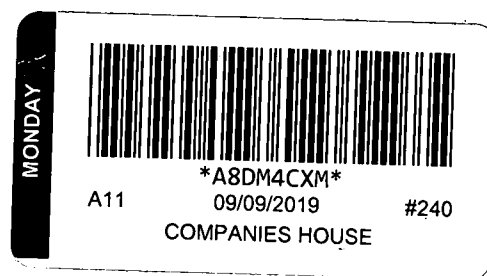


Registration number: 1396513

# ASDA Group Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2018



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## Company Information

**Directors** R Burnley  
A Murray  
A Russo (resigned 31 July 2018)  
H Tatum  
J Lorente Lopez (resigned 31 July 2018)  
A Hemmerdinger  
A Simpson  
N Jones (appointed 21 May 2018)  
R McWilliam (appointed 3 September 2018)

**Company secretary** A Simpson

**Registered office** ASDA House  
Southbank  
Great Wilson Street  
Leeds  
LS11 5AD  
UK

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

## Strategic Report for the Year Ended 31 December 2018

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

### Principal activity

The principal activity of ASDA Group Limited ("the Company") is an intermediate holding company. The principal activities of ASDA Group Limited and its subsidiaries (together referred to as "ASDA" or "the Group") are the retailing of food, clothing, general merchandise products, fuel and services throughout the United Kingdom and online.

### Operational headlines and strategic priorities

Against the backdrop of a highly competitive market, the improvements to our business resulted in a second consecutive year of positive like-for-like sales<sup>1</sup> growth.

The continuation of our Low Cost Operating Model programme combined with fixed cost leverage has resulted in operating profit growth of 9.2%.

Cashflow has remained a key priority of the business. The net cash flows from operating activities of £1,291.1m for the year (2017: £1,289.3m) have been supported by our ongoing focus on working capital.

We continue to focus on the core business by:

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

### Strengthening our customer proposition:

We have focused on the following key areas in the year:

**Price** - through our programme of targeted price investment on key lines, we have helped to mitigate the impact of food inflation on our customers. In June 2018, ASDA won The Grocer Magazine's G33 Price Award for the twenty-first consecutive year.

**Own-brand product quality and range** - the work we have done in this area culminated in ASDA winning twenty-six different product awards at the Quality Food Awards 2018.

**Availability** - following changes to our supply chain and store processes, we have improved Fresh Food availability.

**Customer service** - through our focus on making the shopping experience easy, fast and friendly for our customers, our total Customer Promoter Score<sup>2</sup> has increased by 2 points in 2018 compared to the previous year.

### Developing a trusted online offer:

Sales in our online area have grown ahead of the market in 2018. Online CPS<sup>3</sup> levels have continued to improve due to enhancements to our customer service offer and developments to the website, mobile and tablet apps. This has improved the customer experience and made it easier and faster to shop online with ASDA.

<sup>1</sup> Like-for-like sales is a measure of year on year sales growth (excluding VAT and fuel) for stores open for more than one year.

<sup>2</sup> Customer promoter score (CPS) is our internal equivalent of the retail industry's Net Promoter Score (NPS). This measure equals 'promoters' (those rating 9-10) minus 'detractors' (those rating 0-6) on a 0-10 scale of how likely our customers are to recommend ASDA Stores or ASDA Online Grocery to friends and family.

<sup>3</sup> Our online CPS score contributes towards our total CPS score. This score measures how likely our customers are to recommend ASDA Online Grocery to friends and family.

## **Strategic Report for the Year Ended 31 December 2018 (continued)**

### **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 2018. IPL sources fresh produce, wine, chilled products, ambient produce, flowers and plants directly from growers and manufacturers for ASDA.

### **Capital expenditure**

During 2018, we opened one grocery home shopping fulfilment centre. Our capital expenditure during the year focused principally on replacing essential assets and refreshing the estate.

### **Future strategic intention**

We remain focussed on helping our customers to save money and live better through finding innovative 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 increased by 3.1% to £22,916.5m (2017: £22,219.8m), while operating profit increased by 9.2% to £803.2m (2017: £735.4m).

Profit after tax for the year was £710.4m (2017: £666.0m), an increase of 6.7%.

No dividends were paid during the year (2017: £nil).

### **Events since balance sheet date**

On 30 April 2018, J Sainsbury plc and Walmart Inc. announced that they had agreed terms in relation to a Proposed Merger of J Sainsbury plc and ASDA (“the merger parties”).

On 20 February 2019, the Competition and Markets Authority (“the CMA”) published the preliminary findings of their inquiry into the Proposed Merger. At the date of approval of the financial statements, the merger parties remain in dialogue with the CMA. The CMA final report is expected by 30 April 2019.

### **Amounts recharged by ultimate parent company**

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

## Strategic Report for the Year Ended 31 December 2018 (continued)

### KPIs

- Like-for-like sales increased 1.6% (2017: 0.5% increase) (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 increased by 2.1% (2017: 0.8% increase); total sales including fuel increased by 3.1% excluding VAT (2017: 2.6% increase).
- Operating profit increased by 9.2% (2017: 13.0% decrease).
- Market share down 0.1%, to 15.3% (source: Kantar 52 weeks to 30 December 2018). This is the Group's percentage share of the total grocers' market, and includes all revenue, excluding petrol and in-store concessions.
- Net cash flows from operating activities for the year of £1,291.1m (2017: £1,289.3m).

### 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 Walmart 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 and timing of funds available 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 Walmart Inc. define and manage capital and meet the Group capital objectives.

### Principal risks and uncertainties

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

- **Economic risk**

The consumer environment continues to be challenging, with discretionary income marginally decreasing during the year. Customers remain cautious in their spending habits and 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.

The Group has considered the potential economic impact of the UK's withdrawal from the European Union including the effect on the price and availability of products. A cross functional working group is in place and its main objective is to manage the impacts to ASDA of the UK's withdrawal in order to minimise disruption to our customers by protecting availability of key imported products, including the use of additional UK ports. The Group has also considered the potential tariff impact and the Customs regime in relation to products imported from the European Union and has plans in place to reduce risk.

## Strategic Report for the Year Ended 31 December 2018 (continued)

### Principal risks and uncertainties (continued)

- **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

- **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 financial profile of our suppliers is monitored to identify risk to the continuity of supply so that any mitigating actions can be taken early.

- **Resourcing and capability risk**

Retention of key individuals is important for long term stability and success. We have a robust appraisal process and Talent Management Process to ensure that the right individuals are in the right roles; with a clear career path to long term development. Colleague engagement 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 Commercial Finance function forecasts the timing and level of foreign currency requirements and the Treasury function buys forward accordingly for certain product categories. Other currency requirements are purchased on the spot market. It is ASDA's policy not to buy or hold foreign currency speculatively. Currency forward contracts are hedge accounted for at fair value.

## Strategic Report for the Year Ended 31 December 2018 (continued)

### Principal risks and uncertainties (continued)

- **Financial risk (continued)**

ASDA operates a number of pension arrangements for our employees including a funded defined benefit pension scheme. This is subject to risk in relation to the minimum funding requirement 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, and the schedule of contributions was updated in 2017. Further detail is provided in note 17.

- **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.

- **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. Over the last 8 years since 2010, we have continued to reduce our absolute carbon footprint. In 2018, we launched a commitment to remove 6,500 tonnes (10%) of plastic from our own-brand packaging within a year and to make all of our own-brand packaging 100% recyclable by 2025.

- **Systems risk**

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

- **Cyber security risk**

There is a risk that ASDA systems are vulnerable to cyber-attacks which could lead to significant limitations in ability to operate, loss of earnings, reputational damage and regulatory fines. ASDA's well established Cyber Security team provides insight and detailed analysis of risks and remediations and is continually developing ways to mitigate potential risks.

- **Data protection risk**

In the event of non-compliance with the requirements of General Data Policy Regulations ("GDPR"), there is a risk of data loss or misuse or other data breaches which could lead to significant fines and reputational damage. ASDA continues to invest in its GDPR team to ensure all required areas of expertise and process for the program is fit for purpose and for the future.



**Strategic Report for the Year Ended 31 December 2018 (continued)**

- **Fraud risk**

We have a control framework in place to help prevent and detect potential fraud and dishonest activity. The Statement of Ethics also provides clear guidance to colleagues on appropriate behaviour, including guidance on how to raise any business conduct concerns they may have. Colleagues can raise issues by contacting the independent ethics hotline, or by contacting the ethics team directly by email, phone or online. In addition, procedures are in place in respect of compliance with the UK Bribery Act and the US Foreign Corrupt Practices Act.

- **Health and safety risk**

In the event of non-compliance with applicable health and safety laws there is a risk that colleagues or customers are harmed which could lead to significant fines and reputational damage. The Group has a health and safety policy as well as procedures and training in place across all sites. There is also established health and safety metrics and accident reporting to monitor the risk.

- **Sourcing and supply chain risk**

There is a risk that products are not sustained in a responsible and sustainable way that could lead to breach of regulations, reputational damage or harm to colleagues or customers. The Group has supplier audit procedures to monitor adherence required standards as well as established policies on sourcing.

Approved by the Board on 28 March 2019 and signed on its behalf by:



R McWilliam  
Director

## **Directors' Report for the Year Ended 31 December 2018**

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

### **Directors**

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

R Burnley

A Murray

A Russo (resigned 31 July 2018)

H Tatum

J Lorente Lopez (resigned 31 July 2018)

A Hemmerdinger

A Simpson

N Jones (appointed 21 May 2018)

R McWilliam (appointed 3 September 2018)

### **Future developments and events since balance sheet date**

ASDA's future developments and events since balance sheet date are detailed in the Strategic Report on pages 2-7.

### **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. 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.

### **Dividends**

No dividends were paid during the year (2017: £nil).

### **Financial instruments**

ASDA's financial risk and management objectives are detailed in the Strategic Report on pages 4-7 and policies are further discussed in notes 1 and 16.

### **Political donations**

ASDA did not make any political donations during the year (2017: £nil).

## **Directors' Report for the Year Ended 31 December 2018 (continued)**

### **Charitable donations**

During the year, cash donations to charitable organisations made by the Group, including monies raised through store collections and product sales, totalled £15.0m (2017: £6.2m). The increase was driven by a new campaign with The Trussell Trust and Fareshare to support foodbanks across the UK to which £7.0m was donated in the year. The Group also contributed £4.2m to The ASDA Foundation, an affiliate charity of the Group (2017: £4.0m) and £1.2m to Breast Cancer Care and Breast Cancer Now (2017: £nil).

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 £6.8m (2017: £10.3m). 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 and Breast Cancer Now) and Cash 4 Kids. The ASDA Foundation also supported a range of small charities, local community groups and projects through the core grant programmes. These grants are contributing to local charities or good causes that our colleagues wish to support.

### **Colleagues with a disability or impairment**

ASDA is a proud member of the Business Disability Forum. 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.

ASDA also uses colleague resource groups to ensure all our colleagues have the support required as part of an inclusive culture.

### **Colleague involvement**

In 2018, we continued to focus on the colleague experience and encourage two way communication through our Write to Roger suggestion scheme, Colleague Voice groups, Your Voice engagement survey and WalmartOne intranet.

In accordance with the Information and Consultation Regulations, the business also met regularly with our elected bodies and trade unions to discuss business performance, proposed changes and future initiatives.

Colleagues have continued to be informed of business activity and change through internal communications, in addition to colleagues' achievements.

We revolutionised our Academy training offer through the introduction of a relevant and engaging curriculum, and communicated via the Learning Map to make it simple for colleagues to access learning. All training courses are now managed through our Learning Management System (LMS), which enables colleagues to take control and manage their personal learning plan. We have also introduced blended learning solutions more suited to the needs of the modern learner, including on-demand digital modules and Virtual Reality into our Academies.

Additionally, we have successfully launched a total of 37 apprenticeship programmes ranging from Level 2 to Level 7 which have provided opportunities to support 1,343 colleagues' development and build the skills of our future leaders.

**Directors' Report for the Year Ended 31 December 2018 (continued)**

**Directors' liabilities**

The Directors are insured against liability in respect of proceedings brought by third parties, subject to the limitations set out in the Companies Act 2006. Such insurance remains in force as at the date of approving the Directors' Report.

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

**Disclosure of information to the auditor**

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

**Reappointment of auditors**

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

Approved by the Board on 28 March 2019 and signed on its behalf by:



R McWilliam  
Director

## Statement of Directors' Responsibilities

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 ("IFRSs") 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**

### **Opinion**

We have audited the financial statements of ASDA Group Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated statement of cash flows and the related notes 1 to 26, including a summary of significant accounting policies and the Company balance sheet, Company statement of changes in equity and the related notes 1 to 12, including a summary of significant accounting policies.. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 December 2018 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 in with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

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

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

### **Conclusions relating to going concern**

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

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

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

### **Other information**

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

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

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

We have nothing to report in this regard.

### **Opinion on other matter prescribed by the Companies Act 2006**

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

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

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### **Auditor's responsibilities for the audit of the financial statements**

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

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

### **Use of our report**

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

*Ernst & Young LLP*

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

Date: *29 March 2019*



**Consolidated Income Statement for the Year Ended 31 December 2018**

	Note	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Revenue	2	22,916.5	22,219.8
Operating costs	3	<u>(22,113.3)</u>	<u>(21,484.4)</u>
<b>Operating profit</b>		803.2	735.4
Finance income	7	37.9	12.5
Finance costs	7	<u>(36.2)</u>	<u>(35.3)</u>
<b>Profit on ordinary activities before tax</b>		804.9	712.6
Income tax expense	8	<u>(94.5)</u>	<u>(46.6)</u>
<b>Profit for the year</b>		<u>710.4</u>	<u>666.0</u>

The above results were derived from continuing operations.

**Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2018**

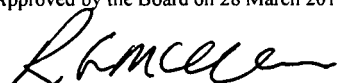
	Note	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
<b>Profit for the year</b>		<u>710.4</u>	<u>666.0</u>
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Total remeasurements on defined benefit obligation	17	197.6	35.4
(Decrease)/increase in value of plan assets excluding interest income	17	(109.9)	87.5
Changes in onerous liability excluding interest expense	17	(53.3)	(132.5)
Tax (charge)/credit on items recognised directly in other comprehensive income	8	(4.9)	2.4
		<u>29.5</u>	<u>(7.2)</u>
<b>Items that may be reclassified subsequently to profit or loss</b>			
<b>Cash flow hedges:</b>			
Reclassification during the year to income statement		24.2	(35.9)
Net gain/(loss) during the year of the not-yet matured contracts		38.3	(34.4)
Tax on cash flow hedges recognised directly in other comprehensive income	8	(11.9)	12.5
		<u>50.6</u>	<u>(57.8)</u>
<b>Other comprehensive income/(expense) for the year</b>		<u>80.1</u>	<u>(65.0)</u>
<b>Total comprehensive income for the year</b>		<u>790.5</u>	<u>601.0</u>

## Consolidated Balance Sheet as at 31 December 2018

Registration number: 1396513

	Note	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m Restated
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	8,888.2	8,970.0
Intangible assets	10	718.6	709.6
Operating lease prepayments	11	36.9	44.6
Deferred tax assets	8	47.1	56.4
		<u>9,690.8</u>	<u>9,780.6</u>
<b>Current assets</b>			
Inventories	12	1,151.6	1,147.1
Trade and other receivables	13	267.1	223.6
Intercompany receivables	13	3,512.0	3,126.7
Cash and cash equivalents	14	2,916.1	2,171.7
Operating lease prepayments	11	0.9	1.3
		<u>7,847.7</u>	<u>6,670.4</u>
<b>Total assets</b>		<u>17,538.5</u>	<u>16,451.0</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	19	-	-
Share premium	19	-	-
Other reserves	20	441.1	441.1
Cash flow hedge reserve	20	29.6	(21.0)
Retained earnings	20	9,042.7	8,302.8
Equity attributable to owners of the company		<u>9,513.4</u>	<u>8,722.9</u>
<b>Non-current liabilities</b>			
Borrowings	16	230.4	219.0
Employee benefits	17	819.8	918.3
Provisions	18	157.3	146.9
		<u>1,207.5</u>	<u>1,284.2</u>
<b>Current liabilities</b>			
Trade and other payables	15	3,679.0	3,478.6
Intercompany payables	15	2,963.6	2,839.2
Income tax liability		56.5	24.4
Borrowings	16	15.7	13.8
Employee benefits	17	71.5	51.9
Provisions	18	31.3	36.0
		<u>6,817.6</u>	<u>6,443.9</u>
<b>Total liabilities</b>		<u>8,025.1</u>	<u>7,728.1</u>
<b>Total equity and liabilities</b>		<u>17,538.5</u>	<u>16,451.0</u>

Approved by the Board on 28 March 2019 and signed on its behalf by:



R McWilliam  
Director

# Consolidated Statement of Changes in Equity for the Year Ended 31 December 2018

	Note	Share capital £ m	Share premium £ m	Cash flow hedging reserve £ m	Other reserves £ m	Retained earnings £ m	Total equity £ m
<b>At 1 January 2017</b>		-	-	36.8	441.1	7,641.7	8,119.6
Change in accounting policy - IFRS 15	1	-	-	-	-	3.4	3.4
<b>At 1 January 2017 restated</b>		-	-	36.8	441.1	7,645.1	8,123.0
Profit for the year	20	-	-	-	-	666.0	666.0
Cash flow hedges - reclassified during year to Income Statement	20	-	-	(35.9)	-	-	(35.9)
Cash flow hedges - net loss during year on not-yet matured contracts	20	-	-	(34.4)	-	-	(34.4)
Income tax effect	8	-	-	12.5	-	-	12.5
Total remeasurement on defined benefit obligation	17	-	-	-	-	35.4	35.4
Increase in value of plan assets excluding interest income	17	-	-	-	-	87.5	87.5
Changes in asset ceiling/onerous liability (excluding interest expense)	17	-	-	-	-	(132.5)	(132.5)
Tax on actuarial losses recognised directly in other comprehensive income	8	-	-	-	-	2.4	2.4
<b>Total comprehensive income</b>		-	-	(57.8)	-	658.8	601.0
Tax on items credited to equity		-	-	-	-	(1.1)	(1.1)
<b>At 1 January 2018</b>		-	-	(21.0)	441.1	8,302.8	8,722.9
Profit for the year	20	-	-	-	-	710.4	710.4
Cash flow hedges - reclassified during year to Income Statement	20	-	-	24.2	-	-	24.2
Cash flow hedges - net gain during year on not-yet matured contracts	20	-	-	38.3	-	-	38.3
Tax on cash flow hedges recognised directly in other comprehensive income	8	-	-	(11.9)	-	-	(11.9)
Total remeasurements on defined benefit obligation	17	-	-	-	-	197.6	197.6
Decrease in value of plan assets excluding interest income	17	-	-	-	-	(109.9)	(109.9)
Changes in asset ceiling/onerous liability (excluding interest expense)	17	-	-	-	-	(53.3)	(53.3)
Tax on actuarial gains recognised directly in other comprehensive income	8	-	-	-	-	(4.9)	(4.9)
<b>Total comprehensive income</b>		-	-	50.6	-	739.9	790.5
<b>At 31 December 2018</b>		-	-	29.6	441.1	9,042.7	9,513.4

## Consolidated Statement of Cash Flows for the Year Ended 31 December 2018

	Note	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
<b>Cash flows from operating activities</b>			
Profit for the year		710.4	666.0
<i>Adjustments to cash flows from non-cash items</i>			
Depreciation of property, plant and equipment	9	410.0	415.3
Amortisation of intangible assets	10	38.1	32.8
Impairment of property, plant and equipment	3	1.7	6.6
Financial income	7	(37.9)	(12.5)
Financial costs	7	36.2	35.3
Loss/(profit) on sale of property, plant and equipment	3	0.4	(2.2)
Tax on continuing operations	8	94.5	46.6
Contributions to defined benefit pension scheme	17	(70.0)	(73.6)
Other non-cash Income Statement items		(0.3)	1.4
		<u>1,183.1</u>	<u>1,115.7</u>
<i>Working capital adjustments</i>			
(Increase)/decrease in trade and other receivables		(2.4)	57.9
Increase in inventories	12	(4.5)	(56.8)
Increase in trade and other payables		242.2	236.2
(Decrease)/increase in provisions		(10.6)	16.2
Increase in share based payment liability	17	4.0	48.5
Tax paid		<u>(120.7)</u>	<u>(128.4)</u>
Net cash flow from operating activities		<u>1,291.1</u>	<u>1,289.3</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		13.3	21.6
Purchase of property, plant and equipment		(332.4)	(355.2)
Purchase of intangible assets	10	(44.5)	(53.5)
Interest received	7	<u>37.9</u>	<u>12.5</u>
Net cash flows from investing activities		<u>(325.7)</u>	<u>(374.6)</u>
<b>Cash flows from financing activities</b>			
Interest paid	7	(0.5)	(0.3)
Increase in intercompany receivables		(361.3)	(331.6)
Increase/(decrease) in intercompany payables	15	152.6	(262.8)
Payment of finance lease obligations		<u>(11.8)</u>	<u>(11.0)</u>
Net cash flows from financing activities		<u>(221.0)</u>	<u>(605.7)</u>
Net increase in cash and cash equivalents		744.4	309.0
Cash and cash equivalents at 1 January		<u>2,171.7</u>	<u>1,862.7</u>
Cash and cash equivalents at 31 December	14	<u>2,916.1</u>	<u>2,171.7</u>

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

### 1 Accounting policies

#### General information

The Company is a private company limited by share capital, incorporated and domiciled in England under the Companies Act 2006 (registration number 1396513).

The address of its registered office is:

ASDA House  
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").

These financial statements were authorised for issue by the Board on 28 March 2019.

#### Statement of compliance

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

#### Summary of significant accounting policies and key accounting estimates

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

#### Basis of preparation

The financial statements have been prepared in accordance with adopted IFRSs and under historical cost accounting rules.

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

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

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

#### Going concern

The Directors have assessed the Group's ability to continue as a going concern including the review of the forecast cash flows, future trading performance and existing borrowings in place. Based on this review, the Directors confirm that the Group has adequate resources to continue to operate for the foreseeable future and accordingly the going concern basis continues to be appropriate for the preparation of the financial statements.

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

### 1 Accounting policies (continued)

#### Changes in accounting policy

##### New standards, interpretations and amendments effective

The following have been applied for the first time from 1 January 2018.

##### *IFRS 15 - Revenue from Contracts with Customers*

ASDA Group Limited has applied IFRS 15 in the year on a fully retrospective basis. 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 has assessed the impact of these changes and concluded that there is a net impact of £3.4m relating to deferred revenue on gift cards. This relates to accelerated revenue recognition of breakage previously deferred for a fixed period after the initial gift card sale which is now recognised at point of sale. This has been accounted for as a prior year adjustment as shown in the consolidated statement of changes in equity. The adjustments arising out of the application of IFRS 15 at 1 January 2017 are as follows: trade and other payables (£4.1m decrease); deferred tax assets (£0.7m decrease) and retained earnings (£3.4m increase). The impacts at 31 December 2017 and 31 December 2018 are in line with the impacts at 1 January 2017 and prior year balance sheet amounts have been restated accordingly. There is no income statement impact in the year or in the prior year.

##### *IFRS 9 - Financial Instruments: Classification and Measurement*

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

In relation to trade receivables, due to the short lead times between recognition and settlement of these balances, management has applied the simplified approach in adopting IFRS 9 and determined that there is no impact on the carrying value of trade receivables at 31 December 2018, 31 December 2017 or 1 January 2017 resulting from the adoption of IFRS 9. As such, prior year comparatives have not been restated.

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

### 1 Accounting policies (continued)

#### **New standards, interpretations and amendments not yet effective**

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

#### ***IFRS 16 - Leases***

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

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

Details of the Group's operating lease commitments are included in note 21, which show that as at 31 December 2018, the Group had undiscounted operating lease obligations of £2,453.5m.

#### **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 goodwill and brand licence intangible***

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 management forecasts for the next five years, with reference to the Board approved budget for the next three 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 10.



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

### 1 Accounting policies (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 33. 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 15) at the year-end for which estimation and judgement is required is £0.6m (2017: £0.6m). This represents the net amount of accrued income (£0.6m) (2017: £0.6m) and deferred income (£nil) (2017: £nil) on deals running across the year end.

#### *Intercompany royalty expense*

The Group incurs a royalty charge from the ultimate parent company. The calculation of this is based on the return on investment of the Group and the operating profit of a subsidiary undertaking within the Group. The calculation for the years ended 31 December 2018, 31 December 2017 and 31 December 2016 is under review with the UK and US tax authorities and the royalty paid in those years has been calculated on the basis agreed for the year ended 31 December 2015. This amount constitutes the majority of the Walmart Inc. recharge disclosed in note 24.

#### *Other*

The insurance provision (note 18) relates to liabilities arising from past events which are not covered by third party insurance. This includes both known and potential claims from stores and depots. Estimates are made with regards to determining the provision required either by actuarial assessment or based on historical experience.

Judgement is made in determining whether any provision is required with regard to litigation. In accordance with IAS 37, no provision is made where a loss is not considered to be probable; disclosures of relevant matters are made in contingent liabilities (note 23).

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 treated as trade payables.

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

### 1 Accounting policies (continued)

#### *Pension benefits*

The carrying value of the liabilities relating to the defined benefit pension scheme is determined 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 17.

#### *Share-based payment transactions*

The Group estimates fair value for share-based payment transactions depending on the terms and conditions of the grants. This estimate also requires determining the most appropriate inputs to the valuation model including assumptions of the expected life of the share option, share price, volatility and dividend yield. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 17.

#### *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**

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

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

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

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

### 1 Accounting policies (continued)

#### Business combinations and goodwill

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

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

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

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

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

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

### 1 Accounting policies (continued)

#### Foreign currency

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

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences are 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.

#### Amortisation

Intangible assets with a finite life have no residual value and are amortised on a straight line basis over their expected useful lives, with charges included in operating costs, as follows:

Software and development costs	4 to 8 years
Lease buy out costs	over the lease term
Other intangibles	3 years

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

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

### 1 Accounting policies (continued)

#### Property, plant and equipment

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

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

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

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.

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

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

#### Depreciation

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

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

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

### 1 Accounting policies (continued)

#### Impairment of non-financial assets

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

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash flows that are largely independent from those of other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses on continuing operations are recognised in the 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 fulfilment 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 for the Year Ended 31 December 2018 (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 expensed 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: trade and other receivables, intercompany receivables, derivatives designated as hedges, cash and cash equivalents, interest bearing loans and borrowings, trade and other payables, and intercompany payables.

Management determines the classification of its instruments at initial recognition.

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

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

### 1 Accounting policies (continued)

#### Financial instruments (continued)

##### *Loans and receivables*

The Group's loans and receivables, including amounts owed by fellow subsidiaries of the ultimate parent company, are held with the sole objective of collecting contractual cash flows and are therefore carried at amortised cost. They are included in current assets except for those with maturities greater than 12 months after the balance sheet date.

##### *Interest bearing loans and borrowings*

Interest bearing 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.

##### *Offsetting of financial instruments*

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

##### *Fair values*

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

##### *Derivative financial instruments and hedging*

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

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

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

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

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



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

### 1 Accounting policies (continued)

#### Financial instruments (continued)

##### *Derivative financial instruments and hedging (continued)*

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.

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

#### Inventories

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

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

#### Taxation

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

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

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

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

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

#### Trade and other receivables

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

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

### 1 Accounting policies (continued)

#### Cash and cash equivalents

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

#### Borrowing costs

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

#### Defined contribution pension plans

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

#### Defined benefit pension obligation

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.

#### Dividend distributions

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

## Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018 (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 and other income.

#### *Interest and dividend income*

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

Dividend income is recognised in the Company's profit on the date the Company's right to receive payments is established.

#### Supplier income

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

Supplier income is split into three classifications:

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

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

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

### 1 Accounting policies (continued)

#### Share based payments

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

The share option programmes allow Group employees to acquire shares of the ultimate parent company; these awards are granted by the Group. The fair value of options granted is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The charge is recognised as an employee expense, with a corresponding increase in liabilities. The fair value of the share option is measured based on an option valuation model, taking into account the terms and conditions upon which the instruments were granted. The liability is 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.

#### Contingent liabilities

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

### 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 and through the Group's online channels. The operations of all product areas of the business are subject to similar economic characteristics and are sold in a similar retail environment.

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

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

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Sale of goods	19,749.7	19,346.5
Fuel	3,166.8	2,873.3
	<u>22,916.5</u>	<u>22,219.8</u>

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

### 3 Operating costs

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

	Note	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Cost of inventories recognised as an expense		(16,805.9)	(16,233.2)
Cost of inventories written off in the year		(448.9)	(427.3)
Employment costs	5	(2,598.5)	(2,636.9)
Amortisation of intangible assets	10	(38.1)	(32.8)
Depreciation on owned assets	9	(403.8)	(404.3)
Depreciation on assets held under finance lease	9	(6.2)	(11.0)
Operating lease expense - plant and equipment		(56.2)	(47.2)
Operating lease expense - property		(132.1)	(130.2)
Rental income		13.5	13.9
Other income		36.0	34.3
(Loss)/profit on sale of property, plant and equipment		(0.4)	2.2
Impairment of property, plant and equipment	9	(1.7)	(6.6)
Foreign exchange losses		(3.6)	(3.1)

### 4 Auditors' remuneration

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
<i>Within operating costs:</i>		
Fees payable to Company's auditor for the audit of parent company and Consolidated Financial Statements	0.4	0.4
Fees payable to Company's auditor for other assurance services	0.2	0.2

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

### 5 Employee numbers and costs

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

	Year ended 31 December 2018 No.	Year ended 31 December 2017 No.
<b>Total</b>		
Retail & Distribution	145,796	150,994
Home offices	4,380	4,947
	<u>150,176</u>	<u>155,941</u>
<b>Full time equivalents</b>		
Retail & Distribution	93,215	97,242
Home offices	4,226	4,772
	<u>97,441</u>	<u>102,014</u>

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

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Wages and salaries	2,343.8	2,335.5
Share-based payment expenses (note 17)	44.6	98.7
Social security costs	140.5	140.8
Other pension costs	69.6	61.9
	<u>2,598.5</u>	<u>2,636.9</u>

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

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

### 6 Directors' remuneration

The Directors' remuneration for the year was as follows:

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Directors' remuneration	9.1	7.3
Share-based payments	2.8	2.1
Post-employment benefits	-	-

During the year, an emoluments cost of £0.6m was incurred by the Group in respect of compensation for loss of office (2017: £4.8m). This is not included in the Directors' remuneration disclosed above.

	Year ended 31 December 2018 No.	Year ended 31 December 2017 No.
<b>Total</b>		
Number of Directors who were active members of the defined benefit scheme during the year	-	-
Number of Directors who exercised share options	7	5
Number of Directors entitled to receive shares under long term incentive schemes	9	9

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

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Total remuneration excluding pensions	2.6	2.2
Total share-based payments	0.3	-
Total accrued pension at the year end	-	-

One Director was a deferred member of the defined benefit scheme (2017: one).

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

**7 Finance income and costs**

	<b>Year ended 31 December 2018 £ m</b>	<b>Year ended 31 December 2017 £ m</b>
<b>Finance income</b>		
Bank interest receivable	11.1	3.4
Net interest receivable on amounts owed from group undertakings	<u>26.8</u>	<u>9.1</u>
Total finance income	<u>37.9</u>	<u>12.5</u>
<b>Finance costs</b>		
External interest payable	0.5	0.3
Interest on obligations under finance leases and hire purchase contracts	14.2	12.4
Net interest cost on pension scheme (note 17)	21.5	24.1
Interest capitalised	<u>-</u>	<u>(1.5)</u>
Total finance costs	<u>36.2</u>	<u>35.3</u>



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

**8 Income tax**

**Tax charged/(credited) in the Income Statement**

	<b>Year ended 31 December 2018 £ m</b>	<b>Year ended 31 December 2017 £ m</b>
<b>Current taxation</b>		
UK corporation tax	111.5	101.0
UK corporation tax adjustment to prior periods	(0.3)	(36.3)
Current tax charge for the year	<u>111.2</u>	<u>64.7</u>
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	(12.1)	(20.3)
Arising from changes in tax rates and laws	0.5	(0.8)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	(5.1)	3.0
Total deferred taxation	<u>(16.7)</u>	<u>(18.1)</u>
Tax expense in the Income Statement	<u>94.5</u>	<u>46.6</u>

In 2017, adjustments in respect of prior periods related predominantly to a re-allocation of group relief for the year ended 31 December 2016 from the immediate parent company to a subsidiary undertaking of the Group. This was recorded as a reduction in the Group's current tax charge for the year ended 31 December 2017 and an increase in intercompany receivables. The re-allocation of group relief had no impact on the total UK corporation tax paid during the year by the Group on behalf of Broadstreet Great Wilson Europe Limited (see note 25) and its subsidiary undertakings.

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

### 8 Income tax (continued)

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

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Profit before tax	804.9	712.6
Corporation tax at standard rate	152.9	137.2
Adjustment in respect of prior periods	(5.4)	(33.3)
Non-qualifying depreciation	14.7	13.8
Change in tax rate	0.5	(0.8)
Expenses not deductible	3.8	4.8
Share options costs	-	0.3
Group relief not paid for	(70.5)	(74.2)
Gain on non-qualifying fixed assets	(1.6)	(1.2)
Other	0.1	-
Total tax charge	94.5	46.6

The standard rate of corporation tax in the United Kingdom for the year is 19.00% (2017: 19.25%). On 15 September 2016, the Finance Act 2016 received Royal Assent and enacted a reduction in the main rate of corporation tax to 17% with effect from 1 April 2020. This will supersede the previously enacted rate change which would have reduced the corporation tax rate to 18% on this date.

### Tax relating to components of the Statement of Changes in Equity

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Deferred tax charge on share-based payments	-	1.1
Total tax charge on items charged to Consolidated Statement of Changes in Equity	-	1.1

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

**8 Income tax (continued)**

**Tax items (charged)/credited directly to the Consolidated Statement of Comprehensive Income**

	<b>Year ended 31 December 2018 £ m</b>	<b>Year ended 31 December 2017 £ m</b>
Current tax credit on pensions	9.2	6.5
Deferred tax charge on pensions	(14.1)	(4.1)
Deferred tax (charge)/credit on cash flow hedges	(11.9)	12.5
<b>Total tax on items (charged)/credited to Consolidated Statement of Comprehensive Income</b>	<b>(16.8)</b>	<b>14.9</b>

**Deferred tax**

Deferred tax assets and liabilities are attributable to the following:

	<b>Asset £ m</b>	<b>Liability £ m</b>	<b>Net deferred tax £ m</b>
<b>2018</b>			
Property, plant and equipment	-	(105.9)	(105.9)
Employee benefits	150.8	-	150.8
Provisions	2.5	-	2.5
Other items	-	(7.3)	(7.3)
Capital losses	7.0	-	7.0
	<u>160.3</u>	<u>(113.2)</u>	<u>47.1</u>

	<b>Asset £ m</b>	<b>Liability £ m</b>	<b>Net deferred tax £ m</b>
<b>2017</b>	<b>Restated</b>		<b>Restated</b>
Property, plant and equipment	-	(114.3)	(114.3)
Employee benefits	164.3	-	164.3
Provisions	1.9	-	1.9
Other items	4.5	-	4.5
Capital losses	-	-	-
	<u>170.7</u>	<u>(114.3)</u>	<u>56.4</u>

The 2017 restatement of £0.7m relates to the IFRS 15 adjustment in respect of gift cards as detailed in note 1.

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

### 8 Income tax (continued)

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

The Group has unrecognised brought forward capital losses of £336m (2017: £336m) available to reduce future capital gains. No deferred tax asset has been recognised in respect of these capital losses due to uncertainty of when they may be used.

Deferred tax movement during the year:

	At 1 January 2018 £ m	Recognised in income £ m	Recognised in other comprehensive income £ m	Recognised in equity £ m	At 31 December 2018 £ m
Property, plant and equipment	(114.3)	8.4	-	-	(105.9)
Employee benefits	164.3	0.6	(14.1)	-	150.8
Provisions	1.9	0.6	-	-	2.5
Other items	4.5	0.1	(11.9)	-	(7.3)
Capital losses	-	7.0	-	-	7.0
Net tax assets/(liabilities)	<u>56.4</u>	<u>16.7</u>	<u>(26.0)</u>	<u>-</u>	<u>47.1</u>

Deferred tax movement during the prior year:

	At 1 January 2017 £ m	Recognised in income £ m	Recognised in other comprehensive income £ m	Recognised in equity £ m	At 31 December 2017 £ m
	Restated				Restated
Property, plant and equipment	(127.3)	13.0	-	-	(114.3)
Employee benefits	164.1	5.4	(4.1)	(1.1)	164.3
Provisions	1.6	0.3	-	-	1.9
Other items	(7.4)	(0.6)	12.5	-	4.5
Capital losses	-	-	-	-	-
Net tax assets/(liabilities)	<u>31.0</u>	<u>18.1</u>	<u>8.4</u>	<u>(1.1)</u>	<u>56.4</u>

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

### 9 Property, plant and equipment

	Freehold properties £ m	Finance leases & leasehold improvements £ m	Plant, equipment, fixtures & fittings £ m	Assets under construction £ m	Total £ m
<b>Cost</b>					
At 1 January 2017	8,720.9	1,490.5	2,869.0	291.4	13,371.8
Additions	73.0	72.6	27.2	204.3	377.1
Disposals	(32.8)	(6.1)	(336.2)	-	(375.1)
Transfers	(9.1)	-	9.1	-	-
Transfers from Assets Under Construction	150.0	-	189.9	(339.9)	-
Reclassification to Intangible Assets	-	(6.3)	-	-	(6.3)
Impairments	(2.5)	(4.1)	-	-	(6.6)
At 31 December 2017	8,899.5	1,546.6	2,759.0	155.8	13,360.9
At 1 January 2018	8,899.5	1,546.6	2,759.0	155.8	13,360.9
Additions	48.5	52.6	47.7	187.6	336.4
Disposals	(22.0)	(1.0)	(245.0)	-	(268.0)
Transfers from Assets Under Construction	56.5	-	103.9	(160.4)	-
Reclassification to Intangible Assets	-	(3.6)	-	-	(3.6)
Reclassification from Operating Lease Prepayments	-	12.5	-	-	12.5
At 31 December 2018	8,982.5	1,607.1	2,665.6	183.0	13,438.2
<b>Accumulated depreciation and impairment</b>					
At 1 January 2017	1,739.9	615.2	1,980.4	-	4,335.5
Charge for year	180.5	27.9	206.9	-	415.3
Eliminated on disposal	(21.0)	(6.0)	(331.5)	-	(358.5)
Transfers	(3.3)	-	3.3	-	-
Reclassification to Intangible Assets	-	(1.4)	-	-	(1.4)
At 31 December 2017	1,896.1	635.7	1,859.1	-	4,390.9
At 1 January 2018	1,896.1	635.7	1,859.1	-	4,390.9
Charge for the year	177.9	38.9	193.2	-	410.0
Eliminated on disposal	(11.3)	(2.2)	(242.2)	-	(255.7)
Impairment	1.7	-	-	-	1.7
Reclassification to Intangible Assets	-	(1.0)	-	-	(1.0)
Reclassification from Operating Lease Prepayments	-	4.1	-	-	4.1
At 31 December 2018	2,064.4	675.5	1,810.1	-	4,550.0
<b>Net book value</b>					
At 31 December 2017	7,003.4	910.9	899.9	155.8	8,970.0
At 31 December 2018	6,918.1	931.6	855.5	183.0	8,888.2

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

### 9 Property, plant and equipment (continued)

#### Reclassifications

During the year, assets relating to lease buy outs were reclassified from leasehold improvements to intangible assets to better reflect the nature of these items. Assets transferred had a gross cost of £3.6m and accumulated depreciation of £1.0m (see note 10). Additionally, assets relating to finance lease premiums were reclassified from operating lease prepayments to finance leases to better reflect the nature of these items. Assets transferred had a gross cost of £12.5m and accumulated depreciation of £4.1m (see note 11).

During the prior year, assets relating to lease buy outs were reclassified from leasehold improvements to intangible assets to better reflect the nature of these items. Assets transferred had a gross cost of £6.3m and accumulated depreciation of £1.4m (see note 10).

#### Transfers

During the prior year, costs initially recognised as freehold were transferred to fixtures and fittings to better reflect the nature of these items. Assets transferred had a gross cost of £9.1m and accumulated depreciation of £3.3m.

#### Impairment

Both the operational and non-operational estate are regularly reviewed for indicators of impairment. Following reviews in the year, impairment charges of £1.7m (2017: £6.6m) were recognised in the consolidated income statement.

#### Capitalised interest

The cumulative amount of capitalised interest included in the cost of fixed assets is £273.0m (2017: £273.0m).

#### Finance leases

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

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Cost	254.9	235.1
Depreciation	(40.0)	(31.4)
Net book value	214.9	203.7

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

**10 Intangible assets**

	Brand licence £ m	Goodwill £ m	Lease buy out costs £ m	Software and development costs £ m	Other £ m	Total £ m
<b>Cost</b>						
At 1 January 2017	33.5	508.0	146.5	121.3	2.1	811.4
Additions	-	-	-	53.5	-	53.5
Disposals	(1.6)	-	(4.9)	-	-	(6.5)
Reclassification from Property, Plant & Equipment	-	-	6.3	-	-	6.3
At 31 December 2017	31.9	508.0	147.9	174.8	2.1	864.7
At 1 January 2018	31.9	508.0	147.9	174.8	2.1	864.7
Additions	-	-	-	44.5	-	44.5
Reclassification from Property, Plant & Equipment	-	-	3.6	-	-	3.6
At 31 December 2018	31.9	508.0	151.5	219.3	2.1	912.8
<b>Amortisation</b>						
At 1 January 2017	16.2	-	46.8	62.8	1.6	127.4
Amortisation charge	-	-	2.1	30.2	0.5	32.8
Amortisation eliminated on disposals	(1.6)	-	(4.9)	-	-	(6.5)
Reclassification from Property, Plant & Equipment	-	-	1.4	-	-	1.4
At 31 December 2017	14.6	-	45.4	93.0	2.1	155.1
At 1 January 2018	14.6	-	45.4	93.0	2.1	155.1
Amortisation charge	-	-	3.8	34.3	-	38.1
Reclassification from Property, Plant & Equipment	-	-	1.0	-	-	1.0
At 31 December 2018	14.6	-	50.2	127.3	2.1	194.2
<b>Net book value</b>						
At 31 December 2017	17.3	508.0	102.5	81.8	-	709.6
At 31 December 2018	17.3	508.0	101.3	92.0	-	718.6

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

### 10 Intangible assets (continued)

The George brand licence has a carrying value of £17.3m (2017: £17.3m) and is generating positive cash flows. There are no plans to exit the brand and no legal limits on its use by the Group.

Other brand assets are fully amortised (£14.6m 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 to 8 years.

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

#### Reclassifications and transfers

During the year, assets relating to lease buy outs were reclassified from leasehold improvements to intangible assets to better reflect the nature of these items. Assets transferred had a gross cost of £3.6m and accumulated depreciation of £1.0m (see note 9).

During the prior year, assets relating to lease buy outs were reclassified from leasehold improvements to intangible assets to better reflect the nature of these items. Assets transferred had a gross cost of £6.3m and accumulated depreciation of £1.4m (see note 9).

#### Impairment testing of goodwill

##### *Netto Acquisition*

Goodwill of £482.3m (2017: £482.3m) arose on the acquisition of Netto Foodstores Limited on 13 April 2011. This has been tested for impairment as at 31 December 2018 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 pre-tax discount rate applied to the cash flow projections is 8.0% and the growth rate used to extrapolate the cash flows beyond the specific forecast period is 1.5%.

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.



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

### 10 Intangible assets (continued)

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

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

**Operating costs** - some costs are directly attributable to individual stores. Other costs derive from central or shared costs for the whole Group and must be allocated to the chain on a reasonable basis. Operating cost forecasts for the Netto chain reflect a combination of experience since acquisition and existing similar stores from 2011 to 2018 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 cost of capital 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 (2017: £17.0m) arose on the acquisition of Turkmen Tedarik Hizmetleri on 26 April 2012. This has been tested for impairment as at 31 December 2018 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 pre-tax discount rate applied to the cashflow projections is 8.0% and the growth rate used to extrapolate the cashflows beyond specific forecast period is 0.2%.

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.

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

### 10 Intangible assets (continued)

**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 cost of capital of the Group.

#### Sensitivity to changes in assumptions

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

#### Impairment testing of indefinite life intangibles

##### *George brand licence*

This asset relates to the acquisition in 2006 of a perpetual licence to use the George brand and has a carrying value of £17.3m (2017: £17.3m). This has been tested for impairment as at 31 December 2018 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 pre-tax discount rate applied to the cash flow projections is 8.0% and the growth rate used to extrapolate the cash flows beyond specific forecast period is 0.5%.

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.

### 11 Operating lease prepayments

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Operating lease prepayments - current	0.9	1.3
Operating lease prepayments - non-current	36.9	44.6
	<u>37.8</u>	<u>45.9</u>

Operating lease prepayments are amortised over the associated lease term.

Assets relating to finance lease premiums were reclassified from operating lease prepayments to finance leases to better reflect the nature of these items. Assets transferred had a gross cost of £12.5m and accumulated depreciation of £4.1m (see note 9).

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

**12 Inventories**

	<b>Year ended 31 December 2018 £ m</b>	<b>Year ended 31 December 2017 £ m</b>
Goods held for resale	1,149.8	1,145.5
Goods not held for resale	1.8	1.6
	<u>1,151.6</u>	<u>1,147.1</u>

**13 Trade and other receivables**

	<b>Year ended 31 December 2018 £ m</b>	<b>Year ended 31 December 2017 £ m</b>
Trade receivables	133.5	128.9
Allowance for expected credit losses	(3.9)	(3.9)
Other receivables	56.4	61.4
Prepayments and accrued income	40.1	37.2
Derivative assets	41.0	-
	<u>267.1</u>	<u>223.6</u>
Intercompany receivables	<u>3,512.0</u>	<u>3,126.7</u>

Trade receivables are non-interest bearing and are generally on 30 day terms. Trade receivable balances have been assessed to determine the value of expected credit losses ("ECLs") using the simplified approach in IFRS 9. There is no material impact on prior year balances resulting from the application of the ECL model, therefore prior year comparatives have not been restated.

Trade receivables are presented net where a legally enforceable right of set off exists. Included in the above is an offset of £108.8m (note 15) (2017: £98.0m). The gross trade receivable prior to the offset is £242.3m (2017: £226.9m).

Other receivables are non-interest bearing and are generally on 60 day terms. Other receivable balances have been assessed to determine the value of ECLs in IFRS 9 and it was determined that the impact was £nil. There is no material impact on prior year balances resulting from the application of the ECL model, therefore prior year comparatives have not been restated.

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

### 13 Trade and other receivables (continued)

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

As at 31 December 2018, trade receivables at nominal value of £3.9m (2017: £3.9m) were impaired and fully provided for. Movements in the allowance for expected credit losses in the year were as follows:

	31 December 2018 £ m	31 December 2017 £ m
At 1 January	3.9	2.7
Provision for expected credit losses	-	2.7
Provision utilised	-	(0.3)
Unused amounts reversed during the year	-	(1.2)
At 31 December	<u>3.9</u>	<u>3.9</u>

The Group has not made any provision for intercompany receivables.

### 14 Cash and cash equivalents

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Cash in hand and bank balances	280.1	409.7
Money market funds and deposits	<u>2,636.0</u>	<u>1,762.0</u>
	<u>2,916.1</u>	<u>2,171.7</u>

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

**15 Trade and other payables**

	<b>Year ended 31 December 2018 £ m</b>	<b>Year ended 31 December 2017 £ m Restated</b>
Trade payables	2,861.9	2,610.0
Other taxes and social security	207.8	226.1
Other payables	178.4	184.6
Accrued expenses	430.3	428.5
Derivative liabilities	0.6	29.4
	<u>3,679.0</u>	<u>3,478.6</u>
Intercompany payables	<u>2,963.6</u>	<u>2,839.2</u>

The 2017 restatement of £4.1m relates to the IFRS 15 adjustment in respect of gift cards as detailed in note 1.

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 £108.8m (note 13) (2017: £98.0m). The gross trade payable prior to the offset is £2,970.7m (2017: £2,708.0m).

For terms and conditions relating to amounts owed to related parties, refer to note 24.

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

**16 Financial instruments**

**Financial assets and liabilities**

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

	<b>Year ended 31 December 2018 £ m</b>	<b>Year ended 31 December 2017 £ m</b>
<i><b>Non-interest-bearing financial assets at amortised cost</b></i>		
Trade receivables	129.6	125.0
Other receivables	56.4	61.4
	<u>186.0</u>	<u>186.4</u>
<i><b>Interest-bearing financial assets at amortised cost</b></i>		
Intercompany receivables	3,512.0	3,126.7
<i><b>Derivatives designated as hedging instrument</b></i>		
Derivative assets	41.0	-
<i><b>Other financial assets</b></i>		
Cash and cash equivalents	2,916.1	2,171.7
<b>Total financial assets</b>	<u>6,655.1</u>	<u>5,484.8</u>

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

**16 Financial instruments (continued)**

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m Restated
<i><b>Non-interest-bearing financial liabilities at amortised cost</b></i>		
Trade payables	2,861.9	2,610.0
Other payables	178.4	184.6
Accrued expenses	430.3	428.5
	<u>3,470.6</u>	<u>3,223.1</u>
<i><b>Derivatives designated as hedging instrument</b></i>		
Derivative liabilities	0.6	29.4
Amounts included in trade and other payables	<u>3,471.2</u>	<u>3,252.5</u>
<i><b>Interest-bearing financial liabilities at amortised cost</b></i>		
Intercompany payables	2,963.6	2,839.2
<i><b>Current interest-bearing borrowings</b></i>		
Finance leases	15.7	13.8
<i><b>Non-current interest-bearing borrowings</b></i>		
Finance leases	<u>230.4</u>	<u>219.0</u>
<b>Total financial liabilities</b>	<u><u>6,680.9</u></u>	<u><u>6,324.5</u></u>

As at 31 December 2018 and 31 December 2017, 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 5.448%-6% (2017: 5.448%-6%).

Intercompany payables are disclosed in note 24. Details of obligations under finance leases are included in note 21. The increase in finance leases in the year of £13.3m includes increases due to non-cash movements of £25.1m, partially offset by cash payments of £11.8m.

***Fair values of financial assets and financial liabilities***

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

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

### 16 Financial instruments (continued)

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 and included within intercompany payables.

*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 2018 the Group held £41.0m (2017: £nil) in the money assets, and £0.6m (2017: £29.4m) out of the money liabilities in respect of its forward contracts. During the year, the Group recognised losses on revaluation of hedged monetary liabilities from historical cost to year-end spot rate of £7.4m (2017: £22.6m loss).

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.

#### *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 Walmart Inc. 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 Walmart Inc. group and are at fixed rates of interest. Amounts owed to fellow subsidiaries (note 24) attract interest at a rate of 5.448% - 6% (2017: 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.

The Group does not expect to take out borrowings with a variable interest rate in the foreseeable future.



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

### 16 Financial instruments (continued)

#### *Foreign currency risk*

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

The Group implements hedge accounting and has forward currency hedging contracts outstanding at 31 December 2018, designated as hedges of expected future purchases from suppliers in US dollars. The forward currency contracts are being used to hedge the foreign currency risk of the future purchases. The terms of the forward currency hedging contracts have been negotiated to match the terms of the commitments and none exceed a period of more than 12 months after 31 December 2018. Amounts recognised in other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss.

The cash flow hedges of the expected future purchases were assessed to be highly effective and as at 31 December 2018, a net unrealised gain of £29.6m (2017: £21.0m loss) 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 £50.6m (2017: £57.8m loss). This consists of a £24.2m loss reclassified to the Income Statement during the year (2017: £35.9m gain), a £38.3m gain on not-yet-matured contracts during the year (2017: £34.4m loss), and a £11.9m taxation charge (2017: £12.5m credit).

Under the Group's hedging policy, the only items for which forward currency contracts are in place are forecast purchases of goods for resale. The Group hedges up to 95% of forecast cash flows. Gains and losses attributable to forward contracts are transferred to cost of inventories recognised as an expense within the income statement upon maturity of the forward contract. Forward contracts entered into which are not in line with forecast cash flows would be the principal source of hedge ineffectiveness. No instances of this have occurred during the year (2017: none), therefore amounts recognised in the income statement in relation to ineffective hedges is £nil (2017: £nil).

As the Group manages much of its foreign currency exposure through the use of forward currency contracts, changes in exchange rates are not expected to have a significant impact on short term profitability or cash flow. It is anticipated that a 5% movement in the US dollar/Sterling exchange rate, which represents management's assessment of a reasonably possible change, would give rise to a movement in the cash flow hedge reserve of £36.6m (2017: £42.1m).

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

### 16 Financial instruments (continued)

#### *Credit risk*

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

The Group has established procedures to minimise the risk of default 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.

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

#### *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 2018 the Group had no external borrowings.

As at 31 December 2018, the Group held cash of £2,916.1m (2017: £2,171.7m), utilised along with overdrafts where necessary, to secure short term flexibility. At 31 December 2018, the Group had committed overdraft facilities of £30.0m (2017: £30.0m), standby credit facilities, including bonds of £112.1m (2017: £112.9m), and committed line of credit facilities of £125.0m (2017: £125.0m). The Group also has use of a facility which is available to other subsidiaries of the ultimate parent, the limit of which depends on the usage by fellow subsidiaries.

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

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

**16 Financial instruments (continued)**

	Within 1 year £ m	Between 1 and 5 years £ m	After 5 years £ m	Total £ m
<b>Year ended 31 December 2018</b>				
Finance lease obligations	15.7	66.0	483.0	564.7
Financial derivatives	758.8	-	-	758.8
Trade and other payables	3,470.6	-	-	3,470.6
Amounts owed to immediate parent company	2,811.1	-	-	2,811.1
Amounts owed to ultimate parent company	17.5	-	-	17.5
Amounts owed to fellow subsidiaries of ultimate parent company	135.0	-	-	135.0
	<u>7,208.7</u>	<u>66.0</u>	<u>483.0</u>	<u>7,757.7</u>
<b>Year ended 31 December 2017 restated</b>				
Finance lease obligations	13.8	60.2	475.7	549.7
Financial derivatives	783.5	-	-	783.5
Trade and other payables	3,252.5	-	-	3,252.5
Amounts owed to immediate parent company	2,675.5	-	-	2,675.5
Amounts owed to ultimate parent company	28.3	-	-	28.3
Amounts owed to fellow subsidiaries of ultimate parent company	135.4	-	-	135.4
	<u>6,889.0</u>	<u>60.2</u>	<u>475.7</u>	<u>7,424.9</u>

The 2017 restatement of £4.1m relates to the IFRS 15 adjustment in respect of gift cards as detailed in note 1.

*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 Walmart Inc. 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 is provided on page 4.

Full details of the amount of intercompany loans payable or receivable to/from the Walmart Inc. group of companies are disclosed in note 24.

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

**17 Employee benefits**

***Reconciliation of scheme assets and liabilities to assets and liabilities recognised***

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

	<b>Year ended 31 December 2018 £ m</b>	<b>Year ended 31 December 2017 £ m</b>
Fair value of scheme assets	2,411.7	2,549.9
Present value of scheme liabilities	<u>(2,160.0)</u>	<u>(2,458.1)</u>
	251.7	91.8
Effect of minimum funding requirement	<u>(1,022.4)</u>	<u>(945.4)</u>
Recognised liability for defined benefit obligations	(770.7)	(853.6)
Cash-settled share-based transactions liability - non-current	<u>(49.1)</u>	<u>(64.7)</u>
Total non-current employee benefits liability	(819.8)	(918.3)
Cash-settled share-based payment transactions liability - current	<u>(71.5)</u>	<u>(51.9)</u>
Total employee benefits liability	<u><u>(891.3)</u></u>	<u><u>(970.2)</u></u>

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

### 17 Employee benefits (continued)

#### Pension plans

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

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Wages and salaries	2,343.8	2,335.5
Share-based payments charge	44.6	98.7
Social security costs	140.5	140.8
Total cost before pension costs	2,528.9	2,575.0
<b>Defined benefit pension scheme</b>		
Net interest on pension scheme	21.5	24.1
Total defined benefit scheme loss	21.5	24.1
Pension costs, defined contribution scheme	69.6	61.9
Total pension expense	91.1	86.0
<b>Total employee benefit expense</b>	<b>2,620.0</b>	<b>2,661.0</b>

The Group operates a trust based defined contribution pension plan for employees of ASDA Stores Limited. The assets of the plan are held by the Legal & General Assurance Society Ltd and the Prudential Life Assurance Company. There are additional defined contribution pension plans for the employees of International Procurement and Logistics Limited, Forza Foods Limited and Kober Limited, for which the value of contributions is not material.

#### Defined benefit pension schemes

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 Trustee under the management of a number of professional fund managers and are held separately from the Group's assets. The Trustee invests in a range of assets including bonds, equity securities and assets that will hedge movements in the liabilities. A de-risking plan was agreed 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 two corporate trustee companies. The Board of the defined benefit plan corporate trustee company is made up of nine trustees: five of these are member nominated trustees including two pensioners, two are company appointed, and there are two professional independent trustees. The Board of the defined contribution plan corporate trustee company is made up of seven trustees: three of these are member nominated, three are company appointed, and there is one professional independent trustee.

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

### 17 Employee benefits (continued)

The Group's ultimate parent company Walmart Inc., guarantees the Group's obligations to the funded defined benefit plan up to a maximum amount of £980.0m. This guarantee has no time limit.

A schedule of contributions is in place between the Group and Trustee of the funded defined benefit plan in order to pay down the deficit on a secondary funding objective basis. The current schedule was agreed in 2017. A long term funding agreement was entered into in 2015 whereby contributions will continue until the scheme is fully funded on a self-sufficiency basis.

The scheme was most recently valued on 5 April 2016. 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 plan is in surplus; however, contributions remain payable until 2032 in order to meet the statutory funding objective. 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 £1,022.4m (2017: £945.4m).

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 22 years (2017: 23 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 for the Year Ended 31 December 2018 (continued)**

**17 Employee benefits (continued)**

***Scheme liabilities***

Changes in the present value of defined benefit obligation:

	<b>Year ended 31 December 2018 £ m</b>	<b>Year ended 31 December 2017 £ m</b>
Present value at start of year	(2,458.1)	(2,620.8)
Interest cost	(57.9)	(68.2)
Effect of changes in financial assumptions	226.9	102.6
Effect of experience adjustments	(29.3)	(67.2)
Benefits paid	158.4	195.5
Present value at end of year	<u>(2,160.0)</u>	<u>(2,458.1)</u>

***Scheme assets***

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

	<b>Year ended 31 December 2018 £ m</b>	<b>Year ended 31 December 2017 £ m</b>
Fair value at start of year	2,549.9	2,518.8
Interest income	61.1	66.4
(Decrease)/increase in value of plan assets excluding interest income	(109.9)	87.5
Employer contributions	70.0	73.6
Benefits paid	(158.4)	(195.5)
Administrative expenses	(1.0)	(0.9)
Fair value at end of year	<u>2,411.7</u>	<u>2,549.9</u>

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

**17 Employee benefits (continued)**

*Amounts recognised in the Consolidated Income Statement*

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
<b>Amounts recognised in finance income or costs</b>		
Net interest income/(expense) on plan assets and liabilities	3.2	(1.8)
Interest expense on effect of onerous liability	(23.7)	(21.4)
Administrative expenses	(1.0)	(0.9)
Total Income Statement charge	(21.5)	(24.1)

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

The Group expects to contribute approximately £70.0m to its defined benefit scheme in the next financial year.

There were no unpaid contributions outstanding at the current or prior year end for the defined contribution schemes. The charge for the year for the defined contribution schemes is £69.6m (2017: £61.9m).

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

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Effect of change in financial assumptions	226.9	102.6
Effect of experience adjustments	(29.3)	(67.2)
(Decrease)/increase in value of plan assets excluding interest income	(109.9)	87.5
Changes in onerous liability excluding interest expense	(53.3)	(132.5)
Amounts recognised in the Statement of Comprehensive Income	34.4	(9.6)



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

**17 Employee benefits (continued)**

**Fair value of plan assets:**

The fair value of the plan assets were as follows:

	31 December 2018			31 December 2017		
	£m			£m		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Cash and cash equivalents	-	3.0	3.0	-	3.0	3.0
Equity securities	346.4	288.3	634.7	400.9	407.5	808.4
Debt securities	1,081.2	-	1,081.2	1,066.2	-	1,066.2
Property	-	210.9	210.9	-	200.3	200.3
Investment funds	31.4	354.2	385.6	54.9	274.8	329.7
Other	96.3	-	96.3	142.3	-	142.3
	<u>1,555.3</u>	<u>856.4</u>	<u>2,411.7</u>	<u>1,664.3</u>	<u>885.6</u>	<u>2,549.9</u>

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. These liability matching assets partially hedge the scheme's interest rate risk and inflation risk, as they move in line with change in interest rate and future inflation expectations in a similar manner to the Scheme's liabilities. These risks are not fully hedged and the interest rate risk is hedged on a long term funding basis (gilts) rather than a corporate bonds basis. Other risks to the scheme include longevity risk.

**Principal actuarial assumptions (expressed as weighted averages)**

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

	Year ended 31 December 2018	Year ended 31 December 2017
	%	%
Discount rate	2.9	2.5
Inflation - RPI	3.1	3.1
Inflation - CPI	2.1	2.1
Future pension increases	<u>3.0</u>	<u>3.0</u>

**Post retirement mortality assumptions**

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

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

**17 Employee benefits (continued)**

	<b>Year ended 31 December 2018 Years</b>	<b>Year ended 31 December 2017 Years</b>
Current UK pensioners at retirement age - male	22.8	22.8
Current UK pensioners at retirement age - female	24.7	24.7
Future UK pensioners at retirement age - male	24.6	24.6
Future UK pensioners at retirement age - female	26.6	26.5

**Sensitivity analysis**

The assumptions on the discount rate, inflation, and life expectancy all have a significant effect on the measurement of the present value of the scheme liabilities. The following table provides an indication of the sensitivity of the IAS 19 pension liability at 31 December 2018 and of the Income Statement charge for 2018, to changes in these assumptions.

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

	<b>Year ended 31 December 2018 + 0.1% £ m</b>	<b>Year ended 31 December 2017 + 0.1% £ m</b>
<b>Adjustment to discount rate</b>		
Decrease in liability	44.3	54.3
Decrease in finance costs	1.6	1.5
	<b>Year ended 31 December 2018 + 0.1% £ m</b>	<b>Year ended 31 December 2017 + 0.1% £ m</b>
<b>Adjustment to rate of inflation</b>		
Increase in liability	43.9	53.6
Increase in finance costs	1.3	1.3
	<b>Year ended 31 December 2018 + 1 Year £ m</b>	<b>Year ended 31 December 2017 + 1 Year £ m</b>
<b>Adjustment to mortality age rating assumption</b>		
Increase in liability	70.7	75.8
Increase in finance costs	2.1	1.8

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

### 17 Employee benefits (continued)

#### Sensitivity analysis (continued)

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

#### 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, Walmart Inc. The Group has the obligation to settle the liabilities for the schemes, including employment taxes for participating employees, and therefore these schemes are accounted for as cash settled liabilities.

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

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

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Cash-settled share based payment charge	44.6	98.7
Total carrying amount of liabilities - current	71.5	51.9
Total carrying amount of liabilities - non-current	49.1	64.7
	120.6	116.6

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

**17 Employee benefits (continued)**

**Share-based payments (continued)**

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

	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
	<b>Number (thousands)</b>	<b>Number (thousands)</b>
Outstanding, start of year	4,990	5,005
Exercised during the year	(1,161)	(1,471)
Granted during the year	1,886	2,102
Forfeited during the year	(656)	(646)
Outstanding, end of year	<u>5,059</u>	<u>4,990</u>
Exercisable, end of year	<u>25</u>	<u>38</u>

	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
	<b>Price (£)</b>	<b>Price (£)</b>
Outstanding, start of year	42.04	38.36
Exercised during the year	(43.72)	(33.34)
Granted during the year	53.01	46.01
Forfeited during the year	(45.85)	(41.28)
Outstanding, end of year	<u>45.27</u>	<u>42.04</u>
Exercisable, end of year	<u>49.14</u>	<u>41.36</u>

Share options were exercised on a regular basis throughout the year. The average exercise price during the year to 31 December 2018 was £43.72 (2017: £33.34). The related shares are denominated in US dollars being the reporting currency of the ultimate parent company. The sterling exercise price of the Sharesave scheme options is fixed at the exchange rate on date of grant.

*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.

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

**17 Employee benefits (continued)**

**Share-based payments (continued)**

	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
Weighted average exercise price (£)	45.23	41.98
Number of share options outstanding (thousands)	5,037	4,957
Expected weighted average remaining life (years)	1.5	1.6

The range of exercise price in the year was £35.21 to £53.00 (2017: £35.21 to £46.00)

The fair value of the options outstanding under the Sharesave scheme at 31 December 2018 is £85.8m (2017: £80.9m).

*Walmart Stock Incentive Plan (WSIP) scheme*

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

	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
Weighted average exercise price (£)	55.69	50.83
Number of share options outstanding (thousands)	22	33
Expected weighted average remaining life (years)	0.5	0.6

The range of exercise price in the year was £39.88 to £67.93 (2017: £34.99 to £59.76)

The fair value of the options outstanding under the WSIP scheme at 31 December 2018 is £0.4m (2017: £0.7m).

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

**17 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:

	<b>Year ended 31 December 2018 Number (thousands)</b>	<b>Year ended 31 December 2017 Number (thousands)</b>
Outstanding, start of year	483	562
Exercised during the year	(140)	(161)
Granted during the year	150	155
Forfeited during the year	(56)	(73)
Outstanding, end of year	<u>437</u>	<u>483</u>
Exercisable, end of year	<u>-</u>	<u>-</u>

The fair value of the options outstanding under the RSR scheme at 31 December 2018 is £22.4m (2017: £24.0m).

*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 Walmart Inc. provided certain pre-determined performance goals are met. These pre-determined goals are in respect of sales growth and return on investment. All share awards under the PSP scheme have been issued for nil consideration and have a contractual life of between 1 and 3 years. The share awards under this scheme are treated as cash-settled.

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

### 17 Employee benefits (continued)

#### Share-based payments (continued)

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

	Year ended 31 December 2018 Number (thousands)	Year ended 31 December 2017 Number (thousands)
Outstanding, start of year	196	184
Exercised during the year	(68)	(52)
Granted during the year	88	119
Forfeited during the year	(37)	(55)
Outstanding, end of year	<u>179</u>	<u>196</u>
Exercisable, end of year	<u>-</u>	<u>-</u>

The fair value of the options outstanding under the PSP scheme at 31 December 2018 is £12.0m (2017: £11.0m).

The fair value of share options is measured using a Black-Scholes model taking into account the terms and conditions upon which the instruments were granted.

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

	Year ended 31 December 2018	Year ended 31 December 2017
Expected dividend yield (%)	2.22	2.07
Expected volatility (%)	22.44	18.40
Risk-free interest rate (%)	2.63	1.76
Weighted average fair value of options granted (£)	13.67	14.79
Weighted average exercise price (£)	<u>45.27</u>	<u>42.04</u>

The expected life of the option in the year was 3 or 5 years (2017: 3 or 5 years).

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

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

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

**18 Provisions**

	<b>Dilapidations £ m</b>	<b>Other property provisions £ m</b>	<b>Insurance £ m</b>	<b>Total £ m</b>
At 1 January 2018	54.4	3.4	125.1	182.9
Provided during the year	18.7	1.2	47.8	67.7
Provisions used	-	(0.5)	(31.3)	(31.8)
Unused provision reversed	(1.1)	-	(31.2)	(32.3)
Increase due to unwinding of discount	2.2	(0.1)	-	2.1
At 31 December 2018	<u>74.2</u>	<u>4.0</u>	<u>110.4</u>	<u>188.6</u>
Current liabilities	<u>-</u>	<u>-</u>	<u>31.3</u>	<u>31.3</u>
Non-current liabilities	<u>74.2</u>	<u>4.0</u>	<u>79.1</u>	<u>157.3</u>

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

The dilapidations provision represents provisions for the cost of repairs to leasehold properties at the end of their lease term. The amount provided during the year is accounted for within additions as an increase in the cost of property, plant and equipment and the impact of this will be recognised as additional depreciation over the lease terms of the sites to which the provision relates.



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

**19 Share capital and premium**

	Number of shares	Share capital £ m	Share premium £ m	Total £ m
<b>Authorised, allotted, called up and fully paid</b>				
Ordinary shares of 25p each at 31 December 2018 and 31 December 2017	4	-	-	-

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

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

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

### 20 Reserves

Reconciliation of movement in reserves is as follows:

	Other reserves £ m	Cash flow hedge reserve £ m	Retained earnings £ m	Total £ m
At 1 January 2017	441.1	36.8	7,641.7	8,119.6
Change in accounting policy - IFRS 15	-	-	3.4	3.4
At 1 January 2017 restated	441.1	36.8	7,645.1	8,123.0
Profit for the year	-	-	666.0	666.0
Cash flow hedges - reclassified during year to Income Statement	-	(35.9)	-	(35.9)
Cash flow hedges - net loss during year on not-yet-matured contracts	-	(34.4)	-	(34.4)
Tax on cash flow hedges recognised directly in other comprehensive income	-	12.5	-	12.5
Total remeasurements on defined benefit obligation	-	-	35.4	35.4
Increase in value of plan assets excluding interest income	-	-	87.5	87.5
Changes in asset ceiling/onerous liability (excluding interest expense)	-	-	(132.5)	(132.5)
Tax on actuarial losses recognised directly in other comprehensive income	-	-	2.4	2.4
Tax on share-based payments recognised in equity	-	-	(1.1)	(1.1)
<b>At 31 December 2017 restated</b>	<b>441.1</b>	<b>(21.0)</b>	<b>8,302.8</b>	<b>8,722.9</b>
At 1 January 2018	441.1	(21.0)	8,302.8	8,722.9
Profit for the year	-	-	710.4	710.4
Cash flow hedges - reclassified during year to Income Statement	-	24.2	-	24.2
Cash flow hedges - net gain during year on not-yet matured contracts	-	38.3	-	38.3
Tax on cash flow hedges recognised directly in other comprehensive income	-	(11.9)	-	(11.9)
Total remeasurements on defined benefit obligation	-	-	197.6	197.6
Decrease in value of plan assets excluding interest income	-	-	(109.9)	(109.9)
Changes in asset ceiling/onerous liability (excluding interest expense)	-	-	(53.3)	(53.3)
Tax on actuarial gains recognised directly in other comprehensive income	-	-	(4.9)	(4.9)
<b>At 31 December 2018</b>	<b>441.1</b>	<b>29.6</b>	<b>9,042.7</b>	<b>9,513.4</b>

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

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

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

### 21 Obligations under leases

#### Operating leases

##### *Operating lease agreements where Group is lessee*

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

	Land and buildings		Other	
	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
No later than one year	122.9	121.2	46.6	50.0
Later than one year and no later than five years	412.0	434.2	82.7	84.5
Later than five years	1,787.9	1,834.7	1.4	3.2
	<u>2,322.8</u>	<u>2,390.1</u>	<u>130.7</u>	<u>137.7</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:

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
No later than one year	9.6	9.8
Later than one year and no later than five years	25.1	31.0
Later than five years	38.4	35.1
	<u>73.1</u>	<u>75.9</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 for the Year Ended 31 December 2018 (continued)

### 21 Obligations under leases (continued)

#### Finance leases

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 2018 £ m	31 December 2017 £ m
<i><b>Future minimum payments due:</b></i>		
No later than one year	15.7	13.8
Later than one year and no later than five years	66.0	60.2
Later than five years	483.0	475.7
	<u>564.7</u>	<u>549.7</u>
Lease finance charges allocated to future periods	(318.6)	(317.0)
	<u>246.1</u>	<u>232.7</u>
Present value of minimum lease payments		

### 22 Commitments

#### Capital commitments

As at 31 December 2018, the Group had not entered into any contract to purchase property, plant and equipment (2017: £nil).

#### Other financial commitments

As at 31 December 2018, the Group had entered into contracts to purchase US dollars for £697.6m (2017: £803.2m) and energy for £65.3m (2017: £42.0m).

### 23 Contingent liabilities

**Equal Value Claims:** ASDA Stores Limited, a wholly-owned subsidiary of the Group, has been served with circa 30,000 employment tribunal claims that have been presented on behalf of current and former ASDA store employees, who allege that their work in ASDA's stores is of equal value in terms of the demands of their jobs to that of employees working in ASDA's distribution centres, and that the differences in pay and terms and conditions between the different jobs are not objectively justified. The claimants are requesting differential back pay based on higher wage rates in the distribution centres and those higher wage rates and more favourable terms and conditions on a prospective basis as part of these equal value proceedings. ASDA believes that further claims may be served. At present, the Directors cannot predict the number of claims that may be served, and cannot reasonably estimate any loss or range of loss that may arise from these proceedings. The Directors believe that there are substantial factual and legal defences to these claims, and intend to defend the claims vigorously. No provision has been recognised on the basis that any potential liability arising is not considered probable.

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

### 24 Related parties

#### *Identity of related parties*

The following transactions were carried out with group companies:

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Technical assistance, services and royalties paid to Walmart Inc.*	142.5	142.0
Interest payable on loans from ASDA Holdings UK Limited	163.6	159.1
Interest payable on loans from Munsbach Norco S.a r.l.	-	1.8
Interest payable on loans from WMT Netto S.a r.l.	7.4	5.6
Interest receivable on loans to Broadstreet Great Wilson Europe Limited	0.1	-
Interest receivable on loans to Wal-Mart Stores (UK) Limited	197.7	175.6
Loans from ASDA Holdings UK Limited	2,811.1	2,675.5
Loans from WMT Netto S.a r.l.	126.5	126.5
Loans from WMGS Co. Limited	4.0	8.6
Loans from Global George Limited	4.2	-
Loans from Walmart EMEA Limited	0.3	0.3
Loans from Walmart Inc. *	17.5	28.3
Loans to Broadstreet Great Wilson Europe Limited	1.3	1.2
Loans to ASDA Holdings UK Limited	24.0	-
Loans to Global George Limited	5.8	1.5
Loans to Wal-Mart Stores (UK) Limited	3,480.9	3,124.0

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

Interest on intercompany loans with fellow subsidiary undertakings of Walmart Inc. is charged on an arm's length basis at a rate of 5.448% - 6% (2017: 5.448% - 6%). All intercompany loans are unsecured and repayable upon demand.

Amounts owed by fellow group entities totalled £3,512.0m at 31 December 2018 (2017: £3,126.7m), as disclosed in note 13.

Amounts owed to fellow group entities totalled £2,963.6m at 31 December 2018 (2017: £2,839.2m), as disclosed in note 15.

#### *Other related party transactions*

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

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

**25 Ultimate parent company and parent company of larger group**

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

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

**26 Events since the balance sheet date**

On 30 April 2018, J Sainsbury plc and Walmart Inc. announced that they had agreed terms in relation to a Proposed Merger of J Sainsbury plc and ASDA ("the merger parties").

On 20 February 2019, the Competition and Markets Authority ("the CMA") published the preliminary findings of their inquiry into the Proposed Merger. At the date of approval of the financial statements, the merger parties remain in dialogue with the CMA. The CMA final report is expected by 30 April 2019.

## **ASDA Group Limited - Parent Company**

### **Statement of Directors' Responsibilities**

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and 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 2018**

Registration number: 1396513

	Note	31 December 2018 £ m	31 December 2017 £ m
<b>Assets</b>			
<b>Non-current assets</b>			
Investments	4	3,021.5	3,021.5
<b>Current assets</b>			
Trade and other receivables	5	4,673.3	4,627.5
Cash and cash equivalents	6	2,636.8	1,761.9
		<u>7,310.1</u>	<u>6,389.4</u>
Total assets		<u>10,331.6</u>	<u>9,410.9</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	7	-	-
Other reserves	8	160.2	160.2
Retained earnings	8	<u>4,131.6</u>	<u>4,195.5</u>
Total equity		4,291.8	4,355.7
<b>Current liabilities</b>			
Trade and other payables	9	<u>6,039.8</u>	<u>5,055.2</u>
Total equity and liabilities		<u>10,331.6</u>	<u>9,410.9</u>

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

The loss for the financial year in the financial statements of the Company was £63.9m (2017 profit: £2,129.2m). Prior year profit included dividend income of £2,168.0m.

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

Approved by the Board on 28 March 2019 and signed on its behalf by:



R McWilliam  
Director



**Company Statement of Changes in Equity for the Year Ended 31 December 2018**

	Share capital £ m	Share premium £ m	Other reserves £ m	Retained earnings £ m	Total £ m
At 1 January 2017	-	-	160.2	2,066.3	2,226.5
Profit for the year	-	-	-	2,129.2	2,129.2
At 31 December 2017	-	-	160.2	4,195.5	4,355.7
At 1 January 2018	-	-	160.2	4,195.5	4,355.7
Loss for the year	-	-	-	(63.9)	(63.9)
At 31 December 2018	-	-	160.2	4,131.6	4,291.8

## Notes to the Parent Company Statements for the Year Ended 31 December 2018

### 1 Accounting policies

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

#### Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of ASDA Group Limited ("the Company") for the year ended 31 December 2018 were authorised for issue by the board of directors on 28 March 2019 and the balance sheet was signed on behalf of the directors by R McWilliam. The Company is incorporated and domiciled in England under the Companies Act 2006 (registration number 1396513).

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

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

#### Basis of preparation

The Directors have assessed the Company's ability to continue as a going concern including a review of the forecast cash flows, future trading performance and existing borrowings in place. Based on this review, the Directors confirm that the Company has adequate resources to continue to operate for the foreseeable future and accordingly the going concern basis continues to be appropriate for the preparation of the Financial Statements.

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

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

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

## Notes to the Parent Company Statements for the Year Ended 31 December 2018 (continued)

### 1 Accounting policies (continued)

#### Changes in accounting policy

##### *New standards, interpretations and amendments effective*

The following has been applied for the first time from 1 January 2018:

##### **IFRS 9 - Financial Instruments: Classification and Measurement**

IFRS 9 'Financial Instruments' has been applied from 1 January 2018 to replace previous requirements in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including the new expected credit loss ("ECL") model for calculating impairment of financial assets. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Company has assessed the requirements of IFRS 9 on the carrying value of financial assets and has concluded that there is no material impact on the Company financial statements. In respect of the ECL model for determining whether financial assets are impaired, management has conducted a review of all material intercompany receivables and determined that each significant counterparty is demonstrably able to settle its liabilities to the Company on demand and in full at 31 December 2018, 31 December 2017 and 31 December 2016. Therefore the probability of default is nil and no impairment charge has been recorded at 31 December 2018, 31 December 2017 or 31 December 2016.

##### **Impairment of non-current assets**

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

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

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

##### **Investments**

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

##### **Trade and other receivables**

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

##### **Cash and cash equivalents**

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

## Notes to the Parent Company Statements for the Year Ended 31 December 2018 (continued)

### 1 Accounting policies (continued)

#### Trade and other payables

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

### 2 Auditors' remuneration

The Company's audit fee for the year ended 31 December 2018 was £2,800 (2017: £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 (2017: none).

### 3 Employee numbers and costs

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

#### Group subsidiaries

	Investment in subsidiaries £ m
<b>Cost or valuation</b>	
At 1 January 2018 and 31 December 2018	3,034.8
<b>Provision</b>	
At 1 January 2018 and 31 December 2018	(13.3)
<b>Carrying amount</b>	
At 31 December 2018	3,021.5
At 1 January 2018	3,021.5

Following a review of the carrying value of investments held by the Company, no impairment charge (2017: £nil) has been recognised.

## Notes to the Parent Company Statements for the Year Ended 31 December 2018 (continued)

### 4 Investments (continued)

#### *Subsidiary undertakings*

As at 31 December 2018, the following companies were subsidiary undertakings.

Name of subsidiary	Country of incorporation and principal place of business	% equity held
ASDA Delivery Limited	United Kingdom	100%
ASDA Employees Share Scheme Trustee Limited	United Kingdom	100%
ASDA Finance Limited	United Kingdom	100%
ASDA Financial Services Limited	United Kingdom	100%
ASDA Group Pension Scheme Trustees Limited	United Kingdom	100%
ASDA Guernsey Limited	United Kingdom	100%
ASDA Home Shopping Cards Limited	United Kingdom	100%
ASDA Pension Plan Trustees Limited	United Kingdom	100%
ASDA Quest Trustees 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%
Chorley Renaissance 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%

## Notes to the Parent Company Statements for the Year Ended 31 December 2018 (continued)

### 4 Investments (continued)

Name of subsidiary	Country of incorporation and principal place of business	% equity held
Kent Nominee 1 Limited	United Kingdom	100%
Kent Nominee 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%
Selby Produce Limited	United Kingdom	100%
The Burwood House Group Limited	United Kingdom	100%
The George Davis Partnership Limited	United Kingdom	100%
Vinpack Limited	United Kingdom	100%
Westry Produce Limited	United Kingdom	100%

All investments listed above have 100% ordinary share capital, except for ASDA Finance Limited which includes 0.1% preference share capital as part of total capital.

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

ASDA Finance Limited *12 Castle Street, St Helier, Jersey, JE2 3RT*

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

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

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

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

Kober Limited *Unit 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*

**Notes to the Parent Company Statements for the Year Ended 31 December 2018 (continued)**

**5 Trade and other receivables**

	<b>31 December 2018 £ m</b>	<b>31 December 2017 £ m</b>
Other receivables	0.8	0.2
Amounts owed by group entities	4,672.5	4,627.3
<b>Total</b>	<b>4,673.3</b>	<b>4,627.5</b>

Intercompany receivables attract interest at a fixed rate of 2.95% - 6% (2017: 2.95% - 6%) and are repayable on demand.

**6 Cash and cash equivalents**

	<b>31 December 2018 £ m</b>	<b>31 December 2017 £ m</b>
Cash in hand and bank balances	0.8	-
Money market funds and deposits	2,636.0	1,761.9
	<b>2,636.8</b>	<b>1,761.9</b>

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

**7 Share capital**

	<b>Number of shares</b>	<b>£ m</b>
<b>Authorised, allotted, called up and fully paid</b>		
Ordinary shares of 25p each at 31 December 2018 and 31 December 2017	4	-

## Notes to the Parent Company Statements for the Year Ended 31 December 2018 (continued)

### 8 Share premium and other reserves

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

	Share premium £ m	Other reserves £ m	Retained earnings £ m	Total £ m
At 1 January 2018	-	160.2	4,195.5	4,355.7
Loss for the year	-	-	(63.9)	(63.9)
At 31 December 2018	-	160.2	4,131.6	4,291.8

### 9 Trade and other payables

	31 December 2018 £ m	31 December 2017 £ m
Amounts owed to group entities	6,039.8	5,055.2

Intercompany payables incur interest at a fixed rate of 6% (2017: 6%) and are repayable on demand.

### 10 Commitments

The Company has no financial commitments (2017: none).

### 11 Ultimate parent company and parent company of a larger group

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

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



**Notes to the Parent Company Statements for the Year Ended 31 December 2018 (continued)**

**12 Events since the balance sheet date**

On 30 April 2018, J Sainsbury plc and Walmart Inc. announced that they had agreed terms in relation to a Proposed Merger of J Sainsbury plc and ASDA ("the merger parties").

On 20 February 2019, the Competition and Markets Authority ("the CMA") published the preliminary findings of their inquiry into the Proposed Merger. At the date of approval of the financial statements, the merger parties remain in dialogue with the CMA. The CMA final report is expected by 30 April 2019.