

Registration number: 00464777

ASDA Stores Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018



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Company Information

Directors R Burnley
A Russo (resigned 31 July 2018)
A Simpson
R McWilliam (appointed 3 September 2018)

Company secretary A Simpson

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

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

Strategic Report for the Year Ended 31 December 2018

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

Principal activity

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

Operational headlines and strategic priorities

Against the backdrop of a highly competitive market, the improvements to our business resulted in a second consecutive year of positive like-for-like sales¹ growth.

The continuation of our Low Cost Operating Model programme combined with fixed cost leverage has resulted in operating profit growth of £66.7m.

We continue to focus on our core business by:

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

Strengthening our customer proposition:

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

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

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

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

Customer service - through our focus on making the shopping experience easy, fast and friendly for our customers, our total Customer Promoter Score² has increased by 2 points in 2018 compared to the previous year.

Developing a trusted online offer:

Sales in our online area have grown ahead of the market in 2018. Online CPS³ levels have continued to improve due to enhancements to our customer service offer and developments to the website, mobile and tablet apps. This has improved the customer experience and made it easier and faster to shop online with ASDA.

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

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

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

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

Delivering a low cost operating model:

Our commitment to the ASDA “Low Cost Operating Model” has resulted in improving operating efficiencies and delivering productivity savings across stores, home shopping, distribution centres and home offices. This has enabled us to control costs in response to external cost pressures during the year.

Capital expenditure

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

Future strategic intention

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

Results and dividends

Revenue for the year increased by 4.1% to £22,842.8m (2017: £21,951.8m), while operating profit increased by £66.7m to £344.4m (2017: £277.7m).

Profit after tax for the year was £391.0m (2017: £301.0m).

No dividends were paid during the year (2017: £400.0m).

Events since the balance sheet date

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

On 20 February 2019, the Competition and Markets Authority (“the CMA”) published the preliminary findings of their inquiry into the Proposed Merger.

On 25 April 2019, the CMA published their final report into the Proposed Merger. The CMA decided to prohibit the Merger in its entirety. Although the Directors remain convinced that the Merger would have benefitted customers, we have decided not to appeal this decision.

Amounts recharged by ultimate parent company

The Company incurs recharges from the ultimate parent company, Walmart Inc. These recharges relate to the cost of share options, the cost of services received (mainly relating to IT), the cost of the pension guarantee, and royalties. The share options granted to colleagues by ASDA are in the ultimate parent company, Walmart Inc. The accounting treatment of these share options is outlined in notes 1 and 19.

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

KPIs

- Total sales excluding fuel and VAT increased by 3.1% (2017: 0.7% increase) (note 2) (total sales including fuel and excluding VAT increased by 4.1% (2017: 2.5% increase)).
- Operating profit increased by £66.7m (2017: £106.8m decrease).
- Market share down 0.1%, to 15.3% (source: Kantar 52 weeks to 30 December 2018). This is the Group's percentage share of the total grocers' market, and includes all Group revenue, excluding petrol and in-store concessions.

Capital management

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

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

Principal risks and uncertainties

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

• Economic risk

The consumer environment continues to be challenging, with discretionary income marginally decreasing during the year. Customers remain cautious in their spending habits and we expect conditions to remain tough for our customers, with price being a key consideration.

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

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

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

Principal risks and uncertainties (continued)

- **Competitive risk**

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

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

- **Reputational risk**

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

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

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

- **Strategic risk**

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

- **Supplier risk**

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

- **Resourcing and capability risk**

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

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

Principal risks and uncertainties (continued)

- **Financial risk**

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

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

ASDA operates a number of pension arrangements for our employees including a funded defined benefit pension scheme. This is subject to risk in relation to the minimum funding requirement which is shown as a liability on the balance sheet. This risk was reduced when the defined benefit pension scheme was closed to future accrual in 2011. During 2014, the Group agreed a long term funding plan for the scheme, and the schedule of contributions was updated in 2017. Further detail is provided in note 19.

- **Regulatory and compliance risk**

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

- **Environmental risk**

As a retailer, we recognise that we have a responsibility to minimise the adverse impact that our business activities have on the environment. Failure to do this may result not only in adverse environmental impacts, but also financial penalties and long term damage to our reputation.

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

- **Systems risk**

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

- **Cyber security risk**

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

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

Principal risks and uncertainties (continued)

- **Data protection risk**

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

- **Fraud risk**

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

- **Health and safety risk**

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

- **Sourcing and supply chain risk**

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

Approved by the Board on 1 May 2019 and signed on its behalf by:



R McWilliam
Director

Directors' Report for the Year Ended 31 December 2018

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

Future developments and events since the balance sheet date

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

Going concern

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

Dividends

No dividends were paid during the year (2017: £400.0m).

Political contributions

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

Charitable donations

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

During the year, cash donations to charitable organisations and other community projects made by the ASDA's affiliate charities, The ASDA Foundation and ASDA Tickled Pink, totalled £6.8m (2017: £10.3m). ASDA's colleagues, customers and suppliers have collectively raised monies through events for charities including BBC Children In Need, Tickled Pink (supporting Breast Cancer Care and Breast Cancer Now) and Cash 4 Kids. The ASDA Foundation also supported a range of small charities, local community groups and projects through the core grant programmes. These grants are contributing to local charities or good causes that our colleagues wish to support.

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

Colleagues with a disability or impairment

ASDA is a proud member of the Business Disability Forum. We continue to deliver on our commitment to attract, recruit and retain colleagues who reflect the customers and the communities that ASDA serves.

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

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

Colleague involvement

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

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

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

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

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

Directors' liabilities

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

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

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

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

Disclosure of information to the auditors

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

Reappointment of auditors

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

Approved by the Board on 1 May 2019 and signed on its behalf by:



R McWilliam
Director

Statement of Directors' Responsibilities

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

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

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

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

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

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

Opinion

We have audited the financial statements of ASDA Stores Limited for the year ended 31 December 2018 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 26, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

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

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

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

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

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

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

Responsibilities of directors

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Ernst & Young LLP

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

1 Bridgewater Place
Water Lane
Leeds
LS11 5QR

Date: 1 May 2019

Income Statement for the Year Ended 31 December 2018

	Note	Year Ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Revenue	2	22,842.8	21,951.8
Operating costs	3	<u>(22,498.4)</u>	<u>(21,674.1)</u>
Operating profit		344.4	277.7
Financial income	6	206.9	162.4
Financial costs	7	<u>(66.5)</u>	<u>(61.1)</u>
Profit on ordinary activities before tax		484.8	379.0
Income tax expense	8	<u>(93.8)</u>	<u>(78.0)</u>
Profit for the financial year		<u><u>391.0</u></u>	<u><u>301.0</u></u>

The above results were derived from continuing operations.

Statement of comprehensive income for the Year Ended 31 December 2018

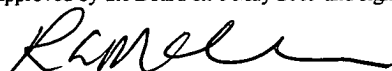
	Note	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Profit for the year		<u>391.0</u>	<u>301.0</u>
Items that will not be reclassified subsequently to profit or loss			
Total remeasurements on defined benefit obligation	19	197.6	35.4
(Decrease)/increase in value of plan assets (excluding interest income)	19	(109.9)	87.5
Changes in asset ceiling/onerous liability (excluding interest expense)	19	(53.3)	(132.5)
Tax (charge)/credit on items recognised directly in other comprehensive income	8	<u>(4.9)</u>	<u>2.4</u>
		<u>29.5</u>	<u>(7.2)</u>
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges:			
Reclassification during the year to income statement	16	23.3	(34.7)
Net gain/(loss) during the year of the not-yet matured contracts	16	37.8	(33.8)
Tax on cash flow hedges recognised directly in other comprehensive income	8	<u>(11.7)</u>	<u>12.2</u>
		<u>49.4</u>	<u>(56.3)</u>
Other comprehensive income/(expense) for the year		<u>78.9</u>	<u>(63.5)</u>
Total comprehensive income for the year		<u><u>469.9</u></u>	<u><u>237.5</u></u>

Balance sheet as at 31 December 2018

(Registration number: 00464777)

		Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m <i>Restated</i>
Assets			
<i>Non-current assets</i>			
Intangible assets	9	200.1	191.0
Property, plant and equipment	10	4,350.1	4,361.1
Investments	11	769.7	769.7
Operating lease prepayments	12	36.0	43.4
Deferred tax assets	8	80.2	92.1
		<u>5,436.1</u>	<u>5,457.3</u>
<i>Current assets</i>			
Inventories	13	1,073.7	1,076.3
Trade and other receivables	14	4,460.3	3,555.1
Cash and cash equivalents		192.1	334.4
Operating lease prepayments	12	0.8	1.3
		<u>5,726.9</u>	<u>4,967.1</u>
		<u>11,163.0</u>	<u>10,424.4</u>
Equity and liabilities			
<i>Equity attributable to the shareholders</i>			
Called up share capital	15	757.6	757.6
Share premium account	16	950.3	950.3
Cash flow hedge reserve	16	29.2	(20.2)
Other reserves	16	118.0	118.0
Retained earnings	16	3,816.5	3,396.0
		<u>5,671.6</u>	<u>5,201.7</u>
Liabilities			
<i>Non-current liabilities</i>			
Borrowings	17	230.4	219.0
Provisions	18	147.2	136.5
Employee benefits	19	819.8	918.3
		<u>1,197.4</u>	<u>1,273.8</u>
<i>Current liabilities</i>			
Trade and other payables	20	4,123.0	3,828.4
Income tax liability	20	52.5	18.8
Borrowings	17	15.7	13.8
Employee benefits	19	71.5	51.9
Provisions	18	31.3	36.0
		<u>4,294.0</u>	<u>3,948.9</u>
Total liabilities		<u>5,491.4</u>	<u>5,222.7</u>
Total equity and liabilities		<u>11,163.0</u>	<u>10,424.4</u>

Approved by the Board on 1 May 2019 and signed on its behalf by:



R McWilliam (Director)

Statement of changes in equity for the Year Ended 31 December 2018

	Note	Called up share capital £ m	Share premium account £ m	Other reserves £ m	Cash flow hedge £ m	Retained earnings £ m	Total £ m
At 1 January 2017		757.6	950.3	118.0	36.1	3,499.9	5,361.9
Change in accounting policy - IFRS 15	1	-	-	-	-	3.4	3.4
At 1 January 2017 restated		<u>757.6</u>	<u>950.3</u>	<u>118.0</u>	<u>36.1</u>	<u>3,503.3</u>	<u>5,365.3</u>
Profit for the year		-	-	-	-	301.0	301.0
Cash flow hedges - reclassified during the year to income statement		-	-	-	(34.7)	-	(34.7)
Cash flow hedges - net loss during year on not-yet matured contracts		-	-	-	(33.8)	-	(33.8)
Tax on cash flow hedges recognised directly in other comprehensive income	8	-	-	-	12.2	-	12.2
Total remeasurements on defined benefit obligation	19	-	-	-	-	35.4	35.4
Increase in value of plan assets excluding interest income	19	-	-	-	-	87.5	87.5
Changes in asset ceiling/onerous liability (excluding interest expense)	19	-	-	-	-	(132.5)	(132.5)
Tax on actuarial losses recognised directly in other comprehensive income	8	-	-	-	-	2.4	2.4
Total comprehensive income		-	-	-	(56.3)	293.8	237.5
Dividends		-	-	-	-	(400.0)	(400.0)
Tax on items in equity	8	-	-	-	-	(1.1)	(1.1)
At 1 January 2018		<u>757.6</u>	<u>950.3</u>	<u>118.0</u>	<u>(20.2)</u>	<u>3,396.0</u>	<u>5,201.7</u>
Profit for the year		-	-	-	-	391.0	391.0
Cash flow hedges - reclassified during the year to income statement		-	-	-	23.3	-	23.3
Cash flow hedges - net gain during year on not-yet matured contracts		-	-	-	37.8	-	37.8
Tax on cash flow hedges recognised directly in other comprehensive income	8	-	-	-	(11.7)	-	(11.7)
Total remeasurements on defined benefit obligation	19	-	-	-	-	197.6	197.6
Decrease in value of plan assets excluding interest income	19	-	-	-	-	(109.9)	(109.9)
Changes in asset ceiling/onerous liability (excluding interest expense)	19	-	-	-	-	(53.3)	(53.3)
Tax on actuarial gains recognised directly in other comprehensive income	8	-	-	-	-	(4.9)	(4.9)
Total comprehensive income		-	-	-	49.4	420.5	469.9
At 31 December 2018		<u><u>757.6</u></u>	<u><u>950.3</u></u>	<u><u>118.0</u></u>	<u><u>29.2</u></u>	<u><u>3,816.5</u></u>	<u><u>5,671.6</u></u>

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

1 Accounting policies

General information

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

The address of the registered office is:

ASDA House
Southbank
Great Wilson Street
Leeds
LS11 5AD
UK

These financial statements were authorised for issue by the Board on 1 May 2019.

Statement of compliance

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

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

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

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

Going concern

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

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

1 Accounting policies (continued)

Changes in accounting policy

New standards, interpretations and amendments effective

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

IFRS 15 - Revenue from Contracts with Customers

ASDA Stores Limited has applied IFRS 15 in the year on a fully retrospective basis. The standard applies to all revenue contracts and provides a model for the recognition and measurement of sales of some non-financial assets (e.g. disposals of property, plant and equipment). The core principle of IFRS 15 is that revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Application is required for annual periods beginning on or after 1 January 2018. The Company has assessed the impact of these changes and concluded that there is a net impact of £3.4m relating to deferred revenue on gift cards. This relates to accelerated revenue recognition of breakage previously deferred for a fixed period after the initial gift card sale which is now recognised at point of sale. This has been accounted for as a prior year adjustment as shown in the statement of changes in equity. The adjustments arising out of the application of IFRS 15 at 1 January 2017 are as follows: trade and other payables (£4.1m decrease); deferred tax assets (£0.7m decrease) and retained earnings (£3.4m increase). The impacts at 31 December 2017 and 31 December 2018 are in line with the impacts at 1 January 2017 and prior year balance sheet amounts have been restated accordingly. There is no income statement impact in the year or in the prior year.

IFRS 9 - Financial Instruments: Classification and Measurement

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

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

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

1 Accounting policies (continued)

New standards, interpretations and amendments not yet effective

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

IFRS 16 - Leases

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

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

Details of the Company's operating lease commitments are included in note 21, which shows that as at 31 December 2018, the Company had undiscounted operating lease obligations of £2,137.0m.

Summary of disclosures exemption

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

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

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

1 Accounting policies (continued)

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

Judgements, estimates and assumptions

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

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

Impairment of brand licence intangible

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

The cash flows are derived from management forecasts for the next five years, with reference to the Board approved budget for the next three years. The recoverable amount is most sensitive to the sales growth, operating costs, growth rate for extrapolated cash flows and the discount rate. The key assumptions used to determine recoverable amount are further explained in note 9.

Supplier income

Supplier incentives, rebates, fixed income and discounts are collectively known as "supplier income". Accounting for the amount and timing of recognition of certain elements of supplier income may require the exercise of judgement. The three key types of supplier income are explained in the accounting policy on page 32. The areas requiring a level of judgement and estimation involved are considered below:

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

Supplier income recognised in the income statement and accounted for as an offset within trade payables (note 20) at the year-end for which estimation and judgement is required is £0.6m (2017: £0.6m). This represents the net amount of accrued income (£0.6m) (2017: £0.6m) and deferred income (£nil) (2017: £nil) on deals running across the year end.

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

1 Accounting policies (continued)

Intercompany royalty expense

The Company incurs a royalty charge from the ultimate parent company. The calculation of this is based on the return on investment of the Group and the operating profit of the Company. The calculation for the years ended 31 December 2018, 31 December 2017 and 31 December 2016 is under review with the UK and US tax authorities and the royalty paid in those years has been calculated on the basis agreed for the year ended 31 December 2015.

Other

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

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

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

Pension benefits

The carrying value of the liabilities relating to the defined benefit pension scheme is determined using an actuarial valuation. This valuation is based on assumptions. All the assumptions used are estimates of future events. Further details about the key assumptions used are given in note 19.

Share-based payment transactions

The Company estimates fair value for share-based payment transactions depending on the terms and conditions of the grants. This estimate also requires determining the most appropriate inputs to the valuation model including assumptions of the expected life of the share option, share price, volatility and dividend yield. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 19.

Finance versus operating lease classification

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

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

1 Accounting policies (continued)

Foreign currency

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

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

Intangible assets

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

Amortisation

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

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

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

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

1 Accounting policies (continued)

Property, plant and equipment

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

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

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

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

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

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

Depreciation

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

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

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

1 Accounting policies (continued)

Impairment of non-financial assets

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

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

Impairment losses recognised in respect of cash generating units ("CGU") are allocated to reduce the carrying amount of the 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.

Investments

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

Provisions

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

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

1 Accounting policies (continued)

Leases

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

Company as a lessee

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

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

Finance leases

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

Operating leases

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

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

Company as a lessor

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

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

1 Accounting policies (continued)

Financial instruments

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

Financial assets and liabilities

The Company classifies its financial assets and liabilities in the following categories: trade and other receivables, intercompany receivables, derivatives designated as hedges, cash and cash equivalents, interest bearing loans and borrowings, trade and other payables, and intercompany payables.

Management determines the classification of its investments at initial recognition.

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

Loans and receivables

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

Interest bearing loans and borrowings

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

Offsetting of financial instruments

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

Fair values

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

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

1 Accounting policies (continued)

Financial instruments (continued)

Derivative financial instruments and hedging

Derivative financial instruments (“derivatives”) are used to manage risks arising from foreign currency exchange rate fluctuations.

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

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

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

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

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

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

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

1 Accounting policies (continued)

Inventories

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

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

Taxation

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

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

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

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

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

Trade and other receivables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand, to the extent that they are used, are included as a component of cash and cash equivalents.

Trade and other payables

Trade and other payables, other than intercompany loans, are not interest bearing and are stated at their nominal value. Intercompany payables are interest bearing (6%), unsecured and are repayable on demand.

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

1 Accounting policies (continued)

Borrowing costs

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

Defined contribution pension plans

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

Defined benefit pension obligation

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

Actuarial gains and losses are recognised in full in the statement of other comprehensive income in the period in which they occur.

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

Share based payments

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

The share option programmes allow Company employees to acquire shares of the ultimate parent company; these awards are granted by the Company. The fair value of options granted is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The charge is recognised as an employee expense, with a corresponding increase in liabilities.

The fair value of the share option is measured based on an option valuation model, taking into account the terms and conditions upon which the instruments were granted. The liability is re-measured at each balance sheet date and at settlement date and any changes in fair value are recognised in the income statement during the vesting period. These share based payment transactions are accounted for as cash settled.

Revenue recognition

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

Income from concessions and commissions

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

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

1 Accounting policies (continued)

Financial income and costs policy

Interest payable and receivable comprises interest on funds borrowed or invested as well as on amounts owed to or by other group undertakings. Interest income and interest payable is recognised in the income statement as it accrues, at a constant rate on the carrying amount.

Supplier income

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

Supplier income is split into three classifications:

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

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

Dividend distributions

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

Contingent liabilities

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

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

2 Segment reporting

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

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

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

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

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Sale of goods	19,676.0	19,078.5
Fuel	<u>3,166.8</u>	<u>2,873.3</u>
	<u>22,842.8</u>	<u>21,951.8</u>

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

3 Operating costs

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

	Note	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Cost of inventory recognised as an expense		(16,877.3)	(16,123.1)
Cost of inventory written off in the year		(448.9)	(427.3)
Employment costs	5	(2,497.4)	(2,534.2)
Amortisation of intangible assets	9	(38.1)	(32.7)
Depreciation on owned assets	10	(318.6)	(318.9)
Depreciation on assets held under finance lease	10	(6.2)	(11.0)
Operating lease expense - property		(119.1)	(117.8)
Operating lease expense - plant and equipment		(56.2)	(47.2)
Rental income		13.5	13.9
Other income		36.0	34.3
(Loss)/profit on disposal of property, plant and equipment		(8.7)	0.3
Impairment of property, plant and equipment	10	(1.3)	(5.7)
Foreign exchange losses		(3.6)	(3.1)
Amounts paid to auditors			
Fees payable to the company's auditors for the audit of the company and group financial statements		(0.3)	(0.3)
Fees payable to the company's auditors for other assurance services		(0.2)	(0.2)
		<u>(0.2)</u>	<u>(0.2)</u>

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

4 Directors' remuneration

The Directors' remuneration for the year was as follows:

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Directors' remuneration	4.5	4.7
Share-based payments	1.0	0.5

During the year, an emoluments cost of £nil was incurred by the Company in respect of compensation for loss of office (2017: £3.9m). This is not included in the directors' remuneration disclosed above.

	No.	No.
Number of directors who exercised share options	3	2
Number of directors entitled to receive shares under long term incentive schemes	4	4

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

	£ m	£ m
Total remuneration excluding pensions	2.6	2.2
Total share-based payments	0.3	-
Total accrued pension at the year end	-	-

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

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

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

5 Employee numbers and costs

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

	Year ended 31 December 2018 No.	Year ended 31 December 2017 No.
<i>Total</i>		
Retail & Distribution	142,260	147,672
Home offices	<u>3,737</u>	<u>4,084</u>
	<u><u>145,997</u></u>	<u><u>151,756</u></u>
<i>Full time equivalents</i>		
Retail & Distribution	89,760	94,009
Home offices	<u>3,610</u>	<u>3,949</u>
	<u><u>93,370</u></u>	<u><u>97,958</u></u>

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

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Wages and salaries	2,254.5	2,244.4
Share-based payment expenses (note 19)	44.6	98.7
Social security costs	130.6	130.7
Other pension costs	<u>67.7</u>	<u>60.4</u>
	<u><u>2,497.4</u></u>	<u><u>2,534.2</u></u>

Other pension costs comprise the cost of the defined contribution schemes. All pension related costs and income are disclosed in note 19.

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

6 Financial income

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
External interest receivable and similar income	0.1	0.2
Intercompany interest receivable	206.8	162.2
	<u>206.9</u>	<u>162.4</u>

7 Financial costs

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Other interest payable	0.5	0.3
Intercompany interest payable	30.3	24.6
Finance lease interest	14.2	12.4
Net interest cost on pension scheme (note 19)	21.5	24.1
Interest capitalised	-	(0.3)
	<u>66.5</u>	<u>61.1</u>

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

8 Income tax

Tax charged/(credited) in the income statement:

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Current taxation		
UK corporation tax on profit for the year	107.4	97.0
UK corporation tax adjustment to prior periods	0.3	(3.4)
Current tax charge for the year	107.7	93.6
Deferred taxation		
Arising from origination and reversal of temporary differences	(9.2)	(17.3)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	(4.9)	2.8
Arising from increase in deferred tax asset relating to pension obligation	-	(1.1)
Arising from changes in tax rates and laws	0.2	-
Total deferred taxation	(13.9)	(15.6)
Tax expense in the income statement	93.8	78.0

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

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

8 Income tax (continued)

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

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Profit before tax	<u>484.8</u>	<u>379.0</u>
Corporation tax at standard rate	92.1	73.0
Expenses not deductible for tax purposes	3.1	4.8
Non-qualifying depreciation	3.2	2.6
Gain on sale of non-qualifying fixed assets	(0.3)	(0.9)
Share options costs	-	0.3
Adjustments in respect of prior periods	(4.6)	(0.6)
Change in tax rate	0.2	(1.1)
Other	<u>0.1</u>	<u>(0.1)</u>
Total tax charge for the year	<u><u>93.8</u></u>	<u><u>78.0</u></u>

Tax relating to components of the statement of changes in equity

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Deferred tax charge on share-based payments	<u>-</u>	<u>1.1</u>
Total tax charge on items charged to the statement of changes in equity	<u><u>-</u></u>	<u><u>1.1</u></u>

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

8 Income tax (continued)

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

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Current tax credit on pensions	9.2	6.5
Deferred tax charge on pensions	(14.1)	(4.1)
Deferred tax (charge)/credit on cashflow hedges	<u>(11.7)</u>	<u>12.2</u>
Total tax on items (charged)/credited to the statement of comprehensive income	<u>(16.6)</u>	<u>14.6</u>

Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	Asset £ m	Liability £ m	Net deferred tax asset £ m
2018			
Property, plant and equipment	-	(69.2)	(69.2)
Employee benefits	150.9	-	150.9
Provisions	2.6	-	2.6
Other items	-	(7.4)	(7.4)
Capital losses	3.3	-	3.3
	<u>156.8</u>	<u>(76.6)</u>	<u>80.2</u>

	Asset £ m	Liability £ m	Net deferred tax asset £ m
2017	<i>Restated</i>		<i>Restated</i>
Property, plant and equipment	-	(78.4)	(78.4)
Employee benefits	164.3	-	164.3
Provisions	1.9	-	1.9
Other items	4.3	-	4.3
Capital losses	-	-	-
	<u>170.5</u>	<u>(78.4)</u>	<u>92.1</u>

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

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

8 Income tax (continued)

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

The Company has unrecognised brought forward capital losses of £18.3m (2017: £38.9m) available to reduce future capital gains. No deferred tax asset has been recognised in respect of these capital losses due to uncertainty of when they may be used.

Deferred tax movement during the year:

	At 1 January 2018 £ m	Recognised in income £ m	Recognised in other comprehensive income £ m	Recognised in equity £ m	At 31 December 2018 £ m
Property, plant and equipment	(78.4)	9.2	-	-	(69.2)
Employee benefits	164.3	0.7	(14.1)	-	150.9
Provisions	1.9	0.7	-	-	2.6
Other items	4.3	-	(11.7)	-	(7.4)
Capital losses	-	3.3	-	-	3.3
Net tax assets/(liabilities)	<u>92.1</u>	<u>13.9</u>	<u>(25.8)</u>	<u>-</u>	<u>80.2</u>

Deferred tax movement during the prior year:

	At 1 January 2017 £ m	Recognised in income £ m	Recognised in other comprehensive income £ m	Recognised in equity £ m	At 31 December 2017 £ m
Property, plant and equipment	<i>Restated</i> (88.6)	10.2	-	-	<i>Restated</i> (78.4)
Employee benefits	164.1	5.4	(4.1)	(1.1)	164.3
Provisions	1.3	0.6	-	-	1.9
Other items	(7.3)	(0.6)	12.2	-	4.3
Capital losses	-	-	-	-	-
Net tax assets/(liabilities)	<u>69.5</u>	<u>15.6</u>	<u>8.1</u>	<u>(1.1)</u>	<u>92.1</u>

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

9 Intangible assets

	Brand licence £ m	Software and development costs £ m	Other £ m	Lease buy out costs £ m	Total £ m
Cost					
At 1 January 2018	31.9	174.8	2.1	135.8	344.6
Additions	-	44.6	-	-	44.6
Reclassification from Property, Plant & Equipment	-	-	-	3.6	3.6
At 31 December 2018	<u>31.9</u>	<u>219.4</u>	<u>2.1</u>	<u>139.4</u>	<u>392.8</u>
Amortisation					
At 1 January 2018	14.6	93.0	2.1	43.9	153.6
Amortisation charge	-	34.4	-	3.7	38.1
Reclassification from Property, Plant & Equipment	-	-	-	1.0	1.0
At 31 December 2018	<u>14.6</u>	<u>127.4</u>	<u>2.1</u>	<u>48.6</u>	<u>192.7</u>
Net book value					
At 31 December 2018	<u>17.3</u>	<u>92.0</u>	<u>-</u>	<u>90.8</u>	<u>200.1</u>
At 31 December 2017	<u>17.3</u>	<u>81.8</u>	<u>-</u>	<u>91.9</u>	<u>191.0</u>

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

9 Intangible assets (continued)

The George brand licence has a carrying value of £17.3m (2017: £17.3m). The George brand licence is generating positive cash flows. There are no plans to exit the brand and no legal limits on its use by the Company. Other brand assets are fully amortised (£14.6m cost and accumulated amortisation).

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

Software and development costs are amortised on a straight line basis over their estimated useful life of 4 to 8 years.

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

Reclassifications and transfers

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

Impairment testing of George brand licence

This asset relates to the acquisition in 2006 of a perpetual licence to use the George brand and has a carrying value of £17.3m (2017: £17.3m). This has been tested for impairment as at 31 December 2018 by assessing the present value of forecasted cash flows arising from the George clothing business.

The recoverable amount is determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a three-year period. The pre-tax discount rate applied to the cash flow projections is 8.0% and the growth rate used to extrapolate the cash flows beyond specific forecast period is 0.5%.

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

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

10 Property, plant and equipment

	Freehold properties £ m	Finance leases and leasehold improvements £ m	Plant, fixtures and fittings £ m	Assets under construction £ m	Total £ m
Cost or valuation					
At 1 January 2018	3,374.6	1,362.5	2,683.0	134.8	7,554.9
Additions	46.1	52.8	34.9	187.5	321.3
Disposals	(6.6)	(0.4)	(244.9)	-	(251.9)
Intercompany transfers	(14.3)	-	-	-	(14.3)
Transfers from Assets Under Construction	56.5	-	103.9	(160.4)	-
Reclassification from operating lease prepayments	-	12.5	-	-	12.5
Reclassification to intangible assets	-	(3.6)	-	-	(3.6)
At 31 December 2018	<u>3,456.3</u>	<u>1,423.8</u>	<u>2,576.9</u>	<u>161.9</u>	<u>7,618.9</u>
Depreciation					
At 1 January 2018	830.3	535.9	1,827.6	-	3,193.8
Charge for the year	108.5	34.8	181.5	-	324.8
Disposals	(2.0)	(2.0)	(242.0)	-	(246.0)
Intercompany transfers	(8.2)	-	-	-	(8.2)
Impairments	1.3	-	-	-	1.3
Reclassification from operating lease prepayments	-	4.1	-	-	4.1
Reclassification to intangible assets	-	(1.0)	-	-	(1.0)
At 31 December 2018	<u>929.9</u>	<u>571.8</u>	<u>1,767.1</u>	<u>-</u>	<u>3,268.8</u>
Net book value					
At 31 December 2018	<u>2,526.4</u>	<u>852.0</u>	<u>809.8</u>	<u>161.9</u>	<u>4,350.1</u>
At 31 December 2017	<u>2,544.3</u>	<u>826.6</u>	<u>855.4</u>	<u>134.8</u>	<u>4,361.1</u>

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

10 Property, plant and equipment (continued)

Impairment

Both the operational and non-operational estate are regularly reviewed for indicators of impairment. Following reviews in the year, impairment charges of £1.3m (2017: £5.7m) were recognised in the income statement.

Intercompany transfers

During the year, assets were transferred to a fellow subsidiary undertaking at book value. Assets transferred had a gross cost of £14.3m and accumulated depreciation of £8.2m and this has been recorded as an increase in intercompany receivables.

Reclassifications

During the year, assets relating to lease buy outs were reclassified from leasehold improvements to intangible assets to better reflect the nature of these items. Assets transferred had a gross cost of £3.6m and accumulated depreciation of £1.0m (see note 9). Additionally, assets relating to finance lease premiums were reclassified from operating lease prepayments to finance leases to better reflect the nature of these items. Assets transferred had a gross cost of £12.5m and accumulated depreciation of £4.1m (see note 12).

Capitalised Interest

The cumulative amount of capitalised interest included in the cost of property, plant and equipment is £86.0m (2017: £86.0m).

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

11 Investments

£ m

Cost and net book value at 1 January 2018 and 31 December 2018

769.7

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

Subsidiary undertakings

Name of subsidiary	Registered office	% equity held	Ownership
ASDA Delivery Limited*	United Kingdom	100%	Direct
ASDA Group Pension Scheme Trustees Limited*	United Kingdom	100%	Direct
ASDA Guernsey Limited*	Guernsey	100%	Direct
ASDA Home Shopping Cards Limited*	Republic of Ireland	100%	Direct
ASDA Pension Plan Trustees Limited*	United Kingdom	100%	Direct
ASDA Storage Limited*	United Kingdom	100%	Direct
ASDA Supermarkets Limited*	United Kingdom	100%	Direct
Erteco UK Limited	United Kingdom	100%	Indirect
Essencerealm Limited*	United Kingdom	100%	Direct
Ever 1295 Limited*	United Kingdom	100%	Direct
Ever 2010 Limited*	United Kingdom	100%	Direct
Ever 2010 North Limited	United Kingdom	100%	Indirect
Ever 2010 South Limited	United Kingdom	100%	Indirect
Forza AW Limited	United Kingdom	100%	Indirect
Forza Foods Limited	United Kingdom	100%	Indirect
George Sourcing Services UK Limited*	United Kingdom	100%	Direct
George Tedarik Hizmetleri A.S.*	Turkey	100%	Direct

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

11 Investments (continued)

Name of subsidiary	Registered office	% equity held	Ownership
International Procurement and Logistics Limited*	United Kingdom	100%	Direct
International Produce Sociedad Limitada	Spain	100%	Indirect
Kober Limited	United Kingdom	100%	Indirect
Nordicline Limited*	United Kingdom	100%	Direct
Selby Produce Limited	United Kingdom	100%	Indirect
Vinpack Limited	United Kingdom	100%	Indirect
Westry Produce Limited	United Kingdom	100%	Indirect

* indicates direct investment of ASDA Stores Limited

All investments listed above have 100% ordinary share capital.

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

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

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

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

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

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

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

12 Operating lease prepayments

	31 December 2018	31 December 2017
	£ m	£ m
Operating lease prepayments - current	0.8	1.3
Operating lease prepayments - non current	<u>36.0</u>	<u>43.4</u>
	<u>36.8</u>	<u>44.7</u>

Operating lease prepayments are amortised over the associated lease term.

Assets relating to finance lease premiums were reclassified from operating lease prepayments to finance leases to better reflect the nature of these items. Assets transferred had a gross cost of £12.5m and accumulated amortisation of £4.1m (see note 10).

13 Inventories

	31 December 2018	31 December 2017
	£ m	£ m
Goods held for resale	1,071.9	1,074.7
Goods not held for resale	<u>1.8</u>	<u>1.6</u>
	<u>1,073.7</u>	<u>1,076.3</u>

14 Trade and other receivables

	31 December 2018	31 December 2017
	£ m	£ m
Trade receivables	133.5	128.9
Allowance for expected credit losses	(3.9)	(3.9)
Intercompany receivables	4,218.1	3,364.0
Other receivables	36.7	33.7
Prepayments and accrued income	35.5	32.4
Derivative assets	<u>40.4</u>	<u>-</u>
	<u>4,460.3</u>	<u>3,555.1</u>

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

14 Trade and other receivables (continued)

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

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

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

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

As at 31 December 2018, trade receivables at nominal value of £3.9m (2017: £3.9m) were impaired and fully provided for on the basis of the age of the debt and estimated ability of the customer to make payment.

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

15 Called up share capital

	Redeemable ordinary shares of £1 each No.	Ordinary shares of £1 each No.	Total No.
At 1 January 2018 and 31 December 2018	566,781,240	190,805,129	757,586,369

Value of authorised, allotted, called up and fully paid

	Redeemable ordinary shares of £1 each £ m	Ordinary shares of £1 each £ m	Total £ m
At 1 January 2018 and 31 December 2018	566.8	190.8	757.6

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

Redeemable ordinary shares

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

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

Ordinary shares

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

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

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

16 Reserves

Reconciliation of movement in reserves is as follows:

	Share premium	Other reserves	Cash flow hedging reserve	Retained earnings	Total
	£ m	£ m	£ m	£ m	£ m
At 1 January 2017	950.3	118.0	36.1	3,499.9	4,604.3
Change in accounting policy - IFRS 15	-	-	-	3.4	3.4
At 1 January 2017 - restated	950.3	118.0	36.1	3,503.3	4,607.7
Profit for the year	-	-	-	301.0	301.0
Cash flow hedges - reclassified during the year to income statement	-	-	(34.7)	-	(34.7)
Cash flow hedges - net loss during year on not-yet matured contracts	-	-	(33.8)	-	(33.8)
Tax on cash flow hedges recognised directly in other comprehensive income	-	-	12.2	-	12.2
Total remeasurements on defined benefit obligation	-	-	-	35.4	35.4
Increase in plan assets excluding interest income	-	-	-	87.5	87.5
Changes in asset ceiling/onerous liability (excluding interest expense)	-	-	-	(132.5)	(132.5)
Tax on actuarial losses recognised directly in other comprehensive income	-	-	-	2.4	2.4
Tax on share based payments recognised in equity	-	-	-	(1.1)	(1.1)
Dividends paid	-	-	-	(400.0)	(400.0)
At 31 December 2017 - restated	950.3	118.0	(20.2)	3,396.0	4,444.1
At 1 January 2018	950.3	118.0	(20.2)	3,396.0	4,444.1
Profit for the year	-	-	-	391.0	391.0
Cash flow hedges - reclassified during the year to income statement	-	-	23.3	-	23.3
Cash flow hedges - net gain during the year on not-yet matured contracts	-	-	37.8	-	37.8
Tax on cash flow hedges recognised directly in other comprehensive income	-	-	(11.7)	-	(11.7)
Total remeasurements on defined benefit obligation	-	-	-	197.6	197.6
Decrease in plan assets excluding interest income	-	-	-	(109.9)	(109.9)
Changes in asset ceiling/onerous liability (excluding interest expense)	-	-	-	(53.3)	(53.3)
Tax on actuarial gains recognised directly in other comprehensive income	-	-	-	(4.9)	(4.9)
At 31 December 2018	950.3	118.0	29.2	3,816.5	4,914.0

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

16 Reserves (continued)

The other reserves relate to a revaluation reserve 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.

17 Borrowings

	31 December 2018 £ m	31 December 2017 £ m
<i>Finance lease obligation</i>		
Less than one year	<u>15.7</u>	<u>13.8</u>
Total amounts repayable within one year	<u>15.7</u>	<u>13.8</u>
Between one and five years	59.8	60.2
After five years	<u>170.6</u>	<u>158.8</u>
Total amounts repayable after one year	<u>230.4</u>	<u>219.0</u>
Total	<u><u>246.1</u></u>	<u><u>232.8</u></u>

18 Provisions

	Property provisions £ m	Insurance £ m	Total £ m
At 1 January 2018	47.4	125.1	172.5
Provided during the year	20.3	47.8	68.1
Provision used	(0.4)	(31.3)	(31.7)
Unused provisions reversed	(0.9)	(31.2)	(32.1)
Increase due to unwinding of discount	<u>1.7</u>	<u>-</u>	<u>1.7</u>
At 31 December 2018	<u><u>68.1</u></u>	<u><u>110.4</u></u>	<u><u>178.5</u></u>
Current liabilities	<u>-</u>	<u>31.3</u>	<u>31.3</u>
Non-current liabilities	<u><u>68.1</u></u>	<u><u>79.1</u></u>	<u><u>147.2</u></u>

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

18 Provisions (continued)

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

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

19 Employee benefits

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the balance sheet are as follows:

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

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

19 Employee benefits (continued)

Pension plans

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

	31 December 2018 £ m	31 December 2017 £ m
Wages and salaries	2,254.5	2,244.4
Share-based payments charge	44.6	98.7
Social security costs	130.6	130.7
Total cost before pension costs	2,429.7	2,473.8
<i>Defined benefit pension scheme</i>		
Net interest on pension scheme	21.5	24.1
Total defined benefit scheme loss	21.5	24.1
Pensions costs, defined contribution scheme	67.7	60.4
Total pension expense	89.2	84.5
Total employee benefit expense	2,518.9	2,558.3

The Company operates a single trust based defined contribution pension plan for current colleagues. The assets of the plan are held by the Legal & General Assurance Society Ltd and the Prudential Life Assurance Company.

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

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

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

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

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

19 Employee benefits (continued)

The scheme was most recently valued on 5 April 2016. At the time of the April 2016 triennial valuation, this resulted in contributions of £70.0m per annum being paid into the scheme until April 2032.

Under IFRIC 14 this is considered to be a minimum funding requirement (also known as a statutory funding objective). At the current year end, the plan is in surplus; however, contributions remain payable until 2032 in order to meet the statutory funding objective. As the plan rules do not provide the Company with an unconditional right to a refund in the event of a surplus, under the requirements of IFRIC 14 the minimum funding requirement creates an obligation which is recognised as an additional liability of £1,022.4m (2017: £945.4m).

The expected future benefit payments from the defined benefit plans are based on a number of assumptions including future inflation, retirement ages, benefit options chosen and life expectancy and are therefore inherently uncertain. Actual benefit payments in a given year may be higher or lower, for example if members retire sooner or later than assumed, or take a greater or lesser cash lump sum at retirement. The estimated duration of pension plan liabilities, which is an indicator of the weighted average term of the liabilities, is 22 years (2017: 23 years) although the benefits payable by the pension plans are expected to be paid over more than 80 years.

Scheme liabilities

Movements in present value of defined benefit obligation:

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

Scheme assets

Movements in fair value of plan assets:

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

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

19 Employee benefits (continued)

Amounts recognised in the income statement

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

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

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

There were no unpaid contributions outstanding at the current or prior year end for the defined contribution scheme. The charge for the year for the defined contribution scheme is £67.7m (2017: £60.4m).

Amounts credited/(charged) to the statement of comprehensive income

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

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

19 Employee benefits (continued)

The fair value of the plan assets were as follows:

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

In order to mitigate the risk of volatility in the value of plan assets, a diverse portfolio of investments is held. This includes an allocation to liability matching assets which mitigate the risk of volatility in the funding level. The majority of these assets are bonds and are included within debt securities in the table above. These liability matching assets partially hedge the scheme's interest rate risk and inflation risk, as they move in line with change in interest rate and future inflation expectations in a similar manner to the Scheme's liabilities. These risks are not fully hedged and the interest rate risk is hedged on a long term funding basis (gilts) rather than a corporate bonds basis. Other risks to the scheme include longevity risk.

Principal actuarial assumptions (expressed as weighted averages)

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

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

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

19 Employee benefits (continued)

Post retirement mortality assumptions

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

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

Sensitivity analysis

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

	31 December 2018 + 0.1% £ m	31 December 2017 + 0.1% £ m
Adjustment to discount rate		
Decrease in liability	44.3	54.3
Decrease in finance costs	<u>1.6</u>	<u>1.5</u>
	31 December 2018 + 0.1% £ m	31 December 2017 + 0.1% £ m
Adjustment to rate of inflation		
Increase in liability	43.9	53.6
Increase in finance costs	<u>1.3</u>	<u>1.3</u>
	31 December 2018 + 0.1% £ m	31 December 2017 + 0.1% £ m
Adjustment to rate of salary growth		
Increase in liability	70.7	75.8
Increase in finance costs	<u>2.1</u>	<u>1.8</u>

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

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

19 Employee benefits (continued)

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

Share-based payments

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

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

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

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

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

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

19 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:

	31 December 2018 Number (thousands)	31 December 2017 Number (thousands)
Outstanding, start of year	4,990	5,005
Exercised during the year	(1,161)	(1,471)
Granted during the year	1,886	2,102
Forfeited during the year	(656)	(646)
Outstanding, end of year	<u>5,059</u>	<u>4,990</u>
Exercisable, end of year	<u>25</u>	<u>38</u>
	31 December 2018 Price (£)	31 December 2017 Price (£)
Outstanding, start of year	42.04	38.36
Exercised during the year	(43.72)	(33.34)
Granted during the year	53.01	46.01
Forfeited during the year	(45.85)	(41.28)
Outstanding, end of year	<u>45.27</u>	<u>42.04</u>
Exercisable, end of year	<u>49.14</u>	<u>41.36</u>

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

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

19 Employee benefits (continued)

Share-based payments (continued)

Sharesave scheme

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

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

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

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

Walmart Stock Incentive Plan (WSIP) scheme

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

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

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

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

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

19 Employee benefits (continued)

Share-based payments (continued)

Restricted Stock Rights (RSR) scheme

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

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

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

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

Performance Share Plan (PSP) scheme

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

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

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

19 Employee benefits (continued)

Share-based payments (continued)

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

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

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

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

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

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

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

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

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

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

20 Trade and other payables

	31 December 2018 £ m	31 December 2017 £ m <i>Restated</i>
Trade payables	2,861.9	2,610.0
Intercompany payables	576.3	482.1
Social security and other taxes	204.5	228.5
Other payables	178.4	184.3
Accrued expenses	301.3	294.8
Derivative liabilities	0.6	28.7
Taxation	52.5	18.8
	4,175.5	3,847.2

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

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

Trade receivables are presented net where a legally enforceable right of set off exists. Included in the above is an offset of £108.8m (note 14) (2017: £98.0m). The gross trade payable prior to the offset is £2,970.7m (2017: £2,708.0m).

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

21 Obligations under leases

Operating leases

Operating lease agreements where Company is lessee

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

	Land and buildings		Other	
	31 December 2018 £ m	31 December 2017 £ m	31 December 2018 £ m	31 December 2017 £ m
No later than one year	150.7	149.0	46.6	50.0
Later than one year and no later than five years	375.2	391.1	82.7	84.5
Later than five years	<u>1,480.4</u>	<u>1,575.4</u>	<u>1.4</u>	<u>3.2</u>
	<u><u>2,006.3</u></u>	<u><u>2,115.5</u></u>	<u><u>130.7</u></u>	<u><u>137.7</u></u>

The Company leases various offices, stores, warehouses, vehicles and equipment under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights, however they commonly include either a market rent review or an index linked rent review (with a cap and collar). The timing of when rent reviews take place differs for each lease. They have no purchase options.

Operating lease agreements where Company is lessor

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

	31 December 2018 £ m	31 December 2017 £ m
No later than one year	9.6	9.8
Later than one year and no later than five years	25.1	31.0
Later than five years	<u>38.4</u>	<u>35.1</u>
	<u><u>73.1</u></u>	<u><u>75.9</u></u>

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

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

21 Obligations under leases (continued)

Finance leases

Finance lease agreements where Company is lessee

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

	31 December 2018	31 December 2017
	£ m	£ m
<i>Future minimum payments due:</i>		
No later than one year	15.7	13.8
Later than one year and no later than five years	66.0	60.3
Later than five years	483.0	475.7
	564.7	549.8
Lease finance charges allocated to future periods	(318.6)	(317.0)
Present value of minimum lease payments	246.1	232.8

22 Commitments

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

As at 31 December 2018, the Company had entered into contracts to purchase US dollars for £688.0m (2017: £788.7m).

23 Contingent liabilities

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

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

24 Related party transactions

As a wholly owned subsidiary, the Company has taken advantage of the exemption in paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries of the Walmart Inc. group.

25 Parent undertaking and controlling party

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

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

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

26 Events since the balance sheet date

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

On 20 February 2019, the Competition and Markets Authority ("the CMA") published the preliminary findings of their inquiry into the Proposed Merger.

On 25 April 2019, the CMA published their final report into the Proposed Merger. The CMA decided to prohibit the Merger in its entirety. Although the Directors remain convinced that the Merger would have benefitted customers, we have decided not to appeal this decision.