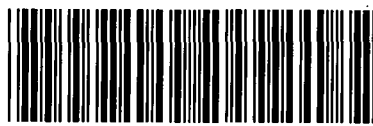


ASDA STORES LIMITED

Reports and Financial Statements
31 December 2017

Registered Number: 464777

TUESDAY



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COMPANIES HOUSE

DIRECTORS

R Burnley
S Clarke Resigned 31 December 2017
A Russo
A Simpson Appointed 11 December 2017

SECRETARY

A Simpson

AUDITORS

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

REGISTERED OFFICE

ASDA House
Southbank
Great Wilson Street
Leeds
LS11 5AD
United Kingdom

REGISTRARS

Lloyds TSB Registrars
54 Pershore Road South
Birmingham
B30 3EP

BANKERS

National Westminster Bank plc
Leeds City Office
8 Park Row
Leeds
LS1 1QS

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Strategic report

The directors present their Strategic Report and financial statements for the year ended 31 December 2017.

Principal activities

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 next smallest group at which consolidated financial statements are prepared is 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 improvement to our business resulted in a return to positive like-for-like sales¹ growth. The investments made towards the end of 2016 have impacted profitability for the full year in 2017 leading to a year on year reduction in operating profit.

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:

- 2017 has seen a return of food inflation into the market driven by commodity and currency headwinds. We have mitigated the impact of this to our customers through targeted price investment in key commodities and own brand lines. Furthermore, in June 2017, ASDA won The Grocer Magazine’s G33 Price Award for the twentieth consecutive year.
- Improving the range and quality of own-brand products remains a key priority. Our work culminated in ASDA winning thirteen different product awards at the Quality Food Awards 2017.
- Improving the availability of products for our customers remains a key focus and in 2017 we improved Fresh Food availability through improved supply chain and store processes.
- Customer service continues to be a priority. Our total Customer Promoter Score² has improved by 3 points in 2017 compared to the previous year.

Developing a trusted online offer:

- Sales in our online area have grown ahead of the market in 2017.
- By focusing on service defects, removing friction from the experience, and delivering on our customer promises, online CPS³ levels were the highest seen since 2015. In addition, we have continued to make improvements to the website, mobile and tablet apps to enhance the customer experience and make it easier and faster to shop online with ASDA.

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 Grocery Home Shopping 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 Grocery Home Shopping to friends and family.

Strategic report (continued)

Operational headlines and strategic priorities (continued)

Delivering a low cost operating model:

- Our commitment to the ASDA “Low Cost Operating Model” has resulted in improving operating efficiencies and delivering productivity savings across stores, home shopping, distribution centres and home offices. This has enabled us to control costs in response to external cost pressures during the year.
- International Procurement & Logistics Limited (“IPL”), a wholly owned subsidiary of ASDA has continued to deliver savings during 2017. IPL sources fresh produce, wine, chilled products, ambient produce, flowers and plants directly from growers and manufacturers for ASDA and other Walmart businesses globally.

New Growth:

- We have adopted a targeted store expansion programme and during 2017, we opened one home shopping centre and eight new stores, including three superstores and five supermarkets. This added 146,000 sq ft of new space.

Future strategic intention

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

Results and dividends

Revenue increased by 2.5% to £21,951.8m (2016: £21,408.5m). Profit before tax for the year decreased by 20.6% to £379.0m (2016: £477.2m) and operating profit decreased by 27.8% to £277.7m (2016: £384.5m) as discussed in the operational headlines section of this report. Underlying operating profit decreased by 16.2%. Underlying operating profit is defined as operating profit after removing the share options charge (note 21) of £98.7m (2016: £69.5m) and technical assistance, services and royalties paid to Walmart Inc. of £142.0m (2016: £164.6m). As these costs are volatile in nature due to external factors outside of management’s control these are excluded from our underlying profit measure in order to align this with management’s performance measures.

Profit after tax is £301.0m (2016: £380.5m).

Final dividends of £400.0m (2016: £300.0m) were paid during the year (note 17).

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 21.

Strategic report *(continued)*

KPIs

- Total sales excluding fuel and VAT increased by 0.7% (2016: 4.1% decrease) (note 2) (total sales including fuel and excluding VAT increased by 2.5% (2016: 3.0% decrease)).
- Underlying operating profit decreased by 16.2% (2016: 14.0% decrease).
- Market share down 0.3%, to 15.4% (source: Kantar 52 weeks to 31 December 2017). This is the Group's percentage share of the total grocers' market, and includes all 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 the Walmart group define and manage capital and meet the group capital objectives.

Risks and uncertainties

Risk is an inevitable part of business. On an ongoing basis, ASDA 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 quarterly.

Key risks and mitigating actions are set out below:

- **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 in 2019. The risks surrounding this could result in uncertainty particularly relating to the price and availability of products. The Group continues to review and monitor any impacts resulting from the decision to leave the EU but at this stage there has been no significant impact on the Group's risk management processes.

- **Competitive risk**

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

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

Strategic report *(continued)*

Risks and uncertainties *(continued)*

- **Reputational risk**

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

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

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

- **Strategic risk**

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

- **Supplier risk**

Supplier risk is reviewed as required in order to identify potential issues and develop appropriate action plans in relation to supplier monitoring.

- **Resourcing and capability risk**

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

- **Financial risk**

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

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

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

- **Regulatory and compliance risk**

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

Strategic report *(continued)*

Risks and uncertainties *(continued)*

- **Fraud risk**

We have a control framework in place to help prevent and detect potential fraud and dishonest activity. The 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.

- **Systems risk**

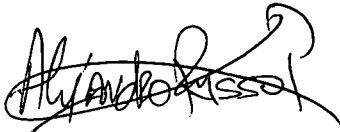
A number of disaster recovery plans are in place in the event of an incident which could severely affect ASDA's ability to trade. A comprehensive Incident Response Plan exists to ensure business continuity in the event of a major incident.

- **Environmental risk**

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

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. Our existing stores now emit fewer carbon emissions than they did 18 years ago. The major focus of our strategy is now on our supply chain, including running the Sustain and Save Exchange, a unique collaboration tool to help our suppliers become more efficient.

On behalf of the board



A Russo
Director
15 May 2018

ASDA House
Southbank
Great Wilson Street
Leeds
LS11 5AD

Directors' report

The directors present their report and financial statements for the year ended 31 December 2017.

Future Developments

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

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 Group and Company have adequate resources to continue to operate for the foreseeable future and accordingly the going concern basis continues to be appropriate for the preparation of the financial statements.

Political and charitable contributions

During the year, cash donations to charitable organisations made by the Company, including monies raised through store collections and product sales, totalled £6.2m (2016: £8.2m). This included donations to The ASDA Foundation, an affiliate charity of the Company, of £4.0m (2016: £6.6m).

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 £10.3m (2016: £9.7m). ASDA's colleagues, customers and suppliers have collectively raised monies through events for charities including BBC Children In Need, Tickled Pink (supporting Breast Cancer Care & Breast Cancer Campaign), Orchid, and Cash 4 Kids. The ASDA Foundation also supported a range of local charities and sustainable local projects. These projects are local cause-related activities, contributing to local charities or causes that our colleagues wish to support.

ASDA did not make any political donations during the year (2016: £nil).

Dividends

Details of dividends paid are detailed in the Strategic Report on page 2 and in note 17.

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.

Directors' report *(continued)*

Colleague involvement

Throughout 2017, the transfer of information between leadership and colleagues continued to be a focus. The Local Colleague Voice groups, in conjunction with the introduction of a suggestion scheme in all areas of the business, continued to encourage this. Additionally, an annual engagement survey was conducted allowing colleagues to provide feedback.

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.

A colleague ambassador from each store was invited for the first time to the Year Beginning Meeting, allowing the corporate plan to be communicated on a peer-to-peer basis. Colleagues have continued to be informed of business activity and change through internal communications, in addition to colleagues' achievements.

A focus upon digital expansion continued, including the use of our colleague portal WalmartOne and our Asda Academy training. This year, simplification and modernisation of these internal portals included developing new learning modules, and introducing a blend of learning methods designed to create a more engaging experience.

Additionally, the introduction of the Apprenticeship Levy and a new Level 6 Retail Management Degree apprenticeship have provided further opportunities to support colleagues' development and build the skills of our future leaders.

Directors' liabilities

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

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

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

Directors' report *(continued)*

Directors' statement as to disclosure of information to auditors

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

Re-appointment of auditors

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

On behalf of the board



A Russo
Director
15 May 2018

ASDA House
Southbank
Great Wilson Street
Leeds
LS11 5AD

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the 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 Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. 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 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 then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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 2017 which comprise the Income statement, the Statement of comprehensive income, the Balance sheet, the Statements of Changes in Equity and the related notes 1 to 27, 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 company's affairs as at 31 December 2017 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.

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.

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.

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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which 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

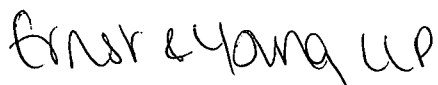
As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable 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.

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.



Victoria Venning (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds
17 May 2018

Income statement

for the year ended 31 December 2017

	<i>Notes</i>	<i>Year Ended 31 December 2017</i>	<i>Year Ended 31 December 2016</i>
		<i>£m</i>	<i>£m</i>
Continuing Operations			
Revenue	2	21,951.8	21,408.5
Operating costs	3	(21,674.1)	(21,024.0)
Operating profit		277.7	384.5
Financial income	6	162.4	145.9
Financial costs	7	(61.1)	(53.2)
Profit on ordinary activities before taxation		379.0	477.2
Income tax expense	8	(78.0)	(96.7)
Profit for the financial year		301.0	380.5

Statement of comprehensive income

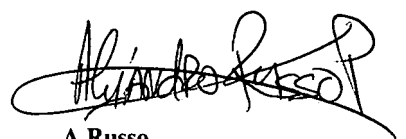
for the year ended 31 December 2017

	<i>Notes</i>	<i>Year Ended 31 December 2017</i>	<i>Year Ended 31 December 2016</i>
		<i>£m</i>	<i>£m</i>
Profit for the year		301.0	380.5
Items not to be reclassified to profit or loss in subsequent periods			
Total remeasurements on defined benefit obligation	21	35.4	(611.4)
Return on plan assets excluding interest income	21	87.5	373.3
Changes in onerous liability (excluding interest expense)	21	(132.5)	(61.4)
Tax on items recognised directly in equity	8	2.4	45.9
		(7.2)	(253.6)
Items to be reclassified to profit or loss in subsequent periods			
Cash flow hedges:			
Reclassification during the year to income statement	18	(34.7)	(24.5)
Net gain during the year of the not-yet matured contracts	18	(33.8)	49.1
Tax on cash flow hedges recognised directly in equity	8	12.2	(4.0)
		(56.3)	20.6
Other comprehensive income for the year		(63.5)	(233.0)
Total comprehensive income for the year (attributable to owners of the parent)		237.5	147.5

Balance sheet
as at 31 December 2017

	<i>Notes</i>	<i>31 December 2017 £m</i>	<i>31 December 2016 £m</i>
Assets			
<i>Non-current assets</i>			
Intangible assets	9	191.0	165.2
Property, plant and equipment	10	4,361.1	4,371.5
Investments	11	769.7	769.7
Operating lease prepayments	12	43.4	44.5
Deferred tax asset	13	92.8	70.2
		5,458.0	5,421.1
<i>Current assets</i>			
Inventories	14	1,076.3	1,031.9
Trade and other receivables	15	3,555.1	3,403.7
Cash and cash equivalents		334.4	284.9
Operating lease prepayments	12	1.3	1.3
		4,967.1	4,721.8
Total assets		10,425.1	10,142.9
Equity and Liabilities			
<i>Equity attributable to the shareholders</i>			
Called up share capital	16	757.6	757.6
Share premium account	18	950.3	950.3
Cash flow hedge	18	(20.2)	36.1
Other reserves	18	118.0	118.0
Retained earnings	18	3,392.6	3,499.9
Total equity		5,198.3	5,361.9
Liabilities			
<i>Non-current liabilities</i>			
Borrowings	19	219.0	165.9
Provisions	20	136.5	118.3
Employee benefits	21	918.3	920.7
		1,273.8	1,204.9
<i>Current Liabilities</i>			
Trade and other payables	22	3,832.5	3,455.3
Income tax liability	22	18.8	24.6
Borrowings	19	13.8	10.6
Employee benefits	21	51.9	40.9
Provisions	20	36.0	44.7
		3,953.0	3,576.1
Total liabilities		5,226.8	4,781.0
Total equity and liabilities		10,425.1	10,142.9

The financial statements were approved by the board of directors and signed on its behalf by:



A Russo
Director
15 May 2018

Statement of changes in equity
for the year ended 31 December 2017

	<i>Called up Share capital</i>	<i>Share premium account</i>	<i>Other reserves</i>	<i>Cash flow hedge</i>	<i>Retained earnings</i>	<i>Total Equity</i>
<i>Notes</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Balance at 1 January 2016	757.6	950.3	118.0	15.5	3,672.3	5,513.7
Comprehensive income						
Profit for the year	-	-	-	-	380.5	380.5
Other comprehensive income						
Cash flow hedges - reclassified during year to income statement	-	-	-	(24.5)	-	(24.5)
Cash flow hedges - net gain during year on not-yet matured contracts	-	-	-	49.1	-	49.1
Tax on cash flow hedges recognised directly in other comprehensive income	8	-	-	(4.0)	-	(4.0)
Total remeasurements on defined benefit obligation	21	-	-	-	(611.4)	(611.4)
Reduction on plan assets excluding interest income	21	-	-	-	373.3	373.3
Changes in asset ceiling/onerous liability (excluding interest expense)	21	-	-	-	(61.4)	(61.4)
Tax on actuarial losses recognised directly in other comprehensive income	8	-	-	-	45.9	45.9
Total	-	-	-	20.6	(253.6)	(233.0)
Total comprehensive income	-	-	-	20.6	126.9	147.5
Dividends	17	-	-	-	(300.0)	(300.0)
Tax on items charged to equity	8	-	-	-	0.7	0.7
Balance at 1 January 2017	757.6	950.3	118.0	36.1	3,499.9	5,361.9
Comprehensive income						
Profit for the year	-	-	-	-	301.0	301.0
Other comprehensive income						
Cash flow hedges - reclassified during 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	21	-	-	-	35.4	35.4
Return on plan assets excluding interest income	21	-	-	-	87.5	87.5
Changes in asset ceiling/onerous liability (excluding interest expense)	21	-	-	-	(132.5)	(132.5)
Tax on actuarial gains recognised directly in other comprehensive income	8	-	-	-	2.4	2.4
Total	-	-	-	(56.3)	(7.2)	(63.5)
Total comprehensive income	-	-	-	(56.3)	293.8	237.5
Equity dividends paid	17	-	-	-	(400.0)	(400.0)
Tax on items charged to equity	8	-	-	-	(1.1)	(1.1)
Balance at 31 December 2017	757.6	950.3	118.0	(20.2)	3,392.6	5,198.3

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

1 Accounting policies

Authorisation of financial statements and statement of compliance with IFRSs

The financial statements of ASDA Stores Limited (the "Company") for the year ended 31 December 2017 were authorised for issue by the directors on 15 May 2018 and the Balance Sheet was signed on behalf of the directors by A Russo. The Company is incorporated and domiciled in England and under the Companies Act 2006 (registration number 464777).

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

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

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

Basis of preparation

The financial statements are prepared on the going concern basis as the Company has considerable financial resources and good long term prospects. As a consequence, the directors believe that the Company is well placed to manage any financial risks successfully and continue to operate for the foreseeable future.

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'.

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

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Judgements, estimates and assumptions

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

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

Impairment of brand intangible assets

The Company has a brand related intangible asset 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 22. 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 22) at the year-end for which estimation and judgement is required is £0.6m (2016: £0.4m). This represents the net amount of accrued income (£0.6m) (2016: £0.4m) and deferred income (£nil) (2016: £nil) on deals running across the year end.

Intercompany royalty expense

The Group incurs a royalty charge from the ultimate parent company. The calculation of this is based on the return on investment of the Group and the operating profit of a subsidiary undertaking within the Group. The calculation for the years ended 31 December 2017 and 31 December 2016 is under review with the UK and US tax authorities and the royalty paid in both years has been estimated on the same calculation basis that was in place for the year ended 31 December 2015.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Judgements, estimates and assumptions (continued)

Other

The insurance provision (note 20) 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 25).

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 currently treated as trade payables.

Pension benefits

The carrying value of the liabilities relating to the defined benefit pension scheme is valued using an actuarial valuation. This valuation is based on assumptions. All the assumptions used are estimates of future events. Further details about the key assumptions used are given in note 21.

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 and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 21.

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.

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 taken to other comprehensive income.

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

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

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

Notes to the financial statements (continued)

1 Accounting policies (continued)

Intangible Assets

Intangible assets acquired are carried initially at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Following initial recognition, the historic cost model is applied, with intangible assets being carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with a finite life have no residual value and are amortised on a straight line basis over their expected useful lives, with charges included in operating costs, as follows:

Lease buy out costs	Over lease term
Software and development costs	4 years
Other intangibles	3 years

Intangible assets with an indefinite life are not amortised.

Property, plant and equipment

The Company's property, plant and equipment are included in the balance sheet 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 2014, the date of transition to FRS 101, are measured on the basis of deemed cost less accumulated depreciation and impairment losses. Deemed cost at date of transition is revalued cost under previously extant UK GAAP.

Assets under the course of construction are included in the balance sheet 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.

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

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

All items of 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. Any gain or loss arising on the de-recognition of the asset is included in the income statement.

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. A cash generating unit 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.

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 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. Impairment losses on continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

Notes to the financial statements (continued)
I Accounting policies (continued)

Impairment of non-financial assets (continued)

Impairment losses recognised in respect of cash generating units ("CGU") are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and second, to reduce the carrying amount of the other assets in the unit on a pro rata basis.

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.

Leases

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

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 non-current assets and depreciated over their useful economic lives. Rental income and lease incentives are recognised on a straight line basis over the lease term.

Notes to the financial statements (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: financial assets at fair value through profit and loss, loans and receivables, interest bearing loans and borrowings, derivatives designated as hedges and trade payables.

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

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

Financial assets and liabilities at fair value through profit and loss

Gains or losses arising from changes in the fair value of the financial assets and liabilities are included in the income statement in the period in which they arise.

Loans and receivables

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

Interest bearing loans and borrowings

Interest bearing bank loans and overdrafts are recorded initially at fair value plus directly attributable transaction costs. Subsequently, these liabilities are carried at 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.

Derivative financial instruments and hedging

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

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

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

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Financial instruments *(continued)*

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 inventories recognised as an expense, when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs.

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

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

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.

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, have no fixed repayment date and are measured at amortised cost.

Cash and cash equivalents

Cash and short term deposits comprise cash balances and call deposits with an original maturity of three months or less.

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 have no fixed repayment date.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Taxation

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

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.

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.

Pensions and other post-employment benefits

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 plans

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.

In respect of actuarial gains and losses that arise, the Company recognises them in full to equity in the period they occur in the statement of changes in equity.

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.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

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 intra-group transactions, staff discounts, coupons and the free element of multi-save transactions.

Income from concessions and commissions

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

Financial Income and Costs

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 inventories recognised as an expense, as they accrue in accordance with the terms of each relevant supplier agreement. All supplier income is supported by agreements and, in the majority of instances, these agreements begin and end within the 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 Company'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 Company'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.

Notes to the financial statements *(continued)*

Dividend distribution

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. The Company records a liability in the financial statements with respect to these matters when a loss is deemed to be probable and can be reasonably estimated. Where a liability is not probable or the amount cannot be reasonably estimated a liability is not recognised. However, where a liability is possible and may be material, such matters are disclosed as contingent liabilities.

2 Segment reporting

Revenue comprises the value of sales excluding value added tax. Revenue is derived from the principal activities in the United Kingdom. Revenue is recognised net of staff discounts, coupons and the free element of multi-save transactions.

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

All significant revenue is generated by the sale of goods through retail outlets in the United Kingdom and online. 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.

Revenue for the year is as follows:

	<i>Year Ended 31 December 2017</i>	<i>Year Ended 31 December 2016</i>
	<i>£m</i>	<i>£m</i>
Sale of goods	19,078.5	18,939.7
Fuel	2,873.3	2,468.8
	21,951.8	21,408.5
Total revenue	21,951.8	21,408.5

Notes to the financial statements *(continued)*

3 Operating costs

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

	<i>Year Ended 31 December 2017</i>	<i>Year Ended 31 December 2016</i>
	<i>£m</i>	<i>£m</i>
Cost of inventory recognised as an expense	(16,123.1)	(15,590.0)
Cost of inventory written off in the year	(427.3)	(407.2)
Employment costs (note 5)	(2,534.2)	(2,455.6)
Amortisation of intangible assets (note 9)	(32.7)	(30.5)
Depreciation of property plant and equipment (note 10)		
- Owned property, plant and equipment	(318.9)	(323.0)
- Property, plant and equipment held under finance leases	(11.0)	(5.5)
Rental income	13.9	12.4
Other income	34.3	34.2
Profit/(loss) on sale of property, plant and equipment	0.3	(0.8)
Impairment of property, plant and equipment (note 10)	(5.7)	(2.8)
Foreign currency losses	(3.1)	(5.4)
	<hr/> <hr/>	<hr/> <hr/>
OPERATING LEASE CHARGES		
- Land and buildings	(117.8)	(118.1)
- Plant and machinery	(47.2)	(48.3)
	<hr/> <hr/>	<hr/> <hr/>
	(165.0)	(166.4)
	<hr/> <hr/>	<hr/> <hr/>
AMOUNTS PAID TO AUDITORS		
Fees payable to the company's auditors for the audit of the company financial statements	(0.3)	(0.2)
Fees payable to the company's auditors for other services	(0.2)	(0.1)
	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements *(continued)*

4 Directors' remuneration

	<i>Year Ended 31 December 2017</i>	<i>Year Ended 31 December 2016</i>
	<i>£m</i>	<i>£m</i>
Total directors' remuneration excluding pension costs	4.7	4.2
Share-based payments	0.5	1.6

During the year, an emoluments cost of £3.9m was incurred by the Company in respect of compensation for loss of office (2016: £2.5m). This is not included in the directors' remuneration disclosed above.

	<i>No.</i>	<i>No.</i>
Number of directors who were active members of the defined benefit scheme during the year	-	-
Number of directors who exercised share options	2	5
Number of directors entitled to receive shares under long term incentive schemes during the year	4	6
Amounts in respect of the highest paid director are as follows:	<i>£m</i>	<i>£m</i>
Total remuneration excluding pensions	2.2	1.0
Total share-based payments	-	0.3
Accumulated total accrued pension entitlement	-	-

The remuneration of the directors is in respect of their services to the Broadstreet Great Wilson Europe Group (the highest UK holding company in which the Company is consolidated) 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 (2016: two). One of the directors was a member of the defined contribution scheme during the year (2016: none).

Notes to the financial statements (continued)

5 Employee numbers and costs

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

	<i>Year Ended 31 December 2017</i>	<i>Year Ended 31 December 2016</i>
<i>Total</i>		
- Retail & Distribution	147,672	153,069
- Home offices	4,084	4,138
	<u>151,756</u>	<u>157,207</u>
<i>Full time equivalents</i>		
- Retail & Distribution	94,009	100,641
- Home offices	3,949	4,039
	<u>97,958</u>	<u>104,680</u>

The aggregate payroll costs of these people were as follows:

	<i>Year Ended 31 December 2017</i> £m	<i>Year Ended 31 December 2016</i> £m
Wages and salaries	2,244.4	2,197.5
Share based payments charge	98.7	69.5
Social security costs	130.7	127.1
Other pension costs (note 21)	60.4	61.5
	<u>2,534.2</u>	<u>2,455.6</u>

6 Financial income

	<i>Year Ended 31 December 2017</i> £m	<i>Year Ended 31 December 2016</i> £m
External interest receivable and similar income	0.2	-
Intercompany interest receivable	162.2	145.9
	<u>162.4</u>	<u>145.9</u>

Notes to the financial statements (continued)

7 Financial costs

	<i>Year Ended 31 December 2017</i>	<i>Year Ended 31 December 2016</i>
	<i>£m</i>	<i>£m</i>
Other interest payable	0.3	-
Intercompany interest payable	24.6	18.8
Finance lease interest	12.4	10.3
Net interest cost on pension scheme (note 21)	24.1	24.8
Interest capitalised	(0.3)	(0.7)
	<hr/>	<hr/>
	61.1	53.2
	<hr/> <hr/>	<hr/> <hr/>

8 Income tax expense

Recognised in the income statement

	<i>Year Ended 31 December 2017</i>	<i>Year Ended 31 December 2016</i>
	<i>£m</i>	<i>£m</i>
Current tax		
UK corporation tax on profit for the year	97.0	119.4
Adjustments in respect of prior periods	(3.4)	(11.7)
	<hr/>	<hr/>
Current tax charge for the year	93.6	107.7
	<hr/>	<hr/>
Deferred tax		
Origination and reversal of temporary differences	(17.3)	(17.5)
Adjustments in respect of prior periods	2.8	2.7
Reduction in deferred tax asset relating to pension obligation	(1.1)	0.1
Adjustment arising from change in tax rate	-	3.7
	<hr/>	<hr/>
Total deferred tax charge (note 13)	(15.6)	(11.0)
	<hr/>	<hr/>
Total tax charge for the year	78.0	96.7
	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements *(continued)*

8 Income tax expense *(continued)*

Reconciliation of effective tax rate

A reconciliation of the total tax charge compared to the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%) applied to the profit on ordinary activities before tax is as follows:

	<i>Year Ended 31 December 2017</i>	<i>Year Ended 31 December 2016</i>
	<i>£m</i>	<i>£m</i>
Profit before tax	<u>379.0</u>	<u>477.2</u>
Tax using the UK corporation tax rate of 19.25% (2016: 20.00%)	73.0	95.4
Effects of:		
Expenses not deductible for tax purposes	4.8	4.2
Non-qualifying depreciation	2.6	3.7
Gain on sale of non-qualifying property, plant and equipment	(0.9)	(3.6)
Share options costs	0.3	2.0
Adjustments in respect of prior periods	(0.6)	(8.9)
Change in tax rate	(1.1)	3.7
Other	(0.1)	0.2
Total tax charge for the year	<u><u>78.0</u></u>	<u><u>96.7</u></u>

The standard rate of corporation tax in the United Kingdom for the year is 19.25% (2016: 20.00%). On 15 September 2016, the Finance Act 2016 received Royal Assent and enacted a reduction in the main rate of corporation tax to 17% with effect from 1 April 2020. This will supersede the previously enacted rate change which would have reduced the corporation tax rate to 18% on this date.

Tax relating to components of the statement of changes in equity

	<i>Year Ended 31 December 2017</i>	<i>Year Ended 31 December 2016</i>
	<i>£m</i>	<i>£m</i>
Deferred tax charge/(credit) on:		
Share-based payments	<u>1.1</u>	<u>(0.7)</u>
Total tax charge/(credit) on items charged to the statement of changes in equity	<u><u>1.1</u></u>	<u><u>(0.7)</u></u>

Notes to the financial statements (continued)

8 Income tax expense (continued)

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

	<i>Year Ended 31 December 2017</i>	<i>Year Ended 31 December 2016</i>
	<i>£m</i>	<i>£m</i>
Current tax credit on:		
Pensions	(6.5)	(8.0)
Deferred tax charge/(credit) on:		
Pensions	4.1	(37.9)
Cash flow hedges	(12.2)	4.0
	<hr/>	<hr/>
Total tax on items (credited)/charged to the statement of comprehensive income	(14.6)	(41.9)
	<hr/> <hr/>	<hr/> <hr/>

9 Intangible assets

	<i>Brand</i>	<i>Software development costs</i>	<i>Other</i>	<i>Lease buy out costs</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
COST					
At 1 January 2017	31.9	121.2	2.1	134.4	289.6
Additions	-	53.6	-	-	53.6
Disposals	-	-	-	(4.9)	(4.9)
Reclassification from Property, Plant & Equipment	-	-	-	6.3	6.3
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2017	31.9	174.8	2.1	135.8	344.6
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
AMORTISATION					
At 1 January 2017	14.6	62.7	1.6	45.5	124.4
Amortisation during the year	-	30.3	0.5	1.9	32.7
Disposals	-	-	-	(4.9)	(4.9)
Reclassification from Property, Plant & Equipment	-	-	-	1.4	1.4
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2017	14.6	93.0	2.1	43.9	153.6
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
NETBOOK VALUE					
At 31 December 2017	17.3	81.8	-	91.9	191.0
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2016	17.3	58.5	0.5	88.9	165.2
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The George brand has a carrying value of £17.3m (2016: £17.3m). The George brand is generating positive cash flows. There are no plans to exit the brand and no legal limits on its use by the Company.

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

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

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

Notes to the financial statements (continued)

9 Intangible assets (continued)

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 £6.3m and accumulated depreciation of £1.4m (see note 10).

Impairment testing of George Brand

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 (2016: £17.3m). This has been tested for impairment as at 31 December 2017 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 8.3% 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.

10 Property, plant and equipment

	<i>Freehold properties £m</i>	<i>Finance Leases & Leasehold improvements £m</i>	<i>Plant, fixtures and fittings £m</i>	<i>Assets under construction £m</i>	<i>Total £m</i>
COST OR VALUATION					
At 1 January 2017	3,226.5	1,304.7	2,795.1	251.6	7,577.9
Additions	53.8	72.6	19.8	198.9	345.1
Disposals	(20.8)	(4.4)	(330.9)	-	(356.1)
Impairments	(1.6)	(4.1)	-	-	(5.7)
Transfers	(9.1)	-	9.1	-	-
Transfers from Assets Under Construction	125.8	-	189.9	(315.7)	-
Reclassification from Intangible Assets	-	(6.3)	-	-	(6.3)
At 31 December 2017	<u>3,374.6</u>	<u>1,362.5</u>	<u>2,683.0</u>	<u>134.8</u>	<u>7,554.9</u>
DEPRECIATION					
At 1 January 2017	733.5	518.2	1,954.7	-	3,206.4
Charge for the year	108.9	24.5	196.5	-	329.9
Disposals	(8.8)	(5.4)	(326.9)	-	(341.1)
Transfers	(3.3)	-	3.3	-	-
Reclassification	-	(1.4)	-	-	(1.4)
At 31 December 2017	<u>830.3</u>	<u>535.9</u>	<u>1,827.6</u>	<u>-</u>	<u>3,193.8</u>
Net book amounts 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>
Net book amounts at 31 December 2016	<u>2,493.0</u>	<u>786.5</u>	<u>840.4</u>	<u>251.6</u>	<u>4,371.5</u>

Notes to the financial statements (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 £5.7m (2016: £2.8m) were recognised in the table above.

Transfers

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

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 £6.3m and accumulated depreciation of £1.4m (see note 9).

Capitalised Interest

The cumulative amount of capitalised interest included in the cost of property, plant and equipment is £86.0m (2016: £85.7m). Details of interest capitalised during the year is included in note 7. Additions in the year include capitalised interest of £0.3m (2016: £0.7m).

Finance Leases

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

	<i>31 December</i>	<i>31 December</i>
	<i>2017</i>	<i>2016</i>
	<i>£m</i>	<i>£m</i>
Cost	197.8	186.0
Accumulated depreciation	(31.8)	(24.9)
	166.0	161.1
Net book value	166.0	161.1

Notes to the financial statements (continued)

11 Investments

	<i>£m</i>
Cost and net book value at 1 January 2017 and 31 December 2017	769.7

Following a review of the carrying value of investments held by the Company, no impairment charge (2016: £nil) has been recognised in the year.

Subsidiary undertakings

	<i>Country of incorporation and principal place of business</i>	<i>% equity held Ownership</i>
ASDA Delivery Limited	United Kingdom	100% Direct
ASDA Guernsey Limited	United Kingdom	100% Direct
ASDA Home Shopping Cards 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
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
Vinpack Limited	United Kingdom	100% Indirect
Westry Produce Limited	United Kingdom	100% Indirect

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 91, Legis House, 11 New Street, St Peter Port, Guernsey, GY1 3EG*

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

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

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

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

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

Notes to the financial statements *(continued)*

12 Operating lease prepayments

	<i>31 December</i>	<i>31 December</i>
	<i>2017</i>	<i>2016</i>
	<i>£m</i>	<i>£m</i>
Operating lease prepayments - current	1.3	1.3
- non current	43.4	44.5
	44.7	45.8
	44.7	45.8

Operating lease prepayments are amortised over the associated lease term.

13 Deferred tax assets and liabilities

Deferred tax (assets)/liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
	£m	£m	£m	£m	£m	£m
Property, plant and equipment	-	-	78.4	88.6	78.4	88.6
Employee benefits	(164.3)	(164.1)	-	-	(164.3)	(164.1)
Provisions	(2.6)	(2.0)	-	-	(2.6)	(2.0)
Other items	(4.3)	-	-	7.3	(4.3)	7.3
	(171.2)	(166.1)	78.4	95.9	(92.8)	(70.2)
Deferred tax (assets)/liabilities	(171.2)	(166.1)	78.4	95.9	(92.8)	(70.2)
Netting of deferred tax (assets)/liabilities	78.4	95.9	(78.4)	(95.9)	-	-
	(92.8)	(70.2)	-	-	(92.8)	(70.2)
Net deferred tax (assets)/liabilities	(92.8)	(70.2)	-	-	(92.8)	(70.2)

Deferred tax has been provided at between 17-18% (2016: 17-18%) on the basis of when these balances are expected to reverse.

No provision has been made for deferred tax on potential capital gains which would arise as a consequence of the disposal of properties at revalued amounts as any capital gain should be covered by indexation allowance, rollover relief or capital losses. The Company considers it impractical to quantify the amount of tax which would become payable if rollover relief was not available.

Corporation Tax of £17.6m (2016: £12.6m) has been deferred as a consequence of rollover relief claims made in respect of the disposal of certain non-current assets in prior periods.

The Company has capital losses of £38.9m (2016: £37.1m) available to reduce future capital gains. No deferred tax asset has been recognised on the accumulated capital losses due to uncertainty of when they may be utilised.

Notes to the financial statements (continued)

13 Deferred tax assets and liabilities (continued)

Movement in deferred tax (assets) and liabilities during the year:

	<i>1 January 2017</i>	<i>Recognised in income</i>	<i>Recognised in other comprehensive income</i>	<i>Recognised in equity</i>	<i>31 December 2017</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Property, plant and equipment	88.6	(10.2)	-	-	78.4
Employee benefits	(164.1)	(5.4)	4.1	1.1	(164.3)
Provisions	(2.0)	(0.6)	-	-	(2.6)
Other items	7.3	0.6	(12.2)	-	(4.3)
	<u>(70.2)</u>	<u>(15.6)</u>	<u>(8.1)</u>	<u>1.1</u>	<u>(92.8)</u>

Movement in deferred tax (assets) and liabilities during the prior year:

	<i>1 January 2016</i>	<i>Recognised in income</i>	<i>Recognised in other comprehensive income</i>	<i>Recognised in equity</i>	<i>Transferred</i>	<i>31 December 2016</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Property, plant and equipment	97.0	(8.4)	-	-	-	88.6
Employee benefits	(121.2)	(4.3)	(37.9)	(0.7)	-	(164.1)
Provisions	(3.7)	1.7	-	-	-	(2.0)
Other items	4.9	-	4.0	-	(1.6)	7.3
	<u>(23.0)</u>	<u>(11.0)</u>	<u>(33.9)</u>	<u>(0.7)</u>	<u>(1.6)</u>	<u>(70.2)</u>

14 Inventories

	<i>31 December 2017</i>	<i>31 December 2016</i>
	<i>£m</i>	<i>£m</i>
Goods held for resale	1,074.7	1,030.2
Goods not held for resale	1.6	1.7
	<u>1,076.3</u>	<u>1,031.9</u>

Notes to the financial statements (continued)

15 Trade and other receivables

	<i>31 December</i> 2017 £m	<i>31 December</i> 2016 £m
Trade receivables	128.9	135.2
Provision for doubtful debts	(3.9)	(2.7)
Intercompany receivables	3,364.0	3,152.4
Other receivables	33.7	34.8
Prepayments and accrued income	32.4	21.7
Derivative assets	-	62.3
	<u>3,555.1</u>	<u>3,403.7</u>

As at 31 December 2017, trade receivables at nominal value of £3.9m (2016: £2.7m) were impaired and fully provided for on the basis of the age of the debt and estimated ability of the customer to make payment.

16 Called up share capital

	<i>Redeemable ordinary shares of £1 each</i>	<i>Ordinary shares of £1 each</i>	<i>Total</i>
At 1 January 2017	566,781,240	190,805,129	757,586,369
At 31 December 2017	<u>566,781,240</u>	<u>190,805,129</u>	<u>757,586,369</u>

Value (£m) authorised, allotted, called up and fully paid

	<i>Redeemable ordinary shares of £1 each</i>	<i>Ordinary shares of £1 each</i>	<i>Total</i>
At 1 January 2017	566.8	190.8	757.6
At 31 December 2017	<u>566.8</u>	<u>190.8</u>	<u>757.6</u>

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 down 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.

Notes to the financial statements (continued)

17 Dividends proposed and paid

On 10 January 2017, a dividend of £100.0m (13.2p per share) was proposed and paid to ASDA Group Limited, the immediate parent undertaking. On 6 February 2017, a further dividend of £300.0m (39.6p per share) was proposed and paid to ASDA Group Limited (see note 18).

In the prior year, the Company proposed and paid a dividend of £300.0m, representing a dividend of 39.6p per share.

18 Reserves

Reconciliation of movement in reserves is as follows:

	<i>Share premium</i>	<i>Other Reserves</i>	<i>Cash Flow Hedge</i>	<i>Retained Earnings</i>	<i>Total reserves</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
At 1 January 2016	950.3	118.0	15.5	3,672.3	4,756.1
Profit for the year	-	-	-	380.5	380.5
Cash flow hedges - reclassified during year to income statement	-	-	(24.5)	-	(24.5)
Cash flow hedges - net gain during year on not-yet matured contracts	-	-	49.1	-	49.1
Tax on cash flow hedges recognised directly in other comprehensive income	-	-	(4.0)	-	(4.0)
Total remeasurements on defined benefit obligation	-	-	-	(611.4)	(611.4)
Return on plan assets excluding interest income	-	-	-	373.3	373.3
Changes in asset ceiling/onerous liability (excluding interest expense)	-	-	-	45.9	45.9
Tax on actuarial losses recognised directly in other comprehensive income	-	-	-	(61.4)	(61.4)
Tax on items credited to equity	-	-	-	0.7	0.7
Dividend paid	-	-	-	(300.0)	(300.0)
At 31 December 2016	950.3	118.0	36.1	3,499.9	4,604.3
At 1 January 2017	950.3	118.0	36.1	3,499.9	4,604.3
Profit for the year	-	-	-	301.0	301.0
Cash flow hedges - reclassified during year to income statement	-	-	(34.7)	-	(34.7)
Cash flow hedges - net gain 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
Return on plan assets excluding interest income	-	-	-	87.5	87.5
Changes in asset ceiling/onerous liability (excluding interest expense)	-	-	-	2.4	2.4
Tax on actuarial losses recognised directly in other comprehensive income	-	-	-	(132.5)	(132.5)
Tax on items credited to equity	-	-	-	(1.1)	(1.1)
Dividend paid	-	-	-	(400.0)	(400.0)
At 31 December 2017	950.3	118.0	(20.2)	3,392.6	4,440.7

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.

Notes to the financial statements (continued)

19 Borrowings

	<i>31 December</i> 2017 £m	<i>31 December</i> 2016 £m
<i>Finance lease obligation</i>		
Less than one year	13.8	10.6
Total amounts repayable within one year	<u>13.8</u>	<u>10.6</u>
Between one and five years	60.2	45.7
After five years	158.8	120.2
Total amounts repayable after one year	<u>219.0</u>	<u>165.9</u>
Total	<u><u>232.8</u></u>	<u><u>176.5</u></u>

20 Provisions

	<i>Property</i> <i>provisions</i> £m	<i>Insurance</i> £m	<i>Total</i> <i>provisions</i> £m
At 1 January 2017	26.0	137.0	163.0
Provided during the year	20.7	51.1	71.8
Utilised during the year	(1.2)	(29.3)	(30.5)
Unused amounts reversed during the year	(0.3)	(33.7)	(34.0)
Discount and inflationary changes and unwinding	2.2	-	2.2
At 31 December 2017	<u>47.4</u>	<u>125.1</u>	<u>172.5</u>
Of which:			
Current	-	36.0	36.0
Non-current	<u>47.4</u>	<u>89.1</u>	<u>136.5</u>

The majority of the provisions balance above relates to claims liabilities arising from past events such as accidents in our depots and stores which are not covered by third party insurance. The value of the provision is established using independent actuarial assessments or a reasonable estimate based on past experience. 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. These provisions are expected to crystallise at the end of the lease term of each property. During the year, the Directors assessed the estimate of these liabilities and increased the provision by £20.3m. This is accounted for as an increase in the cost of property, plant and equipment (see note 10) and the impact of this will be recognised as additional depreciation over the lease terms of the sites to which the provision relates.

Notes to the financial statements (continued)

21 Employee benefits

	<i>31 December</i> 2017 £m	<i>31 December</i> 2016 £m
Present value of defined benefit obligations	(2,458.1)	(2,620.8)
Effect of minimum funding requirement	(945.4)	(791.5)
Fair value of plan assets	2,549.9	2,518.8
	<hr/>	<hr/>
Recognised liability for defined benefit obligations	(853.6)	(893.5)
Cash-settled share-based payment transactions liability - non-current	(64.7)	(27.2)
	<hr/>	<hr/>
Total non-current employee benefits liability	(918.3)	(920.7)
Cash-settled share-based payment transactions liability - current	(51.9)	(40.9)
	<hr/>	<hr/>
Total employee benefits liability	<u>(970.2)</u>	<u>(961.6)</u>

Pension plans

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

	<i>31 December</i> 2017 £m	<i>31 December</i> 2016 £m
Wages and salaries	2,244.4	2,197.5
Share-based payments charge	98.7	69.5
Social security costs	130.7	127.1
	<hr/>	<hr/>
Total cost before pension costs	2,473.8	2,394.1
	<hr/>	<hr/>
Defined benefit pension scheme		
Net interest on pension scheme	24.1	24.8
	<hr/>	<hr/>
Total defined benefit scheme loss	24.1	24.8
Cost of defined contribution schemes	60.4	61.5
	<hr/>	<hr/>
Total pension expense	84.5	86.3
	<hr/>	<hr/>
Total employee benefit expense	<u>2,558.3</u>	<u>2,480.4</u>

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 trustees under the management of a number of professional fund managers and are held separately from the Company's assets. The trustees invest in a range of assets including bonds, equity securities and assets that will hedge movements in the liabilities. The trustees and Company agreed a de-risking plan in 2011 whereby the proportion of plan assets invested in liability hedging assets will increase over the period to 2021.

Notes to the financial statements (continued)

21 Employee benefits (continued)

Pension plans (continued)

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

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

A schedule of contributions is in place between the Company and trustees of the funded defined benefit plan in order to pay down the deficit and the current schedule was agreed in 2017. A long term funding agreement was entered into with the trustees in 2015 whereby contributions will continue until the scheme is fully funded on a self-sufficiency basis. At the time of the April 2016 triennial valuation, this resulted in contributions of £70.0m per annum being paid into the scheme until April 2032. Under IFRIC 14 this is considered to be a minimum funding requirement (also known as a statutory funding objective). At the current year end, the plan is in surplus; however, contributions remain payable until 2024 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 £945.4m (2016: £791.5m).

The expected future benefit payments from the defined benefit plans are based on a number of assumptions including future inflation, retirement ages, benefit options chosen and life expectancy and are therefore inherently uncertain. Actual benefit payments in a given year may be higher or lower, for example if members retire sooner or later than assumed, or take a greater or lesser cash lump sum at retirement. The estimated duration of pension plan liabilities, which is an indicator of the weighted average term of the liabilities, is 23 years (2016: 23 years) although the benefits payable by the pension plans are expected to be paid over more than 80 years.

Movements in present value of defined benefit obligation:

	31 December 2017	31 December 2016
At 1 January	(2,620.8)	(2,023.5)
Interest expense	(68.2)	(77.3)
Remeasurements:		
Effect of changes in financial assumptions	102.6	(725.7)
Effect of experience adjustments	(67.2)	114.3
Benefits paid	195.5	91.4
At 31 December	(2,458.1)	(2,620.8)

Notes to the financial statements (continued)

21 Employee benefits (continued)

Pension plans (continued)

Movements in fair value of plan assets:

	31 December 2017	31 December 2016
	£m	£m
At 1 January	2,518.8	2,091.8
Interest income	66.4	81.3
Contributions by employer	73.6	65.2
Benefits paid	(195.5)	(91.4)
Administrative expenses paid	(0.9)	(1.4)
Remeasurements:		
Return on plan assets excluding interest income	87.5	373.3
	<hr/>	<hr/>
At 31 December	2,549.9	2,518.8
	<hr/> <hr/>	<hr/> <hr/>

Amounts recognised in the income statement:

	31 December 2017	31 December 2016
	£m	£m
Net interest (expense)/income on plan assets and	(1.8)	4.0
Interest expense on effect of onerous liability	(21.4)	(27.4)
Administrative expenses and taxes	(0.9)	(1.4)
	<hr/>	<hr/>
Total income statement charge	(24.1)	(24.8)
	<hr/> <hr/>	<hr/> <hr/>

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.

The Company operates one defined contribution pension plan. There were no unpaid contributions outstanding at the current or prior year end for the defined contribution scheme. The charge for the year for the defined contribution scheme is £60.4m (2016: £61.5m).

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

	31 December 2017	31 December 2016
	£m	£m
Remeasurements recognised to other comprehensive income		
Effect of changes in demographic assumptions	-	-
Effect of changes in financial assumptions	102.6	(725.7)
Effect of experience adjustments	(67.2)	114.3
Return on plan assets excluding interest income	87.5	373.3
Changes in onerous liability excluding interest expense	(132.5)	(61.4)
	<hr/>	<hr/>
Total remeasurements recognised in the statement of comprehensive income	(9.6)	(299.5)
	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements (continued)

21 Employee benefits (continued)

Pension plans (continued)

The fair value of the plan assets were as follows:

	31 December 2017			31 December 2016		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Cash and cash equivalents	-	3.0	3.0	-	8.1	8.1
Equity securities	400.9	407.5	808.4	332.2	554.8	887.0
Debt securities	1,066.2	-	1,066.2	919.1	-	919.1
Property	-	200.3	200.3	-	187.0	187.0
Investment funds	54.9	274.8	329.7	102.8	258.3	361.1
Other	142.3	-	142.3	156.5	-	156.5
	<u>1,664.3</u>	<u>885.6</u>	<u>2,549.9</u>	<u>1,510.6</u>	<u>1,008.2</u>	<u>2,518.8</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 AA corporate bonds basis. Other risks to the scheme include longevity risk.

Principal actuarial assumptions (expressed as weighted averages):

	31 December 2017	31 December 2016
	%	%
Discount rate	2.5	2.7
Inflation - RPI	3.1	3.4
Inflation - CPI	2.1	2.4
Future pension increases	3.0	3.3

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

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

		31 December 2017	31 December 2016
Retiring at reporting date at age 65:	Male	22.8	23.0
	Female	24.7	25.0
Retiring in 25 years at age 65:	Male	24.6	25.2
	Female	26.5	27.4

Notes to the financial statements *(continued)*

21 Employee benefits *(continued)*

Pension plans *(continued)*

Sensitivity analysis of principal assumptions:

The assumptions on the discount rate, inflation, and life expectancy all have a significant effect on the measurement of the present value of the scheme liabilities. The following table provides an indication of the sensitivity of the IAS 19 pension liability at 31 December 2017, and of the income statement charge for 2018, to changes in these assumptions.

	Decrease / (increase) in liability £m	Decrease / (increase) in net finance costs £m
An increase of 0.1% to the following assumptions:		
Discount rate	54.3	1.5
Inflation rate (assuming RPI and CPI both move by 0.1 percent)	(53.6)	(1.3)
One year increase in life expectancy	(75.8)	(1.8)

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

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

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 executive performance share plan has performance conditions relating to the total payout of options issued, no other scheme has any performance conditions attached to the scheme.

Notes to the financial statements (continued)

21 Employee benefits (continued)

Share-based payments

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

		<i>31 December</i> 2017 £m	<i>31 December</i> 2016 £m
Cash-settled share based payment charge		98.7	69.5
Total carrying amount of liabilities	- current	51.9	40.9
	- non-current	64.7	27.2
		<u>116.6</u>	<u>68.1</u>

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:

	<i>31 December</i> 2017 <i>Weighted</i> <i>average exercise</i> <i>price</i> £	<i>31 December</i> 2017 <i>Number of</i> <i>options</i> <i>(thousands)</i>	<i>31 December</i> 2016 <i>Weighted</i> <i>average exercise</i> <i>price</i> £	<i>31 December</i> 2016 <i>Number of</i> <i>options</i> <i>(thousands)</i>
Outstanding at the beginning of the year	38.36	5,005	38.70	4,709
Exercised during the year	(33.34)	(1,471)	(31.76)	(1,323)
Granted during the year	46.01	2,102	37.03	2,448
Forfeited during the year	(41.28)	(646)	(39.15)	(829)
Outstanding at the end of the year	<u>42.04</u>	<u>4,990</u>	<u>38.36</u>	<u>5,005</u>
Exercisable at the end of the year	<u>41.36</u>	<u>38</u>	<u>42.30</u>	<u>62</u>

Share options were exercised on a regular basis throughout the year. The average exercise price during the year to 31 December 2017 was £41.36 (2016: £42.30). The related shares are denominated in US dollars being the reporting currency of the ultimate parent company. The sterling exercise price of the Sharesave scheme options is fixed at the exchange rate on issue, for all other schemes the exercise price is denominated in US dollars and the sterling equivalent is translated based on the current exchange rate.

Notes to the financial statements (continued)

21 Employee benefits (continued)

Share-based payments

Sharesave scheme

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

Number of options outstanding (thousands)	31 December 2017			Number of options outstanding (thousands)	31 December 2016		
	Range of exercise price (£)	Weighted average exercise price (£)	Weighted average remaining contractual life (years)		Range of exercise price (£)	Weighted average exercise price (£)	Weighted average remaining contractual life (years)
4,957	35.21 to 46.00	41.98	1.6	4,937	29.76 to 43.79	38.24	1.5

The fair value of the options outstanding under the Sharesave scheme at 31 December 2017 is £80.9m (2016: £42.8m).

Walmart Stock Incentive Plan (WSIP) scheme

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

Number of options outstanding (thousands)	31 December 2017			Number of options outstanding (thousands)	31 December 2016		
	Range of exercise price (£)	Weighted average exercise price (£)	Weighted average remaining contractual life (years)		Range of exercise price (£)	Weighted average exercise price (£)	Weighted average remaining contractual life (years)
33	34.99 to 59.76	50.83	0.6	68	35.88 to 65.41	47.46	0.4

The fair value of the options outstanding under the WSIP scheme at 31 December 2017 is £0.7m (2016: £0.8m).

Notes to the financial statements (continued)

21 Employee benefits (continued)

Share-based payments

Restricted Stock Rights (RSR) scheme

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

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

	<i>31 December 2017 (thousands)</i>	<i>31 December 2016 (thousands)</i>
Outstanding at the beginning of the year	562	573
Exercised during the year	(161)	(148)
Granted during the year	155	240
Lapsed during the year	(73)	(103)
	<hr/>	<hr/>
Outstanding at the end of the year	483	562
	<hr/>	<hr/>
Exercisable at the end of the year	-	-
	<hr/> <hr/>	<hr/> <hr/>

The fair value of the options outstanding under the RSR scheme at 31 December 2017 is £24.0m (2016: £19.5m).

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.

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

	<i>31 December 2017 (thousands)</i>	<i>31 December 2016 (thousands)</i>
Outstanding at the beginning of the year	184	234
Exercised during the year	(52)	(62)
Conditionally granted during the year	119	80
Lapsed during the year	(55)	(68)
	<hr/>	<hr/>
Outstanding at the end of the year	196	184
	<hr/>	<hr/>
Exercisable at the end of the year	-	-
	<hr/> <hr/>	<hr/> <hr/>

The fair value of the options outstanding under the PSP scheme at 31 December 2017 is £11.0m (2016: £5.0m).

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.

Notes to the financial statements (continued)

21 Employee benefits (continued)

Share-based payments

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

	<i>31 December</i> 2017	<i>31 December</i> 2016
Expected dividend yield (%)	2.07	2.89
Expected volatility (%)	18.40	9.45
Risk-free interest rate (%)	1.76	0.85
Weighted average fair value of options granted (£)	14.79	14.03
Weighted average exercise price (£)	42.04	38.36
Expected life of option (years)	3 or 5	3 or 5

Volatility is a measure of the amount by which a price is expected to fluctuate during the year. The 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.

22 Trade and other payables

	<i>31 December</i> 2017 £m	<i>31 December</i> 2016 £m
Trade payables	2,610.0	2,403.8
Intercompany payables	482.1	389.7
Other taxes and social security	228.5	209.6
Other payables	184.3	172.9
Accrued expenses	298.9	279.3
Derivative liabilities	28.7	-
Taxation	18.8	24.6
	<u>3,851.3</u>	<u>3,479.9</u>

Operating lease agreements where Company is lessee

Future minimum undiscounted lease payments under non-cancellable agreements in respect of land and buildings are as follows:

	<i>31 December</i> 2017 £m	<i>31 December</i> 2016 £m
No later than one year	149.0	151.5
Later than one year and no later than five years	391.1	420.6
Later than five years	1,575.4	1,812.9
	<u>2,115.5</u>	<u>2,385.0</u>

Notes to the financial statements (continued)

23 Obligations under leases (continued)

Future minimum lease payments under non-cancellable agreements in respect of plant and machinery are as follows:

	<i>31 December</i> 2017 £m	<i>31 December</i> 2016 £m
No later than one year	50.0	47.2
Later than one year and no later than five years	84.5	83.9
Later than five years	3.2	6.1
	<hr/> 137.7 <hr/>	<hr/> 137.2 <hr/>

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

	<i>31 December</i> 2017 £m	<i>31 December</i> 2016 £m
No later than one year	9.8	11.1
Later than one year and no later than five years	31.0	29.4
Later than five years	35.1	44.3
	<hr/> 75.9 <hr/>	<hr/> 84.8 <hr/>

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

Finance lease agreements where Company is lessee

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

	<i>31 December</i> 2017 £m	<i>31 December</i> 2016 £m
<i>Future minimum payments due:</i>		
No later than one year	13.8	10.6
Later than one year and no later than five years	60.3	45.7
Later than five years	475.7	364.8
	<hr/> 549.8 <hr/>	<hr/> 421.1 <hr/>
Lease finance charges allocated to future periods	(317.0)	(244.6)
Present value of minimum lease payments	<hr/> 232.8 <hr/>	<hr/> 176.5 <hr/>

Notes to the financial statements (*continued*)

24 Commitments

As at 31 December 2017, the Company had entered into contracts to purchase property, plant and equipment for £nil (2016: £nil).

As at 31 December 2017, the Company had entered into contracts to purchase US dollars for £788.7m (2016: £691.6m).

25 Contingent liabilities

Equal Value Claims: ASDA Stores Limited has been served with over 10,000 employment tribunal claims that have been presented on behalf of current and former ASDA store employees, who allege that their work in ASDA's stores is of equal value in terms of the demands of their jobs to that of employees working in ASDA's distribution centres, and that the differences in pay and terms and conditions between the different jobs are not objectively justified. The claimants are requesting differential back pay based on higher wage rates in the distribution centres and those higher wage rates and more favourable terms and conditions on a prospective basis as part of these equal value proceedings. ASDA believes that further claims may be 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.

26 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.

27 Parent undertaking and controlling party

The immediate parent undertaking 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.