Registration number: 1396513

ASDA Group Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2021

Contents

Company Information

Directors	R Burnley (resigned 6 August 2021) A Hemmerdinger (resigned 3 September 2021) D Lawlor (resigned 4 January 2022) R McWilliam (resigned 31 July 2021) M Simpson H Tatum Z Issa (appointed 18 June 2021) M Issa (appointed 18 June 2021) G Lindsay (appointed 18 June 2021) M Dale (appointed 18 June 2021) J Fallon (appointed 31 July 2021)
Company secretary	H Selby
Registered office	ASDA House South Bank Great Wilson Street Leeds LS11 5AD UK
Auditors	Ernst & Young LLP 1 Bridgewater Place Water Lane Leeds LS11 5QR

Strategic Report for the Year Ended 31 December 2021

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

Principal activity

The principal activity of ASDA 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.

Change in ownership

On 16 February 2021, the ultimate parent company and controlling party of ASDA Group Limited ("ASDA"), Walmart Inc. ("Walmart"), completed the sale to Mohsin and Zuber Issa, founders and co-CEOs of EG Group, a global convenience and forecourts retailer, headquartered in Blackburn, UK, and investment funds managed by TDR Capital LLP ("TDR Capital"), a leading UK-based private equity firm, of Walmart's equity interest in ASDA for an enterprise value of £6.8 billion, on a debt-free and cash-free basis. Under the new ownership structure, Mohsin and Zuber Issa and TDR Capital own 100% of the ordinary shares in Bellis Acquisition Company 3 Limited ("BAC3L") which in turn has acquired the entire issued share capital of ASDA from ASDA Holdings UK Limited ("AHUKL") - and as such, Mohsin and Zuber Issa and TDR Capital jointly control ASDA.

Key performance indicators (KPI's)

	Year ended 31 December 2021	**Year ended 31 December 2020**
Unaudited		
(£millions, unless otherwise indicated)		
Like-for-like sales growth (excluding fuel) (%) (1)	**0.6**	**3.5**
Total Revenue excluding fuel (2)	**20,424.0**	**20,313.1**
Total Revenue including fuel	**23,488.5**	**22,759.7**
EBITDA (1)(3)	**1,317.0**	**1,075.4**
EBITDA margin (%)	5.6	4.7
Capital Expenditure (1)	419.6	398.4

Operational headlines and strategic priorities

Sales and operating profit

During the year, like-for-like sales growth (excluding fuel)[1] was 0.6% (2020: 3.5%). The increase was driven by strong like-for-like sales growth in the first quarter across grocery, clothing and general merchandise categories as a result of the Group benefitting from the closure of non-essential retail and hospitality. Sales (excluding fuel) in the remainder of the year were lower than during the same period in the prior year. From the second quarter onwards in 2020, sales (excluding fuel) were stronger as we benefitted from the closure of non-essential retail and hospitality as required by local or national COVID-19 regulations.

(1) Like-for-like sales growth (excluding fuel), EBITDA and Capital Expenditure are non-IFRS financial measures, see "non-IFRS financial measures" on pages 22-24 for a definition of each of these.
(2) See note 2.
(3) EBITDA excludes the gain recognised in 2021 on the sale and leaseback transaction.

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

Revenue excluding fuel increased by 0.5% during the year to £20,424.0m (2020: £20,313.1m) driven by an increase in clothing and general merchandise sales offset by a decrease in grocery volumes as we annualised strong comparatives. General merchandise sales performed positively in the year especially across the Homeware and Outdoors categories as customers invested in updating both the inside and outside of their homes. Clothing sales increases were driven by our continued position as market leader in Baby, Kidswear and Schoolwear alongside recovery in adult fashion following the COVID-19 lockdowns in 2020. Revenue including fuel increased by 3.2% to £23,488.5m (2020: £22,759.7m), driven by an increase in fuel sales.

Operating profit of £693.1m (2020: £486.5m) has increased by 42.5% during the year. This is primarily due to a year-on-year reduction of COVID-19 related costs of £187.0m and increases in higher margin non-grocery sales offset against an increase in investments to support the resilience of our supply chain. COVID-19 costs were as a result of significant investment in:

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

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

- A 'Thank you' payment of an additional week's pay was made to our colleagues in recognition of their extra efforts that protected the health of their colleagues who needed to step away during the first lockdown of 2020;
- Goodwill payments to suppliers relating to cancellation of purchase orders; and,
- The incremental costs of servicing a substantial and rapid increase in demand for Online Grocery in the prior year via home delivery and click and collect.

Profit before tax increased to £1,008.5m (2020: £469.2m) including the gain recognised during the year on the sale-and-leaseback transaction of £394.5m; see note 8 for further details. Profit before tax excluding this would have been £614.0m. Finance costs for the year were £113.7m (2020: £67.0m), due primarily to an increase in lease interest of £32.8m also relating to the sale-and-leaseback transaction, see note 7.

Profit after tax for the year was £1,010.5m (2020: £368.8m). The tax credit for the year was £2.0m (2020: £100.4m charge), this decrease is due primarily to a deferred tax credit of £193.3m partially offset by tax payable on a chargeable gain of £74.0m arising in respect of the sale-and-leaseback transaction. See note 9 for further details.

EBITDA

EBITDA[1] of £1,317.0m (2020: £1,075.4m) has increased by 22.5% in the year primarily due to the increase in operating profit described above.

1 Like-for-like sales growth (excluding fuel), EBITDA and Capital Expenditure are non-IFRS financial measures, see "non-IFRS financial measures" on pages 22-24 for a definition of each of these.

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

Cash flow

An overall increase in the net cash outflow of £41.4m (2021: £733.2m net outflow, 2020: £691.8m net outflow) was driven by the following:

Decrease in net cash inflows from operating activities of £430.5m (2021: £946.2m inflow, 2020: £1,376.7m inflow) - driven primarily by:

- £469.1m increase in outflow due to trade and other payables movements (2021: £119.2m outflow, 2020: £349.9m inflow), driven by the accrual of £251.6m relating to repayment of rates relief in the prior year and payment of this amount in the current year;
- £183.7m increase in outflow in relation to inventory due to increased Christmas sell through, resulting in lower than average inventory levels at 31 December 2020, as a result of COVID-19 restrictions at that time and increased lead times for imported non-food goods in the current year driven by industry-wide supply chain challenges (2021: £102.1m outflow, 2020: £81.6m inflow);
- £153.3m increase in outflow in relation to share-based payment liabilities as all options outstanding vested in the year in line with the requirements of the Sale & Purchase agreement (see note 18) (2021: £145.0m outflow, 2020: £8.3m inflow), offset by;
- £206.6m increase in operating profit (2021: £693.1m, 2020: £486.5m)
- £95.0m decrease in outflow in relation to pension contributions driven by a one-off contribution under the back-to-back agreement relating to the 2019 buy-in transaction which was paid in the prior year (2021: £0.4m outflow, 2020: £95.4m outflow).

Increase in net cash outflow from investing activities of £799.0m (2021: £1,013.8m outflow, 2020: £214.8m outflow), driven by outflows due to increases in intercompany receivables of £563.2m (2021: £633.6m outflow, 2020: £70.4m outflow) driven by payments made by the Group to settle liabilities on behalf of the immediate and intermediate parent holding companies; and a reduction in pension loan repayments of £209.5m.

Reduction in outflow attributable to financing activities of £1,188.1m (2021: £665.6m outflow, 2020: £1,853.7m outflow) - driven primarily by cash dividends paid during the prior year to the Group's former immediate parent company totalling £1,650.0m, offset by an increase in intercompany payables outflows of £407.9m (2021: £415.9m outflow, 2020: £8.0m outflow) due to settlement in the year of balances owed to wholly owned subsidiaries of Walmart Inc.

Capital expenditure

Capital expenditure[1] of £419.6m (2020: £398.4m) has increased by 5.3% in the year which has been driven by the completion of the roll out of self-scan check-outs to all of our stores and continued investment in our online business.

1 Like-for-like sales growth (excluding fuel), EBITDA and Capital Expenditure are non-IFRS financial measures, see "non-IFRS financial measures" on pages 22-24 for a definition of each of these.

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

Balance Sheet

Net assets of £8,290.3m (2020: £7,253.0m) have increased in the year due primarily to profit after tax of £1,010.5m.

Intercompany receivables of £2,358.1m (2020: £14.3m) have increased due to the sale-and-leaseback transaction, in which properties held by the Group were transferred to a fellow wholly-owned subsidiary of the ultimate parent in exchange for intercompany receivables, see note 14. In addition, the Group has settled a number of liabilities on behalf of intermediate parent companies, including the part-repayment of a loan, interest paid on external debt held by intermediate parent companies and net payments to the former ultimate parent in relation to the change in ownership of the Group.

Intercompany payables of £1.2m (2020: £417.1m) have decreased due to settlement of the Group's liabilities to subsidiary undertakings of the Walmart Inc. group on 16 February 2021.

Dividends

No dividends were paid during the year (2020: £2,919.5m). In the prior year, £1,650.0m was paid in cash and the Group declared a dividend in specie of £1,269.5m settled by a distribution of an intercompany receivable balance. The dividends were paid in accordance with the terms of the Sale and Purchase agreement between ASDA Holdings UK Limited and Bellis Acquisition Company 3 Limited relating to the sale of ASDA Group Limited on a cash-free, debt-free basis.

Liquidity and capital management

Capital management is managed by the Treasury function, which forecasts cash flows and ensures that adequate short-term funds and borrowing facilities are in place to meet liabilities to suppliers, colleagues and our investors.

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

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

Post balance sheet events

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

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

Section 172 Statement

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

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

There were a number of director appointments and resignations during the course of year, namely on 31 July 2021, John Fallon replaced Robert McWilliam as Chief Financial Officer (CFO), on 6 August 2021 Roger Burnley resigned as Chief Executive Officer (CEO) and on 3 September 2021 Anthony Hemmerdinger resigned as Chief Operating Officer (COO). On 18 June 2021, post the lifting of the Competition and Market Authority's Interim Enforcement Order imposed as a result of the sale, representatives of the shareholders were appointed to the Board, with Mohsin and Zuber Issa representing their own interests and Manjit Dale and Gary Lindsay representing the interests of TDR Capital LLP.

The sections below set out a more detailed summary of ASDA Group Limited and its wholly-owned subsidiaries (together the "Group") and its relationships with its key stakeholders and how the business engages with those stakeholders.

The ASDA executive committee ("Executive Committee") consists of the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief People Officer (CPO), Chief Operating Officer (COO), Chief Merchandising Officer (CMO), Chief Supply Chain Officer (CSCO) and wider members of senior management. The Executive Committee meets both monthly and weekly, during which feedback from various business areas, with particular focus on specific stakeholder groups, is fed back to the Directors.

The outcome of stakeholder engagement generally, as fed back to the Directors 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.

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

Key Stakeholder Engagement

Investors

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

Why?

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

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

How we engage and key outcomes

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

Certain Directors of the Company are key representatives of the investors. M Dale and G Lindsay represent the interests of TDR Capital LLP and the Issa Brothers represent their own shareholder interest in the Company and the Group. As there are direct lines of communication between the investors and the Directors, this allows the investors' views and interests to be represented during board meetings and through the decision-making process.

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

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

Employees

The 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 Bellis Topco2, the Directors and the Executive Committee. The CPO ensures that the employee perspective is vocalised and considered in the boardroom.

Why?

We believe in creating an inclusive culture that supports colleagues to thrive and reach their full potential. 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 building an inclusive culture that enables all colleagues to bring their best and true selves to work every day. Our Inclusion Network is a digital platform that enables all colleagues across the business to engage on Diversity and Inclusion topics, share their experiences and ask questions. We use Our Inclusion Network to help inform our key focusses and implement improvements that support colleagues to thrive and reach their full potential. Our Inclusion Working Groups are teams made up of six nominated colleagues from across ASDA who each represent one of the core strands of diversity. The groups partner teams across our Home Offices on selected projects to act as an advisory board to make sure inclusivity is at the heart of what we do. In addition, our Colleague Your Voice Groups and YourVoice engagement survey provide output from colleagues and are reviewed by the relevant teams who agitate change through engaging with the Executive Committee and relevant functional areas. Colleague engagement is maintained through open communication both to share information about the business, inform how colleague feedback has led to improvements or new implementations, and to provide feedback about working at ASDA. Our commitment to creating an inclusive environment that reflects the communities we serve allows ASDA to attract, recruit and retain high calibre colleagues that represent our core values and the communities that ASDA serve.

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

Trade unions and elected representatives

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

Why?

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

How we engage and key outcomes

We have regular engagement with the following groups:

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

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

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

Following a transfer of colleagues from EV Cargo Logistics (Chill), Unite the Union and the United Road Transport Union (URTU) are also recognised in our Lutterworth CDC depot.

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

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

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

Suppliers

The CMO and authorised senior individuals within the CMO's team engage directly with key suppliers and together with the CSCO, bring suppliers' views into the boardroom.

Why?

We aim to maintain trust and engagement with our supplier base. We have clear communication channels to ensure our suppliers' views are heard.

How we engage and key outcomes

ASDA is subject to the requirements of the Groceries Supply Code of Practice ("GSCOP") and has formal policies in place around areas such as supplier payment, supplier queries and supplier income, which are in line with GSCOP. Senior leadership, within the Trading function, also host and attend supplier conferences to ensure we continue to understand our suppliers' needs.

Customers

Through internal reporting lines the outcomes of customer engagement are fed back to the Chief Customer Officer ("CCO"), a senior member of ASDA's leadership team who attends meetings of the Executive Committee and is responsible for customer matters. Accordingly, the CCO ensures that our customers' viewpoints are considered when making decisions in the boardroom.

Why?

ASDA's approach is to accelerate growth, by building on our strategy to provide great value for money. To deliver this, we need to understand the products where price is most critical to our customers.

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

How we engage and key outcomes

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.

ASDA provides customers with the opportunity to provide feedback on product quality. This is then disseminated amongst the Directors and the Executive Committee at board meetings but is also discussed amongst senior colleagues at the monthly leaders' meeting and the Performance Board, which is attended by the Executive Committee and other members of senior management of the business.

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

Debt Holders

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

Why?

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

How we engage and key outcomes

On a quarterly basis, members of the senior management of the Finco Group, present the results of the Finco Group to the debt holders. During the year, this consisted of delivery of interim financial statements prepared at the consolidated ASDA Group level under UK-adopted International Accounting Standards (IAS 34) accompanied by an investor presentation which includes relevant Finco Group information and a conference call. This allows direct communication between the Directors and these stakeholders. The Finco Group must also adhere to financial covenants imposed by the debt agreements and report compliance to the debt holders.

Further to this, the debt holders are able to provide feedback to the Directors via the Finco Group's Investor Relations team on an ongoing basis, enabling two-way dialogue between the Directors and debt holders throughout the year.

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

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

Why?

Prior to the buy-out, ASDA worked closely with the trustees of the AGPS and the insurer to ensure that sufficient funding was in place to enable the Scheme to meet its liabilities to members as they fall due.

How we engage and key outcomes

Annual communications to members of the AGPS were circulated by the ASDA Pensions team which communicated the financial position of the Scheme and the current value of individuals' pension entitlement. Members have also been kept updated on the progress of the buy-out throughout the process. Rothesay are responsible for the ongoing admin and communications to the members of the AGPS following the buy-out.

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

Community and Charitable Causes

Members of the Executive Committee chair the ESG Steering Committee meetings which are attended by senior leaders from relevant areas of the business. The ESG Steering Committee operates under clearly documented terms of reference defining its scope of authority and regularly meets and reports back to the Executive Committee and Directors to ensure that they are engaged in the decisions taken and aware of key outputs and actions. Community and charitable activity falls under the scope of the ESG programme and therefore receives strong oversight. This is separate and distinct from grant-making via the ASDA Foundation, which is the responsibility of and under the governance of the trustees of the ASDA Foundation.

Why?

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 Executive Committee, 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, CoppaFeel!, Children in Need and thousands of local charities and community groups. Further detail of donations during the year is provided in the Directors' Report.

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

Environment

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

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

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

Key Principal Decisions

Repayment and refinancing of the forecourt bridge loan

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

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

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

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

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

Warehouse asset sale-and-leaseback transaction
As noted above, on 16 February 2021, Bellis Acquisition Company 3 Limited ("BAC3L") purchased the entire issued share capital of ASDA Group Limited (the "Acquisition") As part of the financing for this transaction, an intermediate parent undertaking of the Group issued a loan note to Bellis Noncore 2 Limited, a fellow wholly owned subsidiary of the ultimate parent company, for £902.5m. The cash received in exchange for this loan note originated from a bridge loan (the "Warehouse Asset Disposal Bridge Facility") which was drawn down by Bellis Noncore 2 Limited from a third party lender.

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

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

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

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

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

Future strategic intention

Our primary strategy is designed to provide great value for money. Our strategy is to maintain and extend our advantage in offering value for money, increasing our appeal to existing and potential shoppers by ensuring that our prices are competitive. We aim to provide a consistent, trusted experience, incentivising customers not to shop elsewhere, through the creation of attractive store propositions and partnerships that increase our appeal to customers. We serve our customers with our team of flexible and engaged colleagues, while increasing the number of self-serve opportunities and transforming the in-store experience. We focus our growth where customers care, expanding our addressable markets in online grocery, wholesale and community convenience.

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

Principal risks and uncertainties
Risk is an inevitable part of business. On an ongoing basis, ASDA identifies principal long, medium and short-term risks, assesses their likelihood and impacts, and develops and monitors appropriate controls. The Executive Committee has overall responsibility for risk management and ensuring that this is aligned with business strategy and objectives. The Executive Committee is supported by the Compliance, Ethics, Risk and Audit Committee that meets monthly. The following risks have been disclosed as required by section 414C of the Companies Act 2006.

- **Economic risk**

  Our business is dependent on the economic situation in the United Kingdom and we are exposed to local, regional, national and global economic, political, social and other trends that could impact our operations and financial performance.

  COVID-19

  At the date of approval of the Accounts, the Directors recognise that there is still economic and social uncertainty surrounding the outbreak and spread of COVID-19. The key risks to the business include;
  • changes in customer trends impacting demand for our products or the way in which they wish to shop;
  • disruption due to outbreaks of COVID-19 at locations within our supply chain, or other related disruption at suppliers, which impacts on availability;
  • operational impacts including but not limited to resource stretch, maintenance of social distancing and other measures to protect customers and colleagues; and,
  • reputational damage if our management decisions in relation to COVID-19 and its impacts are perceived by consumers to be inadequate or inappropriate.

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

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

  The Board invests significant time formulating, reviewing, and communicating our business strategy which is delivered through:

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

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

Principal risks and uncertainties (continued)

- **Brand & Reputational risk**
  Our brand and reputation constitute a significant part of our value proposition. Our success has been founded in part on our ability to develop our brand as a leading UK retailer of quality, competitively priced grocery, clothing and general merchandise. Maintaining the reputation of and value associated with our brand is central to the success of our business. The brand names of our own-brand products also represent an important asset of our business. Certain of these own-brand items are manufactured and/or packaged by third parties, and while our policies set out quality control standards, we do not control these third parties or their quality control, employment, ethics or other business practices.

  Any event, such as a significant product recall or negative press reaction to statements made or actions taken could damage our brand or reputation or cause customers to lose confidence in the safety and quality of the products we sell.

  ASDA regularly engages with customers, both directly and through the monitoring of available external data, in order to ensure that our positive customer perception is maintained. We maintain strong relationships with our suppliers by operating on terms that are mutually agreed and updated as appropriate to reflect changes in both parties' respective needs. Our colleagues are critical to maintaining our customer and supplier relationships and ultimately protecting our reputation as a business.

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

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

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

Principal risks and uncertainties (continued)

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

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

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

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

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

Principal risks and uncertainties (continued)

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

  In response to this, we continue to risk assess all regulatory developments and test compliance with internal processes designed to mitigate risks, making improvements where required.

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

  Any claims could result in litigation against the Group and could also result in regulatory or legal proceedings being brought against the Group. Often these cases raise complex factual, accounting and legal issues, which are subject to risks and uncertainties and which could require significant management time and legal expenses.

- **Fraud risk**
  We have controls in place to help prevent and detect potential fraud and dishonest activity. The Statement of Ethics also provides clear guidance to colleagues on appropriate behaviour, including guidance on how to raise any business conduct concerns they may have. Colleagues can raise issues by contacting the independent ethics hotline, or by contacting the Legal and Compliance team directly by email, phone or online. In addition, procedures were in place during the year in respect of compliance with the UK Bribery Act, and until the sale of the business by Walmart, with the US Foreign Corrupt Practices Act.

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

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

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

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

Principal risks and uncertainties (continued)

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

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

- **Cyber security risk**
  There is a risk that ASDA systems are vulnerable to cyber-attacks which could lead to significant limitations in ability to operate, loss of earnings, reputational damage and regulatory fines. 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 Privacy team to ensure all required areas of expertise and process for the program is fit for purpose and for the future.

- **Systems risk**
  Failure of our IT infrastructure or key IT systems could lead to loss of earnings, regulatory fines, limit our ability to operate effectively and have a negative impact on our reputation. A number of disaster recovery plans are in place in the event of an incident which could severely affect ASDA's ability to trade. A comprehensive Incident Response Plan exists to ensure business continuity in the event of a major incident.

- **Environmental risk**
  As a retailer, we recognise that we have a responsibility to minimise the adverse impact that our business activities have on the environment. Failure to do this may result not only in adverse environmental impacts, but also financial penalties and long-term damage to our reputation. For further detail on how we address our environmental risks please see the Section 172 Statement and the Streamlined Energy and Carbon Reporting section of the Directors' Report for further detail.

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

Principal risks and uncertainties (continued)

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

  Following the sale of Walmart's interest in the ordinary share capital of the Group, a dedicated programme team has been created and key partners identified to deliver the separation. Walmart will continue to provide services to ASDA under a Transitional Services Agreement. This includes continuity of existing IT services and support whilst independent systems are developed and implemented.

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

Non-IFRS financial measures
In the reporting of financial information, the Group presents certain financial measures that are not required by or presented in accordance with International Financial Reporting Standards (the "Non-IFRS Measures"). The Non-IFRS Measures included do not alone provide a sufficient basis to compare the Group's performance with that of other companies and should not be considered in isolation or as a substitute for an equivalent IFRS measure (if applicable) or any other generally accepted measure as an indicator of operating performance or liquidity. Such Non-IFRS financial information is unaudited.

The primary Non-IFRS Measures are defined as follows:

EBITDA
EBITDA is calculated by adding back to the Group's profit for the period; income tax expense, finance income, finance costs, amortisation, depreciation and other income.

EBITDA Margin
EBITDA Margin means the Group's EBITDA as a percentage of total revenue for the relevant period.

The Group believes that EBITDA provides useful information about its results of operations for the following reasons: (a) it is among the measures used by the Group's Board of Directors and management to evaluate the ASDA Group's underlying operating performance, review business trends, identify strategies to improve results and make day-to-day operating decisions, and (b) it allows a comparison of the Group's results across periods and results across companies in the industry in which the ASDA Group operates on a consistent basis, by removing the effects on the ASDA Group's operating performance of its capital structure (such as the varying levels of interest expense), asset base and capital investment cycle (such as depreciation and amortisation) and items largely outside the control of management (such as income taxes).

Like-for-like sales growth (excluding fuel)
Like-for-like sales growth (excluding fuel) is a measure of annual growth of sales (excluding VAT) calculated as comparable current year sales minus prior year sales for the current year comparable sales divided by prior year sales for the current year comparable sales. Current year comparable sales includes all revenue except fuel sales, sales generated from newly opened stores in the first twelve complete calendar months following grand opening, sales generated from stores that have permanently closed, sales generated from stores that have been temporarily closed for more than two consecutive complete calendar months within the previous twelve full calendar months, financial services commissions, toyou sales and George international franchise sales. Sales are adjusted to remove an additional day of trading where there has been a leap year. The adjustment of one day of trading represents the average daily trading performance across the first quarter. This is a commonly used measure to aid comparability of sales performance with other retailers.

Capital expenditure
Capital expenditure is defined as the total cost of assets classified as property, plant and equipment and intangible assets that the Group takes ownership of within a financial period (as opposed to the IFRS measurement of capital expenditure, which is based on cash flows).

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

Reconciliation of Non-IFRS financial measures

We present a reconciliation of EBITDA to the most directly comparable measure calculated and presented in accordance with IFRS and discuss its limitations. The table below sets out this measure for the Group for the years ended 31 December 2021 and 2020. Unless noted otherwise below, this data is not derived from the Financial Statements, includes Non-IFRS Measures and is unaudited.

	Year ended 31 December 2021	**Year ended 31 December 2020**
Unaudited - (£ millions, unless otherwise indicated)		
EBITDA [(1)(2)(3)]	**1,317.0**	**1,075.4**
EBITDA margin (%)	5.6	4.7
Capital Expenditure[(1)]	419.6	398.4

(1) EBITDA and Capital Expenditure are not measures of ASDA's financial performance under IFRS.

(2) EBITDA excludes the gain recognised in 2021 on the sale and leaseback transaction.

(3) The following table sets forth EBITDA for the years indicated, as well as a reconciliation to profit for the period.

	Year ended 31 December 2021	**Year ended 31 December 2020**
Unaudited - (£ millions, unless otherwise indicated)		
Profit for the year	**1,010.5**	**368.8**
Income tax expense	(2.0)	100.4
Bank interest receivable	(0.1)	(3.0)
Interest receivable on amounts owed by group undertakings	(34.5)	(46.6)
External interest payable	7.1	-
Finance lease interest	99.3	66.5
Interest on asset retirement obligations	1.9	0.9
Interest capitalised	-	(0.4)
Interest payable on amounts owed to group undertakings	3.1	-
Net interest cost/(income) on pension scheme	2.3	(0.1)
Amortisation of intangible assets	59.0	46.8
Depreciation - owned assets	398.2	388.7
Depreciation - assets held under finance leases	166.7	153.4
Gain on sale-and-leaseback	(394.5)	-
EBITDA	**1,317.0**	**1,075.4**

	Year ended 31 December 2021	**Year ended 31 December 2020**
Unaudited - (£ millions, unless otherwise indicated)		
Capital Expenditure	419.6	398.4
Timing Difference [(A)]	17.5	4.9
	437.1	403.3
Amounts included in the Consolidated Statement of Cash Flows		
Purchase of property, plant and equipment	328.2	317.5
Purchase of intangible assets	108.9	85.8
	437.1	403.3

(A) The Capital Expenditure measure is calculated on an accruals basis and the timing difference represents movements in the amount of capital purchase accruals in the year.

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

	Year ended 31 December 2021	Year ended 31 December 2020
Unaudited - (£ millions, unless otherwise indicated)		
Revenue	23,488.5	22,759.7
Leap year adjustment	-	(55.3)
Fuel	(3,064.5)	(2,446.6)
Non-store sales	(17.0)	(11.1)
New stores	(29.0)	-
Permanently closed stores	-	(0.5)
Temporarily closed stores	(153.0)	(142.2)
Like-for-like sales	20,225.0	20,104.0

Approved by the Board on 23 March 2022 and signed on its behalf by:

J. Fallon

J Fallon
Director

Directors' Report for the Year Ended 31 December 2021

The Directors present their Report and the Consolidated Financial Statements for the year ended 31 December 2021.

Directors

The Directors, who held office during the year, were as follows:
R Burnley (resigned 6 August 2021)
A Hemmerdinger (resigned 3 September 2021)
D Lawlor (resigned 4 January 2022)
R McWilliam (resigned 31 July 2021)
M Simpson
H Tatum
Z Issa (appointed 18 June 2021)
M Issa (appointed 18 June 2021)
G Lindsay (appointed 18 June 2021)
M Dale (appointed 18 June 2021)
J Fallon (appointed 31 July 2021)

Going concern

The financial statements for the year ended 31 December 2021 have been prepared on the going concern basis as the Directors have determined that the Group has sufficient resources and liquidity facilities to meet its liabilities as they fall due for the period from the date of approval of the accounts up to 31 December 2023.

In assessing the Group's ability to adopt the going concern basis, the Directors have tested the ability of the Group to meet its liabilities as they fall due from the date of approval of the accounts up to 31 December 2023, in the event of various cash flow scenarios, including a severe but plausible downside scenario. This scenario applies severe but plausible economic downsides to our base case forecast, modelling the impact of a decline of the Group's participation in the UK grocery market alongside the risk of continued food inflation. Furthermore, the Directors have considered the likely impacts on the business of increased levels of political instability and uncertainty arising out of external events which have occurred subsequent to the balance sheet date and are ongoing at the date of approval of the financial statements. The Directors are satisfied that the potential economic impacts of these events are adequately taken into account in the severe but plausible downside scenario.

As a result of the change in ownership, the Group is now a guarantor to external debt raised by new parent undertakings (see Note 26). The interest payments on the external debt held in the Group's intermediate parent entities are serviced from the Group's cash flows. As such, interest cash flows relating to this debt have been reflected in the base case and severe but plausible downside modelling.

Mitigating actions that are in the control of management have been considered such as reducing non-essential capital expenditure and discretionary spend.

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

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

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

Future developments

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

Dividends

No dividends were declared and paid during the year (2020: £2,919.5m). In the prior year, £1,650.0m was paid in cash and the Group declared a dividend in specie of £1,269.5m settled by a distribution of an intercompany receivable balance. The dividends were paid in accordance with the terms of the Sale and Purchase agreement between ASDA Holdings UK Limited and Bellis Acquisition Company 3 Limited relating to the sale of ASDA Group Limited on a cash-free, debt-free basis.

Financial instruments

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

Political donations

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

Charitable donations

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

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

During the year, cash donations to charitable organisations and other community projects made by the Group's affiliate charity, The ASDA Foundation, totalled £4.0m (2020: £4.5m). For further detail on our relationships with our affiliate charities please see the Strategic Report.

Colleagues with a disability or impairment

ASDA is a proud member of the Business Disability Forum and is an accredited Disability Confident Employer, in addition to other memberships including Inclusive Employers, the LEAD Network, Diversity in Retail and GroceryAid's Diversity in Grocery. We continue to deliver on our commitment to attract, recruit and retain colleagues who reflect the customers and the communities that ASDA serves.

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

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

Colleague involvement

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

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

We continue to review our apprentice programme offer to support the skill needs of the business, offering 42 apprenticeships with over 800 active learners at the end of the year.

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

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

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

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

Streamlined Energy and Carbon Reporting

Greenhouse gas emissions

The Group is reporting against the Streamlined Energy and Carbon Reporting (SECR) framework for the reporting period 1 January 2021 to 31 December 2021. The Group is reporting as an unquoted 'large' company. All the SECR requirements for unquoted 'large' companies have been met with energy consumption and associated emissions reported. In addition, the Group has elected to report its use of liquid fuels (in stationary applications) and greenhouse gas (GHG) emissions associated with the use of refrigerants (included within scope 1 emissions).

The methodology used is the WBCSD/WRI Greenhouse Gas Protocol: a corporate accounting standard revised edition in conjunction with UK Government environmental reporting guidelines including SECR guidance. An operational control approach has been taken. We have used the UK Government greenhouse gas conversion factors for company reporting 2021. Scope 2 emissions from purchased electricity are reported using a location-based approach.

The breakdown of energy consumption and emissions is shown below:

Emissions Source	31 December 2021	31 December 2020*
Energy usage to calculate emissions		
Electricity	1,109,312,657	1,128,563,040
Natural gas	487,251,509	479,338,215
Other stationary^	97,711,188	103,577,084
Transport fuels	645,551,700	636,136,680
Total kWh*	**2,339,827,054**	**2,347,615,019**
Greenhouse gas emissions		
Direct combustion (Scope 1)	116,870	115,467
Fugitive emissions (Scope 1)	116,839	119,412
Fleet vehicles (Scope 1)	156,422	158,931
Electricity (Location) (Scope 2)	234,548	261,548
Business travel (Scope 3)	233	216
Total tCO2e	**624,912**	**655,574**
Intensity ratio (tCO2e/£million in sales)	**26.61**	**28.80**

** The 2020 comparative figures have been updated, compared to the report filed in the 2020 ASDA Group Limited financial statements, to include additional data points identified in the 2021 carbon foot printing process as a result of our continued improvements to our carbon reporting process.*

^ Other stationary includes gas oil, fuel oil and LPG used on sites rather than for transport, for example by manual handling equipment.

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

Energy Efficiency Actions

Sustained investment was made throughout 2021 in projects to reduce energy and carbon emissions. An investment of £8.3m was made in almost 1,000 projects across the Group's Retail and Logistics Services estates which will reduce energy demand and emissions.

Furthermore, there was a continued focus and £0.5m investment on innovation and trials to develop new opportunities to reduce consumption. This included the installation of doors on refrigerated display cases, working to fulfil the business's pledge made during CoP 26 to invest in this area.

Our Energy Bureau is a department within our facilities management (FM) and energy partner, City FM, whose role is to monitor, control and reduce the amount of energy the Group uses. It has further developed and deployed software to improve fridge control solutions to minimise electricity consumption. This extended our demand management capacity to over 25 MW through "internet of things"[1] connected dynamic fridge control equating to almost a fifth of our total energy demand. The Group used this functionality to support the National Grid balance of UK electricity supply and demand.

The Bureau also continued their close monitoring of energy usage through our extensive network of 16,000 main and submeters and made over 800 interventions to address the risk of increasing energy and water consumption supported by a range of in-store technicians and specialists. They also jointly ran trials and modelling with our fleet colleagues on the electrification of our diesel-powered refrigerated trailers.

City FM, was accepted into the EU ENOUGH consortium and will provide demonstrators for "Farm to Fork" de-carbonisation of the food chain, a pan-European effort of 28 organisations including academia and manufacturers. This will provide significant insights and innovation opportunities to our business for the ongoing development of our Net Zero route-map and strategy.

In conjunction with City FM and Star Refrigeration, the Group was the winner of the 2021 Temperature Controlled Storage & Distribution Partnership Awards for the work carried out on reducing energy use in the Chilled Distribution Depots. The Group and City Building Engineering Services (CBES) were also winners at the National ACR & Heat Pump Awards 2021 for 'Refrigeration Project of the Year', recognising the retrofittable adiabatic solution developed to maximise refrigeration system asset uptime whilst increasing the effectiveness of the heat transfer from the condenser to the atmosphere, thereby reducing the amount of energy required to condense and sub-cool the refrigerant.

1 "Internet of things" means the functionality to connect different items of machinery/equipment to a central point

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

Events since the Balance Sheet date

There have been no events occurring between the Balance Sheet date and the date of the approval of the financial statements which require disclosure.

Directors' liabilities

During the year, the Directors were insured against liability in respect of proceedings brought by third parties, subject to the limitations set out in the Companies Act 2006. The insurance was controlled and paid centrally by the former ultimate parent company, Walmart Inc.. However, a proportion of this insurance was paid by the Group.

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

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

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

Approved by the Board on 23 March 2022 and signed on its behalf by:

J. Fallon

J Fallon
Director

Statement of Directors' Responsibilities

Statement of Directors' responsibilities in respect of the financial statements

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

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

In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs (and in respect of the parent company financial statements, FRS 101) is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and company financial position and financial performance;
- in respect of the Group financial statements, state whether UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- in respect of the parent company financial statements, state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company and/or the Group will not continue in business.

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and Directors' Report, that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Statement of Directors' Responsibilities (continued)

Directors' responsibility statement

The Directors confirm, to the best of their knowledge:

- that the consolidated financial statements, prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the parent company and undertakings included in the consolidation taken as a whole;
- that the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the Company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- that they consider the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company and Group's position, performance, business model and strategy.

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 2021 which comprises the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated and parent company Balance Sheet, Consolidated and parent company Statement of Changes in Equity, Consolidated Statement of Cash Flows and the related notes 1 to 27 and 1 to 12, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted International Accounting Standards and as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

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 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted International Accounting Standards;
- 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. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

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 contained within the annual report.

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of 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 31 and 32, 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.

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant frameworks directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (in accordance with UK-adopted international accounting standards for the Group and United Kingdom Generally Accepted Accounting Practice for the parent) and the relevant tax laws and regulations in the UK. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being those laws and regulations relating to health and safety and employee matters.
- We understood how ASDA Group Limited is complying with those frameworks by making enquiries of Group management, Group Legal & Compliance, and Internal Audit. We corroborated our enquiries through our review of board minutes and papers and inspection of commentary in the Group management accounts.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was a susceptibility to fraud. We also considered performance targets and their propensity to influence efforts made by management to manage earnings. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from material fraud and error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing on the full population of journals, with a focus on manual consolidation journals, and journals indicating large or unusual transactions based on our understanding of the business; enquiries of Group management, Group Legal & Compliance, and Internal Audit. In addition, we completed procedures to conclude on the compliance of the disclosures in the Group Financial Statements with the requirements of the relevant accounting standards, and UK legislation.

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

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

Use of our report

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

Ernst & Young LLP

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

Date: 24 March 2022

Consolidated Income Statement for the Year Ended 31 December 2021

	Note	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Revenue	2	23,488.5	22,759.7
Operating costs		(22,795.4)	(22,273.2)
Operating profit		693.1	486.5
Finance income	7	34.6	49.7
Finance costs	7	(113.7)	(67.0)
Other income	8	394.5	-
Profit on ordinary activities before tax		1,008.5	469.2
Income tax credit/(expense)	9	2.0	(100.4)
Profit for the year		1,010.5	368.8

The above results were derived from continuing operations.

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2021

	Note	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Profit for the year		1,010.5	368.8
Items that will not be reclassified subsequently to profit or loss			
Total remeasurements on defined benefit obligation		172.3	(348.2)
(Decrease)/increase in value of BPA asset		(171.6)	346.7
Decrease in value of non-BPA assets excluding interest income		(13.9)	(93.9)
Tax on items recognised directly in other comprehensive income	9	3.6	28.8
		(9.6)	(66.6)
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges:			
Reclassification during the year to Income Statement		30.2	15.2
Net gain/(loss) during the year on not-yet-matured contracts		14.7	(32.5)
Tax on cash flow hedges recognised directly in other comprehensive income	9	(8.5)	3.5
		36.4	(13.8)
Other comprehensive gain/(loss) for the year		26.8	(80.4)
Total comprehensive income for the year		1,037.3	288.4

Consolidated Balance Sheet as at 31 December 2021

Registration number: 1396513

	Note	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Assets			
Non-current assets			
Property, plant and equipment	10	7,876.2	8,441.6
Right-of-use assets	11	2,576.6	2,196.0
Intangible assets	12	724.4	675.0
Pension asset	18	-	63.4
Investments		-	0.5
Deferred tax assets	9	27.9	-
Intercompany receivables	14	2,088.5	-
Other non-current financial assets	17	7.2	-
		13,300.8	11,376.5
Current assets			
Assets held for sale	10	-	8.6
Inventories	13	1,166.7	1,054.9
Trade and other receivables	14	160.7	131.9
Intercompany receivables	14	269.6	14.3
Cash and cash equivalents	15	504.3	1,237.5
Income tax asset		34.7	60.9
		2,136.0	2,508.1
Total assets		15,436.8	13,884.6
Equity and liabilities			
Equity			
Share capital	20	-	-
Share premium	20	-	-
Other reserves	21	441.1	441.1
Cash flow hedge reserve	21	10.8	(25.6)
Retained earnings	21	7,838.4	6,837.5
Equity attributable to owners of the Company		8,290.3	7,253.0
Non-current liabilities			
Deferred tax liabilities	9	-	7.5
Lease liabilities	17	3,253.6	2,070.7
Employee benefits	18	13.4	50.5
Provisions	19	209.2	162.4
		3,476.2	2,291.1
Current liabilities			
Trade and other payables	16	3,518.1	3,686.9
Intercompany payables	16	1.2	417.1
Lease liabilities	17	131.0	119.0
Employee benefits	18	-	94.5
Provisions	19	20.0	23.0
		3,670.3	4,340.5
Total liabilities		7,146.5	6,631.6
Total equity and liabilities		15,436.8	13,884.6

Approved by the Board on 23 March 2022 and signed on its behalf by:

J. Fallon

J Fallon - Director

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

	Note	Share capital £ m	Share premium £ m	Cash flow hedging reserve £ m	Other reserves £ m	Retained earnings £ m	Total equity £ m
At 1 January 2020		-	-	(11.8)	441.1	9,454.8	9,884.1
Profit for the year	21	-	-	-	-	368.8	368.8
Cash flow hedges - reclassified during year to Income Statement	21	-	-	15.2	-	-	15.2
Cash flow hedges - net loss during year on not-yet matured contracts	21	-	-	(32.5)	-	-	(32.5)
Tax on cash flow hedges recognised directly in other comprehensive income	9	-	-	3.5	-	-	3.5
Total remeasurement on defined benefit obligation	18	-	-	-	-	(348.2)	(348.2)
Increase in value of BPA asset	18	-	-	-	-	346.7	346.7
Decrease in value of non-BPA assets excluding interest income	18	-	-	-	-	(93.9)	(93.9)
Tax on net actuarial losses recognised directly in other comprehensive income	9	-	-	-	-	28.8	28.8
Total comprehensive income		-	-	(13.8)	-	302.2	288.4
Dividends		-	-	-	-	(2,919.5)	(2,919.5)
At 31 December 2020		-	-	(25.6)	441.1	6,837.5	7,253.0
Profit for the year	21	-	-	-	-	1,010.5	1,010.5
Cash flow hedges - reclassified during year to Income Statement	21	-	-	30.2	-	-	30.2
Cash flow hedges - net gain during year on not-yet-matured contracts	21	-	-	14.7	-	-	14.7
Tax on cash flow hedges recognised directly in other comprehensive income	9	-	-	(8.5)	-	-	(8.5)
Total remeasurements on defined benefit obligation	18	-	-	-	-	172.3	172.3
Decrease in value of BPA asset	18	-	-	-	-	(171.6)	(171.6)
Decrease in value of non-BPA pension assets excluding interest income	18	-	-	-	-	(13.9)	(13.9)
Tax on net actuarial losses recognised directly in other comprehensive income	9	-	-	-	-	3.6	3.6
Total comprehensive income		-	-	36.4	-	1,000.9	1,037.3
At 31 December 2021		-	-	10.8	441.1	7,838.4	8,290.3

Consolidated Statement of Cash Flows for the Year Ended 31 December 2021

	Note	Year ended 31 December 2021 £ m	Year ended 31 December 2020 (restated) £ m
Profit for the year		1,010.5	368.8
Depreciation of property, plant and equipment	10	398.2	388.7
Depreciation of right-of-use assets	11	166.7	153.4
Amortisation of intangible assets	12	59.0	46.8
Impairment of property, plant and equipment	3	3.9	(0.8)
Impairment of right-of-use assets	11	(1.5)	2.5
Impairment of assets held for sale	3	(0.5)	1.0
Impairment of investments	3	0.5	-
Financial income	7	(34.6)	(49.7)
Financial costs	7	113.7	67.0
Loss on sale of property, plant and equipment	3	0.7	3.0
Loss on disposal of right-of-use assets	3	0.7	3.5
Tax on continuing operations	9	(2.0)	100.4
Pension contributions	18	(0.4)	(95.4)
Gain on sale-and-leaseback	8	(394.5)	-
Settlement loss relating to pension buy-out	18	8.7	-
(Increase)/decrease in trade and other receivables		(14.8)	10.3
(Increase)/decrease in inventories		(102.1)	81.6
(Decrease)/increase in trade and other payables		(119.2)	349.9
Increase in provisions		9.7	6.4
(Decrease)/increase in share-based payment liability	18	(145.0)	8.3
Tax paid		(11.5)	(69.0)
Net cash flow from operating activities		946.2	1,376.7
Proceeds from sale of property, plant and equipment		6.2	4.8
Proceeds from sale of assets held for sale		9.1	-
Purchase of property, plant and equipment		(328.2)	(317.5)
Purchase of intangible assets	12	(108.9)	(85.8)
Buy-in loan repayment	18	41.5	251.0
Interest received	7	0.1	3.1
Increase in intercompany receivables		(633.6)	(70.4)
Net cash flows from investing activities		(1,013.8)	(214.8)
Financing fees paid		(10.5)	-
Acquisition of non-controlling interest		-	(0.2)
External interest paid		(6.9)	(8.3)
Decrease in intercompany payables	16	(415.9)	(8.0)
Interest payments relating to leases		(83.2)	(66.8)
Capital payments relating to leases		(149.1)	(120.4)
Dividends paid to former parent	22	-	(1,650.0)
Net cash flows from financing activities		(665.6)	(1,853.7)
Net decrease in cash and cash equivalents		(733.2)	(691.8)
Cash and cash equivalents at 1 January		1,237.5	1,929.3
Cash and cash equivalents at 31 December	15	504.3	1,237.5

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

1 Accounting policies

General information
The Company is a private company limited by share capital, incorporated and domiciled in England under the Companies Act 2006 (registration number 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 23 March 2022.

Statement of compliance
The Group financial statements have been prepared in accordance with UK-adopted international accounting standards.

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

Basis of preparation
The financial statements have been prepared in accordance with UK-adopted international accounting standards.

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 hundreds of thousands of pounds (£0.1m) 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 2021 (continued)

1 Accounting policies (continued)

Going concern

The financial statements for the year ended 31 December 2021 have been prepared on the going concern basis as the Directors have determined that the Group has sufficient resources and liquidity facilities to meet its liabilities as they fall due for the period from the date of approval of the accounts up to 31 December 2023.

In assessing the Group's ability to adopt the going concern basis, the Directors have tested the ability of the Group to meet its liabilities as they fall due from the date of approval of the accounts up to 31 December 2023, in the event of various cash flow scenarios, including a severe but plausible downside scenario. This scenario applies severe but plausible economic downsides to our base case forecast, modelling the impact of a decline of the Group's participation in the UK grocery market alongside the risk of continued food inflation. Furthermore, the Directors have considered the likely impacts on the business of increased levels of political instability and uncertainty arising out of external events which have occurred subsequent to the balance sheet date and are ongoing at the date of approval of the financial statements. The Directors are satisfied that the potential economic impacts of these events are adequately taken into account in the severe but plausible downside scenario.

As a result of the change in ownership, the Group is now a guarantor to external debt raised by new parent undertakings (see Note 26). The interest payments on the external debt held in the Group's intermediate parent entities are serviced from the Group's cash flows. As such, interest cash flows relating to this debt have been reflected in the base case and severe but plausible downside modelling.

Mitigating actions that are in the control of management have been considered such as reducing non-essential capital expenditure and discretionary spend.

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

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

Prior year cash flow classification restatement

The cash flows for investing activities and financing activities have been restated in relation to the year ended 31 December 2020. As a result of this restatement, the line item "decrease in intercompany receivables" was reduced by £2,620.2m, the line item "decrease in intercompany payables" was decreased by £2,674.2m, the line item "interest received" was decreased by £46.6m, and the line item "interest paid" was increased by £7.4m. This restatement does not change any other numbers in the remaining primary statements or notes to the financial accounts. This restatement has resulted in previously reported total cash flows from investing activities of £(97.8)m to be restated to £(214.8)m and for total cash flows from financing activities of £(1,970.7)m to be restated to £(1,853.7)m.

Enhanced presentation of prior year changes in comprehensive income

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

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

1 Accounting policies (continued)

Changes in accounting policy

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

New standards, interpretations and amendments not yet effective

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

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 judgements, estimates and assumptions impacting the carrying value of assets and liabilities are discussed further below.

Judgements

IFRS 16 lease term

IFRS 16 defines the lease term as the non-cancellable period of a lease together with the period covered by options to extend the lease if the lessee is reasonably certain to exercise the option, and the period covered by an option to terminate the lease if the lessee is reasonably certain not to exercise the option. The 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.

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

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

1 Accounting policies (continued)

IFRS 16 discount rate

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

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

We consider the following factors in determining the incremental borrowing rate:

- The risk free rate of return in the UK market; and,
- The credit risk spread which reflects the additional risks associated with lending specifically to the Group, taking account of factors such as our credit rating, the term of the lease, and the geographic location.

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

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

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

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

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

1 Accounting policies (continued)

Supply Chain Finance

Judgement is made in determining whether balances under supply chain financing arrangements should be classified as trade payables or as another line item on the Balance Sheet. In determining the classification, the Group reviews each arrangement against a number of characteristics to assess whether the substance of liabilities owed by the Group to the participating banks under the contractual terms of the arrangements is consistent with other trade payables. These include:

- Whether participation in the schemes is voluntary for suppliers;
- Whether the Group is involved in the negotiations and agreements between the banks and suppliers or tri-party agreements exist;
- Whether payment terms have been extended outside industry norms for trade payables;
- Whether interest is accrued on outstanding balances or fees are receivable by the Group;
- Whether the banks require parent guarantees in respect of the Group's obligations;
- Whether the Group retains its rights to offset credits or withhold payment.

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

Pension Buy-in

Prior to the buy-out of the ASDA Group Pension Scheme ("the AGPS" or "the Scheme") during the year, the Group retained an obligation to fund pension liabilities of the Scheme in the event of insurer default. As such, the buy-in did not meet the criteria of a settlement event as set out in IAS 19 - Employee Benefits and therefore, prior to the buy-out on 9 July 2021, actuarial gains and losses associated with the buy-in which arose prior to the buy-out have been recognised in other comprehensive income during the current and the prior year. Further detail is provided in note 18.

Pension Buy-out

On 9 July 2021, the trustees of the AGPS completed a buy-out of the Scheme whereby an insurer, Rothesay Life, have become fully and directly responsible for the pension obligations of the Scheme. In the Directors' opinion, this meets the definition of a settlement event per requirements of IAS 19 as the completion of the buy-out represents absolute extinguishment of the Scheme's risk of exposure to pension liabilities and therefore also represents absolute extinguishment of the Group's obligations as sponsoring employer to fund the liabilities of the AGPS. As such, other than £0.5m of assets and liabilities which were outside the scope of the buy-out, the Group has de-recognised all AGPS assets and liabilities during the year. Further details of the resultant impact of the buy-out on other comprehensive income and operating expenses are provided in note 18.

Litigation

Judgement is made in determining whether any provision is required with regard to litigation. In accordance with IAS 37, no provision is made where a loss is not considered to be probable; disclosures of relevant matters are made in contingent liabilities (note 25).

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

1 Accounting policies (continued)

Estimates
Insurance

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

Deferred gain relating to sale-and-leaseback

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

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 2021 (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 any amount recognised for the non-controlling interest over the fair value of identifiable assets acquired and liabilities assumed. 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 any amount recognised for the non-controlling interest is lower than the fair value of identifiable assets acquired and liabilities assumed, the difference represents a gain on bargain purchase (negative goodwill) and is recognised in the Consolidated Income Statement as other income.

The fair value of assets and liabilities acquired in a business combination are measured at acquisition date fair value in accordance with IFRS 13 'Fair Value Measurement' with the exception of income taxes, employee benefits, indemnification assets, reacquired rights, share-based payments and assets held-for-sale.

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 2021 (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 cash flow hedge reserve.

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 Consolidated Income Statement upon disposal.

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

1 Accounting policies (continued)

Intangible assets

Intangible assets acquired are carried initially at cost. Following initial recognition, the historic cost model is applied, with intangible assets being carried at cost less accumulated amortisation and accumulated impairment losses.

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

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

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

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

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

Amortisation

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

Software and development costs	4 years

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2021 (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. Included within assets under construction are intangible assets which are reclassified to intangibles assets once completed.

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
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 2021 (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. Goodwill and indefinite lived intangibles are tested annually for impairment regardless of whether any indicators for impairment exist.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash flows that are largely independent from those of other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time-value of money and the risks specific to the asset. Impairment losses on continuing operations are recognised in the Consolidated 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 2021 (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). 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.

Lease liabilities are presented as separate current and non-current amounts 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 2021 (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. Further detail on the calculation of the incremental borrowing rate is detailed in the 'Key judgements' section of this note under the heading 'IFRS 16 discount rate'.

Right-of-use Assets

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

Right-of-use assets are depreciated over the lease term. If the lease includes an option to transfer ownership of the underlying asset, or the cost of the right-of-use asset reflects that the 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 of non-financial assets' 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 2021 (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: non-interest-bearing financial assets, interest bearing receivables, derivatives designated as hedging instruments, cash and cash equivalents, non-interest-bearing financial liabilities and interest-bearing borrowings. 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.

Non-interest-bearing financial assets and interest-bearing receivables

These categories include trade and other receivables and intercompany receivables which are held with the sole objective of collecting contractual cash flows and are therefore carried at amortised cost. They are included in current assets except for those with maturities greater than 12 months after the Balance Sheet date.

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

1 Accounting policies (continued)

Derivatives designated as hedging instruments
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. The Group uses forward currency contracts to hedge its exposure to foreign currency risk in forecast transactions and firm commitments (refer to note 17 for further details).

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised in the Consolidated Income Statement. For hedges of foreign currency purchases the gain or loss is recognised within cost of inventories. Amounts recognised in other comprehensive income are transferred to the Income Statement when the hedged transaction affects profit or loss, such as when goods are sold.

If a forecast transaction is no longer expected to occur, the amounts previously recognised in other comprehensive income are transferred to the Consolidated Income Statement. 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.

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

Interest-bearing borrowings
The Group' interest-bearing borrowings, including intercompany borrowings and external borrowings, are recorded initially at fair value plus directly attributable transaction costs. Subsequently, these liabilities are carried at amortised cost using the effective interest method. Gains or losses arising on repurchase, settlement or cancellation of liabilities are recognised respectively in finance income or finance cost. Borrowings are classified as current assets except for those with contractual maturities greater than 12 months after the Balance Sheet date.

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

1 Accounting policies (continued)

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

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

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

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

Taxation
The tax expense for the 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.

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

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

1 Accounting policies (continued)

Trade and other receivables
Trade and other receivables are stated at their original invoiced value (discounted if material) 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, credit and debit card receivables and short-term deposits with an original maturity of three months or less. Bank overdrafts and other credit facilities 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.

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.

As described in note 18, a buy-out of the ASDA Group Pension Scheme ("AGPS") was executed during the year on 9 July 2021. As such, the assets and liabilities of the AGPS, other than assets and liabilities amounting to £0.5m for which the Group remains the sponsoring employer, have been de-recognised as pension assets and liabilities. In accordance with the requirements of IAS 19, the settlement loss arising from the de-recognition of pension assets and liabilities at buyout has been recorded as a loss in the Income Statement.

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

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

1 Accounting policies (continued)

Revenue recognition

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

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.

Supplier income recognised in the Income Statement and accounted for within trade receivables (note 14) at the year-end for which estimation and judgement is required is £0.8m (2020: £1.9m). This represents the net amount of accrued income of £0.8m (2020: £1.9m) and deferred income of £nil (2020: £nil) on deals running across the year-end.

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

1 Accounting policies (continued)

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

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

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.

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2021 (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 Committee 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 2021 £ m	Year ended 31 December 2020 £ m
Sale of goods	20,424.0	20,313.1
Fuel	3,064.5	2,446.6
	23,488.5	22,759.7

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

3 Operating costs

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

	Note	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Cost of inventories recognised as an expense		(17,029.4)	(16,555.9)
Cost of inventories written off in the year		(434.0)	(460.7)
Employment costs	5	(2,838.7)	(2,896.3)
Amortisation of intangible assets	12	(59.0)	(46.8)
Depreciation			
- Owned assets	10	(398.2)	(388.7)
- Assets held under finance leases	11	(166.7)	(153.4)
Rental income		11.8	8.9
Other income		37.0	28.7
Loss on sale of property, plant and equipment		(0.7)	(3.0)
Impairment (charge)/reversal relating to property, plant and equipment	10	(3.9)	0.8
Impairment reversal/(charge) relating to right-of-use assets	11	1.5	(2.5)
Impairment reversal/(charge) relating to assets held for sale	10	0.5	(1.0)
Impairment of investments		(0.5)	-
Foreign currency (losses)/gains		(0.3)	4.5
Loss on disposal of right-of-use assets		(0.7)	(3.5)

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

4 Auditors' remuneration

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Within operating costs:		
Fees payable to Company's auditor for the audit of parent company and consolidated financial statements	0.9	0.9
Fees payable to Company's auditor for other professional services	-	0.3

Included within fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements is £0.4m in relation to the audit of wholly-owned subsidiary undertakings of the parent company ASDA Group Limited (2020: £0.4m).

Fees payable to the Company's auditor for other professional services are determined by the amounts charged to the Consolidated Income Statement of the ASDA Group Limited consolidated group. For details of amounts charged to the Bellis Finco PLC consolidated group, which are not included in the table above, see the consolidated financial statements of that group.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2021 (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 2021 No.	Year ended 31 December 2020 No.
Total		
Retail & Distribution	142,928	140,892
Home offices	4,484	4,370
	147,412	145,262
Full time equivalents		
Retail & Distribution	87,491	86,931
Home offices	4,316	4,214
	91,807	91,145

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

	Note	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Wages and salaries	18	2,537.6	2,522.8
Share-based payment expenses	18	17.5	102.6
Social security costs	18	153.5	152.2
Other pension costs	18	130.1	118.7
		2,838.7	2,896.3

Other pension costs comprise the cost of the defined contribution schemes and the settlement relating to the buy-out of the ASDA Group Pension Scheme. All pension-related costs and income are disclosed in note 18.

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

6 Directors' remuneration

The Directors' remuneration for the year was as follows:

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Directors' remuneration	6.7	9.3
Share-based payments	6.3	3.3

During the year, £3.2m was incurred by the Group in respect of compensation for loss of office (2020: £nil). This is not included in the Directors' Remuneration disclosed above.

	Year ended 31 December 2021 No.	Year ended 31 December 2020 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	5	5
Number of Directors who served during the year and were entitled to receive shares under long-term incentive schemes	5	5

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

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Total remuneration excluding pensions	2.6	2.7
Total share-based payments	2.8	0.8

During the year, £2.3m was incurred by the Group in respect of compensation for loss of office for the highest paid Director (2020: £nil). This is not included in the Directors' Remuneration disclosed above.

During the year, two Directors were deferred members of the defined benefit scheme (2020: two). Following the pension buy-out on 9 July 2021, the Group extinguished its responsibility for funding the ASDA Group Pension Scheme, see note 18 for details.

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

7 Finance income and costs

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Finance income		
Bank interest receivable	0.1	3.0
Net interest income on pension scheme	-	0.1
Interest receivable on amounts owed by group undertakings	34.5	46.6
Total finance income	34.6	49.7
Finance costs		
External interest payable	7.1	-
Interest on lease liabilities	99.3	66.5
Net interest cost on pension scheme	2.3	-
Interest capitalised	-	(0.4)
Interest payable on amounts owed from group undertakings	3.1	-
Asset retirement obligation discount unwind	1.9	0.9
Total finance costs	113.7	67.0

External interest payable consists of fee amortisation, commitment fees and interest on the Revolving Credit Facility entered into during the year.

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

8 Sale-and-Leaseback transaction

On 23 June 2021, the Group entered into the sale-and-leaseback of twenty-five of its distribution properties. Further sale-and-leasebacks for two depots were completed on 24 June 2021 and 14 October 2021 respectively. The properties were sold at fair value to a related party, Bellis Select Warehouse Limited (BSWL), prior to disposal to a third party.

In accordance with IFRS 15, it was determined that the transfer of the distribution properties to BSWL for proceeds of £1,675.0m is considered a sale. In the year ended 31 December 2021, assets relating to the distribution properties with a Net Book Value of £497.5m were sold to BSWL and the Group has recognised a gain on sale of £394.5m representing the amount of the gain that relates to the rights transferred to the buyer-lessor. The remaining gain of £783.0m is deferred as a reduction to the right-of-use asset relating to the leaseback.

On 13 July, 22 July and 21 October 2021, the distribution properties that were transferred to Bellis Select Warehouse Limited were sold for £1,675.0m to third party entities controlled by Blackstone Group Inc. These properties were leased back to the Group on terms ranging from 18 months to 35 years (including the assumption that leases will be extended by 10 years, consistent with the assumptions set out in note 1). The Group continues to lease these properties from entities controlled by Blackstone Group Inc. and has adjusted the right of use assets and lease liabilities to reflect amended terms of the leases on transfer to the third-party entities at that date.

The leasebacks of the depots, taking into account the deferral of a proportion of the disposal gain into the right-of-use asset and subsequent modification to the lease term, resulted in an increase in right-of-use assets of £406.6m and lease liabilities of £1,177.4m.

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

9 Income tax

Tax (credited)/charged to the Income Statement

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Current taxation		
UK corporation tax	49.3	20.6
UK corporation tax adjustment to prior periods	(11.0)	(0.6)
Current tax charge for the year	38.3	20.0
Deferred taxation		
Arising from origination and reversal of temporary differences	(98.8)	70.0
Arising from changes in tax rates and laws	48.3	8.3
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	10.2	2.1
Total deferred tax (credit)/charge	(40.3)	80.4
Tax (credit)/expense in the Income Statement	(2.0)	100.4

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

9 Income tax (continued)

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

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Profit before tax	1,008.5	469.2
Corporation tax at standard rate	191.6	89.1
Adjustment in respect of prior periods	(0.8)	1.5
Non-qualifying depreciation	19.6	18.4
Change in tax rate	48.3	8.3
Expenses not deductible	3.9	7.6
Movement recognised on capital losses	-	4.7
Group relief not paid for	(57.1)	(28.4)
Chargeable gains [a]	74.0	-
Deferred accounting gain on sale and leaseback [a]	(193.3)	-
Gain on non-qualifying fixed assets	(79.1)	(0.8)
Enhanced capital allowance deduction	(9.1)	-
Total tax (credit)/charge	(2.0)	100.4

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

On 3 March 2021, it was announced in the UK Budget that the main rate of corporation tax in the United Kingdom will increase to 25% on 1 April 2023, and this rate change was substantively enacted in May 2021. The deferred tax liability is calculated using the tax rate at which it is expected to unwind (of between 19% and 25%, this was previously 19%). The tax charge in relation to the rate change is £48.3m.

(a) The tax credit in relation to the sale-and-leaseback of the Group's distribution properties is £119.3m. A tax credit arises on the transaction, despite an accounting gain of £394.5m. The tax payable on the chargeable gain on disposal (after the offset of capital losses) is £74.0m. A deferred tax asset of £193.3m has arisen where the accounting gain on the disposal of fixed assets has been deferred as a reduction of the right-of-use asset of the leaseback, as the full proceeds have been taxed as a capital gain.

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

9 Income tax (continued)

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

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Deferred tax credit on pensions	3.6	28.8
Deferred tax (charge)/credit on cash flow hedges	(8.5)	3.5
Total tax on items (charged)/credited to Consolidated Statement of Comprehensive Income	(4.9)	32.3

The deferred tax credit on pensions includes credits arising from the change in tax rate of £0.7m (2020: £11.1m).

Deferred tax

Deferred tax assets and liabilities are attributable to the following:

2021	Asset £ m	Liability £ m	Net deferred tax £ m
Property, plant and equipment	-	(110.7)	(110.7)
Employee benefits	38.5	-	38.5
Provisions	7.0	-	7.0
Other items	-	(2.7)	(2.7)
Capital losses	1.8	-	1.8
Intangible assets	-	(13.4)	(13.4)
Right-of-use assets and lease liabilities	107.4	-	107.4
	154.7	(126.8)	27.9

2020	Asset £ m	Liability £ m	Net deferred tax £ m
Property, plant and equipment	-	(82.8)	(82.8)
Employee benefits	106.5	-	106.5
Provisions	3.6	-	3.6
Other items	5.9	-	5.9
Capital losses	4.7	-	4.7
Intangible assets	-	(1.1)	(1.1)
Right-of-use assets and lease liabilities	-	(44.3)	(44.3)
	120.7	(128.2)	(7.5)

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

9 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 had capital losses at 31 December 2020 of £384.2m of which £24.7m were recognised and £359.5m were unrecognised. Capital losses of £377.1m have been used as a result of the sale-and-leaseback of the warehouses. New capital losses of £13.0m have arisen. Capital losses carried forward at 31 December 2021 are £20.1m of which £7.0m were recognised and £13.1m were unrecognised. Capital losses are not recognised where, at the Balance Sheet date, it is not considered probable that the losses will be used.

Deferred tax movement during the year:

	At 1 January 2021 £ m	Recognised in income £ m	Recognised in other comprehensive income £ m	At 31 December 2021 £ m
Property, plant and equipment	(82.8)	(27.9)	-	(110.7)
Employee benefits	106.5	(71.6)	3.6	38.5
Provisions	3.6	3.4	-	7.0
Other items	5.9	(0.1)	(8.5)	(2.7)
Capital losses	4.7	(2.9)	-	1.8
Intangible assets	(1.1)	(12.3)	-	(13.4)
Right-of-use assets and lease liabilities	(44.3)	151.7	-	107.4
Net tax (liabilities)/assets	(7.5)	40.3	(4.9)	27.9

Deferred tax movement during the prior year:

	At 1 January 2020 £ m	Recognised in income £ m	Recognised in other comprehensive income £ m	At 31 December 2020 £ m
Property, plant and equipment	(81.5)	(1.3)	-	(82.8)
Employee benefits	130.3	(52.6)	28.8	106.5
Provisions	3.3	0.3	-	3.6
Other items	2.3	0.1	3.5	5.9
Capital losses	9.0	(4.3)	-	4.7
Intangible assets	(0.5)	(0.6)	-	(1.1)
Right-of-use assets and lease liabilities	(22.3)	(22.0)	-	(44.3)
Net tax assets/(liabilities)	40.6	(80.4)	32.3	(7.5)

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

10 Property, plant and equipment

	Freehold properties £ m	Leasehold improvements £ m	Plant, equipment, fixtures & fittings £ m	Assets under construction £ m	Total £ m
Cost					
At 1 January 2020	9,099.7	1,396.8	2,613.2	107.3	13,217.0
Additions	100.0	9.2	14.5	204.3	328.0
Disposals	(2.2)	-	(261.9)	(0.2)	(264.3)
Transfers from Assets Under Construction	84.3	-	153.4	(237.7)	-
Reclassification	(97.0)	97.0	-	-	-
At 31 December 2020	9,184.8	1,503.0	2,519.2	73.7	13,280.7
At 1 January 2021	9,184.8	1,503.0	2,519.2	73.7	13,280.7
Additions	89.7	56.1	90.7	104.9	341.4
Disposals	(36.9)	(3.1)	(195.3)	-	(235.3)
Transfers from Assets Under Construction	80.3	-	67.3	(147.6)	-
Sale-and-leaseback disposals	(668.7)	(0.3)	(1.2)	-	(670.2)
At 31 December 2021	8,649.2	1,555.7	2,480.7	31.0	12,716.6
Accumulated depreciation and impairment					
At 1 January 2020	2,233.3	671.7	1,802.7	-	4,707.7
Charge for year	170.4	35.2	183.1	-	388.7
Eliminated on disposal	(0.6)	-	(255.9)	-	(256.5)
Impairment (reversals)/charges	(1.3)	(0.5)	1.0	-	(0.8)
Reclassification	(18.8)	18.8	-	-	-
At 31 December 2020	2,383.0	725.2	1,730.9	-	4,839.1
At 1 January 2021	2,383.0	725.2	1,730.9	-	4,839.1
Charge for the year	176.6	42.3	179.3	-	398.2
Eliminated on disposal	(33.8)	(1.1)	(193.2)	-	(228.1)
Impairment charges/(reversals)	2.1	(0.3)	2.1	-	3.9
Sale-and-leaseback disposals	(171.5)	(0.2)	(1.0)	-	(172.7)
At 31 December 2021	2,356.4	765.9	1,718.1	-	4,840.4
Net book value					
At 31 December 2020	6,801.8	777.8	788.3	73.7	8,441.6
At 31 December 2021	**6,292.8**	**789.8**	**762.6**	**31.0**	**7,876.2**

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

10 Property, plant and equipment (continued)

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

Impairment
Both the operational and non-operational estate are regularly reviewed for indicators of impairment. Following reviews in the year, impairment charges of £3.9m were recognised in operating costs during the year. (2020: £0.8m reversal). The net impairment charge in the year is driven primarily by the charges relating to two fulfilment centres which closed during the year.

Capitalised interest
The cumulative amount of capitalised interest included in the cost of fixed assets is £273.4m (2020: £273.4m).

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

11 Right-of-use assets

	Land and Buildings £ m	Plant and Equipment £ m	Total £ m
Cost			
At 1 January 2020	2,302.2	170.0	2,472.2
Additions	70.2	50.5	120.7
Disposals	(4.1)	(20.7)	(24.8)
At 31 December 2020	2,368.3	199.8	2,568.1
At 1 January 2021	2,368.3	199.8	2,568.1
Additions	439.0	108.6	547.6
Disposals	(3.2)	(24.7)	(27.9)
At 31 December 2021	2,804.1	283.7	3,087.8
Accumulated depreciation and impairment			
At 1 January 2020	196.6	40.9	237.5
Charge for the year	104.7	48.7	153.4
Eliminated on disposal	(1.4)	(19.9)	(21.3)
Impairment charge	2.5	-	2.5
At 31 December 2020	302.4	69.7	372.1
At 1 January 2021	302.4	69.7	372.1
Charge for the year	108.8	57.9	166.7
Eliminated on disposal	(1.7)	(24.4)	(26.1)
Impairment reversal	(1.5)	-	(1.5)
At 31 December 2021	408.0	103.2	511.2
Net book value			
At 31 December 2020	2,065.9	130.1	2,196.0
At 31 December 2021	2,396.1	180.5	2,576.6

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

11 Right-of-use assets (continued)

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 32 years (2020: 33 years). No property right-of-use assets were impaired in the year (2020: Seven).

Leases of plant, vehicles and equipment have various terms but typically do not include mid-term rent reviews or extension options. They have no purchase options. The average remaining lease term is 4 years (2020: 4 years).

Included within additions of £547.6m is £406.6m relating to the sale and leaseback transaction. This is stated net of a £783.0m deferral of the gain on sale. The remaining additions relate to renewals or modifications of previously existing leases for land and buildings, and new leases for plant, vehicles and equipment.

For further details of lease liabilities please see note 23.

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

12 Intangible assets

	Brand licence £ m	Goodwill £ m	Software and development costs £ m	Other £ m	Total £ m
Cost					
At 1 January 2020	31.9	508.0	280.0	0.1	820.0
Additions	-	-	85.8	-	85.8
Disposals	-	-	(3.7)	-	(3.7)
At 31 December 2020	31.9	508.0	362.1	0.1	902.1
At 1 January 2021	31.9	508.0	362.1	0.1	902.1
Additions	-	-	108.9	-	108.9
Disposals	-	-	(8.0)	-	(8.0)
At 31 December 2021	31.9	508.0	463.0	0.1	1,003.0
Amortisation					
At 1 January 2020	14.6	-	169.3	0.1	184.0
Amortisation charge	-	-	46.8	-	46.8
Amortisation eliminated on disposals	-	-	(3.7)	-	(3.7)
At 31 December 2020	14.6	-	212.4	0.1	227.1
At 1 January 2021	14.6	-	212.4	0.1	227.1
Amortisation charge	-	-	59.0	-	59.0
Amortisation eliminated on disposals	-	-	(7.5)	-	(7.5)
At 31 December 2021	14.6	-	263.9	0.1	278.6
Net book value					
At 31 December 2020	17.3	508.0	149.7	-	675.0
At 31 December 2021	**17.3**	**508.0**	**199.1**	**-**	**724.4**

The George brand licence has a carrying value of £17.3m (2020: £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.

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

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

12 Intangible assets (continued)

Impairment testing of goodwill

Netto Acquisition
Goodwill of £482.3m (2020: £482.3m) arose on the acquisition of Netto Foodstores Limited on 13 April 2011. This has been tested for impairment as at 31 December 2021 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 four-year period. This is the period to which specific reliable forecasts have been made. The pre-tax discount rate applied to the cash flow projections is 8.0% (2020: 6.8%) and the growth rate used to extrapolate the cash flows beyond the specific forecast period is 0.2% (2020: 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.

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 2021 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 grocery retail and 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 other likely acquirers as well as that of the Group.

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

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

12 Intangible assets (continued)

Turkmen Tedarik Hizmetleri Acquisition

Goodwill of £17.0m (2020: £17.0m) arose on the acquisition of Turkmen Tedarik Hizmetleri on 26 April 2012. This has been tested for impairment as at 31 December 2021 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 cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to the cash flow projections is 8.0% (2020: 6.8%) and the growth rate used to extrapolate the cashflows beyond specific forecast period is (0.4)% (2020: 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.

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 in the UK and elsewhere in Europe and has a carrying value of £17.3m (2020: £17.3m). This has been tested for impairment as at 31 December 2021 by assessing the present value of forecasted cash flows arising from the George clothing business.

The recoverable amount is determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to the cash flow projections is 8.0% (2020: 6.8%) and the growth rate used to extrapolate the cash flows beyond specific forecast period is (0.4)% (2020: 0.1%).

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

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

13 Inventories

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Goods held for resale	1,164.1	1,053.2
Goods not held for resale	2.6	1.7
	1,166.7	1,054.9

Cost of inventories written off in the year are disclosed in note 3.

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

14 Trade and other receivables

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Trade and other receivables		
Trade receivables	78.2	82.5
Allowance for expected credit losses	(2.5)	(3.3)
Other receivables	50.2	43.2
Prepayments and accrued income	20.8	9.5
Derivative assets	14.0	-
	160.7	131.9
Intercompany receivables		
Non-current	2,088.5	-
Current	269.6	14.3
	2,358.1	14.3

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

Trade receivables are presented net where a legally enforceable right of set off exists. Included in the above is an offset of £210.2m (note 16) (2020: £207.2m). The trade receivables balance prior to the offset is £288.4m (2020: £289.7m).

Other receivable balances have been assessed to determine the value of ECLs as per the requirements of IFRS 9 and the impact is £nil (2020: £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.

The non-current intercompany receivable balance has increased by £2,088.5m largely due to the intercompany receivables arising out of the sale-and-leaseback transaction, as properties owned by the Group were sold to a fellow wholly-owned subsidiary of the parent undertaking in exchange for an intercompany receivable.

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

14 Trade and other receivables (continued)

As at 31 December 2021, trade receivables at nominal value of £2.5m (2020: £3.3m) were impaired and fully provided for. Movements in the allowance for expected credit losses in the year were as follows:

	31 December 2021 £ m	31 December 2020 £ m
At 1 January	3.3	4.1
Provision for expected credit losses	1.2	1.6
Provision utilised during the year	(0.6)	(0.3)
Unused amounts reversed during the year	(1.4)	(2.1)
At 31 December	2.5	3.3

The Group has not made any provision for intercompany receivables.

15 Cash and cash equivalents

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Cash in hand and bank balances	237.3	322.5
Money market funds and deposits	267.0	915.0
	504.3	1,237.5

At 31 December 2021, included in the cash and cash equivalents balance is an amount of £73.0m relating to card receipts relating to sales during the year for which cleared funds were received after the year end (2020: £68.6m).

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

16 Trade and other payables

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Trade payables	2,913.7	2,761.2
Other taxes and social security	183.7	179.5
Other payables	122.6	81.0
Accrued expenses	296.6	625.0
Derivative liabilities	1.5	40.2
	3,518.1	3,686.9
Intercompany payables	1.2	417.1

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

Trade receivables are presented net where a legally enforceable right of offset exists. Included in the above is an offset of £210.2m (note 14) (2020: £207.2m). The trade payable prior to the offset is £3,123.9m (2020: £2,968.4m).

For terms and conditions relating to amounts owed to related parties, refer to note 26.

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

17 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 2021 £ m	Year ended 31 December 2020 £ m
Non-interest-bearing financial assets at amortised cost		
Trade receivables	75.7	79.2
Other receivables	50.2	43.2
	125.9	122.4
Current non-interest-bearing financial assets at amortised cost		
Intercompany receivables	269.6	14.3
Non-current interest-bearing financial assets at amortised cost		
Intercompany receivables	2,088.5	-
Non-current non-interest-bearing financial assets at amortised cost		
Other non-current financial assets	7.2	-
Derivatives designated as hedging instrument		
Derivative assets	14.0	-
Other financial assets		
Cash and cash equivalents	504.3	1,237.5
Total financial assets	3,009.5	1,374.2

As at 31 December 2021, all of the Group's interest-bearing financial assets were denominated in Sterling at fixed rates of interest. The interest rates of interest-bearing receivables are between 3.45% - 4.75%. Intercompany receivables are disclosed in note 26.

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

17 Financial instruments (continued)

Movements in receivables arising from financing activities

Interest-bearing financial assets comprises the intercompany receivable from the sale of the distribution properties to Bellis Select Warehouse Limited of £1,675.0m (see note 8) and £17.7m relating to financing activities to fund the repayment of the warehouse bridge loan - both of these receivables are due from Bellis Midco 2 Limited as a result of the assignment of these balances on 31 December 2021. Interest of £29.3m has been charged on these receivables since initial recognition. The Group also recognises £105.9m due from Bellis Acquisition Company 3 Limited relating to the repayment of the RCF drawing by immediate and intermediate holding companies to partially fund their acquisition of the Group and £255.4m due from Bellis Acquisition Company plc relating to cash funding of the forecourt loan repayment. Interest of £3.3m and £1.9m respectively, has been charged on these receivables since initial recognition.

Non-interest-bearing financial assets comprises intercompany receivables from the Group's parent undertakings relating to the Group's funding of external debt interest payments of £126.0m, funding of transaction and advisor fees of £81.0m, the funding of deferred purchase price adjustments relating to Bellis Acquisition Company 3 Limited's purchase of the Group of £62.0m and management recharges to intermediate parent entities of £0.6m.

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Non-interest-bearing financial liabilities at amortised cost		
Trade payables	2,913.7	2,761.2
Other payables	122.6	81.0
Accrued expenses	296.6	625.0
	3,332.9	3,467.2
Derivatives designated as hedging instrument		
Derivative liabilities	1.5	40.2
Amounts included in trade and other payables	3,334.4	3,507.4
Interest-bearing financial liabilities at amortised cost		
Intercompany payables	-	417.1
Non-interest-bearing financial liabilities at amortised cost		
Intercompany payables	1.2	-
Current interest-bearing borrowings		
Lease liabilities	131.0	119.0
Non-current interest-bearing borrowings		
Lease liabilities	3,253.6	2,070.7
Total financial liabilities	6,720.2	6,114.2

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

17 Financial instruments (continued)

As at 31 December 2021, all borrowings were in Sterling, loans with the new parent undertakings are interest-free and repayable upon demand. The weighted average lease liability discount rate was 4.1%. As at 31 December 2021, the interest rate of fixed rate debt was 0.05% - 15.5% (2020: 0.05% - 15.5%), comprising intercompany payables and lease liabilities.

Intercompany payables are disclosed in note 26. Details of obligations under leases are included in note 23.

Movements in liabilities arising from financing activities
Intercompany payables reduced in the year ending 31 December 2021 to £1.2m (2020: £417.1m) as a result of the settlement of intercompany liabilities prior to completion of the sale of the entire issued share capital of ASDA from ASDA Holdings UK Limited (AHUKL) to Bellis Acquisition Company 3 Limited (BAC3L) on 16 February 2021. The intercompany payables at 31 December 2021 relate to VAT recovered on behalf of wholly-owned subsidiaries of the Group's intermediate parent companies.

On 16 February 2021, the Group entered into two Revolving Credit Facilities (RCF) totalling £690.0m with £190.0m maturing in February 2022 and £500.0m maturing in August 2025. Fees paid relating to the RCFs of £10.5m (2020: £nil) have been paid and will be expensed over the term of the facilities. Amortisation of £3.3m was charged in the year and is included within external interest payable. The carrying amount of RCF fees at 31 December 2021 was £7.2m (2020: £nil). On 16 September 2021, the Group voluntarily cancelled the £190.0m Original Revolving Facility 2 in full. The Group retains the availability of the £500.0m Revolving Credit Facility.

On 26 July 2021, the Group entered into a framework agreement in respect of a short-term working capital facility in an aggregate amount of £115.0m. The facility provides the Group with a credit facility pursuant to which payment to the relevant beneficiaries and suppliers is made by ASDA Stores Limited using the facility on the relevant invoice due date, with ASDA Stores Limited then settling these liabilities in the normal course of business. An amount of £15.7m is outstanding on this facility at 31 December 2021 and is included in other payables.

Total lease cash outflow in the year was £255.8m (2020: £205.7m). Amounts included in financing activities in the cash flow statement are cash payments for the principal portion of the lease liability £149.1m (2020: £120.4m) and cash payments for the interest portion of the lease liability £83.2m (2020: £66.8m). £23.5m has been included in operating activities in the cash flow statement and relates to short term and variable lease expenses (2020: £18.5m).

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

17 Financial instruments (continued)

Security pledged

The Group pledged certain assets as security for the indebtedness of parent undertakings in the form of a first-ranking charge over certain material bank accounts, material intercompany receivables, the shares owned by the Company in ASDA Stores Limited, McLagan Investments Limited and The Burwood House Group Limited, and a first-ranking floating charge over all present and future assets (other than customarily excluded assets) of ASDA Group Limited, ASDA Stores Limited, McLagan Investments Limited and The Burwood House Group Limited.

Part of the security pledged is in relation to one of the Group's existing supply chain finance agreements in the form of fixed and floating charges over certain of the Group's assets. There were no other changes to the terms of this supply chain finance agreement which impact on the nature of amounts owed to the bank under this arrangement. Given consideration of this and the other factors set out in note 1 the Directors have concluded that the substance of the Group's liabilities under this supply chain financing agreement remain consistent overall with that of a trade payable and accordingly will continue to be accounted for and classified as trade payables.

On 13 August 2021, the Group entities that guarantee the Senior Secured Notes issued by Bellis Acquisition Company plc, the Term Loan Facilities and the Forecourt Bridge Facility borrowed by Bellis Acquisition Company plc and the Revolving Credit Facility made available to the Group granted first-priority security interests over their Material Real Property to secure their obligations under those instruments. With the completion of this security grant, the Group has discharged the requirement to deliver post-closing collateral under the various financing arrangements established in connection with the acquisition of the Group by entities controlled by the Issa brothers and TDR Capital. Upon the issuance of additional Senior Secured Notes on 5 November 2021 by Bellis Acquisition Company plc, the Group is required to grant further first-priority security interests over their Material Real Property to secure their obligations under these instruments. This grant of this security is outstanding and is expected to be completed by April 2022.

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. Fair Values are not disclosed for the Group's financial instruments including trade receivables, other receivables, trade payables, other payables, accruals, intercompany receivables and intercompany payables as the carrying value reasonably approximates the fair value of these financial instruments.

The Group measures the fair value of its financial instruments by reference to the fair value hierarchy in IFRS 13 'Fair Value Measurement':

• Level 1 - using quoted prices (unadjusted) in active markets for identical assets or liabilities;

• Level 2 - using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

• Level 3 - using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

17 Financial instruments (continued)

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

Intercompany payables/receivables - the fair value of fixed rate intercompany payables/receivables is estimated by discounting the future contracted cash flow using prevailing 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 2021 the Group held £14.0m (2020: £nil) in-the-money assets, and £1.5m (2020: £40.2m) out-of-the-money liabilities in respect of its forward contracts. During the year, the Group recognised net gains on revaluation of hedged monetary assets and liabilities from historical cost to year-end spot rate of £0.3m (2020: £8.2m net gain).

The fair values of the Group's financial derivatives and intercompany payables/receivables 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'.

Interest rate risk

Whilst the Group does not directly hold any significant interest-bearing liabilities, the Group is a guarantor to the external borrowings held by its intermediate parents and, as disclosed in note 1, the Group funds the interest payments on these borrowings. As a result, the Group is exposed to interest rate risk on floating rate (LIBOR[1]) liabilities which comprises a term loan and £500m revolving credit facilities. All other borrowings are either at a fixed rate or have been hedged to achieve a fixed rate. Interest rate movements would not have an impact on profitability or equity at the balance sheet date.

Prior to the change in ownership on 16 February 2021, the Group's short-term loans were all held with entities which are part of the Walmart Inc. group at fixed rates of interest. Amounts owed to fellow subsidiaries (note 26) attracted interest at a rate of 5.448% - 6%.

1 During 2022, LIBOR will transition to SONIA.

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

17 Financial instruments (continued)

Foreign currency risk

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

The Group implements hedge accounting and has forward currency hedging contracts outstanding at 31 December 2021, designated as hedges of expected future purchases from suppliers in US Dollars. The forward currency contracts are being used to hedge the foreign currency risk of the future purchases. The terms of the forward currency hedging contracts have been negotiated to match the terms of the commitments and none exceed a period of more than 12 months after 31 December 2021. 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 2021, a net unrealised gain of £10.8m (2020: £25.6m loss) was included in the hedge reserve in respect of hedging contracts. The net gain recognised in other comprehensive income during the year in respect of these hedging contracts was £36.4m (2020: £13.8m loss). This consists of a £14.7m gain on not-yet-matured contracts during the year (2020: £32.5m loss), £30.2m of losses reclassified to the Income Statement during the year (2020: £15.2m of losses) and an £8.5m taxation charge (2020: £3.5m credit).

At 31 December 2021, the Group held £699.9m (2020: £745.5m) of outstanding forward foreign currency contracts, designated as cash flow hedges. These forward contracts are largely in relation to purchases of US Dollars with a notional amount of $944.4m (2020: $944.3m) and Euros with a notional amount of €15.9m (2020: notional €14.1m) with varying maturities up to December 2022. For the above currencies the rates ranged from USD/GBP from 1.315 to 1.420 (2020: 1.170 to 1.366) and Euro/GBP 1.165 to 1.189 (2020: 1.099 to 1.124).

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 at the point of sale. 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 (2020: none), therefore amounts recognised in the Income Statement in relation to ineffective hedges is £nil (2020: £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 £33.5m (2020: £33.4m).

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

17 Financial instruments (continued)

Credit risk

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

The Group has established procedures to minimise the risk of default 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. Intercompany receivables have been considered in relation to the expected credit losses model under IFRS 9 and no impairment is required.

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.

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 2021, the Group had not utilised either RCF or overdraft facilities and had no other external borrowings, other than lease liabilities (2020: none).

As at 31 December 2021, the Group held cash of £504.3m (2020: £1,237.5m) to secure short-term flexibility. The amount of financing facilities available at the year-end are disclosed below:

	Utilised at 31 December 2021 (£m)	Remaining at 31 December 2021 (£m)	Utilised at 31 December 2020 (£m)	Remaining at 31 December 2020 (£m)
Committed overdraft facilities	-	5.0	-	30.0
Revolving credit facilities	-	500.0	-	-
Stand-by credit facilities - bonds	-	53.2	-	96.2
Other short-term facilities	16.2	98.8	-	-
Supply chain financing facilities	323.7	75.3	338.3	164.8

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

17 Financial instruments (continued)

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.

	Within 1 year £ m	Between 1 and 5 years £ m	After 5 years £ m	Total £ m
Year ended 31 December 2021				
Lease obligations	267.0	921.2	5,065.3	6,253.5
Financial derivatives	712.3	-	-	712.3
Trade and other payables	3,332.9	-	-	3,332.9
Amounts owed to fellow group companies	1.2	-	-	1.2
	4,313.4	921.2	5,065.3	10,299.9
Year ended 31 December 2020				
Finance lease obligations	184.2	614.9	2,839.2	3,638.3
Financial derivatives	705.7	-	-	705.7
Trade and other payables	3,467.2	-	-	3,467.2
Amounts owed to fellow UK group companies	275.0	-	-	275.0
Amounts owed to fellow subsidiaries of ultimate parent company - Walmart Inc.	132.4	-	-	132.4
Amounts owed to ultimate parent company - Walmart Inc.	9.7	-	-	9.7
	4,774.2	614.9	2,839.2	8,228.3

Capital risk management

The Group is subject to the risk that its capital structure may not be sufficient to support the growth of its business and maintain its existing credit rating. The capital structure of the Group consists of equity (issued share capital, share premium and reserves). Alongside this the Group is a guarantor of debt obligations entered into by its intermediate parents.

Part of the Group's capital risk management strategy is to monitor a broad range of financial metrics and manage compliance with financial covenants relating to the debt obligations to which the Group is a guarantor. As at 31 December 2021, there have been no breaches of financial covenants.

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

18 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 2021 £ m	Year ended 31 December 2020 £ m
Fair value of scheme assets	0.5	3,017.0
Present value of scheme liabilities	(13.9)	(2,953.6)
Net (liability)/asset for defined benefit pension schemes	(13.4)	63.4
Cash-settled share-based payment liability - non-current	-	(50.5)
Cash-settled share-based payment transactions liability - current	-	(94.5)

Settlement of share-based payment liabilities

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

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

18 Employee benefits (continued)

Pension plans

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

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Wages and salaries	2,537.6	2,522.8
Share-based payments charge	17.5	102.6
Social security costs	153.5	152.2
Cost of defined contribution schemes	121.4	118.7
Settlement expense in relation to pension buy-out	8.7	-
Total charge to operating costs	2,838.7	2,896.3
Defined benefit pension scheme		
Net interest expense/(income) on pension scheme	2.3	(0.1)
Total charge/(credit) to finance income/expense	2.3	(0.1)
Total employee benefit expense	2,841.0	2,896.2

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

18 Employee benefits (continued)

Defined benefit pension schemes

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").

Background to the AGPS buy-in and buy-out

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

In order to enable the AGPS to execute the buy-in, the Group made a contribution in 2019 to the AGPS of £707.5m ("the buy-in contribution") and advanced a loan to the Scheme with an original book value of £467.3m ("the buy-in loan"). Interest is charged at an arms-length rate on this loan. To the extent that the AGPS is unable to settle the buy-in loan balance in full out of the proceeds realised through the liquidation of assets retained by the Scheme after buy-in, the Group is contractually obliged under a back-to-back agreement ("the BTB Agreement") to make a contribution to the Scheme to the value of the shortfall between the assets in the Scheme and the outstanding balance on the buy-in loan, the proceeds of which can be used by the Scheme to settle outstanding amounts on the buy-in loan.

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

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

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

18 Employee benefits (continued)

Amounts recognised in Other Comprehensive Income - current year

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

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

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

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

Amounts recognised in Other Comprehensive Income - prior year

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

Taking into account proceeds realised by the Scheme from the sale of illiquid assets during the prior year compared to previously estimated fair value, and following an assessment of the fair value of assets remaining in the Scheme at 31 December 2020, a loss of £93.9m was included in the total pre-tax actuarial loss of £95.4m recognised in other comprehensive income during the prior year.

Settlement loss recognised in the Consolidated Income Statement

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

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

18 Employee benefits (continued)

Classification of AGPS pension cash flows - current year

During the year, prior to the buy-out, the AGPS made repayments of principal on the buy-in loan of £40.5m and interest payments of £1.0m. These are presented as investing inflows on the Consolidated Statement of Cash Flows.

Classification of AGPS pension cash flows - prior year

As described above, to the extent that the AGPS is unable to settle the buy-in loan balance in full out of the proceeds realised through the liquidation of these assets, the Group is contractually obliged under a back-to-back agreement ("the BTB Agreement") to make a contribution to the Scheme to the value of the shortfall between the assets in the Scheme and the outstanding balance on the buy-in loan, the proceeds of which can be used by the Scheme to settle outstanding amounts on the buy-in loan.

During the prior year, taking into account the amount realised during the year by the Scheme from the sale of illiquid assets since the buy-in, the Group and the Trustees agreed that the Group would make a contribution to the Scheme on 30 December 2020 under the BTB Agreement of £213.5m and that the Scheme would repay this amount of the buy-in loan. The Scheme made further repayments during the prior year of principal on the buy-in loan of £147.0m and interest repayments of £10.1m using proceeds from the sale of illiquid assets. As such, total principal repayments of the buy-in loan during the prior year were £360.5m. The total amount of principal outstanding on the buy-in loan at 31 December 2020 was £67.3m.

In 2019, the total amount which the Group expected to pay as contributions under the BTB Agreement was £119.6m and this amount was classified along with the buy-in contribution of £707.5m as an operating cash flow in that year's financial statements (i.e. total operating cash outflow of £827.1m). During the prior year, an amount of £93.9m - being the contribution made during the year under the BTB agreement in excess of the amount classified as operating in 2019 - was classified as an operating cash outflow. Total net cash inflows relating to the AGPS and UURBS during the prior year of £155.6m are classified in the Consolidated Statement of Cash Flows as an operating outflow of £95.4m and an investing inflow of £251.0m.

UURBS liabilities

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

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

18 Employee benefits (continued)

Scheme liabilities

Changes in the present value of defined benefit obligation:

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Present value at start of year	(2,953.6)	(2,661.0)
Interest cost	(19.9)	(54.6)
Past service cost	-	(0.5)
Effect of changes in financial assumptions	172.3	(525.0)
Effect of experience adjustments	-	176.8
Effect of settlement	2,730.5	-
Benefits paid	56.8	110.7
Present value at end of year	(13.9)	(2,953.6)

Scheme assets

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

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Fair value at start of year	3,017.0	2,975.3
Interest income	20.1	59.5
(Decrease)/increase in value of plan assets excluding interest income	(170.4)	252.8
Effect of settlement	(2,739.2)	-
Reclassification of pension assets	(11.5)	-
Employer contributions (normal)	0.4	1.5
Employer contributions (buy-in)	-	213.5
Repayment of buy-in loan	(41.5)	(370.6)
Benefits paid	(56.8)	(110.7)
Deferred consideration in respect of buy-in premium	(15.1)	-
Administrative expenses	(2.5)	(4.3)
Fair value at end of year	0.5	3,017.0

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

18 Employee benefits (continued)

Amounts recognised in the Consolidated Income Statement

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

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

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

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

18 Employee benefits (continued)

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

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

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

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

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

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

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

18 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 2021 and 31 December 2020 and of the Income Statement charge for 2021 and 2020, to changes in these assumptions. Note that following the buy-out of the AGPS on 9 July 2021, the below sensitivities at 31 December 2021 apply only to the UURBs liabilities.

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

	Year ended 31 December 2021 + 0.1% £ m	Year ended 31 December 2020 + 0.1% £ m
Adjustment to discount rate		
Decrease in scheme liabilities	0.3	79.6
Decrease in finance costs	-	-

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

	Year ended 31 December 2021 + 1 Year £ m	Year ended 31 December 2020 + 1 Year £ m
Adjustment to mortality age rating assumption		
Increase in scheme liabilities	0.5	121.8
Increase in finance costs	-	-

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

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

18 Employee benefits (continued)

Share-based payments

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

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

The impact was eliminated in the consolidated financial statements of the former ultimate parent, Walmart Inc. and the share options would not have been 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 involved the granting of options to employees to acquire shares in the ultimate parent company at pre-determined exercise prices and two of the schemes involved the granting of rights to receive shares in the ultimate parent company for nil consideration. The Performance Share Plan ("PSP") had performance conditions relating to the total payout of options issued. No other scheme had any performance conditions attached to the scheme.

As described earlier in note 18, on 16 February 2021, the former immediate parent company, ASDA Holdings UK Limited, a wholly-owned subsidiary of Walmart Inc., disposed of its interest in the entire issued share capital of the Group to Bellis Acquisition Company 3 Limited ("BAC3L"). See earlier narrative for an explanation of how this impacts the Group's share-based payment transactions.

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

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

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

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

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

Share options were exercised on a regular basis throughout the year. The average exercise price during the year to 31 December 2021 was £59.02 (2020: £45.83). The related shares are denominated in US Dollars, being the reporting currency of the 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 2021 (continued)

18 Employee benefits (continued)

Share-based payments (continued)

Sharesave scheme

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

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

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

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

Walmart Stock Incentive Plan (WSIP) scheme

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

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

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

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

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

18 Employee benefits (continued)

Share-based payments (continued)

Restricted Stock Rights (RSR) scheme

The RSR scheme was introduced in 2008 as an alternative to the WSIP scheme. Under the RSR scheme, employees were awarded the right to receive a predetermined number of shares in the ultimate parent company two or three years from the award date. All RSRs were classed as unapproved from an Income Tax and National Insurance perspective. RSR awards were treated as cash-settled. As a condition of the SPA between AHUKL and BAC3L, employees exercised all of their RSR options for the proportion of the vesting period elapsed at the date of exercise. The Group settled all obligations to Walmart in relation to the options exercised during the year.

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

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

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

Performance Share Plan (PSP) scheme

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

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

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

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

18 Employee benefits (continued)

Share-based payments (continued)

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

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

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

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

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

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

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

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

Share options were exercisable in US Dollars and the risk-free interest rate was based on the applicable US Treasury rate.

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

19 Provisions

	Dilapidations £ m	Insurance £ m	Total £ m
At 1 January 2021	92.3	93.1	185.4
Increase in existing provisions	36.0	45.0	81.0
Provisions used	-	(20.0)	(20.0)
Unused provision reversed	(0.2)	(15.3)	(15.5)
Decrease due to unwinding of discount and rate changes	(1.7)	-	(1.7)
At 31 December 2021	126.4	102.8	229.2
Current liabilities	-	20.0	20.0
Non-current liabilities	126.4	82.8	209.2

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. Insurance liabilities are not discounted as the impact would not be material.

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. A discount rate of 1.1% (2020: 0.8%) has been used in determining this provision. The provision is expected to be utilised at the end of the respective terms of the leases giving rise to these liabilities.

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

20 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 2021 and 31 December 2020	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 2021 (continued)

21 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 2020	441.1	(11.8)	9,454.8	9,884.1
Profit for the year	-	-	368.8	368.8
Cash flow hedges - reclassified during year to Income Statement	-	15.2	-	15.2
Cash flow hedges - net loss during year on not-yet-matured contracts	-	(32.5)	-	(32.5)
Tax on cash flow hedges recognised directly in other comprehensive income	-	3.5	-	3.5
Total remeasurements on defined benefit obligation	-	-	(348.2)	(348.2)
Increase in value of BPA asset	-	-	346.7	346.7
Changes in non-BPA assets excluding interest income	-	-	(93.9)	(93.9)
Tax on items recognised directly in other comprehensive income	-	-	28.8	28.8
Dividends paid	-	-	(2,919.5)	(2,919.5)
At 31 December 2020	441.1	(25.6)	6,837.5	7,253.0
At 1 January 2021	441.1	(25.6)	6,837.5	7,253.0
Profit for the year	-	-	1,010.5	1,010.5
Cash flow hedges - reclassified during year to Income Statement	-	30.2	-	30.2
Cash flow hedges - net gain during year on not-yet matured contracts	-	14.7	-	14.7
Tax on cash flow hedges recognised directly in other comprehensive income	-	(8.5)	-	(8.5)
Total remeasurements on defined benefit obligation	-	-	172.3	172.3
Decrease in value of BPA asset	-	-	(171.6)	(171.6)
Decrease in value of non-BPA assets excluding interest income	-	-	(13.9)	(13.9)
Tax on items recognised directly in other comprehensive income	-	-	3.6	3.6
At 31 December 2021	441.1	10.8	7,838.4	8,290.3

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 2021 (continued)

22 Dividends proposed and paid

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Dividends Declared	-	2,919.5

No dividends were proposed nor paid in the year ended 31 December 2021. During the prior year, dividends of £2,919.5m (£729.9m per share) were paid to the Group's former immediate parent undertaking, ASDA Holdings UK Limited, in the form of £1,650.0m cash and £1,269.5m declared as a dividend in spccic settled via a distribution of an intercompany receivable balance.

23 Obligations under leases

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

	31 December 2021 £ m	31 December 2020 £ m
Future minimum payments due:		
No later than one year	267.0	184.2
Later than one year and no later than two years	251.3	174.6
Later than two years and no later than three years	237.4	158.8
Later than three years and no later than four years	227.5	145.0
Later than four years and no later than five years	205.0	136.5
Later than five years	5,065.3	2,839.2
	6,253.5	3,638.3
Lease finance charges allocated to future periods	(2,868.9)	(1,448.6)
Present value of minimum lease payments	3,384.6	2,189.7

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

23 Obligations under leases (continued)

Total lease cash outflow in the year was £255.8m (2020: £205.7m). 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 £149.1m (2020: £120.4m) and cash payments for the interest portion of the lease liability £83.2m (2020: £66.8m). £23.5m has been included in operating activities in the cash flow statement and relates to short term and variable lease expenses (2020: £18.5m).

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

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:

	Note	31 December 2021 £ m	31 December 2020 £ m
Depreciation - land and buildings right-of-use assets		108.8	104.7
Depreciation - plant and equipment right-of-use assets		57.9	48.7
Impairment (reversal)/charge - land and buildings right-of-use assets		(1.5)	2.5
Short-term lease expense[1]		8.7	1.8
Variable lease expense[2]		14.8	16.7
Sub-lease income		(7.4)	(6.8)
		181.3	167.6
Interest expense related to lease liabilities	7	99.3	66.5
Total amount recognised in Income Statement		280.6	234.1

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 5.8% of overall lease payments in 2021 (2020: 8.2%).

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

23 Obligations under leases (continued)

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

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

24 Commitments

Capital commitments

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

Other financial commitments

As at 31 December 2021, the Group had entered into contracts to purchase US Dollars for £686.4m (2020: £732.8m) and energy for £99.1m (2020: £40.3m).

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

25 Contingent liabilities

Equal Value Claims: ASDA Stores Limited, a wholly-owned subsidiary of the Group, has been served with circa 47,000 employment tribunal claims that have been presented on behalf of current and former ASDA store employees, who allege that their work in ASDA's stores is of equal value in terms of the demands of their jobs to that of employees working in ASDA's distribution centres, and that the differences in pay and terms and conditions between the different jobs are not objectively justified. The claimants are requesting differential back pay based on higher wage rates in the distribution centres and those higher wage rates and more favourable terms and conditions on a prospective basis as part of these equal value proceedings. ASDA believes that further claims may be served.

At present, the Directors cannot predict the number of claims that may be served, and cannot reasonably estimate any loss or range of loss that may arise from these proceedings. On 26 March 2021, the Supreme Court upheld the Court of Appeal's decision, that the work of hourly-paid workers in distribution centres and the work of hourly-paid workers in stores can be compared. Despite this ruling, the Directors believe that there are substantial factual and legal defences to these claims, and intend to defend the claims vigorously. No provision continues to be recognised on the basis that any potential liability is only a possible obligation, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits.

As a result of the change of ownership on 16 February 2021, ASDA and its new parent company Bellis Acquisition Company 3 Limited ("BAC3L") have entered into an indemnification agreement which is guaranteed by the former ultimate parent, Walmart Inc. ("Walmart") with respect to these claims. The Walmart Inc. group of companies have indemnified ASDA and BAC3L for these claims up to a contractually agreed amount.

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

26 Related parties

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Technical assistance, services and royalties paid to Walmart Inc.[1]	20.3	121.0
Sales to Euro Garages Limited[5]	5.4	-
Reimbursement from Euro Garages Limited[6]	21.7	-
Interest payable on loans from ASDA Holdings UK Limited	2.1	175.8
Interest payable on loans from WMT Netto S.a r.l	1.0	7.4
Interest receivable on loans to Wal-Mart Stores (UK) Limited	-	229.8
Interest receivable on loans to Bellis Acquisition Company 3 Limited	3.3	-
Gain on sale of distribution properties to Bellis Select Warehouse Limited[4]	394.5	-
Interest receivable on loans to Bellis Acquisition Company PLC	1.9	-
Interest receivable on loans to Bellis Midco 2 Limited	29.3	-
Total lease charges on distribution properties leased back from Bellis Select Warehouse Limited	3.3	-
Loans from ASDA Holdings UK Limited	-	275.0
Loans from WMT Netto S.a r.l	-	126.5
Loans from WMGS Co. Limited	-	1.4
Loans from Global George Limited	-	4.2
Loans from Walmart EMEA Limited	-	0.3
Loans from Walmart Inc.[1]	-	9.7
Loans from Bellis Select Warehouse Limited	1.2	-
Receivables due from Bellis Acquisition Company 3 Limited[2]	254.7	-
Receivables due from Bellis Acquisition Company PLC[2]	370.8	-
Receivables due from Bellis Finco PLC[2]	10.6	8.5
Receivables due from Global George Limited	-	5.8
Receivables due from Bellis Midco 2 Limited[4]	1,722.0	-
Receivables due from Euro Garages Limited[3]	1.6	-

1 Identifies balances/transactions with the ultimate parent company up to 16 February 2021, Walmart Inc., all other balances and transactions are with fellow subsidiary companies of Walmart Inc.

2 Relates to settlement of financing and investing activities on behalf of new parent undertakings of the Group.

3 Receivables due from Euro Garages Limited of £1.6m are presented in trade and other receivables.

4 Relates primarily to the sale of distribution properties to Bellis Select Warehouse Limited (see note 8) for a five-year promissory note. The receivables were novated to Bellis Midco 2 Limited on 31 December 2021.

5 These sales relate to the wholesale supply of grocery products to Euro Garages Limited as part of the ASDA-on-the-Move proposition.

6 During the period, one of ASDA's fuel suppliers has made deliveries direct to forecourts owned and operated by Euro Garages Limited. Euro Garages Limited has reimbursed the Group for the cost of these fuel supplies.

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

26 Related parties (continued)

During the year ending 31 December 2021, the Group also made purchases from Elliott Group Limited and at the end of the period, there were balances outstanding due to Elliott Group Limited and Fountains Advisory Services Limited. All of these amounts were less than £0.1m individually and in aggregate.

Loans with the new parent undertakings are interest-free and repayable upon demand with the exception of £105.9m of the loan due from Bellis Acquisition Company 3 Limited where interest is charged on an arm's length basis at a rate of 3.6%, the intercompany loan due from Bellis Midco 2 Limited of £1,692.7m where interest is charged on an arm's length basis at a rate of 3.45% and the intercompany loan due from Bellis Acquisition Company plc of £255.4m where interest is charged on an arm's length basis at a rate of 4.75%.

Amounts owed by fellow group entities totalled £2,358.1m at 31 December 2021, of which £269.6m is due within one year (2020: £14.3m) and £2,088.5m is due in greater than one year (2020: £nil), as disclosed in note 14.

Amounts owed to fellow group entities totalled £1.2m at 31 December 2021 (2020: £417.1m), as disclosed in note 16.

Other related party transactions
Key management are the statutory Directors and transactions with them are disclosed in note 6.

27 Ultimate parent company and parent company of larger group

Until 16 February 2021, the Group's immediate parent was ASDA Holdings UK Limited, a company incorporated in England and Wales. Following the sale of ASDA by ASDA Holdings UK Limited, the Group's immediate parent became Bellis Acquisition Company 3 Limited, a company incorporated in Jersey.

Until 16 February 2021, the ultimate parent company and controlling party was Walmart Inc. which is incorporated in the USA.

At the date of approval of the financial statements, the ultimate parent company is Bellis Topco Limited, a company incorporated and registered in Jersey, which is jointly controlled by the Issa brothers and TDR Capital LLP.

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

Company Balance Sheet as at 31 December 2021

Registration number: 1396513

ASDA Group Limited - Parent Company

	Note	31 December 2021 £ m	31 December 2020 £ m
Assets			
Non-current assets			
Investments	4	3,021.5	3,021.5
Other non-current financial assets		7.3	-
Intercompany receivables	5	108.9	-
		3,137.7	3,021.5
Current assets			
Trade and other receivables	5	633.6	869.3
Cash and cash equivalents	6	268.2	915.5
		901.8	1,784.8
Total assets		4,039.5	4,806.3
Equity and liabilities			
Equity			
Share capital	7	-	-
Other reserves	9	160.2	160.2
Retained earnings	9	2,737.9	2,795.5
Total equity		2,898.1	2,955.7
Current liabilities			
Trade and other payables	10	1,141.4	1,850.6
Total equity and liabilities		4,039.5	4,806.3

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 £57.6m (2020: £1,644.9m profit). There were no other items of comprehensive income during the year.

Approved by the Board on 23 March 2022 and signed on its behalf by:

J. Fallon

J Fallon
Director

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

	Share capital £ m	Share premium £ m	Other reserves £ m	Retained earnings £ m	Total £ m
At 1 January 2020	-	-	160.2	4,070.1	4,230.3
Profit for the year	-	-	-	1,644.9	1,644.9
Dividends	-	-	-	(2,919.5)	(2,919.5)
At 31 December 2020	-	-	160.2	2,795.5	2,955.7
At 1 January 2021	-	-	160.2	2,795.5	2,955.7
Loss for the year	-	-	-	(57.6)	(57.6)
At 31 December 2021	-	-	160.2	2,737.9	2,898.1

Notes to the Parent Company Statements for the Year Ended 31 December 2021

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 2021 were authorised for issue by the Board of Directors on 23 March 2022 and the Balance Sheet was signed on behalf of the Directors by J Fallon. 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 hundred thousand pounds (£0.1m) 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. Whilst the Company is currently in a net current liabilities position, based on the reviews previously described, the Directors confirm that the Company has adequate resources to continue to operate for a period up to 31 December 2023 from the date of approval of the accounts 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 2021 (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. Interest bearing intercompany receivables attract interest at between 2.95% - 6%, are unsecured and are repayable on demand.

Non-current intercompany receivables are initially recorded at fair value and subsequently recognised at amortised cost. Interest bearing non-current intercompany receivables attract interest at 3.6%, are unsecured and have a repayment date of 31 December 2031.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, credit and debit card receivables and short-term deposits with an original maturity of three months or less. Bank overdrafts and other credit facilities 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. Interest bearing intercompany payables attract interest at 6%, are unsecured and are repayable on demand.

2 Auditors' remuneration

The Company's audit fee for the year ended 31 December 2021 was borne by another group company. There were no non-audit fees paid to the Company's auditor (2020: none).

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

3 Employee numbers and costs

The Company is an intermediate holding company and has no employees other than Directors (2020: nil).

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 (2020: £nil).

4 Investments

Group subsidiaries

	Investment in subsidiaries £ m
Cost or valuation	
At 1 January 2021 and 31 December 2021	3,034.8
Provision	
At 1 January 2021 and 31 December 2021	(13.3)
Carrying amount	
At 31 December 2021	3,021.5
At 31 December 2020	3,021.5

Following a review of the carrying value of investments held by the Company, no impairment charge (2020: £nil) has been recognised.

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

4 Investments (continued)

Subsidiary undertakings

As at 31 December 2021, 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 Pension Plan 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%
ASDA Stores (Belfast) 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%

* indicates direct investment of ASDA Group Limited.

Notes to the Parent Company Statements for the Year Ended 31 December 2021 (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 Stores (Belfast) Limited *ASDA, 150 Junction One International Outlet, Antrim, United Kingdom, BT41 4GY*

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 1 Foxbridge Way, Normanton Industrial Estate, Normanton, Wakefield, WF6 1TN*

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

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

5 Trade and other receivables

	31 December 2021 £ m	31 December 2020 £ m
Non-current receivables		
Intercompany receivables	108.9	-
	108.9	-
Current Receivables		
Other receivables	1.9	-
Intercompany receivables	631.7	869.3
Total	633.6	869.3

Non-current intercompany receivables attract interest at 3.6% (2020: nil) and are repayable on 31 December 2031.

Interest bearing current intercompany receivables attract interest at a fixed rate of 2.95% - 6% (2020: 2.95% - 6%) and are repayable on demand.

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

6 Cash and cash equivalents

	31 December 2021 £ m	31 December 2020 £ m
Cash in hand and bank balances	1.2	0.5
Money market funds and deposits	267.0	915.0
	268.2	915.5

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 2021 and 31 December 2020	4	-

8 Dividends proposed and paid

	Year ended 31 December 2021 £ m	Year ended 31 December 2020 £ m
Dividends declared	-	2,919.5

During the current year, no dividends were proposed nor paid. During the prior year, dividends of £2,919.5m (£729.9m per share) were proposed and paid to the Company's immediate parent undertaking, during the year, ASDA Holdings UK Limited. £1,650.0m was paid in cash and £1,269.5m was declared as a dividend in specie settled via a distribution of an intercompany receivable balance.

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

9 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 2021	-	160.2	2,795.5	2,955.7
Loss for the year	-	-	(57.6)	(57.6)
At 31 December 2021	-	160.2	2,737.9	2,898.1

10 Trade and other payables

	31 December 2021 £ m	31 December 2020 £ m
Amounts owed to group entities	1,141.4	1,850.6

Interest bearing intercompany payables incur interest at a fixed rate of 6% (2020: 6%) and are repayable on demand.

11 Commitments

The Company has no financial commitments (2020: none).

12 Ultimate parent company and parent company of a larger group

Until 16 February 2021, the Company's immediate parent was ASDA Holdings UK Limited, a company incorporated in England and Wales. Following the sale of ASDA Group Limited by ASDA Holdings UK Limited, the Company's immediate parent became Bellis Acquisition Company 3 Limited, a company incorporated in Jersey.

Until 16 February 2021, the ultimate parent company and controlling party was Walmart Inc. which is incorporated in the USA. At the date of approval of the financial statements, the ultimate parent company is Bellis Topco Limited, a company incorporated and registered in Jersey, which is jointly controlled by the Issa brothers and TDR Capital LLP.

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