Registration number: 00464777

ASDA Stores Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2021

Contents

Company Information

Directors	R Burnley (resigned 6 August 2021) R McWilliam (resigned 31 July 2021) M Issa (appointed 18 June 2021) Z Issa (appointed 18 June 2021) M Dale (appointed 18 June 2021) G Lindsay (appointed 18 June 2021) J Fallon (appointed 31 July 2021, resigned 18 July 2022) S Nuttall (appointed 18 July 2022)
Company secretary	H Selby
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 2021

The Directors present their Strategic Report for the year ended 31 December 2021.

Principal activity

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

Change in ownership

The immediate parent undertaking of the Company is ASDA Group Limited ("ASDA"). On 16 February 2021, the ultimate parent company and controlling party of 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 £6.7 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 Holdings UK Limited ("AHUKL") - and as such, Mohsin and Zuber Issa and TDR Capital jointly control ASDA.

Operational headlines and strategic priorities

Sales, operating profit and profit before tax
During the year, sales excluding fuel and VAT increased by 0.6% to £20,409.4m (2020: £20,297.1m), driven by an increase in clothing and general merchandise sales offset by a decrease in grocery volumes as we annualised strong comparatives. General merchandise sales performed positively in the year especially across the Homeware and Outdoor categories as customers invested in updating both inside and outside of their homes. Clothing sales increases were driven by our continued position as market leader in Baby, Kidswear and Schoolwear alongside recovery in adult fashion following the COVID-19 lockdowns in 2020. Revenue including fuel increased by 3.2% to £23,473.9m (2020: £22,743.7m) driven by an increase in fuel sales.

Operating profit of £431.5m (2020: £210.6m) has increased 104.9% during the year due primarily to a year-on-year reduction of COVID-19 costs of £187.0m and increases in higher margin non-grocery sales offset against an increase in investments to support the resilience of our supply chain. COVID-19 costs were as a result of significant investment in:

- Enhanced cleaning measures, personal protective equipment and other measures to create a safe shopping environment for our colleagues and customers; and,
- Costs of supporting vulnerable colleagues whilst shielding from COVID-19.

The reduction in COVID-19 related costs also includes non-recurring costs in the prior year, primarily:

- 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 the first lockdown of 2020;
- Goodwill payments to suppliers relating to cancellation of purchase orders; and,
- The incremental costs of servicing a substantial and rapid increase in demand for Online Grocery in the prior year via home delivery and click and collect.

Strategic Report for the Year Ended 31 December 2021 (continued)

An increase of £336.1m to a profit before tax of £302.5m (2020: £33.6m loss) is due to the increase in operating profit noted above, the gain on the sale-and-leaseback of £63.1m recognised during the year, see note 8, and an increase in financial income of £86.0m due to an increase in intercompany interest receivables partially offset by an increase in financial costs of £33.9m driven by an increase in lease interest cost in the year.

An increase of £331.8m to a profit after tax of £228.6m (2020: £103.2m loss) is due to the increase in pre-tax profit noted above and an increase in the tax expense for the year of £4.3m (2021: £73.9m compared to 2020: £69.6m).

Balance Sheet
Net assets of £4,354.5m (2020: £4,094.6m) have increased in the year due primarily to the profit after tax for the year of £228.6m.

Events since the balance sheet date

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

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

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

Strategic Report for the Year Ended 31 December 2021 (continued)

Section 172 Statement

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

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

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

Regarding the Company's wider stakeholders, the ASDA Group Limited executive committee (the "Executive Committee"), consists of Mohsin Issa, the Chief Financial Officer ("CFO"), Chief People and Corporate Affairs Officer, the Senior Vice President ("SVP") - Retail Operations, the SVP - Chief Commercial Officer Food, the Managing Director - George and General Merchandising; the SVP - E-Commerce, Chief Transformation Officer, the Chief Customer Officer and the General Counsel and Company Secretary. The Executive Committee meets both monthly and weekly, during which feedback from various business areas, with particular focus on specific stakeholder groups, is provided.

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

The Directors and Executive Committee regularly review the Company's principal stakeholders, who are material to the Company's long-term success, and how the Directors and (wider Executive Committee) engage with them. The sections below set out a more detailed summary of the Company's relationships with its key stakeholders and how the Directors engage with those stakeholders.

The outcome of stakeholder engagement is taken into account in the formulation and ongoing review of the long-term strategy and financial planning to ensure that the Company's approach continues to deliver sustainable returns and promotes reputational reward. The Directors and Executive Committee 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 2021 (continued)

Key Stakeholder Engagement

Investors

On 16 February 2021 following the sale of the ASDA Group Limited group ("the Group"), TDR Capital LLP, along with, Mohsin Issa and Zuber Issa (the "Issa Brothers") became key stakeholders of the Company and the Group, who together have provided equity capital to partially fund the acquisition of ASDA. The Competition and Markets Authority however imposed an Interim Enforcement Order ("IEO") which imposed certain legal restrictions on ASDA management, TDR Capital LLP and the Issa Brothers until the IEO was lifted on 16 June 2021.

Why?

Until 16 February 2021, the former ultimate parent, Walmart Inc. ("Walmart"), was a provider of investor capital to ASDA. Walmart's investment enabled ASDA to fund growth where customers care and deliver long-term success. As a wholly-owned subsidiary during this period, Walmart required ASDA to deliver a return on their investment.

Following the change in ownership, TDR Capital LLP and the Issa Brothers became the key providers of investor capital to the Company and the Group from 16 February 2021. As a result, the investors require the Group to deliver a return on their investment.

How we engage and key outcomes

Prior to the change in ownership of the Group on 16 February 2021, there was regular communication between Walmart and the Directors of ASDA regarding matters such as the financial performance of the Group and formal sign-off by Walmart on certain key decisions to be taken by the Group, such as major capital expenditure.

Decisions made by the Company are reported to and monitored by the Executive Committee of ASDA Group Limited. The overall performance of the ASDA Group Limited group, which includes this Company, is monitored by investors in Bellis Topco Limited via established governance and regular reporting mechanisms.

As part of the funding for the acquisition of ASDA during the year, an intermediate parent company of the Company, Bellis Topco 2 Limited ("Bellis Topco 2"), issued preference shares to a subsidiary of ASDA's previous ultimate parent company, Walmart and the funds raised from this issue formed part of the initial equity funding of Bellis Acquisition Company 3 Limited which purchased the entire issued share capital of ASDA Group Limited on 16 February 2021. The board of Bellis Topco 2 includes a director who is a member of Walmart's senior leadership team. As a result, the Directors of the Group engage with Walmart via meetings of the Bellis Topco 2 board.

Strategic Report for the Year Ended 31 December 2021 (continued)

Employees

The Group's Chief People Officer (CPO) oversees colleague engagement, noting that the majority of the Group's employees are employed by the Company. The CPO also chairs working group meetings of members of management dedicated to employee matters and ensures that the results of the employee engagement mechanisms referred to below are provided to the Executive Committee. The CPO ensures that the employee perspective is vocalised and considered.

Why?

The Company believes in creating an inclusive culture that supports colleagues to thrive and reach their full potential. Our employees reflect the communities the Company serves, which helps us to engage with our customers.

How we engage and key outcomes

The Company is committed to building an inclusive culture that enables all colleagues to bring their best and true selves to work every day. The Company's Inclusion Network is a digital platform that enables all colleagues across the business to engage on Diversity and Inclusion topics, share their experiences and ask questions. The Company uses Our Inclusion Network to help inform the Company's key focusses and implement improvements that support colleagues to thrive and reach their full potential. The Company's Inclusion Working Groups are teams made up of nominated colleagues from across the Company who each represent one of the core strands of diversity. Partner teams across the Company's home offices act as an advisory board on selected projects to make sure inclusivity is at the heart of what we do. In addition, the Company's Your Voice Groups and YourVoice engagement survey provide output from colleagues and are reviewed by the relevant teams who agitate change through engaging with the Executive Committee 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. The Company's commitment to creating an inclusive environment that reflects the communities we serve allows the Company to attract, recruit and retain high calibre colleagues that represent the Company's core values and the communities that the Company serves.

Strategic Report for the Year Ended 31 December 2021 (continued)

Trade unions and elected representatives

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

Why?

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

How we engage and key outcomes

We have regular engagement with the following groups:

Retail Trade Union (Great Britain) - There is a partnership agreement with the GMB Union for information and consultation purposes for all hourly paid retail employees in England, Scotland and Wales, who are GMB members. A Retail Forum of 10 representatives meet with the Company.

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

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

Unite the Union and the United Road Transport Union (URTU) are also recognised in our Lutterworth CDC depot.

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

Throughout 2021, we continued to have regular discussions with representatives on our response to COVID-19, informed and consulted on proposed organisational change in both our Retail and ALS business, updated on employment policy change and provided regular updates on business performance.

Strategic Report for the Year Ended 31 December 2021 (continued)

Suppliers

The Chief Commercial Officer (CCO) and authorised senior individuals within the CCO's team engage directly with key suppliers, ensuring suppliers' views are considered.

Why?	*How we engage and key outcomes*
The Company aims to maintain trust and engagement with its supplier base. There are clear communication channels to ensure suppliers' views are heard.	The Company is subject to the requirements of the Groceries Supply Code of Practice ("GSCOP") and has formal policies in place around areas such as supplier payment, supplier queries and supplier income, which are in line with the guidance in GSCOP. Senior leadership, within the Company's Trading function, also host and attend supplier conferences to ensure the Company continues to understand suppliers' needs.

Customers

Through internal reporting lines the outcomes of customer engagement are fed back to the customer team (who are represented on the Executive Committee). This ensures that the Company's customers' viewpoints are vocalised to the Executive Committee and taken into account when making decisions.

Why?	*How we engage and key outcomes*
The Company's approach is to accelerate growth, by building on our strategy to provide great value for money. To deliver this, the Company needs to understand the products where price is most critical to its customers.	The Company monitors external data on the prices of key product lines and sets category-specific targets for relative pricing against key competitors. This helps the Company to make targeted price investment decisions which best meet the needs of its customers.
Providing customers with a high standard of product is a key component of attracting and retaining customers.	The Company provides customers with the opportunity to provide feedback on product quality. This is then disseminated amongst the Directors, at meetings of the Executive Committee, at the Company's monthly leaders' meeting (a meeting of all senior Company employees) and the Performance Board (a meeting of senior Company colleagues).

Strategic Report for the Year Ended 31 December 2021 (continued)

Debt Holders

The Company's intermediate parent holding companies up to and including Bellis Finco PLC (together the "Finco Group") raised external debt finance in the form of senior secured notes ("SSNs"), senior unsecured notes ("SUNs"), bridge loans, a revolving credit facility and term loans during the year which financed the acquisition of ASDA by Bellis Acquisition Company 3 Limited. As a result, the holders of the SSNs, SUNs, term loans, revolving credit facility and the bridge loans (together, the "debt holders") are key stakeholders of the Company due to a reliance on the cash flows of the Company to service this debt finance. During the year the bridge loans have been repaid.

Why?

In line with the requirements of the contractual terms of the external debt and to ensure that the debt holders are aware of the financial position and performance of the Finco Group, key events impacting the Finco Group in the period and other factors that impact their interests as lenders to the Finco Group, a quarterly call is held with these stakeholders.

How we engage and key outcomes

On a quarterly basis, members of the senior management of the Finco Group, present the results of the Finco Group to the debt holders. During the year, this consisted of delivery of interim financial statements prepared at the consolidated ASDA Group Limited level under UK-adopted International Accounting Standards (IAS 34) accompanied by an investor presentation which includes relevant Finco Group information and a conference call. This allows direct communication between the Finco Group and these stakeholders. The Finco Group must also adhere to financial covenants imposed by the debt agreements and report compliance to the debt holders. Further to this, the debt holders are able to provide feedback via the Finco Group's Investor Relations team on an ongoing basis, enabling two-way dialogue between with the debt holders throughout the year.

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

During the year, a Joint Governance Forum ("JGF") which included the Company's nominated representatives and Trustees of the AGPS was in place. The JGF ensured that the interests of each stakeholder were represented in the decision-making process. Following the pension buy-out completed on 9 July 2021, Rothesay Life PLC ("Rothesay") have become directly responsible for scheme liabilities.

Why?

Prior to the buy-out, the Company worked closely with the trustees of the AGPS and the insurer to ensure that sufficient funding was in place 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 were circulated by the Company's Pensions team which communicated 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 throughout the process. Rothesay are responsible for the ongoing admin and communications to the members of the AGPS following the buy-out.

Strategic Report for the Year Ended 31 December 2021 (continued)

Community and Charitable Causes

Members of the Executive Team chair the ESG Steering Committee meetings which are attended by senior leaders from relevant areas of the Company. The ESG Steering Committee meets regularly and reports back to the Executive Committee ensuring that the Directors and the wider Executive Team are engaged in the decisions taken and aware of key outputs and actions. Community and charitable activity falls under the scope of the ESG programme, Creating Change for Better, and therefore receives strong oversight. This is separate and distinct from grant-making via the ASDA Foundation, which is the responsibility of and under the governance of the trustees of the ASDA Foundation.

Why?

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

How we engage and key outcomes

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

Environment

The Directors and the wider Executive Committee are aware of the need for the business to operate responsibly and of the impact the Company can have on environmental and social issues. The Executive Committee have promoted the continued acceleration of innovation and focus on sustainability under the strategic Creating Change for Better programme. This programme brings together ASDA's commitments across environmental, social and other responsibility issues, and these commitments were reported publicly for the first time as part of ASDA's Creating Change for Better report in May 2021. Members of the Executive Committee chair the ESG Steering Committee which is attended by senior leaders from relevant areas of the business. The ESG Steering Committee reports back to the Executive Committee.

Why?

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

How we engage and key outcomes

As part of the 2021 reporting, the Company have committed to providing sustainable choices that save our customers money, cut our costs and protect our planet. We have committed to being a net zero carbon business by 2040 and have continued to reduce the Company's carbon footprint through initiatives on energy use and fuel consumption, as well as mapping the Company's full Scope 3 carbon footprint for the first time. In 2021 we committed to setting a Science based target and have been recognised on the Science Based Targets initiative website. We continue to explore ways to radically address packaging waste as we have rolled out our refill zones to additional stores which utilise reusable and returnable bottles and containers. In addition, we are focused on reducing food waste throughout our supply chain. See the Streamlined Energy & Carbon Reporting section of the ASDA Group Limited financial statements for further detail.

Strategic Report for the Year Ended 31 December 2021 (continued)

Key Principal Decisions

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

Repayment and refinancing of the forecourt bridge loan

Part of the financing raised to fund the acquisition of ASDA was an external bridge loan for £750.0m entered into by an intermediate parent company of the ASDA Group Limited group ("the Group") on 16 February 2021 ("the Forecourt Bridge Loan"). The intention of the Directors prior to the acquisition of ASDA was to repay this loan using the proceeds arising out of a proposed sale of the Company's forecourts business to EG Group Limited ("EG Group" or "EG") - "the Forecourts Transaction".

Prior to the acquisition of ASDA and then for a period up to 16 June 2021, the Group was subject to an Initial Enforcement Order ("IEO") served by the Competition and Markets Authority ("CMA"). As a result, there were legal restrictions in place relating to the level of information that could be shared between ASDA management (as acquiree), TDR and the Issa Brothers (as shareholders) and EG Group (as proposed purchaser of the forecourts).

On 16 June 2021, both the ongoing restrictions imposed under UK Competition Law and the IEO on the acquisition of ASDA by TDR Capital and the Issa brothers were lifted. This allowed ASDA and EG Group's teams to share commercial information relating to the Forecourts Transaction, which had not been previously possible and resulted in a re-evaluation of the financial parameters of the proposed Forecourts Transaction. As a result, EG and ASDA decided they would no longer proceed with the Transaction, and it was terminated as of 18 October 2021, considering the best interests of the Group and its stakeholders.

Following the decision not to proceed with the Forecourts transaction, on 5 November 2021, having taken into account the Group's cash position, a forecast of the Group's future cash flows, the terms of the Forecourt Bridge Loan and the availability of alternative external financing, the Directors of the intermediate parent company took the decision, as recommended by the Directors of the Company, to repay the Forecourt Bridge Loan along with the fees and interest accrued to that date through the issuance of £500.0m of 4.5% Senior Secured Notes due in February 2026, and Group cash on hand of £255.4m. This refinancing reduces the Group's future cash outflows to service the intermediate parent company's interest liabilities and provides greater certainty over the Group's medium-term cash flows.

Strategic Report for the Year Ended 31 December 2021 (continued)

Warehouse asset sale-and-leaseback transaction
As noted above, on 16 February 2021, Bellis Acquisition Company 3 Limited ("BAC3L") purchased the entire issued share capital of ASDA Group Limited (the "Acquisition"). As part of the financing for this transaction - Bellis Noncore 2 Limited - raised debt finance from an external lender by entering into a bridge loan (the "Warehouse Asset Disposals Bridge Facility").

To secure the Warehouse Asset Disposal Bridge Facility, certain entities within the Group, including the Company, granted first priority mortgages, fixed charges or standard securities, as applicable, over certain of their warehouse assets (the "Warehouse Assets") and retail assets. Prior to the execution of these mortgages, fixed charges, standard securities and pledges, as applicable, and in respect of certain other Warehouse Assets which were not capable of being subject to security at the time of the Acquisition, entities within the ASDA Group, including the Company, entered into lease agreements in respect of certain of the Warehouse Assets.

On 23 and 24 June 2021, following the lifting of the CMA IEO on 16 June 2021, in line with the terms and requirements of the Warehouse Asset Disposal Bridge Facility, the Group, including the Company, transferred the Warehouse Assets to a fellow wholly-owned subsidiary of Bellis Topco Limited, Bellis Select Warehouse Limited ("BSWL"), in exchange for intercompany receivables in favour of subsidiary undertakings within the Group, including the Company. The Warehouse Assets were then leased back to the Company.

From 13 July 2021 to 21 October 2021, following a competitive auction process and following receipt and careful consideration by the Directors of external advice from property specialists relating to the fair value of the Warehouse Assets and the expected level of market rental associated with them, the Warehouse Assets that were transferred to BSWL were sold to entities controlled by a third party, The Blackstone Group. The Warehouse Assets continued to be leased back to the Company on leases carrying a 25 year term with the exception of two lease agreements for Warehouse Assets, which had terms of 1 year.

The Directors considered various matters including the financial impacts on the Company and Group when enacting this series of transactions (together, the "Sale-and-Leaseback Transaction").

Pension buy-out
On 9 July 2021, the trustees of the ASDA Group Pension Scheme ("AGPS") completed a full buy-out of the Scheme with Rothesay Life PLC ("the buy-out"). Following this transaction, from the date of the buy-out, Rothesay Life PLC have become directly responsible for the Scheme liabilities.

Future strategic intention
The Company's primary strategy is designed to provide great value for money. The Company's strategy is to maintain and extend the Company's advantage in offering value for money, increasing the Company's appeal to existing and potential shoppers by ensuring that the Company's prices are competitive. We aim to provide a consistent, trusted experience, incentivising customers not to shop elsewhere, through the creation of attractive store propositions and partnerships that increase the Company's appeal to customers. We serve 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 the Company's growth where customers care, expanding the Company's addressable markets in online grocery, wholesale and community convenience.

Strategic Report for the Year Ended 31 December 2021 (continued)

Principal risks and uncertainties

Risk is an inevitable part of business. On an ongoing basis, the Company identifies principal long, medium and short-term risks, assesses their likelihood and impacts, and develops and monitors appropriate controls. The Executive Committee has overall responsibility for risk management and ensuring that this is aligned with business strategy and objectives. The Executive Committee 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**

  The Company's business is dependent on the economic situation in the United Kingdom and the Company is exposed to local, regional, national and global economic, political, social and other trends that could impact the Company's operations and financial performance.

  COVID-19
  At the date of approval of the Accounts, the Directors recognise that there is still 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;
  • operational impacts including but not limited to resource stretch, maintenance of social distancing and other measures to protect customers and colleagues; and,
  • reputational damage if our management decisions in relation to COVID-19 and its impacts are perceived by consumers to be inadequate or inappropriate.

  The ASDA Compliance team have been working with the relevant home authorities to ensure the safety of customers and colleagues within our stores. All government COVID-19 guidelines are followed within all our offices and stores.

- **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.

  The Executive Committee invests significant time formulating, reviewing, and communicating the Company's business strategy which is delivered through:

  • strategic programmes with allocated programme teams tasked with delivering the objectives set out;
  • regular reviews of relevant data on aspects such as price position, product availability and other measures of quality and service that are important to the Company's customers; and,
  • continuous monitoring of market information to understand the Company's position relative to competitors enabling action to be taken on a timely basis.

Strategic Report for the Year Ended 31 December 2021 (continued)

Principal risks and uncertainties (continued)

- **Brand & 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.

- **Resourcing and capability risk**
  Our ability to attract, retain and develop talented colleagues is important for long-term stability and success. There is a risk that we are unable to attract or retain talented colleagues and key individuals. For further detail on how we drive colleague engagement please see the section 172 statement above. Colleague recruitment and retention levels are monitored and reported to senior leadership with appropriate actions taken to address issues.

  In addition, COVID-19 has resulted in labour supply shortages particularly in relation to store colleagues and HGV drivers, the latter being compounded by the UK's withdrawal from the EU, which could impact our supply chain, product availability and customer service. We continue to work with suppliers to help alleviate the challenges arising from recent supply chain pressures. This includes using our own logistics network to support suppliers in the transportation of products from their manufacturing sites to our distribution centres, and amending ordering profiles to enable suppliers to better manage the efficiency of their production lines.

Strategic Report for the Year Ended 31 December 2021 (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 as they fall due.

  During the year, the immediate parent of the Company has become party to a number of covenants associated with external borrowings drawn down by intermediate parent entities of the Company (see Section 172 report for further detail). There is a risk that the covenants attached to these borrowings are not met which could result in penalties and adversely impact the Company's and Group's ability to secure funding in the future. As such, covenant compliance is continuously monitored and managed.

  Certain transactions with suppliers are denominated in foreign currencies. Cash flows can be affected by movements in exchange rates, primarily US Dollars and Euros. 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.

  The Treasury function ensures that the Company continues to have sufficient funding by monitoring rolling forecasts of the Company's cash flows, which includes the Company's ability to service its debt obligations. The Company's objective is to maintain a balance between continuity of funding and flexibility using operating cash flows and intercompany balances.

  The Company has arrangements with a number of third party financial institutions that allows a number of the Company's suppliers to participate in Supply Chain Finance ("SCF"). There is no significant liquidity risk in relation to SCF as suppliers using the facilities are on industry-standard terms and were this to be withdrawn there would be no significant impact on the Company's working capital, as payments would be made directly to the majority of suppliers on the same terms. Furthermore, the liquidity risk is spread across a number of different financial institutions.

- **Regulatory and compliance risk**
  We are subject to extensive, increasingly stringent and frequently changing laws and regulations and increased scrutiny from regulators and enforcement authorities, including in relation to advertising, food and product safety, health and safety matters and the environment, and both compliance and non-compliance therewith could impose substantial liabilities and costs and have a material adverse effect on our business, financial condition and results of operations.

  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.

  Robust policies, procedures and training are in place and we have an established Legal & Compliance Programme designed to ensure compliance with relevant legal and regulatory requirements across key subject areas including but not limited to GSCOP, Health & Safety, Privacy, Financial Services and Anti-Bribery.

  Any claims could result in litigation against the Company and could also result in regulatory or legal proceedings being brought against the Company. 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.

Strategic Report for the Year Ended 31 December 2021 (continued)

Principal risks and uncertainties (continued)

- **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 Legal and Compliance 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.

- **Sourcing and supply chain risk**
  There is a risk that we fail to meet customer demand and maintain product availability due to pressure on our supply chain significantly increasing as a result of COVID-19, labour shortages within the food manufacturing supply chain, a lack of container capacity within global shipping, increases in wholesale energy prices, shortages of certain raw materials such as CO2, increases in commodity prices which have resulted in input price inflation within the supply chain and significant short-term increases in demand for certain products. There is no assurance that such pressures will not increase in the future which could materially increase our costs and impact our business. Sourcing and supply chain challenges could also be exacerbated through climate change as adverse weather conditions increasingly disrupt our ability to source, transport and deliver goods, whilst also impacting our customers' ability to access our stores.

  In addition, there is a risk that products are not sourced in a responsible and sustainable way.

  These risks could have an adverse impact on our brand, reputation, colleagues, customers, operations and regulatory standing. The Company has supplier audit procedures to monitor adherence to required standards as well as established policies on sourcing. We also continue to work with suppliers to help alleviate the challenges arising from recent supply chain pressures.

- **Supplier and third party risk**
  We rely on certain suppliers and partners, some of which are third parties, and any failure by these suppliers and partners to comply with obligations could have an adverse impact on our brand, reputation, business, results of operations and financial condition. Services including but not limited to technology, payments, cleaning and maintenance and consumables are provided by these suppliers and therefore any failure could ultimately impact our ability to meet customer demand. In addition, our agreements with these suppliers and partners may be subject to adjustments that could increase our expenses. Procurement policies and processes are in place including key supplier performance management, vendor set up and contract management. Where areas of over-reliance on a single supplier are identified appropriate mitigating actions and plans are put in place.

- **Operating costs**
  Our cost base, including but not limited to the cost of goods for resale and associated supply chain expenses, employment costs, business rates levied on the property estate, lease expenses relating to commercial property and equipment leases, and utilities costs may be subject to external factors that could increase expenses incurred by the Company and have an impact on our business, results of operations and financial condition. Macroeconomic headwinds are forecast and savings identified to mitigate these impacts.

- **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. A 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 2021 (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 Privacy team to ensure all required areas of expertise and process for the program is fit for purpose and for the future.

- **Systems risk**
  Failure of our IT infrastructure or key IT systems could lead to loss of earnings, regulatory fines, limit our ability to operate effectively and have a negative impact on our reputation. 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.

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

  A dedicated programme team has been created and key partners identified to deliver the separation. Walmart will continue to provide services to ASDA under a Transitional Services Agreement. This includes continuity of existing IT services and support whilst independent systems are developed and implemented.

Approved by the Board on 9 September 2022 and signed on its behalf by:

SNuttall

S Nuttall
Director

Directors' Report for the Year Ended 31 December 2021

The Directors present their report and the financial statements for the year ended 31 December 2021.

Future developments

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

Going concern

The financial statements for the year ended 31 December 2021 have been prepared on the going concern basis as the Directors have determined that the Company has sufficient resources and liquidity facilities to meet its liabilities as they fall due for the period from the date of approval of the accounts up to 31 December 2023. The directors of ASDA Group Limited have provided a letter of support to the Company stating that ASDA Group Limited will provide financial support to the Company to enable it to continue to meet its liabilities as they fall due from the date of approval of the financial statements up to 31 December 2023.

In assessing the Group's ability to adopt the going concern basis, the directors of ASDA Group Limited (the "Group 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 2023, in the event of various cash flow scenarios, including a severe but plausible downside scenario. This scenario applies severe but plausible economic downsides to a base case forecast, modelling the impact of a decline in the Group's participation in the UK grocery market from planned growth in the base case forecast alongside the risk of continued food and utilities inflation. Furthermore, the Group Directors have considered the likely impacts on the business of increased levels of political instability and uncertainty arising out of external events which have occurred subsequent to the balance sheet date and are ongoing at the date of approval of the financial statements. The Group Directors are satisfied that the potential economic impacts of these events are adequately taken into account in the severe but plausible downside scenario.

As a result of the change in ownership, the Group is a guarantor to external debt raised by its parent undertakings. The interest payments on the external debt held in the Group's intermediate parent entities are serviced from the Group's cash flows. As such, interest cash flows relating to this debt have been reflected in 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 capital expenditure and discretionary spend.

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

At the date of approval of the accounts, the Directors of the Group and Company are satisfied that in the event of the severe but plausible downside scenario occurring, the Group would meet its liabilities as they fall due up to 31 December 2023.

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

Dividends

Dividends of £nil were paid during the year (2020: £1,350.0m).

Directors' Report for the Year Ended 31 December 2021 (continued)

Wates corporate governance principles for large private companies

Introduction

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

Role of ASDA Group Limited

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

Similarly, it is relevant to highlight the role of the board of Bellis Topco 2 Limited ("Bellis Topco 2" or "Bellis") which is also not required by the regulations to report on which corporate governance code it has applied. Bellis Topco 2 is a wholly owned subsidiary of the Company's ultimate parent company, Bellis Topco Limited. The board of Bellis Topco 2 comprises key representatives of the investors, specifically TDR Capital LLP, Mohsin and Zuber Issa and Walmart, Inc. The directors of Bellis meet regularly and have oversight of the operation of the Company and the ASDA group of companies (the "Group"). In addition, certain Company and Group decisions require approval by board of directors of Bellis.

The Company is the principal trading entity within the Group. The principal activity of the Company is included in the Strategic Report.

ASDA Group Limited has established an executive committee (the "Executive Committee"), which consists of Mohsin Issa, the Chief Financial Officer ("CFO"), the Chief People and Corporate Affairs Officer, the Senior Vice President ("SVP") - Retail Operations, the SVP - Chief Commercial Officer Food, the Managing Director - George; the SVP - E-Commerce, Chief Transformation Officer, the Chief Customer Officer and the General Counsel and Company Secretary. The Executive Committee meets both monthly and weekly to discuss and make operational decisions relating to the Company which are in turn implemented by the directors of the Company (the "Board").

Purpose and Leadership

Mission, Purpose and Strategy

Our primary strategy is designed to provide great value for money. Our strategy is to maintain and extend our advantage in offering value for money and increasing our appeal to existing and potential shoppers by ensuring that our prices are competitive. 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.

Directors' Report for the Year Ended 31 December 2021 (continued)

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

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

These values are deeply embedded across the business and are supported by "Being ASDA", a set of behaviours which are expected to be adopted and demonstrated by all colleagues across stores, distribution centres and home offices:
• I have a customer mindset;
• I am results orientated;
• I am a team player;
• I engage people;
• I am innovative; and,
• I do the right thing.

These behaviours are key to the Company's culture and are embedded in the Company's ways of working. These behaviours are exhibited by the Board and the Executive Committee and various mechanisms have been adopted to ensure that these behaviours are continually communicated to colleagues, such as through inductions, ongoing training, appraisals and company-wide briefings. The Company also seeks to recruit colleagues who are aligned to these values by assessing a potential candidate's suitability for a particular role based on these behaviours. Importantly, the Company appraisal process measures not only what colleagues have delivered but how they have delivered against these behaviours.

The Board and Executive Committee monitor culture through a bi-annual colleague "Your Voice" survey. This provides colleagues with the chance to provide anonymous feedback and helps the Board and Executive Committee to take action to address any colleague concerns and feedback, as well as any issues with levels of engagement with the Company, its strategy, its culture and each colleague's role in that journey. The survey and any resulting action plans have Board and Executive Committee input and visibility, which ensures the Board and Executive Committee are closely monitoring colleagues' views and company culture. Details as to how engagement with colleagues impacts decision-making can be found in the Section 172 statement within the Strategic Report. Other key means of maintaining open and constructive communication and engagement between colleagues, the Board and Executive Committee include: "colleague voice" (a working group focused on making improvements to the working environment for colleagues), Our Inclusion Network and Inclusion Working Groups (a working group focused on creating an inclusive culture which supports colleagues to thrive and reach their full potential), regular company-wide business meetings and interaction with trade unions.

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

Directors' Report for the Year Ended 31 December 2021 (continued)

Board and Executive Committee communications to colleagues of the Company's performance is delivered regularly through a variety of methods including monthly leadership meetings, regular company-wide meetings and company-wide email communications from the Executive Committee and colleague communications team. There is an established process for weekly team huddles where key business performance data and key business news is cascaded to all areas of the Company. The Company also engages with employee representatives and trade unions where applicable to ensure that the best interests of the employees are considered. For further detail of the Company's engagement with trade unions please see the Section 172 statement within the Strategic Report.

The Company is also committed to supporting the wider community and its external stakeholders. For example, the Company and its affiliate charity The ASDA Foundation donate to several national and local charities to provide a positive contribution to the communities in which the Company operates. Furthermore, the Company is fully aware of its environmental responsibilities and has recently enacted several initiatives to reduce the impact it may have on the environment, including a commitment to being a net zero carbon business by 2040; continued reductions in our carbon footprint through initiatives on energy use and fuel consumption; and exploring ways to deliver continued reductions in packaging waste and food waste. For further details please see Section 172 within the Strategic Report.

Directors' Report for the Year Ended 31 December 2021 (continued)

Board and Executive Committee Composition

Oversight of the Company's Board of Directors is provided by the Executive Committee of Asda Group Limited and the Bellis Topco 2 Board, with authority formally delegated to a number of committees established during the year which are detailed below.

Executive Committee of ASDA Group Limited

As noted above, the Executive Committee plays a key role in the Company's governance; it makes the key decisions affecting the Company. The below section therefore focuses on the composition and decision-making arrangements of the Executive Committee.

Chair

Meetings of the Executive Committee and the Company are chaired by Mohsin Issa, who is responsible for the board's overall effectiveness, promoting open debate and facilitating constructive discussion.

Balance, Diversity, Size & Structure

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

The scrutiny, review and support provided by the board of Bellis Topco 2 provides an appropriate amount of independent rigour and challenge to the operation and decisions of the Executive Committee and the Company. This includes participation in appointments to the Board and Executive Committee, monitoring the effectiveness of the Board and Executive Committee and implementation of governance approval procedures.

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

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

Directors' Report for the Year Ended 31 December 2021 (continued)

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

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

In addition, our leading ASDA principles give a clear and compelling articulation of what it means to be a great leader in ASDA. These include: Be obsessed about our purpose and our customers, Invest our resources where it matters most, Play for one team, Start with why, connect and make it real, Be bold, move, fail and learn fast and Build a business that makes you proud. These principles ensure that leaders across all levels in ASDA are giving due thought to being an effective leader.

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

Director Responsibilities
Accountability
The members of the Executive Committee receive a detailed on-boarding pack upon appointment detailing their accountabilities and obligations. Individual responsibilities are clearly defined by the HR team and any changes to an Executive Committee member's areas of responsibility and/or reporting lines are briefed to the whole business via colleague email communications. The business as a whole therefore has a clear understanding of each Executive Committee member's responsibilities and remit. Where individuals are directors of separate legal entities within the Group, they are aware of their responsibilities regarding each of these legal entities.

Furthermore, the Executive Committee observe detailed corporate governance procedures and policies. This sets out clear guidelines as to which internal stakeholders within the Company and ownership structure need to be informed, consulted with or be the approver of, certain matters, which ensure that there are appropriate checks and balances before making decisions. The corporate governance framework also allowed the ultimate parent companies during the year to provide independent challenge to the Board and Executive Committee during its review and consideration of any matter that required approval of the Bellis Topco 2 board.

Directors' Report for the Year Ended 31 December 2021 (continued)

Committees
Members of the Board and Executive Committee chair the following committees: the (i) Compliance, Ethics, Risk & Audit Committee (CERA); (ii) Real Estate and Investment Committee; (iii) ASDA Money & Mobile Committee; (iv) Liquidity & Risk Management Committee; (v) Disclosure Committee; (vi) Asda Nomination & Remuneration Committee. ASDA Group Limited remains responsible for all decisions taken by the respective committees. The purpose of each committee is summarised below:

• The CERA committee reviews and monitors the Company's system of internal controls and risk management, internal audit process and compliance with laws, regulations and ethical codes of practice.
• The Real Estate and Investment Committee oversees the Group's (including the Company) capital expenditure programme and certain real estate matters.
• The Asda Money & Mobile Committee has oversight of Asda's Money and Mobile business division, which consists of customer-facing financial products and mobile offering.
• The Liability and Risk Management Committee is a governance and advisory body with respect to cash, liquidity, financial risk management, and any other area relating to risks arising out of financial transactions.
• The Disclosure Committee considers the materiality of the impact of Group information on the investment decisions of investors, assists in the timely determination of disclosure obligations and disclosure controls and procedures. Items discussed and decisions taken by the Disclosure Committee in relation to external financial information published during the year at the ASDA Group Limited level of consolidation and, subsequent to the year end, at the Bellis Finco PLC level of consolidation, may be relevant to financial information published by the Company.
• The Asda Nomination & Remuneration Committee leads the process for Asda Group senior management appointments, including remuneration, planning orderly succession and developing a diverse and sustainable pool of talent.

These committees operate under clearly documented terms of reference which clearly define the scope of authority of such committees. The remit of the committees is regularly reviewed, and the terms of reference are updated as and when required. The committees are also attended by senior leaders and subject matter experts of the relevant business area.

The Executive Committee, including directors of the Company, are actively engaged in the decisions of these committees as they attend certain of these committee meetings. In addition, the output of all committee meetings is reported to the Executive Committee.

Certain key business matters relevant to the Company are reserved for approval by Bellis (and previously Walmart). The directors of the Company and the Executive Committee observe this and ensure that any matters falling within that remit, are considered in the correct forum.

Integrity of information
The Executive Committee are provided with pre-read materials (all the materials to be presented during the meeting) in advance of meetings to ensure optimal use of meeting time. This includes a view of all key aspects of the Group and its performance and includes a review of performance against agreed key performance indicators across the core areas of the Group. The financial information presented is prepared at the consolidated ASDA Group Limited level, which includes the revenues, operating expenses and cashflows of the Company.

In relation to financial reporting, the Board and Executive Committee have established formal and robust internal processes which ensure that the systems and controls in place are operating effectively. This ensures the quality and integrity of information provided to the Board and the Executive Committee is reliable, which allows for better and more informed decision making.

Directors' Report for the Year Ended 31 December 2021 (continued)

The Board and Executive Committee are responsible for identifying and managing risks, and has an established control framework in place, referred to as the Internal Control over Financial Reporting (ICFR) framework. This framework is based on Committee of Sponsoring Organisations (COSO) principles, a globally recognised controls framework, covering 5 key areas:

• Control Environment - tone is set from the top, ensuring ethical behavior and enforces accountability
• Risk Assessment - identifies risks and analyses changes
• Control Activities - selects and develops control activities including IT controls and deploys through policies and procedures
• Communication and Information - uses relevant and accurate information which is communicated internally and externally
• Monitoring - conducts ongoing and specific evaluations, and communicates deficiencies

A formal review of all material financial processes is carried out by the Internal Controls team to ensure that controls in those process have been designed effectively. Key controls within this framework, including IT controls, are tested annually. Any deficiencies in design or operation of controls are reported to the CERA Committee who monitor that appropriate and timely resolution actions are taken.

In the ICFR framework, the Company operates a robust 3 lines of defence model. Control owners perform the controls, these controls are monitored by the Internal Controls team as the second line, and independent assurance is provided by the Internal Audit function, acting as the third line of defence.

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

Risk
The Company has a risk management programme which facilitates identification, mitigation and ongoing monitoring of significant risks. The policies that facilitate delivery of the risk management programme are developed and overseen by the CERA committee. Please see the strategic report for full details of the risks identified and assessed. The Company's enterprise risk management process is comprised of 12 functional risk groups spanning the Company's key operational functions, each with an individual risk register and an overarching enterprise wide risk register. Each key business function has a nominated risk manager who is responsible for updating their respective registers managed through the different divisions of the business. The risk managers also meet on a quarterly basis at the risk manager working group to report information on common risks, share learning and the latest developments in risk management. The CERA committee, which is made up of members of the Board and Executive Committee, monitors the management of the enterprise risks through periodic risk deep dives including progress against risk actions and targets. Each risk is owned by a member of the Executive Committee.

Opportunity
The Strategy Delivery Forum, a cross functional team made up of senior leadership of the Company, meets monthly to assess progress against key strategic initiatives and opportunities. This allows the Company to create and preserve value in the long-term and engage other stakeholders where opportunities are identified. The Strategy Delivery Forum also reports to the Executive Committee on the key value opportunities, which facilitates further visibility and review.

Directors' Report for the Year Ended 31 December 2021 (continued)

Remuneration

The ultimate parent companies during the year, Walmart and Bellis, were involved in the setting of remuneration and policies that affected the directors of the Company and the members of the Executive Committee. Bellis Topco 2 has established a Nomination & Remuneration Committee which leads the process for setting executive director and senior management remuneration within the Group.

Setting remuneration

When setting director remuneration for the Executive Committee and the directors of the Company there is a key focus on the performance of the Company, both in terms of annual results and the long-term sustainable success of the Group. Bonuses are set on annual metrics including profit and sales to ensure a balanced focus on creating value for the Company's investors whilst improving the shopping experience for the Company's customers and ensuring the Company culture is reflected in the customer experience. Furthermore, senior leaders in the business, including directors of the Company, are able to participate in a Management Incentive Plan whereby the level of financial return to participants is directly linked to the valuation of the Business at certain points in the future. In this way, participants in this scheme are incentivised to make decisions which promote and protect the long term value of the Business..

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

Stakeholder Relationships and Engagement

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

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

The Company engages with its colleagues through a variety of methods. Please see earlier sections of this report and Section 172 of the strategic report for more details.

The Company's ultimate parent companies during the year, Walmart and Bellis Topco Limited, were engaged through a variety of means. Please see earlier sections of this report and Section 172 of the strategic report for more details.

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

Directors' Report for the Year Ended 31 December 2021 (continued)

Political contributions

ASDA did not make any political donations during the year (2020: £nil).

Charitable donations

During the year, amounts raised and donated to charitable organisations, including monies raised through product sales and in-store collections, totalled £14.3m (2020: £17.1m). The decrease was primarily due to a one-off donation of £5.0m in the prior year to the Fight Hunger charities. £2.7m was donated to the Fight Hunger charities during the year (2020: £7.9m). The Company also contributed £3.6m to The ASDA Foundation, an affiliate charity of the Group (2020: £3.5m), £4.4m to Breast Cancer Now (2020: £3.6m), £1.1m to CoppaFeel (2020: £0.1m) and £2.5m to Children in Need (2020: £2.0m).

Further to this, during the year, each store and distribution centre nominated a local school with a high deprivation index to receive laptops in order to support home-learning during lockdown; the cost of this attributable to the Company was £1.6m (2020: £nil).

During the year, cash donations to charitable organisations and other community projects made by the Company's affiliate charity, The ASDA Foundation, totalled £4.0m (2020: £4.5m). 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, in addition to other memberships including Inclusive Employers, the LEAD Network, Diversity in Retail and GroceryAid's Diversity in Grocery. 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 colleague 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 42 apprenticeships with over 800 active learners at the end of the year.

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

Directors' Report for the Year Ended 31 December 2021 (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.

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 former ultimate parent company, Walmart Inc.. However, a proportion of this insurance was paid by the Company.

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

Disclosure of information to the auditors

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

Reappointment of auditors

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

Approved by the Board on 9 September 2022 and signed on its behalf by:

SNuttall

S Nuttall
Director

Statement of Directors' Responsibilities

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

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

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

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

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

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

Opinion

We have audited the financial statements of ASDA Stores Limited for the year ended 31 December 2021 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of of the Company's affairs as at 31 December 2021 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. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

- We note the company has received a formal letter of support from ASDA Group Limited ("the Group"), and the directors have considered the ability of the Group to provide support.
- We inspected the formal letter of support, noting it does not contain any caveats.
- To assess the ability of ASDA Group Limited to offer the support we obtained management's going concern assessment, including the cash forecast and forecast covenant calculation which covers the period to 31 December 2023. The Group has modelled a base scenario and a severe but plausible downside scenario in their cash forecasts in order to incorporate unexpected changes to the forecasted liquidity of the Group.
  - We have tested the assumptions included in each modelled scenario for the cash forecast and covenant calculation.
  - We challenged the appropriateness of the methods used to calculate the cash forecasts and covenant calculations and determined that they were appropriately sophisticated to be able to make an assessment on going concern.
  - We have performed procedures over the integrity of the modelling, challenged the cash flows included against external benchmarks and market consensus and the availability of funding included in the assessment.
  - We considered the mitigating factors included in the cash forecasts and covenant calculations that are within control of the Group and agree that they provide potential further liquidity if required. We also verified the credit facilities available to the Group.
  - We have performed reverse stress testing in order to identify what factors would lead to the Group utilising all liquidity or breaching the financial covenant during the going concern period.
- We reviewed the company's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period through 31 December 2023.

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

Other information

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

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to 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 our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 29, 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.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant frameworks directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (International Accounting Standards in conformity with the requirements of the Companies Act 2006 and United Kingdom Generally Accepted Accounting Practice) and the relevant tax laws and regulations in the UK.
- We understood how ASDA Stores Limited is complying with those frameworks by making enquiries of management, Legal & 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 Company's financial statements to material misstatement, including how fraud might occur by meeting with management 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 wider 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 journals, and journals indicating large or unusual transactions based on our understanding of the business; enquiries of management, Legal & Compliance, and Internal Audit. In addition, we completed procedures to conclude on the compliance of the disclosures in the financial statements with the requirements of the relevant accounting standards, and UK legislation.

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

Use of our report

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

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: 14 September 2022

Income Statement for the Year Ended 31 December 2021

	Note	Year Ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Revenue	2	23,473.9	22,743.7
Operating costs	3	(23,042.4)	(22,533.1)
Operating profit		431.5	210.6
Finance income	6	235.6	149.6
Finance costs	7	(427.7)	(393.8)
Other income	8	63.1	-
Profit/(loss) on ordinary activities before tax		302.5	(33.6)
Income tax expense	9	(73.9)	(69.6)
Profit/(loss) for the financial year		228.6	(103.2)

The above results were derived from continuing operations.

Statement of Comprehensive Income for the Year Ended 31 December 2021

	Note	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Profit/(loss) for the year		228.6	(103.2)
Items that will not be reclassified subsequently to profit or loss			
Total remeasurements on defined benefit obligation	21	172.3	(348.2)
(Decrease)/increase in value of BPA asset	21	(171.6)	346.7
Decrease in value of non-BPA asset excluding interest income	21	(13.9)	(93.9)
Tax on items recognised directly in other comprehensive income	9	3.6	28.8
		(9.6)	(66.6)
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges:			
Reclassification during the year to Income Statement	18	30.5	15.5
Net gain/(loss) during the year of the not-yet matured contracts	18	12.8	(31.4)
Tax on cash flow hedges recognised directly in other comprehensive income	9	(8.2)	3.2
		35.1	(12.7)
Other comprehensive gain/(loss) for the year		25.5	(79.3)
Total comprehensive income/(expense) for the year		254.1	(182.5)

Balance Sheet as at 31 December 2021

(Registration number: 00464777)	**Note**	**Year ended 31 December 2021 £ m**	**Year ended 31 December 2020 £ m**
Assets			
Non-current assets			
Intangible assets	10	216.4	167.0
Property, plant and equipment	11	3,801.4	4,034.3
Investments	13	769.7	770.2
Intercompany receivables	15	442.5	-
Deferred tax assets	9	-	55.3
Right-of-use assets	12	11,839.2	11,735.2
Pension asset	21	-	63.4
		17,069.2	16,825.4
Current assets			
Inventories	14	1,096.8	976.1
Trade and other receivables	15	2,643.7	2,641.1
Income tax asset		26.4	59.3
Cash and cash equivalents		156.9	177.4
Assets held for sale	11	-	8.6
		3,923.8	3,862.5
		20,993.0	20,687.9
Equity and liabilities			
Called up share capital	16	757.6	757.6
Share premium account	18	950.3	950.3
Cash flow hedge reserve	18	10.7	(24.4)
Other reserves	18	123.8	118.0
Retained earnings	18	2,512.1	2,293.1
Equity attributable to the shareholders		4,354.5	4,094.6
Liabilities			
Non-current liabilities			
Lease liabilities	19	11,862.2	11,664.9
Provisions	20	196.0	148.6
Employee benefits	21	13.4	50.5
Deferred tax liabilities	9	22.8	-
		12,094.4	11,864.0
Current liabilities			
Trade and other payables	22	4,240.2	4,304.2
Lease liabilities	19	283.9	307.6
Employee benefits	21	-	94.5
Provisions	20	20.0	23.0
		4,544.1	4,729.3
Total liabilities		16,638.5	16,593.3
Total equity and liabilities		20,993.0	20,687.9

Approved by the Board on 9 September 2022 and signed on its behalf by:

SNuttall

S Nuttall - Director

Statement of Changes in Equity for the Year Ended 31 December 2021

	Note	Called up share capital £ m	Share premium account £ m	Other reserves £ m	Cash flow hedge £ m	Retained earnings £ m	Total £ m
At 1 January 2020		757.6	950.3	118.0	(11.7)	3,812.9	5,627.1
Loss for the year		-	-	-	-	(103.2)	(103.2)
Cash flow hedges - reclassified during the year to income statement		-	-	-	15.5	-	15.5
Cash flow hedges - net loss during year on not-yet matured contracts		-	-	-	(31.4)	-	(31.4)
Tax on cash flow hedges recognised directly in other comprehensive income	9	-	-	-	3.2	-	3.2
Total remeasurements on defined benefit obligation	21	-	-	-	-	(348.2)	(348.2)
Increase in value of BPA asset	21	-	-	-	-	346.7	346.7
Decrease in value of non-BPA assets excluding interest income	21	-	-	-	-	(93.9)	(93.9)
Tax on net actuarial losses recognised directly in other comprehensive income	9	-	-	-	-	28.8	28.8
Total comprehensive income		-	-	-	(12.7)	(169.8)	(182.5)
Dividends	17	-	-	-	-	(1,350.0)	(1,350.0)
At 1 January 2021		757.6	950.3	118.0	(24.4)	2,293.1	4,094.6
Profit for the year		-	-	-	-	228.6	228.6
Cash flow hedges - reclassified during the year to income statement		-	-	-	30.5	-	30.5
Cash flow hedges - net gain during year on not-yet matured contracts		-	-	-	12.8	-	12.8
Tax on cash flow hedges recognised directly in other comprehensive income	9	-	-	-	(8.2)	-	(8.2)
Total remeasurements on defined benefit obligation	21	-	-	-	-	172.3	172.3
Decrease in value of BPA asset	21	-	-	-	-	(171.6)	(171.6)
Decrease in value of non-BPA assets excluding interest income	21	-	-	-	-	(13.9)	(13.9)
Tax on net actuarial losses recognised directly in other comprehensive income	9	-	-	-	-	3.6	3.6
Other increase in reserves	18	-	-	5.8	-	-	5.8
Total comprehensive income		-	-	5.8	35.1	219.0	259.9
At 31 December 2021		757.6	950.3	123.8	10.7	2,512.1	4,354.5

Notes to the Financial Statements for the Year Ended 31 December 2021

1 Accounting policies

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

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

These financial statements were authorised for issue by the Board on 9 September 2022.

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

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

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

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

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

1 Accounting policies (continued)

Going concern

The financial statements for the year ended 31 December 2021 have been prepared on the going concern basis as the Directors have determined that the Company has sufficient resources and liquidity facilities to meet its liabilities as they fall due for the period from the date of approval of the accounts up to 31 December 2023. The directors of ASDA Group Limited have provided a letter of support to the Company stating that ASDA Group Limited will provide financial support to the Company to enable it to continue to meet its liabilities as they fall due from the date of approval of the financial statements up to 31 December 2023.

In assessing the Group's ability to adopt the going concern basis, the directors of ASDA Group Limited (the "Group 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 2023, in the event of various cash flow scenarios, including a severe but plausible downside scenario. This scenario applies severe but plausible economic downsides to a base case forecast, modelling the impact of a decline in the Group's participation in the UK grocery market from planned growth in the base case forecast alongside the risk of continued food and utilities inflation. Furthermore, the Group Directors have considered the likely impacts on the business of increased levels of political instability and uncertainty arising out of external events which have occurred subsequent to the balance sheet date and are ongoing at the date of approval of the financial statements. The Group Directors are satisfied that the potential economic impacts of these events are adequately taken into account in the severe but plausible downside scenario.

As a result of the change in ownership, the Group is a guarantor to external debt raised by its parent undertakings. The interest payments on the external debt held in the Group's intermediate parent entities are serviced from the Group's cash flows. As such, interest cash flows relating to this debt have been reflected in 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 capital expenditure and discretionary spend.

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

At the date of approval of the accounts, the Directors of the Group and Company are satisfied that in the event of the severe but plausible downside scenario occurring, the Group would meet its liabilities as they fall due up to 31 December 2023.

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

Enhanced presentation of prior year changes in comprehensive income

The presentation of changes in comprehensive income in the year ended 31 December 2020 resulting from changes in the value of pension assets has been updated in the Statement of Comprehensive Income and the Statement of Changes in Equity to show the increase in the value of the BPA asset separately from the decrease in value of non-BPA pension assets. This is to aid comparability of the year-on-year changes in the value of pension assets.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

1 Accounting policies (continued)

Changes in accounting policy

None of the standards, interpretations and amendments effective for the first time from 1 January 2021 have had a material impact on the financial statements.

New standards, interpretations and amendments not yet effective

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

Summary of disclosures exemption

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

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

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

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

1 Accounting policies (continued)

Judgements, estimates and assumptions

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

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

Judgements

IFRS 16 lease term

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

External Leases:

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

Intercompany leases:

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

In the event of changing circumstances or new information that may impact judgements taken, lease terms will be re-assessed on a lease by lease basis. A quarterly review is performed to identify where re-assessments may be required. Any change in lease term could result in a recalculation of the lease liability and a material adjustment to the associated right-of-use asset. There are no examples of term reassessment in 2021.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

1 Accounting policies (continued)

IFRS 16 discount rate
IFRS 16 requires that lease liabilities are discounted at the interest rate implicit in a lease, or where this isn't available, the Company's incremental borrowing rate. The majority of the Company's leases do not include an interest rate implicit in the lease, and therefore the incremental borrowing rate is utilised to discount these leases.

The incremental borrowing rate is considered a key judgement and under IFRS 16 reflects the rate of interest a lessee would have to borrow over a similar term, with similar security, the funds necessary to obtain an asset of a similar value in a similar economic environment.

We consider the following factors in determining the incremental borrowing rate:
• The risk free rate of return in the UK market; and,
• The credit risk spread which reflects the additional risks associated with lending specifically to the ASDA Group Limited Group ("the Group"), taking account of factors such as our credit rating, the term of the lease, and the geographic location.

The risk free rate is observable in the market and is the base of our calculation, however there is significant judgement in determining the additional credit risk spread specific to the Group on the basis that there is limited market observable data on which to make this judgement, particularly for lease terms in excess of 10 years. As a result we utilise rates from other geographical regions (e.g. US) for companies with a similar credit rating where there is more market observable data on which to base our judgement. The geographical locations utilised, alongside the specific data selected for inclusion are considered a key judgement.

Due to the extent of the Company's lease portfolio, small changes in discount rate can significantly impact the accounting recognition and could result in a material difference to the right-of-use asset, lease liability, and associated depreciation and interest charge recognised in the Income Statement.

Further, the Company has leases for a wide range of different terms, from 1 year to in excess of 100 years. Judgement is used by the Company to apply a cap of 30 years to the discount rate on the basis that data relating to loans for terms in excess of 30 years is rare and as such, no more reliable rate than a 30 year rate can be determined.

The Company also applies judgement in determining the incremental borrowing rate on a quarterly basis. Management have asserted that by updating the incremental borrowing rate on a quarterly basis, we ensure that the discount rate used remains relevant, current and materially correct. Should events and conditions change in the interim period we would consider whether the discount rate should be updated on a more frequent basis.

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).

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

1 Accounting policies (continued)

Supply Chain Finance

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

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

Pension Buy-in
Prior to the buy-out of the ASDA Group Pension Scheme ("the AGPS" or "the Scheme") during the year, the Company retained an obligation to fund pension liabilities of the Scheme in the event of insurer default. As such, the buy-in did not meet the criteria of a settlement event as set out in IAS 19 - Employee Benefits and therefore, prior to the buy-out on 9 July 2021, actuarial gains and losses associated with the buy-in which arose prior to the buy-out have been recognised in other comprehensive income during the current and the prior year. Further detail is provided in note 21.

Pension Buy-out
On 9 July 2021, the trustees of the AGPS completed a buy-out of the Scheme whereby an insurer, Rothesay Life, have become fully and directly responsible for the pension obligations of the Scheme. In the Directors' opinion, this meets the definition of a settlement event per requirements of IAS 19 as the completion of the buy-out represents absolute extinguishment of the Scheme's risk of exposure to pension liabilities and therefore also represents absolute extinguishment of the Company's obligations as sponsoring employer to fund the liabilities of the AGPS. As such, other than £0.5m of assets and liabilities which were outside the scope of the buy-out, the Company has de-recognised all AGPS assets and liabilities during the year. Further details of the resultant impact of the buy-out on other comprehensive income and operating expenses are provided in note 21.

Estimates

Insurance
The insurance provision (note 20) 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.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

1 Accounting policies (continued)

Deferred gain relating to sale-and-leaseback
The Company estimates the gain on sale to be recognised in the Income Statement based on the amount of the gain that relates to the rights transferred to the buyer-lessor. The remaining gain is deferred as a reduction to the right-of-use asset relating to the leaseback. This estimate requires determining the fair value of the properties transferred and calculating the lease liability of the leaseback. As noted in the 'IFRS 16 discount rate' section above, there is inherent judgement included in the determination of the appropriate discount rate. The fair value of properties transferred is determined using third party valuation specialists. Please see further detail on financial amounts in note 8.

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

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

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

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

1 Accounting policies (continued)

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.

Intangible assets include software costs. Software costs capitalised consist of both costs from third parties and costs of internal resources involved in development activities. When considering whether software costs can be capitalised, the Directors perform an assessment of whether the Company controls the underlying asset. Factors considered when assessing whether the Company controls an asset include where and how the software is hosted and the ability the Company has to make changes to the software.

Costs are only capitalised once a project is in the development stage and approval for the project as a whole to be completed has been obtained. Costs incurred in the research stage are expensed as incurred.

In relation to Software as a Service ("SAAS") contracts, where it cannot be demonstrated that the Company controls the underlying assets' development, costs incurred are immediately recognised as an expense in the Consolidated Income Statement other than software licence fees which are included in prepaid expenses and amortised over the period of the respective licence. The factors noted above in relation to how the software is hosted and whether the Company has the ability to make or direct changes directly to the underlying software as part of the SAAS contract are considered as part of this assessment.

Where implementation costs are incurred as part of a SAAS contract, these development costs are separately considered to identify whether they represent an intangible asset in their own right as detailed above. If the Directors conclude that the implementation costs do not meet the recognition criteria of a separate intangible asset, an assessment is then made as to whether the costs represent configuration of the software product or customisation. If configuration, these costs are recognised in the Consolidated Income Statement as incurred, whereas if customisation the Directors will assess whether these costs can be prepaid over the term of the SAAS contract as they cannot be separated from the software product itself.

Costs associated with interim software solutions which do not meet the Company's policy of a 3 year minimum useful economic life are expensed as incurred.

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 years

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

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

1 Accounting policies (continued)

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

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

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

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

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

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

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

Impairment of non-financial assets
The carrying amounts of the Company's non-financial assets are reviewed at each Balance Sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Indefinite lived intangibles are tested annually for impairment regardless of whether any indicators for impairment exist.

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

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

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

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

1 Accounting policies (continued)

Assets held for sale

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

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

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

Investments

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

Provisions

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

Leases

Company as a lessee

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

Lease liability

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

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

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

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

1 Accounting policies (continued)

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

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

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

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

Discount Rate

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

Otherwise, for the majority of leases the rate used is based on an estimated incremental borrowing rate. Further detail on the calculation of the incremental borrowing rate is detailed in the 'Key judgements' section of this note under the heading 'IFRS 16 discount rate'.

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

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

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

1 Accounting policies (continued)

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

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

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

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

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

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

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

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

Financial assets and liabilities
The Company classifies its financial assets and liabilities in the following categories: trade and other receivables, intercompany receivables, derivatives designated as hedges, cash and cash equivalents, interest bearing loans and borrowings, trade and other payables, and intercompany payables. The Company'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 Company assesses financial assets for impairment using the expected credit losses model and recognises impairment losses as required.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

1 Accounting policies (continued)

Non-interest-bearing financial assets and interest-bearing receivables
These categories include trade and other receivables and intercompany receivables which 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.

Non-interest-bearing financial liabilities
The Company's non-interest-bearing financial liabilities include trade and other payables and intercompany payables, which are recognised at amortised cost.

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

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

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

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

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

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

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

Interest-bearing borrowings
The Company's interest-bearing borrowings, including intercompany borrowings and external borrowings, 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. Borrowings are classified as current assets except for those with contractual maturities greater than 12 months after the Balance Sheet date.

Notes to the Financial Statements for the Year Ended 31 December 2021 (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.

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

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

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

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

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

In line with the requirements of IAS 12 - Income Taxes, provisions will be recognised for uncertain tax positions where a risk of an additional tax liability is identified and it is probable that the Company will be required to settle that tax. This will be measured based on management's expectation of the outcome of decisions by the relevant tax authority, assessed on a case-by-case basis using in-house tax experts, professional firms and previous experience.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

1 Accounting policies (continued)

Trade and other receivables
Trade and other receivables are stated at their original invoiced value (discounted if material) and reduced by appropriate allowances for estimated irrecoverable amounts. Impaired debts are derecognised when they are assessed as uncollectible. Current intercompany receivables are interest bearing (0%-6%), unsecured, are repayable on demand and are measured at amortised cost. Non-current intercompany receivables are interest bearing (3.45%-4.75%), unsecured, are repayable at maturity and are measured at amortised cost.

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

Trade and other payables
Trade and other payables, other than intercompany loans, are not interest bearing and are stated at their nominal value. Intercompany payables are interest bearing (0%-6%), unsecured and are repayable on demand. Bank overdrafts that are repayable on demand, to the extent that they are used, are included as a component of current liabilities.

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

Defined contribution pension plans
Obligations for contributions to defined contribution pension plans are recognised as an operating expense in the Income Statement as incurred.

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

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

As described in note 21, a buy-out of the ASDA Group Pension Scheme ("AGPS") was executed during the year on 9 July 2021. As such, the assets and liabilities of the AGPS, other than assets and liabilities amounting to £0.5m for which the Company remains the sponsoring employer, have been de-recognised as pension assets and liabilities. In accordance with the requirements of IAS 19, the settlement loss arising from the de-recognition of pension assets and liabilities at buyout has been recorded as a loss in the Income Statement.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

1 Accounting policies (continued)

Share based payments

For all liabilities arising from share-based payment arrangements the Company has applied IFRS 2 'Share-Based Payments'. All share-based payment liabilities have been settled during the year, following the change in ownership of the Company.

The share option programmes allowed Company employees to acquire shares of the former ultimate parent company, Walmart Inc.; these awards were granted by the Company. The fair value of options granted was initially measured at grant date and spread over the period during which the employees became unconditionally entitled to payment. The charge was recognised as an employee expense, with a corresponding increase in liabilities. The fair value of the share option was measured based on an option valuation model, taking into account the terms and conditions upon which the instruments were granted. The liability was remeasured at each Balance Sheet date and at settlement date and any changes in fair value were recognised in the Income Statement during the vesting period. These share based payment transactions were accounted for as cash-settled.

Revenue recognition

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

Income from concessions and commissions

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

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.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

1 Accounting policies (continued)

Supplier income

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

Supplier income is split into three classifications:

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

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

Supplier income recognised in the Income Statement and accounted for within trade receivables (note 15) at the year-end for which estimation and judgement is required is £0.8m (2020: £1.9m). This represents the net amount of accrued income of £0.8m (2020: £1.9m) and deferred income of £nil (2020: £nil) on deals running across the year-end.

Dividend distributions

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

Contingent liabilities

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

Reimbursement assets

Where it is virtually certain that the Company will be reimbursed by a third party for part or all of the expenditure required to settle a provision then it recognises the reimbursement as a separate reimbursement asset. The amount recognised for the reimbursement is based on the amount that the Company is expected to be reimbursed limited to the amount of the provision recognised. In the Income Statement, the expense relating to the provision is presented separately from the amount recognised for a reimbursement.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Segment reporting

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

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

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

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

	Year ended 31 December 2021 £ m	**Year ended 31 December 2020 £ m**
Sale of goods	20,409.4	20,297.1
Fuel	3,064.5	2,446.6
	23,473.9	22,743.7

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

3 Operating costs

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

	Note	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Cost of inventory recognised as an expense		(17,250.5)	(16,689.7)
Cost of inventory written off in the year		(434.0)	(460.6)
Employment costs	5	(2,729.6)	(2,787.5)
Amortisation of intangible assets	10	(59.0)	(46.7)
Depreciation on property, plant and equipment	11	(321.3)	(306.1)
Depreciation on right-of-use assets	12	(462.3)	(454.9)
Rental income		11.8	8.9
Other income		37.0	28.7
Gain/(loss) on disposal of property, plant and equipment		2.0	(5.5)
Impairment (charge)/reversal of property, plant and equipment	11	(4.0)	0.8
Impairment reversal/(charge) of right-of-use assets	12	1.5	(2.5)
Foreign exchange (losses)/gains		(0.3)	4.5
Impairment of investments		(0.5)	-
Impairment reversal/(charge) in respect of Assets held for sale		0.5	(1.0)
Amounts paid to auditors			
Fees payable to the Company's auditors for the audit of the Company and Group financial statements		(0.9)	(0.9)
Fees payable to the company's auditors for other assurance services		-	(0.3)

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

4 Directors' remuneration

The Directors' remuneration for the year was as follows:

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Directors' remuneration	3.6	4.0
Share-based payments	2.8	0.8

During the year, an emoluments cost of £2.3m was incurred by the Company in respect of compensation for loss of office (2020: £nil). This is not included in the directors' remuneration disclosed above.

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

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

	£ m	£ m
Total remuneration excluding pensions	2.6	2.7
Total share-based payments	2.8	0.8
Total accrued pension at the year end	-	-

During the year, an emoluments cost of £2.3m was incurred by the Company in respect of compensation for loss of office for the highest paid Director (2020: £nil). This is not included in the directors' remuneration disclosed above.

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

One director was a deferred member of the defined benefit scheme (2020: one). Following the pension buy-out on 9 July 2021, the Company extinguished its responsibility for funding the ASDA Group Pension Scheme, see note 21 for details.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

5 Employee numbers and costs

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

	Year ended 31 December 2021 No.	Year ended 31 December 2020 No.
Total		
Retail & Distribution	139,292	137,257
Home offices	4,057	3,898
	143,349	141,155
Full time equivalents		
Retail & Distribution	83,926	83,337
Home offices	3,904	3,758
	87,830	87,095

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

	Note	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Wages and salaries	21	2,442.1	2,424.9
Share-based payment expenses	21	17.5	102.6
Social security costs	21	142.7	141.3
Other pension costs	21	127.3	118.7
		2,729.6	2,787.5

Other pension costs comprise the cost of the defined contribution schemes and the settlement relating to the buy-out of the ASDA Group Pension Scheme. All pension related costs and income are disclosed in note 21.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

6 Finance income

	Note	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Dividend income from subsidiary undertakings		88.9	1.3
Net interest income on pension scheme	21	-	0.1
Intercompany interest receivable		146.7	148.2
		235.6	149.6

7 Finance costs

	Note	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Other interest payable		1.5	-
Intercompany interest payable		47.1	42.3
Lease interest		375.9	351.5
Net interest cost on pension scheme	21	2.3	-
External interest		0.9	-
		427.7	393.8

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

8 Sale-and-leaseback

On 23 June 2021, the Company entered into the sale-and-leaseback of three of its distribution properties. The properties were sold at fair value to a related party, Bellis Select Warehouse Limited (BSWL), prior to disposal to a third party.

In accordance with IFRS 15, it was determined that the transfer of the distribution properties to BSWL for proceeds of £171.3m is considered a sale. In the year ended 31 December 2021, assets relating to the distribution properties with a Net Book Value of £67.7m were sold to BSWL and the Company has recognised a gain on sale of £63.1m representing the amount of the gain that relates to the rights transferred to the buyer-lessor. The remaining gain of £40.5m is deferred as a reduction to the right-of-use asset relating to the leaseback.

On 13 July, the distribution properties that were transferred to Bellis Select Warehouse Limited were sold for £171.3m to third party entities controlled by Blackstone Group Inc. These properties, along with 24 properties transferred to BSWL by fellow subsidiaries of the immediate parent company, were leased back to the Company on terms ranging from 18 months to 35 years (including the assumption that leases will be extended by 10 years, consistent with the assumptions set out in note 1). The Company continues to lease these properties from entities controlled by Blackstone Group Inc. and has adjusted the right of use assets and lease liabilities to reflect amended terms of the leases on transfer to the third-party entities at that date.

The leasebacks of the depots sold by the Company, taking into account the deferral of a proportion of the disposal gain into the right-of-use asset and subsequent modification to the lease term, resulted in an increase in right-of-use assets of £25.8m and lease liabilities of £65.7m. The leasebacks of other distribution properties sold during the year by fellow subsidiaries of the immediate parent company resulted in further increase in right-of-use assets of £435.3m and lease liabilities of £435.3m.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

9 Income tax

Tax charged in the income statement:

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Current taxation		
UK corporation tax on profit for the year	0.4	0.7
UK corporation tax adjustment to prior periods	-	(2.9)
Current tax charge/(credit) for the year	0.4	(2.2)
Deferred taxation		
Arising from origination and reversal of temporary differences	62.1	65.0
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	(3.7)	4.7
Arising from changes in tax rates and laws	15.1	2.1
Total deferred taxation	73.5	71.8
Tax expense in the income statement	73.9	69.6

The standard rate of corporation tax in the United Kingdom for the year is 19% (2020: 19%).

On 3 March 2021, it was announced in the UK Budget that the main rate of corporation tax in the United Kingdom will increase to 25% on 1 April 2023, and this rate change was substantively enacted in May 2021. The deferred tax liability is calculated using the tax rate at which it is expected to unwind (between 19% and 25%, this was previously 19%).

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

9 Income tax (continued)

A reconciliation of the total tax charge compared to the standard rate of corporation tax in the UK of 19% (2020: 19%) applied to the profit on ordinary activities before tax is as follows:

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Profit/(loss) before tax	302.5	(33.6)
Corporation tax at standard rate	57.5	(6.4)
Expenses not deductible for tax purposes	3.2	8.1
Non-qualifying depreciation	8.5	6.5
(Profit)/Loss on sale of non-qualifying fixed assets	(17.0)	0.2
Adjustments in respect of prior periods	(3.7)	1.8
Change in tax rate	15.1	2.2
Losses surrendered to fellow group undertakings for no payment	43.3	54.3
Enhanced capital allowance deduction	(8.9)	-
Dividends received	(16.9)	-
Deferred accounting gain on sale and leaseback	(7.2)	-
Movement on recognised capital losses	-	2.9
Total tax charge for the year	73.9	69.6

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

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Deferred tax credit on pensions	3.6	28.8
Deferred tax (charge)/credit on cashflow hedges	(8.2)	3.2
Total tax on items (charged)/credited to the statement of comprehensive income	(4.6)	32.0

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

9 Income tax (continued)

Deferred tax

Deferred tax assets and liabilities are attributable to the following:

2021	Asset £ m	Liability £ m	Net deferred tax asset £ m
Property, plant and equipment	-	(66.6)	(66.6)
Employee benefits	38.5	-	38.5
Provisions	6.8	-	6.8
Other items	-	(2.9)	(2.9)
Capital losses	3.8	-	3.8
Intangible assets	-	(13.4)	(13.4)
Right-of-use assets and lease liabilities	11.0	-	11.0
	60.1	(82.9)	(22.8)

2020	Asset £ m	Liability £ m	Net deferred tax asset £ m
Property, plant and equipment	-	(47.1)	(47.1)
Employee benefits	91.3	-	91.3
Provisions	3.5	-	3.5
Other items	5.3	-	5.3
Capital losses	2.9	-	2.9
Intangible assets	-	(1.1)	(1.1)
Right-of-use assets and lease liabilities	0.5	-	0.5
	103.5	(48.2)	55.3

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 £22.0m (2020: £27.6m) 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.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

9 Income tax (continued)

	1 January 2021	Recognised in income	Recognised in other comprehensive income	31 December 2021
Property, plant and equipment	(47.1)	(19.5)	-	(66.6)
Employee Benefits	91.3	(56.4)	3.6	38.5
Provisions	3.5	3.3	-	6.8
Other items	5.3	-	(8.2)	(2.9)
Capital Losses	2.9	0.9	-	3.8
Intangible assets	(1.1)	(12.3)	-	(13.4)
Right-of-use assets and lease liabilities	0.5	10.5	-	11.0
Net tax assets/(liabilities)	55.3	(73.5)	(4.6)	(22.8)

Deferred tax movement during the prior 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	(45.9)	(1.2)	-	(47.1)
Employee benefits	131.1	(68.6)	28.8	91.3
Provisions	3.3	0.2	-	3.5
Other items	2.0	0.1	3.2	5.3
Capital losses	4.5	(1.6)	-	2.9
Intangible assets	(0.5)	(0.6)	-	(1.1)
Right-of-use assets and lease liabilities	0.6	(0.1)	-	0.5
Net tax assets/(liabilities)	95.1	(71.8)	32.0	55.3

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

10 Intangible assets

	Brand licence £ m	Software and development costs £ m	Other £ m	Total £ m
Cost or valuation				
At 1 January 2020	31.9	280.4	0.1	312.4
Additions	-	85.4	-	85.4
Disposals	-	(3.7)	-	(3.7)
At 31 December 2020	31.9	362.1	0.1	394.1
At 1 January 2021	31.9	362.1	0.1	394.1
Additions	-	108.9	-	108.9
Disposals	-	(8.0)	-	(8.0)
At 31 December 2021	31.9	463.0	0.1	495.0
Amortisation				
At 1 January 2020	14.6	169.4	0.1	184.1
Amortisation charge	-	46.7	-	46.7
Amortisation eliminated on disposals	-	(3.7)	-	(3.7)
At 31 December 2020	14.6	212.4	0.1	227.1
At 1 January 2021	14.6	212.4	0.1	227.1
Amortisation charge	-	59.0	-	59.0
Amortisation eliminated on disposals	-	(7.5)	-	(7.5)
At 31 December 2021	14.6	263.9	0.1	278.6
Carrying amount				
At 31 December 2021	17.3	199.1	-	216.4
At 31 December 2020	17.3	149.7	-	167.0

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

10 Intangible assets (continued)

The George brand licence has a carrying value of £17.3m (2020: £17.3m). The George brand licence is generating positive cash flows. There are no plans to exit the brand and no legal limits on its use by the Company.

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

Impairment testing of George brand licence
This asset relates to the acquisition in 2006 of a perpetual licence to use the George brand in the UK and elsewhere in Europe and has a carrying value of £17.3m (2020: £17.3m). This has been tested for impairment as at 31 December 2021 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 8.0% (2020: 6.8%) and the growth rate used to extrapolate the cash flows beyond specific forecast period is (0.4)% (2020: 0.1%).

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

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

11 Property, plant and equipment

	Freehold properties £ m	Leasehold improvements £ m	Plant, fixtures and fittings £ m	Assets under construction £ m	Total £ m
Cost or valuation					
At 1 January 2021	3,654.6	1,309.1	2,406.4	55.4	7,425.5
Additions	90.3	56.4	75.8	108.1	330.6
Disposals	(340.4)	(7.2)	(193.0)	-	(540.6)
Transfers from Assets Under Construction	60.2	-	72.0	(132.2)	-
At 31 December 2021	3,464.7	1,358.3	2,361.2	31.3	7,215.5
Depreciation					
At 1 January 2021	1,116.8	610.5	1,663.9	-	3,391.2
Charge for the year	113.5	37.5	170.3	-	321.3
Disposals	(107.8)	(6.2)	(188.4)	-	(302.4)
Impairments	2.2	(0.3)	2.1	-	4.0
At 31 December 2021	1,124.7	641.5	1,647.9	-	3,414.1
Net book value					
At 31 December 2021	2,340.0	716.8	713.3	31.3	3,801.4
At 31 December 2020	2,537.8	698.6	742.5	55.4	4,034.3

Assets held for sale

At the year ended 31 December 2020, the carrying value of assets held for sale, which consisted of one non-operational fulfilment centre, was £8.6m. During the year, this asset was sold and at 31 December 2021, the carrying value of assets held for sale was £nil. During the year, an impairment reversal of £0.5m was recognised on the asset held for sale (2020: £1.0m charge).

Impairment

Both the operational and non-operational estate are regularly reviewed for indicators of impairment. Following reviews in the year, impairment charges of £4.0m (2020: £0.8m credit) were recognised in operating costs during the year.

Capitalised Interest

The cumulative amount of capitalised interest included in the cost of property, plant and equipment is £86.0m (2020: £86.0m).

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

12 Right-of-use assets

	Land and buildings £ m	Plant and Equipment £ m	Total £ m
Cost			
At 1 January 2021	12,511.8	197.7	12,709.5
Additions and modifications	457.4	109.3	566.7
Disposals	(2.4)	(25.5)	(27.9)
At 31 December 2021	12,966.8	281.5	13,248.3
Depreciation			
At 1 January 2021	905.7	68.6	974.3
Charge for the year	405.3	57.0	462.3
Impairment reversal	(1.5)	-	(1.5)
Disposals	(2.1)	(23.9)	(26.0)
At 31 December 2021	1,307.4	101.7	1,409.1
Carrying amount			
At 31 December 2021	11,659.4	179.8	11,839.2
At 31 December 2020	11,606.1	129.1	11,735.2

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

Leases of land and buildings have various terms, escalation clauses and renewal rights, however they commonly include either a market rent review or index linked rent review with a cap and collar. The timing of when rent reviews take place differs for each lease. They have no purchase options. The average remaining lease term is 32 years. No property right-of-use asset were impaired in the year (2020: seven). There was impairment reversal on one property right-of-use asset.

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 (2020: 4 years).

Additions in the year primarily relate to the sale-and-leaseback transaction (see note 8) and renewals and modifications of previously existing leases.

For further details of lease liabilities and lease expenses please see note 19.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

13 Investments

	£ m
At 1 January 2021	770.2
Impairment charge	(0.5)
At 31 December 2021	769.7

Following a review of the carrying value of investments held by the Company, an impairment charge of £0.5m (2020: £nil) has been recognised in the year.

Subsidiary undertakings

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

* indicates direct investment of ASDA Stores Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

13 Investments (continued)

All investments listed above have 100% ordinary share capital.

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

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

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

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

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

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

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

13 Investments (continued)

Principal Activities

ASDA Delivery Limited - formerly provided delivery services relating to the sale of goods by fellow subsidiary undertakings of ASDA Group Limited, to customers based outside the United Kingdom. During 2018, trading ceased and the delivery services are no longer provided by the company.

ASDA Guernsey Limited - formerly operated a transactional website, which retailed pre-recorded audio and visual entertainment products and electronic games, hardware and software. Fulfilment of orders was provided from the company's facility in Guernsey.

ASDA Pension Plan Trustees Limited - acts as Trustee on behalf of members of the ASDA Pension Plan.

ASDA Storage Limited - the company has been dormant throughout the year.

ASDA Stores (Belfast) Limited - the company has been dormant throughout the year.

ASDA Supermarkets Limited - During the year, the company held the title for a property and received rental income in relation to this site from a fellow group undertaking of ASDA Group Limited. The company disposed of its investment property on 23 June 2021 in exchange for an intercompany receivable with a value in excess of the net book value of the investment property at that date.

Erteco UK Limited - the company has been dormant throughout the year.

Essencerealm Limited - the company has been dormant throughout the year.

Ever 1295 Limited - the company has been dormant throughout the year.

Ever 2010 Limited - holds leases for a number of properties and receives rental income in relation to these sites from fellow subsidiary undertakings of ASDA Group Limited.

Ever 2010 North Limited - the company has been dormant throughout the year.

Ever 2010 South Limited - the company has been dormant throughout the year.

Forza AW Limited - the company has been dormant throughout the year.

Forza Foods Limited - procuring, slicing and packaging of meats for ASDA Stores Limited.

George Sourcing Services UK Limited - formerly managed the sourcing of clothing for ASDA Stores Limited.

George Tedarik Hizmetleri A.S. - formerly managed the sourcing of clothing for ASDA Stores Limited.

International Procurement and Logistics Limited - sourcing of fresh produce, grocery products, wine, house plants and flowers for ASDA Stores Limited.

International Produce Sociedad Limitada - provision of logistical and management services.

Kober Limited - procuring, slicing and packaging of processed meats for ASDA Stores Limited.

Nordicline Limited - the company has been dormant throughout the year.

Selby Produce Limited - the company has been dormant throughout the year.

Vinpack Limited - the company has been dormant throughout the year.

Westry Produce Limited - the company has been dormant throughout the year.

14 Inventories

	31 December 2021 £ m	31 December 2020 £ m
Goods held for resale	1,094.2	974.4
Goods not held for resale	2.6	1.7
	1,096.8	976.1

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

15 Trade and other receivables

	31 December 2021 £ m	31 December 2020 £ m
Trade receivables	78.2	82.5
Allowance for expected credit losses	(2.5)	(3.3)
Intercompany receivables	2,497.5	2,524.7
Other receivables	36.5	28.4
Prepayments and accrued income	20.2	8.8
Derivative assets	13.8	-
	2,643.7	2,641.1
Non-current intercompany receivables	442.5	-

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 £210.2m (note 22) (2020: £207.2m). The gross trade receivable prior to the offset is £288.4m (2020: £289.7m).

As at 31 December 2021, trade receivables at nominal value of £2.5m (2020: £3.3m) were impaired and fully provided for on the basis of the age of the debt and estimated ability of the customer to make payment.

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

Other receivables are non-interest bearing and are generally on 60 day terms. Other receivable balances have been assessed to determine the value of ECLs in IFRS 9 and the impact is £nil (2020: £nil).

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

16 Called up share capital

	Redeemable ordinary shares of £1 each No.	Ordinary shares of £1 each No.	Total No.
At 1 January 2021 and 31 December 2021	566,781,240	190,805,129	757,586,369

Value of authorised, allotted, called up and fully paid

	Redeemable ordinary shares of £1 each £ m	Ordinary shares of £1 each £ m	Total £ m
At 1 January 2021 and 31 December 2021	566.8	190.8	757.6

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

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

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

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

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

17 Dividends proposed and paid

No dividends were proposed nor paid in the year ended 31 December 2021 to ASDA Group Limited, the immediate parent undertaking (2020: £1.350.0m (£1.78 per share)).

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

18 Reserves

Reconciliation of movement in reserves is as follows:

	Share premium £ m	Other reserves £ m	Cash flow hedging reserve £ m	Retained earnings £ m	Total £ m
At 1 January 2020	950.3	118.0	(11.7)	3,812.9	4,869.5
Loss for the year	-	-	-	(103.2)	(103.2)
Cash flow hedges - reclassified during the year to income statement	-	-	15.5	-	15.5
Cash flow hedges - net loss during year on not-yet matured contracts	-	-	(31.4)	-	(31.4)
Tax on cash flow hedges recognised directly in other comprehensive income	-	-	3.2	-	3.2
Total remeasurements on defined benefit obligation	-	-	-	(348.2)	(348.2)
Increase in value of BPA asset	-	-	-	346.7	346.7
Decrease in value of non-BPA assets excluding interest income	-	-	-	(93.9)	(93.9)
Tax on net actuarial losses recognised directly in other comprehensive income	-	-	-	28.8	28.8
Dividends paid	-	-	-	(1,350.0)	(1,350.0)
At 31 December 2020	950.3	118.0	(24.4)	2,293.1	3,337.0
At 1 January 2021	950.3	118.0	(24.4)	2,293.1	3,337.0
Profit for the year	-	-	-	228.6	228.6
Cash flow hedges - reclassified during the year to income statement	-	-	30.5	-	30.5
Cash flow hedges - net gain during the year on not-yet matured contracts	-	-	12.8	-	12.8
Tax on cash flow hedges recognised directly in other comprehensive income	-	-	(8.2)	-	(8.2)
Total remeasurements on defined benefit obligation	-	-	-	172.3	172.3
Decrease in value of BPA asset	-	-	-	(171.6)	(171.6)
Decrease in value of non-BPA assets excluding interest income	-	-	-	(13.9)	(13.9)
Tax on net actuarial losses recognised directly in other comprehensive income	-	-	-	3.6	3.6
Other increase in reserves	-	5.8	-	-	5.8
At 31 December 2021	950.3	123.8	10.7	2,512.1	3,596.9

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

18 Reserves (continued)

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

During the year, the Company charged a fellow wholly owned subsidiary amounts totalling £5.8m in respect of certain of the Company's freehold properties. These charges are outside the scope of IFRS16 and have been recorded as an equity contribution from the immediate parent in line with guidance relating to transactions between entities under common control.

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.

19 Lease liabilities

Lease Liabilities
Lease agreements where the group is a lessee

	31 December 2021 £ m	31 December 2020 £ m
Current lease liability	283.9	307.6
Non-current lease liability	11,862.2	11,664.9
	12,146.1	11,972.5
Future minimum undiscounted payments due:		
No later than one year	695.5	658.1
Later than one year and no later than two years	680.5	648.8
Later than two years and no later than three years	667.1	633.2
Later than three years and no later than four years	657.1	619.6
Later than four years and no later than five years	635.0	611.0
Later than five years	16,464.8	15,493.5
Total future minimum undiscounted payments	19,800.0	18,664.2
Finance charges allocated to future periods	(7,653.9)	(6,691.7)
Present value of minimum lease payments	12,146.1	11,972.5

There are no instances at 31 December 2021 where future rental payments have been committed but not yet included in the lease liability (2020: £nil).

Total lease cash outflow in the year was £817.3m (2020: £679.2m).

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

19 Lease liabilities (continued)

Amounts recognised in Income Statement

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

	31 December 2021 £ m	31 December 2020 £ m
Depreciation - Land and Buildings	405.3	407.0
Depreciation - Plant and Equipment	57.0	47.9
Impairment (reversal)/charge - Land and Buildings	(1.5)	2.5
Short term lease expense[1]	8.4	1.8
Variable lease expense[2]	14.0	16.4
Sub-lease income	(7.4)	(6.8)
Total charge to operating profit	475.8	468.8
Interest expense related to lease liabilities	375.9	351.5
Charge to profit before taxation for leases	851.7	820.3

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 1.7% of overall lease payments in 2021 (2020: 2.4%).

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

19 Lease liabilities (continued)

Operating lease agreements where Company is lessor

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

	31 December 2021 £ m	31 December 2020 £ m
No later than one year	9.4	9.8
Later than one year and no later than five years	25.0	26.7
Later than five years	36.3	36.2
	70.7	72.7

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

20 Provisions

	Property provisions £ m	Insurance £ m	Total £ m
At 31 December 2020	78.5	93.1	171.6
Provided during the year	33.4	45.0	78.4
Provision used	-	(20.0)	(20.0)
Unused provisions reversed	-	(15.3)	(15.3)
Increase due to unwinding of discount and rate changes	1.3	-	1.3
	113.2	102.8	216.0
Current liabilities	-	20.0	20.0
Non-current liabilities	113.2	82.8	196.0

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

The dilapidations provision represents provisions for the cost of works required to remove leasehold improvements within leasehold properties at the end of their lease term. The amount provided during the year is accounted for within additions as an increase in the cost of property, plant and equipment and the impact of this will be recognised as additional depreciation over the lease terms of the sites to which the provision relates. A discount rate of 1.1% (2020: 0.8%) has been used in determining this provision. The provision will be utilised at the end of the respective terms of the leases giving rise to these liabilities.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

21 Employee benefits

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the Balance Sheet are as follows:

	31 December 2021 £ m	31 December 2020 £ m
Fair value of scheme assets	0.5	3,017.0
Present value of scheme liabilities	(13.9)	(2,953.6)
Net (liability)/asset for defined benefit pension scheme	(13.4)	63.4
Cash-settled share based payment liability - non-current	-	(50.5)
Cash-settled share based payment liability - current	-	(94.5)

As a result of the Sale & Purchase Agreement ("SPA") relating to the sale of the entire issued share capital of the Group from ASDA Holdings UK Limited ("AHUKL") to Bellis Acquisition Company 3 Limited ("BAC3L") all share awards under the Walmart Stock Incentive Plan ("WSIP") scheme, Restricted Stock Rights ("RSR") scheme and Performance Share Plan ("PSP") scheme vested according to the proportion of the relevant vesting or performance period that had elapsed as at completion on 16 February 2021. Furthermore, options granted to participants in the Sharesave scheme were exercised in the six-month period following completion of the SPA. As a result, all share-based payment liabilities of the Company have been settled during the year.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

21 Employee benefits (continued)

Pension plans

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

	31 December 2021 £ m	31 December 2020 £ m
Wages and salaries	2,442.1	2,424.9
Share-based payments charge	17.5	102.6
Social security costs	142.7	141.3
Cost of defined contribution schemes	118.6	118.7
Settlement expense in relation to pension buy-out	8.7	-
Total charge to operating costs	2,729.6	2,787.5
Defined benefit pension scheme		
Net interest expense/(income) on pension scheme	2.3	(0.1)
Total charge/(credit) to finance income/expense	2.3	(0.1)
Total employee benefit expense	2,731.9	2,787.4

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

21 Employee benefits (continued)

Defined benefit pension scheme

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

Background to the AGPS buy-in and buy-out

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

In order to enable the AGPS to execute the buy-in, the Company made a contribution in 2019 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. To the extent that the AGPS is unable to settle the buy-in loan balance in full out of the proceeds realised through the liquidation of assets retained by the Scheme after buy-in, the Company is contractually obliged under a back-to-back agreement ("the BTB Agreement") to make a contribution to the Scheme to the value of the shortfall between the assets in the Scheme and the outstanding balance on the buy-in loan, the proceeds of which can be used by the Scheme to settle outstanding amounts on the buy-in loan.

At the point of the buy-in, the Scheme retained ownership of various assets, including illiquid investments and cash, some of which were required to meet ongoing expenses incurred by the Scheme and the remainder of which the Scheme has used and will continue to use to repay principal and interest on the buy-in loan.

On 9 July 2021, the Trustees of AGPS completed a full buy-out of the Scheme with Rothesay. Other than estimated pension liabilities of £0.5m ("the retained liabilities") for which the Company remains sponsoring employer, together with Scheme assets to that value which will be used to settle the retained liabilities, the buy-out has extinguished the Company's responsibility for funding the AGPS as sponsoring employer and as such, all other assets and liabilities of the AGPS have been de-recognised from the Balance Sheet during the year. See further detail below for amounts recognised in the Statement of Other Comprehensive Income and the Income Statement in respect of this.

Amounts recognised in Other Comprehensive Income - current year

Prior to the buy-out on 9 July 2021, as the remaining illiquid assets and cash of the AGPS were held within the Scheme as a separate legal entity from the Company and could be used to settle pension liabilities in the event of a shortfall from the BPA, they met the definition of pension assets under IAS 19 - Employee Benefits. As such, changes in the fair value of Scheme assets and liabilities prior to 9 July 2021 have been accounted for as actuarial gains and losses in other comprehensive income with a total net actuarial gain recognised of £1.2m.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

21 Employee benefits (continued)

Further, during the year, following completion of due diligence on Scheme liabilities, an amount of £15.1m in respect of deferred consideration for the BPA arising out of the buy-in transaction was paid to Rothesay out of Scheme assets. This amount was variable dependant on the findings of due diligence and other factors including the timing of payments by Rothesay to the Scheme in respect of pension payments and the amount of £15.1m was finalised during the year. As the amount paid relates to deferred consideration for the BPA, this amount has been recognised as a loss in other comprehensive income in line with the treatment of the buy-in loss recorded in 2019.

As such, the total net loss recognised during the year in other comprehensive income in respect of AGPS assets and liabilities is £13.9m.

Further to the above, an actuarial gain of £0.7m has been recognised in respect of actuarial movement relating to the liability of the UURBS. Total pre-tax net losses recognised in OCI are £13.2m.

Amounts recognised in Other Comprehensive Income - prior year

As described above, prior to the buy-out, the remaining assets of the AGPS met the definition of pension assets under IAS 19 - Employee Benefits. As such, changes in the fair value of Scheme assets and liabilities during the year ended 31 December 2020 were accounted for as actuarial gains and losses in other comprehensive income.

Taking into account proceeds realised by the Scheme from the sale of illiquid assets during the prior 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 was included in the total pre-tax actuarial loss of £95.4m recognised in other comprehensive income during the prior year.

Settlement loss recognised in the Income Statement

As described above, to the extent that the AGPS is unable to make repayments of principal amounts outstanding on the buy-in loan out of Scheme assets, the Company is obliged under the BTB Agreement to make a contribution to the AGPS to the value of the shortfall. At the point of buy-out, the Directors have estimated the amount outstanding on the buy-in loan which the Scheme will be able to settle without recourse to the BTB to be £11.5m and as such, this amount has been reclassified to other receivables at the point of buy-out. The difference between the net carrying amount of Scheme assets and liabilities de-recognised at the point of buy-out and the recoverable amount of the buy-in loan at the date of buyout, after accounting for the net actuarial loss of £13.9m described above, was £8.7m. This amount has been recognised as a settlement loss within operating expenses.

UURBS liabilities

The Company remains liable for pension benefits payable to members of the UURBS and these liabilities with a fair value at 31 December 2021 of £13.4m (2020: £14.3m) are accounted for in line with IAS 19. This amount is included in the Scheme liabilities set out in the table below.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

21 Employee benefits (continued)

	31 December 2021 £ m	31 December 2020 £ m
Scheme liabilities		
Movements in present value of defined benefit obligation:		
Present value at start of year	(2,953.6)	(2,661.0)
Interest cost	(19.9)	(54.6)
Past service cost	-	(0.5)
Effect of changes in financial assumptions	172.3	(525.0)
Effect of experience adjustments	-	176.8
Benefits paid	56.8	110.7
Effect of settlement	2,730.5	-
Present value at end of year	(13.9)	(2,953.6)
Scheme assets		
Movements in fair value of plan assets:		
Fair value at start of year	3,017.0	2,975.3
Interest income	20.1	59.5
(Decrease)/increase in value of plan assets excluding interest income	(170.4)	252.8
Employer contributions (normal)	0.4	1.5
Employer contributions (buy-in)	-	213.5
Repayment of buy-in loan	(41.5)	(370.6)
Benefits paid	(56.8)	(110.7)
Deferred consideration in respect of buy-in	(15.1)	-
Administrative expenses	(2.5)	(4.3)
Effect of settlement	(2,739.2)	-
Reclassification of pension assets	(11.5)	-
Fair value at end of year	0.5	3,017.0

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

21 Employee benefits (continued)

Amounts recognised in the Income Statement

	31 December 2021 £ m	31 December 2020 £ m
Amounts recognised in operating profit		
Loss on settlements relating to pension buy-put	(8.7)	-
Amounts recognised in finance income or costs		
Net interest income on plan assets and liabilities	0.2	4.9
Administrative expenses	(2.5)	(4.3)
Past service cost	-	(0.5)
Total Income Statement (charge)/credit	(11.0)	0.1

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

21 Employee benefits (continued)

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

	31 December 2021 £ m	31 December 2020 £ m
Total remeasurement on defined benefit obligation	172.3	(348.2)
(Decrease)/increase in value of BPA asset	(171.6)	346.7
Decrease in value of non-BPA assets excluding interest income	(13.9)	(93.9)
Deferred tax	3.6	28.8
Amounts recognised in the Statement of Comprehensive Income	(9.6)	(66.6)

The fair value of the plan assets were as follows:

	31 December 2021 £m			31 December 2020 £m		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bulk purchase annuity	-	-	-	-	2,938.8	2,938.8
Cash and cash equivalents	-	0.5	0.5	-	43.4	43.4
Property	-	-	-	-	0.1	0.1
Investment funds	-	-	-	-	34.7	34.7
	-	0.5	0.5	-	3,017.0	3,017.0

Following the buy-in in October 2019, up to the date of the buy-out on 9 July 2021, the Scheme held a bulk purchase annuity which fully insured the pension liabilities of the Scheme. Further, the Scheme retained ownership of a variety of illiquid assets and cash balances which are measured at fair value and described earlier in this note. From 9 July 2021, the Company is no longer the sponsoring employer of the Scheme and as such, the BPA and other assets of the Scheme have been de-recognised as pension assets as they no longer meet the definition of a pension asset under IAS 19, other than an amount of £0.5m retained in the AGPS to settle £0.5m of retained AGPS liabilities.

Principal actuarial assumptions (expressed as weighted averages)

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

	31 December 2021 %	31 December 2020 %
Discount rate	1.9	1.3
Inflation - CPI	2.6	2.1
Inflation - RPI	3.3	2.9
Future pension increases	3.2	2.9

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

21 Employee benefits (continued)

Post retirement mortality assumptions

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

	31 December 2021 Years	31 December 2020 Years
Current UK pensioners at retirement age - male	22.1	22.1
Current UK pensioners at retirement age - female	23.6	23.5
Future UK pensioners at retirement age - male	23.5	23.5
Future UK pensioners at retirement age - female	26.0	25.9

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 2021 and 31 December 2020 and of the Income Statement charge for 2021 and 2020, to changes in these assumptions. Note that following the buy-out of the AGPS on 9 July 2021, the below sensitivities at 31 December 2021 apply only to the UURBS liabilities.

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

	31 December 2021 + 0.1% £ m	31 December 2020 + 0.1% £ m
Adjustment to discount rate		
Decrease in scheme liabilities	0.3	79.6

	31 December 2021 + 0.1% £ m	31 December 2020 + 0.1% £ m
Adjustment to rate of inflation		
Increase in scheme liabilities	0.3	32.6
Increase in finance costs	-	-

	31 December 2021 + 0.1% £ m	31 December 2020 + 0.1% £ m
Adjustment to rate of salary growth		
Increase in scheme liabilities	0.5	121.8
Increase in finance costs	-	-

During the prior year and up to the date of the AGPS buy-out, changes in the accounting value of liabilities relating to the AGPS were offset by equivalent changes in the BPA asset and therefore, there would be no material impact on the net amount recognised in the Balance Sheet, within the Income Statement, or within the Statement of Comprehensive Income.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

21 Employee benefits (continued)

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

Share-based payments

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

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

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

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

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

	31 December 2021 £ m	31 December 2020 £ m
Cash-settled share based payment charge	17.5	102.6
Total carrying amount of liability - current	-	94.5
Total carrying amount of liability - non-current	-	50.5
	-	145.0

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

21 Employee benefits (continued)

Share-based payments (continued)

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

	31 December 2021 Number (thousands)	31 December 2020 Number (thousands)
Outstanding, start of year	4,157	4,442
Exercised during the year	(2,692)	(1,478)
Granted during the year	1	1,531
Forfeited during the year	(1,466)	(338)
Outstanding, end of year	-	4,157
Exercisable, end of year	-	18

	31 December 2021 Price (£)	31 December 2020 Price (£)
Outstanding, start of year	62.39	53.26
Exercised during the year	(59.02)	(45.83)
Granted during the year	68.30	73.07
Forfeited during the year	(68.63)	(61.53)
Outstanding, end of year	-	62.39
Exercisable, end of year	-	47.12

Share options were exercised on a regular basis throughout the year. The average exercise price during the year to 31 December 2021 was £59.02 (2020: £45.83). The related shares are denominated in US dollars being the reporting currency of the former ultimate parent company. The sterling exercise price of the Sharesave scheme options is fixed at the exchange rate at the date of the grant.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

21 Employee benefits (continued)

Share-based payments (continued)

Sharesave scheme

The scheme was in existence for employees from 1982 and gained HMRC approval in 2000. Employees with six months service were invited to join the scheme annually. Options were granted annually to employees who elected to join, and were exercisable in three or five years from date of grant, depending on the year of grant. The options under this scheme were treated as cash-settled. The exercise price of the options granted was equal to the market price of the shares less 20% on the date of grant. As a condition of the SPA between AHUKL and BAC3L, employees exercised all of their sharesave options for the proportion of the vesting period elapsed at the date of exercise. The Company settled all obligations to Walmart in relation to the options exercised during the year.

	31 December 2021	31 December 2020
Weighted average exercise price (£)	59.01	46.06
Number of share options outstanding (thousands)	-	4,150
Expected weighted average remaining life (years)	-	1.5

The range of exercise price in the year was £46.00 to £73.06 (2020: £36.99 to £73.06).

The fair value of the options outstanding under the Sharesave scheme at 31 December 2021 is £nil (2020: £102.9m).

Walmart Stock Incentive Plan (WSIP) scheme

The scheme was in existence from 1999. Options were granted to employees annually and were exercisable in five or seven years from date of grant, depending on the grant agreement. The options under this scheme were treated as cash-settled. As a condition of the SPA between AHUKL and BAC3L, employees exercised all of their WSIP options for the proportion of the vesting period elapsed at the date of exercise. The Company settled all obligations to Walmart in relation to the options exercised during the year.

	31 December 2021	31 December 2020
Weighted average exercise price (£)	61.83	58.42
Number of share options outstanding (thousands)	-	7
Expected weighted average remaining life (years)	-	1.0

The range of exercise price in the year was £50.49 to £87.03 (2020: £50.49 to £72.43).

The fair value of the options outstanding under the WSIP scheme at 31 December 2021 is £nil (2020: £0.3m).

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

21 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 were 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 were classed as unapproved from an Income Tax and National Insurance perspective. RSR awards were treated as cash-settled. As a condition of the SPA between AHUKL and BAC3L, employees exercised all of their RSR options for the proportion of the vesting period elapsed at the date of exercise. The Company settled all obligations to Walmart in relation to the options exercised during the year.

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

	31 December 2021 Number (thousands)	31 December 2020 Number (thousands)
Outstanding, start of year	418	477
Exercised during the year	(408)	(155)
Granted during the year	-	190
Forfeited during the year	(10)	(94)
Outstanding, end of year	-	418
Exercisable, end of year	-	-

The fair value of the options outstanding under the RSR scheme at 31 December 2021 is £nil (2020: £33.6m).

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

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

As a condition of the SPA between AHUKL and BAC3L, employees exercised all of their PSP options for the proportion of the vesting period elapsed at the date of exercise. The Company settled all obligations to Walmart in relation to the options exercised during the year.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

21 Employee benefits (continued)

Share-based payments (continued)

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

	31 December 2021 Number (thousands)	31 December 2020 Number (thousands)
Outstanding, start of year	129	136
Exercised during the year	(86)	(42)
Granted during the year	-	51
Forfeited during the year	(43)	(16)
Outstanding, end of year	-	129
Exercisable, end of year	-	-

The fair value of the options outstanding under the PSP scheme at 31 December 2021 is £nil (2020: £8.2m).

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 outstanding at the end of the prior year. No new options were granted during the year, the share-based payment expense recorded during the year is related to benefits earned from options granted in previous years and adjustments to reflect changes in share price and exchange rates.

	31 December 2021	31 December 2020
Expected dividend yield (%)	-	1.50
Expected volatility (%)	-	16.05
Risk-free interest rate (%)	-	0.10
Weighted average fair value of options granted (£)	-	27.60
Weighted average exercise price (£)	-	62.39

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

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

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

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

22 Trade and other payables

	31 December 2021 £ m	31 December 2020 £ m
Trade payables	2,833.9	2,761.2
Intercompany payables	823.6	765.0
Social security and other taxes	180.5	176.2
Other payables	122.5	81.0
Accrued expenses	278.4	481.8
Derivative liabilities	1.3	39.0
	4,240.2	4,304.2

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

Trade receivables are presented net where a legally enforceable right of set off exists. Included in the above is an offset of £210.2m (note 15) (2020: £207.2m). The gross trade payable prior to the offset is £3,044.1m (2020: £2,968.4m).

23 Commitments

As at 31 December 2021, the Company had entered into contracts of £3.1m to purchase property, plant and equipment. (2020: £nil).

As at 31 December 2021, the Company had entered into contracts to purchase US dollars for £672.5m (2020: £710.2m).

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

24 Contingent liabilities

Equal Value Claims: ASDA Stores Limited has been served with circa 47,000 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 which is guaranteed by the former ultimate parent, Walmart Inc. ("Walmart") with respect to these claims. The Walmart Inc, group of companies have indemnified ASDA and BAC3L for these claims up to a contractually agreed amount.

25 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.

26 Parent undertaking and controlling party

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

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

The largest group at which consolidated financial statements are prepared is Bellis Finco PLC, a company incorporated in England and Wales. Bellis Finco PLC's registered office is Waterside Head Office, Haslingden Road, Guide, Blackburn, BB1 2FA.

Until 16 February 2021, the ultimate parent undertaking and controlling party was Walmart Inc., which is incorporated in the USA. At the date of approval of the financial statements, the ultimate parent company is Bellis Topco Limited which is incorporated in Jersey

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

27 Events since the Balance Sheet date

Acquisition of Arthur Foodstores Limited

On 30 August 2022, the Company signed a share purchase agreement to acquire 100% of the share capital of Arthur Foodstores Limited, a grocery retailer operating in the United Kingdom. Arthur Foodstores Limited will be acquired for initial cash consideration of £438m with the final consideration payable to be determined through a completion accounts mechanism. Completion of the transaction is subject to certain conditions.

This is a non-adjusting post Balance Sheet event per the guidance set out in IAS 10 as the share purchase agreement was executed after the Balance Sheet date.