Sustainable Fitch
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Asda Group Limited

Corporates | Retailing | United Kingdom | ESG Entity Rating

ESG Rating Type	ESG Rating[a]	Score	Analysis Type
Entity	3	54	Full Entity
Instrument	Not Applicable	Not Applicable	Not Applicable
Framework	Not Applicable	Not Applicable	Not Applicable

[a] ESG Rating of 1-5, where 1 is the strongest. Date ESG Rating and score assigned: 25 October 2023.
Note: For Framework, analysis types can be green, social, sustainability, sustainability-linked, conventional, or other.

Credentials

N/A	N/A	N/A
Transition	ICMA	EU Green Bond Standard

See Key Terms appendix for definitions of Transition, ICMA and other details.

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The Entity – Highlights

Asda Group Limited (Asda) is the UK's third-largest grocery retailer with GBP24.5 billion sales in 2022. Its main business activities include the sales of groceries, clothing, furniture, homeware, general merchandise and fuel. The company operates more than 630 stores in a range of formats including supercenters and superstores, smaller convenience-size supermarkets and petrol stations.

In addition to Asda's George and George Home branded stores, it operates the second-largest online grocery platform in the UK. Other services offered by the group include Asda Money, Asda Mobile, Pharmacy and Optical Services. The company employs around 145,000 people and serves nearly 18 million customers.

In 2021, Asda had been acquired by Bellis Finco plc, an entity owned by TDR Capital LLP (a British private equity firm) and Issa brothers (owners of EG Group, an international chain of petrol stations and convenience stores). In 2022, Asda bought Arthur Foodstores Limited from Co-operative Group Limited, adding 129 convenience stores to its portfolio. In 2023, Asda acquired EG Group's UK and Ireland operations, adding around 365 petrol filling stations and over 400 food service sites to its retail portfolio.

The new company owners view ESG programme as an important part of its business transformation plan. Asda's sustainability strategy is centred around three areas that are the most material to its stakeholders: better planet, better lives and better business. These correspond to environmental, consumer health and good corporate governance goals, respectively.

The company's key ESG targets include climate change mitigation, food and packaging waste reduction, sustainable procurement, food healthiness, access and affordability, and local communities support.

In 2023, Asda set new targets for Scopes 1, 2, 3, and forest, land and agriculture (FLAG) emissions reduction; it has submitted these targets for validation by the Science Based Targets initiative (SBTi). In 2020, the company adopted a 2040 net-zero emissions target, in line with the Paris Agreement on Climate Change, and also 10 years ahead of the internationally agreed deadline.

The environmental and social targets adopted by Asda cover most ESG topics relevant for the food and beverage, and the retail sectors. In Sustainable Fitch's view, the company could consider adding water reduction and green buildings targets to its list as has been done by some of its peers.

As of end-2022, Asda has demonstrated a good progress on achieving its ESG targets, which were set by the previous owners, including a 40% reduction of combined Scopes 1 and 2 emissions since 2015 and 93% recyclable packaging in its own-brand products.

The Entity – Highlights

The company has a risk management programme that provides identification, mitigation and ongoing monitoring of significant risks, which is overseen by the audit committee and the compliance, ethics, risk and audit committee. The programme includes climate change risk assessment and mitigating strategies that focus on GHG emissions reduction, among others. Other principal risks identified by Asda include regulatory compliance and political environment; safeguarding employees, customers and suppliers with respect to human rights and health and safety; supply chain resilience; cyber and data security; and various financial risks. The group has put mitigating strategies in place for each risk category.

Overall, ESG risk management procedures at Asda appear to be well-developed and aligned with its peers.

Asda's ESG report 2022 was prepared in accordance with the Global Reporting Initiative standards, which is a good market practice for corporate ESG disclosure. In the 2023 ESG report, Asda plans to expand its disclosure on climate governance, in line with the UK's Climate-Related Financial Disclosures regulations. The group has not yet adopted the Task Force on Climate-related Financial Disclosures (TCFD) reporting recommendations, which include conducting a climate change scenario analysis. The latter, in our view, could further strengthen Asda's ESG disclosure.

Asda's business activities and sustainability initiatives mainly contribute to UN Sustainable Development Goals 2 (zero hunger), 12 (responsible consumption and production) and 13 (climate action).

Source: Sustainable Fitch, Bellis Finco plc (Asda) annual report 2022, Asda ESG report 2022, Asda website, public news

Entity Analysis

Broader Perspective on Sector

Sector Trajectory	Fitch's View
Short Term	• The main ESG topics associated with the grocery retail and food and beverage manufacturing sectors include: high levels of GHG emissions, especially emissions from agricultural and animal farm suppliers, packaging suppliers that typically account for over 90% of the total and Scope 1 emissions from delivery fleet; air pollution from refrigerant gases used in stores and during transportation; and pollution of water bodies and soil with plastic waste. • The EU Parliament has decided to tackle the plastic waste problem with the EU Packaging Regulation and the Single-Use Plastics Directive. Some countries have introduced deposit return schemes, in which customers get a refund of a beverage bottle's cost after returning the bottle to a store or collecting machine. The resulting packaging return rates range from 82% in Estonia to 98% in Germany. • A Plastic Packaging Tax came into force in the UK on 1 April 2022. It applies at a rate of GBP210.82 per tonne on plastic packaging, with less than 30% recycled plastic manufactured in or imported into the UK. • NGOs and public bodies insist that retailers should accept responsibility for their supply chains' environmental and social practices and encourage them to implement more sustainable farming methods. A commonly cited example is conventional farms' impact on to soil degradation, water pollution, water scarcity, deforestation and loss of biodiversity due to their reliance on single crops, chemical pesticides and GMOs. • In developing nations, agricultural supply chains have been linked to human and labour rights' violations ranging from forced labour to hazardous working conditions and in-kind wages payment. Public accusations against such suppliers may carry reputational risks for retailers buying goods from them. • Heavily processed foods, sweetened beverages, alcohol and tobacco are commonly known to have a negative impact on consumer health, and represent another growing area of corporate responsibility for food manufacturers and retailers. • To improve public health, governments of many countries are looking at introducing mandatory nutritional information on product packaging, sugar and trans-fat taxes, requiring supermarkets to reposition foods with high fat, salt and sugar content on the shelves, and banning marketing and advertising of unhealthy foods and beverages to children and youth.

Broader Perspective on Sector

Sector Trajectory	Fitch's View
	• The aforementioned considerations should be factored in when developing corporate sustainability strategies and ESG reports.
Long Term	• We expect both government regulations and investor engagements will prompt food and beverage manufacturers and grocers to further reduce their plastic and other packaging materials' footprint. • The UK plastic packaging tax shall incentivise the companies to increase the recycled content in their packaging, which could push the prices of recycled plastic up due to a limited supply capacity. • In the EU, the Single-Use Plastics Directive will have notable long-term implications for the food and beverage industry. The directive sets a collection target of 77% for single-use plastic bottles by 2025 and 90% by 2029. Polyethylene terephthalate bottles should contain at least 25% recycled plastic by 2025, and all types of plastic bottles should contain 30% recycled content by 2030. • In England, the Deposit Return Scheme is due to roll out in October 2025. The scheme includes a 20 pence charge to be applied to drinks' containers that consumers can claim back upon the return of bottles and cans to retailer stores' reverse vending machines. • Another implication of the above regulations is that manufacturers would need to change their packaging materials' mix to make them recyclable, which requires moving away from the widely-used, non-recyclable plastic types, such as low-density polyethene and biaxially oriented polypropylene found in fruit film packaging and potato crisps' bags. We are also likely to see increased use of refillable presentations that could help beverage and chemicals manufacturers reduce costs and become more sustainable. • New biodegradable packaging materials look promising for reducing waste, as do returnable glass and plastic bottles. Companies that recognise the trend early, build the necessary infrastructure for returnable and reusable containers, and invest in packaging materials' R&D are likely be benefit from securing the required recycled plastic supply, and from reduced packaging costs and lower regulatory compliance costs. • Changes in consumer buying behaviour driven by environmental sustainability and personal health considerations can reduce the future demand for products linked to social and environmental controversies and for unhealthy food products, thus reducing the profitability of businesses and returns for investors.

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Entity Analysis

Broader Perspective on Sector

Sector Trajectory	Fitch's View
	• In the EU, regulators have developed a "farm to fork" strategy, with an aim of making food systems more fair, healthy and environmentally friendly. They also have created a voluntary code of conduct for responsible food business and marketing practices, with an aim to encourage environmentally and socially sustainable behaviour among food manufacturers and retailers. • We believe that manufacturers that engage with their farm suppliers and incentivise them to use more sustainable and regenerative agricultural methods could benefit in the long run, as the costs of transitional (regulatory) risks are likely to increase. • We expect European food and beverage manufacturers and supermarkets that grow their sales in healthy categories to outperform in the long run. • Additional changes are likely to take place in the product transportation and delivery areas with electrification of fleet, as well as in the cooling technologies with a focus on reducing their energy consumption and GHG emissions. • The new Corporate Sustainability Reporting Directive in the EU and the Waste Reporting Directive in the UK are expected to broaden the scope of the sustainability-related information disclosed by businesses, which should help investors develop sustainable investment strategies for the sector.

Source: Sustainable Fitch

Broader Perspective on Company

Company Direction	Fitch's View
Short Term	• The group's latest ESG materiality assessment has confirmed that its strategic priorities in sustainability include: climate mitigation; food waste reduction; plastic and other packaging reduction and recycling; healthy food products' offering; sustainable agricultural commodities sourcing; and local communities' support. • In 2023, Asda has developed new carbon emissions reduction targets that would be published in its next ESG report. The company is encouraging its largest suppliers to develop their own GHG emissions reporting and targets, and to have them approved by the SBTi. • As consumers become increasingly concerned about the environmental impact of their food and clothing plastic packaging, Asda is taking a number of mitigating measures, including redesigning its own-brand products' packaging and removing the single-use plastic bags from stores. • Healthy eating is another growing trend among consumers, which Asda is addressing with an increase in the share of healthy own-label products to 60% by 2024. Asda defines healthy foods as products with low and modest fat, salt and sugar content; a defined nutritional benefit; category-specific positive characteristic; and no red traffic lights. It has also started putting a special "Live Better" icon on its own-brand products that highlights to consumers the healthier choices, based on the UK government's Eatwell Guide. • In 2023, Asda formed a partnership with the National Endowment for Science, Technology and Arts (NESTA) in order to identify, test and scale initiatives that improve customer health goals without undercutting the group's commercial objectives. The end goal of the collaboration is to make healthier eating more affordable, accessible and attractive for Asda's shoppers. • From October 2022, England introduced location restrictions on the sale of high fat, salt and sugar foods across 13 categories in an attempt by the government to address the obesity problem by making unhealthy foods less prominent in stores and online. The legislation has implications for Asda and its peers, as it requires new investments in changing the store layouts.
Long Term	• Asda has a 2040 net-zero target for its carbon emissions reduction, while other environmental and social targets are short term in nature, with a two- to three-year timeline. We expect to see new ESG goals added in its 2023 ESG report.

Entity Analysis

Broader Perspective on Company

Company Direction	Fitch's View
	• The company does not disclose its share of renewable energy and does not have a target for increasing it yet. The same can be said about Asda's retail real estate portfolio that does not seem to include certified green buildings or have targets for buildings' energy and water-use efficiency in line with the EU taxonomy. The addition of corresponding goals and roadmaps for their achievement would further strengthen the company's environmental profile. • Asda's customer survey indicates that shoppers want to buy goods that are made sustainably, but are concerned about the costs. The company has pledged to provide more sustainable choices to consumers at the same prices or less than the renowned brands' products. We are expecting to see the report on this pledge in the 2023 ESG report. • We realise that Asda does not have control over the third-party products it sells, but believe that sustainability requirements (such as reduced fat, salt and sugar content and only recyclable plastic packaging) for third-party brands would further enhance the group's corporate sustainability strategy and put it ahead of its peers. • Engaging more closely with the top suppliers on ESG matters, such as water-use and pesticide reduction, protection of forests from conversion to farmland, renewable energy and cleaner fuel, fair living wages and safer working conditions, could further strengthen Asda's rating.

Source: Sustainable Fitch

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Entity Analysis

Business Activities

<table>
<tr><th rowspan="2">Company Material Core Contributions</th><th colspan="2">Fitch’s View</th></tr>
<tr><th>Environmental</th><th>Social</th></tr>
<tr><td colspan="3">Food</td></tr>
<tr><td colspan="3">ESG Rating 3</td></tr>
<tr><td>

- Asda's food business comprises grocery stores of various formats, selling various food, beverage, home cleaning and tobacco products. The food products cover a range of products, including fruits, vegetables, seafood, meat, poultry, cupboard and bakery products. The beverage products include water, soft drinks, fruit juices, beer, wine and spirts. The company sells both its own-brand and well-known, third-party brands.

Represents 71.02% of 2022 sales.

</td><td>

- Nearly all of the food and beverage products sold by Asda come from conventional agriculture, with a limited number of products being certified as organic.
- We view conventional agriculture in the EU and UK as more sustainable compared to other regions, such as the US or developing countries, based on more stringent regulations on GMOs and pesticides. The company does not specify the shares of its products coming from Europe and the rest of the world, limiting our ability to factor in the location of the sourced products.
- Asda uses varying percentages of certified inputs in its own-brand products, such as Rainforest Alliance-certified bananas, coffee and tea; Marine Stewardship Council-certified seafood; and Roundtable on Sustainable Palm Oil-certified palm oil. However, it does not disclose its shares in the overall food sales.
- We do view the procurement of certified agricultural commodities as conducive to better environmental practices, and our assessment reflects it positively; however, we put a higher emphasis on organic and regenerative agriculture as a means to tackle the negative environmental impacts of food production process.
- Asda has several initiatives in place to encourage its agricultural suppliers to adopt more sustainable farming practices, such as encouraging potato farmers to keep soil covered, and improve biodiversity and soil structure through the use of a particular seed mixture; and sponsoring a water stewardship project in southern Spain in order to reduce water use in the fruit and vegetable production.
- Asda published a plant protection policy to guide the use of pesticides by suppliers. The policy requires suppliers to comply with local legislation, and for crops grown outside the EU, to have a phase-out plan for any active ingredients that are listed in annex 1 of EU Regulation EC 850/2004. This is an environmentally positive approach to sourcing that is stricter than the sector peers' integrated pest management policies we have seen.
- We also favourably view Asda's packaging recycling and refillable packaging initiatives aimed at tackling the industry's waste problem.

</td><td>

- Asda's grocery retail operations are rather neutral from a social point of view, as they are aimed at the general public, although food is necessary for human survival. There is a social benefit from Asda's fixed-price promise on select products amidst the food price inflation and cost-of-living crisis in the UK.
- We measure the social impact of supermarkets through the lens of their product mix and impact on consumers' health. Some of conventionally farmed agricultural products, heavily processed foods, sweetened beverages, alcohol and tobacco have been proven to have a negative impact on consumers' health.
- Asda's actions to mitigate these impacts include increasing the share of non-high fat, salt and sugar own-brand products and improving the food nutrition labelling. The company is also offering products aimed at people with different diet requirements, such as vegetarian, halal and people with certain allergies and food intolerances.

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Entity Analysis

Business Activities

<table>
<tr><th rowspan="2">Company Material Core Contributions</th><th colspan="2">Fitch's View</th></tr>
<tr><th>Environmental</th><th>Social</th></tr>
<tr><td colspan="3">Petrol</td></tr>
<tr><td colspan="3">ESG Rating 4</td></tr>
<tr><td>• The petrol segment refers to sales of automotive fuel from forecourts located outside Asda stores. Following its acquisition by TDR Capital and Issa brothers, Asda acquired the UK-based fuel stations from EG Group in 2023.

Represents 16.45% of 2022 sales.</td><td>• The oil and gas industry is considered to be a major contributor to the current climate change on our planet, and retail sale of car fuel is an integral part of it.
• In the future, if Asda were to add a significant portfolio of electric charging stations to its existing petrol stations and supermarket car parks, it could benefit the business activity's environmental profile as an enabler of the transition to greener, electricity-powered transportation.</td><td>• Operation of petrol stations is a neutral activity from a social scoring point of view. Climate change and air pollution negatively affect people's health and livelihoods; however, fuel enables people's mobility and society is not yet ready to fully switch to electric vehicles or hydrogen-powered vehicles.
• There is ongoing investigation by the UK regulators of allegations of Asda's and its peers' high fuel price margins during the international oil price decline, which could have had a negative impact on consumers by making personal transport less affordable. According to Asda, the investigation found that Asda was the price leader within the sector, and from August 2023 the company has started to display its fuel prices online each morning.</td></tr>
<tr><td colspan="3">Clothing and general merchandise</td></tr>
<tr><td colspan="3">ESG Rating 3</td></tr>
<tr><td>• This segment includes George brand clothing, footwear and accessories for the whole family, and cosmetics. It also includes George Home offering furniture, homeware and toys.

Represents 12.53% of 2022 sales.</td><td>• Clothing, home goods, electric appliances, perfumes and cosmetics manufacturing, if not appropriately mitigated, could have a negative environmental impact in the form of chemical, plastic and polyester fabric (microplastics) pollution, as well as the resulting GHG emissions during manufacturing of petrochemical-based products. Cotton is also one of the most water- and pesticide-intensive crops, grown predominantly from genetically modified seeds, thus having a negative environmental impact on soil and water.
• Mitigating actions taken by Asda to date include using 50% Global Recycled Standard- or Recycled Claim Standard-certified recycled polyester, 81% Forest Stewardship Council- or Programme for the Endorsement of Forest Certification-certified viscose, and 98% Better Cotton Initiative-certified cotton in its garments in 2022.</td><td>• Retail of light manufacturing and cosmetics products is a neutral business activity from a consumer point of view. For goods primarily manufactured in developing countries, such as China, India and Bangladesh, we extend our analysis of social impacts to the supply chain to cover human rights, labour rights, working conditions, health and safety standards, and compensation practices.
• According to publicly available reports, farm workers and factory employees in developing countries often receive low wages below the living minimum requirement in their country, have no social security and have to work in rather uncomfortable and hazardous conditions. The public expects retailers to assume responsibility for monitoring their supply chains for human and social rights violations.
• Asda's responsible sourcing programme requires transparency of all supplier facilities producing Asda- and George-branded goods or products deemed exclusive to Asda and George. The group is monitoring its major suppliers' social practices via the Sedex platform that categorises suppliers as low, medium or high risk.
• Every year the high-risk suppliers are asked to submit a third-party audit via Sedex. In 2022, about 9% of Asda's in-scope supplier facilities were classified as high risk. Cases of non-compliances must be closed within the timelines specified by the auditor. Failure to do so represents a breach of Asda's</td></tr>
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Entity Analysis

Business Activities

Company Material Core Contributions	Fitch's View	
	Environmental	Social
Clothing and general merchandise		
ESG Rating 3		
		procurement standards, and it may choose to take action up to the termination of supplier's relationship.
Source: Bellis Finco plc (Asda) annual report 2022, Asda ESG report 2022, Asda website, public news	Source: Sustainable Fitch, based on Bellis Finco plc (Asda) annual report 2022, Asda ESG report 2022, Asda website, public news	

Entity Analysis

Environmental View

ESG Rating: 2

Profile	Fitch's View	ESG Rating
Policies	• Asda has relevant natural resources policies in place, including those related to water, food waste, packaging, sustainable agriculture, pesticides use, use of antibiotics in animal farming and biodiversity protection. • To date, Asda does not have energy efficiency and renewable energy targets, but they might be included in the new climate goals that are currently being reviewed by the SBTi. • Adding a policy and a target for reducing the air pollution from refrigerant gases used in stores could further benefit the company's environmental profile. • We believe green buildings, renewable energy, energy efficiency and water-use efficiency targets are relevant for the retail sector and would make Asda's sustainability strategy more comprehensive.	2
Disclosure	• Asda reports Scopes 1, 2 and 3 emissions at the corporate level. A more refined practice would be to also disclose GHG emissions for each business segment separately, as they sell very different products, ranging from food to petrol. • Indirect Scope 3 emissions mainly come from the raw materials and packaging purchases, and the use of petrol, food and home products by consumers (including cooking food, washing clothes, disposing of products and packaging), and account for 96% of Asda's total carbon footprint. • Asda discloses multiple metrics related to its natural resources consumption. Asda reports its energy consumption and energy mix in its annual report. In its sustainability report, it discloses percentages of sustainability-certified agricultural commodities, share of recycled and recyclable packaging, and diverted waste metrics. • The company does not publish its water consumption, although it is measured; it does not have a water-use reduction target, which is relevant for the sector.	2
Evolution	• To date, Asda has demonstrated a consistent CO2 emissions reduction trend across all the three Scopes, suggesting that the existing measures are working well. • In 2022, Scopes 1 and 2 emissions decreased by 8% compared to 2021 and by 40% compared to a 2015 baseline. • Asda's total carbon footprint (Scopes 1, 2 and 3 emissions) in 2022 was 28,295,682tCO2e, representing a 7% decrease from its 2021 level. • The company appears to be on track of achieving its initial target for 50% Scopes 1 and 2 emissions reduction by 2025 from a 2015 baseline.	2

Environmental View

ESG Rating: 2

Profile	Fitch's View	ESG Rating
	• There has been a more nuanced trend for other environmental metrics, namely food waste and hazardous waste. The rating also takes into account a lack of certain environmental metrics relevant for the sector, such as water use, the types of energy used, buildings' water and energy efficiency characteristics, and share or size of farm suppliers implementing regenerative agricultural practices. • Asda's total energy use declined by 5% between 2021 and 2022. The company does not appear to report the share of renewable energy in its overall energy mix. • Asda has prioritised 10 key agricultural commodities it buys that have sustainability certifications, such as the Rainforest Alliance, Fair Trade, Better Cotton Initiative, Roundtable on Sustainable Palm Oil and Marine Stewardship Council. We view the use of sustainability certifications positively, but consider organic and regenerative agricultural methods to be superior for the environment. • The use of recycled polyester increased to 50% in 2022 from 12% in 2020, which is a good progress, overachieving Asda's original target of 30% by 2025. • On the waste front, Asda achieved a 100% diversion from landfill, with an 86% reuse or recycling share and 14% waste-to-energy incineration share. The company's food waste increased between 2015 and 2022 by 3.7%, while the target is to achieve a 20% reduction by 2025. • The company achieved its target of reducing its own-brand products' plastic packaging by 15% in 2021. As of 2022, Asda used a total of 153,081t of packaging for its own-brand products, of which 93% was made from recyclable materials. Of total packaging, plastic amounted to 66,221t and contained 29% recycled material, placing Asda well on track of achieving 100% recyclable and 30% recycled content by 2025. • Asda aims to eliminate all hazardous waste from being released into soil, water and air by 2025; it achieved almost 60% elimination in 2022.	
Targets and Supply Chain	• Sustainability key performance indicators (KPIs) do not appear to be a part of the executive and director remuneration at Asda, while they are becoming increasingly common in the market as an executive performance-based compensation component. • Asda has set a 2040 net-zero goal and has submitted new 2030 Scopes 1, 2, 3 and FLAG emissions reduction targets for the SBTi's approval in 2023. • The existing Scopes 1 and 2 emissions reduction targets for 2025 were approved by the SBTi under its previous owners.	1

Entity Analysis

Environmental View

ESG Rating: 2

Profile	Fitch's View	ESG Rating
	• Asda is working with its suppliers on improving their farming practices and reducing environmental impacts, such as pesticides use, carbon emissions and waste. • The company aims for all suppliers to align their carbon reduction targets with Asda's net-zero roadmap. As of 2022, over 70% of its biggest suppliers have submitted Scopes 1 and 2 GHG emissions reduction targets to the company. This puts Asda ahead of its peers on engagement with suppliers on climate change mitigation and Scope 3 emissions reduction. • Asda also offers its suppliers a soil health assessment scorecard alongside advice for better managing their land, as well as a plant protection (pesticide) policy that encourages its non-EU and non-UK suppliers to phase out the pesticides banned by the EU and UN.	
Risks and Incident Treatment	• In the past three years, there have been no major environmental incidents related to Asda's operations, but we noted a number of allegations affecting the company or its supply chain made by the public. • In 2019, there was a case of river pollution with diesel by Asda in Northern Ireland that could have threatened local community's drinking water supply, and trout and salmon habitat, but it was isolated and remedied quickly. • In 2022, the UK Competition and Markets Authority started a probe into Asda's sustainability claims for its George clothing range that is still ongoing. • The company has been separately criticised by the public for allegedly installing rooftop cooling units in four UK stores that use climate-damaging refrigerant hydrofluorocarbon; we believe that setting a target for phasing out of such substances would improve the company's sustainability strategy. • Indirect environmental incidents for Asda include accusations against its agricultural commodities suppliers, such as JBS and Cargill, over tropical rainforest deforestation. This is outside of the group's operational control; however, Asda and its peers could have a closer oversight and contract termination clauses for suppliers if the latter commit serious environmental damage. • Based on the available information, we do not expect the above environmental matters to have a material impact on the company.	1

Source: Sustainable Fitch, based on Bellis Finco plc (Asda) annual report 2022, Asda ESG report 2022, Asda website, public news

Entity Analysis

Social View

ESG Rating: 3

Profile	Fitch's View	ESG Rating
Human Rights	• Asda has adopted a human rights policy in line with the UN Guiding Principles on Business and Human Rights, guided by the International Bill of Human Rights, International Labour Organization's Declaration on Fundamental Principles and Rights at Work, and the UK Modern Slavery Act 2015. • The company focuses on health and safety, protection from discrimination, preventing forced and child labour, freedom of association, wages and working hours, as these represent the major human rights risks associated with its business activities. Asda aims to identify, manage and mitigate these risks within its supply chain through its responsible sourcing programme.	1
Labour Rights	• Asda's commitment to upholding the UN Guiding Principles on Business and Human Rights covers its own employees and contractors, suppliers and workers within the supply chain, communities in which it operates, and its customers. • With respect to its employees, the company does not tolerate any form of discrimination, harassment, victimisation or bullying. There is a range of policies in place, including diversity and inclusion; health, safety and fire; modern slavery; working time directive; recruitment; right to work; safeguarding; grievance; and whistleblowing policies that cover Asda's employee rights. • Asda employees can join Union of Shop, Distributive and Allied Workers and the GMB labour union that represent their collective interests in fair wages, employment contract terms, and working hours-related disputes. • In 2022, Asda had zero employee fatalities and 806 high-consequence job-related injuries. The company is not reporting its employee lost-time incident rate as part of its ESG data. It also does not retain the records on occupational ill health. The main health risks in grocery retail include musculoskeletal trauma, asbestos poisoning, dermatitis and lung conditions from flour dust. The latter has diminished due to a move away from in-store scratch bakeries. • In the past three years, Asda has been subject to several employee lawsuits related to pay increase and gender pay discrimination, with the most significant one being the ongoing suite over the pay gap between the female store employees and male distribution centre employees. • According to ITV news, almost 55,000 shop workers are involved and the settlement amount could reach up to GBP1.2 billion, plus up to GBP400 million additional payroll cost per year if they were to win. The UK Supreme Court has ruled that Asda shop floor staff can be compared to warehouse workers for the purposes of assessing equal pay. Asda continues to defend against such claims, as it considers retail and distribution to be two very different sections of operation, with their own distinct skill sets and rates of pay.	4

Social View

ESG Rating: 3

Profile	Fitch's View	ESG Rating
	• There is a sector-wide litigation in the UK on aforementioned matter, with several peers facing similar headwinds. • Asda has confirmed that it has equal hourly pay rate for male and female colleagues who perform the same job either in stores or in distribution centers. The date of the expected court decision is not yet known. In the event that a liability may arise in future in respect of the equal pay claims, Walmart (the previous owner) has indemnified Asda up to a contractually agreed amount. • Asda also reported that it had increased the hourly rate of its retail employees by 8% in 2022 and 10% in 2023. • Asda does not disclose its employee turnover rate to the public. The company has disclosed it to us in a confidential manner, and we came to a conclusion that it is high. • High employee turnover rate is an issue that affects the retail industry as a whole, with the average rate in the UK being between 20% and 30%.	
Diversity	• Asda has a good gender balance, with 49% of all employees, 24% of store managers and 38% of senior managers being female. The company aims to increase percentage of female store managers to 30% by 2025. • Asda does not report on other types of diversity, such as nationality or age distribution. • A majority of Asda's employees (around 85%) are paid by the hour. The hourly rates of store employees are fixed, i.e. are the same for men and women. • For employees on a monthly payroll, the median salary of women was 6.1% lower than that of men, as of its 2021 pay gap report. This was lower than the UK's national median gender pay gap of 15.4% in 2021. The gender pay gap is the difference in the average hourly earnings of men and women across an organisation, regardless of their roles or industry sectors. • In 2021, women received 27.3% lower median bonus than men within the Asda's employee population that are entitled to annual bonus payment. This is a significant pay gap that should be addressed by the remuneration committee and management.	2
Community and Customers	• Asda has several community initiatives ranging from food donations to creating public leisure spaces, fundraising for various causes and employee volunteering. • In 2022, the company provided nearly 1,000,000 free meals to school-age children at its in-store cafes.	4

Entity Analysis

Social View

ESG Rating: 3

Profile	Fitch's View	ESG Rating
	• Asda tracks customer satisfaction and supplier satisfaction through internal and third-party surveys, but it does not seem to publish the customer satisfaction rate. • In 2022, the company locked prices for customers on an unspecified number of products in light of cost-of-living pressures. It has also introduced over 300 new products in the low price range that were well met by consumers. It is a part of Asda's renewed business strategy to make the most popular own-brand products affordable for its customers. • The new Asda loyalty programme was rolled out in 2022, enabling customers to earn cash back on their shopping that they can later spend in store. • Asda recognises the importance of making products healthier and affordable for consumers. The company has set a target of having 1,200 healthier products, i.e. with non-high fat, salt and sugar content, with a "Live Better" icon and 60% of healthier own-brand products by 2024; it reached 870 products and 54%, respectively, in 2022. Over the next two years, we expect to see new products and marketing strategies resulting from the Asda and NESTA cooperation. Asda is also expanding its vegan range to keep up with the changing customer preferences. • The company has removed cartoon characters from high fat, sugar and salt own-brand products to comply with children and youth marketing regulations.	
Targets and Supply Chain	• Asda's responsible sourcing programme includes a set of standards for suppliers related to environmental and social practices. Signing a supplier agreement, accepting a purchase order, or providing products to Asda constitutes acceptance of the standards for suppliers. Failure to comply may result in negative consequences for suppliers up to the termination of business relationship. • The group has supplier audit procedures in place, but it does not seem to disclose the number and share of audited suppliers, identified cases of non-compliance and the outcome for non-compliant suppliers. • Asda is using internal impacts metrics for social KPIs, including one million children in Asda communities reached through Asda's Better Starts programme and 4,860 empowered community groups to tackle issues in their local community through the Asda Foundation, without explaining the methodology behind them.	3
Risks and Incident Treatment	• Asda, just as other grocery retailers, does multiple product recalls every year due to detection of undeclared allergens, chocking hazards, toxic substances or bacteria. These include both own-brand and third-party manufacturers' products. • In 2021, a ceiling collapse at Asda's Ashton-under-Lyne store injured a young boy that required hospitalisation.	2

Source: Sustainable Fitch, based on Bellis Finco plc (Asda) annual report 2022, Asda ESG report 2022, Asda gender pay gap report 2021, Asda website, public news

Entity Analysis

Governance View

ESG Rating: 3

Profile	Fitch's View	ESG Rating
Financials and Reporting	• For its 2021 and 2022 annual reports, an independent auditor has performed audits of Bellis Finco plc's (Asda's) financial statements and concluded that they give a true and fair view of the state of the company's affairs. • Asda's financial statements are being prepared in accordance with UK-adopted international accounting standards, and the parent company's statements in accordance with UK generally accepted accounting practice. The financial statements comply with the requirements of the Companies Act 2006. • In July 2023, the UK Parliamentary committee asked Asda to explain the potential gap of GBP1.7 billion in its reported operating costs. The company responded with an assurance that there is no gap and the disclosure is made in line with the accounting standards requirements.	2
Top Management and Control	• Asda is ultimately governed by the board of directors of Bellis Finco plc's indirect parent company, Bellis Topco 2 Limited. • The board has a low gender diversity with 14% female directors, and a good ethnical diversity with 43% of directors having Asian origins. • The board scores rather low on independence, with two out of seven non-executive directors (29%), which is due to the group's private equity ownership structure. The best practice in corporate governance states that majority of the board should be independent from a company's management. • The chairman is independent, as recommended by corporate governance best practice. • Since Asda's buy-out by Bellis Finco plc, a new audit committee has been created, chaired by an experienced non-executive director. The committee's objectives are to provide oversight and effective governance over the appropriateness and integrity of the financial reporting of Asda, the internal financial controls and risk management systems, compliance with laws and regulations, and the effectiveness of the internal audit function and external auditor. • Asda has a liquidity and financial risk management (LARM) committee, chaired by the senior director of treasury and tax and attended by the chief financial officer. The LARM committee's role is to review and make recommendations to the board with respect to cash, liquidity, financial risk management and investment decisions.	3
Remuneration	• The nominations and remuneration committee is chaired by the non-executive chairman and attended by Asda's executives. The committee is responsible for setting remuneration policies for the business, including decisions around bonus and hourly pay.	5

Governance View

ESG Rating: 3

Profile	Fitch's View	ESG Rating
	• Under the current ownership, Asda does not have a CEO position. Strategic decisions are made by the executive committee, with the board's oversight. The group's executive-level decisions are jointly made by its owners, the Issa brothers. • As a result, the company does not publish the information about executives' compensation and performance targets, or the CEO to median employee pay gap ratio, that all are common among its publicly listed peers.	
Risk Management	• The board is ultimately responsible and accountable for overseeing the group's risk management process, including identification and mitigation of the principal risks for Asda. • Bellis Finco plc created a strong, multi-tier risk management function for Asda comprising the audit committee; the LARM committee; and the compliance, ethics, risk and audit committee. The group also has a disclosure committee responsible for managing the disclosure of material, non-public information to Asda's bondholders and lenders. • With respect to sustainability risks, Asda has completed three materiality risk assessments, but has not yet performed a climate change risk scenario analysis as recommended by the TCFD.	1
Tax Management	• Following the change of ownership in 2021, Asda has been criticised that some parts of the group's complex structure are incorporated in Jersey, a well-known tax haven jurisdiction. According to the company, all Asda operations are registered with His Majesty's Revenue and Customs and pay UK corporate tax. We were unable to assess if the group has put an adequate transfer pricing model in place due to lack of publicly available information on it.	3

Source: Sustainable Fitch, based on Bellis Finco plc (Asda) annual report 2022, Asda website, public news

Entity Analysis

Relevant UN Sustainable Development Goals – Entity

2.1:	By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round	
12.3:	By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses	
12.5:	By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse	
12.7:	Promote public procurement practices that are sustainable, in accordance with national policies and priorities	
13.2:	Integrate climate change measures into national policies, strategies and planning	

Source: Sustainable Fitch, UN

Note: Sustainable Fitch evaluates the relevant UN Sustainable Development Goals at the entity level by considering direct contributions, not generic support.

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Appendix A: Key Terms

Term	Definition
Debt types	
Green	Proceeds will be used for green projects and/or environmental-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Green Bond Principles or other principles, guidelines or taxonomies.
Social	Proceeds will be used for social projects and/or social-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Social Bond Principles or other principles, guidelines or taxonomies.
Sustainability	Proceeds will be used for a mix of green and social projects and/or environmental and social-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Sustainability Bond Guidelines or other principles, guidelines, taxonomies.
Sustainability-linked	Financial and/or structural features are linked to the achievement of pre-defined sustainability objectives. Such features may be aligned with ICMA Sustainability Bond Guidelines or other principles, guidelines or taxonomies. The instrument is often referred to as an SLB (sustainability-linked bond) or SLL (sustainability-linked loan).
Conventional	Proceeds are not destined for any green, social or sustainability project or activity, and the financial or structural features are not linked to any sustainability objective.
Other	Any other type of financing instrument or a combination of the above instruments.

Term	Definition
Standards	
Transition	A term applied to green, social, sustainable or sustainability-linked instruments, only when the purpose of the debt instrument is to enable the issuer to achieve a climate change-related strategy according to Fitch criteria or methodology.
ICMA	International Capital Market Association. The "ICMA" credential on page 1 refers to alignment with ICMA's Principles and Guidelines: a series of principles and guidelines for green, social, sustainability and sustainability-linked (or KPI-linked) instruments.
EU Green Bond Standard	A set of voluntary standards created by the EU to "enhance the effectiveness, transparency, accountability, comparability and credibility of the green bond market".
LSTA	Loan Syndications and Trading Association. We refer to alignment with LSTA's Loan Principles: a series of principles and guidelines for green, social, sustainability and sustainability-linked (or KPI-linked) instruments.
Other terms	
ESG debt	Green, social, sustainability and sustainability-linked types of debt.
Short term	Within five years.
Long term	At least six years away.
Entity's business activity overlap with use of proceeds	The share of the entity's total business activities that can use proceeds from the debt instrument in question.
NACE	An industry standard classification system for economic activities in the EU, based on the United Nations' International Standard Industrial Classification of All Economic Activities (ISIC).

Source: Sustainable Fitch, ICMA, UN, EU Technical Expert Group

Appendix B: Methodology and ESG Rating Definitions

Fitch's ESG Ratings are designed to indicate an entity's Environmental, Social and Governance (ESG) performance and commitment, as well as its integration of ESG considerations into its business, strategy and management, with a focus on actions and outcomes rather than purely on policies and broader commitments.

There are three ratings: the ESG Entity Rating (ESG ER), ESG Instrument Rating (ESG IR) and, for debt instruments linked to ESG key performance indicators (KPIs) and/or use of proceeds, the ESG Framework Rating (ESG FR). ESG Ratings are on a scale from one to five, where one represents full alignment with ESG best practice. Behind each rating sit scores of zero to 100, as well as sub-scores for even greater granularity.

Sustainable Fitch's analysts assess all the business activities of an entity and more than 40 additional headline factors, covering all three ESG pillars. For debt instruments, they assess use of proceeds and more than 20 additional headline factors.

Fitch provides individual datasets with grades and commentary through a feed**.** The score and sub-score database allows direct comparison of entities and instruments, on a full ESG basis or on selected fields.

ESG ERs consider the issuer's strategy, how it relates to sustainability, and how sustainability is embedded in the issuer's business, including ESG policies, procedures, and outcomes. The entity is broken down into constituent business units, with NACE codes, for a granular assessment of E and S factors. Fitch assesses G aspects at the company level.

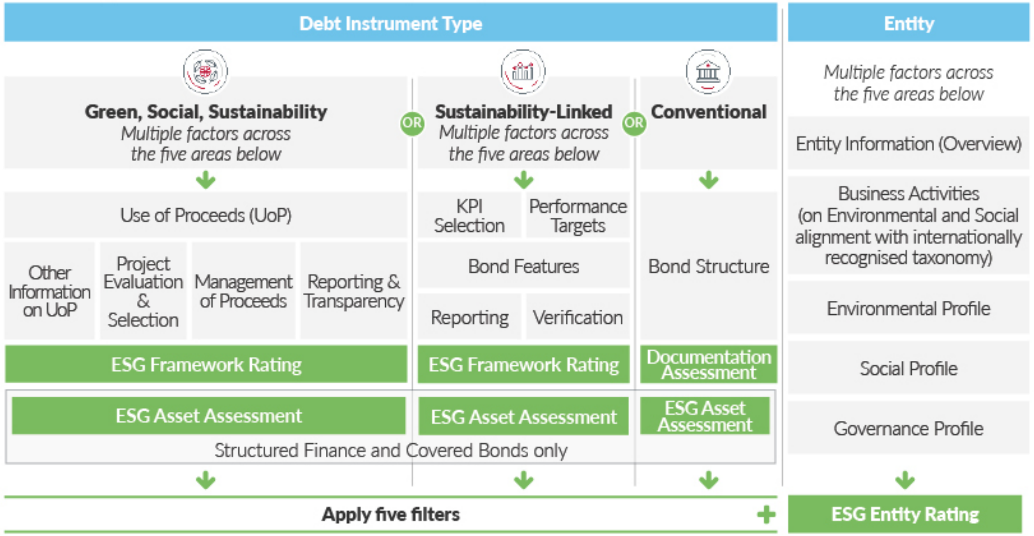
ESG FRs consider any type of bond, with varying analysis if there is a defined use of proceeds, KPI-linked coupon, or conventional bond. The rating aims to identify the strength of the bond framework on a standalone basis, separate to the entity, regardless of any self-assigned descriptions. Fitch analysts categorise bonds as Green, Social or Sustainability (GSS) types independently, based on their view of the main area covered by the use of proceeds, rather than automatically using the entity's categorisation. They will also determine if the bond should be classed as a transition bond and if it aligns with the EU Green Bond Standard and ICMA principles. Analysis considerations include the use of proceeds and sustainability-linked targets that form the primary purpose of the instrument, and the structure and effectiveness of the framework being used to further that purpose.

ESG IRs consider different types of debt instruments in the context of the issuing entity, enabling absolute ESG credentials comparisons for similar types of instruments issued by different types of entities, different types of instruments issued by different issuers, as well as different types of instruments issued by a single entity.

Analytical Process

Analysis considers all available relevant information (ESG and financial), including the entity's ESG report. Fitch's ESG Rating Reports transparently display the sources of information analysed for each section and provide a line-by-line commentary on the sub-factors analysed.

Fitch's ESG Rating Process
A visual guide to our debt and entity analysis



Note: KPI - key performance indicator
Source: Sustainable Fitch

An important part of the analysis is the assessment of the E and S aspects of the use of proceeds and business activities. In considering those aspects, the rating framework is inspired by major taxonomies (e.g. the EU taxonomy for E aspects, and the UN Sustainable Development Goals for S aspects). Once the analyst has completed the model, with commentary for the related ESG Ratings, it is submitted to the approval committee, which reviews the model for accuracy and consistency. ESG Ratings are monitored annually or more frequently if new information becomes available.

Use Cases

Sustainable Fitch's ESG Ratings can help inform decisions related to:

- Investment strategy
- Asset allocation and portfolio construction
- Benchmarking and index construction
- Risk management and stress testing
- Identification of transition bonds
- Disclosure and reporting.

Appendix B: Methodology and ESG Rating Definitions

Rating Scale and Definitions

	ESG Entity	ESG Instrument	ESG Framework
1	ESG ER of '1' indicates that the entity analysed evidences an excellent ESG profile. Entity is excellent both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management.	ESG IR of '1' indicates that the debt instrument in the context of the ultimate issuing entity evidences an excellent ESG profile. Entity is excellent both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is excellent in terms of framework structure and proceeds destination.	ESG FR of '1' indicates that the framework for the instrument evidences an excellent ESG profile. Framework structure is excellent in terms of alignment with ambitious best practises and proceeds are dedicated to excellent environmental and/or social activities/projects according to taxonomies of reference.
2	ESG ER of '2' indicates that the entity analysed evidences a good ESG profile. Entity is good both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management.	ESG IR of '2' indicates that the debt instrument in the context of the ultimate issuing entity evidences a good ESG profile. Entity is good both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is good in terms of framework structure and proceeds destination.	ESG FR of '2' indicates that the framework for the instrument evidences a good ESG profile. Framework structure is good in terms of alignment with ambitious best practises and proceeds are dedicated to good environmental and/or social activities/projects according to taxonomies of reference.
3	ESG ER of '3' indicates that the entity analysed evidences an average ESG profile. Entity is average both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management.	ESG IR of '3' indicates that the debt instrument in the context of the ultimate issuing entity evidences an average ESG profile. Entity is average both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is average in terms of framework structure and proceeds destination.	ESG FR of '3' indicates that the framework for the instrument evidences an average ESG profile. Framework structure is average in terms of alignment with ambitious best practises and proceeds are dedicated to average environmental and/or social activities/projects according to taxonomies of reference.
4	ESG ER of '4' indicates that the entity analysed evidences a sub-average ESG profile. Entity is sub-average both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management.	ESG IR of '4' indicates that the debt instrument in the context of the ultimate issuing entity evidences a sub-average ESG profile. Entity is sub-average both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is sub-average in terms of framework structure and proceeds destination.	ESG FR of '4' indicates that the framework for the instrument evidences a sub-average ESG profile. Framework structure is sub-average in terms of alignment with ambitious best practises and proceeds are dedicated to sub-average environmental and/or social activities/projects according to taxonomies of reference.
5	ESG ER of '5' indicates that the entity analysed evidences a poor ESG profile. Entity is poor both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management.	ESG IR of '5' indicates that the debt instrument in the context of the ultimate issuing entity evidences a poor ESG profile. Entity is poor both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is poor in terms of framework structure and proceeds destination.	ESG FR of '5' indicates that the framework for the instrument evidences a poor ESG profile. Framework structure is poor in terms of alignment with ambitious best practises and proceeds are dedicated to poor environmental and/or social activities/projects according to taxonomies of reference.

Source: Sustainable Fitch

Solicitation

Status	Solicited
The Ratings were solicited and assigned or maintained by Sustainable Fitch at the request of the rated entity.	