debt is 6% (2015: 6%).

13. CALLED UP SHARE CAPITAL

Allotted, called up and fully paid

At 31 December 2015 and 31 December 2016

	No.	£'000
Ordinary shares of £1 each	100,000	100
Ordinary redeemable shares of £1 each	267,500,000	267,500
	<u>267,600,000</u>	<u>267,600</u>

Redeemable ordinary shares

The redeemable ordinary shares rank in all respects pari passu with, and have the same rights as, the ordinary shares except that they are redeemable at par, together with any arrears or accruals of dividend calculated up to and including the due date for redemption. The shares are redeemable at the option of the Company on or before 31 December 2099.

On 10 January 2017, following the year end, the company made a bonus issue of 181,792,000 ordinary shares at £1 per share, increasing share capital to £449,392,000. See note 21 for further details.

14. RESERVES

	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2016	347,569	181,792	1,063,435	1,592,796
Profit for the year	-	-	189,609	189,609
Balance at 31 December 2016	<u>347,569</u>	<u>181,792</u>	<u>1,253,044</u>	<u>1,782,405</u>

No dividends were paid in 2016 (2015: £nil).

McLagan Investments Limited

NOTES TO THE ACCOUNTS as at 31 December 2016

15. DEFERRED TAX LIABILITIES

Recognised deferred tax liabilities

Deferred tax liabilities are attributable to the following:

	<i>Liabilities</i>	
	<i>2016</i>	<i>2015</i>
	<i>£'000</i>	<i>£'000</i>
Property, plant and equipment	13,639	12,243
Net tax liabilities	13,639	12,243

Deferred tax has been calculated at 17% on the basis that these balances will reverse predominantly when that rate is in place (2015: 18%).

No provision has been made for deferred tax on potential capital gains which would arise as a consequence of the disposal of properties at revalued amounts as any capital gain should be covered by indexation allowance, rollover relief or capital losses. The Company considers it impractical to quantify the amount of tax which would become payable if rollover relief was not available.

Corporation tax of £37,300,000 (2015: £37,300,000) has been deferred as a consequence of rollover relief claims made in respect of the disposal of certain non-current assets in prior periods.

The company has brought forward capital losses of £78,345,000 (2015: £83,473,000) available to reduce future capital gains. No deferred tax asset has been recognised on the accumulated capital losses due to uncertainty of when they may be utilised.

Movement in deferred tax during the year:

	<i>1 January 2016</i>	<i>Recognised in income</i>	<i>Recognised in other comprehensive income</i>	<i>Recognised in equity</i>	<i>31 December 2016</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Property, plant and equipment	12,243	1,396	-	-	13,639
	12,243	1,396	-	-	13,639

Movement in deferred tax during the prior year:

	<i>1 January 2015</i>	<i>Recognised in income</i>	<i>Recognised in other comprehensive income</i>	<i>Recognised in equity</i>	<i>31 December 2015</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Property, plant and equipment	13,135	(892)	-	-	12,243
	13,135	(892)	-	-	12,243

McLagan Investments Limited

NOTES TO THE ACCOUNTS as at 31 December 2016

16. PROVISIONS

	<i>Dilapidations provision £'000</i>
At 1 January 2016	2,151
Provided during the year	10
Discount and inflation changes and unwinding	40
At 31 December 2016	<u>2,201</u>

The dilapidations provision represents provisions for asset retirement obligations. These provisions are expected to crystallise at the end of the lease term of each property.

17. TRADE AND OTHER PAYABLES

	<i>31 December 2016 £'000</i>	<i>31 December 2015 £'000</i>
Intercompany payables	2,263,628	2,527,001
Other payables	<u>372</u>	<u>303</u>
	<u>2,264,000</u>	<u>2,527,304</u>

As at 31 December 2016, intercompany payables were in Sterling at a fixed rate of interest, and repayable on demand. The fixed interest rate of debt is 6% (2015: 6%).

McLagan Investments Limited

NOTES TO THE ACCOUNTS as at 31 December 2016

18. OBLIGATIONS UNDER LEASES

Operating lease agreements where Company is lessee

Future minimum undiscounted lease payments under non-cancellable agreements is payable as follows:

	<i>At 31 December 2016 £000</i>	<i>At 31 December 2015 £000</i>
No later than one year	7,165	6,822
Later than one year and no later than five years	28,619	27,287
Later than five years	311,203	313,036
	<u>346,987</u>	<u>347,145</u>

The Company leases investment property under non-cancellable operating lease agreements. The leases have various terms and renewal rights. They have no purchase options or escalation clauses. Total present value of future minimum lease payments is £101,561,000 (2015: £97,801,000).

Operating lease agreements where Company is lessor

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

	<i>At 31 December 2016 £000</i>	<i>At 31 December 2015 £000</i>
No later than one year	35,069	34,903
Later than one year and no later than five years	-	-
Later than five years	-	-
	<u>35,069</u>	<u>34,903</u>

The Company sub-lets investment property under licence agreements to other group companies. The non-cancellable term of these licences is one month. They have no purchase options or escalation clauses.

19. RELATED PARTY TRANSACTIONS

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

McLagan Investments Limited

NOTES TO THE ACCOUNTS

as at 31 December 2016

20. PARENT UNDERTAKING AND CONTROLLING PARTY

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

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

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

21. POST BALANCE SHEET EVENTS

On 10 January 2017, the company made a bonus issue of 181,792,000 ordinary shares at £1 per share, increasing share capital to £449,392,000.

On 10 January 2017, the company received a dividend of in specie of £674,302,000, and a further dividend in the form of a loan note of £250,000,000 from The Burwood House Group Limited, a fellow group company. These dividends were proposed after the balance sheet date.

On 10 January 2017, the Company proposed and paid a dividend of £1,768,000,000 to ASDA Group Limited in the form of a loan note issued by the Company to ASDA Group Limited, a fellow group company.