

ASDA GROUP LIMITED

Reports and Financial Statements
31 December 2016

Registered Number: 1396513

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DIRECTORS

R Burnley	Appointed 21 November 2016
A Clarke	Resigned 25 July 2016
S Clarke	Appointed 11 July 2016
A J Moore	
A Murray	Appointed 18 April 2016
A Russo	
H Tatum	
BPI Williams	Resigned 8 February 2016

SECRETARY

A Simpson

AUDITORS

Ernst & Young LLP
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Water Lane
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LS11 5QR

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ASDA House
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Great Wilson Street
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Contents

Strategic report	1
Directors' report	6
Directors' responsibilities statement	8
Independent auditor's report to the members of ASDA Group Limited	9
Consolidated income statement	10
Consolidated statement of comprehensive income	10
Consolidated balance sheet	11
Consolidated statement of changes in equity	12
Consolidated statement of cash flows	13
Notes to the consolidated financial statements	14
ASDA Group Limited – Parent Company	
Directors' responsibilities statement	60
Company balance sheet	61
Company statement of changes in equity	62
Notes to the parent company statements	63

Strategic report

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

Principal activities

The principal activities of ASDA Group Limited and its subsidiaries (together referred to as “ASDA” or “the Group”) are the retailing of food, clothing, general merchandise products, fuel and services throughout the United Kingdom and online.

Operational headlines and strategic priorities

- The grocery market has continued to experience low growth throughout the year and competition in the sector has remained intense. Our sales performance, relative to the market, was behind our expectations however, in the last quarter of 2016, we saw an improvement following the changes made to our ranges and investment in price and service.

In 2016 we concentrated on improving our core business by:

- Strengthening our store proposition;
- Developing a trusted online offer;
- Delivering a low cost operating model.

Strengthening our store proposition:

- We continued to focus on price for our customers with further investment made into reducing prices on everyday favourites. Furthermore in June 2016, ASDA won The Grocer Magazine’s G33 Price Award for the nineteenth consecutive year.
- Improving the range and quality of own-brand products remains a top priority. Our work culminated in ASDA winning twelve different product awards at the Quality Food Awards 2016 which included ‘Retailer of the Year’ and winning the ‘Platinum’ and ‘Best in Show’ at the 2016 Decanter World Wine Awards.
- Through our trading reinvention programme delivered during the year, we have focused on reducing duplication of products in store to create a simpler shopping experience for customers.
- Customer service continues to be a priority. In the year we have invested incrementally in our service offer during key trading periods in order to improve the customer experience in stores and online.

Developing a trusted online offer:

- We have continued to make improvements to the website, mobile and tablet apps to enhance the customer experience and make it easier and faster to shop online with ASDA.

Delivering a low cost operating model:

- Our commitment to the ASDA “Low Cost Operating Model” has resulted in improving operating efficiencies and delivering productivity savings across stores, home shopping, distribution centres and home offices. This has enabled us to control costs in response to external cost pressures during the year.
- International Procurement & Logistics Limited (“IPL”), a wholly owned subsidiary of ASDA has continued to deliver savings during 2016. IPL has continued to source fresh produce, wine, chilled products, ambient produce, flowers and plants directly from growers and manufacturers for ASDA and other Wal-Mart businesses globally. At the start of 2016, the Group completed the acquisition of 100% of the share capital of Forza AW and Kober Limited, which supply ASDA’s own-label cooked meat and bacon products.

Strategic report (continued)

Operational headlines and strategic priorities (continued)

New Growth:

- We have adopted a targeted store expansion programme and during 2016, we opened eight new stores including four superstores and four supermarkets. This added 161,000 sq ft of new space.

Future strategic intention

We remain focussed on helping our customers to save money and live better through finding new ways to improve our offer in store and online. Through the low cost operating model we continue to generate cost savings which enable us to invest further in price, quality and service to customers.

Group profit and dividends

Group revenues for the year decreased by 3.2% to £21.7bn (2015: £22.4bn), while operating profit decreased by 19.2% to £845.3m (2015: £1,045.8m). Underlying operating profit decreased by 11.5% after removing a share options charge (note 5) of £69.5m (2015: £9.1m credit), and technical assistance, services and royalties paid to Wal-Mart Stores, Inc. (note 28) of £164.6m (2015: £183.0m). Underlying profit is closely aligned to management's performance measures.

Profit after tax for the year was £657.2m (2015: £820.1m) a decrease of 19.9%.

A dividend of £450.0m (2015: £nil) was paid during the year (note 22).

Transactions during the year

In January 2016, an exercise was performed to simplify the group structure through the restructuring of certain holding companies. This included share capital reductions under section 641(1)(a) of the Companies Act 2006, the repayment, transfer and recovery of intercompany debt, and the payment of dividends between group companies.

On 11 January 2016, the Company made a bonus issue of 2,440,000,000 ordinary shares at £0.25 per share, increasing share capital to £1,393.9m. A share capital and share premium reduction of £1,958.3m was then enacted under section 641(1)(a) of the Companies Act 2006, to reduce share capital to £1 and share premium to £nil. Further details are included in note 21.

On 14 January 2016, Corinth Investments Limited, the previous immediate parent company, transferred its investment in ASDA Group Limited, at net book value, to ASDA Holdings UK Limited, a fellow group subsidiary of the UK parent company, Broadstreet Great Wilson Europe Limited and of the ultimate parent company, Wal-Mart Stores, Inc. The ultimate parent company remains Wal-Mart Stores, Inc. (see note 29).

Events since the balance sheet date

On 10 January 2017, the Company received a dividend of £1,768.0m from McLagan Investments Limited. On 31 January 2017, the Company received a dividend of £100.0m from ASDA Stores Limited, and on 6 February 2017, a further dividend of £300.0m was received from ASDA Stores Limited. McLagan Investments Limited and ASDA Stores Limited are both wholly owned subsidiaries of the Company. See note 13 of the Company accounts.

Amounts recharged by ultimate parent company

The Group incur recharges from the ultimate parent company, Wal-Mart Stores, Inc. These recharges relate to the cost of share options, the cost of services received (mainly relating to IT), the cost of the pension guarantee, and royalties. The share options granted to colleagues by ASDA are in the ultimate parent company, Wal-Mart Stores, Inc. The accounting treatment of these share options is outlined in notes 1 and 18.

Strategic report *(continued)*

KPIs

- Like-for-Like sales decreased 5.7% (2015: 4.7% decrease) (excluding fuel and VAT). Like-for-like sales is a measure of year on year sales growth (excluding VAT and fuel) for stores open for more than 1 year.
- Total sales excluding fuel and VAT decreased by 4.3% (2015: 3.2% decrease) (note 2) (total sales including fuel decreased 3.2% excluding VAT (2015: 3.7% decrease))
- Underlying operating profit decreased by 11.5% (2015: 1.5% decrease)
- Market share down 0.9%, to 15.7% (source: Kantar 52 weeks to 1 January 2017). This is the Group's percentage share of the total grocers' market, and includes all revenue, excluding petrol and in-store concessions.
- Net assets reduction to £8,119.6m (2015: £8,207.0m) primarily driven by an increase in the defined benefit obligation (note 18)
- Net cash inflow for the year of £306.3m (2015: £393.3m inflow)

Capital management

As a wholly owned subsidiary, the capital of the Group is monitored in accordance with the overall capital management policy of the ultimate parent company Wal-Mart Stores, Inc. and the primary objective of ASDA's capital management policy is to be consistent with the requirements of the ultimate parent.

A key element of funding is through intercompany loans which can change from time to time. Cash levels are monitored to ensure the Group is able to fulfil its day to day obligations as they fall due. The consolidated financial statements of the ultimate parent company disclose how the Wal-Mart group define and manage capital and meet the group capital objectives.

Risks and uncertainties

Risk is an inevitable part of business. On an ongoing basis, ASDA identify principal risks, assess their likelihood and impacts and develop and monitor appropriate controls. The Board has overall responsibility for risk management and ensuring that this is aligned with business strategy and objectives. The Board is supported by the Compliance, Ethics and Audit Committee that meets quarterly.

Key risks and mitigating actions are set out below:

- **Economic risk**

Whilst customer discretionary income is slowly rising, the consumer environment continues to be challenging as customers remain cautious in their spending habits. We expect conditions to remain tough for our customers, with price being a key consideration.

The ASDA "Low Cost Operating Model" focuses on achieving productivity savings across our business in order to invest in price and pass this onto our customers.

- **Competitive risk**

In the highly competitive retail industry, success depends on satisfying changing customer needs more effectively than the competition.

ASDA regularly reviews relevant data on aspects such as price position, product availability and other measures of quality and service that are important to our customers. We constantly monitor market information to understand our position relative to competitors and enable action to be taken on a timely basis.

Strategic report *(continued)*

Risks and uncertainties *(continued)*

- **Reputational risk**

Failure to protect our reputation could lead to a loss of trust in the ASDA brand and consequent erosion of customer loyalty. ASDA regularly engages with customers, both directly and through the monitoring of available external data, in order to ensure that our positive customer perception is maintained.

We maintain strong relationships with our suppliers by operating on terms that are mutually agreed and updated as appropriate to reflect changes in both parties' respective needs.

Our colleagues are critical to maintaining our customer and supplier relationships and ultimately protecting our reputation as a business.

- **Strategic risk**

In challenging market conditions, the board invests significant time into formulating, reviewing and communicating strategy to ensure that our approach continues to deliver sustainable returns.

- **Supplier risk**

The current economic climate is challenging for our suppliers. This puts increased importance on the strength of our control processes and our ability to recognise and respond to supplier issues. A quarterly review of supplier risk exists to identify potential issues, develop appropriate action plans and improve our controls in relation to supplier monitoring.

- **Resourcing and capability risk**

Retention of key individuals and succession planning is important for long term stability and success. We have a robust appraisal process and Talent Review System to ensure that the right individuals are in the right roles, with a clear career path to long term development. The goodwill of colleagues is maintained through open communication, both to allow management to share information about the business and to give colleagues the opportunity to provide feedback about working at ASDA.

- **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 shareholder.

Certain transactions with suppliers and with the Group's ultimate parent undertaking are denominated in foreign currencies. The Treasury function forecasts the timing and level of foreign currency requirements and for certain product categories, buys forward accordingly. 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 for at fair value.

ASDA operates a number of pension arrangements for our employees including a defined benefit pension scheme. This is subject to risk in relation to its pension deficit which is shown as a liability on the balance sheet. This risk was reduced when the defined benefit pension scheme was closed to future accrual in 2011. During 2014 the Group agreed a long term funding plan for the scheme. This created a more predictable future cash flow.

- **Regulatory and compliance risk**

We recognise that ASDA operates in an environment where we can be impacted by changes in Government policy. In response to this, we continue to risk assess all regulatory developments and test compliance with internal processes designed to mitigate risks, making improvements where required.

Strategic report (continued)

Risks and uncertainties (continued)

- **Fraud risk**

We have a control framework in place to help prevent and detect potential fraud and dishonest activity. The ASDA-Wal-Mart 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 through the Expolink whistleblowing initiative, or through the local Ethics Committee. In addition, procedures are in place in respect of compliance with the UK Bribery Act and the US Foreign Corrupt Practices Act.

- **Systems risk**

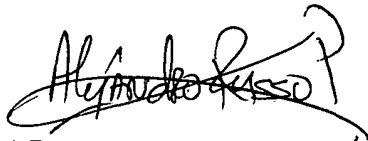
Detailed disaster recovery plans are in place in the event of an incident which could severely affect ASDA's ability to trade. A comprehensive Incident Response Plan exists to ensure business continuity in the event of a major incident.

- **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.

In recent years, we have implemented a number of initiatives and processes in recognition of our environmental responsibilities. We have reduced our absolute carbon footprint since 2010; and our existing stores now emit fewer carbon emissions than in 2005. The major focus of our strategy is now on our supply chain, including running the Sustain and Save Exchange, a unique collaboration tool to help our suppliers become more efficient.

On behalf of the board



A Russo
Director
19 July 2017

ASDA House
Southbank
Great Wilson Street
Leeds
LS11 5AD

Directors' report

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

Future Developments

ASDA's future developments are detailed in the Strategic Report on pages 1-5.

Going Concern

The directors have assessed the Group and Company's ability to continue as a going concern including the review of the forecast cash flows, future trading performance and existing borrowings in place. In addition, the ultimate parent company has agreed that it will continue to provide financial support to the Group to enable it to meet its liabilities as they fall due. Based on this review, the directors confirm that the Group and Company have adequate resources to continue to operate for the foreseeable future and accordingly the going concern basis continues to be appropriate for the preparation of the financial statements.

Events since the balance sheet date

Events since the balance sheet date are detailed in the Strategic Report on page 2.

Financial instruments

ASDA's financial risk management objectives are detailed in the Strategic Report on page 4 and policies are further discussed in notes 1 and 17.

Political and charitable contributions

During the year, cash donations to charitable organisations made by the Group, including monies raised through store collections and product sales, totalled £8.2m (2015: £7.6m). This included donations to The ASDA Foundation, an affiliate charity of the Group, of £6.6m (2015: £6.2m).

During the year, cash donations to charitable organisations and other community projects made by the Group's affiliate charities, The ASDA Foundation and ASDA Tickled Pink, totalled £9.7m (2015: £11.7m). ASDA's colleagues, customers and suppliers have collectively raised monies through events for charities including BBC Children In Need, Tickled Pink (supporting Breast Cancer Care & Breast Cancer Campaign), Orchid, and Tommy's, the baby charity. The ASDA Foundation also supported a range of local charities and sustainable local projects. These projects are local cause-related activities, contributing to local charities or causes that our colleagues wish to support.

ASDA did not make any political donations during the year (2015: £nil).

Dividends

Details of dividends paid are detailed in the Strategic Report on page 2.

Colleagues with a disability or impairment

ASDA is a proud member of the Business Disability Forum and also proud to work in partnership with Remploy and Mencap. Working with these partners, we continue to deliver on our commitment to attract, recruit and retain colleagues who reflect the customers and the communities that ASDA serves.

ASDA is an Equal Opportunities Employer, meaning that selection, training, development and promotion is accessible and inclusive. We have a duty to make reasonable adjustments throughout the employment lifecycle to ensure everyone can perform to the best of their ability.

Our active colleague Disability Working Group aims to provide peer support and advises the business on disability access and inclusion, alongside our formal partners.

Directors' report (*continued*)

Colleague involvement

In 2016 we continued with our regular meetings for the Local Colleague Voice groups to allow a free flow of information and ideas between management and colleagues. In addition to our local activities and in accordance with the Information and Consultation Regulations we meet regularly with our elected bodies and trade unions across all parts of our business to discuss business performance, proposed change and future initiatives.

Engaging our colleagues remained a key focus and we conducted a "Pulse" engagement survey in March and our annual engagement survey in June asking colleagues to feedback on their current experiences. Alongside the engagement surveys (Your Voice) our online panel (Colleague View) participated in 26 surveys with topics ranging from Christmas to feedback on communications channels.

After listening to our colleagues we rebranded our internal channels including the relaunch of our Spark magazine for Retail colleagues. Finally in October we launched a colleague portal – WalmartOne to replace our existing intranet. This allowed every colleague in the business to access key information at work and at home.

During the year our ASDA Academies continued to focus on supporting colleagues new to the business with structured training programmes designed to give them the skills, knowledge and confidence to do their jobs. We have continued to grow our Apprenticeship programmes and have trialled a new Retail Apprenticeship standard.

Directors' liabilities

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

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

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

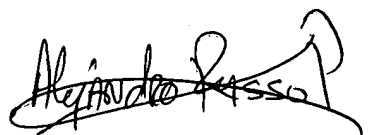
Directors' statement as to disclosure of information to auditors

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

Re-appointment of auditors

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

On behalf of the board



A Russo
Director
19 July 2017

ASDA House
Southbank
Great Wilson Street
Leeds
LS11 5AD

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the Consolidated Financial Statements in accordance with applicable United Kingdom law and regulations, and International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Company Law requires the directors to prepare financial statements for each financial year. Under that law, the directors must not approve the financial statements for the Group unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. Under IFRS, the directors are required to prepare financial statements that present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period.

In preparing these financial statements the directors are required to:

- present fairly the financial position, financial performance and cash flows of the Group;
- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and estimates that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and article 4 of IAS Regulation. They are also responsible for safeguarding the assets of the Group 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 GROUP LIMITED

We have audited the financial statements of ASDA Group Limited for the year ended 31 December 2016 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of changes in equity, the Consolidated statement of cash flows and the related notes 1 to 29, and the Company balance sheet, the Company statement of changes in equity and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

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

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

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

Ernst & Young LLP

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

21 July 2017

Consolidated income statement
for the year ended 31 December 2016

	Note	Year Ended 31 December 2016 £m	Year Ended 31 December 2015 £m
Revenue	2	21,666.3	22,374.8
Operating costs	3	(20,821.0)	(21,329.0)
Operating profit		845.3	1,045.8
Financial income	7	3.0	3.7
Financial costs	8	(56.6)	(74.6)
Profit on ordinary activities before tax		791.7	974.9
Income tax expense	9	(134.5)	(154.8)
Profit for the year		657.2	820.1
Profit for the year attributable to:			
Owners of the parent		655.9	795.0
Non-controlling interests		1.3	25.1

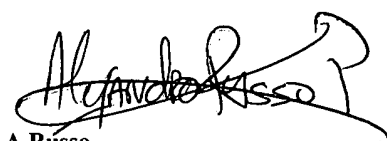
Consolidated statement of comprehensive income
for the year ended 31 December 2016

	Note	Year Ended 31 December 2016 £m	Year Ended 31 December 2015 £m
Profit for the year		657.2	820.1
Items not to be reclassified to profit or loss in subsequent periods			
Total remeasurements on defined benefit obligation	18	(611.4)	49.3
Return on/(reduction in) plan assets excluding interest income	18	373.3	(42.6)
Changes in onerous liability (excluding interest income)	18	(61.4)	(6.7)
Tax credit/(charge) on items recognised directly in other comprehensive income	9	45.9	(12.4)
		(253.6)	(12.4)
Items to be reclassified to profit or loss in subsequent periods			
Cash flow hedges:			
Reclassification during the year to income statement		(26.2)	(30.6)
Net gain during the year of the not-yet matured contracts		50.8	20.8
Tax on cash flow hedges recognised directly in other comprehensive income	9	(4.0)	2.0
		20.6	(7.8)
Other comprehensive income for the year		(233.0)	(20.2)
Total comprehensive income for the year		424.2	799.9
Total comprehensive income for the year attributable to:			
Owners of the parent		422.9	774.8
Non-controlling interests		1.3	25.1

Consolidated balance sheet
as at 31 December 2016

	<i>Note</i>	<i>31 December 2016 £m</i>	<i>31 December 2015 £m</i>
Assets			
Non-current assets			
Property, plant and equipment	10	9,036.3	9,079.0
Intangible assets	11	684.0	711.2
Operating lease prepayments	12	45.8	47.9
Deferred tax asset	20	31.7	-
		<u>9,797.8</u>	<u>9,838.1</u>
Current assets			
Inventories	13	1,090.3	1,156.8
Trade and other receivables	14	281.5	251.1
Intercompany receivables	14	2,764.0	2,767.7
Cash and cash equivalents	15	1,862.7	1,556.4
Operating lease prepayments	12	1.3	1.3
		<u>5,999.8</u>	<u>5,733.3</u>
Total assets		<u>15,797.6</u>	<u>15,571.4</u>
Equity and liabilities			
Equity attributable to the shareholders			
Called up share capital	21	-	783.9
Share premium account	21	-	564.4
Other reserves	23	441.1	441.1
Cash flow hedge reserve	23	36.8	16.2
Retained earnings	23	7,641.7	6,340.4
Total equity attributable to the shareholders		<u>8,119.6</u>	<u>8,146.0</u>
Non-controlling interests		-	61.0
Total equity		<u>8,119.6</u>	<u>8,207.0</u>
Liabilities			
Non-current liabilities			
Borrowings	17	165.9	156.0
Employee benefits	18	920.7	652.8
Provisions	19	122.0	49.3
Deferred tax liabilities	20	-	16.3
		<u>1,208.6</u>	<u>874.4</u>
Current liabilities			
Trade and other payables	16	3,207.2	3,048.2
Intercompany payables	16	3,102.0	3,337.4
Income tax liability		64.0	75.4
Borrowings	17	10.6	9.5
Employee benefits	18	40.9	19.5
Provisions	19	44.7	-
		<u>6,469.4</u>	<u>6,490.0</u>
Total liabilities		<u>7,678.0</u>	<u>7,364.4</u>
Total equity and liabilities		<u>15,797.6</u>	<u>15,571.4</u>

These financial statements were approved by the board of directors on 19 July 2017 and were signed on its behalf by:



A Russo
Director

Consolidated statement of changes in equity
for the year ended 31 December 2016

	Notes	Share capital £m	Share premium £m	Other reserves £m	Cash flow hedge reserve £m	Retained earnings £m	Total excluding Non-controlling interest £m	Non-controlling interest £m	Total equity £m
Balance at 1 January 2015		783.9	568.4	437.1	24.0	5,558.5	7,371.9	45.3	7,417.2
Comprehensive income									
Profit for the year	23	-	-	-	-	795.0	795.0	25.1	820.1
Other comprehensive income									
Cash flow hedges - reclass during year to income statement	23	-	-	-	(30.6)	-	(30.6)	-	(30.6)
Cash flow hedges - net gain during year on not-yet matured contracts	23	-	-	-	20.8	-	20.8	-	20.8
Tax on cash flow hedges recognised directly in other comprehensive income	9	-	-	-	2.0	-	2.0	-	2.0
Total remeasurements on defined benefit obligation	18	-	-	-	-	49.3	49.3	-	49.3
Reduction on plan assets excluding interest income	18	-	-	-	-	(42.6)	(42.6)	-	(42.6)
Changes in asset ceiling/onerous liability (excluding interest income)	18	-	-	-	-	(6.7)	(6.7)	-	(6.7)
Tax on actuarial losses recognised directly in other comprehensive income	20	-	-	-	-	(12.4)	(12.4)	-	(12.4)
Transfer of historical cost	23	-	(4.0)	4.0	-	-	-	-	-
Total		-	(4.0)	4.0	(7.8)	(12.4)	(20.2)	-	(20.2)
Total comprehensive income		-	(4.0)	4.0	(7.8)	782.6	774.8	25.1	799.9
Tax on items credited to equity	20	-	-	-	-	(0.7)	(0.7)	-	(0.7)
Transaction with non-controlling interest									
Dividend paid		-	-	-	-	-	-	(9.4)	(9.4)
Balance at 1 January 2016		783.9	564.4	441.1	16.2	6,340.4	8,146.0	61.0	8,207.0
Comprehensive income									
Profit for the year	23	-	-	-	-	655.9	655.9	1.3	657.2
Other comprehensive income									
Cash flow hedges - reclass during year to income statement	23	-	-	-	(26.2)	-	(26.2)	-	(26.2)
Cash flow hedges - net gain during year on not-yet matured contracts	23	-	-	-	50.8	-	50.8	-	50.8
Tax on cash flow hedges recognised directly in other comprehensive income	9	-	-	-	(4.0)	-	(4.0)	-	(4.0)
Total remeasurements on defined benefit obligation	18	-	-	-	-	(611.4)	(611.4)	-	(611.4)
Return on plan assets excluding interest income	18	-	-	-	-	373.3	373.3	-	373.3
Changes in asset ceiling/onerous liability (excluding interest income)	18	-	-	-	-	(61.4)	(61.4)	-	(61.4)
Tax on actuarial gains recognised directly in other comprehensive income	20	-	-	-	-	45.9	45.9	-	45.9
Total		-	-	-	20.6	(253.6)	(233.0)	-	(233.0)
Total comprehensive income		-	-	-	20.6	402.3	422.9	1.3	424.2
Dividends	22	-	-	-	-	(450.0)	(450.0)	-	(450.0)
Bonus shares issued out of Retained Earnings	21, 23	610.0	-	-	-	(610.0)	-	-	-
Share capital and premium reduction	21, 23	(1,393.9)	(564.4)	-	-	1,958.3	-	-	-
Tax on items credited to equity	20	-	-	-	-	0.7	0.7	-	0.7
Transaction with non-controlling interest									
Dividends paid		-	-	-	-	-	-	(7.0)	(7.0)
Acquisition of NCI at book value	27	-	-	-	-	-	-	(55.3)	(55.3)
Balance at 31 December 2016		-	-	441.1	36.8	7,641.7	8,119.6	-	8,119.6

Consolidated statement of cash flows
for the year ended 31 December 2016

	Note	31 December 2016 £m	31 December 2015 £m
Cash flows from operating activities			
Profit after tax from continuing operations		657.2	820.1
<i>Adjustments to reconcile profit after tax to net cash flows:</i>			
Depreciation of property, plant and equipment	10	413.4	422.9
Amortisation of intangible assets	11	30.6	21.3
Impairment of property, plant and equipment	3	2.8	3.7
Financial income	7	(3.0)	(3.7)
Financial costs	8	56.6	74.6
Profit on sale of property, plant and equipment	3	(0.7)	(25.0)
Tax on continuing operations	9	134.5	154.8
Excess contributions over pension service cost	18	(65.2)	(65.1)
Other non-cash income statement items		2.1	(0.7)
<i>Changes in working capital and provisions</i>			
(Increase)/decrease in trade and other receivables	14	(30.4)	65.2
Decrease in inventories	13	66.5	10.8
Increase in trade and other payables		152.6	23.5
Increase/(decrease) in provisions	19	117.4	(2.8)
Increase/(decrease) in share based payment liability	18	30.2	(58.7)
Tax paid		(152.0)	(133.3)
Net cash flows from operating activities		1,412.6	1,307.6
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		31.0	42.4
Purchase of property, plant and equipment		(334.0)	(567.6)
Purchase of intangible assets	11	(28.5)	(40.8)
Interest received	7	3.0	3.7
Net cash flows from investing activities		(328.5)	(562.3)
Cash flows from financing activities			
Acquisition of non-controlling interests	27	(55.3)	-
Interest paid	8	(24.3)	(43.1)
Decrease/(increase) in intercompany receivables	14	3.7	(343.6)
(Decrease)/increase in intercompany payables	16	(235.4)	205.1
Payment of finance lease obligations		(9.5)	(11.0)
Dividend paid to parent		(450.0)	-
Dividend paid to non-controlling interest		(7.0)	(9.4)
Repayment of Eurobond		-	(150.0)
Net cash flow from financing activities		(777.8)	(352.0)
Net increase in cash and cash equivalents		306.3	393.3
Cash and cash equivalents at start of year		1,556.4	1,163.1
Cash and cash equivalents at end of year	15	1,862.7	1,556.4

Notes to the consolidated financial statements *(forming part of the financial statements)*

1 Accounting policies

General information

ASDA Group Limited (the "Company") is a company incorporated and domiciled in England under the Companies Act 2006 (registration number 1396513). The address of the registered office is ASDA House, Southbank, Great Wilson Street, Leeds, LS11 5AD, UK.

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

As described in the strategic report, the main activities of the Group are the retailing of food, clothing, home and leisure products and services throughout the United Kingdom and online.

Authorisation of financial statements and statement of compliance with IFRSs

The financial statements of the Group for the year ended 31 December 2016 were authorised for issue by the directors on 19 July 2017 and the Balance Sheet was signed on behalf of the directors by A Russo.

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("IFRSs").

Basis of preparation

The directors have assessed the Group and Company's ability to continue as a going concern including the review of the forecast cash flows, future trading performance and existing borrowings in place. In addition, the ultimate UK parent company has agreed that it will continue to provide financial support to the Group to enable it to meet its liabilities as they fall due. Based on this review, the directors confirm that the Group and Company have adequate resources to continue to operate for the foreseeable future and accordingly the going concern basis continues to be appropriate for the preparation of the financial statements.

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

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

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year. There are no IFRS, IAS amendments or IFRIC interpretations effective for the first time this financial year which have had a material impact on the group.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements that are relevant to the Group are disclosed below. The Group intends to adopt these standards when they become effective.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 replaces existing IFRS revenue recognition requirements in IAS 18 Revenue. The standard applies to all revenue contracts and provides a model for the recognition and measurement of sales of some non-financial assets (e.g. disposals of property, plant and equipment). The core principle of IFRS 15 is that revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Application is required for annual periods beginning on or after 1 January 2018. The Group are assessing these changes and do not anticipate there would be any material impact to the financial statements but there are additional disclosures required by the new standard.

Notes to the consolidated financial statements *(continued)*

1 Accounting policies *(continued)*

Standards issued but not yet effective (continued)

IFRS 16 - Leases

IFRS 16 replaces existing IFRS lease requirements in IAS 17 Leases. The standard applies to all lease contracts over 12 months and provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for each lease. Lessor accounting is substantially unchanged from the current standard. Application is required for annual periods beginning on or after 1 January 2019. The Group is currently reviewing all leases with a view to understanding the impact of these changes. It is expected that the change will have a significant impact on the balance sheet and income statement for the Group. Details of the Group's operating lease commitments are included in note 24, which show that as at 31 December 2016, the Group had undiscounted operating lease obligations of £2,865.3m

IFRS 9 – Financial Instruments: Classification and Measurement

IFRS 9 'Financial Instruments' replaces the existing requirements in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including the new expected credit loss model for calculating impairment of financial assets, and the new general hedge accounting requirements. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Group is currently assessing the impact of IFRS 9 and expects to quantify the impact of these changes for the year ended 31 December 2017.

Other than those standards and amendments described above, there are no other IFRS, IAS amendments or IFRIC interpretations which are not yet effective that would be expected to have a material impact on the group.

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.

Impairment of brand intangible and goodwill

The Group has significant carrying value of goodwill and brand related intangible assets held within intangible assets on the balance sheet. An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model.

The cash flows are derived from the budget for the next five years. The recoverable amount is most sensitive to the sales growth, operating costs, growth rate for extrapolated cash flows and the discount rate. The key assumptions used to determine the recoverable amount, including a sensitivity analysis, are further explained in note 11.

Notes to the consolidated financial statements *(continued)*

1 Accounting policies *(continued)*

Judgements, estimates and assumptions (continued)

Supplier Income

Supplier incentives, rebates, fixed income and discounts are collectively known as “supplier income”. Accounting for the amount and timing of recognition of certain elements of supplier income may require the exercise of judgement. The three key types of supplier income are explained in the accounting policy on page 23. The areas requiring a level of judgement and estimation involved are considered below:

- Annual supplier rebates - typically these are earned and billed within the financial year of the Group. A small proportion of rebate agreements may extend beyond the year end and in these cases, estimations may be required of projected sales volumes and judgement may also need to be applied to determine the rebate level earned if agreements involve multiple tiers. All income accruals are supported by detailed calculations, based on the explicit terms in each agreement and judgements are minimal, due to the small number of agreements spanning the year end.
- Fixed amount supplier income - the majority of this income is earned and billed within the financial year of the Group. A small proportion of agreements may not be coterminous with the year end and, in these cases, any income accrued is supported by detailed calculations. These require judgement to determine when the terms of the agreement are satisfied and that amounts are recognised in the correct period:

Supplier income recognised in the income statement and accounted for as an offset within trade payables (note 16) at the year-end for which estimation and judgement is required is £0.4m (2015: £0.1m). This represents the net amount of accrued income (£0.4m) (2015: £nil) and deferred income (£nil) (2015: £0.1m) on deals running across the year end.

Other

The insurance provision (note 19) relates to liabilities arising from past events which are not covered by third party insurance. This includes both known and potential claims from stores and depots. Judgements are made with regards to determining the provision required either by actuarial assessment or based on historical experience. Additional judgements are also made with regard to litigation (note 26).

Judgement is made in determining whether balances under supply chain financing arrangements should be classified as trade payables or financing. In determining the classification, the Group reviews each arrangement against a number of characteristics and the legal form of the arrangement is considered. All balances under supply chain financing arrangements are currently treated as trade payables.

In the prior year, judgement was applied in determining whether control exists in instances where a majority equity interest is not held. During the year, the Group acquired the non-controlling interests in the two entities where it was previously considered that control existed without a majority equity holding. From the date of these equity acquisitions, this judgement is no longer required (note 27). In previously determining whether control existed, the Group considered whether indicators of control were present including the right to financially benefit from the operations of the company, the ability to influence the composition of the board, the ability to significantly influence the operating and financial activities of each entity and the ability to actively participate in key decision making due to the signing of legal agreements.

Pension benefits

The carrying value of the liabilities relating to the defined benefit pension scheme is valued using an actuarial valuation. This valuation is based on assumptions. All the assumptions used are estimates of future events. Further details about the key assumptions used are given in note 18.

Share-based payment transactions

The Group estimates fair value for share-based payment transactions depending on the terms and conditions of the grants. This estimate also requires determining the most appropriate inputs to the valuation model including assumptions of the expected life of the share option, share price, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 18.

Notes to the consolidated financial statements (continued)

1 Accounting policies (continued)

Judgements, estimates and assumptions (continued)

Finance versus operating lease classification

In assessing whether a lease is finance or operating in nature, assumptions and estimates need to be made including determination of the implicit interest rate, fair values of properties and the split of land and building elements of property lease contracts. Market data is used to determine these assumptions.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2016. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company however the results of International Procurement and Logistics Limited, and its subsidiaries, are consolidated one month in arrears. All intragroup balances and transactions, including unrealised profits arising from them, are eliminated.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements for the relevant period the Group has control over the subsidiary.

The profit or loss for the year is attributed to the equity holders of both the parent of the Group, and to the non-controlling interests.

Subsidiaries which the Group controls but does not own are consolidated at carrying value, the difference between the carrying value and fair value of the assets and liabilities of these subsidiaries is not material. The carrying value of the non-controlling interests is recognised separately in equity and the profit attributable to non-controlling interests is disclosed separately within the consolidated income statement.

Business combinations and goodwill

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

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

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

Notes to the consolidated financial statements *(continued)*

1 Accounting policies *(continued)*

Business combinations and goodwill (continued)

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

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

Foreign currency

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

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences are taken to the income statement, except when hedge accounting is applied and differences are taken to 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.

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

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

Intangible assets

Intangible assets acquired are carried initially at cost. Following initial recognition, the historic cost model is applied, with intangible assets being carried at cost less accumulated amortisation and accumulated impairment losses. 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
Lease buy out costs	over the lease term
Other intangibles	3 years

The purchased goodwill of the Group and brand 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.

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.

Assets acquired by way of a finance lease are stated at an amount equal to lower of fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Notes to the consolidated financial statements *(continued)*

1 Accounting policies *(continued)*

Property, plant and equipment (continued)

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

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

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.

Impairment of non-financial assets

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

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

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

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

Provisions

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

Leases

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

Group as a lessee

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

Where land and buildings are held under leases the determination of the land is considered separately from that of the buildings.

Notes to the consolidated financial statements (continued)

1 Accounting policies (continued)

Leases (continued)

Finance leases

Assets acquired by way of a finance lease are recognised at an amount equal to the lower of the fair value and the present value, calculated using the interest rate implicit in the lease, of the minimum lease payments at inception of the lease with a corresponding liability as an obligation to pay future rentals. Lease payments are apportioned between the finance charge and the outstanding obligation so as to produce a constant rate of interest on the remaining balance of the liability. Assets are depreciated over the term of the lease.

Operating leases

Rental payments are taken to the income statement on a straight line basis over the lease term. Leases that contain predetermined fixed rental increases are accounted for such that the increases are recognised on a straight line basis over the lease term. Lease incentives received are recognised in the income statement over the lease term.

Prepaid operating lease rentals are recognised on a straight line basis over the lease term.

Group as a lessor

Assets leased out under operating leases are included in property, plant and equipment and depreciated over their useful economic lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

Financial instruments

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

Financial assets and liabilities

The Group classifies its financial assets and liabilities in the following categories: financial assets at fair value through profit and loss, loans and receivables, interest bearing loans and borrowings, derivatives designated as hedges and trade payables.

Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

All financial assets and liabilities are recognised initially at fair value. The Group assesses at each balance sheet date whether there is objective evidence that financial assets are impaired.

Financial assets and liabilities at fair value through profit and loss

Derivatives are categorised as held for trading unless they are designated as hedges. Gains or losses arising from changes in the fair value of the financial assets and liabilities at fair value through profit or loss are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are carried at amortised cost. They are included in current assets except for those with maturities greater than 12 months after the balance sheet date. Loans and receivables comprise trade and other receivables.

Interest bearing loans and borrowings

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

Notes to the consolidated financial statements (continued)

1 Accounting policies (continued)

Financial instruments (continued)

Offsetting of financial instruments

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

Fair values

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

Derivative financial instruments and hedging

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

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

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

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

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

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecasted transactions and firm commitments. Refer to note 17 for further details.

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. Costs including expenditure incurred in acquiring the inventories 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.

Trade and other receivables

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

Notes to the consolidated financial statements *(continued)*

1 Accounting policies *(continued)*

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Trade and other payables

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

Taxation

Taxation comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in equity or 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:

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

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

Borrowing costs

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

Pensions and other post-employment benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an operating expense in the income statement as incurred.

Defined benefit plans

The Group's net obligation 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.

The Group is subject to minimum funding requirements in the UK and does not have an unconditional right to a refund of a surplus. This results in an obligation which is recognised as an additional liability and a reduction to other comprehensive income.

Notes to the consolidated financial statements (continued)

1 Accounting policies (continued)

Revenue recognition

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

Income from concessions and commissions

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

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 income statement on the date the Company's right to receive payments is established.

Supplier income

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

Supplier income is split into three classifications:

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

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

Share-based payments

For all liabilities arising from share-based payment arrangements the Group has applied IFRS 2 '*Share-Based Payments*'.

The share option programmes allow Group employees to acquire shares of the ultimate parent company; these awards are granted by the Group. The fair value of options granted is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The charge is recognised as an employee expense, with a corresponding increase in liabilities. The fair value of the share option is measured based on an option valuation model, taking into account the terms and conditions upon which the instruments were granted. The liability is re-measured at each balance sheet date and at settlement date and any changes in fair value are recognised in the income statement during the vesting period. These share based payment transactions are accounted for as cash settled.

Notes to the consolidated financial statements (continued)

1 Accounting policies (continued)

Dividend distribution

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

Contingent liabilities

The Group may, from time to time, be subject to legal proceedings. The Group records a liability with respect to these matters, as appropriate, which are then reflected in the financial statements. Where a liability is not probable or the amount cannot be reasonably estimated a liability is not recognised. However, where a liability is possible and may be material, such matters are disclosed as contingent liabilities.

2 Segment reporting

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

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

The Group has taken these factors into account together with the core principals of IFRS 8 in determining that it has a single reportable operating segment.

Revenue for the year is as follows:

	Year Ended 31 December 2016 £m	Year Ended 31 December 2015 £m
Sale of goods	19,197.5	20,064.8
Fuel	2,468.8	2,310.0
Total revenue	21,666.3	22,374.8

After excluding revenue on fuel, like-for-like sales reduction is 5.7% in 2016 (2015: 4.7% reduction) excluding VAT. Like-for-like sales is a measure of the year on year change in sales (excluding VAT and fuel) for stores open for more than 1 year.

Notes to the consolidated financial statements (continued)

3 Operating costs

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

	Year Ended 31 December 2016 £m	Year Ended 31 December 2015 £m
Cost of inventories recognised as an expense	(15,682.9)	(16,296.3)
Cost of inventories written off in the year	(407.2)	(419.1)
Employment costs (note 5)	(2,554.3)	(2,450.3)
Amortisation of intangible assets (note 11)	(30.6)	(21.3)
Depreciation (note 10)		
- Owned assets	(407.9)	(417.8)
- Assets held under finance leases	(5.5)	(5.1)
Operating lease expense		
- Plant and equipment	(48.3)	(49.7)
- Property	(130.2)	(121.9)
Rental income	12.4	15.1
Other income	35.7	35.2
Profit on sale of property, plant and equipment	0.7	25.0
Impairment of property, plant and equipment (note 10)	(2.8)	(3.7)
License fees paid to fellow subsidiary of ultimate parent company (note 28)	-	(4.8)
Foreign currency losses	(5.4)	(5.1)

4 Auditor's remuneration

	Year Ended 31 December 2016 £m	Year Ended 31 December 2015 £m
Within operating costs:		
Fees payable to company's auditor for the audit of parent company and consolidated financial statements	0.3	0.3
Fees payable to company's auditor for other professional services	0.1	0.1

Notes to the consolidated financial statements (continued)

5 Employee numbers and costs

The average number of people employed by the Group (including directors) during the year was as follows:

	Number of employees	
	Year Ended 31 December 2016	Year Ended 31 December 2015
<i>Total</i>		
ASDA - Retail & Distribution	156,439	160,823
- Home offices	5,012	4,898
	<u>161,451</u>	<u>165,721</u>
<i>Full time equivalents</i>		
ASDA - Retail & Distribution	103,963	109,163
- Home offices	4,897	4,773
	<u>108,860</u>	<u>113,936</u>

The aggregate payroll costs of these people were as follows:

	Year Ended 31 December 2016 £m	Year Ended 31 December 2015 £m
Wages and salaries	2,285.4	2,264.5
Share-based payments charge/(credit) (note 18)	69.5	(9.1)
Social security costs	136.4	127.4
Other pension costs	63.0	67.5
	<u>2,554.3</u>	<u>2,450.3</u>

Other pension costs comprise the cost of the defined contribution schemes. All pension related costs and income are disclosed in note 18.

6 Directors' remuneration

The remuneration during the year is as follows:

	Year Ended 31 December 2016 £m	Year Ended 31 December 2015 £m
Directors' remuneration	<u>4.5</u>	<u>4.6</u>
Share-based payments	<u>1.6</u>	<u>2.8</u>
Post employment benefits	<u>-</u>	<u>-</u>

During the year, a cost of £2.5m was incurred as a result of payments to directors of the Group in respect of compensation for loss of office (2015: nil). This is not included in the directors' remuneration disclosed above.

Notes to the consolidated financial statements *(continued)*

6 Directors' remuneration *(continued)*

	<i>Year Ended 31 December 2016 number</i>	<i>Year Ended 31 December 2015 number</i>
Number of directors who were active members of the defined benefit scheme during the year	-	-
Number of directors who exercised share options	5	6
Number of directors entitled to receive shares under long term incentive schemes	6	7
	<hr/>	<hr/>
Amounts in respect of the highest paid director are as follows:	<i>£m</i>	<i>£m</i>
Total remuneration excluding pensions	1.1	1.5
	<hr/>	<hr/>
Total share-based payments	0.3	1.1
	<hr/>	<hr/>
Total accrued pension at the year end	-	-
	<hr/>	<hr/>

Included within the remuneration totals above are emoluments and short term benefits in respect of the following directors, which are in respect of their services to the Broadstreet Great Wilson Europe Group (the ultimate parent company for the UK) as a whole: R Burnley, A Clarke, S Clarke, A J Moore, A Murray, A Russo, H Tatum, and BPI Williams. It is not possible to allocate their remuneration to individual companies within the Group. Remuneration is impacted by timing of appointment and resignation of directors.

Two directors were deferred members of the defined benefit scheme (2015: two). None of the directors were members of the defined contribution schemes during the year (2015: none).

7 Financial income

	<i>Year Ended 31 December 2016 £m</i>	<i>Year Ended 31 December 2015 £m</i>
Bank interest receivable	3.0	3.7
	<hr/>	<hr/>

Notes to the consolidated financial statements *(continued)*

8 Financial costs

	<i>Year Ended 31 December 2016</i>	<i>Year Ended 31 December 2015</i>
	<i>£m</i>	<i>£m</i>
Interest payable on bonds - paid to fellow group undertakings	-	5.4
External interest payable	-	0.2
Net interest payable on amounts owed to group undertakings	24.3	37.5
Finance lease interest	10.3	10.3
Interest capitalised	(2.8)	(4.0)
Net interest cost on pension scheme <i>(note 18)</i>	24.8	25.2
	<hr/>	<hr/>
	56.6	74.6
	<hr/>	<hr/>

9 Income tax expense

Recognised in the income statement

	<i>Year Ended 31 December 2016</i>	<i>Year Ended 31 December 2015</i>
	<i>£m</i>	<i>£m</i>
Current tax		
UK corporation tax on profit for the year	158.8	158.8
Adjustments in respect of prior periods	(11.9)	(2.8)
	<hr/>	<hr/>
Current tax charge for the year	146.9	156.0
	<hr/>	<hr/>
Deferred tax		
Origination and reversal of temporary differences	(20.0)	6.5
Adjustment in respect of prior periods	5.8	(2.0)
Adjustment arising from change in tax rate	1.6	(13.8)
Reduction in deferred tax asset relating to pension obligation	0.2	8.1
	<hr/>	<hr/>
	(12.4)	(1.2)
	<hr/>	<hr/>
Total tax charge for the year	134.5	154.8
	<hr/>	<hr/>

Notes to the consolidated financial statements *(continued)*

9 Income tax expense *(continued)*

Reconciliation of effective tax rate

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

	<i>Year Ended 31 December 2016 £m</i>	<i>Year Ended 31 December 2015 £m</i>
Profit before tax	791.7	974.9
Tax using the UK corporation tax rate of 20.00% (2015: 20.25%)	158.3	197.4
Expenses not deductible	4.6	3.1
Non-qualifying depreciation	17.1	22.3
Gain on non-qualifying fixed assets	(3.4)	(6.2)
Group relief not paid for	(40.1)	(36.9)
Share options costs	2.0	(0.6)
Adjustments in respect of prior periods	(6.0)	(4.9)
Change in tax rate	1.6	(14.1)
Other	0.4	(5.3)
Total tax charge for the year	134.5	154.8

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

Notes to the consolidated financial statements (continued)

9 Income tax expense (continued)

Tax relating to components of the consolidated statement of changes in equity

	<i>Year Ended 31 December 2016 £m</i>	<i>Year Ended 31 December 2015 £m</i>
Deferred tax (credit)/charge on:		
Share-based payments	(0.7)	0.7
Total tax (credit)/charge on items charged to consolidated statement of changes in equity	(0.7)	0.7

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

	<i>Year Ended 31 December 2016 £m</i>	<i>Year Ended 31 December 2015 £m</i>
Current tax credit on:		
Pensions	(8.0)	-
Deferred tax (credit)/charge on:		
Pensions	(37.9)	12.4
Cash flow hedges	4.0	(2.0)
Total tax on items credited to consolidated statement of comprehensive income	(41.9)	10.4

Notes to the consolidated financial statements (continued)

10 Property, plant and equipment

	Freehold properties £m	Finance leases & leasehold improvements £m	Plant, equipment, fixtures & fittings £m	Assets under construction £m	Total £m
Cost					
Balance at 1 January 2015	8,353.7	1,342.3	2,806.8	365.6	12,868.4
Additions at cost	65.0	60.4	74.7	356.1	556.2
Disposals	(18.0)	(18.8)	(173.7)	-	(210.5)
Transfers	(176.6)	165.9	10.7	-	-
Transfers from Assets Under Construction	242.5	-	129.6	(372.1)	-
Reclassification to Intangible Assets	-	-	(64.3)	-	(64.3)
Balance at 31 December 2015	8,466.6	1,549.8	2,783.8	349.6	13,149.8
Balance at 1 January 2016	8,466.6	1,549.8	2,783.8	349.6	13,149.8
Additions at cost	46.2	40.9	60.9	230.7	378.7
Disposals	(49.2)	(9.0)	(123.6)	-	(181.8)
Transfers	91.2	(91.2)	-	-	-
Transfers from Assets Under Construction	141.0	-	147.9	(288.9)	-
Reclassification from Intangible Assets	25.1	-	-	-	25.1
Balance at 31 December 2016	8,720.9	1,490.5	2,869.0	291.4	13,371.8
Accumulated depreciation and impairment					
Balance at 1 January 2015	1,459.3	533.5	1,852.0	-	3,844.8
Depreciation charge for the year	142.1	59.7	221.1	-	422.9
Disposals	0.8	(2.0)	(171.9)	-	(173.1)
Transfers	(1.2)	1.2	-	-	-
Reclassification to Intangible Assets	-	-	(23.8)	-	(23.8)
Balance at 31 December 2015	1,601.0	592.4	1,877.4	-	4,070.8
Balance at 1 January 2016	1,601.0	592.4	1,877.4	-	4,070.8
Depreciation charge for the year	162.2	31.3	219.9	-	413.4
Impairments	2.8	-	-	-	2.8
Disposals	(26.1)	(8.5)	(116.9)	-	(151.5)
Balance at 31 December 2016	1,739.9	615.2	1,980.4	-	4,335.5
Net book value					
At 31 December 2015	6,865.6	957.4	906.4	349.6	9,079.0
At 31 December 2016	6,981.0	875.3	888.6	291.4	9,036.3

Reclassifications

During the prior year, software and software development costs were reclassified from tangible to intangible assets to better reflect the nature of these items. Assets transferred had a gross cost of £64.3m and accumulated depreciation of £23.8m (see note 11).

During the current year, assets relating to peppercorn leases were reclassified from intangible assets to freehold properties to better reflect the nature of these items. Assets transferred had a gross cost of £25.1m and accumulated depreciation of £nil (see note 11).

Notes to the consolidated financial statements *(continued)*

10 Property, plant and equipment *(continued)*

Transfers

During the current year, costs initially recognised as leasehold costs were transferred to freehold properties to better reflect the nature of these items. Assets transferred had a gross cost of £91.2m and accumulated depreciation of £nil.

Impairment

Both the operational and non-operational estate are regularly reviewed for indicators of impairment. Following reviews in the year, impairment charges of £2.8m (2015: £3.7m) were recognised and are included in the cost of disposals above.

Capitalised interest

The cumulative amount of capitalised interest included in the cost of fixed assets is £271.5m (2015: £268.7m). Details of interest capitalised during the year are given in note 8.

Finance leases

Properties held under finance leases have the following net book values:

	31 December 2016 £m	31 December 2015 £m
Cost	186.0	176.3
Depreciation	(24.9)	(19.4)
Net book value	161.1	156.9

Notes to the consolidated financial statements (continued)

11 Intangible assets

	Brands £m	Goodwill £m	Lease buy out costs £m	Software Intangibles £m	Other £m	Total £m
Cost						
At 1 January 2015	33.5	501.5	168.1	-	2.1	705.2
Additions	-	6.5	3.5	30.8	-	40.8
Disposals	-	-	-	(2.3)	-	(2.3)
Reclassification from Property, Plant & Equipment	-	-	-	64.3	-	64.3
At 31 December 2015	33.5	508.0	171.6	92.8	2.1	808.0
At 1 January 2016	33.5	508.0	171.6	92.8	2.1	808.0
Additions	-	-	-	28.5	-	28.5
Reclassification to Property, Plant & Equipment	-	-	(25.1)	-	-	(25.1)
At 31 December 2016	33.5	508.0	146.5	121.3	2.1	811.4
Amortisation						
At 1 January 2015	16.2	-	37.4	-	0.2	53.8
Amortisation during the year	-	-	3.5	17.1	0.7	21.3
Disposals	-	-	-	(2.1)	-	(2.1)
Reclassification from Property, Plant & Equipment	-	-	-	23.8	-	23.8
At 31 December 2015	16.2	-	40.9	38.8	0.9	96.8
At 1 January 2016	16.2	-	40.9	38.8	0.9	96.8
Amortisation during the year	-	-	5.9	24.0	0.7	30.6
At 31 December 2016	16.2	-	46.8	62.8	1.6	127.4
Net book value at 31 December 2015	17.3	508.0	130.7	54.0	1.2	711.2
Net book value at 31 December 2016	17.3	508.0	99.7	58.5	0.5	684.0

The George brand has a carrying value of £17.3m (2015: £17.3m). The George brand is generating positive cash flows. There are no plans to exit the brand and no legal limits on its use by the Group.

Other brand assets are fully amortised (£16.2m cost and accumulated amortisation).

Lease buy out costs represent amounts paid to third parties to enter a leasehold property. These costs are being amortised over the term of the lease.

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

Other intangible assets are amortised on a straight line basis over an estimated useful life of 3 years.

Reclassifications and transfers

During the prior year, software and software development costs were reclassified from tangible to intangible assets to better reflect the nature of these items. Assets transferred had a gross cost of £64.3m and accumulated depreciation of £23.8m (see note 10).

During the current year, assets relating to peppercorn leases were reclassified from intangible assets to freehold properties to better reflect the nature of these items. Assets transferred had a gross cost of £25.1m and accumulated depreciation of £nil (see note 10).

Notes to the consolidated financial statements *(continued)*

11 Intangible assets *(continued)*

Goodwill Additions

During the prior year, International Produce and Logistics Limited ("IPL"), a company in the Group, purchased 100% of the share capital of two companies. Westry Produce Limited was purchased on 16 January 2015 and QV Foods Limited was purchased on 30 September 2015. The fair value of assets and liabilities acquired were as follows:

	<i>Westry Ltd</i> <i>£m</i>	<i>QV Foods Ltd</i> <i>£m</i>
Net assets acquired	6.3	1.2
Consideration	10.5	3.5
Goodwill	4.2	2.3

During 2016, IPL purchased 100% of the share capital of two companies - Forza AW Limited and Kober Limited - on 4 January 2016. No goodwill was recognised on acquisition of this equity interest as both entities have been previously treated as subsidiaries and consolidated into the Group on the basis of having control over the entities. Therefore, no fair value exercise was required on acquisition of the non-controlling interest (see note 27).

Impairment testing of goodwill

Netto Acquisition

Goodwill of £482.3m (2015: £482.3m) arose on the acquisition of Netto Foodstores Limited on 13 April 2011. This has been tested for impairment as at 31 December 2016 by allocating costs directly attributable to Netto stores and a reasonable allocation of central costs, to the chain of converted Netto stores along with other related assets. This represents the lowest level to which management monitors goodwill.

The recoverable amount is determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a three year period. This is the period to which specific reliable forecasts have been made. The discount rate applied to the cash flow projections is 7.8% and the growth rate used to extrapolate the cash flows beyond the specific forecast period is 2.0%.

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

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

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

Notes to the consolidated financial statements *(continued)*

11 Intangible assets *(continued)*

Operating costs - some costs are directly attributable to individual stores. Other costs derive from central or shared costs for the whole Group and must be allocated to the chain on a reasonable basis. Operating cost forecasts for the Netto chain reflect a combination of experience since acquisition and existing similar stores from 2011 to 2016 extrapolated as a proportion of sales, and known impacts to costs in future years

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

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

Sensitivity to changes in assumptions

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

Turkmen Tedarik Hizmetleri Acquisition

Goodwill of £17.0m (2015: £17.0m) arose on the acquisition of Turkmen Tedarik Hizmetleri on 26 April 2012. This has been tested for impairment as at 31 December 2016 by assessing the present value of forecasted cash savings arising from the synergies achieved as a result of the acquisition. Goodwill is allocated to a single cash generating unit, being the acquired sourcing company.

The recoverable amount is determined based on a value in use calculation using cashflow projections from financial budgets approved by senior management covering a three year period. The discount rate applied to the cashflow projections is 7.8% and the growth rate used to extrapolate the cashflows beyond specific forecast period is 0.5%.

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

Growth rate used to extrapolate cash flows beyond the initial forecast period - long term growth rate forecasts are based on long term economic GDP growth forecasts for the UK.

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

Sensitivity to changes in assumptions

With regard to the assessment of value in use, based upon calculations performed and sensitivity analysis undertaken, management believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of the Turkmen goodwill to exceed its recoverable amount.

Impairment testing of indefinite life intangibles

George brand

The George brand arose on the acquisition of the intellectual property rights of Global George Limited in 2006 and has a carrying value of £17.3m (2015: £17.3m). This has been tested for impairment as at 31 December 2016 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 three year period. The discount rate applied to the cash flow projections is 7.8% and the growth rate used to extrapolate the cash flows beyond specific forecast period is 2.0%.

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

Notes to the consolidated financial statements *(continued)*

12 Operating lease prepayments

	31 December 2016 £m	31 December 2015 £m
Operating lease prepayments - current	1.3	1.3
- non-current	45.8	47.9
	<u>47.1</u>	<u>49.2</u>

Operating lease prepayments are amortised over the associated lease term.

13 Inventories

	31 December 2016 £m	31 December 2015 £m
Goods held for resale	1,088.6	1,155.3
Goods not held for resale	1.7	1.5
	<u>1,090.3</u>	<u>1,156.8</u>

14 Trade and other receivables

	31 December 2016 £m	31 December 2015 £m
Trade receivables	135.2	126.7
Provision for doubtful debts	(2.7)	(4.4)
Other receivables	59.7	83.3
Prepayments and accrued income	25.4	18.2
Derivative assets	63.9	27.3
	<u>281.5</u>	<u>251.1</u>
Amounts owed by group entities	<u>2,764.0</u>	<u>2,767.7</u>

Trade receivables are non-interest bearing and are generally on 30 day terms. Trade receivables are presented net where a legally enforceable right of set off exists. Included in the above is an offset of £91.0m (note 16) (2015: £139.0m). The gross trade receivable prior to the offset is £226.2m (2015: £265.7m).

Notes to the consolidated financial statements (continued)

14 Trade and other receivables (continued)

As at 31 December 2016, trade receivables at nominal value of £2.7m (2015: £4.4m) were impaired and fully provided for on the basis of the age of the debt and estimated ability of the customer to make payment. Movements in the provision for doubtful debts in the year were as follows:

	31 December 2016 £m	31 December 2015 £m
At 1 January	4.4	1.6
Charge for the year	2.6	4.8
Provision utilised	(4.3)	(2.0)
At 31 December	<u>2.7</u>	<u>4.4</u>

The Group has not made any provision for amounts owed by group entities.

As at 31 December 2016, the analysis of trade receivables that were not impaired was as follows:

	31 December 2016 £m	31 December 2015 £m
Neither past due nor impaired	124.7	110.0
More than 3 months past due	7.8	12.3
	<u>132.5</u>	<u>122.3</u>

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts. As at 31 December 2016, trade receivables that were neither past due nor impaired related to a number of independent customers for whom there is no history of default.

The allowance for doubtful debt assumes VAT in relation to the impaired balances will be fully recoverable.

15 Cash and cash equivalents

	31 December 2016 £m	31 December 2015 £m
Cash and cash equivalents	<u>1,862.7</u>	<u>1,556.4</u>

Notes to the consolidated financial statements *(continued)*

16 Trade and other payables

	31 December 2016 £m	31 December 2015 £m
Trade payables	2,403.8	2,169.0
Other taxes and social security	207.6	180.2
Other payables	173.2	157.4
Accrued expenses	422.6	541.6
	<hr/>	<hr/>
	3,207.2	3,048.2
	<hr/>	<hr/>
Amounts owed to group entities	3,102.0	3,337.4
	<hr/>	<hr/>

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

Trade receivables are presented net where a legally enforceable right of set off exists. Included in the above is an offset of £91.0m (note 14) (2015: £139.0m). The gross trade payable prior to the offset is £2,494.8m (2015: £2,308.0m).

During the year, £137.0m relating to self-insured claims have been reclassified from accruals to provisions to better reflect the nature of the balance (see note 19).

For terms and conditions relating to amounts owed to related parties, refer to note 28.

17 Financial instruments

As at 31 December 2016 and 31 December 2015, all borrowings were in Sterling at fixed rates of interest. The finance lease obligations are carried at amortised cost, which is considered to approximate to fair value. The interest rate of fixed rate debt is 6.0% (2015: 6.0%).

Amounts owed to fellow subsidiaries are disclosed in note 16. Details of obligations under finance leases are included in note 24.

Notes to the consolidated financial statements (continued)

17 Financial instruments (continued)

	31 December 2016 £m	31 December 2015 £m
Current liabilities		
Current portion of finance lease liabilities	10.6	9.5
	<u>10.6</u>	<u>9.5</u>
Non-current liabilities		
Non-current portion of finance lease liabilities	165.9	156.0
	<u>165.9</u>	<u>156.0</u>

Fair values of financial assets and financial liabilities

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

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

Fixed rate borrowings – the fair value of fixed rate borrowings is estimated by discounting the future contracted cash flow using appropriate interest rates to net present value. All fixed rate borrowings are held with fellow subsidiaries of the ultimate parent company.

Derivatives – derivatives are measured at fair value by estimating the future settlement rates of forward contracts entered into and are split between in the money (assets) and out of the money (liabilities). At 31 December 2016 the Group held £63.9m (2015: £27.3m) in the money assets, and £0.6m (2015: £0.1m) out of the money liabilities in respect of its forward contracts. During the year, the Group recognised liabilities on revaluation of hedged monetary assets and liabilities from historical cost to year-end spot rate of £11.4m (2015: £2.7m liability).

Financial risk management

The treasury function manages the Group's financial risk, considering its borrowings and exposure to foreign currency fluctuations. The Group finances its operations through intercompany borrowings which were issued a number of years ago and are wholly held within the Wal-Mart group. The Group utilises its cash balances, and has access to bank overdrafts, to satisfy short-term cash flow requirements. Foreign currency exposure is managed through entering into forward currency contracts.

Interest rate risk

The Group's short term borrowings are all held with entities which are part of the Wal-Mart group and are at fixed rates of interest. Amounts owed to fellow subsidiaries (note 16) attract interest at a rate of 5.448% - 6% (2015: 5.448-6%). As interest rates are fixed on all of the Group's debt, interest rate movements would not have an impact on profitability, cash flow or equity.

It is anticipated that a 1% movement in interest rates, which represents management's assessment of a reasonably possible change, would give rise to a decrease/increase in net profitability of £nil (2015: £nil). The Group does not expect to take out borrowings with a variable interest rate in the foreseeable future.

Notes to the consolidated financial statements *(continued)*

17 Financial instruments *(continued)*

Foreign currency risk

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

The Group implements hedge accounting and has forward currency hedging contracts outstanding at 31 December 2016, designated as hedges of expected future purchases from suppliers in US dollars. The forward currency contracts are being used to hedge the foreign currency risk of the future purchases. The terms of the forward currency hedging contracts have been negotiated to match the terms of the commitments and none exceed a period of more than 12 months after the 31 December 2016. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss.

The cash flow hedges of the expected future purchases were assessed to be highly effective and as at 31 December 2016, a net unrealised gain of £36.8m (2015: £16.2m) was included in the hedging reserve in respect of hedging contracts. The net gain recognised in other comprehensive income during the year in respect of these hedging contracts was £20.6m (2015: £7.8m loss). This consists of £26.2m gains reclassified to income statement during the year (2015: £30.6m), a £50.8m gain on not-yet-matured contracts during the year (2015: £20.8m), and a £4.0m taxation charge (2015: £2.0m credit).

Under the Group's hedging policy the only items for which forward currency contracts are in place are purchases of goods for resale. Gains and losses attributable to forward contracts are transferred to cost of inventories recognised as an expense within the Income Statement upon maturity of the forward contract.

As the Group manages much of its foreign currency exposure through the use of forward currency contracts, changes in exchange rates are not expected to have a significant impact on short term profitability or cash flow. It is anticipated that a 5% movement in the US dollar/Sterling exchange rate, which represents management's assessment of a reasonably possible change, would give rise to a movement in hedge equity of £32.3m (2015: £44.3m).

Credit risk

There is no significant credit risk within the Group. The maximum credit risk exposure relating to financial assets is represented by their carrying value as at the balance sheet date. See note 14 for further information on trade receivables and details of recoverability.

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

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

Notes to the consolidated financial statements (continued)

17 Financial instruments (continued)

Liquidity risk

The Group's treasury function ensures that the Group continues to have sufficient funding by monitoring rolling forecasts of the Group's cash flows. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of operating cash flows and intercompany balances. At 31 December 2016 the Group had no external borrowings.

As at 31 December 2016, the Group held cash of £1,862.7m (2015: £1,556.4m), utilised along with overdrafts where necessary, to secure short term flexibility. At 31 December 2016, the Group had uncommitted overdraft facilities of £30.0m (2015: £30.0m), standby credit facilities (including bonds and guarantees) of £125.7m (2015: £114.2m) and uncommitted line of credit facilities of £125.0m (2015: £250.0m).

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

	Between			Total
	Within 1 year £m	1 and 5 years £m	After 5 years £m	
Year ended 31 December 2016				
Finance lease obligations	10.6	45.7	364.8	421.1
Financial derivatives *	774.3	-	-	774.3
Trade and other payables	2,999.6	-	-	2,999.6
Amounts owed to fellow UK group companies *	2,947.5	-	-	2,947.5
Amounts owed to ultimate parent company	22.0	-	-	22.0
Amounts owed to fellow subsidiaries of ultimate parent company *	132.5	-	-	132.5
	<u>6,886.5</u>	<u>45.7</u>	<u>364.8</u>	<u>7,297.0</u>
Year ended 31 December 2015				
Finance lease obligations	9.5	39.5	344.1	393.1
Financial derivatives *	748.4	-	-	748.4
Trade and other payables	2,868.0	-	-	2,868.0
Amounts owed to fellow UK group companies *	3,176.3	-	-	3,176.3
Amounts owed to ultimate parent company	31.5	-	-	31.5
Amounts owed to fellow subsidiaries of ultimate parent company *	129.6	-	-	129.6
	<u>6,963.3</u>	<u>39.5</u>	<u>344.1</u>	<u>7,346.9</u>

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

Capital risk management

The Group is subject to the risk that its capital structure will not be sufficient to support the growth of the business. In order to maintain or adjust the capital structure, the Group may adjust the amount of intercompany loans payable or receivable to/from the Wal-Mart group of companies. There were no changes to the Group's approach to capital management during the year. Full details of the Group's approach to capital management and how the Group define capital is provided on page 3.

Full details of the amount of intercompany loans payable or receivable to/from the Wal-Mart group of companies is disclosed in-note 28.

Notes to the consolidated financial statements (continued)

18 Employee benefits

	<i>31 December 2016 £m</i>	<i>31 December 2015 £m</i>
Present value of defined benefit obligations	(2,620.8)	(2,023.5)
Effect of minimum funding requirement	(791.5)	(702.7)
Fair value of plan assets	2,518.8	2,091.8
Recognised liability for defined benefit obligations	(893.5)	(634.4)
Cash-settled share-based payment transactions liability - non-current	(27.2)	(18.4)
Total non-current employee benefits liability	(920.7)	(652.8)
Cash-settled share-based payment transactions liability - current	(40.9)	(19.5)
Total employee benefits liability	(961.6)	(672.3)

Pension plans

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

	<i>31 December 2016 £m</i>	<i>31 December 2015 £m</i>
Wages and salaries	2,285.4	2,264.5
Share-based payments charge/(credit)	69.5	(9.1)
Social security costs	136.4	127.4
Total cost before pension costs	2,491.3	2,382.8
Defined benefit pension scheme		
Net interest on pension scheme	24.8	25.2
Total defined benefit scheme loss	24.8	25.2
Cost of defined contribution schemes	63.0	67.5
Total pension expense	87.8	92.7
Total employee benefit expense	2,579.1	2,475.5

Notes to the consolidated financial statements *(continued)*

18 Employee benefits *(continued)*

Pension plans *(continued)*

The Group operates a single trust based defined contribution pension plan for current colleagues. The assets of the plan are held by the Legal & General Assurance Society Ltd and the Prudential Life Assurance Company. Previously the Group also operated a contract based defined contribution plan for certain colleagues, but this was amalgamated into the trust based plan in May 2015.

The Group also operates two final salary defined benefit plans in the UK (one funded and one unfunded) which are closed to future accrual. With effect from 12 February 2011, the link between past service benefits and future salary increases was removed. The assets of the funded plan are placed by the trustees under the management of a number of professional fund managers and are held separately from the Group's assets. The trustees invest in a range of assets including bonds, equity securities and assets that will hedge movements in the liabilities. The trustees and Group agreed a de-risking plan in 2011 whereby the proportion of plan assets invested in liability hedging assets will increase over the period to 2021.

Responsibility for governance of the plans – including investment decisions and contribution schedules – lies with the board of trustees. The trustee body of the defined benefit plan is made up of eleven trustees: five of these are member nominated trustees including two pensioners, four are company appointed, and there are two professional independent trustees. The trustee body of the defined contribution plan is made up of seven trustees: three of these are member nominated, three are company appointed, and there is one professional independent trustee.

The Group's ultimate parent company Wal-Mart Stores, Inc., guarantees ASDA Stores' obligations to the funded defined benefit plan up to a maximum amount of £980m. This guarantee has no time limit.

A schedule of contributions is in place between the Group and trustees of the funded defined benefit plan in order to pay down the deficit and the current schedule was agreed in 2017. A long term funding agreement was entered into with the trustees in 2015 whereby contributions will continue until the scheme is fully funded on a self-sufficiency basis. At the time of the April 2016 triennial valuation, this resulted in contributions of £70.0m per annum being paid into the scheme until April 2032. Under IFRIC 14 this is considered to be a minimum funding requirement (also known as a statutory funding objective). At the current year end the present value of the contributions payable to meet Statutory Funding Objective requirements exceeds the pension plan net liability which indicates that in future the plan would go into a surplus. As the plan rules do not provide the Group with an unconditional right to a refund in the event of a surplus, under the requirements of IFRIC 14 the minimum funding requirement creates an obligation which is recognised as an additional liability of £791.5m (2015: £702.7m).

The expected future benefit payments from the defined benefit plans are based on a number of assumptions including future inflation, retirement ages, benefit options chosen and life expectancy and are therefore inherently uncertain. Actual benefit payments in a given year may be higher or lower, for example if members retire sooner or later than assumed, or take a greater or lesser cash lump sum at retirement. The estimated duration of pension plan liabilities, which is an indicator of the weighted average term of the liabilities, is 23 years (2015: 25 years) although the benefits payable by the pension plans are expected to be paid over more than 80 years.

Notes to the consolidated financial statements (continued)

18 Employee benefits (continued)

Pension plans (continued)

Movements in present value of defined benefit obligation:

	31 December 2016 £m	31 December 2015 £m
At 1 January	(2,023.5)	(2,057.4)
Interest expense	(77.3)	(75.0)
Remeasurements:		
Effect of changes in financial assumptions	(725.7)	2.7
Effect of experience adjustments	114.3	46.6
Benefits paid	91.4	59.6
At 31 December	(2,620.8)	(2,023.5)

Movements in fair value of plan assets:

	31 December 2016 £m	31 December 2015 £m
At 1 January	2,091.8	2,054.2
Interest income	81.3	76.1
Contributions by employer	65.2	65.1
Benefits paid	(91.4)	(59.6)
Administrative expenses paid	(1.4)	(1.4)
Remeasurements:		
Return on/(reduction in) plan assets excluding interest income	373.3	(42.6)
At 31 December	2,518.8	2,091.8

Amounts recognised in the consolidated income statement:

	31 December 2016 £m	31 December 2015 £m
Net interest income on plan assets and liabilities	4.0	1.1
Interest expense on additional minimum funding liability	(27.4)	(24.8)
Administrative expenses and taxes	(1.4)	(1.5)
Total income statement charge	(24.8)	(25.2)

The defined benefit pension scheme expense is recognised in financial costs in the consolidated income statement.

Notes to the consolidated financial statements (continued)

18 Employee benefits (continued)

Pension plans (continued)

The Group expects to contribute approximately £73.5m to its defined benefit scheme in the next financial year.

The Group operates one defined contribution pension plan. There were no unpaid contributions outstanding at the current or prior year end for the defined contribution scheme. The charge for the year for the defined contribution scheme is £63.0m (2015: £67.5m).

The amounts (charged)/credited in the statement of other comprehensive income in the year were:

	31 December 2016 £m	31 December 2015 £m
Remeasurements recognised to other comprehensive income		
Effect of changes in financial assumptions	(725.7)	2.7
Effect of experience adjustments	114.3	46.6
Return on/(reduction in) plan assets excluding interest income	373.3	(42.6)
Changes in onerous liability excluding interest expense	(61.4)	(6.7)
Total remeasurements recognised in the statement of comprehensive income	(299.5)	-

The fair value of the plan assets were as follows:

	31 December 2016 £m			31 December 2015 £m		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Cash and cash equivalents	-	8.1	8.1	-	5.2	5.2
Equity securities	332.2	554.8	887.0	255.4	512.8	768.2
Debt securities	919.1	-	919.1	664.0	-	664.0
Property	-	187.0	187.0	-	171.4	171.4
Investment funds	102.8	258.3	361.1	111.3	327.4	438.7
Other	156.5	-	156.5	44.3	-	44.3
	1,510.6	1,008.2	2,518.8	1,075.0	1,016.8	2,091.8

In order to mitigate the risk of volatility in the value of plan assets, a diverse portfolio of investments is held. This includes an allocation to liability matching assets which mitigate the risk of volatility in the funding level. The majority of these assets are bonds and are included within debt securities in the table above.

Notes to the consolidated financial statements (continued)

18 Employee benefits (continued)

Principal actuarial assumptions (expressed as weighted averages):

	31 December 2016 %	31 December 2015 %
Discount rate	2.7	3.9
Inflation - RPI	3.4	3.2
Inflation - CPI	2.4	2.2
Future pension increases	3.3	3.1

As the defined benefit schemes are closed to future accrual, future salary increases is no longer an actuarial assumption.

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 2016	31 December 2015
Retiring at reporting date at age 65:	Male	23.0	23.3
	Female	25.0	25.7
Retiring in 25 years at age 65:	Male	25.2	25.6
	Female	27.4	28.1

Sensitivity analysis of principal assumptions:

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 2016, and of the income statement charge for 2017, to changes in these assumptions.

	Decrease / (increase) in liability £m	Decrease / (increase) in net finance costs £m
An increase of 0.1% to the following assumptions:		
Discount rate	61.9	1.7
Inflation rate (assuming RPI and CPI both move by 0.1 percent)	(60.0)	(1.6)
One year increase in life expectancy	(105.4)	(2.8)

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. These sensitivities exclude the impact of the onerous liability.

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

Notes to the consolidated financial statements (continued)

18 Employee benefits (continued)

Share-based payments

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

The Group offers four share-based payment schemes to employees to enable them to own shares in the ultimate parent company, Wal-Mart Stores, Inc. The Group has the obligation to settle the liabilities for the schemes, including employment taxes for participating employees, and therefore these schemes are accounted for as cash settled liabilities.

The impact is eliminated in the consolidated financial statements of Wal-Mart Stores, Inc. and the share options would not be revalued if the Group were granting options on its own shares in a way consistent with UK public limited companies. Two of these schemes involve the granting of options to employees to acquire shares in the ultimate parent company at pre-determined exercise prices and two of the schemes involve the granting of rights to receive shares in the ultimate parent company for nil consideration. The executive performance share plan has performance conditions relating to the total payout of options issued, no other scheme has any performance conditions attached to the scheme.

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 2016 £m	31 December 2015 £m
Cash-settled share based payment charge/(credit)		69.5	(9.1)
Total carrying amount of liabilities	- current	40.9	19.5
	- non-current	27.2	18.4
		68.1	37.9

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

	31 December 2016	31 December 2016	31 December 2015	31 December 2015
	Weighted average exercise price £	Number of options (thousands)	Weighted average exercise price £	Number of options (thousands)
Outstanding at the beginning of the year	38.70	4,709	34.03	5,098
Exercised during the year	(31.76)	(1,323)	(27.81)	(1,514)
Granted during the year	37.03	2,448	43.82	1,853
Forfeited during the year	(39.15)	(829)	(37.92)	(728)
Outstanding at the end of the year	38.36	5,005	38.70	4,709
Exercisable at the end of the year	42.30	62	32.53	154

Share options were exercised on a regular basis throughout the year. The average share price during the year to 31 December 2016 was £55.76 (2015: £47.47). The related shares are denominated in US dollars being the reporting currency of the ultimate parent company. The sterling exercise price of the Sharesave scheme options is fixed at the exchange rate on issue, for all other schemes the exercise price is denominated in US dollars and the sterling equivalent is translated based on the current exchange rate.

Notes to the consolidated financial statements (continued)

18 Employee benefits (continued)

Share-based payments (continued)

Sharesave scheme

The scheme has been in existence for employees since 1982 and gained HMRC approval in 2000. Employees with six months service are invited to join the scheme annually. Options are granted annually to employees who elect to join, and are exercisable in three or five years from date of grant, depending on the year of grant. Currently only three year grants are being offered. The options under this scheme are treated as cash-settled. The exercise price of the options granted is equal to the market price of the shares less 20% on the date of grant.

Number of options outstanding (thousands)	31 December 2016			Number of options outstanding (thousands)	31 December 2015		
	Range of exercise price £	Weighted average exercise price £	Weighted average remaining contractual life (years)		Range of exercise price £	Weighted average exercise price £	Weighted average remaining contractual life (years)
4,937	29.76 to 43.79	38.24	1.5	4,549	29.76 to 43.79	38.84	1.3

The fair value of the options outstanding under the Sharesave scheme at 31 December 2016 is £42.8m (2015: £11.8m).

Wal-Mart Stock Incentive Plan (WSIP) scheme

The scheme has been in existence since 1999. Options are granted to employees annually and are exercisable in five or seven years from date of grant, depending on the grant agreement. The options under this scheme are treated as cash-settled.

Number of options outstanding (thousands)	31 December 2016			Number of options outstanding (thousands)	31 December 2015		
	Range of exercise price £	Weighted average exercise price £	Weighted average remaining contractual life (years)		Range of exercise price £	Weighted average exercise price £	Weighted average remaining contractual life (years)
68	35.88 to 65.41	47.46	0.4	160	29.89 to 54.48	34.88	0.2

The fair value of the options outstanding under the WSIP scheme at 31 December 2016 is £0.8m (2015: £1.4m).

Notes to the consolidated financial statements (continued)

18 Employee benefits (continued)

Share-based payments (continued)

Restricted Stock Rights (RSR) scheme

The scheme was introduced in 2008 as an alternative to the WSIP scheme. Under the RSR scheme, employees are awarded the right to receive a predetermined number of shares in the ultimate parent company three years from the award date. All RSRs are classed as unapproved from an Income Tax and National Insurance perspective. RSR awards are treated as cash-settled.

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

	31 December 2016 (thousands)	31 December 2015 (thousands)
Outstanding at the beginning of the year	573	635
Exercised during the year	(148)	(213)
Granted during the year	240	251
Lapsed during the year	(103)	(71)
Reclassified during the year	-	(29)
Outstanding at the end of the year	562	573
Exercisable at the end of the year	-	-

The fair value of the options outstanding under the RSR scheme at 31 December 2016 is £19.5m (2015: £15.0m).

Performance Share Plan (PSP) scheme

The Group offers a PSP scheme, for which conditions exist in relation to exercise as described below.

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

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

	31 December 2016 (thousands)	31 December 2015 (thousands)
Outstanding at the beginning of the year	234	347
Exercised during the year	(62)	(104)
Conditionally granted during the year	80	77
Lapsed during the year	(68)	(86)
Outstanding at the end of the year	184	234
Exercisable at the end of the year	-	-

The fair value of the options outstanding under the PSP scheme at 31 December 2016 is £5.0m (2015: £9.7m).

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.

Notes to the consolidated financial statements *(continued)*

18 Employee benefits *(continued)*

Share-based payments *(continued)*

The following table gives the weighted average assumptions applied to the options granted during the year and are outstanding in the respective periods shown.

	31 December 2016	31 December 2015
Expected dividend yield (%)	2.89	3.20
Expected volatility (%)	9.45	18.22
Risk-free interest rate (%)	0.85	0.65
Weighted average fair value of options granted (£)	14.03	17.78
Weighted average exercise price (£)	38.36	38.70
Expected life of option (years)	3 or 5	3 or 5

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

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

19 Provisions

	Provisions £m
Balance at 1 January 2016	49.3
Provided during the year	0.3
Utilised during the year	(1.8)
Unused amounts reversed during the year	(16.7)
Discount changes and unwinding	(1.4)
Reclassifications from accruals	137.0
Balance at 31 December 2016	166.7
Of which:	
Current	44.7
Non-current	122.0

The majority of the provisions balance above relates to claims liabilities arising from past events such as accidents in our depots and stores which are not covered by third party insurance. The value of the provision is established using independent actuarial assessments or a reasonable estimate based on past experience. During the year, £137.0m relating to insurance liabilities arising from past events was re-classified from accruals to reflect an increased level of judgement now being required in the measurement of these amounts as described in note 1; these provisions are expected to crystallise within 5 years.

Notes to the consolidated financial statements *(continued)*

20 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m
Property, plant and equipment	-	-	127.3	136.4	127.3	136.4
Employee benefits	(164.1)	(121.2)	-	-	(164.1)	(121.2)
Provisions	(2.3)	(3.9)	-	-	(2.3)	(3.9)
Other items	-	-	7.4	5.0	7.4	5.0
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Tax (assets)/liabilities	(166.4)	(125.1)	134.7	141.4	(31.7)	16.3
Netting of tax (assets)/liabilities	134.7	125.1	(134.7)	(125.1)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net tax (assets)/liabilities	(31.7)	-	-	16.3	(31.7)	16.3
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Certain properties have been revalued to their fair value prior to 1 January 2004. No provision has been made for deferred tax on the temporary differences arising on revalued land and buildings. Historically upward revaluations have been made in respect of land and not in respect of buildings. The tax base of land and buildings was adjusted to include within it any rolled-over gains which might subsequently become chargeable on a future sale of relevant properties. It has been calculated that sufficient indexation exists to produce a temporary difference of £nil on the whole portfolio of assets such that no deferred tax recognition is required.

The Group has brought forward capital losses of £348.0m (2015: £353.2m) available to reduce future capital gains. No deferred tax asset has been recognised on the accumulated capital losses due to uncertainty of when they may be utilised.

Notes to the consolidated financial statements (continued)

20 Deferred tax assets and liabilities (continued)

Movement in deferred tax during the year

	<i>1 January 2016</i>	<i>Recognised in income</i>	<i>Recognised in other comprehensive income</i>	<i>Recognised in equity</i>	<i>Transferred</i>	<i>31 December 2016</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Property, plant and equipment	136.4	(9.7)	-	-	0.6	127.3
Employee benefits	(121.2)	(4.3)	(37.9)	(0.7)	-	(164.1)
Provisions	(3.9)	1.6	-	-	-	(2.3)
Other items	5.0	-	4.0	-	(1.6)	7.4
	<u>16.3</u>	<u>(12.4)</u>	<u>(33.9)</u>	<u>(0.7)</u>	<u>(1.0)</u>	<u>(31.7)</u>

Movement in deferred tax during the prior year

	<i>1 January 2015</i>	<i>Recognised in income</i>	<i>Recognised in other comprehensive income</i>	<i>Recognised in equity</i>	<i>31 December 2015</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Property, plant and equipment	155.2	(18.8)	-	-	136.4
Employee benefits	(153.1)	18.8	12.4	0.7	(121.2)
Provisions	(2.7)	(1.2)	-	-	(3.9)
Other items	7.0	-	(2.0)	-	5.0
	<u>6.4</u>	<u>(1.2)</u>	<u>10.4</u>	<u>0.7</u>	<u>16.3</u>

Notes to the consolidated financial statements (continued)

21 Share capital and premium

	<i>Number of shares</i>	<i>Share capital £m</i>	<i>Share premium £m</i>	<i>Total £m</i>
Authorised, allotted, called up and fully paid				
Ordinary shares of 25p each at 31 December 2015	3,135,704,690	783.9	564.4	1,348.3
Bonus shares issued out of Retained Earnings	2,440,000,000	610.0	-	610.0
Share capital and premium reduction	(5,575,704,686)	(1,393.9)	(564.4)	(1,958.3)
Ordinary shares of 25p each at 31 December 2016	4	-	-	-

In January 2016, an exercise was performed to simplify the group structure through the restructuring of certain holding companies. This included share capital reductions under section 641(1)(a) of the Companies Act 2006, the repayment, transfer and recovery of intercompany debt, and the payment of dividends between group companies.

On 11 January 2016, the Company made a bonus issue of 2,440,000,000 ordinary shares at £0.25 per share, increasing share capital to £1,393.9m. A share capital and share premium reduction of £1,958.3m was then enacted under section 641(1)(a) of the Companies Act 2006, to reduce share capital to £1 and share premium to £nil.

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.

22 Dividends proposed and paid

	<i>Year Ended 31 December 2016 £m</i>	<i>Year Ended 31 December 2015 £m</i>
<i>Declared and paid during the year</i>		
Dividend declared in 2016 (2015: £nil)	450.0	-

Dividends of £450.0m (£112.5m per share) were proposed and paid in January 2016. There were no dividends proposed and paid at 31 December 2015.

Notes to the consolidated financial statements (continued)

23 Reserves

Reconciliation of movement in reserves is as follows:

	<i>Other reserves</i> £m	<i>Cash flow hedge</i> £m	<i>Retained Earnings</i> £m	<i>Total</i> £m
Balance at 1 January 2015	437.1	24.0	5,558.5	6,019.6
Profit for the year	-	-	795.0	795.0
Cash flow hedges - reclass during year to income statement	-	(30.6)	-	(30.6)
Cash flow hedges - net gain during year on not-yet matured contracts	-	20.8	-	20.8
Tax on cash flow hedges recognised directly in other comprehensive income	-	2.0	-	2.0
Total remeasurements on defined benefit obligation	-	-	49.3	49.3
Reduction in plan assets excluding interest income	-	-	(42.6)	(42.6)
Changes in asset ceiling/onerous liability (excluding interest income)	-	-	(6.7)	(6.7)
Tax on actuarial losses recognised directly in other comprehensive income	-	-	(12.4)	(12.4)
Tax on items credited to equity	-	-	(0.7)	(0.7)
Transfer of historical cost	4.0	-	-	4.0
Balance at 31 December 2015	441.1	16.2	6,340.4	6,797.7
Balance at 1 January 2016	441.1	16.2	6,340.4	6,797.7
Profit for the year	-	-	655.9	655.9
Cash flow hedges - reclass during year to income statement	-	(26.2)	-	(26.2)
Cash flow hedges - net gain during year on not-yet matured contracts	-	50.8	-	50.8
Tax on cash flow hedges recognised directly in other comprehensive income	-	(4.0)	-	(4.0)
Total remeasurements on defined benefit obligation	-	-	(611.4)	(611.4)
Return on plan assets excluding interest income	-	-	373.3	373.3
Changes in asset ceiling/onerous liability (excluding interest income)	-	-	(61.4)	(61.4)
Tax on actuarial gains recognised directly in other comprehensive income	-	-	45.9	45.9
Dividends	-	-	(450.0)	(450.0)
Bonus shares issued out of Retained Earnings	-	-	(610.0)	(610.0)
Share capital and premium reduction	-	-	1,958.3	1,958.3
Tax on items credited to equity	-	-	0.7	0.7
Balance at 31 December 2016	441.1	36.8	7,641.7	8,119.6

On 11 January 2016, the Company made a bonus issue of 2,440,000,000 ordinary shares at £0.25 per share, increasing share capital to £1,393.9m. A share capital and share premium reduction of £1,958.3m was then enacted under section 641(1)(a) of the Companies Act 2006, to reduce share capital to £1 and share premium to £nil (see note 21).

The other reserves relates to a revaluation reserve previously disclosed separately from retained earnings for information purposes. During the prior year £4.0m was transferred from share premium to other reserves. There was no financial impact to the income statement as a result of this transfer.

The cash flow hedge reserve represents the gains and losses arising on revaluation of derivatives, being forward currency contracts, and the revaluation of hedged monetary assets and liabilities from historical cost to year-end spot rate.

Notes to the consolidated financial statements (continued)

24 Obligations under leases

Operating lease agreements where Group is lessee

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

	<i>Land and buildings</i>		<i>Other</i>	
	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
No later than one year	123.8	120.6	47.2	42.8
Later than one year and no later than five years	464.8	471.2	83.9	84.8
Later than five years	2,139.6	2,237.0	6.0	5.6
	<u>2,728.2</u>	<u>2,828.8</u>	<u>137.1</u>	<u>133.2</u>

The Group leases various offices, stores, warehouses, vehicles and equipment under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights, however they commonly include either a market rent review or an 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.

Operating lease agreements where Group is lessor

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

	<i>31 December</i>	<i>31 December</i>
	<i>2016</i>	<i>2015</i>
	<i>£m</i>	<i>£m</i>
No later than one year	11.1	11.9
Later than one year and no later than five years	29.4	33.7
Later than five years	44.3	44.8
	<u>84.8</u>	<u>90.4</u>

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

Notes to the consolidated financial statements (continued)

24 Obligations under leases (continued)

The Group also leases buildings under finance leases. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the lessee. Future minimum lease payments under finance leases are as follows:

	31 December 2016 £m	31 December 2015 £m
<i>Future minimum payments due:</i>		
No later than one year	10.6	9.5
Later than one year and no later than five years	45.7	39.5
Later than five years	364.8	344.1
	<hr/>	<hr/>
	421.1	393.1
Lease finance charges allocated to future periods	(244.6)	(227.6)
	<hr/>	<hr/>
Present value of minimum lease payments	176.5	165.5
	<hr/>	<hr/>

The present value of minimum lease payments is analysed as follows:

No later than one year	10.6	9.5
Later than one year and no later than five years	37.9	32.8
Later than five years	128.0	123.2
	<hr/>	<hr/>
	176.5	165.5
	<hr/>	<hr/>

25 Commitments

As at 31 December 2016, the Group had not entered into any contract to purchase property, plant and equipment (2015: £3.5m).

26 Contingent liabilities

Equal Value Claims: ASDA Stores Limited, a wholly-owned subsidiary of the Group, is a Respondent to over 10,000 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 presented. At present, the Directors cannot predict the number of claims that may be presented, and cannot reasonably estimate any loss or range of loss that may arise from these proceedings. The Directors believe that there are substantial factual and legal defences to these claims, and intend to defend the claims vigorously.

Notes to the consolidated financial statements *(continued)*

27 Acquisition of Non-Controlling Interests

On 4 January 2016, International Procurement Logistics Limited, a subsidiary of the ASDA Group, purchased 100% of the share capital of Forza AW Limited and Kober Limited.

These entities were previously consolidated as non-controlling interests by the Group, per the conditions described in the Accounting Policies on page 17.

The net assets of these entities attributable to their parent were recorded as non-controlling interests within equity. Accordingly the acquisition of these entities has been recorded as a reduction in non-controlling interests in the Statement of Changes in Equity (see page 12).

The fair value of equity interest held at the acquisition date was equal to the consideration paid (£55.3m).

No goodwill was recognised on acquisition of this equity interest as both entities have been previously treated as subsidiaries and consolidated into the Group on the basis of having control over the entities. Therefore, no fair value exercise was required on acquisition of the non-controlling interest.

Notes to the consolidated financial statements (continued)

28 Related parties

Identity of related parties

The following transactions were carried out with group companies:

	31 December 2016 £m	31 December 2015 £m
Technical assistance, services and royalties paid to Wal-Mart Stores, Inc. *	164.6	183.0
License fees paid to fellow subsidiary of ultimate parent company	-	4.8
Interest payable on loans from Broadstreet Great Wilson Europe Limited	0.8	19.9
Interest payable on loans from Corinth Investments Limited	2.5	67.8
Interest payable on loans from ASDA Holdings UK Limited	168.9	96.8
Interest payable on loans from Munsbach Norco S.a r.l.	7.4	7.4
Interest receivable on loans to Wal-Mart Stores (UK) Limited	155.3	154.4
Loans from Broadstreet Great Wilson Europe Limited	-	343.2
Loans from Corinth Investments Limited	-	1,166.5
Loans from ASDA Holdings UK Limited	2,947.5	1,666.6
Loans from Munsbach Norco S.a r.l.	126.5	126.5
Loans from WMGS Co. Limited	5.7	2.8
Loans from Walmart EMEA Limited	0.3	0.3
Loans from Wal-Mart Stores, Inc. *	22.0	31.5
Loans to Broadstreet Great Wilson Europe Limited	0.1	-
Loans to Global George Limited	1.7	3.5
Loans to Wal-Mart Stores (UK) Limited	2,762.2	2,764.2

* identifies balances/transactions with the ultimate parent company, Wal-Mart Stores, Inc. All other balances/transactions are with fellow subsidiary companies of Wal-Mart Stores, Inc.

Interest on intercompany loans within the Group is charged on an arm's length basis at a rate of 5.448% - 6% (2015: 5.448% - 6%). All intercompany loans are unsecured and repayable upon demand.

During the year, license fees of £nil (2015: £4.8m) have been charged by Global George Limited, a fellow subsidiary of the Group's ultimate parent company.

During the year, sales were made to other Wal-Mart countries as follows: Wal-Mart Canada £6.4m, Wal-Mart Chile £0.6m.

Amounts owed by fellow group entities totalled £2,764.0m at 31 December 2016, as disclosed in note 14.

Amounts owed to fellow group entities totalled £3,102.0m at 31 December 2016, as disclosed in note 16.

Other related party transactions

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

Notes to the consolidated financial statements *(continued)*

29 Ultimate parent company and parent company of larger group

At the beginning of the year the Group's immediate parent company was Corinth Investments Limited, a company incorporated in England and Wales. As part of a group restructure Corinth Investments Limited transferred its investment in the Company, at net book value, to ASDA Holdings UK Limited on 14 January 2016, a fellow group subsidiary. The ultimate parent company remains Wal-Mart Stores Inc.

The next smallest group at which consolidated financial statements are prepared is Broadstreet Great Wilson Europe Limited. Copies of these financial statements are available for inspection at its registered office: ASDA House, Southbank, Great Wilson Street, Leeds, LS11 5AD.

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

ASDA Group Limited – Parent Company

Directors' responsibilities statement

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ("United Kingdom Accounting Standards and applicable law"). 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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.

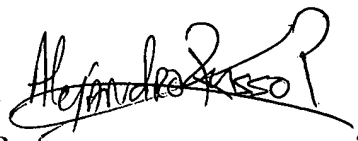
Company balance sheet
as at 31 December 2016

	<i>Note</i>	<i>31 December 2016 £m</i>	<i>31 December 2015 £m</i>
Assets			
Non-current assets			
Investments	4	3,021.5	3,021.5
Current assets			
Trade and other receivables	5	2,809.8	3,036.7
Cash and cash equivalents	6	1,509.2	1,313.2
		4,319.0	4,349.9
Total assets		7,340.5	7,371.4
Equity and liabilities			
Equity attributable to the shareholders			
Share capital	7	-	783.9
Share premium	9	-	564.4
Other reserves	9	160.2	160.2
Retained earnings	9	2,066.3	965.6
Total equity		2,226.5	2,474.1
Liabilities			
Current liabilities			
Trade and other payables	10	5,114.0	4,897.3
Total liabilities		5,114.0	4,897.3
Total equity and liabilities		7,340.5	7,371.4

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

The profit for the financial year in the financial statements of the Company was £202.4m (2015: £115.2m).

These financial statements were approved by the board of directors on 19 July 2017 and were signed on its behalf by:


A Russo
Director

Company statement of changes in equity
as at 31 December 2016

	<i>Notes</i>	<i>Share capital £m</i>	<i>Share premium £m</i>	<i>Other reserves £m</i>	<i>Retained earnings £m</i>	<i>Total £m</i>
Balance at 1 January 2015		783.9	568.4	156.2	850.4	2,358.9
Profit for the year		-	-	-	115.2	115.2
Transfer of historical cost		-	(4.0)	4.0	-	-
Balance at 31 December 2015		783.9	564.4	160.2	965.6	2,474.1
Balance at 1 January 2016		783.9	564.4	160.2	965.6	2,474.1
Profit for the year		-	-	-	202.4	202.4
Total comprehensive income		-	-	-	202.4	202.4
Dividends	8	-	-	-	(450.0)	(450.0)
Bonus shares issued out of Retained Earnings	7	610.0	-	-	(610.0)	-
Share capital and premium reduction	7	(1,393.9)	(564.4)	-	1,958.3	-
Balance at 31 December 2016		-	-	160.2	2,066.3	2,226.5

Notes to the parent company statements (forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of ASDA Group Limited (the "Company") for the year ended 31 December 2016 were authorised for issue by the board of directors on 19 July 2017 and the balance sheet was signed on behalf of the directors by A Russo. The Company is incorporated and domiciled in England under the Companies Act 2006 (registration number 1396513).

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

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

Basis of preparation

The directors have assessed the Group and Company's ability to continue as a going concern including the review of the forecast cash flows, future trading performance and existing borrowings in place. In addition, the ultimate holding company has agreed that it will continue to provide financial support to the Group to enable it to meet its liabilities as they fall due. Based on this review, the directors confirm that the Group and Company have adequate resources to continue to operate for the foreseeable future and accordingly the going concern basis continues to be appropriate for the preparation of the financial statements.

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

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

Where applicable, equivalent disclosures are included in the consolidated financial statements of Broadstreet Great Wilson Europe Limited, in which the Company is consolidated.

Notes to the parent company statements (*continued*)

1 Accounting policies (*continued*)

Investments

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

Trade and other receivables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Trade and other payables

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

2 Auditor's remuneration

The Company's audit fee for the year ended 31 December 2016 was £2,800 (2015: £2,800). The Company's audit costs are paid by another group company. There were no non-audit fees paid to the Company's auditor (2015: none).

3 Employee numbers and costs

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

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

4 Investments

	<i>Investment in subsidiaries £m</i>
Cost at 1 January 2016 and 31 December 2016	3,034.8
Impairment at 1 January 2016 and 31 December 2016	(13.3)
Net book value at 31 December 2016	3,021.5
Net book value at 31 December 2015	3,021.5

Notes to the parent company statements (continued)

4 Investments (continued)

Following a review of the carrying value of investments held by the Company, no impairment charge (2015: £nil) has been recognised.

Subsidiary undertakings

As at 31 December 2016, the following companies, being those whose results affect the financial position of the Group, were subsidiary undertakings.

	<i>Country of incorporation and principal place of business</i>	<i>% equity held</i>
ASDA (Nominee) Limited	United Kingdom	100%
ASDA Delivery Limited	United Kingdom	100%
ASDA Employee Share Scheme Trustee Limited	United Kingdom	100%
ASDA Finance Limited	United Kingdom	100%
ASDA Financial Services Limited	United Kingdom	100%
ASDA Group Limited	United Kingdom	100%
ASDA Guernsey Limited	United Kingdom	100%
ASDA Holdings UK Limited	United Kingdom	100%
ASDA Home Shopping Cards Limited	United Kingdom	100%
ASDA Quest Trustee Limited	United Kingdom	100%
ASDA Southbank Limited	United Kingdom	100%
ASDA Storage Limited	United Kingdom	100%
ASDA Stores Limited	United Kingdom	100%
ASDA Supermarkets Limited	United Kingdom	100%
Bandsound Limited	United Kingdom	100%
Broadstreet Great Wilson Europe Limited	United Kingdom	100%
Chorley Renaissance Limited	United Kingdom	100%
Corinth Investments Limited	United Kingdom	100%
Erteco UK Limited	United Kingdom	100%
Essencerealm Limited	United Kingdom	100%
Ever 1295 Limited	United Kingdom	100%
Ever 2010 Limited	United Kingdom	100%
Ever 2010 North Limited	United Kingdom	100%
Ever 2010 South Limited	United Kingdom	100%
Forza AW Limited	United Kingdom	100%
Forza Foods Limited	United Kingdom	100%
George Sourcing Services UK Limited	United Kingdom	100%
George Tedarik Hizmetleri A.S.	Turkey	100%
International Procurement and Logistics Limited	United Kingdom	100%
International Produce Sociedad Limitada	Spain	100%
Kent Nominees 1 Limited	United Kingdom	100%
Kent Nominees 2 Limited	United Kingdom	100%
Kober Limited	United Kingdom	100%
McLagan Investments Limited	United Kingdom	100%
Nordicline Limited	United Kingdom	100%
Porth Investments Limited	United Kingdom	100%
Power4all Limited	United Kingdom	100%
Reach Belvedere Limited	United Kingdom	100%
The Burwood House Group Limited	United Kingdom	100%
The George Davies Partnership Limited	United Kingdom	100%
Vinpack Limited	United Kingdom	100%
Wal-mart Stores (UK) Limited	United Kingdom	100%
Westry Produce Limited	United Kingdom	100%

Notes to the parent company statements (continued)

4 Investments (continued)

All investments listed above have 100% ordinary share capital, except for The Burwood House Group Limited and ASDA Finance Limited which include 25.3% and 0.1% preference share capital as part of total capital respectively.

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

ASDA Finance Limited *One The Esplanade, St Helier, Jersey, JE2 3QA*

ASDA Guernsey Limited *PO Box 91, Legis House, 11 New Street, St Peter Port, Guernsey, GY1 3EG*

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

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

Kober Limited *Unit 4, West 26 Industrial Estate, Hanging Wood Way, Cleckheaton, BD19 4TS*

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

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

5 Trade and other receivables

	31 December 2016 £m	31 December 2015 £m
Amounts owed by group undertakings	2,809.8	3,036.7
	<u>2,809.8</u>	<u>3,036.7</u>

Intercompany receivables attract interest at a fixed rate of 6% (2015: 6%).

6 Cash and cash equivalents

	31 December 2016 £m	31 December 2015 £m
Cash and cash equivalents	1,509.2	1,313.2
	<u>1,509.2</u>	<u>1,313.2</u>

Cash held by the company is in short term instruments with approved counterparties.

Notes to the parent company statements (continued)

7 Share capital

	<i>Number of shares</i>	<i>£m</i>
Authorised, allotted, called up and fully paid		
Ordinary shares of 25p each at 31 December 2015	3,135,704,690	783.9
Bonus shares issued out of Retained Earnings	2,440,000,000	610.0
Share capital and premium reduction	(5,575,704,686)	(1,393.9)
	<hr/>	<hr/>
Ordinary shares of 25p each at 31 December 2016	4	-
	<hr/>	<hr/>

In January 2016, an exercise was performed to simplify the group structure through the restructuring of certain holding companies. This included share capital reductions under section 641(1)(a) of the Companies Act 2006, the repayment, transfer and recovery of intercompany debt, and the payment of dividends between group companies.

On the 11 January 2016, the Company made a bonus issue of 2,440,000,000 ordinary shares at £0.25 per share, increasing share capital to £1,393.9m. A share capital and share premium reduction was then enacted to reduce share capital to £1 and share premium to £nil.

8 Dividends proposed and paid

	<i>Year Ended 31 December 2016 £m</i>	<i>Year Ended 31 December 2015 £m</i>
<i>Declared and paid during the year</i>		
Dividend declared in 2016 (2015: £nil)	450.0	-
	<hr/>	<hr/>

Dividends of £450.0m (£112.5m per share) were proposed and paid in January 2016. There were no dividends proposed and paid at 31 December 2015.

Notes to the parent company statements (continued)

9 Share premium and other reserves

	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2016	564.4	160.2	965.6	1,690.2
Profit for the year	-	-	202.4	202.4
Dividends paid	-	-	(450.0)	(450.0)
Bonus shares issued out of Retained Earnings (note 7)	-	-	(610.0)	(610.0)
Share capital and premium reduction (note 7)	(564.4)	-	1,958.3	1,393.9
At 31 December 2016	-	160.2	2,066.3	2,226.5

10 Current liabilities

	31 December 2016 £m	31 December 2015 £m
Amounts owed to group undertakings	5,114.0	4,897.3
	5,114.0	4,897.3

Intercompany payables attract interest at a fixed rate of 6% (2015: 6%).

11 Commitments

The Company has no financial commitments (2015: none).

12 Ultimate parent company and parent company of larger group

At the beginning of the year the Company's immediate parent company was Corinth Investments Limited, a company incorporated in England. As part of a group restructure Corinth Investments Limited transferred its investment in the Company, at net book value, to ASDA Holdings UK Limited on 14 January 2016, a fellow group subsidiary. The ultimate parent company remains Wal-Mart Stores Inc.

The next smallest group at which consolidated financial statements are prepared is Broadstreet Great Wilson Europe Limited. Copies of these financial statements are available for inspection at its registered office: ASDA House, Southbank, Great Wilson Street, Leeds, LS11 5AD.

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

Notes to the parent company statements *(continued)*

13 Events since the Balance Sheet Date

On 10 January 2017, the Company received a dividend of £1,768.0m from McLagan Investments Limited. On 31 January 2017 the Company received a dividend of £100.0m from ASDA Stores Limited, and on 6 February 2017 a further dividend of £300.0m was received from ASDA Stores Limited. McLagan Investments Limited and ASDA Stores Limited are both wholly-owned subsidiaries of the Company.