Registration number: 1396513

ASDA Group Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2019

Contents

Company Information

Directors	R Burnley A Hemmerdinger N Jones (resigned 30 June 2019) D Lawlor (appointed 22 May 2019) R McWilliam A Murray A Simpson (resigned 27 August 2019) H Tatum A Shaw (appointed 20 January 2020) M Simpson (appointed 20 January 2020)
Company secretary	P Titchmarsh (appointed 27 August 2019) A Simpson (resigned 27 August 2019)
Registered office	ASDA House South Bank Great Wilson Street Leeds LS11 5AD UK
Auditors	Ernst & Young LLP 1 Bridgewater Place Water Lane Leeds LS11 5QR

Strategic Report for the Year Ended 31 December 2019

The Directors present their Strategic Report for the year ended 31 December 2019.

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

Sales and operating profit

Against a backdrop of low consumer confidence and a highly competitive market, like-for-like sales[1] decreased by 0.8% in the year.

Headline operating profit of £584.2m (2018: £803.2m) was adversely impacted by a number of one-off costs in the year, including impairment charges of £63.0m following a strategic review of the property estate (see note 3); and an increase in the recharge from the ultimate parent company in respect of share-based payments of £84.7m, which was driven by an increase in the share price of the ultimate parent company - Walmart Inc. (see note 5). These impacts were partially offset by an increase in operating profit of £31.4m due to the adoption of IFRS 16 - Leases (see note 1 for details).

During the year, we invested incrementally in our customer offer, delivering lower prices to millions of customers and improving the quality of thousands of own brand products through use of healthier ingredients and more sustainable packaging. We also refreshed 37 stores with our latest proposition.

The Group experienced operational cost headwinds in 2019, including an increase in the national living wage and the impact of investing strongly in our new retail colleague contract, which were partially offset by a business-wide program of cost savings.

Cashflow

Net cash outflows from operating activities of £38.7m for the year (2018: inflow £1,291.1m) were primarily due to the operating cash outflow associated with the buy-in of the ASDA Group Pension Scheme of £827.1m (see note 17 for further details); the impact of having 53 weekly supplier payment runs in the year, which has driven a decrease in trade payables of £301.9m as shown in note 15 to the accounts; and the reduction in operating profit of £219.0m detailed above. This is partially offset by a change in cashflow classification arising on the implementation of IFRS 16 on 1 January 2019. Lease-related cash outflows classified as operating were £16.9m (2018: £173.2m).

Total net cash outflow for the year was £986.8m (2018: net inflow £744.4m). In addition to the operating cash impacts detailed above, there was a net investing outflow of £308.2m relating to the pension scheme buy-in (2018: £nil). Lease-related cash outflows classified as financing were £182.5m (2018: £11.8m). Although the classification of lease-related cash outflows was impacted by the implementation in the year of IFRS 16 'Leases' as noted above, there was no significant impact from IFRS 16 on total cashflows.

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

Strategic Report for the Year Ended 31 December 2019 (continued)

Balance Sheet

During the year, the trustees of the ASDA Group Pension Scheme ("AGPS" or "the Scheme") entered into an agreement for a bulk annuity insurance 'buy-in' of the Scheme. This agreement secures the benefits of members - providing certainty and security for all of the Scheme's approximately 12,300 members (4,800 pensioners and 7,500 deferred pensioners). Further, the transaction will de-risk and simplify the ASDA Balance Sheet at a cost that is below the expected future cost of funding internally. Further detail of the impacts of this transaction on the Balance Sheet and cash flows for the year is provided in note 17.

On 1 January 2019, the Group adopted IFRS 16, recognising an additional £1,907.9m of assets and £1,910.5m of liabilities. Of the increase in liabilities £142.4m were lease liabilities due within one year. Additionally, previous lease related balances including operating lease prepayments, onerous lease provisions and straight-line rent accruals have been derecognised as part of adoption. A full illustrative breakdown of the impacts to the opening Balance Sheet are presented in note 1 of these financial statements.

The Group transitioned using the modified retrospective approach. As a result, prior year comparatives have not been restated and cannot be directly compared with current year numbers. Key judgements made on application of IFRS 16, and changes to accounting policies, can be found in note 1 of these financial statements.

Group profit and dividends

Group revenues for the year decreased by 0.1% to £22,899.2m (2018: £22,916.5m), while operating profit decreased by 27.3% to £584.2m (2018: £803.2m) mainly due to the impairment and share-based payment charges, as described above.

Profit after tax for the year was £487.0m (2018: £710.4m) a decrease of 31.4%. Following the implementation of IFRS 16 - Leases during the year, there was a year on year decrease in pre-tax profit of £21.3m related to lease expenses and interest as described further in note 1.

No dividends were paid during the year (2018: £nil).

Events since the Balance Sheet date

On 5 March 2020, the Group and Company proposed and paid a cash dividend of £1,150.0m to ASDA Holdings UK Limited, the immediate parent undertaking.

Amounts recharged by ultimate parent company

The Group incurs recharges from the ultimate parent company, Walmart Inc. relating to the cost of share options, the cost of services received (mainly relating to IT) and royalties. The share options granted to colleagues by ASDA are in the ultimate parent company, Walmart Inc. and the accounting treatment of these share options is outlined in notes 1 and 17.

Strategic Report for the Year Ended 31 December 2019 (continued)

KPIs

- Like-for-like sales (excluding fuel and VAT) decreased 0.8% (2018: 1.6% increase). Like-for-like sales is a measure of year on year sales growth (excluding VAT and fuel) for stores open for more than 1 year.
- Total sales excluding fuel and VAT decreased by 0.7% (2018: 2.1% increase) (note 2); total sales including fuel decreased by 0.1% excluding VAT (2018: 3.1% increase).
- Operating profit decreased by 27.3% (2018: 9.2% increase).
- Market share down 0.3%, to 15.0% (source: Kantar 52 weeks to 29 December 2019). This is the Group's percentage share of the total grocers' market, and includes all revenue, excluding petrol and in-store concessions.
- Net cash outflows from operating activities for the year of £38.7m (2018: inflow £1,291.1m) included an operating cash outflow of £827.1m relating to the buy-in of the ASDA Group Pension Scheme (2018: £nil) and a reduction in trade payables of £301.9m driven by supplier payment timing.

Other highlights

- In June 2019, ASDA won The Grocer Magazine's G33 Price Award for the twenty-second consecutive year.
- ASDA won 92 awards at the Quality Food and Drink Awards including 'Retailer of the year'.
- Our total Consumer Promoter Score ("CPS") has increased by 0.6 points in 2019 compared to the previous year.
- Sales in our online area have grown ahead of the market in 2019 supported by further improvement in our online CPS measure.

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.

Strategic Report for the Year Ended 31 December 2019 (continued)

Section 172 Statement

The following sections serve as our section 172 statement. Section 172 of the Companies Act 2006 recognises that whilst companies are run for the benefit of the shareholders, a business's long-term success and reputation are dependent upon maintaining relationships with stakeholders and an appreciation of the external impact of its activities.

The Directors are fully aware of their responsibilities to promote the success of the Company in accordance with section 172 of the Companies Act 2006 and are keen to ensure proper reflection on stakeholder engagement and issues at Board level and promote continuous reflection on opportunities for development.

The Board regularly reviews the business's principal stakeholders and how we engage with them. The sections below set out a more detailed summary of the Group's relationships with its key stakeholders and how the business engages with those stakeholders.

The Board is comprised of the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief People Officer (CPO), Chief Operations Officer (COO), Chief Customer Officer (CCO), Chief Merchandising Officer (CMO) and a Chief Supply Chain Officer (CSCO).

In addition to a scheduled programme of monthly Board meetings, the Board and wider members of senior management meet weekly, during which feedback from various business areas, with particular focus on specific stakeholder groups, is fed back to the wider Board.

The outcome of stakeholder engagement generally, as fed back to the Board via the channels referred to above and below, influences the formulation and ongoing review of the long-term strategy and financial planning to ensure that our approach continues to deliver sustainable returns and promotes reputational reward. The Directors aim to take the needs and priorities of each stakeholder group into account as part of their decision-making processes, recognising that the pertinence of a particular stakeholder group may vary depending upon the matter under discussion.

Key Stakeholder Engagement

Investors - Walmart Inc. ("Walmart")

Corporate governance policies and procedures are in place (largely derived from the governance framework mandated by Walmart) which provide for a continuous and structured dialogue with the Board, including regular visits and detailed corporate governance sign-off procedures. In addition, both R Burnley (CEO) and R McWilliam (CFO) have direct reporting lines into Walmart.

Why?

Our ultimate parent, Walmart, is ASDA's sole provider of investor capital. Their investment enables ASDA to fund growth where customers care and deliver long-term success.

How we engage and key outcomes

We engage with Walmart on significant capital projects and approval is required over certain amounts. Principal investments during the year relate to replacement of essential assets and refreshing the store estate.

Strategic Report for the Year Ended 31 December 2019 (continued)

As a wholly-owned subsidiary, Walmart requires ASDA to deliver a return on their investment

Strategic plans and associated financial targets are discussed and signed off by both Walmart and the Directors. Following this there is regular communication between Walmart and the Directors of ASDA regarding performance against these financial targets. Please see the KPIs section included within the Strategic Report for highlights of the year.

As part of ensuring compliance with key legal, ethical and financial regulations, ASDA engages directly with Walmart on these matters.

Certain functions in ASDA - including Legal, Internal Audit and Compliance – have an independent direct reporting line into Walmart and, on behalf of Walmart, these functions formally test and report on compliance with key regulations applied in ASDA. These include testing the design and operation of financial controls within the Sarbanes-Oxley financial control framework; testing and reporting on compliance with anti-bribery controls under the Foreign Corrupt Practices Act ("FCPA"); and reporting on any breaches of Walmart's Ethics guidance. Walmart also has formal oversight of these processes and play a role in ensuring that improvements are implemented where required.

Compliance with Walmart risk management policies enables ASDA to safeguard the Company and promote its long-term sustainability. This includes the capital management policy which requires the monitoring of cash levels and timing of funds available. This ensures that ASDA is able to meet day to day obligations as they fall due.

Our enterprise risk management process is comprised of 12 functional risk groups, each with an individual risk register. There are also functional Boards responsible for owning and managing their risks. On a bi-annual basis the enterprise risk register is reviewed by the Board.

Employees

The CPO oversees colleague engagement. The CPO also chairs working group meetings of members of management dedicated to employee matters and ensuring that the results of the employee engagement mechanisms referred to below are provided to the Board. Both the CPO and the COO (noting that the Group's workforce is predominantly made up of employees working in the operational retail areas of the business) ensure that the employee perspective is vocalised and considered in the Boardroom.

Why?

Our employees reflect the communities ASDA serves, which helps us to engage with our customers.

How we engage and key outcomes

ASDA is committed to promoting diversity and wellbeing across the colleague base and this is formally documented in the Diversity & Inclusion Policy. Colleague resource groups are in place to identify and implement improvements to our business which ensure that the needs of our diverse colleague base are met. These groups consist of employees across a number of different levels in the organisation and are each chaired by a Director. Our commitment to diversity allows ASDA to attract, recruit and retain high calibre colleagues who represent the customers and communities which ASDA serves.

Strategic Report for the Year Ended 31 December 2019 (continued)

We believe in creating an inclusive culture and providing required support to our colleagues.

This is achieved through colleague resource groups, two-way communication through the 'Write to Roger scheme', Colleague Voice Groups, Your Voice engagement survey and WalmartOne intranet. Results of the above forums are available by functional area and Directors are accountable for their own action plan. Colleague engagement is maintained through open communication both to share information about the business and provide feedback about working at ASDA.

Trade unions and elected representatives

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

Why?

We engage with trade unions, who act as representatives of our employees, to ensure that the best interests of our employees are considered and that concerns can be raised and discussed to reach a mutually agreed outcome.

How we engage and key outcomes

There is a partnership agreement with the GMB Union for consultation purposes for all hourly paid retail employees in England, Scotland and Wales, who are GMB members. A retail Forum of 10 representatives meet with the Group and during the year collective consultation was undertaken between April and June 2019 on the proposed new retail contract. Please see the 'Key Principal Decisions' section below for further details.

There is a collective bargaining agreement for negotiation of pay and terms with USDAW for all hourly paid retail employees in Northern Ireland. A Joint National Council (JNC) of 6 representatives meet with the Group. During the year, wage negotiations with USDAW were held and led to mutual agreement of the new retail contract. Please see the 'Key Principal Decisions' section below for further details.

National Colleague Voice (NCV) groups represent salaried retail managers, salaried distribution managers and hourly paid retail colleagues across the UK. Each NCV (26 representatives on the retail groups and 13 representatives on distribution) meet with the Group on a regular basis.

Strategic Report for the Year Ended 31 December 2019 (continued)

Suppliers

The CMO engages directly with key suppliers and together with the CSCO, brings suppliers' views into the Boardroom. The CMO's team includes people dedicated to supplier engagement and ensuring that the outcome of such engagement is fed back to the Board. The joint business plans referred to below are a result of ongoing mutual engagement during which supplier interests and issues are vocalised and accommodated in a mutually acceptable manner.

Why?	*How we engage and key outcomes*
We aim to maintain trust and engagement with our supplier base. We have clear communication channels to ensure our suppliers' views are heard.	ASDA is subject to the requirements of the Grocery Supplier Code of Practice ("GSCOP") and has formal policies in place around areas such as supplier payment, supplier queries and supplier income, which are in line with the guidance in GSCOP. Senior leadership, within the Trading function, also host and attend supplier conferences to ensure we continue to understand our suppliers' needs. ASDA agrees joint business plans with our suppliers each year and business plans with key suppliers are signed off by the Board.
We work with our suppliers to develop new and innovative products that appeal to the changing demands of our customers.	During the year we have continued to work with our suppliers in order to reduce the amount of plastic we use within our packaging. The Sustain and Save exchange enables us to work with suppliers to help them understand how they can be more environmentally efficient in their operations. This is an area generating an increased level of interest among many of our stakeholders. For more detail on how ASDA and the Directors have tackled this issue see the 'Key Principal Decisions' section below.

Customers

Through internal reporting lines the outcomes of customer engagement are fed back to the CCO who is responsible for customer matters. Accordingly, the CCO ensures that our customers' viewpoints are considered when making decisions in the Boardroom.

Why?	*How we engage and key outcomes*
ASDA's mission is to be the most trusted retailer, and this is supported by our purpose to save customers money so they can live better. To deliver this, we need to understand the products where price is most critical to our customers.	ASDA monitors external data on the prices of key product lines and sets category-specific targets for relative pricing against key competitors. This helps us to make targeted price investment decisions which best meet the needs of our customers.
Delivering a consistent, trusted shopping experience is critical to attracting and retaining customers.	Customers provide feedback to ASDA which enables us to calculate and report on our Easy, Fast and Friendly ("EFF") and Customer Promoter Score ("CPS") metrics at both the store, online and total company level. Store and Home Office bonus pay-out percentages are directly linked to EFF and CPS measures.

Strategic Report for the Year Ended 31 December 2019 (continued)

Providing customers with a high standard of product is a key component of attracting and retaining customers.

ASDA provides customers with the opportunity to provide feedback on product quality. This is then disseminated amongst the Directors at Board meetings but is also discussed amongst senior member of the organisation at the monthly leaders' meeting and the Performance Board.

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

In addition to the Joint Governance Forum referred to in the Key Principal Decisions section below, a "Pensions Investment & Funding Committee" exists to create a vehicle for direct and ongoing dialogue between ASDA and the trustees of the ASDA Group Pension Scheme and the ASDA Pension Plan respectively. It is chaired by members of the Board and meets with such frequency as the trustees and the relevant Directors may consider appropriate and at a minimum twice per year.

Why?

ASDA works closely with the trustees of the AGPS to ensure that, as sponsoring employer, ASDA provides sufficient funding to enable the Scheme to meet its liabilities to members as they fall due.

How we engage and key outcomes

Annual communications to members of the AGPS are circulated by the ASDA Pensions team which communicate the financial position of the Scheme and the current value of individuals' pension entitlement.

Community and Charitable Causes

Members of the Board chair the "Giving Committee" meetings which are attended by senior leaders from relevant areas of the business. The "Giving Committee" operates under clearly documented terms of reference defining its scope of authority and regularly meets and reports back to the wider Board (at least monthly) to ensure that the Directors are engaged in the decisions taken and aware of key outputs and actions. This is separate and distinct from the ASDA Foundation which is the responsibility of and under the governance of the trustees of the ASDA Foundation.

Why?

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

How we engage and key outcomes

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

Environment

The Board is aware of the need for environmental responsibility and the impact that ASDA can have on the environment. The Directors have promoted the continued acceleration of innovation and focus on sustainability.

Why?

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

How we engage and key outcomes

We have continued to reduce our carbon footprint through initiatives on energy use and fuel consumption and are accelerating our commitment to reduce use of single-use plastics in our supply chain.

Strategic Report for the Year Ended 31 December 2019 (continued)

Key Principal Decisions

Streamlined Retail Contracts
During the year, the Board has taken the decision to introduce a standardised contract across our hourly paid store colleagues. Previously, there were several contracts across the retail employee base, which resulted in differences in terms for different groups of colleagues. To promote fairness and equality across these employees a new contract was introduced.

This contract gives us the flexibility we need to ensure we can respond to our customers' changing demands. The implementation of this contract represents an investment of over £80m and provides a real-terms increase in pay for over 100,000 colleagues. Further, it ensures consistency for all our colleagues. These changes bring ASDA into line with industry standards.

We have participated in a collective consultation process and used the individual meetings with every colleague to acknowledge and consider our colleagues' concerns. Proposals were modified by the Board as a result of collective bargaining with USDAW and representations made by colleague representatives and the GMB during the course of this consultation. We have carried out training for all our management teams to help them manage changes thoughtfully and be understanding of colleagues' commitments outside of work.

We believe the contract will enable ASDA to meet customers' changing demands and enhance the in-store shopping experience of our customers, by ensuring we have our colleagues where our customers need them to be.

Pension Buy-In
Following discussions between ASDA's Directors and nominated representatives, Walmart and the Trustees of the ASDA Group Pension Scheme ("AGPS" or "the scheme"), a Joint Governance Forum ("JGF") including representatives from each party was formed during the year to formally discuss the potential for a buy-in of the Scheme. The JGF ensured that the interests of each stakeholder were represented in decision making and on 18 October 2019, with the approval of the JGF, the trustees of the AGPS entered into an agreement for a bulk annuity insurance 'buy-in' of the AGPS with Rothesay Life PLC. This agreement secures the benefits of members - providing certainty and security for all of the Scheme's approximately 12,300 members (4,800 pensioners and 7,500 deferred pensioners).

The transaction will de-risk and simplify the ASDA Balance Sheet at a cost which is below the expected future cost of funding internally. The Parties have made the decision to take this step now having agreed jointly that market conditions are favourable and because pension liabilities can be more effectively managed by a large insurer, such as Rothesay Life PLC, given their scale and expertise in this area.

While this has impacted the cashflows within the year, it was considered more beneficial to reduce the level of risk with regards to the AGPS, than using the cashflows for other beneficial purposes. This is an excellent outcome for our Scheme members, ASDA and Walmart.

Strategic Report for the Year Ended 31 December 2019 (continued)

Plastic Initiatives
All stakeholders are aligned in their commitment to reducing the use of plastics in products and the adverse impact this can have on the environment. During the year, the Directors have accelerated our plan to reduce plastic usage across our own brand products and continue to work on plastic innovation.

We have brought forward our target to reach 30% recycled content in our plastic packaging to the end of 2020, five years ahead of our original deadline, helping us avoid the usage of 19,500 tonnes of 'virgin' plastic. This has involved a key effort from ourselves and our suppliers to improve recycling rates and cut the overall level of plastic used in our products.

We have also introduced a new target to reduce the total amount of plastic used in our own-brand packaging by 15% by February 2021. Additionally, we will also trial a number of new refillable and reusable packaging solutions during 2020 as part of our 'test and learn' approach to innovation.

Since February 2018, ASDA has been reviewing plastic use across our entire business, removing more than 8,000 tonnes of plastic packaging from our own brand range - equivalent to the weight of 600 million plastic bottles. Furthermore, our target is that all own-brand packaging will be made 100% recyclable by 2025. Relevant suppliers have also been engaged through the above mentioned channels in relation to our ambitions in this regard and their feedback has been factored into the determination of targets. Through engaging and working with our suppliers we can achieve these mutually beneficial targets, which will benefit ASDA, our suppliers and our customers.

The new targets follow our decision, within the year, to stop providing single-use plastic carrier bags with our online grocery orders, which has helped reduce the consumption of single-use plastic bags by 85 million bags each year, saving over 500 tonnes of plastic. The decision makes ASDA the first supermarket to eliminate single-use carrier bags from our operations, having stopped offering single-use bags in our stores in 2018. In total ASDA customers will now consume 375 million fewer single-use plastic bags each year.

Through listening to our customers, we know that elimination of avoidable plastic, and crucially single-use plastic, is at the top of our customers' minds and we understand that ASDA and our suppliers have a significant role to play in achieving this.

Future strategic intention

ASDA's mission is to be the most trusted retailer and our purpose is to help our customers save money and live better.

The mission and purpose have been developed in line with those of our ultimate parent, Walmart Inc., and are at the heart of our strategy which is summarised as follows:

- *Win on price:* Low prices are the main reason that customers come to ASDA and this will be enabled by our Low Cost Operating Model and delivered through flexible and engaged colleagues.
- *Providing a consistent and trusted customer experience:* We aim to provide customers with a shopping experience which is easy and hassle-free. This is supported by new and innovative technology.
- *Providing growth where customers care:* We will enhance our customer proposition to create new reasons for customers to shop with ASDA and broaden our appeal.

Strategic Report for the Year Ended 31 December 2019 (continued)

Principal risks and uncertainties
Risk is an inevitable part of business. On an ongoing basis, ASDA identifies principal long, medium and short-term 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**

  COVID-19
  The Directors are working with the government and closely monitoring the developing guidance around COVID-19 or "Coronavirus" to support customers, colleagues, communities and suppliers.

  At the date of approval of the Accounts, the Directors recognise that the UK is experiencing high levels of economic and social uncertainty surrounding the outbreak and spread of COVID-19. As such, in assessing the Group's ability to adopt the going concern basis in preparation of the Financial Statements, the Directors have considered the financial impact that COVID-19 may have on the Group's operating cashflows in the foreseeable future based on data available at the date of approval. Specifically as part of this assessment, the Directors have tested the ability of the Group to meet its liabilities as they fall due in the 12 months following the date of approval in the event of various cashflow scenarios, including a severe downside reduction in revenue - based on independent estimates of the range of forecast impacts on UK GDP - versus expected revenue for the 12 months following the date of approval. Based on the range of cashflow forecasts modelled, and considering the Group's financial position at the date of approval of the Accounts along with the Group's access to borrowing facilities via the ultimate parent company or an alternative lender as required, the Directors have adopted the going concern basis in preparation of the Financial Statements.

  Factors specifically considered which support this conclusion include a balanced assessment of the principal financial impacts which the Directors expect to impact the Group in the 12 month period following the date of approval of the Accounts:
  • Expected net increase in demand for groceries purchased through retail outlets during the period of national disruption given restrictions in place on customers' ability to purchase food from non-retail outlets such as restaurants;
  • The Group's ability to fulfil demand for groceries through a variety of fulfilment channels, including a significant online presence through ASDA.com;
  • Impacts on product availability of significant short-term increases in customer demand for certain everyday essential products;
  • Incremental costs related to a significant expected increase in colleague absence;
  • Expected cost savings in the 12 month period following the date of approval of the accounts due primarily to UK government support announced prior to the date of approval of the accounts to provide financial support to retailers; and,
  • The ability of the Group to access significant short-term borrowing facilities via the ultimate parent company or an alternative lender as required in the event of short-term liquidity issues.

  The Directors consider that the principal risks and uncertainties associated with COVID-19 that could lead to a significant financial impact on the Group are product availability, colleague absence and restrictions on customers' ability to physically access stores. At the date of approval, the Directors have plans in place to protect product availability, to provide cover for the anticipated increase in levels of colleague absence and to maximise access to ASDA for customers who are considered most vulnerable to the impacts of COVID-19.

Strategic Report for the Year Ended 31 December 2019 (continued)

Principal risks and uncertainties (continued)

- **Economic risk (continued)**

  UK departure from European Union
  The Group has considered the 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 EU and 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.

- **Competitive risk**
  In the highly competitive retail industry, success depends on satisfying changing customer needs more effectively than the competition. Failure to meet consumer demands is a competitive disadvantage and ASDA may therefore be exposed to a loss of market share.

  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. There are strategic programmes in place with an allocated programme team tasked with delivering the objectives set out.

- **Supplier risk**
  The financial profile of our suppliers is monitored to identify risk to 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. There is a risk that we lose key individuals and talent. For further detail on how we drive colleague engagement please see the section 172 statement above.

Strategic Report for the Year Ended 31 December 2019 (continued)

Principal risks and uncertainties (continued)

- **Financial risk**
  ASDA's principal financial risk is having funds available at the right time to meet business needs. This risk is managed by the Treasury function, which forecasts cash flows and ensures that adequate short-term funds and borrowing facilities are in place to meet liabilities to suppliers, colleagues and our shareholder.

  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.

  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 contracts accordingly for certain product categories. Other currency requirements are purchased on the spot market. It is ASDA's policy not to buy or hold foreign currency speculatively. Currency forward contracts are hedge accounted for at fair value.

- **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.

  ASDA is also required to comply with legislation such as GSCOP and the Competition Act. Failure to do so may result in an investigation by the GCA and could lead to significant fines and reputational damage. We have an established Ethics & Compliance Programme in place designed to comply with relevant legal requirements across 14 key subject areas, including those noted above.

- **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 and an established Ethics & Compliance Programme as discussed above.

Strategic Report for the Year Ended 31 December 2019 (continued)

Principal risks and uncertainties (continued)

- **Sourcing and supply chain risk**
  There is a risk that products are not sourced 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 to required standards as well as established policies on sourcing.

  As a result of business critical sole GNFR supplier failure there is a risk that ASDA is unable to meet customer demand which could lead to loss of income, operational disruption, customer dissatisfaction and loss of market share. There are key procurement policies and processes in place including key supplier performance management, vendor set up and contract management.

- **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.

- **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.

- **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. For further detail on how we address our environmental risks please see the Section 172 Statement and Key Principal Decisions above.

- **Union relationship risk**
  Strategic management of the various union relationships across all formats is critical to business continuity. These relationships are managed through regular leadership meetings between ASDA and the trade unions, alongside continued local relationship building and communication. Further detail is provided in the Section 172 Statement.

Approved by the Board on 25 March 2020 and signed on its behalf by:

R McWilliam
Director

Directors' Report for the Year Ended 31 December 2019

The Directors present their Report and the Consolidated Financial Statements for the year ended 31 December 2019.

Directors

The Directors, who held office during the year, were as follows:
R Burnley
A Hemmerdinger
N Jones (resigned 30 June 2019)
D Lawlor (appointed 22 May 2019)
R McWilliam
A Murray
A Simpson (resigned 27 August 2019)
H Tatum

The following Directors were appointed after the year-end:
A Shaw (appointed 20 January 2020)
M Simpson (appointed 20 January 2020)

Future developments

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

Directors' Report for the Year Ended 31 December 2019 (continued)

Going concern

At the date of approval of the Accounts, the Directors recognise that the UK is experiencing high levels of economic and social uncertainty surrounding the outbreak and spread of COVID-19. As such, in assessing the Group's ability to adopt the going concern basis in preparation of the Financial Statements, the Directors have considered the financial impact that COVID-19 may have on the Group's operating cashflows in the foreseeable future based on data available at the date of approval. Specifically as part of this assessment, the Directors have tested the ability of the Group to meet its liabilities as they fall due in the 12 months following the date of approval in the event of various cashflow scenarios, including a severe downside reduction in revenue - based on independent estimates of the range of forecast impacts on UK GDP - versus expected revenue for the 12 months following the date of approval. Based on the range of cashflow forecasts modelled, and considering the Group's financial position at the date of approval of the Accounts along with the Group's access to borrowing facilities via the ultimate parent company or an alternative lender as required, the Directors have adopted the going concern basis in preparation of the Financial Statements.

Factors specifically considered which support this conclusion include a balanced assessment of the principal financial impacts which the Directors expect to impact the Group in the 12 month period following the date of approval of the Accounts:
• Expected net increase in demand for groceries purchased through retail outlets during the period of national disruption given restrictions in place on customers' ability to purchase food from non-retail outlets such as restaurants;
• The Group's ability to fulfil demand for groceries through a variety of fulfilment channels, including a significant online presence through ASDA.com;
• Impacts on product availability of significant short-term increases in customer demand for certain everyday essential products;
• Incremental costs related to a significant expected increase in colleague absence;
• Expected cost savings in the 12 month period following the date of approval of the accounts due primarily to UK government support announced prior to the date of approval of the accounts to provide financial support to retailers; and,
• The ability of the Group to access significant short-term borrowing facilities via the ultimate parent company or an alternative lender as required in the event of short-term liquidity issues.

Dividends

No dividends were paid during the year (2018: £nil).

Financial instruments

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

Political donations

ASDA did not make any political donations during the year (2018: £nil).

Directors' Report for the Year Ended 31 December 2019 (continued)

Charitable donations

During the year, cash donations to charitable organisations made by the Group, including monies raised through in-store collections and product sales, totalled £17.6m (2018: £15.0m). The increase was driven by the campaign with The Trussell Trust and Fareshare to support foodbanks across the UK, to which £9.4m was donated in the year (2018: £7.0m). The Group also contributed £3.8m to The ASDA Foundation, an affiliate charity of the Group (2018: £4.2m), £1.9m to Breast Cancer Now (2018: £1.2m) and £2.5m to Children in Need (2018: £2.5m)

During the year, cash donations to charitable organisations and other community projects made by the Group's affiliate charity, The ASDA Foundation totalled £4.8m (2018: £6.1m). The Group itself contributed a further £4.1m (2018: £nil) to these causes. For further detail on our relationships with our affiliate charities please see the Strategic Report.

Colleagues with a disability or impairment

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

Colleague involvement

The business met regularly with our elected bodies and trade unions to discuss business performance, proposed changes and future initiatives. Further detail is provided in the Section 172 Statement.

Our Appraisal and Talent Management Process provides colleagues with support and feedback in order to benefit their development and enables our leaders to drive a high-performance culture. Our Academy training offer and access to high-quality third-party training programmes provides opportunities for colleagues to develop both business-specific and leadership skills. This is supported through a relevant and engaging curriculum managed through the Learning Management System and apprentice programmes in place across ASDA.

We continue to review our apprentice programme offer to support the skill needs of the business, offering 37 apprenticeships. The wide range of apprenticeships we offer enabled over 1,500 colleagues to earn while they learned in 2019.

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

Engagement with UK employees, and regard for suppliers, customers and others

The statements required by Part 4, paragraphs 11(1)(b) and 11B(1) (Engagement with UK employees, and regard for suppliers, customers and others) of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 are also included within the Strategic Report.

Events since the Balance Sheet date

On 5 March 2020, the Group and Company proposed and paid a cash dividend of £1,150.0m to ASDA Holdings UK Limited, the immediate parent undertaking.

Directors' Report for the Year Ended 31 December 2019 (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 25 March 2020 and signed on its behalf by:

R McWilliam
Director

Statement of Directors' Responsibilities - Group

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 2019 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 2019 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 20, 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

25 March 2020

Consolidated Income Statement for the Year Ended 31 December 2019

	Note	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Revenue	2	22,899.2	22,916.5
Operating costs	3	(22,315.0)	(22,113.3)
Operating profit		584.2	803.2
Finance income	7	54.8	37.9
Finance costs	7	(82.4)	(36.2)
Profit on ordinary activities before tax		556.6	804.9
Income tax expense	8	(69.6)	(94.5)
Profit for the year		487.0	710.4

The above results were derived from continuing operations.

IFRS 16 was adopted on 1 January 2019. The modified retrospective approach was taken, hence prior year comparatives have not been restated. The primary statements are therefore shown on an IFRS 16 basis for 2019 and an IAS 17 basis for 2018.

Adoption of IFRS 16 in the 12 months to 31 December 2019 resulted in a decrease to operating costs of £31.4m and an increase to finance costs of £52.7m compared with lease-related expenses charged in the prior year under IAS 17.

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2019

	Note	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Profit for the year		487.0	710.4
Items that will not be reclassified subsequently to profit or loss			
Total remeasurements on defined benefit obligation	17	(549.5)	197.6
Increase/(decrease) in value of plan assets excluding interest income	17	578.9	(109.9)
Impact of buy-in loss	17	(1,175.8)	-
Changes in onerous liability excluding interest expense	17	1,051.9	(53.3)
Tax credit/(charge) on items recognised directly in other comprehensive income	8	22.2	(4.9)
		(72.3)	29.5
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges:			
Reclassification during the year to Income Statement		(38.0)	24.2
Net (loss)/gain during the year of the not-yet-matured contracts		(12.9)	38.3
Tax on cash flow hedges recognised directly in other comprehensive income	8	9.5	(11.9)
		(41.4)	50.6
Other comprehensive (expense)/income for the year		(113.7)	80.1
Total comprehensive income for the year		373.3	790.5

Consolidated Balance Sheet as at 31 December 2019

Registration number 1396513	Note	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Assets			
Non-current assets			
Property, plant and equipment	9	8,509.3	8,888.2
Intangible assets	11	636.0	718.6
Operating lease prepayments	10	-	36.9
Deferred tax assets	8	40.6	47.1
Right-of-use assets	10	2,234.7	-
Pension asset	17	314.3	-
		11,734.9	9,690.8
Current assets			
Inventories	12	1,140.9	1,151.6
Trade and other receivables	13	145.3	267.1
Intercompany receivables	13	3,833.6	3,512.0
Cash and cash equivalents	14	1,929.3	2,916.1
Operating lease prepayments	10	-	0.9
Income tax asset		10.2	-
Assets held for sale	9	9.6	-
		7,068.9	7,847.7
Total assets		18,803.8	17,538.5
Equity and liabilities			
Equity			
Share capital	19	-	-
Share premium	19	-	-
Other reserves	20	441.1	441.1
Cash flow hedge reserve	20	(11.8)	29.6
Retained earnings	20	9,454.8	9,042.7
Equity attributable to owners of the Company		9,884.1	9,513.4
Non-current liabilities			
Lease liabilities	16	2,077.0	230.4
Employee benefits	17	59.5	819.8
Provisions	18	151.2	157.3
		2,287.7	1,207.5
Current liabilities			
Trade and other payables	15	3,311.0	3,679.0
Intercompany payables	15	3,099.3	2,963.6
Income tax liability		-	56.5
Lease liabilities	16	116.7	15.7
Employee benefits	17	77.2	71.5
Provisions	18	27.8	31.3
		6,632.0	6,817.6
Total liabilities		8,919.7	8,025.1
Total equity and liabilities		18,803.8	17,538.5

Approved by the Board on 25 March 2020 and signed on its behalf by:

R G McWilliam

R McWilliam
Director

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2019

	Note	Share capital £ m	Share premium £ m	Cash flow hedging reserve £ m	Other reserves £ m	Retained earnings £ m	Total equity £ m
At 1 January 2018		-	-	(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 remeasurement 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 net actuarial gains recognised directly in other comprehensive income	8	-	-	-	-	(4.9)	(4.9)
Total comprehensive income		-	-	50.6	-	739.9	790.5
At 1 January 2019		-	-	29.6	441.1	9,042.7	9,513.4
Change in accounting policy - IFRS 16 Leases	1	-	-	-	-	(2.6)	(2.6)
Profit for the year	20	-	-	-	-	487.0	487.0
Cash flow hedges - reclassified during year to Income Statement	20	-	-	(38.0)	-	-	(38.0)
Cash flow hedges - net loss during year on not-yet-matured contracts	20	-	-	(12.9)	-	-	(12.9)
Tax on cash flow hedges recognised directly in other comprehensive income	8	-	-	9.5	-	-	9.5
Total remeasurements on defined benefit obligation	17	-	-	-	-	(549.5)	(549.5)
Increase in value of plan assets excluding interest income	17	-	-	-	-	578.9	578.9
Changes in asset ceiling/onerous liability (excluding interest expense)	17	-	-	-	-	1,051.9	1,051.9
Change in value of plan assets due to buy-in	17	-	-	-	-	(1,175.8)	(1,175.8)
Tax on net actuarial losses recognised directly in other comprehensive income	8	-	-	-	-	22.2	22.2
Total comprehensive income		-	-	(41.4)	-	414.7	373.3
At 31 December 2019		-	-	(11.8)	441.1	9,454.8	9,884.1

Consolidated Statement of Cash Flows for the Year Ended 31 December 2019

	Note	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Cash flows from operating activities			
Profit for the year		487.0	710.4
Adjustments to cash flows from non-cash items			
Depreciation of property, plant and equipment	9	401.2	410.0
Depreciation of right-of-use assets	10	155.7	-
Amortisation of intangible assets	11	42.4	38.1
Impairment of property, plant and equipment	3	60.1	1.7
Impairment of right-of-use assets	10	2.9	-
Financial income	7	(54.8)	(37.9)
Financial costs	7	82.4	36.2
Loss on sale of property, plant and equipment	3	7.6	0.4
Loss on disposal of right-of-use assets	10	8.3	-
Tax on continuing operations	8	69.6	94.5
Pension contributions (buy-in)	17	(827.1)	-
Pension contributions (pre buy-in)	17	(59.6)	(70.0)
Other non-cash Income Statement items		-	(0.3)
		375.7	1,183.1
Working capital adjustments			
Decrease/(increase) in trade and other receivables	13	84.0	(2.4)
Decrease/(increase) in inventories	12	10.7	(4.5)
(Decrease)/increase in trade and other payables	15	(385.0)	242.2
Decrease in provisions		(9.6)	(10.6)
Increase in share-based payment liability	17	16.1	4.0
Tax paid		(130.6)	(120.7)
Net cash flow from operating activities		(38.7)	1,291.1
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		9.8	13.3
Purchase of property, plant and equipment		(309.5)	(332.4)
Purchase of intangible assets	11	(61.1)	(44.5)
Buy-in loan advanced from Group to defined benefit pension scheme	17	(347.7)	-
Buy-in loan repayment	17	39.5	-
Interest received	7	54.8	37.9
Net cash flows from investing activities		(614.2)	(325.7)
Cash flows from financing activities			
Interest paid	7	-	(0.5)
Increase in intercompany receivables		(287.1)	(361.3)
Increase in intercompany payables	15	135.7	152.6
Interest payment relating to leases		(49.0)	(11.8)
Principal capital payments relating to leases		(133.5)	-
Net cash flows from financing activities		(333.9)	(221.0)
Net (decrease)/increase in cash and cash equivalents		(986.8)	744.4
Cash and cash equivalents at 1 January		2,916.1	2,171.7
Cash and cash equivalents at 31 December	14	1,929.3	2,916.1

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019

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
South Bank
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 25 March 2020.

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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

Going concern

At the date of approval of the Accounts, the Directors recognise that the UK is experiencing high levels of economic and social uncertainty surrounding the outbreak and spread of COVID-19. As such, in assessing the Group's ability to adopt the going concern basis in preparation of the Financial Statements, the Directors have considered the financial impact that COVID-19 may have on the Group's operating cashflows in the foreseeable future based on data available at the date of approval. Specifically as part of this assessment, the Directors have tested the ability of the Group to meet its liabilities as they fall due in the 12 months following the date of approval in the event of various cashflow scenarios, including a severe downside reduction in revenue - based on independent estimates of the range of forecast impacts on UK GDP - versus expected revenue for the 12 months following the date of approval. Based on the range of cashflow forecasts modelled, and considering the Group's financial position at the date of approval of the Accounts along with the Group's access to borrowing facilities via the ultimate parent company or an alternative lender as required, the Directors have adopted the going concern basis in preparation of the Financial Statements.

Factors specifically considered which support this conclusion include a balanced assessment of the principal financial impacts which the Directors expect to impact the Group in the 12 month period following the date of approval of the Accounts:

• Expected net increase in demand for groceries purchased through retail outlets during the period of national disruption given restrictions in place on customers' ability to purchase food from non-retail outlets such as restaurants;

• The Group's ability to fulfil demand for groceries through a variety of fulfilment channels, including a significant online presence through ASDA.com;

• Impacts on product availability of significant short-term increases in customer demand for certain everyday essential products;

• Incremental costs related to a significant expected increase in colleague absence;

• Expected cost savings in the 12 month period following the date of approval of the accounts due primarily to UK government support announced prior to the date of approval of the accounts to provide financial support to retailers; and,

• The ability of the Group to access significant short-term borrowing facilities via the ultimate parent company or an alternative lender as required in the event of short-term liquidity issues.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (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 2019.

IFRS 16 - Leases
In the current year, the Group has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019. This replaces IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease'.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The date of initial application of IFRS 16 for the Group is 1 January 2019.

Impact on lessee accounting
IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were recorded off-Balance Sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:
a) recognises right-of-use assets and lease liabilities in the Consolidated Balance Sheet, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Balance Sheet immediately before the date of transition.
b) recognises depreciation of right-of-use assets and interest on lease liabilities in the Consolidated Income Statement.

Lease incentives (e.g. rent free periods) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive accrual, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For leases that were classified as finance leases before the transition date, the carrying amount of these leases has been reclassified to right-of-use assets and lease liabilities respectively.

Impact on lessor accounting
IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. Where the Group is an intermediate lessor, the classification under IFRS 16 is required to be made with reference to the right-of-use asset that arises under the headlease. On transition to IFRS 16, there has been no change to how leases where the Group is a head or intermediate lessor are accounted for.

Practical expedients and policy choices
The Group has applied IFRS 16 using the modified retrospective approach which:

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

- requires the Group to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application; and,
- does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

IFRS 16 allows for certain transition and accounting policy options for companies taking the modified retrospective approach. The Group has applied the following practical expedients at transition date, but no others:
- To rely on the previous identification of a lease (as provided by IAS 17 or IFRIC 4) for all contracts that existed on the transition date; and,
- To exclude initial direct costs other than those arising from lease buy-outs (see note 11) from the measurement of the right-of-use asset on the transition date.

With respect to all leases previously classified as operating under IAS 17, the Group has elected to measure right-of-use assets recognised on the transition date at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Balance Sheet immediately before the transition date.

The Group has taken the following ongoing policy choices from the adoption date:
- To account for any lease with a term of less than 12 months as a short term lease, recognising cost in the Income Statement on a straight line basis over the lease term and not recognising a right-of-use asset and lease liability at the contract date;
- To apply the IFRS 16 low value asset exemption threshold based on the value of the asset when new, on an individual asset basis if deemed appropriate;
- To apply a materiality threshold to all leases on and post transition. Costs relating to leases with total undiscounted cash flows over the life of the lease below a documented threshold will be expensed as incurred and no right-of-use asset or lease liability will be recognised at the contract date;
- To elect to combine lease and non-lease components prospectively after the transition date. This applies to all leases with the exception of IT and printer leases.

Financial impact of adoption
In the year of adoption, the overall impact to the Income Statement was a decrease in profit before tax of £21.3m, split as a decrease to operating costs of £31.4m and an increase to finance costs of £52.7m.

The table on the following page illustrates the impacts to the Balance Sheet at the transition date.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

	Note	Year ended 31 December 2018 Under IAS 17 £ m	IFRS 16 impact £ m	Balance as at 1st January 2019 Under IFRS 16 £m
Assets				
Non-current assets				
Property, plant and equipment	1	8,888.2	(214.9)	8,673.3
Intangible assets	2	718.6	(101.3)	617.3
Right-of-use assets		-	2,263.9	2,263.9
Operating lease prepayments	3	36.9	(36.9)	-
Deferred tax assets		47.1	0.8	47.9
		9,690.8	1,911.6	11,602.4
Current assets				
Inventories		1,151.6	-	1,151.6
Trade and other receivables	4	267.1	(2.8)	264.3
Intercompany receivables		3,512.0	-	3,512.0
Cash and cash equivalents		2,916.1	-	2,916.1
Operating lease prepayments	3	0.9	(0.9)	-
		7,847.7	(3.7)	7,844.0
Total assets		17,538.5	1,907.9	19,446.4
Equity and liabilities				
Equity				
Other reserves		441.1	-	441.1
Cash flow hedge reserve		29.6	-	29.6
Retained earnings	5	9,042.7	(2.6)	9,040.1
Equity attributable to owners of the company		9,513.4	(2.6)	9,510.8
Non-current liabilities				
Lease liabilities		230.4	1,837.0	2,067.4
Employee benefits		819.8	-	819.8
Provisions		157.3	-	157.3
		1,207.5	1,837.0	3,044.5
Current liabilities				
Trade and other payables	6	3,679.0	(64.9)	3,614.1
Intercompany payables		2,963.6	-	2,963.6
Income tax liability		56.5	-	56.5
Lease liabilities		15.7	142.4	158.1
Employee benefits		71.5	-	71.5
Provisions	7	31.3	(4.0)	27.3
		6,817.6	73.5	6,891.1
Total liabilities		8,025.1	1,910.5	9,935.6
Total equity and liabilities		17,538.5	1,907.9	19,446.4

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

Notes

1) Finance lease assets previously presented within Property, Plant and Equipment. These have been moved to be presented within lease right-of-use assets.
2) Lease buy outs were previously classified as intangible assets. These balances are now included in the lease right-of-use asset.
3) Operating lease prepayments relate to lease premiums prepaid and amortised over the remaining term of the lease. These balances are now included in the lease right-of-use asset.
4) Amount relating to a landlord debt owed as part of one of the leases where the Group is a lessee. This balance is now included in the lease liability.
5) Retained earnings impact on transition relates primarily to impairment on transition of two leases.
6) Amounts relating to accruals for straight-line rentals. These balances are now included in the lease liability.
7) Amounts previously provided for onerous leases. On transition these leases have been deemed impaired and these balances therefore included in the related lease right-of-use asset.

The following reconciliation presents the differences between liabilities carried forward at 31 December 2018 under IAS 17 and liabilities brought forward at 1 January 2019 under IFRS 16:

		£'m
Future undiscounted operating lease commitments under IAS 17 as at 31 December 2018		2,453.5
Impact of discounting	1	(1,156.3)
Lease Term	2	676.3
Other		0.8
		1,974.3
Finance lease liability under IAS 17 at 31 December 2018		250.5
Finance lease liability differences on IFRS16 inception		0.7
Total lease liability under IFRS16 at 1 January 2019		2,225.5

Notes

1) Discount rate on transition. Liabilities on transition were discounted using a weighted average incremental borrowing rate ("IBR") of 3.26%. IBR has been determined on a lease-by-lease basis based on a Group specific borrowing rate with reference to the remaining lease term. IBRs applied range between 0.8% to 15.5%.
2) Lease term. Under IAS 17, future operating lease commitments were disclosed to the contractual end date only. Under IFRS 16, additional consideration has been given to contractual lease extension options and extension rights when assessing lease term. Future cash flows are therefore higher under IFRS 16 where extensions have been included in addition to the contractual term.

New standards, interpretations and amendments not yet effective

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

Judgements, estimates and assumptions

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

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

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 below. 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 within trade receivables (note 13) at the year-end for which estimation and judgement is required is £2.0m (2018: £0.6m). This represents the net amount of accrued income (£2.0m) (2018: £0.6m) and deferred income (£nil) (2018: £nil) on deals running across the year-end.

IFRS 16 lease term

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

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

In the event of changing circumstances or new information that may impact judgements taken, lease terms will be re-assessed on a lease by lease basis. A quarterly review is performed to identify where re-assessments may be required. Any change in lease term could result in a recalculation of the lease liability and a material adjustment to the associated right-of-use asset. There are no examples of term reassessment in 2019.

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 currently treated as trade payables.

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.

Pension Buy-in

Judgement has been applied in accounting for the buy-in of the defined benefit ASDA Group Pension Scheme ("the Scheme") during the year. As the Group retains an obligation to fund pension liabilities of the Scheme in the event of insurer default, the buy-in does not meet the criteria of a settlement event as set out in IAS 19 - Employee Benefits. As such, the actuarial loss associated with the buy-in has been recognised in other comprehensive income. Further detail is provided in note 17.

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 2019 (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 2019 (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 recognised in the Income Statement, except when hedge accounting is applied and differences are recognised in the Statement of 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.

*As described in note 11, on 1 January 2019 following adoption of IFRS 16 - Leases, lease buy-out assets are now classified as right-of-use assets and are amortised over the lease term.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

Property, plant and equipment
Property, plant and equipment is 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 that 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. Following the adoption of IFRS 16 'Leases' at 1 January 2019, these amounts are classified as right-of-use assets (see note 10 for details).

All property, plant and equipment is 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 2019 (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.

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

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

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

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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

Leases

The Group as a lessee

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

Lease liability

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

Discount rate

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

Otherwise, for the majority of leases the rate used is based on an estimated incremental borrowing rate. Rates are determined with reference to UK rates available to the Group adjusted for lease term. Rates are updated on a quarterly basis.

Right-of-use Assets

Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day (including lease buy out payments made to previous tenants) less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the lease term. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation is charged from the commencement date of the lease. Right-of-use assets are presented as a separate line in the Consolidated Balance Sheet.

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

Non-lease components and variable rent expense

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

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

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

The Group as a lessor

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

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

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

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

Financial instruments

Financial assets and liabilities are recognised when the 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 receivables and trade, other and intercompany payables. The Group's accounting policies relating to lease liabilities are described above.

Management determines the classification of its financial instruments at initial recognition.

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

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

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

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

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.

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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

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 or receivable 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.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and short-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 Consolidated 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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

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

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

In the prior year, the Group was subject to minimum funding requirements in the UK and did not have an unconditional right to a refund of a surplus. This resulted in an obligation which was recognised as an additional liability and a reduction to other comprehensive income. As described in note 17, a buy-in of the ASDA Group Pension Scheme ("the Scheme") was executed during the year. Other than estimated contributions in respect of the buy-in loan described below, the probability of the Group having to make further contributions to the Scheme in the future in respect of pension liabilities is deemed to be remote. As such, the liability relating to the minimum funding obligation has been released in full with a corresponding gain being recognised in 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.

Revenue recognition
Revenue represents sales to customers through retail outlets and online, excluding value added tax. Revenue is recognised net of intercompany 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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

Supplier income

Supplier incentives, rebates, fixed income and discounts (collectively known as "supplier income") are recognised, as a deduction from cost of 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; and,
- Fixed amount supplier income - this is earned and billed within the Group's financial year in the majority of cases. Fixed monetary amounts are agreed with suppliers relating to certain promotional activities including, for example, new product listings, increased product distribution or specific promotional events.

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

Share-based payments

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

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

1 Accounting policies (continued)

Policies applicable prior to 1 January 2019

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.

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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

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 2019 £ m	Year ended 31 December 2018 £ m
Sale of goods	19,611.0	19,749.7
Fuel	3,288.2	3,166.8
	22,899.2	22,916.5

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

3 Operating costs

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

	Note	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Cost of inventories recognised as an expense		(16,801.8)	(16,805.9)
Cost of inventories written off in the year		(476.1)	(448.9)
Employment costs	5	(2,683.4)	(2,598.5)
Amortisation of intangible assets	11	(42.4)	(38.1)
Depreciation on property, plant and equipment	9	(401.2)	(403.8)
Depreciation on right-of-use assets	10	(155.7)	-
Depreciation on assets held under finance lease		-	(6.2)
Operating lease expense - plant and equipment		-	(56.2)
Operating lease expense - property		-	(132.1)
Rental income		13.0	13.5
Other income		38.0	36.0
Loss on sale of property, plant and equipment		(7.6)	(0.4)
Impairment of property, plant and equipment	9	(60.1)	(1.7)
Impairment of right-of-use assets	10	(2.9)	-
Foreign exchange gains/(losses)		1.3	(3.6)
Loss on disposal of right-of-use assets		(8.3)	-

4 Auditors' remuneration

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Within operating costs:		
Fees payable to Company's auditor for the audit of parent company and consolidated financial statements	0.9	0.4
Fees payable to Company's auditor for other professional services	-	0.2

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (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 2019 No.	Year ended 31 December 2018 No.
Total		
Retail & Distribution	142,093	145,796
Home offices	4,252	4,380
	146,345	150,176
Full time equivalents		
Retail & Distribution	90,091	93,215
Home offices	4,104	4,226
	94,195	97,441

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

	Note	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Wages and salaries	17	2,314.6	2,343.8
Share-based payment expenses	17	129.3	44.6
Social security costs	17	142.2	140.5
Other pension costs	17	97.3	69.6
		2,683.4	2,598.5

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 2019 (continued)

6 Directors' remuneration

The Directors' remuneration for the year was as follows:

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Directors' remuneration	6.7	9.1
Share-based payments	3.0	2.8
Post-employment benefits	-	-

During the year, there was no emoluments cost incurred by the Group in respect of compensation for loss of office (2018: £0.6m). This was not included in the Directors' remuneration disclosed above.

	Year ended 31 December 2019 No.	Year ended 31 December 2018 No.
Number of Directors who were active members of the defined benefit scheme during the year	-	-
Number of Directors who served during the year who exercised share options	7	7
Number of Directors who served during the year and were entitled to receive shares under long-term incentive schemes	7	9

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

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Total remuneration excluding pensions	1.7	2.6
Total share-based payments	0.6	0.3
Total accrued pension at the year-end	-	-

One Director was a deferred member of the defined benefit scheme (2018: one).

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

7 Finance income and costs

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Finance income		
Bank interest receivable	16.4	11.1
Net interest receivable on amounts owed from group undertakings	38.4	26.8
Total finance income	54.8	37.9
Finance costs		
External interest payable	-	0.5
Interest on lease liabilities	66.9	14.2
Net interest cost on pension scheme (note 17)	15.5	21.5
Total finance costs	82.4	36.2

8 Income tax

Tax charged/(credited) in the Income Statement

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Current taxation		
UK corporation tax	73.9	111.5
UK corporation tax adjustment to prior periods	1.3	(0.3)
Current tax charge for the year	75.2	111.2
Deferred taxation		
Arising from origination and reversal of temporary differences	(3.2)	(12.1)
Arising from changes in tax rates and laws	(1.5)	0.5
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	(0.9)	(5.1)
Total deferred taxation	(5.6)	(16.7)
Tax expense in the Income Statement	69.6	94.5

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (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% (2018: 19%) applied to the profit on ordinary activities before tax is as follows:

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Profit before tax	556.6	804.9
Corporation tax at standard rate	105.8	152.9
Adjustment in respect of prior periods	0.3	(5.4)
Non-qualifying depreciation	15.0	14.4
Change in tax rate	(1.5)	0.5
Expenses not deductible	9.1	3.8
Group relief not paid for	(61.5)	(70.5)
Non-qualifying impairment	3.8	0.3
Gain on non-qualifying fixed assets	(1.6)	(1.6)
Other	0.2	0.1
Total tax charge	69.6	94.5

The standard rate of corporation tax in the United Kingdom for the year is 19% (2018: 19%). 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. Deferred tax has been provided at the rate at which the Group estimated the temporary differences would reverse, based on rates substantively enacted and enacted at the balance sheet date.

On the 11 March 2020, it was announced in the UK Budget that the reduction in the corporation tax rate to 17% on 1 April 2020 would be reversed, and the standard rate of corporation tax in the United Kingdom will remain at 19%. The impact of providing for deferred tax at a rate of 19% would be an increase in deferred tax assets of the Group totalling £2.4m. This has not been recognised in the year ended 31 December 2019 as the change was not substantively enacted at the balance sheet date.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

8 Income tax (continued)

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

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Current tax credit on pensions	44.6	9.2
Deferred tax charge on pensions	(22.4)	(14.1)
Deferred tax credit/(charge) on cash flow hedges	9.5	(11.9)
Total tax on items credited/(charged) to Consolidated Statement of Comprehensive Income	31.7	(16.8)

Deferred tax

Deferred tax assets and liabilities are attributable to the following:

2019	Asset £ m	Liability £ m	Net deferred tax £ m
Property, plant and equipment	-	(104.3)	(104.3)
Employee benefits	130.3	-	130.3
Provisions	3.3	-	3.3
Other items	2.3	-	2.3
Capital losses	9.0	-	9.0
	144.9	(104.3)	40.6

2018	Asset £ m	Liability £ m	Net deferred tax £ m
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
	160.3	(113.2)	47.1

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (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 £332.8m (2018: £336.0m) available to reduce future capital gains. No deferred tax asset has been recognised in respect of these capital losses due to uncertainty of when they may be utilised.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

8 Income tax (continued)

Deferred tax movement during the year:

Figures in £m	At 31 December 2018	Transition Adjustment	At 1 January 2019	Recognised in income	Recognised in other comprehensive income	At 31 December 2019
Property, plant and equipment	(105.9)	0.8	(105.1)	0.8	-	(104.3)
Employee Benefits	150.8	-	150.8	1.9	(22.4)	130.3
Provision	2.5	-	2.5	0.8	-	3.3
Other items	(7.3)	-	(7.3)	0.1	9.5	2.3
Capital losses	7.0	-	7.0	2.0	-	9.0
Net tax assets	47.1	0.8	47.9	5.6	(12.9)	40.6

Deferred tax movement during the prior year:

Figures in £m	At 1 January 2018	Recognised in income	Recognised in other comprehensive income	At 31 December 2018
Property, plant and equipment	(114.3)	8.4	-	(105.9)
Employee Benefits	164.3	0.6	(14.1)	150.8
Provision	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	56.4	16.7	(26.0)	47.1

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (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
Cost					
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
Reclassification to right-of-use assets - IFRS 16 adoption	-	(254.9)	-	-	(254.9)
At 1 January 2019	8,982.5	1,352.2	2,665.6	183.0	13,183.3
Additions	68.8	7.9	32.0	216.4	325.1
Disposals	(5.6)	-	(237.2)	(5.0)	(247.8)
Transfers	(32.1)	32.1	-	-	-
Transfers from Assets Under Construction	118.2	-	168.9	(287.1)	-
Impairments	(22.5)	4.6	(16.1)	-	(34.0)
Reclassification to assets held for sale	(9.6)	-	-	-	(9.6)
At 31 December 2019	9,099.7	1,396.8	2,613.2	107.3	13,217.0
Accumulated depreciation and impairment					
At 1 January 2018	1,896.1	635.7	1,859.1	-	4,390.9
Charge for 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
Reclassification to right-of-use assets - IFRS 16 adoption	-	(40.0)	-	-	(40.0)
At 1 January 2019	2,064.4	635.5	1,810.1	-	4,510.0
Charge for the year	169.5	35.0	196.7	-	401.2
Eliminated on disposal	(0.4)	-	(229.2)	-	(229.6)
Impairment	0.7	0.3	25.1	-	26.1
Transfers	(0.9)	0.9	-	-	-
At 31 December 2019	2,233.3	671.7	1,802.7	-	4,707.7
Net book value					
At 31 December 2018	6,918.1	931.6	855.5	183.0	8,888.2
At 31 December 2019	**6,866.4**	**725.1**	**810.5**	**107.3**	**8,509.3**

9 Property, plant and equipment (continued)

Finance lease assets with a cost of £254.9m and accumulated depreciation of £40.0m were reclassified to right-of-use assets on 1 January 2019 following transition to IFRS 16 - Leases (see note 10).

Reclassifications
During the year, £9.6m of assets were reclassified to assets held for sale within current assets (2018: £nil). Assets held for sale consist of one non-operational fulfilment centre. Following a management decision to sell, a third party has been contracted to actively market the site in its current condition. Active marketing commenced in December 2019 and the site is currently expected to be sold in 2020. The value reclassified represents advertised sale price less expected costs to sell.

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 £3.6m and accumulated depreciation of £1.0m (see note 11).

Impairment
Both the operational and non-operational estate are regularly reviewed for indicators of impairment. Following reviews in the year, impairment charges of £60.1m (2018: £1.7m) were recognised in operating costs during the year.

Impairment charges primarily relate to three fulfilment centres. Following a strategic review of the estate, which included a detailed assessment by the Directors of the financial performance of individual sites in the property estate, updates were made to forecasts of future site by site profitability and consequently, the value in use of these three sites was determined to be lower than both book value and fair value. Carrying value at 31 December 2019 for the three sites impaired during the year represents fair value less expected costs to sell.

Capitalised interest
The cumulative amount of capitalised interest included in the cost of fixed assets is £273.0m (2018: £273.0m).

Finance leases
Properties held under finance leases in the prior year had the following net book values at 31 December 2018. As described above, these assets were reclassified to right-of-use assets on 1 January 2019 following transition to IFRS 16 - Leases.

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

10 Right-of-use assets

	Land and Buildings £ m	Plant and Equipment £ m	Total £ m
Cost			
Reclassification from property, plant and equipment at 1 January 2019 - IFRS 16	254.9	-	254.9
Reclassification from intangible assets at 1 January 2019 - IFRS 16	151.5	-	151.5
Transition additions	1,816.6	130.2	1,946.8
Additions	88.4	49.3	137.7
Disposals	(9.2)	(9.5)	(18.7)
At 31 December 2019	2,302.2	170.0	2,472.2
Accumulated depreciation and impairment			
Reclassification from property, plant and equipment at 1 January 2019 - IFRS 16	40.0	-	40.0
Reclassification from intangible assets at 1 January 2019	50.2	-	50.2
Transition Additions	(0.9)	-	(0.9)
Charge for the year	105.3	50.4	155.7
Eliminated on disposal	(0.9)	(9.5)	(10.4)
Impairment	2.9	-	2.9
At 31 December 2019	196.6	40.9	237.5
Net book value			
At 31 December 2019	2,105.6	129.1	2,234.7

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

10 Right-of-use assets (continued)

On transition to IFRS 16 - Leases at 1 January 2019, assets with a cost of £254.9m and accumulated depreciation of £40.0m were reclassified from property, plant and equipment (see note 9). Additionally, at this date assets relating to lease buy-outs with a cost of £151.5m and accumulated amortisation of £50.2m were reclassified from intangible assets (see note 11).

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

Leases of land and buildings have various terms, escalation clauses and renewal rights, however they commonly include either a market rent review or index linked rent review with a cap and collar. The timing of when rent reviews take place differs for each lease. They have no purchase options. The average remaining lease term is 34 years. One property right-of-use asset was impaired in the year.

Leases of plant, vehicles and equipment have various terms but typically do not include mid-term rent reviews or extension options. They have no purchase options. The average remaining lease term is 3 years.

Additions in the year primarily relate to renewals or modifications of previously existing leases.

For further details of lease liabilities please see note 21.

Operating lease prepayments
At 31 December 2018, the Group held operating lease prepayments with a carrying value of £37.8m (£36.9m non-current and £0.9m current). On transition to IFRS 16 - Leases, these amounts were reclassified to right-of-use assets at 1 January 2019 and are included in the transition additions set out in the table above.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

11 Intangible assets

	Brand licence £ m	Goodwill £ m	Lease buy-out costs £ m	Software and development costs £ m	Other £ m	Total £ m
Cost						
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
Reclassification to right-of-use assets - IFRS 16	-	-	(151.5)	-	-	(151.5)
At 1 January 2019	31.9	508.0	-	219.3	2.1	761.3
Additions	-	-	-	61.1	-	61.1
Disposals	-	-	-	(0.4)	(2.0)	(2.4)
At 31 December 2019	31.9	508.0	-	280.0	0.1	820.0
Amortisation						
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
Reclassification to right-of-use assets - IFRS 16	-	-	(50.2)	-	-	(50.2)
At 1 January 2019	14.6	-	-	127.3	2.1	144.0
Amortisation charge	-	-	-	42.4	-	42.4
Amortisation eliminated on disposals	-	-	-	(0.4)	(2.0)	(2.4)
At 31 December 2019	14.6	-	-	169.3	0.1	184.0
Net book value						
At 31 December 2018	17.3	508.0	101.3	92.0	-	718.6
At 31 December 2019	**17.3**	**508.0**	**-**	**110.7**	**-**	**636.0**

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

11 Intangible assets (continued)

The George brand licence has a carrying value of £17.3m (2018: £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.

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. On transition to IFRS 16 - Leases, lease buy-out costs with a cost of £151.5m and accumulated amortisation of £50.2m were reclassified to right-of-use assets (see note 10).

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

Impairment testing of goodwill

Netto Acquisition
Goodwill of £482.3m (2018: £482.3m) arose on the acquisition of Netto Foodstores Limited on 13 April 2011. This has been tested for impairment as at 31 December 2019 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 five-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 8.4% and the growth rate used to extrapolate the cash flows beyond the specific forecast period is 0.6%.

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 2019 (continued)

11 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 2019 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 (2018: £17.0m) arose on the acquisition of Turkmen Tedarik Hizmetleri on 26 April 2012. This has been tested for impairment as at 31 December 2019 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 five-year period. The pre-tax discount rate applied to the cashflow projections is 8.4% and the growth rate used to extrapolate the cashflows beyond specific forecast period is 0.0%.

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 2019 (continued)

11 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, management expectation of category sales growth and management forecasts of the geographical split of purchases.

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

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

Impairment testing of indefinite life intangibles

George brand 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 (2018: £17.3m). This has been tested for impairment as at 31 December 2019 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 8.4% and the growth rate used to extrapolate the cash flows beyond specific forecast period is 0.3%.

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.

12 Inventories

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Goods held for resale	1,138.8	1,149.8
Goods not held for resale	2.1	1.8
	1,140.9	1,151.6

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

13 Trade and other receivables

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Trade receivables	84.3	133.5
Allowance for expected credit losses	(4.1)	(3.9)
Other receivables	51.0	56.4
Prepayments and accrued income	11.0	40.1
Derivative assets	3.1	41.0
	145.3	267.1
Intercompany receivables	3,833.6	3,512.0

Trade receivables are non interest-bearing and are generally on 30 day terms. Trade receivable balances have been assessed to determine the value of expected credit losses ("ECLs") using the simplified approach in IFRS 9.

Trade receivables are presented net where a legally enforceable right of set off exists. Included in the above is an offset of £193.6m (note 15) (2018: £108.8m). The gross trade receivable prior to the offset is £277.9m (2018: £242.3m).

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 as per the requirements of IFRS 9 and the impact is £nil.

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 to the Income Statement when there is no reasonable expectation of recovering the contractual cash flows.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

13 Trade and other receivables (continued)

As at 31 December 2019, trade receivables at nominal value of £4.1m (2018: £3.9m) were impaired and fully provided for. Movements in the allowance for expected credit losses in the year were as follows:

	31 December 2019 £ m	31 December 2018 £ m
At 1 January	3.9	3.9
Provision for expected credit losses	3.1	-
Provision utilised during the year	(0.5)	-
Unused amounts reversed during the year	(2.4)	-
At 31 December	4.1	3.9

The Group has not made any provision for intercompany receivables.

14 Cash and cash equivalents

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Cash in hand and bank balances	68.8	280.1
Money market funds and deposits	1,860.5	2,636.0
	1,929.3	2,916.1

15 Trade and other payables

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Trade payables	2,560.0	2,861.9
Other taxes and social security	205.8	207.8
Other payables	192.2	178.4
Accrued expenses	333.9	430.3
Derivative liabilities	19.1	0.6
	3,311.0	3,679.0
Intercompany payables	3,099.3	2,963.6

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

15 Trade and other payables (continued)

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 offset exists. Included in the above is an offset of £193.6m (note 13) (2018: £108.8m). The gross trade payable prior to the offset is £2,753.6m (2018: £2,970.7m).

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 2019 (continued)

16 Financial instruments

Financial assets and liabilities

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

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Non-interest-bearing financial assets at amortised cost		
Trade receivables	80.2	129.6
Other receivables	51.0	56.4
	131.2	186.0
Interest-bearing financial assets at amortised cost		
Intercompany receivables	3,833.6	3,512.0
Derivatives designated as hedging instrument		
Derivative assets	3.1	41.0
Other financial assets		
Cash and cash equivalents	1,929.3	2,916.1
Total financial assets	5,897.2	6,655.1

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

16 Financial instruments (continued)

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Non-interest-bearing financial liabilities at amortised cost		
Trade payables	2,560.0	2,861.9
Other payables	192.2	178.4
Accrued expenses	333.9	430.3
	3,086.1	3,470.6
Derivatives designated as hedging instrument		
Derivative liabilities	19.1	0.6
Amounts included in trade and other payables	3,105.2	3,471.2
Interest-bearing financial liabilities at amortised cost		
Intercompany payables	3,099.3	2,963.6
Current interest-bearing borrowings		
Lease liabilities	116.7	15.7
Non-current interest-bearing borrowings		
Lease liabilities	2,077.0	230.4
Total financial liabilities	8,398.2	6,680.9

As at 31 December 2019 and 31 December 2018, all borrowings were in Sterling at fixed rates of interest. The interest rate of fixed rate debt is 0.8% - 15.5% (2018: 5.448% - 6.0%), this comprises intercompany payables and lease liabilities.

Intercompany payables are disclosed in note 24. Details of obligations under leases are included in note 21. The increase in lease liabilities in the year of £1,947.6m is due to the transition to IFRS 16 as at 1 January 2019.

Movements in financial liabilities during the year
Lease Liabilities: The net increase in lease liabilities of £1,947.6m during the year is largely attributable to the non-cash transition impact of adopting of IFRS 16 - Leases on 1 January 2019 of £1,979.4m (see table in note 1); non-cash interest charged on lease liabilities of £66.9m (see note 7) partially offset by cash outflows of £182.5m (£133.5m of capital payments and £49.0m of interest payments). The non-cash impact of recognising liabilities relating to new leases entered into during the year accounts for the remaining increase.

Intercompany Payables: The net increase in intercompany payables of £135.7m is attributable to interest charged on intercompany payables during the year of £179.1m (see note 24 for details) partially offset by payments made during the year of £43.4m, including interest paid of £31.4m.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

16 Financial instruments (continued)

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 lease liabilities. 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.

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.

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 2019 the Group held £3.1m (2018: £41.0m) in the money assets, and £19.1m (2018: £0.6m) out of the money liabilities in respect of its forward contracts. During the year, the Group recognised liabilities on revaluation of hedged monetary assets and liabilities from historical cost to year-end spot rate of £5.4m (2018: £7.4m asset).

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% (2018: 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 2019 (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 2019, designated as hedges of expected future purchases from suppliers in US dollars. The forward currency contracts are being used to hedge the foreign currency risk of the future purchases. The terms of the forward currency hedging contracts have been negotiated to match the terms of the commitments and none exceed a period of more than 12 months after the 31 December 2019. 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 2019, a net unrealised loss of £11.8m (2018: £29.6m gain) was included in the hedge reserve in respect of hedging contracts. The net loss recognised in other comprehensive income during the year in respect of these hedging contracts was £41.4m (2018: £50.6m gain). This consists of £38.0m of gains reclassified to the Income Statement during the year (2018: £24.2m of losses), a £12.9m loss on not-yet-matured contracts during the year (2018: £38.3m gain), and a £9.5m taxation credit (2018: £11.9m charge).

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 (2018: none), therefore amounts recognised in the Income Statement in relation to ineffective hedges is £nil (2018: £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 £29.7m (2018: £36.6m).

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (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 in relation to trade receivables 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 receivables.

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 2019 the Group had no external borrowings, other than lease liabilities.

As at 31 December 2019, the Group held cash of £1,929.3m (2018: £2,916.1m), utilised along with overdrafts where necessary, to secure short-term flexibility. At 31 December 2019, the Group had committed overdraft facilities of £30.0m (2018: £30.0m), standby credit facilities, including bonds of £96.7m (2018: £112.1m), and committed line of credit facilities of £30.0m (2018: £125.0m). The Group also has access to 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 2019 (continued)

16 Financial instruments (continued)

	Within 1 year £ m	Between 1 and 5 years £ m	After 5 years £ m	Total £ m
Year ended 31 December 2019				
Lease obligations	183.1	603.0	2,895.2	3,681.3
Financial derivatives	797.5	-	-	797.5
Trade and other payables	3,086.1	-	-	3,086.1
Amounts owed to fellow UK group companies	2,958.8	-	-	2,958.8
Amounts owed to ultimate parent company	7.8	-	-	7.8
Amounts owed to fellow subsidiaries of ultimate parent company	132.7	-	-	132.7
	7,166.0	603.0	2,895.2	10,664.2
Year ended 31 December 2018				
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
	7,208.7	66.0	483.0	7,757.7

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 and 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 and how the Group define capital is provided in the Strategic Report.

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (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:

	Year ended 31 December 2019 £ m
Fair value of scheme assets	2,975.3
Present value of scheme liabilities	(2,661.0)
Net asset for defined benefit pension schemes	314.3
Cash-settled share-based transactions liability - non-current	(59.5)
Cash-settled share-based payment transactions liability - current	(77.2)

	Year ended 31 December 2018 £ m
Fair value of scheme assets	2,411.7
Present value of scheme liabilities	(2,160.0)
Effect of minimum funding requirement	(1,022.4)
Net liability for defined benefit pension scheme	(770.7)
Cash-settled share-based transactions liability - non-current	(49.1)
Cash-settled share-based payment transactions liability - current	(71.5)

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

17 Employee benefits (continued)

Pension plans

Total costs charged to the Consolidated Income Statement in respect of employee benefits:

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Wages and salaries	2,314.6	2,343.8
Share-based payments charge	129.3	44.6
Social security costs	142.2	140.5
Total cost before pension costs	2,586.1	2,528.9
Defined benefit pension scheme		
Net interest on pension scheme	15.5	21.5
Total defined benefit scheme expense	15.5	21.5
Pension costs, defined contribution scheme	97.3	69.6
Total pension expense	112.8	91.1
Total employee benefit expense	2,698.9	2,620.0

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

17 Employee benefits (continued)

Defined benefit pension schemes

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

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

In order to enable the AGPS to execute the buy-in, the Group made a contribution to the AGPS of £707.5m and advanced a loan to the scheme with a book value of £467.3m ("the buy-in loan"). Interest is charged at an arms-length rate on this loan.

A pre-tax loss of £1,175.8m has been recognised in other comprehensive income in relation to the buy-in representing the difference between the cost of the BPA and the accounting value of the liabilities insured.

Prior to the buy-in, the Group was obliged to fund the deficit on the AGPS on a secondary funding objective basis by April 2032 under a schedule of contributions for which the Group was liable. A liability was recognised in previous years in relation to this obligation, known as a minimum funding requirement ("MFR"), under guidance set out in IFRIC 14. Other than additional contributions under a back-to-back agreement with the Scheme which are described below, following the buy-in, the probability of the Group being required to make future contributions to the AGPS in respect of pension liabilities is considered remote and as such the MFR liability has been released in full during the year, with a corresponding pre-tax gain of £1,051.9m being recognised in other comprehensive income.

The Scheme has repaid £39.5m of the pre buy-in loan during the year and as such, the outstanding balance on the buy-in loan at 31 December 2019 was £427.8m. The Scheme has retained ownership of various assets, including illiquid investments and cash, some of which will be required to meet ongoing expenses incurred by the Scheme and the remainder of which the Scheme intends to liquidate to repay the buy-in loan. To the extent that the Scheme is unable to settle the loan balance in full out of the proceeds realised through the liquidation of these assets, the Group is contractually obliged under a back-to-back agreement to make a contribution to the Scheme to the value of the shortfall between the assets in the Scheme and the outstanding balance on the buy-in loan. Based on the fair value of Scheme assets at 31 December 2019, and a forecast of the ongoing expenses to be incurred by the Scheme, total expected contributions under the back-to-back agreement are expected to be £119.6m and this amount has been included in operating cashflow in addition to the initial contribution of £707.5m - a total of £827.1m. As the illiquid assets and cash are held within the Scheme as a separate legal entity from the Group, and could be used to settle pension liabilities in the event of a shortfall from the BPA, they meet the definition of pension assets under IAS 19 – Employee Benefits. As such, the difference between fair value of Scheme assets at 31 December 2019 and the book value of the buy-in loan at that date has been accounted for as an actuarial loss in other comprehensive income and is included in the buy-in loss amount of £1,175.8m.

The Group remains liable for pension benefits payable to members of the UURBS and these liabilities with a fair value at 31 December 2019 of £14.0m (2018: £11.0m) are accounted for in line with IAS 19. This amount is included in the Scheme liabilities set out in the table below.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

17 Employee benefits (continued)

Scheme liabilities

Changes in the present value of defined benefit obligation:

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Present value at start of year	(2,160.0)	(2,458.1)
Interest cost	(60.5)	(57.9)
Effect of changes in financial assumptions	(524.3)	226.9
Effect of experience adjustments	(25.2)	(29.3)
Benefits paid	109.0	158.4
Present value at end of year	(2,661.0)	(2,160.0)

Scheme assets

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

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Fair value at start of year	2,411.7	2,549.9
Interest income	75.5	61.1
Increase/(decrease) in value of plan assets excluding interest income	578.9	(109.9)
Employer contributions (normal)	59.6	70.0
Employer contributions (buy-in)	827.1	-
Buy-in loan	347.7	-
Part-repayment of buy-in loan	(39.5)	-
Benefits paid	(109.0)	(158.4)
Impact of buy-in loss	(1,175.8)	-
Administrative expenses	(0.9)	(1.0)
Fair value at end of year	2,975.3	2,411.7

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

17 Employee benefits (continued)

Amounts recognised in the Consolidated Income Statement

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Amounts recognised in finance income or costs		
Net interest income on plan assets and liabilities	15.0	3.2
Interest expense on effect of onerous liability	(29.6)	(23.7)
Administrative expenses	(0.9)	(1.0)
Total Income Statement charge	(15.5)	(21.5)

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

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Effect of change in financial assumptions	(524.3)	226.9
Effect of experience adjustments	(25.2)	(29.3)
Increase/(decrease) in value of plan assets excluding interest income	578.9	(109.9)
Buy-in loss	(1,175.8)	-
Changes in onerous liability excluding interest expense	1,051.9	(53.3)
Amounts recognised in the Statement of Comprehensive Income	(94.5)	34.4

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

17 Employee benefits (continued)

Fair value of plan assets:
The fair value of the plan assets were as follows:

	31 December 2019			31 December 2018		
		£m			£m	
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bulk purchase annuity	-	2,647.0	2,647.0	-	-	-
Cash and cash equivalents	-	107.8	107.8	-	3.0	3.0
Equity securities	-	-	-	346.4	288.3	634.7
Debt securities	-	-	-	1,081.2	-	1,081.2
Property	-	52.8	52.8	-	210.9	210.9
Investment funds	-	167.7	167.7	31.4	354.2	385.6
Other	-	-	-	96.3	-	96.3
	-	2,975.3	2,975.3	1,555.3	856.4	2,411.7

Following the buy-in in October 2019, the Scheme holds a bulk purchase annuity which fully insures the pension liabilities of the Scheme. Further, the Scheme retains ownership of a variety of illiquid assets and cash balances which are measured at fair value and described earlier in this note.

Principal actuarial assumptions (expressed as weighted averages)
The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the Balance Sheet date are as follows:

	Year ended 31 December 2019 %	Year ended 31 December 2018 %
Discount rate	2.1	2.9
Inflation - RPI	2.9	3.1
Inflation - CPI	1.9	2.1
Future pension increases	2.9	3.0

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:

	Year ended 31 December 2019 Years	Year ended 31 December 2018 Years
Current UK pensioners at retirement age - male	22.6	22.8
Current UK pensioners at retirement age - female	24.5	24.7
Future UK pensioners at retirement age - male	24.4	24.6
Future UK pensioners at retirement age - female	26.4	26.6

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

17 Employee benefits (continued)

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 2019 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:

	Year ended 31 December 2019 + 0.1%	Year ended 31 December 2018 + 0.1%
Adjustment to discount rate	**£ m**	**£ m**
Decrease in liability	56.4	44.3
Decrease in finance costs	0.2	1.6

	Year ended 31 December 2019 + 0.1%	Year ended 31 December 2018 + 0.1%
Adjustment to rate of inflation	**£ m**	**£ m**
Increase in liability	13.1	43.9
Increase in finance costs	-	1.3

	Year ended 31 December 2019 + 1 Year	Year ended 31 December 2018 + 1 Year
Adjustment to mortality age rating assumption	**£ m**	**£ m**
Increase in liability	92.5	70.7
Increase in finance costs	-	2.1

Following execution of the buy-in, changes in the accounting value of liabilities are offset by equivalent changes in the BPA asset and therefore, there would be no material impact on the net amount recognised in the Consolidated Balance Sheet, within the Consolidated Income Statement, or within the Consolidated Statement of Comprehensive Income.

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 recorded in the prior year, which has been released in full during the year as described earlier in this note.

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

17 Employee benefits (continued)

Share-based payments

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

The Group offers four share-based payment schemes to employees to enable them to own shares in the ultimate parent company, 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 2019 £ m	Year ended 31 December 2018 £ m
Cash-settled share-based payment charge	129.3	44.6
Total carrying amount of liabilities - current	77.2	71.5
Total carrying amount of liabilities - non-current	59.5	49.1
	136.7	120.6

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (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:

	Year ended 31 December 2019 Number (thousands)	Year ended 31 December 2018 Number (thousands)
Outstanding, start of year	5,059	4,990
Exercised during the year	(1,723)	(1,161)
Granted during the year	1,602	1,886
Forfeited during the year	(496)	(656)
Outstanding, end of year	4,442	5,059
Exercisable, end of year	17	25

	Year ended 31 December 2019 Price (£)	Year ended 31 December 2018 Price (£)
Outstanding, start of year	45.27	42.04
Exercised during the year	(37.23)	(43.72)
Granted during the year	61.08	53.01
Forfeited during the year	(52.84)	(45.85)
Outstanding, end of year	53.26	45.27
Exercisable, end of year	38.69	49.14

Share options were exercised on a regular basis throughout the year. The average exercise price during the year to 31 December 2019 was £37.23 (2018: £43.72). 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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

17 Employee benefits (continued)

Share-based payments (continued)

Sharesave scheme

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

	Year ended 31 December 2019	Year ended 31 December 2018
Weighted average exercise price (£)	53.25	45.23
Number of share options outstanding (thousands)	4,435	5,037
Expected weighted average remaining life (years)	1.5	1.5

The range of exercise price in the year was £36.99 to £61.07 (2018: £35.21 to £53.00).

The fair value of the options outstanding under the Sharesave scheme at 31 December 2019 is £97.4m (2018: £85.8m).

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.

	Year ended 31 December 2019	Year ended 31 December 2018
Weighted average exercise price (£)	52.42	55.69
Number of share options outstanding (thousands)	7	22
Expected weighted average remaining life (years)	1.2	0.5

The range of exercise price in the year was £38.64 to £65.81 (2018: £39.88 to £67.93)

The fair value of the options outstanding under the WSIP scheme at 31 December 2019 is £0.2m (2018: £0.4m).

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

17 Employee benefits (continued)

Share-based payments (continued)

Restricted Stock Rights (RSR) scheme

The RSR scheme was introduced in 2008 as an alternative to the WSIP scheme. Under the RSR scheme, employees are awarded the right to receive a predetermined number of shares in the ultimate parent company two or three years from the award date. All RSRs 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:

	Year ended 31 December 2019 Number (thousands)	Year ended 31 December 2018 Number (thousands)
Outstanding, start of year	437	483
Exercised during the year	(164)	(140)
Granted during the year	248	150
Forfeited during the year	(44)	(56)
Outstanding, end of year	477	437
Exercisable, end of year	-	-

The fair value of the options outstanding under the RSR scheme at 31 December 2019 is £30.8m (2018: £22.4m).

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 2019 (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 2019 Number (thousands)	Year ended 31 December 2018 Number (thousands)
Outstanding, start of year	179	196
Exercised during the year	(60)	(68)
Granted during the year	54	88
Forfeited during the year	(37)	(37)
Outstanding, end of year	136	179
Exercisable, end of year	-	-

The fair value of the options outstanding under the PSP scheme at 31 December 2019 is £8.3m (2018: £12.0m).

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 2019	Year ended 31 December 2018
Expected dividend yield (%)	1.78	2.22
Expected volatility (%)	15.79	22.44
Risk-free interest rate (%)	1.59	2.63
Weighted average fair value of options granted (£)	19.77	13.67
Weighted average exercise price (£)	53.26	45.27

The expected life of the option in the year was 1 to 3 years (2018: 1 to 3 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 2019 (continued)

18 Provisions

	Dilapidations £ m	Other property provision £ m	Insurance £ m	Total £ m
At 31 December 2018	74.2	4.0	110.4	188.6
Reclassification on adoption of IFRS 16	-	(4.0)	-	(4.0)
At 1 January 2019	74.2	-	110.4	184.6
Provided during the year	2.4	-	45.6	48.0
Provisions used	(0.6)	-	(27.8)	(28.4)
Unused provision reversed	(1.3)	-	(33.0)	(34.3)
Increase due to unwinding of discount	9.1	-	-	9.1
At 31 December 2019	83.8	-	95.2	179.0
Current liabilities	-	-	27.8	27.8
Non-current liabilities	83.8	-	67.4	151.2

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

The other property provision represents amounts in respect of future rental relating to leases which, per guidance in IAS 17, were classified as onerous. On 1 January 2019, the Group adopted IFRS 16 - Leases, as described in note 1. On transition, this provision has been reclassified to right-of-use assets.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

19 Share capital and premium

	Number of shares	Share capital £ m	Share premium £ m	Total £ m
Authorised, allotted, called up and fully paid				
Ordinary shares of 25p each at 31 December 2019 and 31 December 2018	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 2019 (continued)

20 Reserves

Reconciliation of movement in reserves is as follows:

	Other reserve £ m	Cash flow hedge reserve £ m	Retained earnings £ m	Total £ m
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 net actuarial gains recognised directly in other comprehensive income	-	-	(4.9)	(4.9)
At 31 December 2018	441.1	29.6	9,042.7	9,513.4
At 1 January 2019	441.1	29.6	9,042.7	9,513.4
Change in accounting policy - IFRS 16	-	-	(2.6)	(2.6)
Opening total equity	441.1	29.6	9,040.1	9,510.8
Profit for the year	-	-	487.0	487.0
Cash flow hedges - reclassified during year to Income Statement	-	(38.0)	-	(38.0)
Cash flow hedges - net loss during year on not-yet matured contracts	-	(12.9)	-	(12.9)
Tax on cash flow hedges recognised directly in other comprehensive income	-	9.5	-	9.5
Total remeasurements on defined benefit obligation	-	-	(549.5)	(549.5)
Increase in value of plan assets excluding interest income	-	-	578.9	578.9
Changes in asset ceiling/onerous liability (excluding interest expense)	-	-	1,051.9	1,051.9
Change in value of plan assets due to buy-in	-	-	(1,175.8)	(1,175.8)
Tax on net actuarial losses recognised directly in other comprehensive income	-	-	22.2	22.2
At 31 December 2019	441.1	(11.8)	9,454.8	9,884.1

The other reserve 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 assets and liabilities from historical cost to year-end spot rate.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

21 Obligations under leases

Lease Liabilities
Lease agreements where the group is a lessee
Future minimum lease payments are due as follows:

	31 December 2019 £ m	31 December 2018 £ m
Future minimum payments due:		
No later than one year	183.1	15.7
Later than one year and no later than two years	169.3	16.1
Later than two years and no later than three years	159.5	16.4
Later than three years and no later than four years	143.5	16.6
Later than four years and no later than five years	130.7	16.9
Later than five years	2,895.2	483.0
	3,681.3	564.7
Lease finance charges allocated to future periods	(1,487.6)	(318.6)
Present value of minimum lease payments	2,193.7	246.1

Total lease cash outflow in the year was £199.4m (2018: £185.0m). This has been presented in financing activities in the cash flow statement and breaks down as cash payments for the principal portion of the lease liability £133.5m and cash payments for the interest portion of the lease liability £49.0m. £16.9m has been included in operating activities in the cash flow statement and relates to short term and variable lease expenses (2018: £173.2m operating activities; £11.8m financing activities).

There are no instances at 31 December 2019 where future rental payments have been committed but not yet included in the lease liability.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (continued)

21 Obligations under leases (continued)

Amounts recognised in Income Statement

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

	31 December 2019 £ m
Depreciation - land and buildings right-of-use assets	105.3
Depreciation - plant and equipment right-of-use assets	50.4
Impairment - land and buildings right-of-use assets	2.9
Short-term lease expense[1]	1.8
Variable lease expense[2]	15.1
Sub-lease income	(9.2)
	166.3
Interest expense related to lease liabilities	66.9
Total amount recognised in Income Statement	233.2

Notes

[1] Short-term lease expense consists primarily of rental of equipment for temporary purposes during the year.

[2] Variable lease expense consists primarily of contractual land and building service and insurance charges as a result of the Group election to combine lease and non-lease components. These are not fixed payments and therefore are not included in the lease liability. Variable payments represent 7.5% of overall lease payments in 2019.

Operating leases

Operating lease agreements where Group is lessor

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

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
No later than one year	9.9	9.6
Later than one year and no later than five years	25.6	25.1
Later than five years	36.8	38.4
	72.3	73.1

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 2019 (continued)

22 Commitments

Capital commitments

As at 31 December 2019, the Group had not entered into any contract to purchase property, plant and equipment (2018: £nil).

Other financial commitments

As at 31 December 2019, the Group had entered into contracts to purchase US Dollars for £793.2m (2018: £697.6m) and energy for £53.7m (2018: £65.3m).

Operating lease commitments - prior year

As described in note 1, in the prior year, the Group accounted for leases under IAS 17. Undiscounted minimum lease payments under non-cancellable agreements which were classified as operating leases under IAS 17 were as follows at 31 December 2018. At 1 January 2019, the Group adopted IFRS 16 'Leases' on a modified retrospective basis and as such, all leases with a material commitment and a term in excess of 12 months are now accounted for as lease liabilities (see note 21).

	Land and buildings Year ended 31 December 2018 £ m	Other Year ended 31 December 2018 £ m
No later than one year	122.9	46.6
Later than one year and no later than five years	412.0	82.7
Later than five years	1,787.9	1.4
	2,322.8	130.7

23 Contingent liabilities

Equal Value Claims: ASDA Stores Limited, a wholly-owned subsidiary of the Group, has been served with circa 38,000 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.

24 Related parties

Identity of related parties

The following transactions were carried out with group companies:

	Year ended 31 December 2019 £ m	Year ended 31 December 2018 £ m
Technical assistance, services and royalties paid to Walmart Inc.*	140.5	142.5
Interest payable on loans from ASDA Holdings UK Limited	171.8	163.6
Interest payable on loans from WMT Netto S.a r.l.	7.3	7.4
Interest receivable on loans to Wal-Mart Stores (UK) Limited	217.5	197.7
Interest receivable on loans to Broadstreet Great Wilson Europe Limited	-	0.1
Loans from ASDA Holdings UK Limited	2,958.8	2,811.1
Loans from WMT Netto S.a r.l.	126.5	126.5
Loans from WMGS Co. Limited	1.7	4.0
Loans from Global George Limited	4.2	4.2
Loans from Walmart EMEA Limited	0.3	0.3
Loans from Walmart Inc. *	7.8	17.5
Loans to Broadstreet Great Wilson Europe Limited	-	1.3
Loans to ASDA Holdings UK Limited	34.6	24.0
Loans to Global George Limited	5.8	5.8
Loans to Wal-Mart Stores (UK) Limited	3,793.2	3,480.9

* identifies balances/transactions with the ultimate parent company, Walmart Inc., all other balances and 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% (2018: 5.448% - 6%). All intercompany loans are unsecured and repayable upon demand.

Amounts owed by fellow group entities totalled £3,833.6m at 31 December 2019 (2018: £3,512.0m), as disclosed in note 13.

Amounts owed to fellow group entities totalled £3,099.3m at 31 December 2019 (2018: £2,963.6m), as disclosed in note 15.

Other related party transactions
Key management are the statutory Directors and transactions with them are disclosed in note Directors' remuneration.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019 (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, South Bank, 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 5 March 2020, the Group proposed and paid a cash dividend of £1,150.0m to ASDA Holdings UK Limited, the immediate parent undertaking.

The outbreak and spread of COVID-19 was confirmed in the UK in early 2020 and at the date of approval of the accounts, is resulting in a high level of disruption to UK economic, social and political activity. The Group considers the outbreak to be a non-adjusting post Balance Sheet event. The Directors recognise that the impact on forecast cashflows of the Group is difficult to estimate and have therefore considered a range of scenarios as described in note 1.

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 FRS101 '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 applicable 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 2019

Registration number: 1396513

	Note	31 December 2019 £ m	31 December 2018 £ m
Assets			
Non-current assets			
Investments	4	3,021.5	3,021.5
Current assets			
Trade and other receivables	5	4,668.4	4,673.3
Cash and cash equivalents	6	1,860.6	2,636.8
		6,529.0	7,310.1
Total assets		9,550.5	10,331.6
Equity and liabilities			
Equity			
Share capital	7	-	-
Other reserves	8	160.2	160.2
Retained earnings	8	4,070.1	4,131.6
Total equity		4,230.3	4,291.8
Current liabilities			
Trade and other payables	9	5,320.2	6,039.8
Total equity and liabilities		9,550.5	10,331.6

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 £61.5m (2018: £63.9m).

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

Approved by the Board on 25 March 2020 and signed on its behalf by:

R. G. McWilliam

R McWilliam
Director

Company Statement of Changes in Equity for the Year Ended 31 December 2019

	Share capital £ m	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
At 1 January 2019	-	-	160.2	4,131.6	4,291.8
Loss for the year	-	-	-	(61.5)	(61.5)
At 31 December 2019	-	-	160.2	4,070.1	4,230.3

Notes to the Parent Company Statements for the Year Ended 31 December 2019

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 2019 were authorised for issue by the Board of Directors on 25 March 2020 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 2019 (continued)

1 Accounting policies (continued)

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 short-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 Consolidated Statement of Cash Flows.

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

2 Auditors' remuneration

The Company's audit fee for the year ended 31 December 2019 was £2,800 (2018: £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 (2018: none).

3 Employee numbers and costs

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

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

Notes to the Parent Company Statements for the Year Ended 31 December 2019 (continued)

4 Investments

Group subsidiaries

	Investment in subsidiaries £ m
Cost or valuation	
At 1 January 2019 and 31 December 2019	3,034.8
Provision	
At 1 January 2019 and 31 December 2019	13.3
Carrying amount	
At 31 December 2019	3,021.5
At 31 December 2018	3,021.5
At 1 January 2019	3,021.5

Following a review of the carrying value of investments held by the Company, no impairment charge (2018: £nil) has been recognised.

Notes to the Parent Company Statements for the Year Ended 31 December 2019 (continued)

4 Investments (continued)

Subsidiary undertakings
As at 31 December 2019, the following companies were subsidiary undertakings.

	Country of incorporation and principal place of business	% equity held
ASDA Delivery Limited	United Kingdom	100%
ASDA Employee Share Schemes Trustee Limited	United Kingdom	100%
ASDA Finance Limited	Jersey	100%
ASDA Financial Services Limited	United Kingdom	100%
ASDA Guernsey Limited	Guernsey	100%
ASDA Home Shopping Cards Limited	Republic of Ireland	100%
ASDA Pension Scheme Trustees Limited	United Kingdom	100%
ASDA Quest Trustee Limited	United Kingdom	100%
ASDA Southbank Limited	United Kingdom	100%
ASDA Storage Limited	United Kingdom	100%
ASDA Stores Limited	United Kingdom	100%
ASDA Supermarkets Limited	United Kingdom	100%
Bandsound Limited	United Kingdom	100%
Chorley Renaissance Limited	United Kingdom	100%
Erteco U.K. Limited	United Kingdom	100%
Essencerealm Limited	United Kingdom	100%
Ever 1295 Limited	United Kingdom	100%
Ever 2010 Limited	United Kingdom	100%
Ever 2010 North Limited	United Kingdom	100%
Ever 2010 South Limited	United Kingdom	100%
Forza AW Limited	United Kingdom	100%
Forza Foods Limited	United Kingdom	100%
George Sourcing Services UK Limited	United Kingdom	100%
George Tedarik Hizmetleri A.S.	Turkey	100%
International Procurement and Logistics Limited	United Kingdom	100%
International Produce Sociedad Limitada	Spain	100%
Kent Nominee 1 Limited	Jersey	100%
Kent Nominee 2 Limited	Jersey	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 Davies Partnership Limited	United Kingdom	100%
Vinpack Limited	United Kingdom	100%
Westry Produce Limited	United Kingdom	100%

Notes to the Parent Company Statements for the Year Ended 31 December 2019 (continued)

4 Investments (continued)

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, Glategny 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*

5 Trade and other receivables

	31 December 2019 £ m	31 December 2018 £ m
Other receivables	-	0.8
Amounts owed by group entities	4,668.4	4,672.5
Total	4,668.4	4,673.3

Intercompany receivables attract interest at a fixed rate of 2.95% - 6% (2018: 2.95% - 6%) and are repayable on demand.

Notes to the Parent Company Statements for the Year Ended 31 December 2019 (continued)

6 Cash and cash equivalents

	31 December 2019 £ m	31 December 2018 £ m
Cash in hand and bank balances	0.1	0.8
Money market funds and deposits	1,860.5	2,636.0
	1,860.6	2,636.8

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

7 Share capital and premium

	Number of shares	£ m
Authorised, allotted, called up and fully paid		
Ordinary shares of 25p each at 31 December 2019 and 31 December 2018	4	-

Notes to the Parent Company Statements for the Year Ended 31 December 2019 (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 2019	-	160.2	4,131.6	4,291.8
Loss for the year	-	-	(61.5)	(61.5)
At 31 December 2019	-	160.2	4,070.1	4,230.3

9 Trade and other payables

	31 December 2019 £ m	31 December 2018 £ m
Amounts owed to group entities	5,320.2	6,039.8

Intercompany payables incur interest at a fixed rate of 6% (2018 6%) and are repayable on demand.

10 Commitments

The Company has no financial commitments (2018: 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, South Bank, 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.

12 Events since the Balance Sheet date

On 5 March 2020, the Company proposed and paid a cash dividend of £1,150.0m to ASDA Holdings UK Limited, the immediate parent undertaking.