Registration number: 02127156

McLagan Investments Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018

Contents

Company Information

Directors	R Burnley
	A Russo (resigned 31 July 2018)
	A Simpson
	R McWilliam (appointed 3 September 2018)
Company secretary	A Simpson
Registered office	ASDA House Southbank 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 2018

The directors present their Strategic Report for the year ended 31 December 2018.

Principal activities and business review

The principal activities of McLagan Investments Limited ("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 intercompany nature of the business, key performance indicators are not applicable.

Results and dividends

The profit on ordinary activities after taxation amounted to £240,308,000 (2017: £1,192,224,000). Profit for the year included £nil dividend income from subsidiary undertakings (2017: £924,302,000).

No dividends were paid during the year (2017: £1,768,000,000).

Key performance indicators, risk 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.

Approved by the Board on 1 May 2019 and signed on its behalf by:

R McWilliam
Director

Directors' Report for the Year Ended 31 December 2018

The Directors present their report and the financial statements for the year ended 31 December 2018.

Future developments

The Company will continue to trade on the same basis for the foreseeable future.

Going concern

The financial statements are prepared on a going concern basis as ASDA Group Limited, the intermediary parent undertaking, has agreed that it will provide financial support to this Company to enable it to meet its liabilities as they fall due.

Dividends

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

Directors' liabilities

The directors are insured against liability in respect of proceedings brought by third parties, subject to the limitations set out in the Companies Act 2006. Such insurance remains in force as at the date of approving the Directors' Report. The insurance is controlled and paid centrally by the ultimate parent company. However, a proportion of this insurance is paid by the Group.

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

Disclosure of information to the auditors

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

Reappointment of auditors

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

Approved by the Board on 1 May 2019 and signed on its behalf by:

R McWilliam
Director

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent Auditor's Report to the Members of McLagan Investments Limited

Opinion

We have audited the financial statements of McLagan Investments Limited for the year ended 31 December 2018 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

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

Independent Auditor's Report to the Members of McLagan Investments Limited (continued)

Other information

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

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

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

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report to the Members of McLagan Investments Limited (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

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

1 Bridgewater Place
Water Lane
Leeds
LS11 5QR

Date: 1 May 2019

Income Statement for the Year Ended 31 December 2018

	Note	Year Ended 31 December 2018 £ 000	Year ended 31 December 2017 £ 000
Revenue	2	424,574	423,681
Operating expenses	3	(62,201)	(60,397)
Income from shares in subsidiary undertakings	4	-	924,302
Operating profit		362,373	1,287,586
Financial income	5	5,746	7,025
Financial costs	6	(128,217)	(135,340)
Profit on ordinary activities before tax		239,902	1,159,271
Income tax credit	7	406	32,953
Profit for the financial year		240,308	1,192,224

There were no other items of comprehensive income in the year (2017: none).

The results above are all attributable to continuing operations.

Statement of changes in equity for the Year Ended 31 December 2018

	Note	Called up share capital £ 000	Share premium account £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2017		267,600	347,569	181,792	1,253,044	2,050,005
Profit for the year		-	-	-	1,192,224	1,192,224
Bonus issue of share capital	13	181,792	-	(181,792)	-	-
Dividends paid	14	-	-	-	(1,768,000)	(1,768,000)
At 1 January 2018		449,392	347,569	-	677,268	1,474,229
Profit for the year	14	-	-	-	240,308	240,308
At 31 December 2018		449,392	347,569	-	917,576	1,714,537

Balance sheet as at 31 December 2018

(Registration number: 02127156)

	Note	31 December 2018 £ 000	31 December 2017 £ 000
Assets			
Non-current assets			
Intangible assets	8	10,370	10,513
Investment properties	9	4,041,665	4,106,257
Investments	10	187,167	187,167
Operating lease prepayments	11	942	1,284
		4,240,144	4,305,221
Current assets			
Trade and other receivables	12	161,108	212,653
Cash and cash equivalents		707	627
Operating lease prepayments	11	40	43
		161,855	213,323
Total assets		4,401,999	4,518,544
Equity and liabilities			
Equity attributable to the shareholders			
Called up share capital	13	449,392	449,392
Share premium account	14	347,569	347,569
Retained earnings	14	917,576	677,268
Total equity		1,714,537	1,474,229
Liabilities			
Non-current liabilities			
Provisions	15	7,491	7,779
Deferred tax liabilities	7	13,029	13,363
		20,520	21,142
Current liabilities			
Trade and other payables	16	2,666,942	3,022,839
Income tax liability		-	334
		2,666,942	3,023,173
Total liabilities		2,687,462	3,044,315
Total equity and liabilities		4,401,999	4,518,544

Approved by the Board on 1 May 2019 and signed on its behalf by:

R McWilliam
Director

Notes to the Financial Statements for the Year Ended 31 December 2018

1 Accounting policies

Authorisation of financial statements
These financial statements of McLagan Investments Limited ("the Company") were authorised for issue by the Board on 1 May 2019 and the balance sheet was signed on behalf of the directors by R McWilliam. The company is incorporated and domiciled in England and Wales under the Companies Act 2006 (registration number 02127156).

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

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

The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. The presentational currency is also the Company functional currency.

Summary of significant accounting policies and key accounting estimates
The principal accounting policies below have, unless otherwise stated, been applied consistently to all periods presented in these Company financial statements.

Going concern
The financial statements are prepared on the going concern basis as the intermediate parent undertaking has agreed that it will provide financial support to this company to enable it to meet its liabilities as they fall due.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

1 Accounting policies (continued)

Changes in accounting policy

New standards, interpretations and amendments effective
The following have been applied for the first time from 1 January 2018:

IFRS 9 - Financial Instruments: Classification and Measurement
IFRS 9 'Financial Instruments' has been applied from 1 January 2018 to replace previous requirements in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including the new expected credit loss ("ECL") model for calculating impairment of financial assets. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Company has assessed the requirements of IFRS 9 on the carrying value of financial assets and the classification of financial assets and has concluded that there is no material impact on the financial statements at 31 December 2018, 31 December 2017 or 1 January 2017. In respect of the ECL model for determining whether financial assets are impaired, management has conducted a review of all material intercompany receivables and determined that each significant counterparty is demonstrably able to settle its liabilities to the Company on demand and in full at 31 December 2018, 31 December 2017 and 1 January 2017. Therefore the probability of default is nil and no impairment charge has been recorded at 31 December 2018, 31 December 2017 or 1 January 2017.

New standards, interpretations and amendments not yet effective
The following newly issued but not yet effective standards, interpretations and amendments, which have not been applied in these financial statements, will or may have an effect on the company financial statements in future:

IFRS 16 - Leases
IFRS 16 replaces existing IFRS lease requirements in IAS 17 Leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for each lease. Lessor accounting is substantially unchanged from the current standard. Application is required for annual periods beginning on or after 1 January 2019. The Company is using a modified retrospective approach and has elected to measure lease assets at an amount based on the lease liability. The Company is applying the short term lease exemption and will recognise rental expense relating to short term leases directly to the income statement.

The Company has reviewed all leases and assessed the impact to the financial statements. The change will have a significant impact on the Company's balance sheet, specifically a material increase to assets and liabilities. It will also materially impact the presentation within the income statement as operating profit will increase and finance costs will increase. Total cash flows are unaffected by the application of IFRS 16.

Details of the Company's operating lease commitments are included in note 17, which show that as at 31 December 2018, the Company had undiscounted operating lease obligations of £335,001,000.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

1 Accounting policies (continued)

Summary of disclosures exemption

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

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

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

Judgements, estimates and assumptions

Management are required to make judgements, estimates and assumptions that affect the application of policies and reported assets and liabilities, income and expenses. Judgements, estimates and assumptions are continually evaluated and are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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 charged to other group undertakings which is accounted for on a straight-line basis over the lease term, and is included in revenue in the income statement.

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 lease buy out costs and are recorded on intial acquistion at cost. Lease buy out costs are amortised over the lease term.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

1 Accounting policies (continued)

Investment property

Property held to earn rental income is classified as investment property and is measured intially at cost, including transaction costs. Following intial 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 lease 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.

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 the development. The interest rate applied is based on the average rate of general borrowings outstanding for the Group during a period. This was 2.95% - 6% during the year ended 31 December 2018 (2017: 2.95% - 6%).

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 the investments in subsidiaries is made where, in the opinion of the directors, there is impairment to the value of the underlying business.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

1 Accounting policies (continued)

Impairment of non-financial assets

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

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

The Company's loans and receivables, including amounts owed by fellow subsidiaries of the ultimate parent company, are held with the sole objective of collecting contractual cash flows and are therefore carried at amortised cost. They are included in current assets except for those with maturities greater than 12 months after the balance sheet date. Intercompany receivables are interest bearing (2.95% - 6%), unsecured and are repayable on demand.

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 the net basis, or realise the asset and settle the liability simultaneously. Net interest receivable or payable is charged 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 (2.95% - 6%), unsecured and repayable on demand.

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 the net basis, or realise the asset and settle the liability simultaneously. Net interest receivable or payable is charged on the net balance.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

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 fulfillment 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.

Taxation

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

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

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

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

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

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.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Segment reporting

Revenue comprises the rental income from other companies in the Group. Revenue is derived from the principal activities in the United Kingdom and excludes value added tax.

The Company is engaged in a single reportable operating segment of business, being retail property investments, 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 £424,574,000 (2017: £423,681,000).

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) the following:

	Note	Year ended 31 December 2018 £ 000	Year ended 31 December 2017 £ 000
Amortisation of intangible assets	8	143	143
Depreciation on investment property	9	65,492	57,335
Impairment of investment property	9	390	-
Rent		8,601	8,519
Amortisation of operating lease prepayments		37	60
Management fee income		(6,281)	(3,605)
Profit on disposal of investment property		(6,447)	(2,157)
Other costs		266	102
		62,201	60,397

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

3 Operating expenses (continued)

McLagan Investments Limited is a guarantor for the ASDA Group Pension Scheme, for which it has received a fee of £200,000 (2017: £200,000). This is included within management fee income above.

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 (2017: £nil). Other then the directors, the company does not have any employees (2017: nil).

The Company's audit costs of £5,000 (2017: £5,000) are paid by ASDA Stores Limited.

4 Income from shares in subsidiary undertakings

	Year ended 31 December 2018 £ 000	Year ended 31 December 2017 £ 000
Income from shares in subsidiary undertakings	-	924,302

5 Financial income

	Year ended 31 December 2018 £ 000	Year ended 31 December 2017 £ 000
External interest receivable and similar income	21	-
Intercompany interest receivable	5,725	7,025
	5,746	7,025

6 Financial costs

	Year ended 31 December 2018 £ 000	Year ended 31 December 2017 £ 000
Intercompany interest payable	128,217	136,584
Interest capitalised	-	(1,244)
	128,217	135,340

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

7 Income tax

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

	Year ended 31 December 2018 £ 000	Year ended 31 December 2017 £ 000
Current tax		
UK corporation tax on profit for the year	-	-
Adjustments in respect of prior periods	(72)	(32,677)
Total current tax	(72)	(32,677)
Deferred tax		
Arising from origination and reversal of temporary differences	(373)	(313)
Arising from changes in tax rates and laws	39	37
Total deferred taxation	(334)	(276)
Tax credit on profit on ordinary activities	(406)	(32,953)

A reconciliation of the total tax charge compared to the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%) applied to the profit on ordinary activities before tax is as follows:

	Year ended 31 December 2018 £ 000	Year ended 31 December 2017 £ 000
Profit on ordinary activities before tax	239,902	1,159,271
Tax on profit calculated at standard rate	45,581	223,160
Expenses not deductible for tax purposes	18	27
Non-qualifying depreciation	12,170	10,483
Gain on sale of non-qualifying assets	(1,225)	(415)
Adjustments in respect of prior periods	(72)	(32,677)
Losses surrendered from group company for no payment	(56,917)	(55,640)
Dividends received not taxable	-	(177,928)
Change in tax rate	39	37
Total tax credit for year	(406)	(32,953)

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

7 Income tax (continued)

The standard rate of corporation tax in the United Kingdom for the year is 19.00% (2017: 19.25%). 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

Recognised deferred tax (assets) and liabilities

Deferred tax (assets)/liabilities are attributable to the following:

2018	Asset £ 000	Liability £ 000	Net deferred tax liability £ 000
Property, plant and equipment	-	16,725	16,725
Capital losses	(3,696)	-	(3,696)
	(3,696)	16,725	13,029

2017	Liability £ 000
Property, plant and equipment	13,363
Capital losses	-
	13,363

Deferred tax has been calculated at 17% on the basis of when these balances will reverse predominantly when that rate is in place (2017: 17%).

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

The Company has unrecognised brought forward capital losses of £90,366,000 (2017: £100,768,000) available to reduce future capital gains. No deferred tax asset has been recognised in respect of these capital losses due to uncertainty of when they may be used.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

7 Income tax (continued)

Movement in deferred tax (assets) and liabilities during the year:

	At 1 January 2018 £ 000	Recognised in income £ 000	At 31 December 2018 £ 000
Property, plant and equipment	13,363	3,362	16,725
Capital losses	-	(3,696)	(3,696)
Net tax (assets)/liabilities	13,363	(334)	13,029

Movement in deferred tax (assets) and liabilities during the prior year:

	At 1 January 2017 £ 000	Recognised in income £ 000	At 31 December 2017 £ 000
Property, plant and equipment	13,639	(276)	13,363
Capital losses	-	-	-
Net tax (assets)/liabilities	13,639	(276)	13,363

8 Intangible assets

	Lease buy out costs £ 000
Cost	
Balance at 1 January 2018 and 31 December 2018	12,000
Amortisation	
Balance at 1 January 2018	1,487
Amortisation charge	143
At 31 December 2018	1,630
Net book value	
At 31 December 2018	10,370
At 31 December 2017	10,513

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

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

9 Investment properties

	Investment Properties £ 000	Investment Properties under construction £ 000	Total £ 000
Cost			
Balance at 1 January 2018	5,058,440	20,888	5,079,328
Additions	2,400	144	2,544
Disposals	(16,769)	-	(16,769)
Transfers from Properties Under Construction	15,529	(15,529)	-
Intercompany transfers	14,308	-	14,308
At 31 December 2018	5,073,908	5,503	5,079,411
Depreciation			
Balance at 1 January 2018	973,071	-	973,071
Depreciation charge	65,492	-	65,492
Disposals	(9,436)	-	(9,436)
Intercompany transfers	8,229	-	8,229
Impairment	390	-	390
At 31 December 2018	1,037,746	-	1,037,746
Net book value at 31 December 2018	4,036,162	5,503	4,041,665
Net book value at 31 December 2017	4,085,369	20,888	4,106,257

Impairment
Both the operational and non-operational estate are regularly reviewed for indicators of impairment. Following reviews in the year, impairment charges of £390,000 (2017: £nil) were recognised in the income statement.

Intercompany transfers
During the year, assets were transferred from a fellow subsidiary undertaking to McLagan Investments Limited at book value. Assets transferred had a gross cost of £14,308,000 and accumulated depreciation of £8,229,000 and this has been recorded as an increase in intercompany payables.

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 2018 is £6,517.9m (2017: £6,551.2m).

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

9 Investment properties (continued)

Fair value techinques
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 and 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.

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 in the fair value of the investment property portfolio.

Items in the Income Statement
Rental income received on investment properties was £424,574,000 (2017: £423,681,000). 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 2018, the Company had not entered into any contracts to purchase investment property (2017: £nil)

Capitalised Interest
Cumulative amount of capitalised interest included in the cost of investment properties is £177,150,000 (2017: £177,150,000).

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

10 Investments

	£ 000
Investment in subsidiary undertakings at 31 December 2017 and 31 December 2018	187,167

Subsidiary undertakings

Name of subsidiary	**Country of incorporation**	**% equity held**
The Burwood House Group Limited	England & Wales	100%
Reach Belvedere Limited	England & Wales	100%
Chorley Renaissance Limited	England & Wales	100%
Kent Nominee 1 Limited *	Jersey	100%
Kent Nominee 2 Limited *	Jersey	100%

All investments listed above have 100% ordinary share capital.

All companies are registered at ASDA House, Southbank, Great Wilson Street, Leeds, LS11 5AD apart from companies marked * which are registered at 12 Castle Street, St Helier, Jersey, JE2 3RT

11 Operating lease prepayments

	31 December 2018 £ 000	**31 December 2017 £ 000**
Operating lease prepayments - current	40	43
Operating lease prepayments - non current	942	1,284
	982	1,327

Prepayments are amortised over the lease term.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

12 Trade and other receivables

	31 December 2018 £ 000	31 December 2017 £ 000
Intercompany receivables	161,108	212,653

As at 31 December 2018, intercompany receivables were in Sterling at a fixed rate of interest and repayable on demand. The fixed interest rate of debt is 2.95% - 6% (2017: 2.95% - 6%).

13 Called up share capital

Number of shares
Authorised, alloted, called up and fully paid

	Number of ordinary shares	Number of redeemable ordinary shares	Total number of shares
At 1 January 2018 and 31 December 2018	181,892,000	267,500,000	449,392,000

Share Capital Value (£'000)
Authorised, allotted, called up and fully paid

	Class A ordinary shares £ 000	Redeemable ordinary shares £ 000	Total share capital £ 000
At 1 January 2018 and 31 December 2018	181,892	267,500	449,392

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

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.

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

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

14 Reserves

Reconciliation of movement in reserves is as follows:

	Share premium £ 000	Retained earnings £ 000
Balance at 1 January 2018	347,569	677,268
Profit for the year	-	240,308
Balance at 31 December 2018	347,569	917,576

No dividends were paid during 2018. On 10th January 2017, the Company proposed and paid a dividend of £1,768,000,000 (£3.93 per share) to ASDA Group Limited in the form of a loan note issed by the Company to ASDA Group Limited.

15 Provisions

	Dilapidations £ 000
At 1 January 2018	7,779
Unused provisions reversed	(593)
Increase due to unwinding of discount	305
At 31 December 2018	7,491

The dilapidations provision represents provisions for the cost of repairs to leasehold properties at the end of their lease term. The unused provisions reversed during the year is accounted for within disposals as an decrease in the cost of property, plant and equipment and the impact of this will be recognised as a reduction in depreciation over the lease terms of the sites to which the provision relates.

16 Trade and other payables

	31 December 2018 £ 000	31 December 2017 £ 000
Intercompany payables	2,663,621	3,021,896
Other payables	3,321	943
	2,666,942	3,022,839

As at 31 December 2018, intercompany payables were in Sterling at a fixed rate of interest, and repayable on demand. The fixed interest rate of debt is 2.95% - 6% (2017: 2.95% - 6%).

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

17 Obligations under leases

Operating leases

Operating lease agreements where Company is lessee

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

	31 December 2018 £ 000	31 December 2017 £ 000
No later than one year	7,355	7,381
Later than one year and no later than five years	29,249	29,462
Later than five years	298,397	310,542
	335,001	347,385

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.

Operating lease agreements where Company is lessor

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

	31 December 2018 £ 000	31 December 2017 £ 000
No later than one year	35,359	35,244
	35,359	35,244

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.

18 Related party transactions

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

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

19 Parent undertaking and controlling party

The immediate parent undertakings 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 Walmart Inc which is incorporated in the USA. Copies of its consolidated financial statements, which include this company, can be obtained from the Company Secretary, Walmart Inc., Corporate Offices, 702 SW 8th Street, Bentonville, AR72716, USA.