Registration number: 12855336

Bellis Finco PLC

Annual Report and Consolidated Financial Statements

For the Year Ended 31 December 2023

Contents

Company Information

Directors	M Issa Z Issa Manjit Dale (resigned 19 December 2023) Gary Lindsay (resigned 19 December 2023)
Company secretary	H Selby (appointed 30 January 2024) Imraan Patel (resigned 30 January 2024)
Registered office	Asda House Great Wilson Street Leeds England LS11 5AD
Auditors	KPMG LLP 15 Canada Square Canary Wharf E14 5GL

Strategic Report

The Directors present their strategic report for Bellis Finco plc ("the Company"), and Bellis Finco plc and its subsidiaries, (together "Asda", "the Group"), for the year ended 31 December 2023. Bellis Finco plc is the holding company of the Asda group of businesses and all references throughout this Annual Report to Asda refer to the group of companies consolidated within Bellis Finco plc.

About Asda

Company Background

Asda is a British retailer headquartered in Leeds, UK.

With roots dating back to a family business in the 1920's in West Yorkshire, today Asda serves over 18 million customers each week. In FY23 Asda's store portfolio and colleague base expanded to over 1,200 stores and food service sites and c. 150,000 colleagues through our acquisitions of Euro Garages (Jersey) Ltd, the majority of EG Group's UK business, and Arthur Foodstores Limited, enabling us to significantly step up the roll-out our Asda Express convenience brand.

Our primary operations include the sales of groceries, clothing, general merchandise and fuel through our large format and convenience stores, and online through Asda.com and George.com. We also offer a range of other services including food services, Asda Money, Asda Mobile, Pharmacy and Optical Services

Asda was the first UK grocer to open a clothing range in its stores, with the George brand introduced into our supermarkets in 1990. Today George is a fixture of the British high street.

Our Ownership

Asda is jointly owned and controlled by the Issa Brothers (Mohsin and Zuber Issa) and TDR Capital LLP, a UK Limited Liability Partnership registered in England and Wales.

Mohsin and Zuber Issa are the co-founders of EG Group, a leading petrol forecourt retail convenience operator founded from a single petrol forecourt in Bury, Lancashire in 2001. The business now has 5,600 sites in 10 countries. Alongside TDR Capital, the Issa Brothers acquired Asda in 2021 and have since expanded it into the convenience sector through the acquisitions of Arthur Foodstores Limited and Euro Garages (Jersey) Limited, the majority of the UK business of EG Group.

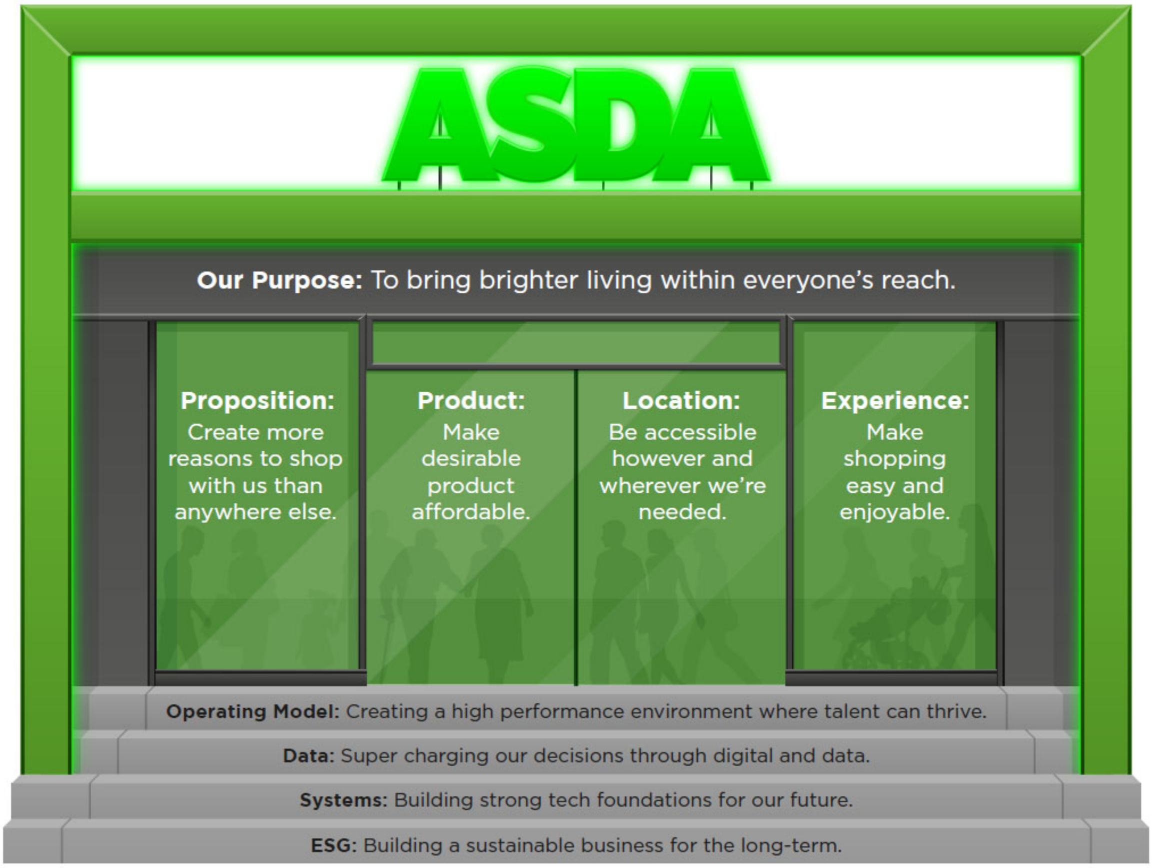
TDR Capital LLP is a leading private equity firm with approximately €15 billion of assets under management, managing capital on behalf of institutional, government and private investors worldwide. It typically acquires majority stakes in strong, market leading European businesses and partners with them to develop and grow their operations. TDR Capital LLP works in partnership with management to harness opportunities together through board representation and professional support. TDR has an experienced team of investment professionals and operating partners and has a low-volume investment strategy based on principles developed by the investment team over the past decade.

Our Purpose and Strategy

Our purpose is to bring brighter living within everyone's reach.

It is the reason we exist and defines what we aim to deliver for our customers.

Our strategy is the means by which we will achieve our purpose. It is centred around four strategic pillars which guide our business priorities and planning: **proposition, product, location and experience**. These priorities aim to deliver growth for the Group by being customers' supermarket of choice in the highly competitive UK grocery market, enabling us to achieve our ultimate goal of regaining our number two position in UK grocery market share from our current third position.



The four priority areas are underpinned by four enablers: running an efficient operating model, driving the business through improved data and systems, and an ESG programme which builds a sustainable business for the long term.

Our Values

Our values are the behaviours and ways of working that make us Asda. They demonstrate that we put customers at the heart of everything we do, always striving to do better for them, working together as one team. We have five values:

- ***We put customers at the heart of everything:*** we are here to serve customers and they trust us to deliver for them. We have to balance what customers need with what our business needs to grow, securing a strong future for us all.
- ***We dare to try:*** we can't stand still. We need to innovate and be willing to try new things – so we support our colleagues so they know we have their back when things go wrong, cheer on their progress along the way, and celebrate success when they get there.
- ***We don't wait to make good stuff happen:*** we operate in a highly competitive and fast changing market. We go for any opportunity to make things better for customers, rooting our decision making in data and analytics.
- ***We love what we sell:*** we are proud of everything we sell so we can feel confident in recommending our products to our customers.
- ***We are all colleagues, together one team:*** we are 150,000 colleagues, every single one of whom makes a contribution. We all have different backgrounds and experiences, and we value input from everyone.

Our Business Model

Asda is one of the UK's major retailers and operates in the food, clothing, general merchandise, food service and fuel markets. We create value in our business through four key operational steps: plan, buy, move, sell, shown on the diagram below. All parts of our business are directly or indirectly aligned to achieve one of these outcomes. In FY23 the Group significantly expanded its operations with the acquisition of Euro Garages (Jersey) Ltd, the majority of EG Group's UK business, comprising 356 convenience sites attached to petrol filling stations and 419 food service sites.

Plan

- Our supply, logistics and retail teams plan what products we need and where and when we need them, working with customer insight teams to ensure we're always responding to evolving customer needs.

Buy

- We work closely with over 3,500 active suppliers for branded and own brand goods to offer our customers value, quality and choice.
- Some of our buying is conducted through our wholly owned subsidiary group International Procurement and Logistics Ltd (IPL), which sources goods including fresh fruit and vegetables, flowers, cooked meats, and wines.
- We aim to reduce our overall purchasing costs to deliver best value for customers.

Move

- We operate our own logistics network, Asda Logistics Services (ALS), with two hubs and two deconsolidation centres serving 26 depots across the UK.
- Suppliers send goods to hubs, depots or direct to store.
- Our fleet of c. 1,100 vehicles and 13,000 colleagues make sure goods are available daily across our store and for online orders, making 17,000 deliveries to stores each week and 650,000 online order deliveries each week.

Sell

- We sell our products through our network of 1,200 large stores and Asda Express convenience sites and food service sites, and online through Asda.com and George.com.
- Around 86% of our sales excluding fuel in FY23 were in grocery, with the vast majority of the remainder in George clothing and general merchandise.
- 127,000 colleagues work in store to deliver great service for our customers.
- Online grocery orders are delivered direct to customers' homes by our home shopping fleet of 3,300 vans, or collected by customers through click & collect.

Key Performance Indicators

The Key Performance Indicators ("KPIs") provided in the tables below and on pages 9 and 10 are those against which the Group measures its performance on an ongoing basis.

IFRS Financial Measures

	FY23	FY22
Revenue	£25,617m	£24,478m
Operating profit/(loss)	£569m	£(141)m
Profit/(loss) before tax	£180m	£(432)m
Profit/(loss) after tax	£195m	£(354)m

Discussion of each of these measures is included in the Financial Review section from page 11 below.

Alternative Performance Measures

Further KPIs presented below are not required by or presented in accordance with International Financial Reporting Standards (known as Alternative Performance Measures, "APMs"). The APMs included do not alone provide a sufficient basis to compare the Group's performance with that of other companies and should not be considered in isolation or as a substitute for an equivalent IFRS measure (if applicable) or any other generally accepted measure as an indicator of operating performance or liquidity. Such APMs are unaudited. Where applicable, reconciliations are provided below to reconcile the APMs to captions shown on the face of the primary statements.

The Directors believe that these APMs assist in providing additional useful information on the trends, performance and position of the Group, and are consistent with how management views the business for internal reporting, analysis, planning and decision-making. Further, the APMs are the key measures by which the Group's external lenders and bondholders assess our performance.

Metric	Definition	FY23	FY22
Revenue ex-fuel	Total sales (excluding VAT) excluding fuel.	£21,898m	£20,452m
Like-for-like sales growth (ex-fuel)	Current year comparable sales excluding fuel (excluding VAT) versus prior year comparable sales. Current year comparable sales includes all revenue except fuel sales, sales generated from stores in the first twelve complete calendar months following opening, sales generated from stores that have permanently closed, sales generated from stores that have been temporarily closed for more than two consecutive calendar months within the previous twelve full calendar months, financial services commissions, and toyou sales. Sales are net of Asda Rewards earned and other discounts. For details of the calculation of like-for-like sales growth refer to the Reconciliation of IFRS to Non-IFRS Measures on page 21.	5.4%	(0.2)%
Operating profit/(loss) pre-non-underlying items	Certain costs are presented on the face of the Consolidated Income Statement as non-underlying in the current year and prior year by virtue of their size and nature. Please refer to Note 5 Operating Costs for further detail.	£637m	£425m
EBITDA	EBITDA is calculated by adding back to Operating Profit amortisation and depreciation, certain gains/losses on disposal of tangible, intangible and right-of-use assets, and impairments. EBITDA is included as an APM for FY23 reporting as a measure of profitability.	£1,032m	£922m
Adjusted EBITDA	Adjusted EBITDA is a pre-IFRS16 measure which is adjusted for the period for certain historical costs, including: rental costs to eliminate the impact of IFRS 16, one-off incremental costs associated with the implementation of a standalone IT infrastructure as we separate from Walmart (Project Future), and the removal of other one-off items. Details of adjustments are included in the reconciliation from Operating Profit to Adjusted EBITDA on page 21.	£1,078m	£867m
Pro Forma EBITDA	Adjusted EBITDA for the period including further adjustments to reflect the expected future benefit of the acquisitions of Arthur Foodstores Ltd ("Arthur") and Euro Garages (Jersey) Ltd (“EGJL”). Adjustments include the annualised impact of disposals of Arthur sites, targeted synergies in respect of the acquisition of Arthur, the annualised impact of EGJL on Adjusted EBITDA, and targeted synergies in respect of the acquisition of EGJL. Refer to the Supporting Reconciliations for Non-IFRS Measures section on page 23. Pro Forma EBITDA is included as an APM for FY23 reporting as a key measure used by the Group’s investors and lenders to assess performance.	£1,264m	£943m
Capital Expenditure	The total costs of property, plant and equipment and intangible assets of which the Group takes ownership within a financial period (as opposed to the IFRS measurement of capital expenditure which is based on cash flows). Refer to Reconciliation of IFRS to Non-IFRS Measures on page 22.	£336m	£325m

Underlying Free Cash Flow	Adjusted EBITDA less Capital Expenditure (excluding capital expenditure on Project Future). Refer to the Supporting Reconciliations for Non-IFRS Measures section on page 23.	£776m	£591m
Net Debt[1]	Total external debt excluding IFRS16 lease liabilities and ground rent obligations, net of cash on balance sheet. Refer to a breakdown in the Capital Structure, Net Debt and Leverage section below on page 18. Net Debt is included as an APM for FY23 reporting as a key measure used by the Group's investors and lenders to assess performance.	£3,831m	£3,690m
Leverage	Net Debt divided by Pro Forma EBITDA. Refer to the Supporting Reconciliations for Non-IFRS Measures section on page 23 for further information. Leverage is included as an APM for FY23 reporting as a key measure used by the Group's investors and lenders to assess performance.	3.0x	3.9x

Non-Financial KPIs

The Group also considers a number of key non-financial measures to track its performance, shown in the table below.

Unaudited	FY23	FY22
Kantar FMCG Grocery Panel – Grocery market share[2]	11.4%	12.0%
Number of in-store transactions (thousands)[3]	874,899	862,799
Online sales participation[4]	16.9%	16.2%
Asda Rewards active customer numbers[5]	5.7m	3.8m
Asda Rewards participation[6]	49%	32%

Discussion of each of these KPIs in the context of FY23 performance is included within the Financial Review section on page 11 below.

In addition to grocery data, a range of other Kantar market data metrics is reviewed and tracked routinely on a category basis. The Group also tracks market data from other private sources, customer satisfaction surveys and supplier surveys. Please refer to the customer and supplier sections below for further information.

[1] Net Debt as at Dec-22 includes £32m of cash held within Arthur Foodstores Ltd not consolidated into the Asda balance sheet as a result of the CMA's Initial Enforcement Order (IEO) in place. This is presented consistently with Adjusted EBITDA used in the leverage calculation which includes Adjusted EBITDA within Arthur Foodstores since the date of acquisition but prior to consolidation of the results after the CMA lifted its IEO. Refer to page 23 below for details of the leverage calculation and the Key Principal Decisions section on page 19 for further detail on the Arthur Foodstores Ltd acquisition.

[2] Kantar week FMCG grocery panel, grocery market share, 12 weeks ending 24 December 2023 and 25 December 2022 respectively

[3] Total number of individual transactions in-store during the year (excludes transactions at stores from acquisitions)

[4] Sales through online and click and collect channels as a proportion of sales excluding fuel (excludes sales through stores from acquisitions)

[5] Number of customers using Asda Rewards in the last 13 weeks, as at 31 December 2023 and 31 December 2022 (excludes customers at stores from acquisitions)

[6] Proportion of sales linked to Asda Rewards, December 2023 and December 2022 (excludes stores from acquisitions)

Financial Review

Summary

FY23 was an important year for Asda, representing the second full year of Issa Brothers and TDR's ownership, demonstrating significant progress on our transformation towards becoming an omnichannel retailer.

The Group performed strongly in FY23, recording growth in both sales and underlying profitability, following a more challenging trading environment in FY22 which was impacted by cost of living and inflationary pressures. At Asda we continued to focus on delivering great value for customers in food and non-food across both our in-store and online offering. We continued to invest in our colleagues and in the quality of our products, as well as building on the successful launch of our Asda Rewards app-based loyalty programme. Launched in August 2022, we achieved almost half of all sales linked with the app in under twelve months, saving customers over £300m in FY23.

Cash generation was strong, with Underlying Free Cash Flow of £776m, +31% year on year. As a result, in October 2023 we were able to repay a £200m loan drawn in October 2022 to part-fund the acquisition of Arthur Foodstores Ltd from free cash flow, demonstrating our commitment to deleveraging.

Building on our acquisition of Arthur Foodstores Ltd in FY22, during the year we made further significant progress in our strategic ambition to develop a leading convenience food brand. On 31 October 2023 we completed our acquisition of Euro Garages (Jersey) Ltd, a carve-out of the majority of the UK business of EG Group, adding 356 petrol forecourts with convenience stores and 419 food service sites to our portfolio. The acquisition marks a significant step towards building a strong presence in the UK convenience sector, a c. £44bn market[7], a key strategic priority for the Group and representing major progress towards our ambition to regain our number two market share position in the competitive UK grocery sector. Building on this, we also opened six further Asda Express standalone convenience sites in strategic locations across the country.

The Arthur Foodstores acquisition in the prior year comprised 129 convenience stores with petrol forecourts attached, a carve-out from the Co-operative Group. Upon completion in October 2022, the acquisition was subject to an Initial Enforcement Order ("IEO") by the Competition and Markets Authority ("CMA"), and as such it was management's judgement that the Group did not have control of the entity whilst these restrictions were in place. The results from Arthur Foodstores Ltd were therefore not consolidated into the Bellis Finco plc group results during this period. On 30 May 2023, after accepting our proposed remedies of disposing of 13 of the acquired sites, the CMA lifted the IEO and the financial results from this entity have therefore been consolidated into the FY23 accounts from this date. The disposals of these sites completed across December 2023 to January 2024 for total proceeds of £25m (£7m in FY22 and £18m in FY23).

The Group's results for FY23 therefore include seven months of performance of Arthur Foodstores Ltd, which contributed £31m of Adjusted EBITDA during this period[8], and two months of Euro Garages (Jersey) Ltd results, with Adjusted EBITDA of £27m (before property financing costs).

Further detail of performance in the year is discussed below.

Revenue

Revenue ex-fuel was £21,898m in FY23 (FY22: 20,452m), year on year growth of 7.1% (FY22: 0.1%), and a like-for-like increase of 5.4% (FY22: (0.2)%) (note that like-for-like growth excludes the impact

[7] Euromonitor incl. convenience stores and forecourt retailers. Market size relates to 2023
[8] Note that Adjusted EBITDA for the Group includes a further £22m of Adjusted EBITDA from Arthur Foodstores Ltd for the period 1 January – 30 May 2023, during which the entity was owned by the Group but was not consolidated into the financial results due to the IEO in place.

of sales from acquired businesses; please refer to the definition in the KPIs section on page 9). In-store transactions during the year were 1.4% higher in legacy Asda stores.

Revenue including fuel of £25,617m was £1,139m higher than the prior year (FY22: £24,478m), due to growth in ex-fuel sales partly offset by an overall decline in fuel sales, a result of the comparatively lower average selling price in FY23 compared to record and volatile prices in FY22.

Ex-fuel sales comprise food, clothing, general merchandise and food service sales. C. 86% of ex-fuel revenue in FY23 related to food (FY22: 85%). Ex-fuel revenue grew across both food and non-food in the existing Asda business, whilst also reflecting the additional sales from Arthur Foodstores Ltd and Euro Garages (Jersey) Ltd.

The Group recorded particularly strong year on year growth in the first half of the year ("HY1") as we lapped the impact of weaker HY1 FY22 performance, following emergence from Covid-19 lockdowns and supply chain challenges.

Sales in the second half of the year ("HY2") showed more modest growth, partly due to unseasonable weather in the summer and autumn, which impacted customer behaviour and created unpredictability, particularly in seasonal categories. We were also lapping much stronger HY2 performance in the prior year, following the launch on Asda Rewards in August 2022.

Food

Food sales grew +5.6% like-for-like, or +7.1% year on year including the impact of sales from the acquired businesses.

We have continued to invest in our food proposition in FY23, building on the success of our launch of the Just Essentials opening price point range in FY22. Value remains a key priority, and over the course of the year we dropped the price on over 800 popular products, ensuring we passed on the benefits of commodity price deflation where it has occurred and reflecting significant investment in our key supplier relationships.

We have continued to invest in driving quality improvement across our own-brand mid-tier offering. Following refreshes to our produce, meat fish poultry, and bakery ranges in FY21/FY22, we have overhauled our core chilled, meal solutions, and cooking ingredients ranges in FY23. These categories are key signifiers of quality and are central to Asda's strategic priority to make desirable products affordable, giving customers a reason to reappraise Asda's offering. We also launched a selection of premium sub-brands, including two vegan-friendly ranges: Plant Based, a healthy, balanced selection of meat-free lines, and OMV!, an indulgent vegan range. We also introduced ranges to rival takeaway offerings as well as key competitor prepared food ranges. These include our popular Bistro, Take Out and House of Yum ranges.

These quality improvements have given us the confidence to launch some ambitious quality and taste match campaigns during the year, including an M&S quality match across a range of popular items.

Asda Rewards continued to grow strongly during the year, increasing the proportion of sales linked to the loyalty scheme to 49% by the end of the year vs. 30% in the prior year. Active customers grew to 4.9m by the year end, and management sees further opportunity to expand the scheme through working closely with suppliers and by enhancing the utilisation of customer data to better tailor and personalise offers.

Food sales from Arthur Foodstores contributed £204m of revenue in FY23 since results were consolidated from 30 May 2023 (for the full year, food sales were £342m). Conversion of 116 Arthur sites to Asda Express branding commenced October 2023 and completed in February 2024.

Food sales within Euro Garages (Jersey) Ltd were £89m in November and December 2023 following completion of the acquisition on 31 October 2023. Conversion of these sites to Asda Express started in

November 2023 and completed in March 2024. Across both acquisitions we have converted 470 stores, taking our convenience portfolio from three to almost 500 stores in the space of six months.

Management sees further opportunity to drive growth now store conversions across both acquired estates are complete, as we realise targeted synergies by offering Asda value in food and fuel through the enlarged store portfolio.

Asda experienced some decline in grocery market share in its legacy estate according to Kantar, holding 11.4% as at December 2023 (December 2022: 12.0%[9]). We remain confident in our plans for investment for the long-term benefit of the business and aim to regain our number two market share position through continued investment in our customer proposition and with the expansion of the business into convenience through our recent acquisitions.

Non-food

Non-food revenue comprises sales of clothing and general merchandise, generated only from Asda's legacy store estate, and accounted for c. 14% of the Group's sales ex-fuel in FY23. Non-food is a key asset to the Group and delivers relatively higher margins compared to the food business. Trading was resilient during the year against the backdrop of a more challenging non-food market, with like-for-like revenue growing by 1.7%.

Asda's George clothing business is the third largest UK clothing retailer by volume, and in FY23 we held the second largest market share in children's wear in terms of volume, supported by our market leadership in school wear[10]. In general merchandise, George Home sales were also resilient, outperforming the market by 5.8% during the year[11]. Sales were particularly strong in HY1 in both clothing and general merchandise, whilst HY2 sales were impacted by unseasonal weather, but rebounded to like for like growth in Q4, supported by a strong seasonal offering.

Online

Online sales comprise Asda.com grocery sales and non-food sales through George.com. Online grocery is a key strength of the Group, where we held the number two grocery home shopping market share position throughout FY23[12] and online is a key element of Asda's omnichannel retail offering, fostering strong customer loyalty and typically larger spend per basket. The proportion of sales made through online delivery and click and collect orders was slightly higher in FY23 at 16.9% (FY22: 16.2%).

Fuel

Fuel sales of £3,719m were 7.6% lower than the prior year (FY22: £4,026m). A reduction in the Asda legacy business' fuel sales was predominantly due to the lower average selling price of fuel in FY23 compared to FY22, which saw record and volatile commodity prices following Russia's invasion of Ukraine. This was partly offset by the additional fuel sales from the acquired businesses, totalling £703m.

Food service

The Group acquired 419 food service outlets in Euro Garages (Jersey) Ltd, comprising franchises of well-known brands including Greggs, Subway and Burger King, as well as one proprietary brand Leon. Food service sales of £40m were recorded for the period since acquisition. The addition of food service to Asda's portfolio is a strong strategic fit and complements our omnichannel retail offering, with further opportunity for growth and synergies within the store estate.

[9] Kantar FMCG grocery panel, grocery market share, 12 weeks ended 24 December 2023 and 25 December 2022 respectively
[10] Kantar clothing 24 weeks ended 7 January 2024
[11] NIQ general merchandise, 52 weeks ended 30 December 2023
[12] Kantar total grocery online market share, 52 weeks ended 24 December 2023

Operating Profit Pre-non-underlying Items

Operating profit pre-non-underlying items improved to £637m in FY23 vs. £425m in FY22, driven by higher sales and recovering margins post significant investment in our proposition in 2022. It includes a contribution of £19m from the acquisition of Euro Garages (Jersey) Ltd and £1m from Arthur Foodstores Ltd.

Operating Profit/Loss

Operating profit (post-non-underlying items) was £569m (FY22: loss of £141m). In addition to the factors described in operating profit pre-non-underlying items above, current year operating profit was higher following an impairment reversal of £226m (FY22: charge of £377m following a prior year adjustment). Additionally, exceptional costs were incurred in the year relating to the Group's investment in Project Future of £241m (FY22: £189m), our IT separation programme from Walmart. Non-underlying costs incurred related to this project included research spend, design and build costs relating to IT infrastructure and software-as-a-service solutions which cannot be capitalised, consultancy costs incurred in relation to the management of the programme, run costs relating to standalone systems where equivalent legacy Walmart systems are still in use by the business, and costs of interim software solutions which do not meet the criteria of the Group's policy to capitalise (see Note 1 Accounting Policies for further detail).

Further non-underlying items relate to third party advisory fees incurred in association with Asda's acquisition of Euro Garages (Jersey) Ltd of £53m (FY22: £6m incurred in relation to the acquisition of Arthur Foodstores Ltd).

Adjusted EBITDA

Some further adjustments are made to operating profit pre-non-underlying items to arrive at Adjusted EBITDA, which provides an alternative view of underlying operating performance of the business on a pre-IFRS16 basis, as tracked by management. Adjusted EBITDA grew by 24.3% to £1,078m (FY22: £867m) in FY23, driven by growth in sales, the Group's careful and conscious management of inflation in its cost prices and cost base, and its acquisitions consolidated into the group in the year. Arthur Foodstores Ltd and Euro Garges (Jersey) Ltd contributed £54m and £27m (before property financing costs) to Adjusted EBITDA respectively in FY23. Note, in Adjusted EBITDA the Group recognises a full year's profitability for Arthur Foodstores which reflects our period of ownership, notwithstanding the CMA's IEO in place to 30 May 2023.

Please refer to the Reconciliation of IFRS to non-IFRS measures section on page 21 below for details of a reconciliation of Adjusted EBITDA to the Income Statement.

Interest

Finance Income

Finance income decreased from £55m in FY22 to £53m in FY23 primarily due to a £23m decrease in interest receivable from a fellow subsidiary of the ultimate parent, after an exercise to settle intercompany loan receivables and payables was carried out in September 2022. This decrease was partially offset by a £19m increase in bank interest receivable, driven by an increase in interest rates on short-term deposits, and higher average cash balances. This included the impact of £646m of net proceeds in respect of the sale-and-leaseback of 25 stores, which was undertaken to finance the acquisition of Euro Garages (Jersey) Ltd, the majority of which was received approximately 11 weeks in advance of the completion of the acquisition. Refer to Note 10 Sale-and-Leaseback Transaction for further information.

Finance Costs

Finance costs were £441m, compared to £396m in the prior year. The increase was primarily due to higher costs on external borrowings (£252m vs. £191m FY22), including 10 months' worth of interest charged on the £200m Arthur facility at a rate of SONIA + 7.75bps which was repaid in October 2023, compared to two months charged in the prior year; two months' worth of interest on the £684m term loan at a rate of SONIA + 6.75bps entered into to fund the acquisition of Euro Garages (Jersey) Limited; and two months' worth of interest on the £290m bridge facility at a rate of SONIA + 7.00bps entered into to fund the acquisition of Euro Garages (Jersey) Ltd. The bridge facility was repaid in December 2023 upon completion of a ground rent financing transaction. Interest on lease liabilities also increased to £177m compared to £146m in the prior year, primarily due to the interest on leases which were entered into as a result of the sale-and-leaseback transaction completed in August 2023 to part fund the acquisition of Euro Garages (Jersey) Ltd. Refer to Note 10 Sale-and-Leaseback Transaction for further information.

These increases were partly offset by a reduction in intercompany interest payable to a fellow subsidiary of the ultimate parent (£nil vs. £56m in FY22) following the intercompany loan settlement exercise in September 2022 referred to under finance income above.

Profit/Loss Before Tax

Profit before tax of £180m (FY22: loss before tax £432m) was an improvement of £612m on the prior year, reflecting the higher operating profit and reversal of prior year impairment charge, offset in part by higher interest costs as discussed above.

Taxation

Income tax was a credit of £14m in FY23 compared to a credit in FY22 of £78m.

Net Profit/Loss

A net profit of £195m (FY22: net loss £354m) was £549m higher than FY22 due to a prior year adjustment to increase the impairment charge in FY22, and an impairment reversal in FY23.

Capital Expenditure

Capital Expenditure (as defined by management, including Project Future investment) of £336m in the year was £11m higher than the prior year (FY22: £320m). The underlying Asda spend was £320m, consistent with the prior year, with £16m attributed to investment in Arthur Foodstores Ltd and Euro Garages (Jersey) Ltd, primarily on store conversions to the Asda Express brand.

Around 51% of the Group's investment in FY23 was on essential asset replacement and maintenance (FY22: 53%), including replacement of store refrigeration units and property maintenance costs, and 38% was focused on discretionary spend to drive growth (FY22: 32%), including upgrades to store environment and investment in systems to improve efficiency of operations. The remaining 11% (FY22: 15%) was invested in Project Future, comprising investment in the detailed design, build and implementation of Asda's standalone IT environment as we separate from previous owner Walmart's IT systems.

Please refer to the Reconciliation of IFRS to Non-IFRS Measures section on page 22 below for detail on the calculation of management's Capital Expenditure KPI.

Underlying Free Cash Flow

Underlying Free Cash Flow of £776m was £185m higher than the prior year (£591m), driven by improvement in Adjusted EBITDA performance discussed above, as well as the impact of the acquired entities.

Cash Flows from Operating, Investing and Financing Activities

Net cash flow from operating activities in FY23 was £1,246m, which included a net working capital inflow of £223m. This inflow was driven principally by an increase in trade and other payables of £281m due to working capital improvement initiatives and payment timing benefits relating to weekly supplier payments. The increase was partially offset by an increase in trade and other receivables of £32m due to an increase in supplier income and in inventory of £14m driven by investment to improve availability, partially offset by prior year inventory build in non-food which followed a new George system implementation in late FY22.

Net cash outflows from investing activities of £2,074m included consideration paid for the acquisition of Euro Garages (Jersey) Limited of £2,000m, as well as the purchase of property, plant and equipment and intangibles of £337m (refer to Capital Expenditure section above). This was offset by a proportion of the proceeds from the sale-and-leaseback transaction of £136m and cash acquired on consolidation of Euro Garages (Jersey) Limited and Arthur Foodstores Limited of £31m and £36m respectively.

Net cash flows from financing activities of £1,193m included the proceeds from the draw down of external debt (net of fees) of £1,304m, a proportion of the proceeds from the sale-and-leaseback transaction of £509m and an increase in intercompany payables of £401m, partially offset by the repayment of external debt of £500m, £188m of interest payments on external debt and capital and interest payments of £324m in respect of leases.

Balance Sheet

The Group had net assets of £3.9bn as at 31 December 2023 (FY22: £3.8bn), which included principally:

- £16.5bn of non-current assets including PPE, intangibles and intercompany receivables;
- Negative net working capital of £(3.0)bn, including £1.3bn of inventory and £0.3bn of trade and other receivables, offset by £(4.6)bn of trade and other payables and provisions;
- Total net debt of £(7.9)bn, comprising £(5.2)bn of external borrowings and £(3.8)bn of lease liabilities, net of £1.0bn of cash; and
- £(1.1)bn deferred tax liability.

Key movements in the balance sheet between 31 December 2023 and 31 December 2022 include:

- Increase in PPE of £754m primarily attributed to assets acquired upon acquisitions made in the period, partially offset by disposals driven by the sale-and-leaseback transaction entered into during the year;
- Recognition of £291m of goodwill on the acquisition of Arthur Foodstores Ltd and corresponding elimination of the prior year £462m investment balance;
- Recognition of £922m of goodwill on the acquisition of Euro Garages (Jersey) Ltd;
- Increase of £828m in right of use assets due to the sale-and-leaseback of 25 stores undertaken to part-fund the acquisition of Euro Garages (Jersey) Ltd and as a result of leases acquired through acquisitions;
- Increase in trade and other payables of £596m due to acquisitions and working capital improvement initiatives; and
- Increase in net debt (including lease and ground rent liabilities) of £1,229m due to increased borrowings of £797m and £730m of lease liabilities following the acquisitions in the year and the sale-and-leaseback of 25 stores mentioned above, and intercompany payables of £409m, partially offset by an increase in cash of £365m.

Capital Structure, Net Debt and Leverage

The Group is funded through a capital structure of equity, external debt and cash on balance sheet. The table below provides a summary of the Net Debt (as defined by management) as at 31 December 2023.

Facility	Amount (£m)	Maturity	Interest	Notes
Cash and cash equivalents	**1,028**			
Revolving Credit Facility	**-**	Aug-25	SONIA + 3.25bps	The Group has an available facility of £667m. Of the available facility, £nil was drawn at the balance sheet date. The facility attracts a commitment fee of 0.975% and interest payable on any drawn portion only
Term Loan A	**185**	Aug-25	SONIA + 3.25bps	
Term Loan B	**740**	Feb-26	EURIBOR + 2.75bps	The Euro loan balance of €845m was fixed via a cross-currency rate swap at an effective rate of 3.73% until Feb-24, which has since been extended to Feb-25 at an effective rate of 8.05%. The value shown adjacent is the equivalent GBP value as at the balance sheet date taking into account the hedge in place.
Senior Unsecured Notes	**500**	Feb-27	4.00%	
Senior Secured Notes	**2,250**	Feb-26	3.25%	
Senior Secured Notes	**500**	Feb-26	4.50%	
Apollo facility	**684**	Oct-29	SONIA + 6.75bps	79% of the floating SONIA element is hedged with an interest rate swap at 4.77bps until Nov-25
Total Net Debt	**3,831**	**Note: excludes lease and ground rent liabilities**		

The Group has a number of covenants in place in respect of its financing structure which, among other things, restrict the Group from entering into certain transactions. This includes limitations on the incurrence of additional indebtedness, and restrictions on certain types of payments, liens, dividends, sale of assets, affiliate transactions and mergers and acquisitions. The Group is also required to test certain financial covenants at each quarter end in the event only of a draw on the RCF at the quarter end date. The Group has policies and procedures in place to ensure that it continues to comply with its covenants, and was compliant with its covenants throughout FY23.

The capital structure has enabled the business to deliver value for customers whilst recording strong sales and profitability growth during the year, whilst also providing liquidity to drive growth through investment in strategic initiatives and its IT separation programme Project Future. Combined with improvements in working capital, this enabled the Group to deleverage by repaying the £200m facility in October 2023 from free cash flows, which was drawn in the prior year to part fund the acquisition of Arthur Foodstores Ltd.

Asda's leverage (Net Debt / Pro Forma EBITDA) reduced to 3.0 x as at 31 December 2023 (Dec-22: 3.9 x), primarily driven by 34% growth in Pro Forma EBITDA. Growth resulted from underlying growth in the legacy Asda business as well as EBITDA and targeted synergies from the acquisition of

Euro Garages (Jersey) Ltd. This was offset in part by the impact of higher Net Debt (excluding lease and ground rent liabilities) by £141m.

Please refer to the Consolidated Balance Sheet and Note 22 Borrowings in the Notes to the Financial Statements for further information.

Liquidity

Asda is a highly cash generative business and has access to liquidity in the form of cash on balance sheet and a revolving credit facility (RCF) of £667m. This was extended from £500m upon completion of Asda's acquisition of Euro Garages (Jersey) Ltd business in October 2023, detailed further in the Key Principal Decisions section below. The RCF has not been drawn since Q1 FY22.

The Group also benefits from supply chain finance facilities which enable suppliers participating in the programme to receive payment sooner than our standard payment terms. The facility is at no cost to the Group. Please refer to Note 21 Financial Instruments to the Financial Statements for further information about this and the Group's other working capital facilities.

Key Principal Decisions

Acquisition of Euro Garages (Jersey) Limited

On 31 October 2023 Project America Bidco Ltd, a wholly owned subsidiary of Bellis Finco PLC, completed its acquisition of Euro Garages (Jersey) Ltd, comprising the majority of EG Group's UK business. The business is a fuel, grocery and food service retailer operating throughout the United Kingdom.

The acquisition comprises a portfolio of 356 leading petrol filling stations and attached convenience stores, and the Leon brand and several franchise brands across 419 food service sites. This accelerates Asda's growth in the convenience sector and strategic ambition to bring its value heritage as a consumer champion to even more customers.

The business was acquired for consideration of £2.0bn. Total sources of funding comprised:

- £401m subordinated shareholder loan (see Note 20 Trade, Other Payables and Derivative Liabilities);
- a £684m Apollo facility, ranking pari passu to the existing senior secured debt (see Note 22 Borrowings);
- £646m of proceeds from a sale-and-leaseback transaction of 25 stores, completing across August to November 2023 (see Note 10 Sale-and-Leaseback transaction);
- a bridge loan of £290m (see Note 22 Borrowings); and
- £88m of cash on balance sheet.

The bridge loan and cash on balance sheet were refinanced via a further ground rent property transaction on 55 of Asda's freehold and long leasehold property sites, which completed in December 2023 with proceeds of £400m (see Note 21 Financial Instruments). After repaying the bridge loan, the remaining proceeds from the ground rent transaction were retained on the balance sheet, and in part used to settle transaction fees.

Disposal of 13 Arthur Foodstores Ltd sites

In March 2023 the CMA delivered its Phase 1 decision in respect of an investigation into Asda's acquisition of Arthur Foodstores Ltd which completed in October 2022. The CMA's Phase 1 decision indicated 13 potential areas for competition concern had been identified and the Group offered to dispose of the 13 sites in question as remedies, which was accepted by the CMA before lifting the IEO on 30 May 2023. Asda therefore disposed of 13 sites for proceeds of £25m, which completed in December 2023 and January 2024 (£7m and £18m respectively).

Outlook: Trends and Factors Affecting Future Development

The UK grocery market continues to be highly competitive in the face of a range of challenging macroeconomic factors, including ongoing inflation above historical norms and the Bank of England's target, broader economic uncertainty and geopolitical instability. Asda has remained highly resilient in the face of these challenges and has kept focused on supporting customers and colleagues with cost-of-living pressures, whilst continuing to deliver strong financial results.

The Group expects the UK food and non-food markets to remain resilient into 2024. We expect inflation to return to nearer historical norms as the year progresses, albeit customers are likely to continue to feel the impact of cost pressures on their household budgets. Whilst some costs such as energy prices may abate, there remains considerable uncertainty in the face of conflict in both Europe and the Middle East which are likely to continue to impact consumer confidence and commodity prices. Asda remains focused on providing our strong value offering in food, non-food and fuel to enable us to serve customers on any type of budget, extending our ability to do so through our expansion into convenience whereby we can offer value to a greater number of communities in new locations.

Events since the Balance Sheet Date

On 22 April 2024, the Group announced that it intended to launch the syndication of a new £900 million (equivalent) euro-denominated term loan B facility with a maturity of seven years. In addition, the Group also announced that it had commenced a process with key relationship banks and lenders seeking an extension of its revolving credit facilities and term loan A facility.

On 26 April 2024, the Group launched an invitation to holders of its 3.25% Senior Secured Notes due in 2026 and its 4.5% Senior Secured Notes due in 2026 to tender the notes for cash. The offer to tender expires on 7 May 2024.

Reconciliation of IFRS to Non-IFRS Measures

Reconciliation of revenue to like-for-like sales

	FY23	FY22
Unaudited		
Revenue	**25,617**	**24,478**
Fuel	(3,015)	(4,026)
Non-store sales (inc. wholesale)	(117)	(48)
Newly opened stores	(7)	-
Newly acquired stores – Arthur Foodstores and Euro Garages (Jersey) Ltd	(999)	-
Permanently closed stores	(1)	(4)
Like-for-like sales	**21,479**	**20,400**
% like-for-like sales growth	*5.4%*	*-0.2%*

Reconciliation of operating profit to Adjusted EBITDA

Operating profit	**569**	**(141)**
Depreciation and amortisation	686	679
Gain/loss on disposal	3	-
Impairments	(226)	377
Asset write-offs	-	6
EBITDA	**1,032**	**922**
Proxy rental charge for leased assets and ground rent (1)	(303)	(270)
One-off separation costs for Project Future (2)	241	189
One-off acquisition costs (3)	53	6
Adjusted EBITDA attributed to Arthur Foodstores Ltd (4)	22	13
Restructuring costs	17	5
Legal settlement	(17)	-
Other advisor and integration fees	28	-
Other	5	2
Adjusted EBITDA	**1,078**	**867**

Adjustments between EBITDA and Adjusted EBITDA comprise:

(1) Proxy rental charge for leased assets and ground rent. Adjusted EBITDA is presented on a pre-IFRS16 basis to provide a view of rental cost and this adjustment therefore relates to the charge for leases. Note that in FY23 the Group has amended its rent calculation to better reflect the commercial terms of all leases and includes a rental charge in respect of all leases in Adjusted EBITDA vs. only for operating leases in prior periods. The FY22 charge is accordingly restated. It further includes an adjustment to reflect the Group's obligations in respect of ground rent agreements, which is equivalent to the interest payable on the loan. Please refer to Note 22 Borrowings for further information. This treatment is to align the presentation with the commercial substance of the ground rent arrangement and is consistent with treatment of rent related to leases.

(2) One-off separation costs for Project Future. Since Asda's acquisition by TDR Capital and the Issa Brothers in February 2021, the Group has embarked on a programme, Project Future, to separate its IT systems from its previous owner Walmart. A Transitional Services Agreement is in place with Walmart for an initial period of three years. The separation programme is one-off and non-recurring in nature, and will transition the Group to a standalone, leading edge IT infrastructure using software as a service from best-in-class digital partners. Having no legacy systems will provide significant competitive advantage, deliver operating efficiencies, enable better use of data, and agility in taking on growth opportunities and in responding to customers' needs.

(3) One-off acquisition costs. This relates to third party advisor fees paid in relation to the acquisition of Euro Garages (Jersey) Ltd in FY23 and Arthur Foodstores Ltd in FY22 respectively.

(4) Adjusted EBITDA attributed to Arthur Foodstores Ltd. The Group acquired Arthur Foodstores Ltd, a carve-out of 129 convenience sites and three development sites from the Co-operative Group, in October 2022. From the acquisition date until 30 May 2023, the acquisition was subject to an Initial Enforcement Order by the Competition and Markets Authority and it was therefore management's judgement that that Asda did not have control according to the principles defined in IFRS10 Consolidated Financial Statements in order to consolidate the results into the Group during this period. As a result, in FY22 and for five months in FY23, the Group includes EBITDA related to the trading performance of the business since the acquisition date in Adjusted EBITDA.

Please refer to Note 1 Accounting Policies in the Notes to the Financial Statements for further information about judgements made in respect of consolidation of Arthur Foodstores Ltd.

Reconciliation of Capital Expenditure to purchase of PPE and intangibles

A reconciliation from the Capital Expenditure key performance indicator to capital expenditure as disclosed in the consolidated statement of cash flows is outlined below. There are timing differences between the two measures due to internal capital expenditure being presented on an accruals basis. Additionally, management's Capital Expenditure KPI excludes investment in Project Future as this investment programme is one-off and non-recurring in nature.

Unaudited	**FY23**	**FY22**
Capital expenditure - management KPI	302	276
Project Future capital expenditure	34	49
Timing differences	1	(6)
Capital Expenditure per Consolidated Statement of Cash Flows	**337**	**320**

Supporting Reconciliations for Non-IFRS Measures

Reconciliation of Adjusted EBITDA to Underlying Free Cash Flow

Unaudited	**FY23**	**FY22**
Adjusted EBITDA	**1,078**	**867**
Capital Expenditure excluding Future	302	276
Underlying Free Cash Flow	**776**	**591**

Reconciliation of Adjusted to Pro Forma EBITDA

Unaudited	**FY23**	**FY22**
Adjusted EBITDA	**1,078**	**867**
EG foodservice partnership synergies	-	7
Asda convenience store roll-out synergies	-	7
Arthur Foodstores Adjusted EBITDA	(5)	42
Arthur synergies	17	20
Sale-and-leaseback rent store assets annualisation	(44)	-
Ground rent annualisation	(15)	-
EGJL Adjusted EBITDA annualisation	164	-
EGJL synergies	69	-
Pro Forma EBITDA	**1,264**	**943**

Leverage Calculation

Unaudited	**Dec-23**	**Dec-22**
Net Debt (A)	3,831	3,690
Pro Forma EBITDA (B)	1,264	943
Leverage (A / B)	**3.0 x**	**3.9 x**

Governance

Following completion of Asda Group's acquisition by TDR Capital and the Issa Brothers in February 2021, the Group qualifies for the enhanced annual reporting disclosure requirements placed upon portfolio companies and private equity in accordance with the Guidelines for Disclosure and Transparency in Private Equity, the "Walker Guidelines".

In addition, the Companies (Miscellaneous Reporting) Regulations 2018 applies to companies of a certain size to make a statement in the Directors' Report summarising the corporate governance arrangements applied by the company. Whilst Bellis Finco PLC does not fall within the scope for this regulation, it has a number of subsidiary companies (Asda Stores Limited, McLagan Investments Limited, The Burwood House Group Limited, International Procurement and Logistics Limited) which do meet the criteria. Given the structure of the Group's governance arrangements, the expectations of users of the accounts for the Group, and the overlap with certain Walker Guideline disclosures, an outline of governance arrangements is provided below.

Governance Framework

The Group's governance framework has continued to evolve since our change in ownership in February 2021. The governance framework is summarised below in the context of the Wates Principles, the corporate governance framework published by the Financial Reporting Council in 2018. As noted above, these disclosures are provided voluntarily for Bellis Finco PLC to meet the expectations of, and provide appropriate transparency for, the users of the accounts.

Principle One: Purpose and Leadership

Purpose
We define our purpose as to bring brighter living within everyone's reach.

Values and Culture
There are five values which are the behaviours and ways of working that make us Asda. Please refer to the Our Values section above for further information.

We aim to create an inclusive and diverse culture. Refer to the Our Colleagues section below for further detail of how we do this.

Strategy
The Group has four strategic priorities which support the delivery of our purpose, focused around proposition, product, location and experience. Please refer to the Our Purpose and Strategy section on page 5 for further information.

Principle Two: Board Composition

The Group is ultimately governed by the board of directors of Bellis Finco PLC's indirect parent company, Bellis Topco 2 Limited ("the Board"). The Board comprises four directors and two non-executive directors, including a non-executive chairperson, and meets regularly to facilitate monitoring and oversight of the operations, performance and key decisions of the Group. Details of the Board are provided in the table below. Those marked with an asterisk are directors of both Bellis Topco 2 Limited and the Company Bellis Finco PLC, as detailed in the Company Information section of this report.

Name and role	Appointment date	Career and experience
Lord Stuart Rose – Non-Executive Director and Chairperson	December 2021	Stuart possesses a wealth of retail and business experience, having been a Chair, board director and Chief Executive of many of the UK's biggest retailers, including Marks & Spencer. He joined Marks & Spencer as a management trainee in 1972 and returned in 2004 as CEO and then went on to become Executive Chair. Stuart has also held executive roles at the Burton Group, Argos, Booker and Arcadia. His non-executive career included roles at Woolworth Holdings SA and Ocado, where he spent seven years as Chairperson between 2013 and 2020. Stuart is also currently Chair of Zenith Automotive and EG Group. He was knighted in 2008 for services to the retail industry and corporate social responsibility and granted a life peerage in August 2014.
Manjit Dale - *Director**	September 2020 (resigned 19 December 2023)	*Founding Partner of TDR Capital LLP.* Prior to founding TDR in 2002, Manjit was Managing Partner at DB Capital Partners Europe and has over 25 years' experience in private equity, leveraged finance and consulting. Previously Manjit was Managing Director and Head of DB Capital Partners Europe and predecessor firm BT Capital Partners, which he joined in 1994. He started his career in the Management Consultancy division of Arthur Andersen and moved into private equity in 1989 with 3i plc, and later with NM Rothschild. Manjit holds a master's degree in Economics from Cambridge University.
Gary Lindsay – *Director**	September 2020 (resigned 19 December 2023)	*Managing Partner of TDR Capital LLP.* Gary joined TDR Capital in June 2008 and is Managing Partner of the firm. Prior to joining TDR, he worked at Citi and Bear Stearns. Gary received a master's degree in Finance with distinction from the University of Strathclyde and a Masters degree in Chemistry, with first class honours, from the University of Edinburgh.
Robert Hattrell – *Director*	December 2023	*Partner and Head of Digital at TDR Capital LLP.* Rob joined TDR Capital in September 2022 as Head of Digital. Prior to TDR, he was Senior Vice President for eBay Europe in charge of the European business strategy and operations. Prior to eBay, Rob spent 7 years at Tesco in various roles including leading the General Merchandise business and as UK's Chief Information Officer. Rob began his career at Accenture where he focused on technology-led transformation projects for retail clients globally. He holds a bachelor's degree in Geography from Oxford University.
Mohsin Issa – *Director**	September 2020	*Co-Owner of Bellis Topco Limited, indirect parent of the Group.* Mohsin is a resourceful business leader who has been a major driving force behind the growth and development of EG Group, a leading global petrol forecourt retail convenience operator, including being actively involved in negotiations with major brand partners, capital raising and financing transactions. Mohsin is also the Co-CEO and Co-Founder of EG Group, which now has more than 6,200 sites in

		10 countries after launching from a single petrol forecourt in Bury, Lancashire, in 2001. Prior to EG Group, Mohsin held senior leadership roles at various Issa family businesses. Mohsin was honoured in the Queen's Birthday Honours List 2020 for his contribution to business and charity.
Zuber Issa – *Director**	October 2020	*Co-Owner of Bellis Topco Limited, indirect parent of the Group.* Zuber is a natural leader and versatile strategist who has spearheaded the growth of EG Group, including actively leading on introducing its new-to-industry sites, site investment and development, and Group operations. Prior to EG Group, Zuber established a number of enterprises including a chain of newsagents in busy mall locations in the north-west of England.
Dame Alison Carnwath – Non-Executive Director and Chair of Audit Committee	December 2021	Dame Alison has a strong track record as a Non-Executive Director of some of the UK's leading companies, including as Chairperson of Land Securities, a position which she held for 10 years before retiring in 2018. She has also served as a Director on the boards of BP, Friends Provident, Gallaher, Barclays and Man Group among others, and as Chair of the Audit Committee at Zurich Insurance. Dame Alison is currently Chair of the Audit Committee and Independent Non-Executive Director at EG Group. Her current roles also include: Chair of the Audit Committee at BASF; Chair of the Strategic Advisory Board at Livingbridge Private Equity; a Director of Coller Capital; a Non-Executive at Paccar, a NASDAQ-listed Fortune 500 company; and a trustee of the Economist Group. She is a former member of the UK Takeover Panel and was named a Dame in the 2014 New Years' Honours for her services to business.
Chris Nicholas – Director	February 2021 (resigned September 2023)	*President and CEO, Sam's Club.* Sam's Club is a members-only warehouse club and division of Walmart Inc. Prior to taking on this role in September 2023, Chris served as executive vice president and chief operating officer (COO) for Walmart, US, where as COO he was responsible for all aspects of Walmart's U.S. Store Operations and Supply Chain – including strategy, innovation, automation, store operations, distribution centre operations, last mile delivery capability, and real estate. Chris joined Walmart in 2018, serving first as deputy CFO, and then CFO, for Walmart International, and then most recently as CFO of the U.S. segment. He grew up working in retail and has more than 20 years of broad retail experience working in nine countries and serving in leadership roles with companies such as Tesco, The Salling Group and the Coles Group, where he played a key role in leading the Coles business through unprecedented change within the Australian Supermarket industry.
Courtney Naudo – Director	September 2023	*Chief People Officer for Walmart International.* Courtney supports Walmart's 500,000 associates across the 18 countries where Walmart operates outside the United States. Courtney also served as the SVP of Strategic Portfolio Management supporting the delivery

	of strategic initiatives, partnerships, and corporate development activities across the International portfolio of businesses. She joined Walmart as the VP of International Technology, leading product and engineering teams to deliver technology solutions for Merchandising, Back Office, Global Sourcing, and Operations. Before joining Walmart in 2019, Courtney was a Partner at Deloitte Consulting, having almost 20 years' experience in global management consulting and corporate finance advisory.

** Denotes directors of both Bellis Finco PLC and Bellis Topco 2 Limited.*

Executive Committee

On a day-to-day basis, Asda is run by the Executive Committee, a group of senior leaders who provide strategic direction and operational management across Asda's business. Information on the team is included in the table below.

Name and role	Date appointed to Executive Committee	Career and experience
Michael Gleeson - Chief Financial Officer	2023	Michael joined Asda in May 2023 as Chief Financial Officer, having previously held a similar role at Morrisons. He joined Morrisons in 2014 initially as Group Financial Controller, holding a number of senior finance roles before being appointed CFO in December 2019. Prior to joining Morrisons, Michael also worked for Tesco in a number of senior finance roles. He is a chartered accountant having qualified with Arthur Andersen in Dublin.
Hayley Tatum – Chief People and Corporate Affairs Officer	2011	Hayley oversees all matters related to our c. 150,000 colleagues. Since 2017 Hayley has also been a Non-Executive Director of the Department for Work and Pensions, and prior to joining Asda spent 20 years at Tesco.
Kris Comerford – Chief Commercial Officer – Food	2022	Kris is responsible for delivering a market-leading food proposition for customers. Kris joined from Tesco where he has held a number of senior roles within the commercial function, including spending three years as Chief Commercial Officer for Tesco Lotus in Thailand before returning to the UK in 2020.
Mark Simpson – Chief Transformation Officer	2020	Mark is responsible for leading change and transformation across Asda, including overall responsibility for the Project Future programme, Asda's separation from Walmart's IT systems. Mark started his career with Asda in 1997 as a graduate on the Retail programme and during his time at Asda has run a number of stores and worked across finance, operations and supply chain.
Helen Selby – General Counsel & Company Secretary	2020	Helen has overall responsibility for the legal and compliance functions. She has previously spent the majority of her legal career working for a number of food manufacturers, including Mars Wrigley Confectionary UK and Hovis where she was a member of the respective executive leadership teams. Prior to qualifying as a solicitor, Helen served as an Officer in the Royal Air Force both in the UK and overseas.
Simon Gregg – Senior Vice President – E-Commerce	2022	Simon represents the business' E-commerce channels and champions the user experience. Simon joined the business in 2016 as Vice President of Online/E-Commerce where he led the Grocery Home Shopping function end-to-end. During this time, he developed

		Asda's online strategy and Asda.com, to make it easier and more efficient to shop online. Before joining the business Simon held a number of senior roles at Tesco across a 30-year career.
Liz Evans – Managing Director – George	2022	Liz leads the George and general merchandise business. She spent her early career at Marks & Spencer in roles across retail, womenswear and its international business, before leading a number of UK fashion brands. Prior to joining Asda, Liz was the CEO of family lifestyle brand FatFace.
David Hills - Chief Customer Officer	2023	David joined Asda in September 2023 and oversees the Group's customer function. He spent his early career at Kellogg's across a variety of sales, category management and customer marketing leadership roles before joining Aldi in 2007. At Aldi he worked as a Buying Director before becoming Group Director Marketing and Communications in 2012.

Balance, Diversity, Size and Structure

The size and composition of the Board is appropriate for the nature of the decisions made and implemented by the Executive Committee. It is considered that the Directors of the Company have the appropriate balance of background, skills, experience and knowledge to make and execute Group decisions, working closely with the wider Executive Committee.

The scrutiny, review and support provided by the Board provides an appropriate amount of independent rigour and challenge to the operation and decisions of the Executive Committee. This includes participation in appointments to the Board and Executive Committee, monitoring the effectiveness of the Board and Executive Committee and implementation of governance approval procedures.

This size and composition of the Executive Committee is appropriate for the size and nature of the business. In particular, each of the Group's key business functions are represented in Executive Committee meetings and each member is highly skilled and experienced in the function that they represent. The variety of backgrounds, skills, experience and knowledge ensures decisions relevant to the Group are being made in a diverse forum. The diversity of thought and expertise provided by the respective Executive Committee members promotes balanced and holistic decision making which assesses the impacts of decisions on the various stakeholders who have an interest in the operations of the Group and who are affected by the decisions made.

The Executive Committee and the Group observe a Diversity and Inclusion policy. The Executive Committee and the directors of the Company continuously strive to increase diversity at all levels of the organisation.

Effectiveness

There are periodic evaluations of the constitution and effectiveness of the Executive Committee and additional appointments are made where necessary to deliver the appropriate diversity and expertise. Further, Executive Committee members have a formal appraisal process twice annually which considers performance and reward.

The Group is committed to on-going professional development of its employees, including Executive Committee members. This is delivered through a variety of means such as mentoring programmes, Officer development days and various training courses, ensuring that employees have the most up to date knowledge and skills to ensure they are effective in their roles.

For further details on how the Board and Executive Committee engage with the Group's stakeholders and promote the success of the Group, please refer to the Our Stakeholders and Section 172 Statement on page 33.

Principle Three: Director Responsibilities

Accountability

The Board and Executive Committee observe detailed corporate governance policies and procedures which set out clear guidelines as to which internal stakeholders within the Group and ownership structure need to be informed, consulted with or approve certain matters, which ensures that there are appropriate checks and balances in place before making decisions.

The members of the Executive Committee receive a detailed on-boarding pack upon appointment detailing their accountabilities and obligations. Individual responsibilities are clearly defined by the People Team and any changes to an Executive Committee member's areas of responsibility and/or reporting lines are briefed to the whole business via colleague email communications. The business as a whole therefore has a clear understanding of each Executive Committee member's responsibilities and remit. Where individuals are directors of separate legal entities within the Group, they are aware of their responsibilities regarding each of these legal entities.

Our Governance Committees

We have a range of committees with board-delegated authority which meet regularly to manage day-to-day operations and decision-making on behalf of the Board. The areas of responsibility of each group are described below. Committees are chaired and attended by members of the Board and Executive Committee as appropriate, and other relevant members of senior management. These committees operate under clearly documented terms of reference and the remit of each is regularly reviewed, and the terms of reference are updated as and when required.

Governance committees are described below and take place at different levels within the group structure.

Committees at Bellis Topco 2 Limited

Audit Committee

The Audit Committee's objectives are to provide oversight and effective governance over the appropriateness and integrity of the financial reporting of the Group, the internal financial controls and risk management systems, compliance with laws and regulations, and the effectiveness of the internal audit function and external auditor. The committee meets at least four times a year aligned with the external reporting and audit cycle, and is chaired by non-executive director Alison Carnwath.

Nominations and Remuneration Committee

The Nominations and Remuneration Committee meets twice a year and is chaired by non-executive chairman Stuart Rose. Its remit includes evaluating the balance, experience, knowledge and skills of the Board, succession planning, monitoring independence of non-executive directors, monitoring trends and compliance with corporate governance best practice, and recommending remuneration strategy and policies for the Group.

Additionally a Nominations and Remuneration Committee for Asda Group Limited and its subsidiaries is chaired and attended by members of the Executive Committee, and is responsible for setting remuneration policies for the business more broadly, including decisions around bonus and hourly pay.

Committee at Bellis Finco PLC

Disclosure Committee

The Disclosure Committee is responsible for managing the disclosure of material non-public information (MNPI) to Asda's bond investors and lenders. It meets quarterly aligned with the quarterly investor reporting cycle and on an ad hoc basis as required when potentially material events arise. It is chaired by the Chief Financial Officer and attended by the General Counsel, Disclosure Officer, and senior directors in investor relations and communications. The Committee reports into the Audit Committee.

Committees at Asda Group Limited

Liquidity and Financial Risk Management Committee (LARM)

LARM meets on a monthly basis and is chaired by the Senior Director of Treasury and Tax and attended by the CFO. Its role is to review and make recommendations to the Board with respect to cash, liquidity, financial risk management, and any other area relating to risks arising out of financial transactions, including investment decisions, interest rate and foreign currency exposure.

Compliance, Ethics, Risk and Audit Committee (CERA)

CERA meets monthly and is chaired by the General Counsel and attended by the CFO and the Chair of the Audit Committee Dame Alison Carnwarth. Its role is to oversee review and monitoring of Asda's systems of internal controls and risk management, the internal audit process, and compliance with laws, regulations and ethical codes of practice. CERA reports into the Audit Committee.

Asda Real Estate and Investment Committee (AREIC)

AREIC meets monthly and is chaired by the CFO. It is responsible for reviewing and providing recommendation to the Board on capital investment and real estate matters, including overseeing the annual capital planning process, reviewing and providing recommendation of approval on material projects, and identifying risks and opportunities within the plan.

Integrity of information

The Board and Executive Committee have established formal and robust internal processes which ensure that the systems and controls in place are operating effectively. This ensures the quality and integrity of financial and non-financial information provided to the Board and the Executive Committee is reliable, to allow for better-informed decision making. Routine and specific ad hoc reporting is provided to the Board and Executive Committee on a regular basis, covering all key aspects of the Group's performance against agreed key performance indicators of a financial and non-financial nature.

Principle Four: Opportunity and Risk

Opportunity

The Board and Executive Committee seek out opportunity which is conducive to achieving the Group's strategy, whilst mitigating risk, in line with the Group's risk management framework.

Risk

The Company has a risk management programme which drives identification, mitigation and ongoing monitoring of significant risks which is overseen by the Audit Committee and CERA which are described above. Please refer to the Principal Risks and Uncertainties section below for further details on the risks identified and assessed.

Principle Five: Remuneration

Setting remuneration and delegating remuneration decisions

Asda aims to attract and retain a high-quality workforce through appropriate, fair and affordable remuneration at all levels of the Group. Remuneration decisions are handled by the Nomination and Remuneration Committees for Bellis Topco 2 Limited and Asda Group Limited, as described above.

When setting director remuneration for senior management there is a key focus on the Group's performance, both in terms of annual results and the long-term sustainable success of the Group. Bonuses are set on annual metrics including profit and sales to ensure a balanced focus on creating value for the Group's investors whilst improving the shopping experience for customers. Senior leaders are able to participate in a Cash Incentive Scheme whereby the level of financial return to participants is directly linked to the performance of the business over annual and five-year pay-out horizons. In this way, participants in this scheme are incentivised to make decisions which promote and protect the Group's long-term value.

Pay of the Board and Executive Committee is regularly benchmarked against competitors to ensure the appropriate individuals, who have the ability to deliver the Group's strategic objectives, are secured and retained.

Principle Six: Stakeholder Relations and Engagement

Asda engages regularly with each of its key stakeholder groups to ensure their needs are appropriately reflected in our purpose and priorities. Key stakeholder groups include customers, colleagues, suppliers, and investors. Please refer to the Our Stakeholders and Section 172 Statement on page 33 for details on how we engage with each group and take their needs into account.

Our Stakeholders and Section 172 Statement

Engagement with stakeholders is a key consideration for the Board in decision-making and promoting the long-term success of the Group. This section sets out our key stakeholders, how we engage with them, and how this shapes and influences how we do business, and serves as the section 172 statement for Bellis Finco PLC, and together with its subsidiaries, the Group.

During the year ended 31 December 2023, the directors of the Company have acted in accordance with Section 172(1) of the Companies Act 2006, in the way they consider, in good faith, would be most likely to promote the success of the Company and the Group for the benefit of its members as a whole and, in doing so, have regard to the interests of other stakeholders, whilst maintaining high standards of business conduct.

The Company does not itself trade with suppliers or customers and has no employees. It has interests in subsidiary undertakings, including ownership of Asda Group Ltd and its subsidiaries, which is responsible for relationships with external stakeholders including customers, colleagues, suppliers and debtholders.

Customers

Our mission is to bring brighter living within everyone's reach.

To do this successfully, it is essential that we listen to customers to meet their needs. We have over 18 million customers who shop with us in store and online each week and there are a range of ways in which we engage with them on a regular basis so we can make sure we are delivering to meet their needs.

In 2023 we continued to listen to over 4.5 million customers as part of our Customer Insight Programme. We routinely conduct qualitative and quantitative research including surveys, focus groups and accompanied shopping trips with our customers on a number of important subjects across our grocery, non-food and clothing business, to place them at the heart of our strategic priorities. These included:

- Understanding our customers' needs – how they think, feel and behave, and ultimately how our proposition, products and services can be designed or optimised to best meet their needs;
- Testing and measuring our value propositions and campaigns with our customers;
- Understanding customer mindsets to help support the development of our propositions during key moments across the year, including Easter, Summer, Halloween, Christmas;
- Customer research to evaluate our new convenience stores 'Asda Express';
- Competitor benchmark tracking to understand our brand and experience performance relative to our competitors on a range of themes, including value, price, quality, ease, and choice;
- Conducting deep dives across our insight sources to understand the impact of new initiatives, for example our refreshed product ranges, and new store trials and layouts;
- Supporting our commercial teams with research to inform delivery of category strategies; and
- Running regular customer listening groups to allow colleagues across our business to hear what is important to our customers and what is happening in their lives, to put our customers at the heart of everything we do.

Some examples of the surveys we routinely conduct with customers include:

- **Customer satisfaction survey – Tell Asda**: 2.4m customers provided feedback on their experience shopping with us in store and online in 2023, helping the business to understand key areas of priority to drive improvements to the experience we deliver;

- **Pulse of the Nation survey:** ongoing engagement with over 25,000 Asda customers through an online community where our customers feed back regularly on what is important to them in their lives, as well as our products and services through polls, discussion rooms, surveys, focus groups and in-depth interviews;
- **The Asda Income Tracker**: a report produced monthly by the Centre for Economics and Business Research (CEBR), with key economic indicators including essential spend and disposable income to enable an understanding of the economic challenges facing our customers; and
- **The Asda Foundation Community Togetherness tracker**: a quarterly survey to support the Asda Foundation in understanding the areas of importance to customers and community champion colleagues, covering issues ranging from the cost of living crisis through to mental health and loneliness/isolation, the outputs of which help the Asda Foundation prioritise areas of focus to support the communities Asda serves.

We also regularly review the purchase behaviour of our customers both within Asda and in the wider market in collaboration with a number of external insight partners. This information is used to identify areas of opportunity, review the strength and appeal of our propositional activity, and prioritise where customers' needs can be best served by Asda.

In addition to understanding the needs of our customers in the moment, we also adopt a horizon scanning approach to identify the emerging and future trends that we believe will be most important to our customers.

Customer insight is shared directly with key decision makers and stakeholders across our business on a regular basis, including weekly with the Executive Committee's Performance Board meeting.

Colleagues

Our colleagues are what make Asda. Our workforce is made up of around 150,000 colleagues across 1,200 stores and food service outlets, 30 depots, hubs and consolidation centres, and our four home office locations. Our retail colleagues make up the largest proportion of this, with approximately 85% of our workforce serving customers in store, 9% in the distribution network and online fulfilment centres, and 6% in home offices and other operations.

Our commitment to creating an inclusive environment, which reflects the communities we serve, allows the Group to attract, recruit and retain high-calibre colleagues, as well as driving better engagement with our customers. Creating an inclusive culture that supports colleagues to thrive and reach their full potential is a key focus area, and we're making good progress with the relaunch of five core inclusion networks.

Colleague Involvement

We pride ourselves on involving our colleagues in helping to make Asda a great place to work. Examples include regular local engagement with store, depot and home office Colleague Voice groups to help promote the work we are doing to create a diverse and inclusive workplace, including involving 6,500 colleagues to help us develop our new purpose and values which we launched across the business in March 2023. Recognising the power of storytelling, our leaders led the cascade of our values to colleagues through personal storytelling, helping to bring meaning and context to drive higher engagement. The cascade captured not only why these values held personal meaning for our Executive team but also fully equipped over 1,000 of our most senior leaders to capture and convey their own stories to their teams. This resulted in a highly engaging cascade to all colleagues that led to over 78% being aware of our values, and 80% feeling connected to them within the first eight weeks of introduction.

Following the launch, we integrated the values and supporting leadership behaviours into our people processes (recruitment selection, performance, and development). This shift in expectations was supported by a comprehensive Leadership Framework and a corresponding Learning and Development program designed to empower both colleagues and leaders to embody our values in their work. The program offers nine modules for individual leadership, eight modules for team leadership, and five additional seminars for our most senior leaders. To date, over 10,000 colleagues have attended modules covering topics like "Coaching for Growth," "Data-Driven Commercial Leadership," "Team Wellness and Resilience," and "Leading with Foresight and Innovation".

In addition, we inform and consult with National Colleague Voice groups and trade unions, including Usdaw, the GMB, URTU and Unite on business change proposals we may have. We work together on areas such as health and safety and seek their input in other areas such as trials where we test potential new ideas with them (e.g. greater flexibility including the trial of a four-day week). We have increased our trade union arrangements over the last 12 months following the acquisition of 129 Co-op sites, where we have inherited a collective bargaining agreement with Usdaw. In January 2024, we agreed a new voluntary collective bargaining agreement with Usdaw for employees of Euro Garages (Jersey) Ltd. We have quarterly engagement meetings with colleague representatives to update and listen to their views. Agenda topics in 2023 included updates on health and safety, our Project Future IT separation programme, employment policy updates and inclusion. Senior leaders attend sessions to update on business performance.

We also engage directly with our colleagues. 68% participated in our annual Your Voice engagement survey in 2023 which provides us with an additional way to listen and respond to colleague feedback about working at Asda. This insight is reviewed by our Executive team, line managers and within individual teams to drive change and continue to improve colleague engagement.

As part of our engagement strategy each year, we hold our Proud to be Asda awards, where both colleagues and customers can nominate individuals who have lived our values and, in many cases, displayed amazing acts of heroism and kindness. Service milestones are also celebrated at regional events across the country to thank colleagues for their long service.

Recruitment, Training and Development

Offering the right training and development opportunities is key to attracting and retaining high-calibre talent. At Asda, both informal and formal development are part of our culture to ensure colleagues are supported to achieve their potential.

Asda is proud to support those who have previously served in the Armed Forces and guarantee interviews for ex-servicemen and women who meet the minimum criteria for a role, provide leave for reservists' and cadet training as well as support employment opportunities for service spouses and partners. Asda recruits more than 1,000 new colleagues from the armed forces service leaver community each year.

We have a range of over 60 apprenticeship programmes on offer to support managers in our stores, depots and home offices, along with apprenticeships to support specialist roles in our home offices. In 2023, we introduced a further 13 apprenticeship programmes to build colleague capability in specific areas including sustainability, marketing and software testing, and we have supported over 820 colleagues to work towards or complete a qualification.

In the devolved nations, we have introduced seven new programmes within our depot and retail formats in Wales, as well as onboarding a Welsh provider and creating a base contract with them. In Scotland and Northern Ireland, we introduced the Retail Sales Professional programme supporting colleagues not in a leadership role to attain a level 3 qualification. Furthermore, we removed our length of service eligibility criteria on the retail level 2 programme to allow more colleagues the opportunity to complete an apprenticeship, regardless of their length of service.

In recognition of our important work in 2023, we won the Yorkshire and Humber regional Macro Employer of the Year and were shortlisted finalists for the National Apprenticeship Awards.

In 2023, we committed over £1 million (bringing the total since launch to £4.1m) of our apprenticeship levy to support 113 new apprentices in 34 SMEs. In Q4 alone we committed over £250,000 to support 31 apprentices across 11 organisations. One of the beneficiaries was West Yorkshire Police who received £219,000 of funding to train 11 Police Community Support Officers (PCSOs), and 10 Emergency Contact Handlers.

We launched "How to get on at Asda" which is a programme that runs across retail, depots and head office and promotes clear development pathways and apprenticeships for colleagues at every level so that they can learn new skills and build their own path to the next stage in their career.

Within the programme, we promote in-house learning programmes, apprenticeships and external learning resources tailored to a colleague's onward career aspirations. This includes supporting hourly paid retail colleagues to progress towards their first salaried position; programmes to support managers aspiring towards senior manager positions; a development programme focusing on behavioural change to enhance leadership effectiveness amongst the senior leadership; and a partnership with the Cranfield School of Management.

In 2023, 115 colleagues successfully completed our Activate programme, an internal pathway that supports leaders aspiring to senior manager roles. Through a blended approach, participants build their skills across key areas, a particular focus is the project work they undertake, providing an opportunity to collaborate across teams and address real challenges that exist in our business. 42 have successfully secured senior manager roles already.

Our commitment to internal development transcends all levels and formats in Asda; our You Can Be programme supports colleagues aiming for next level progression. In retail we currently have 598 colleagues enrolled on the programme, over half of these are hourly paid colleagues aiming for their first managerial role. There are a further 87 colleagues enrolled across our depot network and 42 colleagues in our Home Offices.

We also invest in our future leaders and in 2023 we relaunched our retail graduate and degree funded programmes with a range of our graduate-level roles available all year round. Colleagues are given a range of support to achieve leadership roles and this investment will fuel a representative talent pipeline for our future. 2023 was the first year we've launched degree apprenticeships across retail and depots, and we have 11 colleagues on the programme.

Colleague Reward

It is important to us that we offer transparent, fair and affordable pay. We negotiate with the GMB, URTU and Unite trade unions for our hourly paid colleagues in our distribution and logistics business, and with Usdaw for our hourly paid Retail colleagues in Northern Ireland, and hourly paid colleagues in Euro Garages (Jersey) Ltd who are part of our Asda Express convenience business. Pay negotiations also take place with Usdaw for hourly and salaried colleagues who have joined Asda Express as part of the acquisition from the Co-op.

All salaried colleagues up to the Executive Committee are eligible for an uncapped bonus scheme, based on a combination of metrics which include both company-wide and personal performance measures. The Remuneration Committee approves the metrics on an annual basis.

For senior leadership there is a further cash incentive scheme which includes a combination of annual and five-year pay-out horizons, designed to reward performance against both short- and long-term business objectives.

We provide a range of discounts and benefits for all our colleagues including 10% off all shopping and regular events throughout the year where up to 20% discount is offered.

In March 2023 we launched a new benefit with Wagestream, which offers colleagues tools and information to support with their financial wellbeing. During 2023, over 25,000 colleagues signed up to the Wagestream services, 80% of these colleagues use the financial tracking functionality and over 2,300 colleagues use the service that allows them to save directly from their pay.

Developing an Inclusive and Diverse Culture

We're passionate about and committed to building a business that is diverse and inclusive. Each day we listen to our colleagues to understand their experiences – working to create an environment that is inclusive, safe and supportive for all our colleagues, so they can be their best selves.

In 2023 we were awarded gold status accreditation by Diversity in Retail (DIR). Businesses that are awarded "leading edge" broadly demonstrate that EDI is integrated into behaviours, systems, and structures and that they understand EDI enhances business performance. They also lead inclusively to create diverse teams, act as allies of multiple underrepresented groups and they take an active role internally and externally using their voice to effect change more broadly.

We continue to run a two-hour Inclusion Matters course for all of our line managers, and home office new starters. The course aims to improve our colleagues' understanding of the importance and benefits of diversity and inclusion in the workplace and the role they play in making it happen.

We've also continued our focus on the importance of allyship through our #AsdaAllies campaign and throughout 2023 we ran campaigns and events to raise the awareness of the importance of allyship. Within campaigns we shared colleague case studies, celebrated allyship across all underrepresented groups, and helped colleagues understand how to support one another's wellbeing.

In our 2023 Wellbeing Index, 87% of colleagues said they could "be myself at work every day" and 81% said Asda "provides opportunities for people from diverse backgrounds to succeed". 65% said "Asda genuinely cares about colleagues' health and wellbeing" and as a result new training programmes and initiatives have been put in place in 2023 to improve this score.

Supporting Colleagues with Disabilities

The Group is a proud member of the Business Disability Forum and is an accredited Disability Confident Employer, as well as a member of Inclusive Employers, the Lead Network, Diversity in Retail, and GroceryAid's Diversity in Retail. We continue to deliver on our commitment to attract, recruit and retain colleagues who reflect the customers and communities that the Group serves.

We are 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 that everyone can perform to the best of their ability.

In September 2023, we were the first supermarket to partner with DFN Project SEARCH, a company who work with organisations across the public, private, and voluntary sectors to create supported employment internships for young adults with a learning disability or autism spectrum conditions, or both.

The internships run in the last year of the young person's education, helping them to take positive first steps into the world of work. In October, four students from Coleg Cambria Northop (college for 16 – 18-year-olds) joined Queensferry store, full-time, and over the course of their one-year programme they'll spend time working on the shop floor, in the warehouse, in customer service and other retail roles, with a chance to progress and learn new skills. The colleagues are supported by an on-site employability officer throughout their time, along with a colleague from store who receives training and is appointed to be their Business Liaison, helping to create a seamless transition into Asda.

Gender Diversity

While equal remuneration and development opportunities apply to all our employees, like many businesses, an imbalance of men and women exists in certain roles. Reducing our gender pay gap and increasing the representation and opportunities for women at all levels remains a core focus for us. In 2021 we set a goal to increase the proportion of General Store Managers who are female to 30% and we are committed to exploring policies and approaches to achieve this.

Our gender split as at 31 December 2023 for directors, senior managers and employees is shown in the table below.

Note, the below table presents Full Time Equivalents (FTEs) of the consolidated group Bellis Finco PLC and its subsidiaries. Details of the Board of Bellis Topco 2 Ltd, Bellis Finco PLC's indirect parent company, are provided in the Governance section above. The Directors disclosed in the table below are the statutory directors of Bellis Finco PLC as disclosed in the Company Information section at the beginning of this report.

FTEs as at 31 December 2023	**Total**	Men	Women	Male %	Female %
Directors	2	2	-	100%	0%
Senior Managers	1,077	658	420	61%	39%
Employees	95,216	50,090	45,125	53%	47%
Total FTEs	**96,295**	**50,750**	**45,545**	**53%**	**47%**

In this context, the definition of Senior Manager is aligned with that Financial Reporting Council's strategic report guidance, i.e. an employee who has responsibility for planning, directing or controlling the activities of the entity or a strategically significant part of it.

Please refer to Note 7 in the Notes to the Financial Statements for further employee information.

Our Plans to Close the Gap

In 2023, for the second year running we delivered a bespoke six-month development programme to help improve female representation at senior levels in our business. In 2023 we also welcomed colleagues from ethnic minority backgrounds onto the programme recognising the need to focus development across both underrepresented groups. This is a significant step in our commitment towards levelling the playing field in gender and ethnic diversity. The programme brought together over 290 female and ethnically diverse colleagues from all functions across our business to work with over 50 senior leadership mentors. We will once again run the programme in 2024 with further enhancements to make sure we're meeting learner needs.

We recognise the significant impact menopause can have on lives and so in 2023 we made changes to our menopause policy to make sure it raises awareness and provides support for our colleagues and their families. This includes setting our common symptoms and key facts, outlining support and adjustments, and outlining considerations that can be made for colleagues who are experiencing or impacted by menopause. As part of our menopause policy changes, retail colleagues can now request an alternative uniform that is comprised of more breathable fabric, helping them feel more comfortable while at work. In addition, all line managers have access to training on menopause at work, run in collaboration with our partners Unum.

We're a proud partner of LEAD (Leading Executives Advancing Diversity) network working to attract, retain and advance women in the retail industry through education, leadership, and business development. In 2023, six women across the business took part in the LEAD cross sector mentoring programme, either as mentees or mentors. During the programme they got involved with interactive learning sessions, learning directly from industry experts, and participated in mentoring sessions. In 2023 we also signed the LEAD Network CEO Gender Parity Pledge, extending further our commitment to building an inclusive and diverse workplace.

Colleague Wellbeing

At Asda we seek to create a culture which enables colleagues to be the best they can be, whilst also ensuring they feel able to seek support and have access to helpful resources as and when they might need them. Our Colleague Voice groups are key to creating this inclusive culture and ensuring our people feel heard. In addition, we also have a number of other wellbeing programmes in place to support colleagues to keep mentally, physically, financially, and socially well.

Every colleague can access a one-hour training course focussed on mental wellbeing which is accredited by Rethink Mental Health Illness. In March 2023 we introduced a new course, 'Looking after my Wellbeing', a 3.5-hour course focused on mental, physical, and emotional wellbeing. This course is accessible to all colleagues and mandatory for retail section leaders and managers, and depot department managers and shift managers.

In September 2023, we launched a 90-minute facilitated session, Supporting Colleague Mental Health, available to all our leaders. The course highlights our commitment to supporting our colleagues by providing leaders with practical tips and supporting resources that enable them to intervene in the right way. By the end of December 2023, 644 leaders from all formats have chosen to attend this learning, with a further 310 colleagues booked to attend dates in January/February 2024. Our evaluation data tells us that this content adds value, achieving an applicability rating of 4.41/5 and 98% of attendees would recommend this learning to their colleagues.

We continue to operate with a hybrid "work where it works" guidelines for our home office colleagues. This approach enables line managers with their teams to select the best location to do their job, which could be from, head office, a store or depot or home. We also provided support for line managers to be able to lead their teams remotely.

Health and Safety

We are committed to maintaining high standards of health and safety which protect colleagues and customers and to minimising the number of accidents/incidents and loss across our business. The Board is committed to help ensure that we reduce, so far as is reasonably practicable, health, safety, and fire risks for our colleagues, customers, suppliers, and others that we work with. Where accidents, fires, or other incidents likely to lead to loss do occur, we aim to minimise the impact of these events on the affected individuals and wider business through our response procedures.

We achieve this by:

- Providing resources and structures to ensure appropriate governance and management;
- Establishing processes and procedures to identify, mitigate and monitor health, safety, and fire risks;
- Providing and maintaining a workplace with safe facilities and equipment;
- Providing suitable information, instruction, training, and supervision to all colleagues; and
- Working with colleagues and third parties to promote and maintain safe working practices.

Suppliers

We have around 2,400 Goods For Resale (GFR) suppliers that supply products for food, clothing and general merchandise, and 1,100 Goods Not For Resale (GNFR) suppliers across the Group that support all functions, including retail, distribution, and home office operations. Our suppliers range from large multi-national companies to small independently-run businesses.

Our supplier engagement strategy aims to achieve world-class business relationships with an "always on" approach to communication. Our suppliers are our partners for growth, and positive relationships are critical to achieving mutually beneficial goals, particularly as we progress through our Project Future IT transformation as we separate our IT environment from our previous owners Walmart, and expand our business into the convenience sector. We seek to facilitate efficient ways of working by providing knowledge and support through our new dedicated supplier portal, through frequent supplier conferences, and regularly listening to and acting on feedback.

Our suppliers complete annual independent surveys, from which we use the results to form the basis of supplier workshops across key business areas to find ways to improve our supplier relationships.

In respect of suppliers of grocery products, Asda is subject to the requirements of the Groceries Supply Code of Practice ("GSCOP") and we have mature policies and processes embedded into our ways of working to ensure ongoing compliance. Each year we review our performance and build additional layers into our compliance programme to ensure continuous improvement. In 2023, 94% of suppliers ranked Asda as "consistently or mostly" following GSCOP (2022: 94%).

Shareholders and Finance Providers

Mohsin and Zuber Issa and TDR Capital acquired Asda in FY21. As board members, the Issa brothers alongside representatives of TDR Capital work with the Asda Executive Committee to deliver Asda's strategy.

The acquisition of Asda Group in February 2021 was funded by raising external debt financing in the form of senior secured notes (SSNs), senior unsecured notes (SUNs) and term loans. Further, in October 2023 the Group entered into a financing facility of £684m with Apollo Global Management to part finance the acquisition of Euro Garages (Jersey) Ltd. We provide an update on the financial performance, strategic priorities and significant projects of the business on a quarterly basis to our lenders, in accordance with the terms of our lending agreements. Material reportable events are also reported to debtholders as and when they arise. The Investor Relations team manages routine and ad hoc reporting on behalf of the Group.

Asda's previous owner Walmart retains a preference shareholding and Board position, and thereby remains informed and consulted on the Group's activities and strategic direction through their contribution to the Board of the indirect parent company Bellis Topco 2 Ltd. The preference shares mature in February 2028. The expected repayment amount that would be required to be made in cash to Walmart by Bellis TopCo 2 in February 2028, including any accrued and unpaid interest, is approximately £900 million. Bellis TopCo 2 Limited may voluntarily redeem the Senior Shares at any time subject to paying a make-whole amount.

Approach to Risk Management

Effective risk management is essential to executing our strategy. We assess the risks we need to take to remain successful and to grow. These risks inform our strategic decision making and we manage identified risks as effectively and pragmatically as possible.

The Board is ultimately responsible and accountable for overseeing the effectiveness of our risk management process, including identification of the principal risks facing our business. The Board challenges management's implementation of effective systems of risk identification, assessment and mitigation. The Board has delegated the responsibility for reviewing the effectiveness of the Group's internal controls and risk management arrangements to the Audit Committee.

To support the Audit Committee in executing its risk management responsibility, Asda's operating procedures and processes are closely aligned to business risks with management having responsibility for mitigating risk in the first line. This comprises identifying risks, assessing impact and likelihood, and implementing action and mitigation plans. Second line risk management activities are also in place to provide further assurance and rigour. The impact assessment of a risk includes considering its potential reputational, financial, and operational effects.

The Group risk management framework derives from the Group Risk Management Policy which is subject to periodic review and is designed to support the business in achieving its strategic objectives. As part of its risk management activities, the Board reviews the Group's principal risks and risk appetite on a regular basis.

Principal Risks and Uncertainties

The Board considers the principal risks to be the most significant risks faced by the Group, including those that are the most material to our performance and those that could threaten our business model or the future long-term solvency or liquidity of the Group. The principal risks do not comprise all the risks associated with our business and are not set out in priority order. Additional risks not known to management, or currently deemed to be less material, may also have an adverse effect on our business.

Regulatory, Political and Compliance Environment

Failure to comply with legal requirements or regulatory standards, or respond adequately to changes in an increasingly regulated and complex UK political environment, as well as demonstrate considered and legitimate engagement with key stakeholders, trade unions and colleague representatives, could lead to significant fines, reputational damage and affect our ability to operate.

Context

- We are subject to extensive, increasingly stringent and frequently changing laws and regulations. Increased scrutiny from regulators and enforcement authorities, including in relation to advertising, food and product safety, health and safety matters and the environment could impose substantial liabilities and costs. It could also have a material adverse effect on our business, financial condition and results of operations.
- Any claims could result in litigation against the Group and could also result in regulatory or legal proceedings being brought against the Group. Often these cases raise complex factual, accounting and legal issues, which are subject to risks and uncertainties and which could require significant management time, legal expenses and exposure to financial penalty.

Mitigations

- We continue to risk assess all regulatory developments and test compliance with internal processes designed to mitigate risks, making improvements where required.
- We engage our colleague representatives quarterly to update on progress and consult them on business change proposals as required.
- Robust policies, procedures and training are in place and we have an established Legal & Compliance Programme designed to ensure compliance with relevant legal and regulatory requirements across key subject areas including but not limited to GSCOP, Health & Safety, Privacy, Financial Services and Anti-Bribery.
- The Statement of Ethics also provides clear guidance to colleagues on appropriate behaviour, including guidance on how to raise any business conduct concerns they may have.
- Colleagues can raise issues by contacting the independent ethics hotline, or by contacting the Legal and Compliance team directly by email, phone or online. In addition, procedures were in place during the period in respect of compliance with the UK Bribery Act.

Oversight is provided by the Compliance, Ethics, Risk & Audit (CERA) Committee.

Safeguarding our Colleagues and Customers

Inability to manage risks relating to health and safety, sourcing, food safety and customer expectations for both food and non-food products and in our stores and premises increases the risk of injury or loss of life, reputational damage, and decreased customer confidence.

Context

- Any event, such as a significant product recall or negative press reaction to statements made or actions taken could damage our brand or reputation or cause customers to lose confidence in the safety and quality of the products we sell.
- Our colleagues are critical to maintaining our customer and supplier relationships and ultimately protecting our reputation as a business.
- These risks could have an adverse impact on our brand, reputation, colleagues, customers operations and regulatory standing.
- There is also a risk that products are not sourced in a responsible and sustainable way.

Mitigations

- The Asda Legal and Compliance team continue to work with the relevant home authorities to ensure the safety of customers and colleagues within our stores. All government guidelines are followed within all our stores and offices.
- 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.
- The Group has clear supplier standards as well as a human rights policy. Supplier audit procedures are in place to monitor adherence to these required standards and policies on responsible sourcing. We also continue to work with suppliers to help alleviate the challenges arising from recent supply chain pressures.

Oversight is provided by the Compliance, Ethics, Risk & Audit (CERA) Committee.

Cyber and Data Security

There is a risk that Asda systems are vulnerable to cyber-attacks or data breach which could lead to significant limitations in ability to operate, loss of earnings, brand and reputational damage and regulatory fines.

Context	Mitigations
• There is a risk that the Group's systems are vulnerable to cyber-attacks which could lead to significant limitations in ability to operate, loss of earnings, reputational damage and regulatory fines. • In the event of non-compliance with the requirements of General Data Policy Regulations ("GDPR"), there is a risk of data loss or misuse or other data breaches which could lead to significant fines and reputational damage.	• A well-established Cyber Security team provides insight and detailed analysis of risks and remediations and is continually developing ways to mitigate potential risks. • The Group continues to invest in its Privacy team to ensure all required areas of expertise and process for the program is fit for purpose and for the future.

Oversight is provided by the Compliance, Ethics, Risk & Audit (CERA) Committee.

Talent

There is a risk that Asda is unable to attract talented individuals with the relevant skillset, retain key colleagues, or adapt colleague skillsets to align with transformation activities, which could lead to a negative impact on operational performance, a delay in separation transformation and ultimately impact external reputation.

Context

- Our ability to attract, retain and develop talented colleagues is important for long-term stability and success. There is a risk that we are unable to attract or retain talented colleagues and key individuals.

Mitigations

- Regular industry benchmarking to inform decision making on our pay and benefits.
- There is an annual engagement survey to collate colleague views and an action plan is prepared and shared within functions to ensure we address specific issues that may arise.
- We launched our new purpose and values in 2023. Our leaders led the cascade of our values to colleagues through personal storytelling, helping to bring meaning and context to drive higher engagement.
- Following the launch, we integrated the values and supporting leadership behaviours into our people processes (recruitment selection, performance, and development). This was supported by a comprehensive Leadership Framework and a corresponding Learning and Development program designed to empower both colleagues and leaders to embody our values in their work. The program offers nine modules for individual leadership, eight modules for team leadership, and five additional seminars for our most senior leaders. We continue to invest in accelerated development through our “how to get on at Asda” programmes to ensure all grades have access to development material relevant for their career and have an opportunity to update, learn and develop their skills.
- We have a range of over 60 apprenticeship programmes on offer to support managers in our stores, depots and home offices, along with apprenticeships to support specialist roles in our home offices. We continually review our programmes and in 2023, we added a further 13 apprenticeship programmes to build colleague capability in specific areas including sustainability, marketing and software testing supporting over 820 colleagues to work towards or complete a qualification.

- We also invest in our future leaders and in 2023 we relaunched our retail graduate and degree funded programmes and have a range of our graduate-level roles available all year round.
- Talent reviews take place twice a year to ensure we continue to identify and develop talent within the organisation, in particular for critical roles.
- Wellbeing support - every colleague can access a one-hour training course focused on mental wellbeing which is accredited by Rethink Mental Health Illness. In March 2023 we introduced a new course, 'Looking after my Wellbeing', a 3.5-hour course focused on mental, physical, and emotional wellbeing. This course is accessible to all colleagues and mandatory for retail section leaders and managers, and depot department managers and shift managers. In September 2023, we launched a 90-minute facilitated session, Supporting Colleague Mental Health, available to all our leaders.

Oversight is provided by the Remuneration Committee, Compliance Ethics Risk & Audit Committee and the Executive Committee.

Supply Chain and Operational Resilience

Inability to prevent, adapt or respond to a major failure or external event to a key part of the business or supply chains or with a third party (e.g. natural disaster, pandemics, technology) could impact on Asda's ability to trade and prevent us from serving our customers.

Context

- Disruption as a result of major incident or external events can have a number of impacts, for example increased freight costs and wholesale energy prices and shortage of raw materials. Any disruption to our supply chain or suppliers can impact our future.
- There is no assurance that such pressures will not increase in the future which could materially increase our costs and impact our business. Sourcing and supply chain challenges could also be exacerbated through climate change as adverse weather conditions increasingly disrupt our ability to source, transport and deliver goods whilst also impacting our customers' ability to access our stores.
- Failure of our IT infrastructure or key IT systems could lead to loss of earnings, regulatory fines, limit our ability to operate effectively and have a negative impact on our reputation.
- The risk associated with Asda's IT separation programme from Walmart, Project Future, is covered in the Separation risk on page 50.

Mitigations

- We continue to work with suppliers to help alleviate the challenges arising from recent supply chain pressures. This includes using our own logistics network to support suppliers in the transportation of products from their manufacturing sites to our distribution centres, and amending ordering profiles to enable suppliers to better manage the efficiency of their production lines.
- A number of disaster recovery and business continuity plans are in place in the event of an incident which could severely affect the Group's ability to trade. A comprehensive Incident Response Plan exists to ensure business continuity in the event of a major incident.

Oversight is provided by the Executive Committee.

Competition, Markets and Brand

In a highly competitive environment during a time of economic uncertainty, there is a risk we are unable to navigate changes in market structure or consumer shopping trends leading to failure to enhance brand value, inability to execute our strategic plan and could be exposed to loss of market share.

Context

- Our business is dependent on the economic situation in the United Kingdom and we are exposed to local, regional, national and global economic, political, social and other trends that could impact our operations and financial performance.
- In the highly competitive retail industry, success depends on satisfying changing customer needs more effectively than the competition. Failure to meet consumer demands is a competitive disadvantage and the Group may therefore be exposed to a loss of market share.
- Our brand and reputation constitute a significant part of our value proposition. Our success has been founded in part on our ability to develop our brand as a leading UK retailer of quality, competitively priced grocery, clothing and general merchandise. Maintaining the reputation of and value associated with our brand is central to the success of our business.

Mitigations

- The Executive Committee invests significant time formulating, reviewing, and communicating our business strategy. This is delivered through strategic programmes with allocated programme teams tasked with delivering the objectives set out.
- There are regular reviews of relevant data on aspects such as price position, product availability and other measures of quality and service that are important to our customers.
- Continuous monitoring of market information to understand our position relative to competitors enabling action to be taken on a timely basis.
- The Group 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.

Oversight is provided by the Executive Committee.

Climate Change

As the global climate crisis becomes more critical, there is a risk that Asda will fail to address climate-related impacts on our business in reputational, operational and financial terms and may not meet stakeholder expectations.

Context

- 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.
- Other climate-related issues, for example adverse weather, may have a significant impact on our operations, property, supply chain, particularly in fresh, and our ability to maintain availability on our shelves.

Mitigations

- We have a clear roadmap to achieve net zero Scope 1 & 2 greenhouse gas emissions, as we work towards net zero by 2040. We have committed to setting a near-term science-based target covering all scopes and FLAG and have submitted this to the Science-Based Targets Initiative (SBTi).
- Scope 1 and 2 emissions come from fleet, buildings and purchased energy, and we have undertaken numerous activities to reduce these, e.g. continuing to rollout gas-powered HGVs and electrifying the Asda Online delivery fleet, and moving to lower-carbon refrigerants.
- On Scope 3 we continue to engage with our suppliers to reduce product-related emissions and work particularly closely with our largest suppliers on setting climate commitments for the products they sell us.
- Our ESG Steering Committee oversees risk analysis for climate-related risks to our operations and financial position, and puts mitigating actions in place. Please refer to the Non-financial and Sustainability Information Statement on page 60 for further information.

Oversight is provided by the Executive Committee.

Separation

Delays in our ability to separate from Walmart could result in significant cost and any issues with the separation process, particularly system cutovers, could significantly disrupt business operations and impact our ability to meet our strategic objectives.

Context	Mitigations
• The separation of Asda from Walmart is complex, and will require significant management attention and poses a number of risks including, but not limited to, the implementation of new IT infrastructure independent from Walmart (Project Future). • Asda's other ongoing transformation programmes create a complex landscape for navigating delivery of transformation alongside business operations.	• Following the separation, a dedicated programme team has been created and key partners identified to deliver the separation. Walmart will continue to provide services to ASDA under a Transitional Services Agreement. This includes continuity of existing IT services and support whilst independent systems are developed and implemented. • Appointed a Business Endurance Leader to ensure timely and effective delivery of Future programme in 2024; reset the Business Steering Committee to ensure cross-functional transparency about progress of all workstreams. Continued focus on surfacing and mitigating risks, as well as resolving any issues that arise.

Oversight is provided by the Executive Committee

Transformation and Change

Due to managing multiple transformation programmes, there is a risk that change management is not effective in protecting day-to-day operations and the volume and complexity of change results in disruption for colleagues and customers

Context

- Delivery of transformation projects is critical to ensuring our business remains effective and we can deliver our strategic objectives. Delivering multiple, cross functional transformation programmes at once increases the risk that day-to-day operations are disrupted.
- If there is a significant volume of change this may put strain on colleagues' time and resource and impact our ability to effectively serve our customers.

Mitigations

- A governance framework with representation from Senior Leadership has been established to monitor the progress and key risks of transformation programmes.
- We have a mature process for managing change including an established process for communicating with our colleagues and customers.

Oversight is provided by the Executive Committee.

Integration

There is a risk that the additional complexity of integrating acquisitions results in disruption and distracts management and colleagues which could impact profitability.

Context	Mitigations
• Without an appropriate plan, there is a risk that the integration of acquisitions could result in significant added complexity and management distraction. Delays or issues could lead to additional cost which impacts profitability.	• Dedicated workstreams have been set up to manage specific areas of the integration while ensuring minimal disruption to the wider Group. • A governance structure has been established to provide oversight of key risks and decision making.

Oversight is provided by the Executive Committee.

Liquidity, Funding and Financial Risks

There is a risk that Asda is unable to access the short-term and long-term funding required to meet business needs. In addition, there is a risk that fluctuations in foreign exchange, interest rates and commodity markets adversely impact on Asda's performance.

Context

- Availability and ability to access appropriate levels of funding and maintain liquidity is critical for continued business operations. There is a risk that Asda is unable to access to financial markets to obtain appropriate sources and levels of funding at economic rates or debt funding is removed due to non-compliance with lending agreements and related covenants.
- There is a risk of a working capital outflow if there were a significant reduction in payment terms to suppliers. Some of our suppliers benefit from access to supply chain finance facilities. The withdrawal of these facilities could lead to a review of payment terms.
- Markets around the world have recently been experiencing volatility due to a macroeconomic and geopolitical conditions. There is a risk that Asda is not able to effectively manage and mitigate the impact of these events on financial performance.

Mitigations

- The Group's Treasury function monitors current and forecasted cashflows and ensures that adequate short-term funds and borrowing facilities are in place to meet upcoming obligations.
- Covenant compliance is reviewed quarterly by the Controllership team.
- The Liquidity & Risk Management Committee conducts regular horizon scanning for emerging financial risks including but not limited to volatility in foreign exchange rates and commodity prices.
- Refer to the next section on Financial Risks for further details, as well as Note 21 Financial Instruments.

Oversight is provided by the Liquidity & Risk Management Committee (LARM).

Financial Risks

The key financial risks faced by the Group are liquidity and funding, foreign currency and interest rate risks. The policies and strategies for managing these risks are summarised below with further detail in Note 21 Financial Instruments in the notes to the Financial Statements.

Economic Risk

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

Liquidity and Funding Risk

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

The Group is party to a number of covenants associated with external borrowings; refer to the Capital Structure, Net Debt and Leverage section on page 18 for further information. There is a risk that the covenants attached to these borrowings are not met which could result in penalties and adversely impact the Group’s ability to secure funding in the future. As such, covenant compliance is continuously monitored and managed.

The Group’s Treasury function ensures that the Group continues to have sufficient funding by monitoring rolling forecasts of the Group’s cash flows, which includes the Group's ability to service its debt obligations.

The Group has arrangements with a number of third-party financial institutions that allow a number of the Group’s suppliers to participate in Supply Chain Finance (“SCF”). There is limited liquidity risk in relation to SCF as access to the SCF is not contingent on payment terms. Furthermore, the SCF funding is spread across a number of different financial institutions.

The Group is subject to the risk that its capital structure may not be sufficient to support the growth of its business and maintain its existing credit rating. The capital structure of the Group consists of debt obligations (including the Senior Facilities, the Senior Secured Notes, term loans and the Senior Unsecured Notes) and equity (issued share capital, share premium and reserves). Part of the Group's capital risk management strategy is to monitor a broad range of financial metrics and manage compliance with financial covenants relating to the Group's debt obligations. Refer to the Capital Structure, Net Debt and Leverage section on page 18 above for further information.

Credit Risk

The majority of the Group’s revenue is received in cash or cards at the point of sale. Some credit risk does arise from cash and cash equivalents, deposits with banking groups and exposures from other sources of income such as commercial income.

Foreign Exchange Risk

The Group is exposed to foreign exchange risk as certain transactions with suppliers are denominated in foreign currencies. Cash flows can be affected by movements in exchange rates, primarily US Dollars and Euros. The Commercial Finance function forecasts the timing and level of foreign currency requirements, and the Treasury function buys forward contracts accordingly for certain product categories. Other currency requirements are purchased on the spot market. It is the Group's policy not to buy or hold foreign currency speculatively. Currency forward contracts are hedge accounted at fair value.

Interest Rate Risk

The Group is exposed to interest rate risk on its floating rate liabilities (based on SONIA and EURIBOR) primarily composed of the Senior Facilities, which consist of the Revolving Credit Facility, Term Loan A, Term Loan B and the Apollo Facility entered into to finance the acquisition of Euro Garages (Jersey) Ltd. The EURIBOR interest rate risk on Term Loan B is hedged through entering cross-currency interest rate swaps to fix the interest payments in pound sterling which is fixed until February 2025. The SONIA interest rate risk on the Apollo Facility is partially hedged through entering into an interest rate swap to fix 79% of the interest. Taking into account the swaps in place, the proportion of the Group’s total debt which is exposed to variable interest rates is less than 10%.

Commodity Price Risk

The Group manages the risks associated with the purchase of electricity and gas consumed by its activities by entering into hedging contracts to fix prices for expected consumption. The Group has adopted a capital at risk model for hedging its power consumption. The Board reviews the Group’s exposure to commodity prices and ensures it remains within policy limits.

Environmental, Social, Governance (ESG)

Asda's leadership is aware of the impact that the operations of the Group can have on the environment and society. Our Environmental, Social and Governance (ESG) programme is considered a core part of our growth strategy and in ensuring the long-term sustainability of our business, and as such the programme is overseen by the Board and led by the Executive Committee.

ESG strategic priorities

Beginning in 2022 and continuing into 2023, the Asda Executive has led a reset of the ESG strategy to ensure alignment with the Group's broader strategy and to deliver a programme that can withstand cultural shifts and other demands. Our ESG priorities cover the most material topic areas for our business and our stakeholders, as derived from a detailed materiality assessment undertaken in FY22. We believe that action on these topics will support our growth ambitions and deliver positive outcomes for our stakeholders.

Our priority topics are:

- **Healthy, sustainable choices** – providing our customers with a product mix that is healthier and with a lower environmental impact;
- **Energy and climate change mitigation** – reducing our greenhouse gas emissions;
- **Nature** – sourcing and farming which respects and restores; and
- **Waste** – reducing food, product and packaging waste.

Healthy, Sustainable Choices

Asda understands the opportunity it has to make the healthiest choice the easiest choice for our customers. We aim to increase the proportion of our own-brand range that is non-HFSS (high fat, salt and sugar) and the number of products that carry our Live Better icon, to easily signpost the healthier choice to customers. To hold a Live Better icon, products must be HFSS in accordance with the UK's 2004-2005 Nutrient Profiling Model; must have a defined nutritional benefit, as listed on the GB Nutrition and Health Claims Register; must contain no red traffic lights (unless entirely driven by fruits, vegetables, nuts or oily fish); and must meet category specific criteria e.g., bread must be high in fibre. In FY23 we announced a new partnership with the innovation agency Nesta to reduce barriers to health and wellbeing by making healthier eating more affordable, accessible and attractive. Our aim is for this partnership to identify, test, and scale initiatives that improve customer health goals without undercutting commercial objectives.

Energy and climate change mitigation

We have been working to decarbonise our Scope 1 and Scope 2 emissions since 2007 and have reduced them by 41% since our 2015 baseline, including by a further 2.2% in FY23 (in the Asda legacy business before acquisitions). This has been driven in part by a reduction in electricity and gas use, decarbonisation of refrigeration gas and decarbonisation of the National Grid, as well as by continued transition of our fleet to low or no carbon fuels. We have committed to setting a science-based carbon reduction target across all scopes, including a specific Forests, Land and Agriculture (FLAG) target. As at the date of reporting, these targets had been submitted to the Science-Based Targets Initiative (SBTi) for validation. The proposed targets were submitted before the acquisition of Arthur Foodstores Ltd and Euro Garages (Jersey) Ltd and so reflect Asda's footprint prior to these acquisitions.

Refer to the carbon reporting section below for further details about our operational emissions , with a full Scope 3 footprint to be published in our annual ESG Report later in FY24.

Nature

We are committed to more sustainably sourcing key commodities and tracking performance against our most material impacts, including soy and palm, within our annual ESG Report. We support the principles of Integrated Farm Management (IFM) and in FY23 announced our ambition to obtain the global LEAF Marque Environmental Assurance System across all of our fresh produce by the end of FY25. We continue to develop a natural resource stewardship programme to set out how we manage natural capitals in our operations and in partnership with our supply chain. We have made a three-year commitment to WRAP's 'Water Stewardship in South Spain' project which is taking action to try to reduce water-related risks in the fruit and vegetable production areas in Andalusia, Murcia and Valencia. We are also supporting an additional WRAP Water Roadmap collective action programme in South Africa. Refer to the climate risk section below for further information.

Waste

We continue to work towards our 2025 waste reduction targets across food (20% reduction in waste), packaging (100% recyclable own brand packaging, 30% recycled content) and operational waste (90% diversion from energy and maintain zero to landfill). We will update on progress against these targets in our next ESG Report.

We continued to work with a variety of partners on food waste reduction and in FY23 began trials with new partners Olio and Too Good To Go. We also celebrated ten years of working with FareShare, donating the equivalent of twenty million meals, and signed up to His Majesty King Charles' Coronation Food Project to redistribute more surplus through the supply chain.

Operationally, we installed new recycling and food waste bins in every store colleague rest area across our estate. We continued to operate our refillable packaging trials and in FY23 supported World Refill Day, rewarding participating customers via our Asda Rewards app. In our 2022 ESG report, we reported that 93% of our own brand packaging was recyclable at home or in store, as well as comprising an average of 29.4% recycled content. Details of our FY23 performance will be available in our forthcoming ESG Report.

For more detail about our environmental commitments, please refer to our latest ESG Report available on our website.

Streamlined Energy and Carbon Reporting

In line with the SECR guidance, the Group has elected to report FY23 emissions results as if the acquired businesses Arthur Foodstores Ltd and Euro Garages (Jersey) Ltd had been acquired at the start of the reporting period, i.e. including a full year's worth of emissions for FY23, rather than including emissions only from the consolidation dates 30 May 2023 and 31 October 2023 respectively. Further, we have not restated the FY22 comparative. This approach is in accordance with the SECR guidance on the basis that the impact of the acquisitions on the overall carbon footprint of the Group is less than 5%.

As a result, the footprint and year on year change reported for FY23 reflect an overall increase in emissions to 584,691 tCO_2e, representing a 1.6% increase on the reported figures versus FY22. Re-baselining to account for the acquisitions will be assessed in FY24, in which we will have a full year of operational control of both acquired businesses.

For the Asda legacy business (prior to acquisitions), in FY23 we continued our track record in reducing carbon emissions from our operations, reporting a 2.2% reduction in emissions compared to the prior year (FY22: 7.9%). This was driven by a 6% reduction in Scope 1 emissions, largely a result of moves to lower global warming-potential refrigerant gases and less carbon intensive fuels for fleet vehicles.

The table below details our emissions for the year to 31 December 2023, showing emissions for the legacy Asda business and the combined group including acquisitions. The methodology used is the WBCSD/WRI Greenhouse Gas Protocol: a corporate accounting standard revised edition in conjunction with UK Government environmental reporting guidelines including SECR guidance, and we have taken an operational control approach, using the UK Government greenhouse gas conversion factors for company reporting for 2023. Scope 2 emissions from purchased electricity are reported using a location-based approach. We voluntarily report Scope 1 Stationary Fuels other than Natural Gas, which is not a mandatory requirement for unquoted companies.

	Asda legacy 31-Dec-23	**Group including acquisitions 31-Dec-23**	**Group 31-Dec-22**
Emissions source			
Energy usage to calculate emissions			
Electricity	1,052,048,312	1,154,236,690	1,074,402,641
Natural gas	393,114,161	393,395,635	438,033,074
Other stationary	70,397,348	70,412,549	69,812,650
Transport fuel	749,002,235	749,724,467	648,742,420
Total kWh	**2,264,562,056**	**2,367,769,340**	**2,230,990,785**
Greenhouse gas emissions			
Direct combustion	92,029	92,084	99,814
Fugitive emissions	85,260	85,260	108,546
Fleet vehicles	168,026	168,378	159,700
Total Scope 1	**345,315**	**345,723**	**368,060**
Scope 2: electricity (location)	216,994	238,147	206,839
Scope 3: business travel	821	821	606
Total tCO_2e	**563,130**	**584,691**	**575,505**
tCO_2e % change YOY	(2.2%)	1.6%	(7.9%)
Intensity ratio (tCO2e/£million in sales)	**20.16**	**20.93**	**23.51**

We’ve committed to becoming a net zero-carbon business by 2040 and we are mapping our value chain so that we can extend climate action into our supply chain. Our carbon reduction targets are aligned to the Science-Based Targets Initiative (SBTi) for Scope 1 and 2 emissions based on the targets set under our previous ownership, and we have submitted Scope 1, 2 and 3 interim targets and Forest, Land and Agriculture (FLAG) targets to the SBTi for the Asda business prior to acquisitions. We are working through the impact of the acquisitions on our transition plans and targets.

Energy Efficiency Actions

Asda’s energy and carbon reduction strategy to become a net zero business by 2040 aligns with the British Retail Consortium climate action roadmap. We recognise the important of reducing energy consumption as part of our broader carbon reduction target, which involves us investing each year in energy efficiency measures.

We work closely with the Energy Bureau, a department within our facilities management and energy partner, City FM, whose role is to monitor, control and reduce the amount of energy the Group uses. In 2023 we invested £14m in over 1,500 energy efficiency projects touching over 500 stores and depots in our estate, which included:

- Building on our 2022 program, retro fitting doors to refrigerated cabinets in a further 174 stores;
- Additional refrigeration control algorithms across more than 500 stores to:
    - Identify F Gas leakage earlier;

  - Further optimise performance of centralised refrigeration equipment in 500 stores; and
- Installation of fan speed controllers on evaporator fans in back-of-house cold rooms in a further 84 stores.

We also continue to invest in trials of new technologies and work with external partners and contractors to innovate, such as the EU Enough programme and GreenScies (Green Smart Community Integrated Energy Systems), with a view to expanding a wider range of energy efficiency actions.

In FY23 this involved trialling a range of projects across our sites, including:

- Further trials of cloud based refrigeration control in stores;
- Refrigeration control algorithms to better manage defrosts and expand Demand Management capabilities;
- Improved air distribution solutions in stores; and
- Additional heat recovery from fridge systems.

In 2022 we invested £10m in over 1,700 energy efficiency projects touching over 500 stores and depots in our estate, which included:

- New refrigeration control algorithms to optimise performance of centralised refrigeration equipment in 500 stores;
- Retro fitting doors to refrigerated cabinets in over 50 stores;
- Installation of destratification fans to better balance temperature in 35 stores;
- Installation of fan speed controllers on evaporator fans in back of house cold rooms in 28 stores; and
- Hot water pump optimisation in 25 stores.

We also invested in trials of new technologies. In FY22 this involved trialling a range of projects across our sites, including:

- Cloud based refrigeration control in stores;
- Battery energy storage at depots;
- Refrigerant gas software-based leak detection systems in stores;
- Air distribution solutions in stores; and
- Low flush WC’s and ultra-low water use taps in stores.

Non-financial and Sustainability Information Statement

For the FY23 reporting year the Group is required to comply with climate-related financial disclosures as implemented by the UK Government, which are aligned to the Taskforce on Climate-related Financial Disclosures (TCFD)'s recommendations. The disclosures below are structured in line with the four core elements of the TCFD framework: governance, risk management, strategy and metrics and targets.

Governance

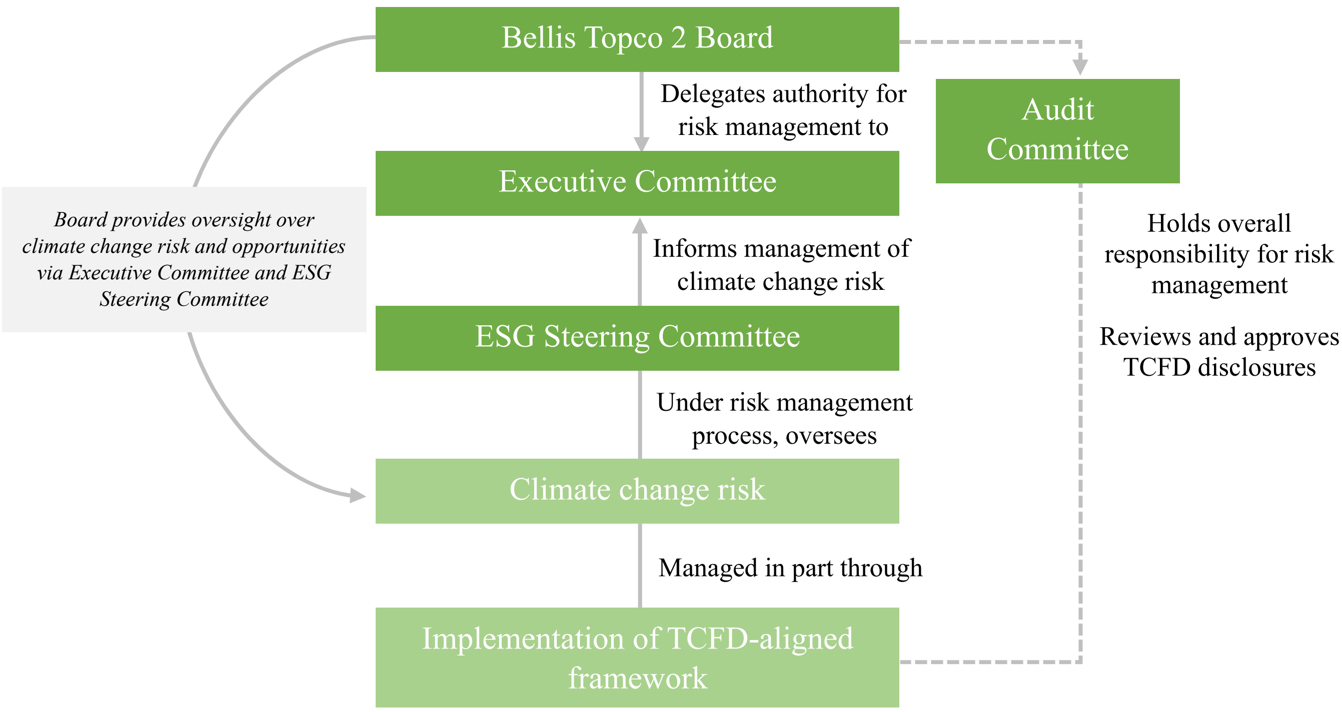
Asda's Board is ultimately responsible and accountable for overseeing the effectiveness of risk management process, including identification of the principal risks facing our business. Climate risk was designated as a Principal Risk in FY22.

The Board delegates responsibility for risk management to the Executive Committee. Responsibility for managing climate risk is held by the ESG Steering Committee, a sub-committee of the Executive which is attended by the Chief Finance Officer, General Counsel, Chief People and Customer Affairs Officer and Chief Commercial Officer - Food. The ESG Steering Committee meets every two months and has responsibility for Asda's ESG policies and for mitigating Asda's climate change enterprise risk, and providing updates to the Audit Committee.

Opportunities related to climate change are further supplemented by the Transformation team which is responsible for strategic planning.

Refer to the Approach to Risk Management section on p. 42 for further detail, and specifically the climate change principal risk and uncertainty (p. 50). For further information on each of the governance groups included within the diagram below, please also refer to the Governance section of the Strategic Report, Principle three: Director Responsibilities (p. 30).

Climate Risk Governance Structure



Risk Management

Under our Principal Risk management framework, the ESG Steering Committee is responsible for managing climate risk for the Group. This includes identifying, recording and assessing the possible impact and likelihood of climate-related risks, as well as agreeing mitigation and action plans where required.

Relative to the Group's broader and long-established Principal Risk register, FY23 marked the second year of climate change being included as a Principal Risk for the Group and we are therefore in the development phase of our management of climate change risk. During the year we sought the support of external specialists to enhance our risk identification process and ensure more effective integration of climate risk management within our strategy and business planning.

Taking detailed input from subject matter experts from across the business, supported by a broader landscape review and detailed industry benchmarking, we have developed a functional risk register which is overseen by the ESG Steering Committee and is reviewed on a half yearly basis. The table below summarises the key climate-related risks identified through this process. This is not intended to be an exhaustive list, but indicates the likely relatively most material risks and opportunities.

Risk/opportunity type	Risk/opportunity	Impact pathway	Asda value chain impact	Risk/opportunity time horizon
Physical risk	Extreme heat	Impact of fridge and/or freezer failure on sales of chilled/frozen goods and potential loss of inventory	Revenue, costs, assets	Near term, medium term
Physical risk	Extreme heat	Impact on supply of poultry both for meat sales and use as a raw ingredient	Revenue, cost prices	Medium term
Physical risk	Drought	Impact on supply of tomatoes	Revenue, cost prices	Medium term
Transitional risk	Carbon pricing	Cost exposure from own operations to possible future carbon pricing/taxation mechanisms; pricing strategy	Revenue, Costs	Medium term
Transitional risk	Fuel regulation	Risk of lost revenue due to possible future developments in fuel regulation and green energy transition	Revenue	Long term
Transitional opportunity	Shift in consumer preferences	Scale of opportunity from transitioning to alternatives to carbon-intensive meat products	Revenue	Near term, medium term

Note, Asda's acquisition of Euro Garages (Jersey) Ltd took place in October 2023. As a result the acquired business was not factored into the Group's climate risk assessment during the majority of the reporting period; however due to the similar nature of the acquired business, the most material risks associated with it are considered to be covered by the key risks detailed above. As the Group integrates the acquired business we will continue to evolve our broader risk management processes to reflect the enlarged group.

Strategy

Asda's ESG programme forms a key part of our strategy, forming one of the four enablers which underpin our strategic priorities (see p.5). Part of the remit of the ESG Steering Committee is to manage the risks and opportunities associated with climate change, and ensure that these are embedded into our strategic planning. To help shape our understanding of the potential implications of both the physical and transition risks associated with climate change, and therefore inform this strategic planning, we have conducted qualitative scenario analysis with the support of an external specialist. This approach is intended to identify risk "hotspots" and provide a relative assessment of risks, in order that we can improve our strategies to manage them. It is not intended to provide an assessment of value at risk and relative level of risk for each risk/opportunity considered may therefore not be directly comparable.

Each risk has been assessed using a standard, recognised methodology, using the following risk formula:

Likelihood		Impact		Risk
Location-specific	x	Asda-specific	=	Overall rating

The likelihood element uses climate models to take account of possible climate outcomes at specific locations, e.g. sourcing, manufacturing or operational sites. The impact element uses Asda data, including e.g. information about our assets and product-specific financial information, to determine the possible relative impact of each risk. This enables us to establish an overall risk rating across different time horizons and warming scenarios (described further below).

Based on this rating, the spectrum of outcomes ranges from low to high. A low risk is assumed to have very limited impact on our operations or finances, whereas high risk could have material operational and financial consequences if not appropriately mitigated. We take these risk assessments into account for our strategic planning on both a financial and operational basis, to ensure we appropriately mitigate the likelihood of risk, and are able to respond to the impact of such risks materialising.

As recommended by the TCFD we have considered our climate-related risks and opportunities in the context of three possible warming scenarios, which provide a range of possible future outcomes for the business. These are aligned to the Shared Socioeconomic Pathways (SSPs) as defined by the Intergovernmental Panel on Climate Change (IPCC), as follows:

- ***Optimistic:*** a Paris-aligned 1.5^{O}C scenario, (SSP1.2.6, net zero by 2050);
- ***Middle of the road:*** a <2^{O}C scenario, (SSP 2-4.5, delayed transition); and
- ***Pessimistic:*** a >3^{O}C warming scenario, (SSP 5-8.5, current policies).

Similarly, in line with the TCFD's recommendations we have considered each of these warming scenarios across three time horizons:

- ***Near term:*** present-2025;
- ***Medium:*** 2025-2030; and
- ***Long term:*** 2030-2050.

The near-term period reflects our detailed business planning cycle, whilst medium term indicates a broader strategic planning horizon. The long-term horizon reflects the time period over which the Group plans its net zero roadmap and targets. It should be noted that risk evolution is not necessarily linear over the near to long-term time horizons due to complexities in the climate data, which give rise to the risk profiles evolution shown in the results detailed below.

Results of scenario analysis

Scenario analysis was conducted for the five risks and one opportunity we identified. The potential impacts from the risks could primarily impact the Group's availability of products in-store, and value and competitive positioning versus competitors, hindering our ability to meet our strategic objectives. However, the results demonstrate that the exposure to risk in the near term is very limited, particularly in a middle of the road scenario, with lower to moderate potential risk in the medium term.

Management considers the business to be resilient in the face of climate change risks, with mitigating factors already in place in areas such as managing the impact of extreme heat on operations. Additionally, with our vertically integrated sourcing model, through our subsidiary International Procurement and Logistics Ltd we have flexibility and influence when sourcing from regions where some of the types of products most likely to be exposed to the impacts of climate change originate (including tomatoes, as described below, and other produce sourced from similar regions). This model ensures we have close connections to suppliers to influence resilience planning, and enables us to diversify supply in response to risk factors as and when they arise.

Extreme heat: operational impact

We considered the possible impact of extreme heat increasing stress on cooling capabilities at our stores and distribution centres based on location-based climate forecasting. This could lead to stock or asset loss, or revenue loss due to failure of refrigeration units and inability to sell chilled food. The risks are considered lower in the near-medium term, increasing in a more pessimistic scenario.

	Optimistic (1.5^{o}C)	**Middle of the road (<2^{o}C)**	**Pessimistic (>3 ^{o}C)**
Near term (2025)	Lower-moderate	Lower	Lower-moderate
Medium term (2030)	Moderate	Lower	Moderate
Long term (2050)	Higher-moderate	Higher-moderate	Higher-moderate

We have mitigating actions in place to address the risks of heat impacting our operations, including:

- Adiabatic cooling which increases the capacity of refrigeration during ambient conditions;
- Autoload shedding to enable units to run at more efficient temperatures; and
- Investment in energy saving measure to reduce refrigeration load, including for example installation of chiller doors, LED lighting to reduce heat, and active fridge control to optimise efficiency.

Refer to the energy efficiency actions section on page 59 for further information.

Extreme heat: poultry supply

We analysed the potential impact of extreme heat on our poultry supply chain, shown in the table below. Extreme heat could impact animal welfare and lead to loss of poultry livestock by suppliers, leading to lost revenue by an inability to supply poultry products or for use as a raw ingredient. It could also lead to raw material price increases in the event of reduced availability in the market.

We work closely with our suppliers to assess and mitigate such risks. Risk assessments are carried out on a location basis to identify farms at risk of heat stress so that they can then be targeted with the appropriate level of mitigation. For higher risk farms, our suppliers are installing mitigations such as misting systems to provide cooling. Stocking density can also be reduced for the warmer months to reduce the risk of heat stress. We also work with suppliers to ensure that colleagues have appropriate training on heat management to know when and how to implement measures to avoid the risk of stress.

	Optimistic (1.5^{O}C)	Middle of the road (<2^{O}C)	Pessimistic (>3 ^{O}C)
Near term (2025)	Lower	Lower	Moderate
Medium term (2030)	Moderate	Lower	Moderate
Long term (2050)	Moderate	Moderate	Higher-moderate

Working with suppliers to find sustainable and resilient farming methods forms part of our key ESG strategic priority: Nature.

Drought: tomatoes

Tomatoes were selected as a product for which to analyse the risk of drought as an example of one of many crops grown in areas such as southern Spain, as both sold directly to customers and as a key ingredient in many own brand and branded products. The risk of drought could lead to failure of supply leading to lost revenues, and/or increased cost prices due to more limited availability of tomatoes for resale or use as a raw material. The risks in the near-term across all warming scenarios are considered to be higher to moderate, with higher risk in the medium and long term.

	Optimistic (1.5^{O}C)	Middle of the road (<2^{O}C)	Pessimistic (>3 ^{O}C)
Near term (2025)	Higher-moderate	Higher-moderate	Higher-moderate
Medium term (2030)	Higher	Higher	Higher
Long term (2050)	Higher	Higher	Higher

Mitigating water shortages falls under our Nature ESG strategic priority. We're working on a number of important projects to support resilience in our supply chain and good water stewardship to mitigate and manage this risk. The mitigations below relate more broadly to produce with provenance similar to tomatoes.

As signatories of the Courtauld Commitment 2030 steered by WRAP, we're committed to targeting 50% of fresh food to be sourced from areas with sustainable water management by 2030. We are involved in projects in two key locations, Spain and South Africa, to support improvements in water management.

South Africa is a key region for fruit supply. At the start of FY23 we committed to a three-year programme to financially and operationally support a project with WRAP across the country. The project involves clearing invasive tree species from river corridors and restoring the natural river ways with native shrubs and trees, reducing the risk of drought and improving river flows. Ground water, river flow and water level monitoring enables data collection which can then be used to pilot initiatives with farmers in the local areas.

Doñana in Andalucia, Spain, is another key growing area for fresh produce. It is home to some key wetland areas which offer a resting place for migrating birds between northern Europe and South Africa, which are being put at risk due to a range of factors, including the use of water in crop growing. We've signed up to a three-year commitment to support farmers in improving water resilience through improved efficiency of usage, trialling initiatives and seeking improve water quality.

Closer to home, we have teamed up with Norfolk Rivers Trust, through their Water Sensitive Farming Initiative, working with the landowner to improve water quality and quantity within the River Nar catchment in north-west Norfolk. This river is a globally rare chalk stream and provides a unique habitat for a wide array of wildlife including brown trout, water voles and otters.

The on-farm intervention was installed to temporarily store surface water run-off from fields and capture pollutants. Slowing the flow of water at the site will not only reduce downstream flood risk, but it will also encourage the water to infiltrate and recharge the underground aquifer.

Water stewardship plays a pivotal role in achieving sustainable and climate-resilient supply chains, and projects like these help us to get closer to the Courtauld Commitment target of 50% of the UK's fresh food sourced from areas with sustainable water management.

Carbon pricing

We considered the impact of possible carbon pricing on our business, based on our target of reaching net zero scope 1 and 2 emissions by 2040. Carbon pricing could lead to increased costs for the business, hindering our ability to offer the best value for customers. Possible exposure to carbon prices would be greatest in the optimistic scenario in the near to medium terms, which would require an accelerated decarbonisation pathway, but would be lower in the middle of the road or pessimistic scenario.

We mitigate our risk of exposure to carbon pricing through our ambitious carbon reduction programme and 2040 net zero commitment, detailed further in the climate section above. We have already demonstrated significant progress in reducing our emissions versus the 2015 base by 41%, (excluding the acquisitions consolidated in FY23) and have a clear roadmap for achieving further reductions, including transitioning our delivery fleets to lower carbon or electric vehicles, electrification of our heating and cooling systems and energy efficiency actions. Please refer to our latest ESG Report available on our website for further information.

	Optimistic (1.5°C)	**Middle of the road (<2°C)**	**Pessimistic (>3 °C)**
Near term (2025)	Higher-moderate	Lower	Lower
Medium term (2030)	Higher-moderate	Lower	Lower
Long term (2050)	Lower	Lower	Lower

Fuel regulation

Changes to fuel policy could pose a possible transitional risk due to our presence in the fuel market, which was increased during the year with the acquisitions of Arthur Foodstores Ltd and Euro Garages (Jersey) Ltd. The Government's ban on the sale of internal combustion engine vehicles from 2035, or other similar policy decisions, could lead to reduced demand for fuel as consumers transition to electric vehicles (EVs). The risk is considered to be relatively low in the near to medium term as petrol and diesel vehicles will continue to be sold beyond the medium-term time horizon.

We're already preparing for the fuel transition, with EV charging capacity installed at a number of our stores. We continue to explore options for further roll out of EV charging, balancing capital investment, charge speed and pricing, as well as considering the planned electrification of our online delivery fleet, to establish the best commercial approach. We are also exploring trials of hydrogen powered vehicles in our heavy goods delivery fleet, which will provide us with a greater understanding of the role that this technology may play in the market in future. This work and exploration will inform our strategy over the medium to long term, where we expect that alternative fuel sources will form a part of our customer offering in order to mitigate any long-term decline in the fossil fuel market.

	Optimistic (1.5°C)	**Middle of the road (<2°C)**	**Pessimistic (>3 °C)**
Near term (2025)	Lower	Lower	Lower
Medium term (2030)	Moderate	Lower	Lower
Long term (2050)	Higher	Higher	Higher

Opportunity: shift in consumer preferences

We identified a potential shift in consumer preferences towards meat-free alternatives as an opportunity for our business, presenting a moderate opportunity in the near to longer term. This could enable us to better serve a wider range of customer needs as preferences for more sustainable food choices evolve.

	Optimistic (1.5^{O}C)	Middle of the road (<2^{O}C)	Pessimistic (>3 ^{O}C)
Near term (2025)	Moderate	Moderate	Moderate
Medium term (2030)	Moderate	Moderate	Moderate
Long term (2050)	Moderate	Higher-moderate	Moderate

The potential to harness the demand for meat-free or less carbon intensive products presents an opportunity to offer our customers more sustainable alternatives and forms a key part of our ESG strategy to offer healthy, sustainable choices to our customers.

We have already made significant progress in this area in FY23, launching two new meat-free sub brands: Plant Based, a healthy range of balanced, plant-based products, and OMV!, an unapologetically indulgent vegan range. These are just some of the steps we're taking to enable our customers to make greener choices, and to make climate-conscious business choices.

Metrics and Targets

The key metric we use to measure progress against climate-related risks and opportunities is our own emissions data. We have committed to achieving net zero emissions from our operations (scope 1 and 2) by 2040, and by 50% compared to a 2015 baseline by 2025. We have already achieved a 41% reduction since this level.

Please refer to the Streamlined Energy and Carbon Reporting section on p.58 above for details of our emissions in FY23. For details on all other ESG-related metrics, please refer to our latest ESG Report.

Social, Community and Human Rights Issues

Supporting Local Communities

Our stores are central to the communities that we serve and we understand that we have a vital supporting role to play. Our work in this area forms part of the Better Lives pillar of our Creating Change for Better Programme.

We have a network of 391 Community Champions in our large stores, who have a focus on local charity fundraising and community support. The work of Community Champions, with the Asda Foundation, remains a lifeline for many grassroots community groups and charities. Community Champions usually spend their time out and about delivering practical support, listening to our communities' needs, and working with local people to channel funding and assistance where it was needed the most. Through our champions we have been able to donate over half a million pounds in goods donations to support local good causes, spent nearly 16,000 days volunteering and supported over 23,000 groups.

With our new formats such as Express we also extended our community impact and reach to all our stores, even our smallest stores can get involved in making a difference locally through goods donations & national charity fundraising.

The Asda Better Starts programme is our focus on supporting children and young people and helping them to reach their full potential by tackling the barriers that prevent them from thriving.

In 2023, we launched our latest fundraising campaign with Children in Need, Fuelling Potential which over the next three years aims to change the lives of 100,000 children by helping to make sure they have access to nutritious meals while having fun at BBC Children in Need funded holiday sessions, that help to boost their mental health and physical wellbeing. The campaign launch was supported in store with the launch of the Pudsey Club activation in cafes. In FY23, through this campaign we have fundraised over £3m for our charity partners BBC Children in Need, with fundraising product expanded into new categories of flowers, bakery and general merchandise.

In 2023 we were proud to donate £100,000 to charity Diversity Role Models, our partners for the George pride range, who promote empathy and inclusion in the next generation.

Continuing our legacy of fighting hunger, in FY23 through our food donation trollies instore and our back of store donations, together with our customers, we have donated the equivalent of over 5.3 million meals. In June 2023, Asda stores across the country took part in the annual food drive in partnership with the Trussell Trust. The weeklong event generated the equivalent of over 225k meals for those in our communities and gives foodbanks across the Trussell Trust network as well as independent food banks the opportunity to bring volunteers into stores to raise vital funds and awareness.

During 2023 we also marked our 10-year anniversary of working with FareShare, and to celebrate this milestone through IPL, we donated the equivalent of one million breakfast meals to FareShare as well as supporting the Coronation Food Project.

Further to this, in FY23 we served over 2.2m meals to children in our in-store cafes, as part of our "Kids eat for £1" initiative. This was launched in June as the challenges of the cost-of-living crisis continued to progress over the course of the year, the campaign has continued to support families in school and term time. From November 2023 we also served a Winter Warmers offer to over 226,000 customers over 60 visiting our 205 cafes of soup and a roll and unlimited tea and coffee, to support customers in the cost-of-living crisis.

Asda Spaces and Places is our platform to build community togetherness. 'Spaces' may be Asda stores, where we encourage community connections and giving, while 'Places' are in the surrounding neighbourhoods, where we build community resilience through Community Champion outreach activities, colleague volunteering and grants from our charity, Asda Foundation. In October 2022 we opened our first purpose-built community room in Cardiff Bay, Wales and in 2023 we opened our first in Scotland & Northern Ireland in Maryhill, Livingston and Antrim with another two across England. Our total number of rooms is 15 with another six planned for 2024 targeting our most needy communities. Our stores were used over 13,800 times to support local community events and fundraising.

Although we have been proud supporters of the Royal British Legion Poppy Appeal for a number of years, in 2023 we became banking partners, donating both colleague time and store space to help raise £1.7m to support veterans and their families.

We continue our important national fundraising and awareness partnership Asda Tickled Pink with breast cancer charities, Breast Cancer Now and CoppaFeel!, with FY23 marking 27 years since we launched our Tickled Pink campaign. Championing regular breast and pec checking and fundraising for life-changing support, education and research has been delivered through fun and engaging in-store activities, events, clothing recycling, digital customer donations and through our exclusive range of Tickled Pink products, where we raised c. £7m in FY23. In addition, over 685,000 Asda customers checked their chest as a direct result of seeing our Breast Cancer Awareness month Real Self Check Out campaign in October.

Our Responsible Sourcing and Human Rights Approach

Many millions of people around the world play a part in keeping Asda shelves stocked and we have a responsibility to ensure the dignity of every worker in our supply chain. We are committed to operating and sourcing products in a way that respects human rights.

As a responsible retailer we are committed to the principles of sourcing responsibly, respecting human rights, and promoting the dignity of all those who contribute to our business. We collaborate across industries and organisations around the world to help combat risks including but not limited to, forced and child labour, unsafe working conditions, restricted freedom of association, violence, harassment, and discrimination. Our commitment extends to all individuals impacted by the Asda Group's business activities and relationships, including colleagues, customers, suppliers, workers within our supply chains, and the communities in which we operate. Asda's Human Rights Policy outlines the steps we take to respect internationally recognised human rights and formalises our expectations across our global supply chains.

Transparency of the supply chain is key to our approach. We map and collect data on our supply chains which helps us to identify our salient labour risks. We monitor and investigate issues in the supply chain and enable colleagues within the business to understand their role in human rights and its impacts. We also engage in initiatives to find root cause solutions that can transform entire supply chains. Partnering with our suppliers and their global facilities, we work to mitigate risks, drive remediation, and improve standards for workers via our risk-based approach. We are active members of external collaborations such as the Ethical Trading Initiative (of which we are a founding member), Stronger Together, and the Food Network for Ethical Trade which continue to support their members to drive continuous improvement. Through these partnerships we engage with other retailers, NGOs, Trade Unions, and suppliers to address risks, share best practice, investigate issues where appropriate, and establish initiatives to achieve collective goals.

Monitoring Our Supply Chain

Improving labour standards is a responsibility that should be shared with all our suppliers. We expect suppliers to operate responsibly, abiding to applicable local labour and employment laws and adhering to our Standards for Suppliers. These standards are the cornerstone of our programme and lay out how we expect our suppliers to respect foundational worker rights across the globe. Our Standards for Suppliers are aligned to the ETI Base Code, an internationally recognised code of labour practice. Our Supply Chain Monitoring Requirements and Guidance policy details how we monitor supply chain compliance with our standards and how we will support suppliers to demonstrate continuous improvement through the provision of guidance and resources.

We currently use third party social, safety, and environmental compliance audits to help us evaluate our suppliers' compliance to our standards and to manage risk in the supply chain. These audits seek to monitor whether, among other things, workers are properly paid for the work they do, labour is voluntary, working hours are not excessive and are consistent with local laws, and facilities meet health and safety laws and regulations. Whilst social audits still have a place within our programme, we recognise their limitations and the need to move beyond audit to identify root cause. We will continue to work with suppliers to help upskill and improve standards within their facilities through the provision of guidance and access to tools and resources. For example, we have partnered with suppliers from our George, Food and GNFR supply chains, to pilot a worker voice application to improve understanding and gather additional data on the worker experience, including temporary labour. We will compare the outputs from this exercise against audit data to identify any potential gaps and areas of risk not previously considered.

Where an issue is identified in the supply chain, we are committed to working with suppliers and third parties to understand the root cause and provide relevant guidance and resources to support thorough investigation and remediation for impacted workers. We ask suppliers to close any non-compliances raised in a social audit within the timelines recommended by the auditor. If this is not possible, we will discuss the circumstances on a case-by-case basis and where there is both commitment and a clear action plan to resolve the outstanding issues, we may agree an extension. We encourage our suppliers to apply the same principles when working with their supply chain. Further examples of our approach to incident management can be found in our annual Modern Slavery Statements, available on the Asda Corporate website.

Anti-corruption and Anti-bribery Matters

Asda is committed to doing business in the right way and has a zero-tolerance approach to bribery and corruption. Our anti-bribery team manage a risk-based compliance programme, covering areas such as third party due diligence, gifts and hospitality and colleague training and awareness, all aimed at ensuring we adhere to applicable anti-bribery and anti-corruption laws and regulations.

The Strategic Report was approved by the Board of Directors on 26 April 2024 and signed on its behalf by:

Mohsin Issa

Mohsin Issa

Director

Directors' Report

The Directors present their Report and the Consolidated Financial Statements for the year ended 31 December 2023.

Statutory Disclosures

The following disclosures have been included elsewhere in this Annual Report and are incorporated into the Directors' Report by reference:

Disclosure area	Page
Directors of the Group	3
Information on Asda's potential exposure to financial risks, and financial risk management policies	52-54
Likely future developments in the business of the company	19
Detail on the company's training, career development and promotion of disabled persons	36-37
Information on the Group's communication and engagement with employees	33-38
Summary of the directors' regard for relationships with stakeholders and key principal decisions	32-39; 18-19
Information on the Group's greenhouse energy consumption, gas emissions and energy efficiency actions	56-58

Going Concern

The financial statements for the year ended 31 December 2023 have been prepared on the going concern basis as the Directors have determined that the Group has sufficient resources and liquidity facilities to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of the financial statements ('the going concern period').

In assessing the Group's ability to adopt the going concern basis, the Directors have reviewed the Group's annual corporate planning process which includes profitability, cashflow and liquidity forecasting and have based their projections for the going concern period on the FY24 plan and extrapolated forecasts into Q1 2025.

The Group's Treasury function ensures that the Group continues to have sufficient funding by monitoring forecasts of the Group's cash flows and maintaining a sufficient level of standby facilities via the Revolving Credit Facility (RCF). Any capital repayments of long-term financing are forecast in the cash flow model used in the going concern scenarios. There are no significant maturities of the Group's long-term financing arrangements during the going concern period. The Directors continue to assess how to best manage these medium-term and long-term maturities through maintaining adequate standby facilities or refinancing to ensure the Group maintains a long-term sustainable capital structure.

The Revolving Credit Facility remains undrawn at the year end and no utilisation is forecast in the base case cash flow model for the going concern period. For more information on liquidity risk and maturity of financial liabilities see Note 21 Financial Instruments.

In assessing the Group's ability to continue to adopt the going concern basis, the Directors have tested the ability of the Group to meet its liabilities as they fall due during the going concern period, in the event of various cash flow scenarios, including a severe but plausible downside scenario. This scenario applies severe but plausible economic downsides to our base case forecast, modelling the impact of a sales decline due to a significant shift in market share, change in consumer preferences, major business disruption or a reputational incident, alongside the risk of fuel margin decline, inflationary pressures and risk of not achieving forecast levels of cost transformation activities.

Mitigating actions that are in the control of management have been considered such as reducing non-essential capital expenditure and discretionary spend. These mitigating actions are not required to be implemented to ensure sufficient headroom in the severe but plausible downside scenario.

The Directors consider that a scenario with no mitigating actions is not realistic as all modelled mitigating actions are readily accessible.

The Group is subject to a maintenance covenant whereby the senior secured net leverage ratio cannot exceed 4.90:1. This covenant is required to be tested if, as at the quarter end, drawings on the RCF exceed 40% of the facility. The Directors have also considered whether the above scenarios trigger the requirement to test the Group's financial covenant and have confirmed that there would be no requirement to test financial covenants under the cashflow scenarios modelled during the going concern period.

The model has been reverse stress tested to determine the level of sales and margin decline that would erode remaining headroom and lead to the Group breaching the level of available facilities or covenants. The Directors consider that the likelihood of such a significant deterioration of cash flows or profitability is remote.

On the basis of these assessments, the Directors can conclude it is appropriate to continue to adopt the going concern basis in preparing the consolidated financial statements.

Dividends

No dividends were paid during the year (2022: £nil).

Political Donations

The Group did not make any political donations during the period (2022: £nil).

Disclosure of Information to the Auditor

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

Reappointment of Auditors

Ernst & Young LLP resigned as auditors during the year. KPMG LLP were appointed as auditors under section 485 of the Companies Act 2006.

Directors' Liabilities

During the period, the Directors were insured against liability in respect of proceedings brought by third parties, subject to the limitations set out in the Companies Act 2006.

Events since the Balance Sheet Date

Events since the balance sheet date are disclosed within the Strategic Report on Page 19.

Guidelines for Disclosure and Transparency in Private Equity Statement

The Directors consider the Annual Report and Accounts to comply with all aspects of the Guidelines for Disclosure and Transparency in Private Equity.

This report was approved by the Board of Directors on 26 April 2024 and signed on its behalf by:

Mohsin Issa

Mohsin Issa

Director

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities in Respect of the Financial Statements

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

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

In preparing these financial statements the Directors are required to:

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

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

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

Directors' Responsibility Statement

The Directors confirm, to the best of their knowledge:

- That the consolidated financial statements, prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the parent company and undertakings included in the consolidation taken as a whole;
- That the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the Company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and,

That they consider the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company’s position, performance, business model and strategy.

KPMG LLP's Independent Auditor's Report

To the members of Bellis Finco PLC

1. OUR OPINION IS UNMODIFIED

In our opinion:

the financial statements of Bellis Finco PLC give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2023, and of the Group's profit for the year then ended;

the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;

the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and

the Group and Parent Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

WHAT OUR OPINION COVERS

We have audited the Group and Parent Company financial statements of Bellis Finco PLC ("the Company") for the year ended 31 December 2023 (FY23) included in the Annual Report and the consolidated financial statements, which comprise:

Group (Bellis Finco PLC and its subsidiaries)	Parent Company (Bellis Finco PLC)
- Consolidated Balance Sheet as at 31 December 2023 - Consolidated Income Statement for the Year Ended 31 December 2023 - Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2023 - Consolidated Statement of Changes in Equity for the Year Ended 31 December 2023 - Consolidated Statement of Cash Flows for the Year Ended 31 December 2023 Notes 1 to 31 to the Consolidated financial statements, including the accounting policies in note 1.	- Company Balance Sheet as at 31 December 2023 - Company Statement of Changes in Equity for the Year Ended 31 December 2023 Notes 1 to 11 to the Parent Company financial statements, including the accounting policies in note 1.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed other entities of public interest. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2. OVERVIEW OF OUR AUDIT

FACTORS DRIVING OUR VIEW OF RISKS

The key audit matters identified in the current period were those matters that, in our professional judgement, indicated the most significance in our audit of the financial statements and indicated the most significant risk of material misstatements. These matters therefore had the greatest impact on our overall audit strategy and allocation of resources.

Key Audit Matters	Vs FY22	Item
Impairment of Property, Plant and Equipment and Right of Use Assets	+	4.1
Existence and accuracy of store inventory and accuracy of inventory loss estimate	+	4.2
Acquisition of Euro Garages (Jersey) Limited	+	4.3
Recoverability of Parent Company's Investment in Subsidiaries (Parent only)	+	4.4

The VIU of an individual store relies on a number of assumptions, most notably short-term sales growth and profit margin as per management 3-year plan, the discount rate, and maintenance and capital spend to keep the stores open safely, which all involve a high a degree of estimation uncertainty. Management estimates the fair value less costs to dispose of the stores with the assistance of independent professional valuers. External valuations are obtained for a sample of stores which has been used to determine the recoverable amount of the store where this is higher than the VIU.

Gross retail inventory held across all stores is valued using the retail inventory method and includes the inventory loss estimate recognised at the year-end, which represents a significant estimate in the consolidated financial statements. The level of imprecision in the underlying store inventory records, coupled with the timing of physical counts being ahead of the year-end, increases the quantum of the estimate and, as such, we have determined this to be a fraud and error risk.

The acquisition accounting for business combinations is an inherently complex and judgmental exercise, requiring the Group to determine the fair value of the consideration transferred, assets acquired, and liabilities assumed and for intangible assets to be separately identified from goodwill. The transaction is with a related party; therefore, a significant risk arises regarding the determination as to whether the transaction was conducted at an arm's length, we deem this to be a significant risk of fraud.

The carrying amount of the Parent Company's investments in subsidiaries through share capital and receivables represent 99% of the Parent Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on the Parent Company audit.

AUDIT COMMITTEE INTERACTION

KPMG are invited to attend all Audit Committee meetings, since our appointment on 6 September 2023 and are provided with an opportunity to meet with the Audit Committee in private sessions without the Executive Directors being present. For each Key Audit Matter, we have set out communications with the AC in section 6, including matters that required judgement for each.

MATERIALITY

(ITEM 6 BELOW)

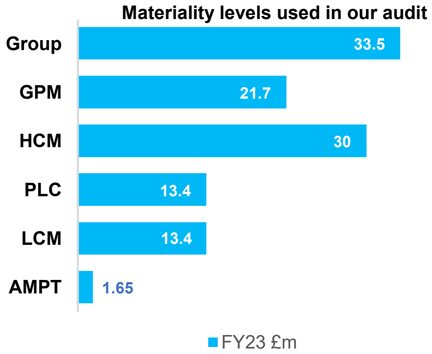
The scope of our work is influenced by our view of materiality and our assessed risk of material misstatement.

We have determined overall materiality for the Group financial statements as a whole at £33.5m and for the Parent Company financial statements as a whole at £13.4m.

A key judgement in determining materiality was the most relevant metric to select as the benchmark, by considering which metrics have the greatest bearing on shareholder decisions.

We determined that EBITDA, which includes the add-back of the separate costs related to the IT transformation project of £240.5m and the acquisition costs of £53.2m incurred through acquiring Euro Garages (Jersey) Limited as we consider these to be non-recurring ("EBITDA"), is the most appropriate benchmark for the Group as it is the most relevant measure for stakeholders. As such, we based our Group materiality on EBITDA, of which it represents 2.53%.

Materiality for the Parent Company financial statements was determined with reference to a benchmark of Parent Company total assets of which it represents 0.70%.



Group	Group Materiality
GPM	Group Performance Materiality
HCM	Highest Component Materiality
PLC	Parent Company Materiality
LCM	Lowest Component Materiality
AMPT	Audit Misstatement Posting Threshold

GROUP SCOPE

(ITEM 7 BELOW)

We have performed risk assessment and planning procedures to determine which of the Group's components are likely to include risks of material misstatement to the Group financial statements, the type of procedures to be performed at these components and the extent of involvement required from our component auditors.

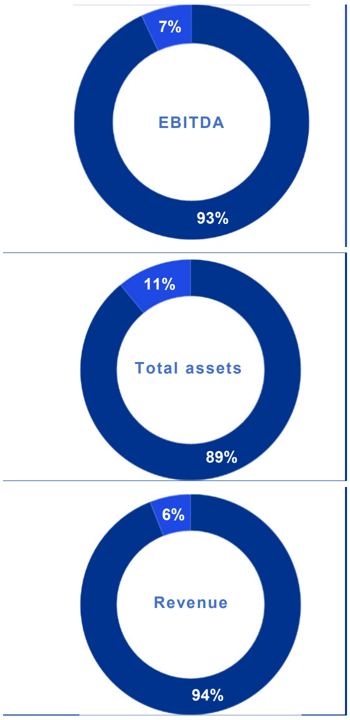
Of the Group's components we subjected 3 to full scope audits for Group purposes. The components within the scope of our work represented 93% of the Group EBITDA, 89% of Group total assets and 94% of Group revenues.

In addition, we have performed Group level analysis on the remaining components to determine whether further risks of material misstatement exist in those components.

We consider the scope of our audit, as communicated to the Audit Committee, to be an appropriate basis for our audit opinion.

- Full scope audits
- Remaining components

Coverage of Group financial statements



3. GOING CONCERN

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Parent Company or to cease their operations, and as they have concluded that the Group's and the Parent Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

GOING CONCERN

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Parent Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Parent Company's available financial resources and metrics relevant to debt covenants over this period were:

- The impact of inflation and the associated increase in costs of living, which may result in a reduction in customer demand; and
- The impact of a decline in sales due to the high level of competition within the retail industry.

We also considered less predictable but realistic second order impacts, such as the erosion of customer or supplier confidence, which could result in a reduction of available financial resources.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources and covenants indicated by the Group's financial forecasts.

We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern.

Accordingly, based on those procedures, we found the Directors' use of the going concern basis of accounting without any material uncertainty for the Group and Parent Company to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Parent Company will continue in operation.

Our conclusions

- We consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- We have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Parent Company's ability to continue as a going concern for the going concern period; and

  We found the going concern disclosure in note 1 to be acceptable;

4. KEY AUDIT MATTERS

WHAT WE MEAN

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in the audit; and
- directing the efforts of the engagement team.

We include below the Key Audit Matters, in decreasing order of audit significance, together with our key audit procedures to address those matters. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

4.1 IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSETS

Financial Statement Elements			Our assessment of risk vs FY22
	FY23	FY22	
Property, plant and equipment	**£9,762m**	£9,008m	✚ Risk of error in relation to the recoverability of non-financial assets as the impairment assessment may not align to IAS 36
Right of use assets	**£3,057m**	£2,229m	

Description of the Key Audit Matter

Under IAS 36 'Impairment of Assets', the Group is required to complete an impairment review of its store portfolio where there are indicators of impairment or impairment reversal. Judgement is required in identifying indicators of impairment charges or reversals and estimation is required in determining the recoverable amount of the Group's store portfolio.

There is a risk that the carrying value of stores and related PPE and ROU assets may be higher than the recoverable amount. Where there is an indicator of impairment and a review for impairment is conducted, the recoverable amount is determined based on the higher of 'value-in-use' (VIU) or fair value less costs of disposal (FVLCOD). The recoverable amount is calculated at a cash generated unit (CGUs) level and a single store is considered to be a CGU.

The VIU of an individual store relies on a number of assumptions, most notably short-term sales growth and profit margin as per management 3-year plan, the discount rate, and maintenance and capital spend, which all involve a high a degree of estimation uncertainty.

Management estimates the fair value less costs to dispose of the stores with the assistance of independent professional valuers. External valuations are obtained for a sample of stores which has been used to determine the recoverable amount of the store where this is higher than the VIU.

Auditor judgement is required to assess whether the Directors' estimate of an individual store's recoverable amount falls within an acceptable range.

As a result, there is a risk which we consider to be significant of (1) incomplete indicators of impairment identified by the Directors; and (2) due to estimation uncertainty and subjectivity there is a risk that inappropriate recoverable amounts may be estimated for the CGUs.

Prior year adjustment

The estimates used, and the accuracy of calculation of the prior year adjustment could be incorrect. Furthermore, the disclosures presented may not adequately address the requirements of IAS 8 in relation to the description of the adjustment and the impact of the correction.

Our response to the risk

We performed the detailed tests below rather than seeking to rely on any of the Group's control because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our procedures included:

Identification of the cash generating units (CGU): Evaluating whether the CGU's have been determined at the appropriate level.

Adequacy of impairment indicators: Challenging management's assessment and considering whether further indicators should have been assessed based on our knowledge of the business, its operating environment, industry knowledge, current market conditions and other information obtained during the audit.

Model design evaluation and re-performance: Evaluating the reasonableness of the design of indicator and value in use (VIU) models in line with the requirement of accounting standards and re-performing the calculation for determining the VIU of each CGU, including assessing whether the allocation of the central assets and central costs across each of the CGUs is appropriate.

Integrity of the model: Assessing the completeness and accuracy of management's calculations and supporting models and also evaluating key inputs used in the Group's assessment for determination of recoverable amounts.

Our sector experience: Evaluating the assumptions used, in particular those relating to forecast revenue growth and profit margins as per the Group's 3-year plans and challenging the directors as to the achievability of their forecasts and business plans, taking into account the historical accuracy of previous forecasts.

Benchmarking assumptions: Comparing the director's key assumptions to externally derived data in relation to key inputs such as projected economic growth, customer spending behaviours cost inflation, and market inputs used in deriving the discount rate.

Fair value less cost of disposal: Challenging management's determination of fair value less costs of disposal and engaging internal property valuation specialists to assess the appropriateness of the vacant possession methodology adopted by management, and to recalculate a valuation for a sample of stores. We evaluated the competence, capability and objectivity of management's independent valuers.

In conducting our substantive audit procedures, we reassessed the degree of estimation uncertainty in relation to management's assessment of impairment triggers, and to their methodology of allocating central overheads. On performing sensitivities over these areas, we identified a range of reasonable outcomes greater than materiality for the financial statements as a whole. The financial statements (note 12) disclose the range/sensitivity estimated by the Group.	**Sensitivity Analysis:** Performing our own independent sensitivity analysis using a range of scenarios to identify the key assumptions and understand the impact of changes in these assumptions on the impairment conclusions reached by management. **Assessing transparency**: Assessing the group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in the key assumptions reflected the risks related to the valuation of the PPE and ROU assets. We also assessed if the disclosures in relation to the prior year adjustments were in accordance with IAS 8.

Further information in the Annual Report and Accounts: See page 114 for the accounting policy on the Impairment of Property, Plant and Equipment and Right of Use Assets, and pages 98-101, 133-134, 146-150 / notes 1, 5, 12 and 13 for the financial disclosures.

4.2 EXISTENCE OF STORE INVENTORY, AND THE ACCURACY OF THE INVENTORY LOSS ESTIMATE (GROUP)

Financial Statement Elements			Our assessment of risk vs FY22	
	FY23	FY22		
Goods held for resale	**£1,332m**	£1,273m	+	Increased uncertainty over the inventory loss estimate due to impacts of the current economic climate and increased rates seen within the industry.
Inventory loss estimate	**£140m**	£96m		

Description of the Key Audit Matter	Our response to the risk
Gross retail inventory held across all stores is valued using the retail inventory method and includes the inventory loss estimate recognised at the year-end, which represents a significant estimate in the consolidated financial statements. The retail inventory method of valuation involves an estimation of gross stock value based on observed sales margins by department, based on gross sales, markdowns, and purchase data within the financial systems. The derivation of gross stock value is reliant on the accuracy of this transactional data given the imprecision in the underlying store stock records. The inventory loss estimate provides against inventory for expected losses from theft and other inaccuracies, based on the results of previous stock counts. The estimate requires an assumption over the selection of the inventory loss rate to apply against post count sales. There is significant judgement required in this selection relating to the use of historic inventory loss rates as a predictor of future losses, and thus the appropriate period over which historic actual inventory losses are relevant to the estimate of losses to the end of the period. The choice of inventory loss rates is highly judgemental and, in the current year, has included an update to the estimation basis in response to observed inventory losses from physical stock counts and the wider retail industry, with the basis changing from a three-count average to being the most recent physical count. Additionally, the level of imprecision in the underlying store inventory records, coupled with the timing of physical counts being ahead of the year-end, increases the quantum of the estimate and, as such, we have determined this to be a fraud and error risk.	Our procedures to address the risk included: • **Assessment of general IT control environment and automated control re-performance**: Testing the operating effectiveness of IT controls and any relevant compensating general IT controls in the current and prior periods, over sales and purchase transactions and the allocation of transactions by department; • **Test of details**: Performing roll forward procedures over gross inventory balances between the date of count and the period end, for a sample of stores, including testing of sales and purchases; • **Control design and implementation:** Evaluating the design and implementation of controls over the store count cycle plan, store inventory counts and inventory loss provision including understanding any service organisations present, and subsequent accounting entries to the general ledger; • **Test of operating effectiveness:** Testing the operating effectiveness of controls over the store inventory counts and inventory loss estimate, and subsequent accounting entries to the general ledger; • **Service organisation assessment:** Obtaining the service organisation ("RGIS") System and Organization Controls ("SOC 1") report and evaluating the appropriateness of the period under review, any bridge requirements, the controls identified and any impact on findings included on our reliance of controls operated; • **Control re-performance:** Attending inventory counts for a sample of sites, testing the controls in operation with RGIS counters and management's control activities that underpin the recording of the count results in the general ledger;

	• **Test of details:** Challenging and evaluating whether there is adequate support for the key assumption of the inventory loss estimate, including the use of the most recent physical count results to form an expectation of inventory loss (noting this is an in-year change in assumption), and challenging whether the data underlying management's assessment are accurate and consistent with the external and internal environment, and other matters identified in the audit; • **Test of details:** Creating an independent assessment of the inventory loss estimate calculation and comparing this to managements calculation. Agreeing relevant data back to source, and corroborating differences. • **Test of details:** reperformed management's calculation of the inventory loss estimate for our sample of stores where we attended a physical stock count • **Test of details:** Assessment of managements post year-end physical stock count analysis, comparing actual losses recognised in Quarter 1 to the year-end estimate. Attending a sample of management's post year-end physical counts in Quarter 1 2024, performing sample stock counts, and calculating an independent expectation of the inventory loss estimate; • **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the inventory loss estimate.

Further information in the Annual Report and Accounts: See page 109 and 120 for the accounting policies on the existence of inventory and the accuracy of the Inventory Loss estimate, and page 156 / note 16 for the financial disclosures.

4.3 PURCHASE PRICE ALLOCATION RELATING TO THE ACQUISITION OF EURO GARAGES (JERSEY) LIMITED (GROUP)

Financial Statement Elements		Our assessment of risk vs FY22
	FY23	
Goodwill	**£922m**	✚ The acquisition of Euro Garages (Jersey) Limited occurred in the current financial period such that it represents a new risk.
Fair value of net assets acquired	**£1,065m**	

Description of the Key Audit Matter	Our response to the risk
On 30 May 2023 ASDA announced its agreement to purchase the UK&I business of EG Group. The acquisition has been completed as of 31 October 2023 for a value of £2 billion. The acquisition accounting for business combinations is an inherently complex and judgmental exercise, requiring the Group to determine the fair value of the consideration transferred, assets acquired, and liabilities assumed and for intangible assets to be separately identified from goodwill. As a result of the acquisition, in accordance with IFRS 3 Business Combinations, management is required to perform fair value assessments including the acquired property, related tangible assets, identified acquired intangible assets and provisions at the acquisition date. The transaction is of a related party; therefore, a significant risk arises regarding the determination as to whether the transaction was conducted at an arm's length, we deem this to be a significant risk of fraud. As the acquisition had an effect on the overall audit strategy, allocation of resources in the audit and directing the efforts of the engagement team, it is a key audit matter.	We performed the detailed tests below rather than seeking to rely on any of the Group's control because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures to address the risk included: • **Test of details**: Obtaining and inspecting the Sale and Purchase Agreements to understand the terms of the acquisition; • **Test of details:** Performing procedures over the balances as at the acquisition date, which included fair value assessments and adjustments and assessing the completeness of the assets and liabilities acquired; • **Our sector experience:** Challenging the reasonableness of the assumptions in the valuation of the tangible and intangible assets and assessing the appropriateness of the intangible assets identified and the valuation methodologies using our own valuation specialists; • **Test of details:** Challenging the arm's length determination of the transaction through benchmarking against other third party acquisitions, with involvement of our valuation specialists; • **Benchmarking assumptions:** Comparing the Group's assumptions to externally derived data in relation to key inputs such as fuel margins and discount rates; • **Test of details:** Identifying high risk journals relating to the acquisition and tracing to supporting documents where necessary;

	• **Assessing valuer's credentials:** Assessing and evaluating the independence, objectivity and competence of the external valuers. This included whether they were appropriately instructed and provided with complete and accurate data on which to base their valuations; and • **Assessing transparency:** Assessing the adequacy and appropriateness of the Group's accounting policies and disclosures on the judgements and estimates applied in arriving at the fair values.

Further information in the Annual Report and Accounts: See pages 104,105 and 110 for the accounting policies and judgements on Purchase Price Allocation of the acquisition on Euro Garages (Jersey) Limited, and 128-130 / note 2 for the financial disclosures.

4.4 RECOVERABILITY OF PARENT COMPANY'S INVESTMENT IN SUBSIDIARIES (PARENT COMPANY)

Financial Statement Elements			Our assessment of risk vs FY22
	FY23	FY22	✚ Given their materiality in the context of the Parent Company financial statements, the recoverability of Parent Company investments is considered to be the area that had the greatest effect on our overall Parent Company audit.
Investments in subsidiaries	**£665m**	£665m	

Description of the Key Audit Matter	Our response to the risk
The carrying amount of the Parent Company's investments in subsidiaries through share capital and receivables represent 99% of the Parent Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on the Parent Company audit.	We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures to address the risk included: • **Test of details:** Comparing the carrying amount of 100% investments in subsidiaries with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of the minimum recoverable amount, were in excess of their carrying amount, and assess whether those subsidiaries have historically been profit-making; and • **Assessing transparency:** Assessing the adequacy of the parent Company's disclosures in respect of the investment in subsidiaries.

Further information in the Annual Report and Accounts: See page 199 for the accounting policy on the Recoverability of Parent Company's Investment in Subsidiaries (Parent Company), and pages 200-202 / note 4 for the financial disclosures.

5. OUR ABILITY TO DETECT IRREGULARITIES, AND OUR RESPONSE

FRAUD - IDENTIFYING AND RESPONDING TO RISKS OF MATERIAL MISSTATEMENT DUE TO FRAUD	
FRAUD RISK ASSESSMENT	To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included: • Enquiring of Directors, management, Internal Audit, Group Legal, and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud. • Reading Board, Audit Committee, and the Compliance, Ethics, Risk and Audit committee minutes. • Considering remuneration incentive schemes and performance targets for management, Directors and sales staff. • Using analytical procedures to identify any unusual or unexpected relationships. • Engaging with our forensic specialists who assisted us in identifying key fraud risks. This included holding a discussion with the engagement partner, lead engagement manager and engagement quality control reviewer, and assisting with designing relevant audit procedures to respond to the identified fraud risks. • Reviewing predecessor auditor's file to determine whether we would expect any recurring fraud risks in the current period. Throughout the engagement we remained alert for any indication of potential fraud risks. This included holding regular meetings with management across the business to understand susceptibility to fraud, considering performance targets and any ability for management to influence the results to meet these targets. We also considered relevant controls that the Group has in place which would assist in detecting and preventing fraud across the business.
RISK COMMUNICATIONS	We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.
FRAUD RISKS	As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the transactions are high in volume, low in value, cash-based and highly automated. We therefore concluded that the opportunity for management to achieve material fraudulent revenue recognition on a transactional basis is limited. We identified a fraud risk in relation to the estimation uncertainty that is inherent in the calculation of the expected year-end inventory loss balance. We also identified a fraud risk related to related parties in response to the acquisition of Euro Garages (Jersey) Limited.
LINK TO KAMS	Further detail in respect of the inventory and the acquisition of Euro Garages (Jersey) Limited fraud risks are set out in the key audit matter disclosures in section 4 of this report.
PROCEDURES TO ADDRESS FRAUD RISKS	Based on the above we designed our audit procedures to identify any instances of fraud or management override of controls. Our procedures involved journal entry testing over the full population of journals throughout the year, with a focus on any journals which impact the fraud risk factors identified, including unusual transactions based on our understanding of the business. We also performed additional procedures over the related party confirmations, transactions and disclosures to confirm there were no instances of fraud identified. We performed procedures including: • Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by users who do not typically post journals as part of their job role, finance management, key words, those posted to unusual or unexpected account combinations (unusual double entries on certain accounts), unexpected postings that increase EBITDA and post-closing journals increasing EBITDA. • Evaluated the business purpose of significant unusual transactions. • Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

LAWS AND REGULATIONS - IDENTIFYING AND RESPONDING TO RISKS OF MATERIAL MISSTATEMENT RELATING TO COMPLIANCE WITH LAWS AND REGULATIONS	
LAWS AND REGULATIONS RISK ASSESSMENT	We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with Directors, management, Internal Audit and the Group Legal team (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the group Legal team the policies and procedures regarding compliance with laws and regulations. As a subsidiary within the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.
RISK COMMUNICATIONS	We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.
DIRECT LAWS CONTEXT AND LINK TO AUDIT	The potential effect of these laws and regulations on the financial statements varies considerably. Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies' legislation), distributable profits legislation, taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.
MOST SIGNIFICANT INDIRECT LAW/ REGULATION AREAS	Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: groceries supply code of practice (GSCOP), health and safety, data protection laws, anti-bribery, employment law, food and drug administration, misrepresentation act, and certain aspects of company legislation recognising the financial nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors, and other management, and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.
KNOWN ACTUAL OR SUSPECTED MATTERS/ LEGISLATION OF PARTICULAR RELEVANCE	For the Equal Value Claim matter discussed in note 29 we assessed disclosures against our understanding from legal correspondence and meetings held with management and their external legal advisers, involving our legal specialists. We discussed with the audit committee other matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.
CONTEXT	
CONTEXT OF THE ABILITY OF THE AUDIT TO DETECT FRAUD OR BREACHES OF LAW OR REGULATION	Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. OUR DETERMINATION OF MATERIALITY

The scope of our audit was influenced by our application of materiality. We set quantitative thresholds and overlay qualitative considerations to help us determine the scope of our audit and the nature, timing and extent of our procedures, and in evaluating the effect of misstatements, both individually and in the aggregate, on the financial statements as a whole.

£33.5M **MATERIALITY FOR THE GROUP FINANCIAL STATEMENTS AS A WHOLE**	**What we mean** A quantitative reference for the purpose of planning and performing our audit. **Basis for determining materiality and judgements applied** Materiality for the Group financial statements as a whole was set at £33.5m. This was determined with reference to a benchmark of EBITDA, which includes the add-back of the separate costs related to the IT transformation project of £240.5m and the acquisition costs of £53.2m incurred through acquiring Euro Garages (Jersey) Limited as we consider these to be non-recurring ("EBITDA"). We determined that EBITDA is the main benchmark for the Group given the sector in which the entity operates, its ownership, the financing structure, and the focus of the users of the accounts. Our Group materiality of £33.5m was determined by applying a percentage to EBITDA. When using a benchmark of EBITDA to determine overall materiality, KPMG's approach considers a guideline range 2% - 4% of the measure. In setting overall Group materiality, we applied a percentage of 2.53% to the benchmark. Materiality for the Parent Company financial statements as a whole was set at £13.4m determined with reference to a benchmark of Parent Company total assets, of which it represents 0.70%.
£21.7M **PERFORMANCE MATERIALITY**	**What we mean** Our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. **Basis for determining performance materiality and judgements applied** We have considered performance materiality at a level of 65% of materiality for Bellis Finco PLC Group financial statements as a whole to be appropriate. The Parent Company performance materiality was set at £8.7m, which equates to 65% of materiality for the Parent Company financial statements as a whole. We applied this percentage in our determination of performance materiality to reduce aggregation risk, given the increase in inherent risk of a first-year audit.
£1.675M **AUDIT MISSTATEMENT POSTING THRESHOLD**	**What we mean** This is the amount below which identified misstatements are considered to be clearly trivial from a quantitative point of view. We may become aware of misstatements below this threshold which could alter the nature, timing and scope of our audit procedures, for example if we identify smaller misstatements which are indicators of fraud. This is also the amount above which all misstatements identified are communicated to the Group's Audit Committee. **Basis for determining the audit misstatement posting threshold and judgements applied** We set our audit misstatement posting threshold at 5% of our materiality for the Group financial statements. We also report to the Audit Committee any other identified misstatements that warrant reporting on qualitative grounds.

The overall materiality for the Group financial statements of £33.5m compares as follows to the main financial statement caption amounts:

	Total Group Revenue		Group EBITDA less non-underlying costs		Total Group Assets	
	FY23	FY22 (restated)	**FY23**	FY22 (restated)	**FY23**	FY22 (restated)
Financial statement Caption	**£25,616.9m**	£24,477.8m	**£1,326m**	£1,111m	**£19,288.9m**	£16,316.2m
Group Materiality as % of caption	**0.1%**	0.1%	**2.53%**	3.0%	**0.2%**	0.2%

7. THE SCOPE OF OUR AUDIT

GROUP SCOPE

What we mean

How the Group audit team determined the procedures to be performed across the Group.

The Group has 7 reporting components. In order to determine the work performed at the reporting component level, we identified those components which we considered to be of individual financial significance, those which were significant due to risk and those remaining components on which we required procedures to be performed to provide us with the evidence we required in order to conclude on the group financial statements as a whole.

We determined individually financially significant components as those contributing at least 10% of EBITDA, total revenue or total assets. We selected EBITDA, total revenue and total assets because these are the most representative of the relative size of the components. We identified 3 components as individually significant and performed full scope audits on those components.

Scope	Number of components	Range of materiality applied
Full scope audit	3	£13.4m - £30m

In addition, we have performed Group level analysis on the remaining components to determine whether further risks of material misstatement exist in those components.

We were able to rely upon the Group's internal control over financial reporting in several areas of our audit where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in the other areas the scope of the audit work performed was fully substantive. The work on the components was performed by the Group team, including the audit of the Parent Company.

8. OTHER INFORMATION IN THE ANNUAL REPORT

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

ALL OTHER INFORMATION

Our responsibility	Our reporting
Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.	Based solely on that work we have not identified material misstatements or inconsistencies in the other information.

STRATEGIC REPORT AND DIRECTORS' REPORT

Our responsibility and reporting

Based solely on our work on the other information described above we report to you as follows:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Our responsibility	Our reporting
Under the Companies Act 2006, we are required to report to you if, in our opinion: ▪ adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or ▪ the Parent Company financial statements are not in agreement with the accounting records and returns; or ▪ certain disclosures of Directors' remuneration specified by law are not made; or ▪ we have not received all the information and explanations we require for our audit.	We have nothing to report in these respects.

9. RESPECTIVE RESPONSIBILITIES

Directors' responsibilities

As explained more fully in their statement set out on page 72, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

10. THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

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.

Adrian Wilcox (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

26 April 2024

Consolidated Income Statement for the Year Ended 31 December 2023

Year ended 31 December 2023	**Note**	**Pre non-underlying items £ m**	**Non-underlying items £ m**	**Post non-underlying items £ m**
Revenue	3	25,616.9	-	25,616.9
Other income	4	70.9	-	70.9
Operating costs	5	(25,051.2)	(68.0)	(25,119.2)
Operating profit		636.6	(68.0)	568.6
Finance income	9	52.5	-	52.5
Finance costs	9	(440.8)	-	(440.8)
Profit on ordinary activities before tax		248.3	(68.0)	180.3
Income tax credit	5, 11	-	14.2	14.2
Profit for the year		248.3	(53.8)	194.5

Year ended 31 December 2022 (restated)	**Note**	**Pre non-underlying items £ m**	**Non-underlying items £ m**	**Post non-underlying items £ m**
Revenue	3	24,477.8	-	24,477.8
Other income	4	69.8	-	69.8
Operating costs	5	(24,122.2)	(566.1)	(24,688.3)
Operating profit/(loss)		425.4	(566.1)	(140.7)
Finance income	9	55.4	-	55.4
Finance costs	9	(386.5)	(9.0)	(395.5)
Reimbursement income	5, 11	-	49.3	49.3
Profit/(loss) on ordinary activities before tax		94.3	(525.8)	(431.5)
Income tax credit	5, 11	16.8	60.8	77.6
Profit/(loss) for the year		111.1	(465.0)	(353.9)

The above results were derived from continuing operations. Further detail of amounts presented as non-underlying items is provided in note 1 and 5.

The presentation of prior year comparatives has been restated to separately show amounts classified as other income and to present an updated impairment value. See notes 1, 4, 5, 12 and 13 for further details.

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2023

	Note	Year Ended 31 December 2023 £ m	(As restated) Year Ended 31 December 2022 £ m
Profit/(loss) for the year		194.5	(353.9)
Items that will not be reclassified to profit or loss in subsequent years			
Total remeasurements on defined benefit obligation	23	(0.1)	5.5
Tax on items recognised directly in other comprehensive income	11	0.1	(1.5)
		-	4.0
Items to be reclassified subsequently to profit or loss in subsequent years			
Forward contracts:			
Reclassification during the year to Income Statement		15.3	(23.4)
Net (loss)/gain during the year on not-yet-matured contracts		(36.3)	14.4
Tax on cash flow hedges recognised directly in other comprehensive income	11	5.2	1.5
Cross-currency hedge:			
Reclassification during the year to Income Statement		(2.5)	(35.4)
Net (loss)/gain during the year on cross-currency swap		(21.8)	54.9
Currency basis movements on cost of hedging reserve		(0.9)	1.6
Time-value movements on cost of hedging reserve		-	(1.8)
Tax on cross currency swaps	11	6.3	(4.8)
Interest rate swaps:			
Net loss during the year on interest rate swaps		(6.0)	-
Reclassification during the year to income statement		(0.4)	-
Tax on interest rate swaps		1.6	-
		(39.5)	7.0
Other comprehensive (expense)/income for the year		(39.5)	11.0
Total comprehensive income/(expense) for the year		155.0	(342.9)

Consolidated Balance Sheet as at 31 December 2023

Registration number: 12855336

	Note	Year Ended 31 December 2023 £ m	Year Ended 31 December 2022 £ m (as restated)
Assets			
Non-current assets			
Property, plant and equipment	12	9,762.4	9,008.3
Right-of-use assets	13	3,057.1	2,228.7
Investment properties	12	39.1	-
Intangible assets	15	2,763.1	1,618.9
Investments	17	-	461.8
Intercompany receivables	18	773.2	747.4
Other financial assets	22	5.5	5.1
Derivative assets	18	0.2	-
Finance lease receivable	13	128.9	-
		16,529.5	14,070.2
Current assets			
Inventories	16	1,334.3	1,276.0
Trade, other receivables and derivative assets	18	307.6	252.6
Loans receivable	18	-	26.6
Intercompany receivables	18	9.2	4.0
Finance lease receivables	13	4.2	-
Income tax asset		-	24.3
Cash and cash equivalents	19	1,027.7	662.5
		2,683.0	2,246.0
Assets held for sale	14	76.4	-
Total assets		19,288.9	16,316.2
Equity and liabilities			
Equity			
Share capital	25	0.1	0.1
Share premium	25	1,280.0	1,280.0
Cash flow hedge reserve	26	(13.9)	57.4
Cost of hedging reserve		(0.2)	0.6
Retained earnings	26	2,658.8	2,430.8
Equity attributable to owners of the Company		3,924.8	3,768.9
Non-current liabilities			
Deferred tax liabilities	11	1,136.7	910.2
Shareholder loan	20	409.1	-
Lease liabilities	21	3,651.2	2,945.0
Borrowings	22	5,140.5	4,120.2
Pension liability	23	8.6	8.1
Provisions	24	178.2	153.0
Derivative liabilities	20	6.0	-
		10,530.3	8,136.5
Current liabilities			
Trade, other payables and derivative liabilities	20	4,604.7	4,008.4
Intercompany payables	20	9.9	6.8
Income tax liability		3.2	-
Lease liabilities	21	139.0	115.7
Provisions	24	39.0	33.3
Borrowings	22	22.7	246.6
		4,818.5	4,410.8
Liabilities directly associated with assets held for sale	14	15.3	-
Total liabilities		15,364.1	12,547.3
Total equity and liabilities		19,288.9	16,316.2

Consolidated Balance Sheet as at 31 December 2023 (continued)

Approved by the Board on 26 April 2024 and signed on its behalf by:

Mohsin Issa

M Issa
Director

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2023

Year ended 31 December 2022 (restated)

	Note	Share capital £ m	Share premium £ m	Cash flow hedging reserve £ m	Cost of hedging reserve £ m	Retained earnings £ m	Total equity £ m
At 1 January 2022		0.1	1,280.0	50.3	0.7	2,780.0	4,111.1
Loss for the year (restated)	26	-	-	-	-	(353.9)	(353.9)
Defined benefit pension scheme:		-	-	-	-	-	-
Total remeasurement on defined benefit obligation	23	-	-	-	-	5.5	5.5
Tax on items recognised directly in other comprehensive income	11	-	-	-	-	(1.5)	(1.5)
Forward contracts:							
Cash flow hedges - reclassified during year to Income Statement		-	-	(23.4)	-	-	(23.4)
Cash flow hedges - net gain during year on not-yet matured contracts		-	-	14.4	-	-	14.4
Tax on cash flow hedges recognised directly in other comprehensive income	11	-	-	1.5	-	-	1.5
Cross-currency interest rate swaps:							
Reclassification during the year to Income Statement		-	-	(35.5)	0.1	-	(35.4)
Net gain during the year on cross-currency interest rate swaps		-	-	54.9	-	-	54.9
Currency basis movements on cost of hedging reserve		-	-	-	1.6	-	1.6
Time-value movements on cost of hedging reserve		-	-	-	(1.8)	-	(1.8)
Tax on cross-currency interest rate swaps	11	-	-	(4.8)	-	-	(4.8)
Total comprehensive expense - restated		-	-	7.1	(0.1)	(349.9)	(342.9)
Change in fair value of share-based payments		-	-	-	-	0.7	0.7
At 31 December 2022 - restated		0.1	1,280.0	57.4	0.6	2,430.8	3,768.9

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2023 (continued)

Year ended 31 December 2023

		Share capital £m	Share premium £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Retained earnings £m	Total equity £m
At 1 January 2023		0.1	1,280.0	57.4	0.6	2,430.8	3,768.9
Profit for the year	26	-	-	-	-	194.5	194.5
Defined benefit pension scheme: Total remeasurements on defined benefit obligation	23	-	-	-	-	(0.1)	(0.1)
Tax on items recognised directly in other comprehensive income	11	-	-	-	-	0.1	0.1
Forward contracts: Cash flow hedges - reclassified during the year to Income Statement		-	-	15.3	-	-	15.3
Cash flow hedges - net loss during year on not-yet-matured contracts		-	-	(36.3)	-	-	(36.3)
Tax on cash flow hedges recognised directly in other comprehensive income	11	-	-	5.2	-	-	5.2
Cross-currency interest rate swaps: Reclassification during the year to Income Statement		-	-	(2.6)	0.1	-	(2.5)
Net loss during the year on cross-currency interest rate swaps		-	-	(21.8)	-	-	(21.8)
Currency basis movements on cost of hedging reserve		-	-	-	(0.9)	-	(0.9)
Tax on cross-currency interest rate swaps	11	-	-	6.3	-	-	6.3
Interest rate swaps: Reclassification during the year to income statement		-	-	(0.4)	-	-	(0.4)
Net loss during the year on interest rate swaps		-	-	(6.0)	-	-	(6.0)
Deferred tax on interest rate swaps		-	-	1.6	-	-	1.6
Total comprehensive (expense)/income		-	-	(38.7)	(0.8)	194.5	155.0
Change in fair value of share-based payments	23	-	-	-	-	0.9	0.9
Reclassification	26	-	-	(32.6)	-	32.6	-
At 31 December 2023		0.1	1,280.0	(13.9)	(0.2)	2,658.8	3,924.8

Consolidated Statement of Cash Flows for the Year Ended 31 December 2023

	Note	Year ended 31 December 2023 (£ m)	(As restated) Year ended 31 December 2022 (£ m)
Profit/(loss) for the year		194.5	(353.9)
Depreciation of property, plant and equipment	5	411.1	405.8
Depreciation of right-of-use assets	5	192.2	172.2
Amortisation of intangible assets	5	82.3	101.0
Impairment (reversal)/charge of property, plant and equipment	5	(148.9)	232.8
Impairment (reversal)/charge of right-of-use assets	13	(76.8)	144.6
Finance income	9	(52.5)	(55.4)
Finance costs	9	440.8	395.5
Loss on sale of property, plant and equipment	5	0.5	3.4
Gain on disposal of right-of-use assets	5	(0.9)	(1.6)
Reimbursement income	11	-	(49.3)
Pension contributions	23	(0.1)	(0.1)
Increase in trade and other receivables		(32.0)	(45.6)
Increase in inventories		(13.0)	(109.3)
Increase in trade and other payables		280.9	407.5
(Decrease)/Increase in provisions		(12.5)	6.8
Tax paid		(5.6)	-
Tax credit on continuing operations		(14.2)	(77.6)
Net cash flow from operating activities		1,245.8	1,176.8
Cash consideration paid for acquisition of ASDA Group Limited		-	(38.8)
Proceeds from sale of property, plant and equipment		24.3	11.4
Purchase of property, plant and equipment		(279.7)	(251.2)
Purchase of intangible assets		(57.3)	(68.5)
Buy-in loan repayment		0.7	0.7
External interest received	9	26.7	6.1
Increase in intercompany receivables		(5.7)	(1.1)
Cash consideration paid for acquisition of the investment in Arthur Foodstores Limited	17	-	(423.6)
Loan to Arthur Foodstores Limited		-	(23.6)
Cash consideration paid for acquisition of Euro Garages (Jersey) Limited		(2,000.1)	-
Cash acquired on consolidation of Arthur Foodstores Limited		36.4	-
Cash acquired on consolidation of Euro Garages (Jersey) Limited		31.2	-
Deferred consideration paid relating to acquisition of Arthur Foodstores Limited		(4.4)	-
Partial repayment of loan by Arthur Foodstores Limited		18.0	-
Proceeds from sale-and-leaseback	10	136.2	-
Net cash flows from investing activities		(2,073.7)	(788.6)
Proceeds from draw down of external debt (net of fees)		1,304.3	195.0
Drawdown of revolving credit facility		-	150.0
Repayment of revolving credit facility		-	(150.0)
Revolving credit facility fees paid		(4.9)	(4.5)
External interest paid		(187.5)	(150.1)
(Decrease)/increase in intercompany payables		(0.2)	5.5
Interest payments relating to leases		(175.9)	(145.2)
Capital payments relating to leases		(148.5)	(131.9)
Drawdown of short-term liquidity facilities		10.0	-
Repayment of short-term liquidity facilities		(10.0)	-
Part repayment of loan balance owed to Arthur Foodstores Limited		(4.8)	-
Repayment of external debt		(499.8)	-
Proceeds from sale-and-leaseback	10	509.4	-
Increase in shareholder loan		401.0	-
Net cash flows from financing activities		1,193.1	(231.2)

Consolidated Statement of Cash Flows for the Year Ended 31 December 2023 (continued)

	Note	Year ended 31 December 2023 (£ m)	(As restated) Year ended 31 December 2022 (£ m)
Net increase in cash and cash equivalents		365.2	157.0
Cash and cash equivalents at beginning of the year		662.5	505.5
Cash and cash equivalents at end of the year	19	1,027.7	662.5

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2023

1 Accounting policies

General information
The Company is a private company limited by share capital, incorporated and domiciled in England under the Companies Act 2006 (registration number 12855336).

The address of its registered office is:
ASDA House
Great Wilson Street
Leeds
LS11 5AD
UK

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as "the Group").

These financial statements were authorised for issue by the Board on 26 April 2024.

Statement of compliance
The Group financial statements have been prepared and approved by directors in accordance with UK-adopted international accounting standards ("UK-adopted IFRS").

Summary of significant accounting policies and key accounting estimates
The principal accounting policies applied in the preparation of these financial statements are set out below. Other than the change adopted in the year to the Group's policy in how it applies guidance set out in IAS 36 - Impairment (see prior year adjustment narrative below), the accounting policies set out below have been applied consistently to all periods presented in these group financial statements.

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The Group financial statements are presented in Sterling and all values are rounded to the nearest hundreds of thousands of pounds (£0.1m) except where otherwise stated.

As described in the Strategic Report, the main activities of the Group are the retailing of food, food service, clothing, general merchandise products, fuel and services throughout the United Kingdom and online.

The key risks and opportunities arising from climate change are detailed in the Non-financial and Sustainability Information Statement in the Strategic Report. These have been informed by the Group’s risk identification process, as described in the Principal Risks and Uncertainties section. The risk assessment indicates that the potential exposure to climate risks in the near-term is very limited, with lower to moderate potential risks in the medium term. Management will continue to monitor climate-related risks, and any potential impact on the financial position of the Group, as they evolve in future periods, through its risk management processes. Further detail is provided in note 15 of how the expected transition to alternative fuel vehicles is expected to impact on the Group’s future cashflows, and how this has been taken into account in the impairment tests performed in relation to the Group’s long-lived assets.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2023 (continued)

1 Accounting policies (continued)

Going concern

The financial statements for the year ended 31 December 2023 have been prepared on the going concern basis as the Directors have determined that the Group has sufficient resources and liquidity facilities to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of the financial statements ('the going concern period').

In assessing the Group's ability to adopt the going concern basis, the Directors have reviewed the Group's annual corporate planning process which includes profitability, cashflow and liquidity forecasting and have based their projections for the going concern period on the FY24 plan and extrapolated forecasts for a period covering 12 months after approval of the financial statements.

The Group's Treasury function ensures that the Group continues to have sufficient funding by monitoring forecasts of the Group's cash flows and maintaining a sufficient level of standby facilities via the Revolving Credit Facility (RCF). Any capital repayments of long-term financing are forecast in the cash flow model used in the going concern scenarios. There are no significant maturities of the Group's long-term financing arrangements during the going concern period. The Directors continue to assess how to best manage these medium-term and long term maturities through maintaining adequate standby facilities or refinancing to ensure the Group maintains a long-term sustainable capital structure.

The Revolving Credit Facility remains undrawn at the year end and no utilisation is forecasted in the base case cash flow model for the going concern period. For more information on liquidity risk and maturity of financial liabilities see note 21.

In assessing the Group's ability to continue to adopt the going concern basis, the Directors have tested the ability of the Group to meet its liabilities as they fall due during the going concern period, in the event of various cash flow scenarios, including a severe but plausible downside scenario. This scenario applies severe but plausible economic downsides to our base case forecast, modelling the impact of a sales decline due to a significant shift in market share, change in consumer preferences, major business disruption or a reputational incident, alongside the risk of fuel margin decline, inflationary pressures and risk of not achieving forecast levels of cost transformation activities.

Mitigating actions that are in the control of management have been considered such as reducing non-essential capital expenditure and discretionary spend. These mitigating actions are not required to be implemented to ensure sufficient headroom in the severe but plausible downside scenario.

The Directors consider that a scenario with no mitigating actions is not realistic as all modelled mitigating actions are readily accessible.

The Group is subject to a maintenance covenant whereby the senior secured net leverage ratio cannot exceed 4.90:1. This covenant is required to be tested if, as at the quarter end, drawings on the RCF exceed 40% of the facility. The Directors have also considered whether the above scenarios trigger the requirement to test the Group's financial covenant and have confirmed that there would be no requirement to test financial covenants under the cashflow scenarios modelled during the going concern period.

The model has been reverse stress tested to determine the level of sales and margin decline that would erode remaining headroom and lead to the Group breaching the level of available facilities or covenants. The Directors consider that the likelihood of such a significant deterioration of cash flows or profitability is remote.

On the basis of these assessments, the Directors can conclude it is appropriate to continue to adopt the going concern basis in preparing the consolidated financial statements.

1 Accounting policies (continued)

Prior year adjustment - Impairment of Property, Plant and Equipment and Right of Use Assets

During the year, the Directors have undertaken a detailed review of the Group's application of IAS 36 - Impairment of Assets in relation to testing for impairment of long-lived assets. In particular, the Directors have reassessed the application of the IAS 36 with respect to the following stages of the impairment review:

• Identifying CGUs which exhibit impairment triggers;
• Calculating the carrying value of Cash Generating Units ("CGUs") which are tested for impairment; and,
• Calculating value-in-use ("VIU") as part of determining the recoverable amount of CGUs

Identifying Cash Generating Units (CGUs) which exhibit impairment triggers
In previous years, the Directors applied judgement when assessing which indicators to use in the identification of CGUs exhibiting impairment triggers. CGUs were considered to exhibit indicators of impairment where their rolling twelve-month cashflows were negative and where this was the case the Directors would assess the recoverable amount of the CGU. Following the review undertaken during the year, the Directors have adopted additional indicators, both qualitative and quantitative, to broaden the assessment of impairment triggers. These indicators now include the following:

a) Negative cashflows generated by CGUs in the preceding twelve months
b) Adverse cashflow performance against budget and year-on-year cashflow deterioration
c) Specific CGU qualitative factors such as environmental damage and store closure

In relation to a), the Directors have updated the method of allocating central costs when determining the net cashflows generated by a CGU. In previous years, cashflows generated by CGUs were calculated by allocating only those central costs which were deemed to be variable and incrementally generated by those CGUs - notably variable distribution costs incurred in delivering goods to stores. Following the review undertaken during the year, all relevant central costs incurred by the Group have been allocated to CGUs as part of the calculation of the cashflows generated by CGUs in the preceding twelve months. This has significantly increased the number of CGUs exhibiting quantitative impairment triggers compared to previous years.

Calculating the carrying value of CGUs which are tested for impairment
As detailed in the significant judgements and estimates section of note 1 to the accounts, the Directors consider that each store site constitutes a CGU for the purposes of impairment testing as each store site generates cashflows independently from other store sites. During the year, the Directors have reconsidered how the carrying value of central assets (for example, the carrying value of long-lived assets relating to the Group's distribution centres and home offices) is allocated to CGUs. In previous years, the carrying value of central assets was not allocated to CGUs but was tested for impairment by estimating the recoverable amount of the Group's long-lived asset base as a whole by reference to the aggregate cashflows and fair value of the business as a whole.

As part of the review undertaken during the year, the Directors have determined that central assets can be allocated to CGUs on a reasonable and consistent basis prior to testing those CGUs for impairment by reference to revenue by CGU.

Calculating value-in-use ("VIU") as part of determining the recoverable amount of CGUs
In addition, in tandem with the review of the allocation of central assets to CGUs, the Directors have also determined that central costs can also be allocated to CGUs on a reasonable and consistent basis when determining the cashflows which are generated by CGUs by reference to revenue by CGU.

1 Accounting policies (continued)

Previously, the forecast cashflows prepared by the Directors to calculate the VIU of CGUs which are tested for impairment included only those central costs which were by the Directors' judgement deemed variable and incrementally generated by those CGUs.

In addition, the Directors now also allocate working capital movements in determining the forecast cashflows used in VIU calculations.

Impact on Financial Statements of the change in how the Group applies the requirements of IAS 36
Given that the changes adopted during the year by the Group in relation to how IAS 36 is applied has increased the number of CGUs to be tested; reducing the cashflows generated by CGUs in the preceding twelve months; and of reducing the VIU of those CGUs for which impairment testing is performed, and after considering the fair value of each CGU, these changes have resulted in a material increase in the pre-tax cumulative impairment charge recorded by the Group at 31 December 2023 compared to the cumulative impairment charge that would have been recorded under the previous application of the accounting standard. As set out in note 5, the cumulative net impairment charge for the years ended 31 December 2022 and 31 December 2023 is £151.7m (post-tax £128.8m).

The Directors have considered the guidance set out in IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors and have also taken account of the stated objective of financial statements as set out in IAS 1 - Presentation of Financial Statements to provide information about the financial position and financial performance of an entity which is useful to a wide range of users. As the reassessment of the Group's application of IAS 36 has been applied in order to provide readers with more reliable information about the carrying value of the Group's long-lived assets at the balance sheet date, the Directors have applied judgement to conclude that the effect of the revised allocation of central costs to both the assessment of impairment triggers and the forecast cashflows used in the VIU calculations and the allocation of central assets to CGUs should be applied to the impairment review conducted at 31 December 2022.

The Directors have also carried out the same impairment review at 31 December 2021 and concluded that no changes in presentation are required as there were no significant changes in the property values in the period since the acquisition of the Asda in February 2021 to the year end.

This results in a pre-tax impairment charge for the year ended 31 December 2022 of £377.4m (post-tax £312.2m) of which £357.5m (pre-tax) was not previously recorded in the 2022 financial statements. As this amount results from a change in application of the requirements of IAS 36, the Directors have recorded a prior year adjustment as per the requirements of IAS 8.

Further detail regarding Group accounting policies in relation to impairment are provided in note 1 and further detail relating to impairment charges recorded during the current and prior year is provided in notes 12 and 13.

A summary of how the above prior year restatements have impacted the Consolidated Income Statement and Consolidated Balance Sheet for the year ended 31 December 2022 is set out below.

1 Accounting policies (continued)

Consolidated Income Statement for the Year Ended 31 December 2022	**Post non-underlying items as previously reported**	**Other income and operating costs reclassifications (see notes 4 and 5)**	**Restatement of impairment charges (see note 1)**	**Post non-underlying items - restated**
	£m	**£m**	**£m**	**£m**
Revenue	24,477.8	-	-	24,477.8
Other income	-	69.8	-	69.8
Operating costs	(24,261.0)	(69.8)	(357.5)	(24,688.3)
Operating profit/(loss)	**216.8**	**-**	**(357.5)**	**(140.7)**
Finance income	55.4	-	-	55.4
Finance costs	(395.5)	-	-	(395.5)
Reimbursement income	49.3	-	-	49.3
Loss on ordinary activities before tax	**(74.0)**	**-**	**(357.5)**	**(431.5)**
Income tax credit	12.4	-	65.2	77.6
Loss for the year	**(61.6)**	**-**	**(292.3)**	**(353.9)**

As the total restated impairment charge for 2022 of £377.4m (see note 5) is material and outside the normal course of business, the full 2022 impairment charge has been classified as non-underlying in line with the Group's policy on non-underlying items (see note 1 for further detail). Impairment charges included in the 2022 financial statements of £19.9m were not previously reported as non-underlying costs as they were not material. As a result, operating profit pre non-underlying items for the year ended 31 December 2022 has increased by £19.9m from a previously reported figure of £405.5m to £425.4m. Similarly, profit before tax pre non-underlying items has increased from £74.4m to £94.3m and profit for the year pre non-underlying items has increased from £91.2m to £111.1m.

1 Accounting policies (continued)

Consolidated Balance Sheet at 31 December 2022	As previously reported	Restatement of impairment charges	Restated
	£m	£m	£m
Assets			
Non-current assets			
Property, plant and equipment	9,228.1	(219.8)	9,008.3
Right-of-use assets	2,366.4	(137.7)	2,228.7
Intangible assets	1,618.9	-	1,618.9
Investments	461.8	-	461.8
Intercompany receivables	747.4	-	747.4
Other non-current financial assets	5.1	-	5.1
	14,427.7	**(357.5)**	**14,070.2**
Current assets			
Inventories	1,276.0	-	1,276.0
Trade, other receivables and derivative assets	252.6	-	252.6
Loans receivable	26.6	-	26.6
Intercompany receivables	4.0	-	4.0
Income tax asset	24.3	-	24.3
Cash and cash equivalents	662.5	-	662.5
	2,246.0	**-**	**2,246.0**
Total assets	**16,673.7**	**(357.5)**	**16,316.2**
Equity and liabilities			
Equity			
Share capital	0.1	-	0.1
Share premium	1,280.0	-	1,280.0
Cash flow hedge reserve	57.4	-	57.4
Cost of hedging reserve	0.6	-	0.6
Retained earnings	2,723.1	(292.3)	2,430.8
Equity attributable to owners of the Company	**4,061.2**	**(292.3)**	**3,768.9**
Non-current liabilities			
Deferred tax liabilities	975.4	(65.2)	910.2
Lease liabilities	2,945.0	-	2,945.0
Borrowings	4,120.2	-	4,120.2
Pension liability	8.1	-	8.1
Provisions	153.0	-	153.0
	8,201.7	(65.2)	8,136.5
Current liabilities			
Trade, other payables and derivative liabilities	4,008.4	-	4,008.4
Intercompany payables	6.8	-	6.8
Lease liabilities	115.7	-	115.7
Provisions	33.3	-	33.3
Borrowings	246.6	-	246.6
Current liabilities	4,410.8	-	4,410.8
Total liabilities	12,612.5	(65.2)	12,547.3
Total equity and liabilities	**16,673.7**	**(357.5)**	**16,316.2**

Changes in accounting policy

None of the standards, interpretations and amendments effective for the first time from 1 January 2023 have had a material impact on the financial statements.

1 Accounting policies (continued)

New standards, interpretations and amendments not yet effective

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

Judgements, estimates and assumptions

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

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

Judgements

Business combinations - acquisition date relating to the Group's purchase of the share capital of Arthur Foodstores Limited

On 30 October 2022, ASDA Stores Limited ("ASDA Stores") agreed to purchase 100% of the entire issued share capital of Arthur Foodstores Limited (‘Arthur Foodstores’). The acquisition will support and accelerate ASDA’s existing strategy to expand in the convenience market.

On 26 October 2022 the Competition and Markets Authority (“CMA”) served an initial enforcement order (“IEO”) under section 72 (2) of the Enterprise Act 2002 on Asda Stores Limited; Asda Group Limited; Mr Mohsin Issa; Mr Zuber Issa; TDR Capital LLP; TDR Capital III Portfolio No. 2 L.P.; TDR Capital III Investments (2019) L.P.; Co-operative Group Limited and Arthur Foodstores Limited. The IEO commenced on 30 October 2022.

The Directors have considered the criteria set out in IFRS 10 ‘Consolidated Financial Statements’ required to establish control over a subsidiary which are as follows and all of which need to be met to consolidate an investee as a subsidiary in the consolidated financial statements:
(a) power over the investee, for example through voting or other rights;
(b) exposure to, or rights to, variable returns from its involvement with the investee; and
(c) the ability to use its power over the investee to affect the amount of the Group's returns.

The IEO placed restrictions on the Group which included to hold separate the Arthur business. This restricted the Group’s ability to direct relevant activities including, for example, preventing the Group from managing employees of Arthur, setting retail prices for the grocery and fuel business, and placing other restrictions such as performing any integration activities, or exchanging of commercially sensitive information. To comply with the IEO restrictions, an independent management team was appointed to run the Arthur business and an Outsourcing and Interim Franchising Agreement (“OIFA”) with the previous owner was executed. Further, the Group sought certain derogations during the period to ensure that the Arthur business runs on a going concern basis as per the IEO.

The Group held 100% of share capital and was exposed to the variable returns during the IEO period, however, did not have power over Arthur Foodstores whilst the IEO remained in place.

As at 31 December 2022, as a result of restrictions as explained above, the Group concluded that it did not have control of Arthur Foodstores Limited at that date (from October 30 to December 31, 2022) and therefore the results of the business were not consolidated in the prior year consolidated financial statements.

1 Accounting policies (continued)

On 30 May 2023, when the CMA accepted the Group's undertaking which involved divesting of 13 petrol filling stations, restrictions imposed under the IEO were lifted by the CMA. Upon lifting of the IEO, the Group was able to direct relevant activities to affect the returns to be generated from Arthur Foodstores. From that date, the Directors have concluded that the Group has met the conditions set out in IFRS 10 to establish control over Arthur Foodstores and as such, the results of the Arthur business are consolidated within the Group financial statements in the current year from that date.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2023 (continued)

1 Accounting policies (continued)

Business combinations - acquisition date relating to the Group's purchase of the share capital of Euro Garages (Jersey) Limited

On 31 October 2023 Project America Bidco Limited, a wholly owned subsidiary of Bellis Finco PLC, completed its acquisition of Euro Garages (Jersey) Ltd ("EGJL"), comprising the majority of EG Group's UK business. The business is a fuel, grocery and foodservice retailer operating throughout the United Kingdom.

The business was acquired for consideration of £2.025bn on a debt-free basis, without any restrictions placed on the group by the CMA.

The Directors considered the criteria set out in IFRS 10 'Consolidated Financial Statements' required to establish control over a subsidiary which are as follows and all need to be met to consolidate an investee as a subsidiary for in the consolidated financial statements:
(a) Power over the investee, for example through voting or other rights;
(b) Exposure to, or rights to, variable returns from its involvement in the investee; and
(c) The ability to use its power over the investee to affect the amount of the Group's returns.

There were no restrictions on the Group's ability to direct the relevant activities of the EGJL business as at and subsequent to the 31 October 2023. Therefore, the results of EGJL have been consolidated since 31 October 2023 as this was the date that the Group gained control of the business.

IFRS 3R 'Business Combinations' requires the acquiror to determine whether there are any pre-existing arrangements between the acquiror and acquiree which were entered into before negotiations for the business combination began, or whether there are arrangements entered into during the negotiations for acquisition which do not form part of the business combination for the purposes of acquisition accounting. EGJL was a related party of the Group prior to entering into the negotiations for the business combination and there were already pre-existing trading relationships and real estate leases in place between the Group and the acquiree before negotiations for the business combination began. None of these arrangements included any settlement provisions. These arrangements are detailed in Note 30. The Directors have assessed the terms of these arrangements at the acquisition date and concluded that they were on current market terms. As such, the consideration and total identifiable net assets acquired have not been adjusted to reflect these pre-existing relationships.

At completion, the Group entered into a number of arrangements with EG Finco Limited, including a Transitional Services Agreement (TSA) and an integration support arrangement. These arrangements were all negotiated concurrently with the acquisition of Euro Garages (Jersey) Limited. Directors have concluded that these arrangements are not part of the business combination and therefore, have been accounted for separately from the business combination.

The Directors are required to identify the assets acquired and liabilities assumed as part of the business combination and perform fair value assessments of these assets and liabilities. Fair value measurements are estimates of the amounts for which assets or liabilities could be transferred at the acquisition date, based on the assumption that such transfers take place between participants in principal markets and, where applicable, taking highest and best use into account. These valuations therefore require the Directors to make estimates of the fair value of these assets and liabilities using appropriate valuation techniques, including acquired property, related tangible assets and identified intangible assets. The valuation methodologies adopted for the valuation of property, related tangible assets, intangible assets and short term leases are outlined below:

1 Accounting policies (continued)

Freehold and long-leasehold property and leasehold improvements
Freehold and long-leasehold properties have been valued using an income capitalisation approach to value the assets. These are trading properties and as such the assets have been valued as fully equipped operational entities. The rental values and property yields for the units vary according to the location and trading potential of the properties. The values have been arrived at by analysing historic trading data and considering comparable transactional evidence. In assessing the rental value of the properties, the Directors have had regard to the trading history of the properties, economic market conditions and arrived at a considered opinion of fair and maintainable trading performance. The fair values for the long leasehold properties exclude the lease liability but do reflect the unexpired lease term.

Leasehold improvements have been valued based on depreciated replacement cost.

Investment properties
Investment properties have been valued using an income capitalisation approach which reflects the unexpired lease term followed by a reversion with no contracted income at the valuation date. The reversionary value reflects the estimated rental values for the individual units as opposed contractual rent under the leases. The rental values and property yields for the units vary according to the location and trading potential of the properties. The properties have been valued individually rather than as a portfolio.

Investment properties assumed as part of the acquisition are freehold properties where the group has entered into lease arrangements with subsidiaries of EG Finco Limited. These lease arrangements are underwritten by a guarantee from EG Finco Limited.

Short term leases
Short term leases have been valued based on an income approach, whereby the differential between contractual rent and market rent is calculated up to the concluded lease expiry date and discounted back to calculate net present value lease favourability or unfavourability.

Intangible assets
The intangible asset relating to the LEON brand has been valued using the relief from royalty approach. The brand intangible has been assumed to have useful life of 20 years.

Accounting for leases as a lessor
The Group has entered into a number of lease arrangements with subsidiaries of EG Finco Limited at completion relating to properties owned or leased by the Group, including freehold properties which have been valued as investment properties.

The classification of these lease arrangements as either operating or finance leases has been assessed in accordance with IFRS 16. For the freehold properties which are investment properties, the value of the properties and minimum lease payments have been bifurcated between the land and buildings and assessed separately. The lease of the land has been classified as operating leases and the fair value of the land recognised as investment properties on acquisition. The lease of the buildings has been classified as finance leases and a finance lease receivable equivalent to the net investment in the lease has been recognised on acquisition.

Where the properties are leased by the group, the sub-lease has been assessed as to whether it should be classified as a finance lease or operating lease at acquisition by reference to the related right of use asset. Where the arrangements provide for the sub-lease to be back-to-back with the headlease such that the payments under the headlease are passed through to the lessee and the sub-lease is for the remaining term of the headlease, the leases have been classified as finance leases. Consequently, at acquisition, the right of use asset has been derecognised and a finance lease receivable recognised based on the net investment in the lease at acquisition.

1 Accounting policies (continued)

IFRS 16 lease term

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

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

In the event of changing circumstances or new information that may impact judgements taken, lease terms will be re-assessed on a lease by lease basis. Term reassessments are identified on an ad-hoc basis in light of new or updated information which would impact the assumptions originally recognised. Any change in lease term could result in a recalculation of the lease liability and a material adjustment to the associated right-of-use asset. There were two examples of term reassessment in 2023 which led to a £9.7m reduction in the right-of-use asset and £10.1m reduction in the lease liability (2022: nil).

1 Accounting policies (continued)

IFRS 16 discount rate

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

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

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

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

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

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

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

1 Accounting policies (continued)

Supply Chain Finance

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

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

The nature of the Group's liabilities under supply chain financing arrangements when considering these characteristics supports classification of amounts owed by the Group under its supply chain financing arrangements as trade payables. Accordingly, purchases of goods under supply chain financing arrangements are recognised within operating costs and settlement of liabilities under supply chain financing arrangements are classified as operating cashflows (see note 21 for amounts utilised under supply chain finance agreements).

Litigation

Judgement is made in determining whether any provision is required with regard to litigation. In accordance with IAS 37, no provision is made where a loss is not considered to be probable; disclosures of relevant matters are made in relation to contingent liabilities (see note 29).

Estimates

Estimates in the business combination

Forecasts of future performance of the acquired business are utilised in the calculation of the fair value of assets acquired. The group uses third party valuation specialists to calculate the fair value of intangibles and property, plant and equipment who use these forecasts as an input into the valuations.

For leasehold properties the fair value of right-of-use assets is determined using market rentals, determined with the support of property surveyors, these market rentals are discounted based on an IFRS 16 discount rate as that date of acquisition. As noted in the 'IFRS 16 discount rate' section above, there is inherent judgement included in the determination of the appropriate discount rate.

Impairment of non-financial assets

The Group tests intangibles (including goodwill) and other non-current assets for impairment as discussed in notes 12, 13 and 15. Forecast cashflows are used in the impairment models and estimates of long term growth rates are identified to extrapolate cashflows past the 3 year planning horizon.

1 Accounting policies (continued)

Estimation of store inventory losses
Adjustments to store inventory are recorded based on the results of physical inventory counts, which are performed throughout the year by an independent third party. Store inventory losses arising between the dates of physical counts and the balance sheet date are estimated and provided for as a percentage of sales arising between physical inventory counts. The provision is recorded on store-by-store basis and takes into account several factors - most notably the most recent physical inventory count result of the store analysed by trading department, and wider trends in store inventory loss experienced by the Group.

During the year, taking into account recent experience of trends in inventory loss observed by the Group and the wider retail industry, the Directors have updated the estimation basis for store inventory loss provisions at the Balance Sheet date from a three count average to being based on the most recent physical count. The provision for store inventory loss at 31 December 2023 is £140.2m (2022: £95.9m).

As a result of updating the estimation basis for store inventory loss as described above, the Group has recognised a charge to operating costs of £33.8m during the year. This is included in cost of goods sold in the table disclosed in note 5.

At 31 December 2023, an increase in the inventory loss provision amounting to 0.01% of sales since the most recent physical count of each store would increase the provision for inventory loss at 31 December 2023 by £1.0m.

Deferred gains and losses relating to sale-and-leaseback transaction
The Group estimates the gain or loss on sale to be recognised in the Income Statement based on the amount of the gain that relates to the rights transferred to the buyer-lessor. The remaining gain or loss is deferred as a reduction or increase to the right-of-use asset relating to the leaseback. This estimate requires determining the fair value of the properties transferred and calculating the lease liability of the leaseback. As noted in the 'IFRS 16 discount rate' section above, there is inherent judgement included in the determination of the appropriate discount rate. The fair value of properties transferred is determined using third party valuation specialists. Please see further detail on financial amounts in note 10.

Basis of consolidation
The consolidated financial statements combine the financial statements of Bellis Finco PLC and all its subsidiaries. Subsidiaries are entities over which Bellis Finco PLC has control. The Group has control over another entity when the Group has all of the following:
(a) power over the investee, for example through voting or other rights;
(b) exposure to, or rights to, variable returns from its involvement with the investee; and
(c) the ability to use its power over the investee to affect the amount of the Group's returns.

The results of subsidiaries acquired or disposed of during the year are included in the Income Statement from the date that control is established or up to the date at which control is lost, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

Intercompany transactions, balances and unrealised gains on transactions between the Company and its subsidiaries, which are related parties, are eliminated in full.

1 Accounting policies (continued)

Business combinations and goodwill

Business combinations are accounted for under IFRS 3 'Business Combinations' using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets is determined on a transaction-by-transaction basis. Acquisition costs incurred are expensed and included in operating costs. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the acquisition date fair value of the consideration transferred and any amount recognised for the non-controlling interest over the fair value of identifiable assets acquired and liabilities assumed. Identifiable intangible assets, meeting either the contractual-legal or separability criterion are recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition date fair value can be measured reliably.

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit, or group of units, to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and not be larger than an operating segment before aggregation.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

1 Accounting policies (continued)

Foreign currency
The presentational currency of the Group is Sterling. The primary functional currency of the parent and subsidiary companies is also Sterling.

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences are recognised in the Income Statement, except when hedge accounting is applied and differences are recognised in the cash flow hedge reserve.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate reflecting the cost of settling any liabilities incurred in purchasing them, taking into account gains and losses on foreign currency forward contracts where relevant.

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

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

Non-underlying items presented in the consolidated Income Statement
In order to provide stakeholders with additional insight into the year on year performance of the Group, and to align presentation more closely with how financial performance is monitored internally by the Executive Committee and the Board of Directors, items in the consolidated Income Statement are shown on a basis which excludes the impact of non-underlying items alongside the reported IFRS numbers.

Determining which items are to be presented as non-underlying items requires judgement and is based on an assessment of the size and nature of Income Statement amounts. This includes identifying material amounts which do not arise in the normal course of business, or are non-recurring, and are individually significant enough to impact a reader's assessment of the Group's financial performance.

Profit excluding non-underlying items is not an IFRS measure and as such is not directly comparable to other companies.

Further detail of amounts classified as non-underlying items in the current and prior year is provided in note 5.

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

1 Accounting policies (continued)

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

Costs are only capitalised once a project is in the development stage and approval for the project as a whole to be completed has been obtained. Costs incurred in the research stage are expensed as incurred. Integration costs between different software are capitalised where it can be demonstrated that these are separate intangible assets and control is evident.

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

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

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

Brand licences
Brand licences are capitalised when acquired as part of a business combination if they are separable or arise from contractual or other legal rights. A brand licence is initially measured at fair value using an appropriate valuation methodology (e.g. relief-from-royalty approach). Brand licences are not amortised where they have an indefinite useful life. Costs in relation to internally generated brands are not capitalised.

Customer relationships
Customer relationships are capitalised when acquired as part of a business combination if they are separable or arise from contractual or other legal rights. A customer relationship is initially measured at fair value using an appropriate valuation methodology (e.g. multi-period excess earnings method). Customer relationships are amortised over their useful economic life of 10 years.

1 Accounting policies (continued)

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

Software and development costs	4 years
Customer contractual relationships	10 years

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

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

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

All property, plant and equipment is reviewed for impairment at least annually in accordance with IAS 36 ‘Impairment of Assets’.

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

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

Freehold properties	3 - 50 years
Leasehold improvements	Shorter of estimated useful life or lease term
Plant, equipment, fixtures and fittings	Shorter of 3 - 50 years or the lease term

Investment properties
Property held to earn rental income is classified as investment property and is measured initially at cost, including transaction costs. Following initial recognition, investment properties are carried at cost less any accumulated depreciation and accumulated impairment losses.

There is no depreciation on freehold land. Investment property under construction is held at cost until such time as the property is available for use. Properties held under lease are not treated as investment property with the exception of leasehold improvements relating to the leased properties.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognised in the Income Statement in the period of de-recognition. Transfers are made to or from investment property only when there is a change in use.

1 Accounting policies (continued)

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each Balance Sheet date to determine whether there is any indication of impairment. Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. If any such indication exists, the asset's or CGU's recoverable amount is estimated. Indefinite lived intangibles (such as Goodwill) are tested annually for impairment regardless of whether any indicators for impairment exist.

An asset's or CGU's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time-value of money and the risks specific to the asset. Impairment losses on continuing operations are recognised in the Consolidated Income Statement in those expense categories consistent with the function of the impaired asset.

The Group considers each store as a separate CGU. A CGU may include a combination of grocery store, PFS and/or Foodservice outlet. The carrying value of each CGU includes property, plant and equipment, lease right-of-use-assets, allocation of central assets and allocation of working capital. Central assets including distribution warehouses and head office assets are allocated to CGUs using sales as the benchmark to estimate level of use of these assets.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and second, to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1 Accounting policies (continued)

Assets held for sale

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

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn.

Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

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

Provisions

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

1 Accounting policies (continued)

Leases

The Group as a lessee

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

Lease liability

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

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

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

Lease liabilities are presented as separate current and non-current amounts in the Consolidated Balance Sheet.

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

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

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

Discount rate

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

Otherwise, for the majority of leases the rate used is based on an estimated incremental borrowing rate. Further detail on the calculation of the incremental borrowing rate is detailed in the ‘Key judgements’ section of this note under the heading ‘IFRS 16 discount rate’.

1 Accounting policies (continued)

Right-of-use Assets

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

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

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

Non-lease components and variable rent expense

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

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

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

The Group as a lessor

The Group has entered into lease agreements as a lessor with respect to certain owned and leased property. Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. Rental income from operating leases, including the effect of lease incentives, is recognised on a straight-line basis over the lease term.

Where the Group is an intermediate lessor, the head lease and sub-lease are accounted for as two separate contracts and assessment of classification is made with reference to the right-of-use asset resulting from the head lease rather than the underlying asset. Where the sub-lease is classified as a finance lease, the lease right-of-use asset is derecognised and replaced by a finance lease receivable, reflecting the discounted future value of minimum rentals due.

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

1 Accounting policies (continued)

Financial instruments

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

Financial assets and liabilities

The Group classifies its financial assets and liabilities in the following categories: non-interest-bearing financial assets, interest bearing receivables, derivatives designated as hedging instruments, cash and cash equivalents, non-interest-bearing financial liabilities and interest-bearing borrowings. The Group's accounting policies relating to lease liabilities are described above.

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

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

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

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

Derivatives designated as hedging instruments

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

The fair value of cross-currency interest rate swaps is measured using a swap valuation model, this model incorporates various observable market inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies and interest rate curves.

The fair value of interest rate swaps is measured using a swap valuation model, this model incorporates various observable market inputs including the credit quality of counterparties and interest rate curves.

1 Accounting policies (continued)

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

All of the Group's hedges are considered to be cash flow hedges, hedging exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction. The Group uses forward currency contracts to hedge its exposure to foreign currency risk in forecast transactions and firm commitments (refer to note 21 for further details). In addition, the Group uses cross-currency interest rate swaps to hedge its exposure to foreign currency risk, floating interest rate risk relating to its foreign currency borrowings and interest rate swaps to hedge exposure to floating interest rate risk relating to a proportion of the Apollo facility, which is a variable rate sterling term loan.

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised in the Consolidated Income Statement. For hedges of foreign currency purchases the gain or loss is recognised within cost of inventories. For cross-currency interest rate swaps and interest rate swaps, the gain or loss is recognised in finance costs or finance income. Amounts recognised in other comprehensive income are transferred to the Consolidated Income Statement when the hedged transaction affects profit or loss.

If a forecast transaction is no longer expected to occur, the amounts previously recognised in other comprehensive income are transferred to the consolidated Income Statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or its designation as a hedge is revoked, amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs and are transferred to the Consolidated Income Statement.

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

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

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.

1 Accounting policies (continued)

Inventories
Inventories comprise goods for resale and goods not for resale and are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price (excluding VAT) less all costs which would need to be incurred to facilitate sale.

Goods for resale
Warehouse inventories are valued at weighted average cost. Inventories at retail outlets are valued using the Retail Inventory Method to estimate average cost. Expenditure incurred in acquiring the goods and bringing them to their existing location and condition (including applicable supplier income, import duties and freight costs as appropriate) are included in inventories.

Adjustments relating to inventory gains and losses in stores are recorded based on the results of physical inventory counts, which are performed throughout the year by an independent third party. Store inventory losses arising between the dates of physical counts and the balance sheet date are estimated and provided for based on recent count results.

Adjustments to the carrying value of inventory are recorded when the net realisable value of inventory is estimated to be lower than cost - for example, where items are slow moving or obsolete.

Goods not for resale
Goods not for resale primarily comprise fuel for own use and are valued at cost on a first in, first out basis.

Taxation
The tax expense comprises current and deferred tax. Tax is recognised in the Consolidated Income Statement, except to the extent that it relates to items recognised as other comprehensive income, in which case the tax is also recognised directly in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the period, using tax rates enacted or substantively enacted at the Balance Sheet date.

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes except:
- the initial recognition of goodwill or of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and,
- deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

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

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

1 Accounting policies (continued)

Trade and other receivables
Trade and other receivables are stated at their original invoiced value (discounted if material) as reduced by appropriate allowances for estimated irrecoverable amounts. Impaired debts are derecognised when they are assessed as uncollectible. Trade receivables are presented net where a legally enforceable right of set off exists.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances, credit and debit card receivables, short-term deposits and short-term highly liquid investments with an original maturity of three months or less. In the vast majority of cases, credit and debit card receivables are settled on the first working day after the Balance Sheet date.

Trade and other payables
Trade and other payables, other than intercompany loans, are non-interest bearing and are stated at their nominal value.

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

Defined contribution pension plans
Obligations for contributions to defined contribution pension plans are recognised as an operating expense in the consolidated Income Statement as incurred.

Defined benefit pension assets and liabilities
The Group's liabilities in respect of the Unapproved Unfunded Retirement Benefits Scheme ("UURBS") are 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. The calculation is performed by a qualified actuary using the projected unit credit method.

The expense relating to the unwind of the discount on the liabilities is recognised within finance costs.

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

Investments
In the Group's financial statements, investments in subsidiaries which are not consolidated 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.

Investments- unquoted equity
The fair value of unquoted equity investments is determined using a market (or "income") approach. Any change in the fair value of these investments is recognised in the Income Statement.

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

1 Accounting policies (continued)

Revenue recognition

Revenue from store and online sales

Revenue represents sales to customers through retail outlets and online, excluding value added tax. Revenue is recognised net of customer returns, ASDA Rewards pounds earned, intercompany transactions, colleague and Blue Light discounts, coupons and the free element of multi-save transactions. Revenue is recognised at the point at which the Group has satisfied its performance obligations under a contract with the customer and control of the goods has passed to the customer. For non-fuel and fuel revenue generated through customer sales in retail outlets and online, proceeds are recovered from the customer either immediately through the receipt of cash at the point of sale or on settlement of card transactions which occurs one working day after the point of sale in the vast majority of cases. For store sales, revenue is recognised at the point of sale as that is the point at which the Directors determine that control of the goods has passed to the customer. For online sales, revenue is recognised at the point of despatch of goods to the customer (for goods delivered directly from the Group's fulfilment centres to customers) or collection of goods by the customer (where customers utilise Click & Collect) as this is the point at which the Directors determine that control of the goods has passed to the customer.

Wholesale revenue - Grocery

The Group engages in wholesale of grocery items to third party wholesale partners who subsequently sell these goods to third party customers in their own retail outlets. As part of these arrangements, the Group receives goods from third party suppliers into its distribution network and assumes responsibility for delivery of goods to the retail outlets of the wholesale partners. The Group also assumes inventory risk for the period from supplier deliveries of goods into the Group's distribution network to the point at which delivery of goods to wholesale partners' retail sites is completed. Wholesale revenue is recognised when goods are delivered to the wholesale customers' retail outlets as this is the point at which the Group has satisfied its performance obligations under its contracts with the wholesale partners. Due to the nature of these arrangements, the Directors consider that the Group is acting as principal in the sale of goods to wholesale partners and as such, revenue is recognised on a gross basis, net of VAT, according to the consideration received by the Group from the wholesale partners.

Since the Group established control over its principal wholesale partner - Euro Garages Limited - on 31 October 2023, wholesale revenue recognised in revenue by a subsidiary of the Group (ASDA Stores Limited) in respect of sales to Euro Garages Limited has been eliminated on consolidation within the Group financial statements. As such, revenue included in the consolidated Income Statement since that date relating to goods delivered to Euro Garages Limited by ASDA Stores Limited represents sales to third party customers by Euro Garages Limited which is recognised in line with the policy on revenue from store sales as set out above.

1 Accounting policies (continued)

Wholesale revenue - Fuel

The Group acts as an agent on behalf of certain wholesale partners in the procurement of fuel for sale in the retail outlets of those partners. Under these arrangements, fuel is delivered directly to the retail outlets of the wholesale partners by third party suppliers. The Group settles liabilities to third party fuel suppliers in respect of these purchases and is reimbursed by wholesale partners for payments to the third-party suppliers, including a commission. The Group does not take physical ownership of fuel delivered to wholesale partners through these arrangements, has no direct involvement in the distribution of the fuel inventory between the third-party suppliers and the wholesale partners and assumes no inventory risk. Due to the nature of these arrangements, the Directors consider that the Group is acting as an agent and accordingly, revenue is recognised on a net basis according to the value of the commission received by the Group from the wholesale partners, excluding VAT. Commission revenue is recognised at the point that the Group determines that the third-party suppliers have delivered fuel to the sites of the wholesale partners as that it the point at which the Group recognises a liability to the third-party supplier for the fuel and simultaneously is the point at which the Group becomes entitled to reimbursement by the wholesale partner. As such, that is the point at which the directors determine that the Group has satisfied its contractual performance obligations to the wholesale partners.

Since the Group established control over its principal wholesale partner - Euro Garages Limited - on 31 October 2023, commission revenue recognised in revenue by a subsidiary of the Group (ASDA Stores Limited) in respect of fuel delivered directly by third-party suppliers to Euro Garages Limited sites has been eliminated on consolidation within the Group financial statements.

Interest and dividend income

Interest income is recognised in the Income Statement as it accrues, using the effective interest method.

Dividend income is recognised in the Company's profit on the date the Company’s right to receive payments is established.

Income from concessions and commissions

Income from concessions and commissions is based on the terms of the contract and is included within other income (see note 4 for further detail).

Supplier income

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

Supplier income is split into three classifications:

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

1 Accounting policies (continued)

Unbilled amounts of income to which the Group is contractually entitled are included in trade and other receivables. Billed amounts unpaid at the year-end are included in trade receivables or offset against corresponding trade payables where a contractual right of offset exists.

Supplier income recognised in the Income Statement and accounted for within trade receivables at the year-end for which estimation and judgement is required is £0.9m (2022: £1.2m). This represents the net amount of accrued income of £0.9m (2022: £1.2m) and deferred income of £nil (2022: £nil) on deals running across the year-end.

Share-based payments

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

During the prior year, management shares in the immediate parent company of the Group were issued to eligible members of senior management employed by the Group as part of a Management Incentive Plan ("MIP") in exchange for proceeds determined by an independent calculation of fair value at the issue date. Under the MIP, an intermediate holding company of the Group - Bellis Midco 2 Limited - has entered into an agreement with the holders of MIP management shares ("MIP scheme members") whereby MIP scheme members are granted a put option which, when exercised, enables them to sell their management shares to Bellis Midco 2 Limited or another non-Group entity for a value determined by an independent valuation determined at the exercise date.

MIP scheme members are required to be employed by the Group at the grant date of the MIP shares. If a member of the scheme ceases to be employed by the Group during the vesting period, Bellis Midco 2 Limited, a parent of Bellis Finco PLC, has the option to repurchase, or nominate another entity of the Group to repurchase, the shares during the 12 month period after the member's leave date. As such, the Directors have determined that the MIP scheme falls within the scope of IFRS 2. The difference between the IFRS 2 fair value and the fair value paid by MIP scheme members at the grant date is expensed over the vesting period (i.e. the period from date on which the MIP shares are granted to the estimated exercise date) as an expense in the consolidated Income Statement.

As neither MIP shares nor put options over MIP shares are issued by entities within the Group, and as there is no recharge agreement in place which requires any entity within the Group to settle liabilities in respect of MIP shares, changes in the fair value of MIP shares are accounted for on an equity-settled basis.

Reimbursement assets

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

Contingent liabilities

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

2 Business Combinations

Arthur Foodstores Limited

On 30 October 2022, ASDA Stores Limited ("ASDA Stores") agreed to purchase 100% of the entire issued share capital of Arthur Foodstores Limited ('Arthur Foodstores'). The acquisition will support and accelerate ASDA's existing strategy to expand in the convenience market.

An Initial Enforcement Order (IEO) was served by the Competition and Markets Authority (CMA) on 30 October 2022, which restricted the Group's ability to run or make changes to Arthur Foodstores. On 14 March 2023, the CMA issued its findings which stated that the acquisition may result in a substantial lessening of competition in certain areas. On 28 March 2023, undertakings were offered to the CMA which involved divesting of 13 petrol filling stations. On 30 May 2023 these undertakings were accepted by the CMA, and the IEO was lifted other than for the 13 petrol filling stations. Control is deemed to have transferred to ASDA Stores on 30 May 2023 and Arthur Foodstores has been consolidated from this date. See note 1 for further detail.

The consideration transferred was £457.4m. This comprises cash consideration of £228.6m which was settled by ASDA Stores on 28 October 2022, further consideration funded by issue of a bridge loan for net proceeds of £195.0m (£200.0m loan less £5.0m bank fees) which was drawn down on 28 October 2022, further cash consideration of £4.4m which was settled by ASDA Stores on 24 May 2023 and payables novated from the seller of £29.4m.

2 Business Combinations (continued)

The fair value of the net assets acquired on 30 May 2023 and the resulting goodwill is set out in the table below:

	Fair value of net assets acquired (£m)
Non-current assets	
Property, plant and equipment	137.1
Right-of-use assets	170.6
	307.7
Current assets	
Inventories	16.7
Trade and other receivables	33.9
Intercompany receivables	18.8
Cash and cash equivalents	36.4
Assets held for sale	39.0
	144.8
	-
Total assets	452.5
Non-current liabilities	
Lease liabilities	100.9
Provisions	9.0
Deferred tax liability	42.3
	152.2
Current liabilities	
Trade and other payables	101.0
Lease liabilities	11.1
Income tax liability	5.4
Liabilities directly associated with assets held for sale	15.9
	133.4
Total liabilities	285.6
Fair value of net assets acquired	166.9
Consideration paid	457.4
Goodwill	290.5
Goodwill allocated to assets held for sale	30.4
Of which disposed in the year	(6.5)
Remaining goodwill allocated to assets held for sale at 31 December 2023	23.9
Goodwill recognised within intangible assets at 31 December 2023	260.1

2 Business Combinations (continued)

Costs directly relating to completion of the business combinations in the period since legal completion in October 2022 of £6.7m were included in operating costs in the prior year consolidated Income Statement and £3.2m have been expensed in the current year. These acquisition-related costs include stamp duty and advisory fees in respect of legal, accounting, property valuation and other professional matters.

For the year ended 31 December 2023, Arthur Foodstores Limited contributed revenue of £587.8m and loss before tax of £5.9m to the Group's results. If the acquisition had occurred on 1 January 2023, management estimates that consolidated revenue for the year ended 31 December 2023 would have been £26,012.7m, and the consolidated profit before tax for the twelve-month period would have been £191.2m. In determining these amounts, management has assumed that the fair value adjustments, that arose on the date of acquisition would have been materially the same if the acquisition had occurred on 1 January 2023.

2 Business Combinations (continued)

Business combinations - acquisition date relating to the Group's purchase of the share capital of Euro Garages (Jersey) Limited

On 31 October 2023, Project America Bidco Limited, a wholly-owned subsidiary of Bellis Finco PLC, acquired 100% of the entire issued share capital of Euro Garages (Jersey) Limited from EG Finco Limited, a related party of the Group for consideration of £2.025bn on a debt-free basis. The acquisition will support and accelerate ASDA's existing strategy to expand in the convenience market. Euro Garages (Jersey) Limited and its subsidiaries are consolidated within the Group from this date.

The cash consideration transferred as of 31 December 2023 of £2,000.1m and professional and bank fees transferred of £109m were funded through a combination of a £401m subordinated shareholder loan, a £684m private placement, £646m of proceeds from a sale and leaseback transaction, a £290m bridge loan and £88m of cash on balance sheet. The bridge loan was refinanced via a further ground rent property transaction which completed on 12 December 2023 for proceeds of £400m. After repaying the bridge loan, the remaining proceeds from the ground rent transaction were retained on the balance sheet and in part used to settle transaction fees. Estimated deferred consideration of £25.3m has been included in trade and other payables at 31 December 2023. Settlement of deferred consideration is expected to be funded by cash on balance sheet.

At completion, the Group entered into a number of arrangements with EG Finco Limited, including a Transitional Services Agreement (TSA), an integration support arrangement and lease agreements for properties owned or leased by the Group from which subsidiaries of EG Finco Limited continue to operate franchise foodservice and electric vehicle charging businesses post-acquisition. These arrangements were all negotiated concurrently with the acquisition of Euro Garages (Jersey) Limited, are interdependent with the terms of the acquisition, and were negotiated as a single transaction. The Directors have assessed that purchase price agreed with the seller of £2.07bn and the terms of the transaction as being on an arm’s length basis. The purchase price of £2.07bn is prior to adjustments for working capital and net debt as outlined in the sale and purchase agreement.

Under the TSA, a subsidiary of EG Finco Limited will provide Euro Garages (Jersey) Limited and its subsidiaries with IT and other centralised services for an initial term of two years. During this initial term, these services are provided at £nil cost to the Group, subject to certain limited exceptions. In addition, EG Finco Limited has also agreed for a period of two years to reimburse the Group for certain centralised costs which transferred as part of the transaction perimeter and are required to support the acquired business. This arrangement is not considered to be part of the business combination and therefore, £27.3m of the consideration transferred has been allocated to the TSA arrangement based on the fair value of the services provided subsidiaries of EG Finco Limited and the estimated costs to be recharged by the Group to EG Finco Limited. This has been recognised within prepayments and will be recognised within operating expenses in the Consolidated Income Statement over the initial two-year term of the TSA. The carrying value of the prepayment at 31 December 2023 is £25.0m.

Under the integration support arrangement, the Group and EG Finco Limited entered into an agreement whereby EG Finco Limited would support the costs associated with the integration of the acquisition by the Group for a fixed amount of £11.3m over two years with the payments made quarterly. The full amount has been recorded as an adjustment to the purchase consideration and recognised within Other Debtors. The carrying amount of the receivable at 31 December 2023 is £11.3m.

The Group has entered into a number of lease arrangements with subsidiaries of EG Finco Limited at completion relating to properties owned or leased by the Group. A number of these lease arrangements have been classified as finance leases and a finance lease receivable has been recognised on acquisition with respect to these leases. The carrying value of the finance lease receivable at 31 December 2023 is disclosed in note 13. For leases which are classified as operating leases, the rentals recognised through the income statement in the year and the amounts outstanding at 31 December 2023 are disclosed in note 30.

2 Business Combinations (continued)

	Provisional fair value of net assets acquired (£m)
Non-current assets	
Property, plant and equipment	1,197.8
Investment properties	39.1
Right-of-use assets	131.3
Intangible assets	30.0
Finance lease receivable	131.8
	1,530.0
Current assets	
Inventories	46.3
Trade and other receivables	49.4
Finance lease receivable	6.1
Cash and cash equivalents	31.2
	133.0
Total assets	1,663.0
Non-current liabilities	
Lease liabilities	114.3
Provisions	16.3
Deferred tax liability	237.4
	368.0
Current liabilities	
Trade and other payables	220.1
Income tax liability	2.1
Lease liabilities	8.1
	230.3
Total liabilities	598.3
Provisional Fair value of net assets acquired	**1,064.7**
Final purchase consideration	**2,025.4**
Fair value of TSA	27.3
Fair value of integration support arrangement	11.3
Revised consideration	**1,986.8**
Goodwill	**922.1**

2 Business Combinations (continued)

The fair value of acquired receivables is materially equal to the contractual amounts receivable.

The fair value adjustments to the assets and liabilities assumed are final. The total consideration remains provisional at the balance date and is management's best estimate at this time. Consideration will be finalised once completion accounts are agreed with the seller. Any adjustments to consideration arising out the agreement of the completion accounts will be taken to goodwill.

Costs directly relating to completion of the business combination of £53.2m have been included in operating costs in the Consolidated Income Statement in the current year.

For the year-ended 31 December 2023, Euro Garages (Jersey) Limited contributed revenue of £410.9m and profit before tax of £17.7m to the Group's results. If the acquisition had occurred on 1 January 2023, management estimates that consolidated revenue for the year-ended 31 December 2023 would have been £27,551.0m and the consolidated profit before tax would have been £251.4m. In determining these amounts, management has assumed that the fair value adjustments which arose on the date of acquisition would have been materially the same if the acquisition had occurred on 1 January 2023.

3 Segment reporting

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

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

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

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

	Year ended 31 December 2023 £m	**Year ended 31 December 2022 £m**
Sale of goods	21,898.4	20,452.3
Fuel	3,718.5	4,025.5
	25,616.9	24,477.8

4 Other income

The analysis of the Group's other income for the year is as follows:

	Year ended 31 December 2023 £m	Year ended 31 December 2022 (restated) £m
Concession and commission income	57.2	57.5
Rental income	13.7	12.3
Total other income	70.9	69.8

Concession and commission income mainly relates to commission income earned through concessions and in-store variable rental income.

Rental income relates to income earned by the Group as a lessor from sites located in the proximity of certain stores. In the prior year, £12.3m of rental income which was previously netted against operating costs has been included in other income.

Other income disclosed in note 4 of the 2022 financial statements was £42.5m. Following a detailed review, amounts totalling £15.0m which were previously netted against operating costs have been included in the amount in the table above of £57.5m to better reflect their nature.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2023 (continued)

5 Operating costs

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

	Note	Year ended 31 December 2023 £ m	Year ended 31 December 2022 - restated £ m
Cost of goods sold		(19,405.5)	(18,711.7)
Transaction costs relating to acquisition of Euro Garages (Jersey) Limited		(53.2)	-
Project Future costs		(240.5)	(188.7)
Other operating costs (i)		(1,910.8)	(1,913.1)
Employment costs	7	(3,049.7)	(2,816.6)
Amortisation of intangible assets	15	(82.3)	(101.0)
Depreciation on property, plant and equipment	12	(411.1)	(405.8)
Depreciation on right of use assets	13	(192.2)	(172.2)
Loss on sale of property,plant and equipment		(0.5)	(3.4)
Gain on disposal of right-of-use assets		0.9	1.6
Impairment reversal/(charge) relating to property, plant and equipment	12	148.9	(232.8)
Impairment reversal/(charge) relating to right-of-use assets	13	76.8	(144.6)
Total operating costs		(25,119.2)	(24,688.3)

The Operating costs note included within the financial statements for the year ended 31 December 2022 included elements of other income, mainly related to concessions, commission and rental income. These elements have now been included within Other income to better reflect the nature of these items (note 4) and the prior year Income Statement presentation has been restated as a result.

As detailed in note 1, the Group has updated its accounting policy in respect of application of IAS 36 - Impairment of Assets. Accordingly, impairment charges for the prior year have been restated in the table above.

(i) Other operating costs include various expenses associated with operating the business. These include but are not limited to business rates, property maintenance, energy and utility costs, marketing expenses and insurance.

Non-underlying items

As detailed in note 1, certain amounts have been presented in the consolidated Income Statement as non-underlying in the current year and prior year by virtue of their size and nature. The consolidated Income Statement impact of these items is as follows.

5 Operating costs (continued)

	Note	Year ended 31 December 2023 £m Pre-tax increase/(decrease) in profit	(Increase)/decrease in tax expense	Post-tax increase/(decrease) in profit
Non-underlying items included in operating costs:				
Transaction costs relating to acquisition of Euro Garages (Jersey) Limited (i)		(53.2)	-	(53.2)
Project Future costs (ii)		(240.5)	56.5	(184.0)
Impairment reversal (see notes 12 and 13)		225.7	(42.3)	183.4
Total		(68.0)	14.2	(53.8)

	Note	Year ended 31 December 2022 £m Pre-tax increase/(decrease) in profit	(Increase)/decrease in tax expense	Post-tax increase/(decrease) in profit
Non-underlying items included in operating costs:				
Project Future costs (ii)		(188.7)	35.9	(152.8)
Impairment charge (see notes 12 and 13)		(377.4)	65.2	(312.2)
		(566.1)	101.1	(465.0)
Non-underlying items included in finance costs:				
Reimbursed settlement relating to historic tax reliefs (iii)	*11*	(9.0)	9.0	-
Non-underlying items included in other income:				
Reimbursed settlement relating to historic tax reliefs (iii)	*11*	49.3	(49.3)	-
		49.3	(49.3)	-
Total		(525.8)	60.8	(465.0)

5 Operating costs (continued)

(i) Relates to third-party advisory fees incurred during the year in respect of the acquisition of Euro Garages (Jersey) Limited.

(ii) Since the acquisition of ASDA Group Limited in the period ended 31 December 2021, the Group has embarked on a programme, Project Future, to separate its IT systems from its previous owner Walmart. A Transitional Services Agreement ("TSA") is in place with Walmart. The separation programme will transition the Group to a standalone, leading edge IT infrastructure which will enable it to improve operating efficiencies, make better use of data, improve experience for customers and colleagues, and enable the business to be more agile in responding to customers' needs.

Amounts classified as non-underlying during the current year and prior year relate to costs incurred outside the normal course of business in respect of research spend, design and build costs relating to IT infrastructure and SAAS solutions which cannot be capitalised (see note 1 for further detail), consultancy costs incurred in relation to the management of the programme, run costs relating to standalone systems where equivalent legacy Walmart systems are still in use by the business, and costs of interim software solutions which do not meet the criteria of the Group's policy to capitalise (see note 1 for further detail).

Where legacy Walmart systems are still in use, the costs of these are included in charges relating to the TSA. The total IT spend included in underlying operating costs reflects management's expectation of the level of annual spend required to operate the business on standalone IT systems in the normal course of business which includes the charges incurred under the TSA and a proportion of Project Future costs.

(iii) Reimbursed settlement relating to historic tax reliefs: As detailed in note 11, the Group's tax and interest liabilities to the tax authorities arising out of settlement of this matter were settled in full in the prior year by a fellow wholly-owned subsidiary of the ultimate parent of ASDA Holdings UK Limited ("AHUKL" - the former immediate parent of ASDA Group Limited). This satisfied AHUKL's obligations to the Group arising out of this matter as set out in the sale and purchase agreement relating to the Group's acquisition of ASDA and as such, there were no cashflow impacts on the Group during the prior year or current year.

5 Operating costs (continued)

Impacts of the above items on the consolidated pre-tax cash flows of the Group are as follows:

	Year ended 31 December 2023 £m		
	Increase/(decrease) in cash flow from operating activities	Increase/(decrease) in cash flow from investing activities	Total
Project Future costs (ii)	(241.6)	(34.4)	(276.0)
Transaction costs relating to acquisition of Euro Garages (Jersey) Limited (iii)	(16.4)	-	(16.4)
	(258.0)	(34.4)	(292.4)

	Year ended 31 December 2022 £m		
	Increase/(decrease) in cash flow from operating activities	Increase/(decrease) in cash flow from investing activities	Total
Transaction costs relating to acquisition of ASDA Group Limited (i)	(8.9)	-	(8.9)
Project Future costs (ii)	(161.2)	(49.3)	(210.5)
	(170.1)	(49.3)	(219.4)

(i) Cash flows in relation to transaction costs relating to the acquisition of ASDA Group Limited are as per the amounts expensed in the consolidated Income Statement adjusted for accruals which were outstanding at 31 December 2022.

(ii) Operating cash flows in relation to Project Future costs are as per the amounts expensed in the consolidated Income Statement adjusted for related prepayments and accruals which were outstanding at 31 December 2023 and 31 December 2022. Investing cash flows relate to Project Future-related amounts incurred in the current and prior year which have been capitalised as intangible assets.

(iii) Cash flows in relation to transaction costs relating to the acquisition of Euro Garages (Jersey) Limited are as per the amounts expensed in the consolidated Income Statement adjusted for accruals which were outstanding at 31 December 2023.

6 Auditors' remuneration

	Year ended 31 December 2023 £ m	Year ended 31 December 2022 £ m
Within operating costs:		
Fees payable to Company's auditor for the audit of parent company and consolidated financial statements	9.5	1.4
Total fees to auditor	9.5	1.4

7 Employee numbers and costs

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

	Year ended 31 December 2023 No.	Year ended 31 December 2022 No.
Total		
Retail & Distribution	135,397	140,251
Home offices	5,661	4,993
	141,058	145,244

Employee numbers include average employee numbers for both Arthur Foodstores Limited and Euro Garages (Jersey) Limited. These are included in the Group average for 7 months and 2 months respectively, reflecting when control was deemed to have transferred to the Group.

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

	Note	Year ended 31 December 2023 £ m	Year ended 31 December 2022 £ m
Wages and salaries	23	2,737.4	2,526.4
Share-based payment expenses	23	0.9	0.7
Social security costs	23	180.4	167.0
Other pension costs	23	131.0	122.5
		3,049.7	2,816.6

8 Directors' remuneration

The Directors received remuneration of £51,964 (2022: £48,571) in respect of their services to the Group in the year. This cost was borne by a wholly-owned subsidiary of Bellis Finco PLC. The highest paid Director received £51,964 (2022: £48,571) during the year.

9 Finance income and costs

	Year ended 31 December 2023 £ m	Year ended 31 December 2022 £ m
Finance income		
Bank interest receivable	26.7	6.1
Interest receivable on amounts owed from fellow subsidiary of the ultimate parent	25.8	49.3
Total finance income	52.5	55.4
Finance costs		
External interest payable	251.7	191.1
Interest on lease liabilities	176.8	145.6
Net interest cost on pension scheme	0.4	0.3
Asset retirement obligations discount unwind	3.8	2.1
Interest payable on amounts owed to fellow subsidiary of the ultimate parent	-	56.4
Interest payable on shareholder loan	8.1	-
Total finance costs	440.8	395.5

External interest payable includes interest on external debt issued by the Group during the current year and previous years, amortisation of fees incurred in relation to external debt and commitment fees and interest relating to the Revolving Credit Facility entered into during the period ended 31 December 2021 which was increased during the current year.

10 Sale-and-Leaseback transaction

On 10 August 2023, the Group entered into a sale-and-leaseback of 22 of its properties. Further sale-and-leasebacks for three properties were completed on 30 August 2023, 13 September 2023 and 15 November 2023 respectively. The properties were sold at fair value to a third party.

In accordance with IFRS 15, it was determined that the transfer of the properties to an independent third party for proceeds of £645.6m is considered a sale. In the period ended 31 December 2023, assets relating to the properties with a Net Book Value of £625.7m were sold and the Group has recognised a gain on sale of £3.3m representing the amount of the gain that relates to the rights transferred to the buyer-lessor. The remaining gain of £16.6m is deferred as a reduction to the right-of-use assets relating to the leaseback.

Similarly, the cash proceeds arising from the sale-and-leaseback transaction have been separately classified as investing (£136.2m) to reflect the relative proportion of the proceeds relating to the transfer of rights to the buyer-lessor with the remaining proceeds classified as financing (£509.4m).

These properties were leased back to the Group on terms of 35 years (including the assumption that leases will be extended by 10 years). The Group continues to lease these properties from entities controlled by the Buyer and has adjusted the right of use assets and lease liabilities to reflect amended terms of the leases on transfer to the third-party entities at that date.

The leasebacks of the properties, taking into account the deferral of a proportion of the disposal gain into the right-of-use asset and subsequent modification to the lease term, resulted in an increase in right-of-use assets of £492.8m and lease liabilities of £509.4m.

11 Taxation

Tax charged/(credited) in the Income Statement

	Year ended 31 December 2023 £ m	(As restated) Year ended 31 December 2022 £ m
Current taxation		
UK corporation tax	25.4	-
UK corporation tax relating to previous years	0.4	51.3
Current tax charge for the year	25.8	51.3
Total current income tax	25.8	51.3
Deferred taxation		
Arising from origination and reversal of temporary differences	(26.0)	(91.1)
Arising from changes in tax rates and laws	0.7	(32.5)
Adjustments in respect of prior period	(14.7)	(5.3)
Total deferred taxation	(40.0)	(128.9)
Tax credit in the Income Statement	(14.2)	(77.6)

11 Taxation (continued)

A reconciliation of the total tax charge compared to the standard rate of corporation tax in the UK of 23.5% (2022: 19%) applied to the profit on ordinary activities before tax is as follows:

	Year ended 31 December 2023 £ m	(As restated) Year ended 31 December 2022 £ m
Profit/(loss) before tax	180.3	(431.5)
Corporation tax at standard rate	42.4	(82.0)
Adjustment in respect of previous years	(14.0)	46.0
Enhanced capital allowance deduction	(0.4)	(8.4)
Change in tax rate	0.7	(32.5)
Expenses not deductible	34.2	6.5
Group relief not paid for	(15.6)	(13.3)
Non-taxable reimbursement income (a)	-	(9.4)
Depreciation and other amounts in relation to non-qualifying fixed assets	2.5	(4.9)
Movement in unrecognised deferred tax asset on land (including the impact of the sale and leaseback transaction and impairments)	(64.0)	20.4
Total tax credit	(14.2)	(77.6)

The standard rate of corporation tax in the United Kingdom for the year ended 31 December 2023 is 23.52% (2022: 19%). On 1 April 2023, the standard rate of corporation tax increased to 25%. The deferred tax liability is calculated using the tax rate at which it is expected to unwind of 25%.

(a) The prior year current tax expense in 2022 includes £40.3m relating to corporation tax reliefs claimed in the years ending 31 December 2011 to 31 December 2017. This tax together with interest of £9.0m was reimbursed by ASDA Holdings UK Limited ("AHUKL") – a wholly-owned subsidiary of Walmart Inc. - under an indemnity it provided to the Group when AHUKL sold its interest in ASDA Group Limited on 16 February 2021. The total reimbursement income of £49.3m was included as reimbursement income in the income statement. This is non-taxable income for the Group. AHUKL settled this tax and interest directly on the Group's behalf and as such, no amounts are recorded in the Consolidated Statement of Cash Flows in respect of the settlement or the reimbursement.

In May 2023, amendments were made to IAS 12 for income taxes. These amendments provide companies with a temporary mandatory relief from deferred tax accounting for the impact of the top-up tax, and introduce disclosure requirements in relation to Pillar Two.

Pillar Two legislation has been enacted or substantively enacted in certain jurisdictions in which the Group operates. The legislation is effective for the Group's financial year beginning 1 January 2024. The Group has performed an assessment of the potential exposure to Pillar Two income taxes.

This assessment is based on the most recent information available regarding the financial performance of the constituent entities in the Group. Based on the assessment performed, the transitional safe harbour relief applies. Therefore, the Group does not expect an exposure to Pillar Two top-up taxes.

11 Taxation (continued)

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

	Year ended 31 December 2023 £ m	Year ended 31 December 2022 £ m
Deferred tax credit/(charge) on pensions	0.1	(1.5)
Deferred tax credit on cash flow hedges	5.2	1.5
Deferred tax credit/(charge) on cross currency swaps	6.3	(4.8)
Deferred tax credit on interest rate swaps	1.6	-
Total tax on items credited/(charged) to Consolidated Statement of Comprehensive Income	13.2	(4.8)

Deferred tax

Deferred tax assets and liabilities are attributable to the following:

2023	Asset £ m	Liability £ m	Net deferred tax £ m
Property, plant and equipment	-	(875.1)	(875.1)
Employee benefits	4.7	-	4.7
Provisions	17.9	-	17.9
Capital losses	3.1	-	3.1
Cash flow hedges	4.7	-	4.7
Intangible assets	-	(378.3)	(378.3)
Right-of-use assets	182.5	-	182.5
Lease liabilities	-	(214.8)	(214.8)
Interest	82.9	-	82.9
Trading losses	69.3	-	69.3
Other	-	(33.6)	(33.6)
	365.1	(1,501.8)	(1,136.7)

2022 (As restated)	Asset £ m	Liability £ m	Net deferred tax £ m
Property, plant and equipment	-	(728.8)	(728.8)
Employee benefits	4.4	-	4.4
Provisions	15.7	-	15.7
Capital losses	6.1	-	6.1
Cash flow hedges	-	(8.5)	(8.5)
Intangible assets	-	(374.4)	(374.4)
Right-of-use assets	201.2	-	201.2
Lease liabilities	-	(192.9)	(192.9)
Interest	68.0	-	68.0
Trading losses	99.0	-	99.0
Other	-	-	-
	394.4	(1,304.6)	(910.2)

11 Taxation (continued)

The opening deferred tax liability includes the restatement for impairments, resulting in a reduction in the opening deferred tax liability of £65.2m. In addition, following amendments to IAS12, deferred tax liabilities in relation to right of use assets and deferred tax assets in relation to lease liabilities have been separately disclosed. The deferred tax asset in relation to dilapidation provisions of £9.1m (2022: £7.1m) has been reclassified from property, plant and equipment to provisions within the deferred tax disclosure note.

A net deferred tax liability of £42.3m arose on the acquisition of Arthur Foodstores Limited, and a net deferred tax liability of £237.4m arose on the acquisition of Euro Garages (Jersey) Limited and subsidiaries.

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered, with the exception of certain capital losses.

A deferred tax asset of £69.3m (2022: £99.0m) has been recognised in relation to trading losses carried forward of £277.0m (2022 restated: £400.0m). A deferred tax asset of £82.9m (2022: £68.0m) is also recognised in relation to disallowed interest carried forward under the UK Corporate Interest Restriction of £332.0m (2022: £272.0m). The utilisation of these assets is dependent upon future taxable profits, which we expect to arise through future reversals of existing taxable temporary differences. These attributes can be carried forward indefinitely.

Capital losses carried forward at 31 December 2023 are £66.7m, for which a deferred tax asset of £3.1m is recognised. No deferred tax asset is recognised in respect of £54.7m of these losses. As at 31 December 2022, capital losses were £68.6m, for which a deferred tax asset of £6.1m was recognised. No deferred tax asset was recognised in respect of £44.5m of these losses. Capital losses are not recognised where, at the balance sheet date, it is not considered probable that the losses will be used.

The Group has not recognised a deferred tax asset in relation to unrealised capital losses on land. The unrealised loss on land is £1,606.4m (2022: £1,775.9m). The movement in the year is due to the reversal of land impairments, the sale-and-leaseback disposals (see note 10 for further detail on the sale-and-leaseback transaction), partially offset by the acquisition of Arthur Foodstores Limited. A deferred tax asset is not recognised as it is not considered probable that the losses could be used once realised.

11 Taxation (continued)

Deferred tax movement during the year:

	At 1 January 2023 £ m	Recognised in income £ m	Recognised in other comprehensive income £ m	On acquisitions of Euro Garages (Jersey) Limited and Arthur Foodstores Limited £ m	At 31 December 2023 £ m
Property, plant and equipment	(728.8)	65.1	-	(211.4)	(875.1)
Employee benefits	4.4	0.2	0.1	-	4.7
Provisions	15.7	2.2	-	-	17.9
Capital losses	6.1	(3.0)	-	-	3.1
Cash flow hedges	(8.5)	0.1	13.1	-	4.7
Intangible assets	(374.4)	3.1	-	(7.0)	(378.3)
Right-of-use assets	201.2	7.0	-	(25.7)	182.5
Lease liabilities	(192.9)	(21.2)	-	(0.7)	(214.8)
Interest	68.0	14.9	-	-	82.9
Trading losses	99.0	(29.7)	-	-	69.3
Other	-	1.3	-	(34.9)	(33.6)
Net tax liabilities	(910.2)	40.0	13.2	(279.7)	(1,136.7)

Deferred tax movement during the prior year (as restated):

	At 1 January 2022 £ m	Recognised in income £ m	Recognised in other comprehensive income £ m	At 31 December 2022 £ m
Property, plant and equipment	(767.1)	38.3	-	(728.8)
Employee benefits	38.6	(32.7)	(1.5)	4.4
Provisions	7.1	8.6	-	15.7
Capital losses	1.8	4.3	-	6.1
Cash flow hedges	(5.3)	0.1	(3.3)	(8.5)
Intangible assets	(374.9)	0.5	-	(374.4)
Right-of-use assets	234.6	(33.4)	-	201.2
Lease liabilities	(169.1)	(23.8)	-	(192.9)
Interest	-	68.0	-	68.0
Trading losses	-	99.0	-	99.0
Other	-	-	-	-
Net tax liabilities	(1,034.3)	128.9	(4.8)	(910.2)

12 Property, plant and equipment

	Freehold properties £ m	Leasehold improvements £ m	Plant, equipment, fixtures & fittings £ m	Assets under construction £ m	Total £ m
Cost					
At 1 January 2022	7,970.1	896.1	959.8	31.0	9,857.0
Additions	62.8	-	53.3	141.3	257.4
Disposals	(33.8)	(88.9)	(14.0)	(2.0)	(138.7)
Transfers	(14.1)	11.5	2.6	-	-
Transfers from assets under construction	32.0	-	95.9	(127.9)	-
At 31 December 2022	8,017.0	818.7	1,097.6	42.4	9,975.7
At 1 January 2023	8,017.0	818.7	1,097.6	42.4	9,975.7
On acquisition of Arthur Foodstores Limited	75.8	24.9	31.6	4.8	137.1
On acquisition of Euro Garages (Jersey) Limited	1,068.0	22.2	103.7	3.9	1,197.8
Additions	36.1	38.4	115.8	98.6	288.9
Disposals	(632.3)	(1.8)	(31.5)	-	(665.6)
Transfers	(3.2)	-	3.4	(0.2)	-
Transfers from assets under construction	32.0	-	62.2	(94.2)	-
Reclassification to assets held for sale	(40.3)	(6.9)	(1.2)	-	(48.4)
Reclassification from intangible assets	-	-	165.5	-	165.5
At 31 December 2023	8,553.1	895.5	1,547.1	55.3	11,051.0
Accumulated depreciation and impairment					
At 1 January 2022	149.9	77.4	162.1	-	389.4
Depreciation charge for year	176.7	45.1	184.0	-	405.8
Disposals	(8.8)	(37.8)	(14.0)	-	(60.6)
Impairment charges	155.6	55.6	21.6	-	232.8
At 31 December 2022 - restated	473.4	140.3	353.7	-	967.4
At 1 January 2023	473.4	140.3	353.7	-	967.4
Depreciation charge for the year	169.2	43.2	198.7	-	411.1
Disposals	(19.0)	(0.5)	(19.9)	-	(39.4)
Impairment reversals	(103.8)	(31.4)	(13.7)	-	(148.9)
Transfers	(0.4)	-	0.4	-	-
Reclassification to assets held for sale	(20.3)	(6.9)	(0.7)	-	(27.9)
Reclassification from intangible assets	-	-	126.3	-	126.3
At 31 December 2023	499.1	144.7	644.8	-	1,288.6
Net book value					
At 31 December 2022 - restated	7,543.6	678.4	743.9	42.4	9,008.3
At 31 December 2023	**8,054.0**	**750.8**	**902.3**	**55.3**	**9,762.4**
At 1 January 2022	7,820.2	818.7	797.7	31.0	9,467.6

12 Property, plant and equipment (continued)

Investment properties

The Group acquired £39.1m of investment properties on acquisition of Euro Garages (Jersey) Limited, all of which was freehold land. The cost model is applied to these investment properties. The estimated fair value of these properties is considered to be equal to the carrying value due to the proximity of the acquisition date to the balance sheet date.

Impairment

In accordance with IAS 36, the Group has assessed each store CGU against the following impairment triggers to determine whether there is an indicator of impairment:

a) Negative cashflows (after allocation of all relevant central costs) generated by CGUs in the preceding twelve months
b) Adverse cashflow performance against budget and year-on-year cashflow deterioration
c) Specific CGU qualitative factors such as environmental damage and store closure

For each store CGU that has shown an indicator of impairment as at 31 December 2023, the Group has calculated a value-in-use model.

The value-in-use is calculated using the following methodology:
- Estimates of future cashflow performance - the cash flow models are prepared based on the Group's one- and three-year planning process and are extrapolated beyond three years using estimated long term average growth rate of 2.0%
- The assumptions used in the cash flow forecasts reflect management's current climate strategy
- Discount rate - the pre-tax discount rates applied to the cash flow projections are between 8.1% and 8.9% (2022: 8.2% - 8.6%)
- Allocation of all relevant central costs to each location on a reasonable and consistent basis

Management have also considered the fair value of each CGU. For Freehold sites a vacant possession valuation was performed with the support of external property valuers. Key estimates in these valuations include market rental and yield assumptions.

As discussed in note 1, the Directors have undertaken a detailed review of the Group's application of IAS 36 Impairment of Assets and updated the Group accounting policy in relation to testing for impairment of long-lived assets which has resulted in a prior year restatement of impairment recognised in the 2022 comparative period.

This results in a pre-tax impairment charge at 31 December 2022 of £377.4m (comprising £232.8m of property, plant and equipment impairment and £144.6m of right-of-use asset impairment (see note 13)) of which £357.5m was not previously recorded in the 2022 financial statements and a net pre-tax impairment reversal of £225.7m (comprising £148.9m of property, plant and equipment impairment and £76.8m of right-of-use asset impairment (see note 13)) being recorded in the Income Statement in 2023. This is consistent with a material year on year improvement in the Group's financial performance in 2023 and an improvement in the Directors' outlook of future cashflows compared to equivalent forecasts at 31 December 2022.

The Group have considered the risks and opportunities facing the business in assessing the sensitivities to the value in use calculation and determined that the calculation is most sensitive to change in the discount rate and long-term growth rate:

Discount rate
- For the year ended 31 December 2022, an increase in the discount rate by 1%, would result in an additional impairment of £51.7m and a decrease in the discount rate by 1%, would result in a reduction in the impairment for the year ended 31 December 2022 of £48.5m.

12 Property, plant and equipment (continued)

- For the year ended 31 December 2023, an increase in the discount rate by 1%, would result in a decrease in the impairment reversal of £32.2m and a decrease in the discount rate by 1%, would result in an increase in the impairment reversal of £29.4m.

Terminal growth rate
- For the year ended 31 December 2022, an increase in the terminal growth rate by 1%, would result in a decrease of £49.5m in the impairment and a 1% decrease would result in an increase in the impairment of £51.4m.
- For the year ended 31 December 2023, an increase in the terminal growth rate by 1%, would result in an increase in the impairment reversal of £29.1m and a 1% decrease would result in a reduction in the impairment reversal of £29.9m.

Reclassification from intangible assets
In 2023 the Directors identified that hardware assets with a net book value of £39.2m were originally classified as intangible assets. These have been reclassified to plant, equipment, fixtures and fittings during the year. There has been no change to the useful economic life of these assets and as such this reclassification has had no impact on the consolidated income statement.

Disposals
The Group disposed of net book value of assets of £626.2m (2022: £78.1m) which predominantly relates to the sale-and-leaseback of 25 properties that completed in 2023. See note 10 for further details of this transaction.

Assets held for Sale
Assets relating to a distribution property with a net book value of £20.5m were classified as held for sale at the year ended 31 December 2023. See note 14 for further details.

13 Right-of-use assets

	Land and Buildings £ m	Plant and Equipment £ m	Total £ m
Cost			
At 1 January 2022	2,325.9	222.2	2,548.1
Additions	73.1	55.5	128.6
Disposals	(1.7)	(8.9)	(10.6)
At 31 December 2022	2,397.3	268.8	2,666.1
At 1 January 2023	2,397.3	268.8	2,666.1
On acquisition of Arthur Foodstores Limited	170.6	-	170.6
On acquisition of Euro Garages (Jersey) Limited	128.5	-	128.5
Additions	542.6	102.1	644.7
Disposals	(3.9)	(42.7)	(46.6)
At 31 December 2023	3,235.1	328.2	3,563.3
Accumulated depreciation and impairment			
At 1 January 2022	82.8	45.0	127.8
Depreciation of right-of-use assets	106.2	66.0	172.2
Eliminated on disposal	-	(7.2)	(7.2)
Impairment	144.6	-	144.6
At 31 December 2022 - restated	333.6	103.8	437.4
At 1 January 2023	333.6	103.8	437.4
Depreciation of right-of-use-assets	121.0	71.2	192.2
Eliminated on disposal	(3.9)	(42.7)	(46.6)
Impairment reversal	(76.8)	-	(76.8)
At 31 December 2023	373.9	132.3	506.2
Net book value			
At 31 December 2022 - restated	2,063.7	165.0	2,228.7
At 31 December 2023	2,861.2	195.9	3,057.1
At 1 January 2022	2,243.1	177.2	2,420.3

13 Right-of-use assets (continued)

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

Leases of land and buildings have various terms, escalation clauses and renewal rights, however they commonly include either a market rent review or index linked rent review with a cap and collar. The timing of when rent reviews take place differs for each lease. They have no purchase options.

As discussed in note 1, the Directors have undertaken a detailed review of the Group's application of IAS 36 Impairment of Assets and updated the Group accounting policy in relation to testing for impairment of long-lived assets which has resulted in a prior year restatement of impairment recognised in the 2022 comparative period.

This results in a pre-tax impairment charge allocated to right-of-use assets at 31 December 2022 of £144.6m, of which £137.7m was not previously recorded in the financial statements and a net pre-tax impairment reversal of £76.8m being recorded in the Income Statement in 2023. See note 1 and note 12 for further details on impairment policy and assumptions.

In determining the impairment of right-of-use assets management have calculated the fair value of right-of-use assets using a discounted market rental approach to determine the recoverable amount of the asset. This approach requires an estimates of market rentals using assumptions on market participant demand and rental yields alongside a discount rate which is determined in line with the Group's incremental borrowing rate under IFRS 16.

For details of sensitivity analysis of impairment charges see note 12.

Average remaining lease term is 35 years (2022: 37 years).

Leases of plant, vehicles and equipment have various terms but typically do not include mid-term rent reviews or extension options. They have no purchase options. The average remaining lease term is 4 years (2022: 4 years).

Additions during the year relate primarily to the sale-and-leaseback of 25 stores (see note 10); renewals or modifications of previously existing leases for land and buildings; and new leases for plant, vehicles and equipment.

For further details of lease liabilities please see note 27.

13 Right-of-use assets (continued)

Finance lease receivable	31 December 2023 £ m	31 December 2022 £ m
Finance lease receivable - Current	4.2	-
Finance lease receivable - Non-current	128.9	-
	133.1	-
Future minimum undiscounted payments due:		
No more than one year	9.8	-
Later than one year no later than two years	11.5	-
Later than two years no later than three years	11.5	-
Later than three years no later than four years	11.7	-
Later than four years no later than five years	11.6	-
Later than five years	167.4	-
	223.5	-
Less: Finance lease income allocated to future periods	(90.4)	-
Present value of minimum lease payments	133.1	-

14 Assets held for sale

The major classes of assets and liabilities classified as held for sale as at 31 December 2023 are included in the table below:

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Assets		
Goodwill - Arthur Foodstores Limited	23.9	-
Property, plant and equipment - Arthur Foodstores Limited	11.6	-
Right-of-use assets - Arthur Foodstores Limited	20.4	-
Property, plant and equipment - distribution property	20.5	-
Assets held for sale	76.4	-
Liabilities		
Lease liabilities - Arthur Foodstores Limited	15.3	-
Liabilities directly associated with assets held for sale	15.3	-
Net assets directly associated with disposal group	61.1	-

Distribution property held for sale

During the year ended 31 December 2023, a non-operating distribution property with a carrying value of £20.5m was reclassified as held for sale within current assets. It was determined that this asset met the criteria for being classed as held for sale. The asset held for sale has been recognised at fair value less cost to sell.

Disposal of Arthur Foodstores Limited ("Arthur") stores

On 30 May 2023, the Competition and Markets Authority ("CMA") accepted undertakings to dispose of 13 stores owned by Arthur Foodstores Limited for which it expected a substantial lessening of competition were the Group to own and operate these stores. These 13 stores have been classified as held for sale from 30 May 2023 as the Directors have determined that:

- the stores are available for immediate sale in their present condition; and
- the sale is highly probable as the stores are being actively marketed at a price that is reasonable in relation to their estimated current fair values and;
- there is an expectation that the sales process will be completed within one year from the date of classification.

As the store assets were recognised as held for sale on acquisition, they have been recognised at fair value less cost to sell.

In the year ended 31 December 2023, 2 of the 13 properties previously held for sale had been disposed of and a £6.6m loss, including allocated goodwill of £6.5m, was recognised on sale.

The major classes of assets and liabilities of Arthur Foodstores Limited classified as held for sale as at 31 December 2023 are included in the table above.

15 Intangible assets

	Brand licences £ m	Goodwill £ m	Contractual customer relationships £ m	Software and development costs £ m	Total £ m
Cost					
At 1 January 2022	1,327.2	-	112.8	286.8	1,726.8
Additions	-	-	-	68.5	68.5
Disposals	-	-	-	(1.3)	(1.3)
At 31 December 2022	1,327.2	-	112.8	354.0	1,794.0
At 1 January 2023	1,327.2	-	112.8	354.0	1,794.0
On acquisition of Arthur Foodstores Limited	-	290.5	-	-	290.5
Arthur Foodstores Limited goodwill allocated to assets held for sale	-	(30.4)	-	-	(30.4)
On acquisition of Euro Garages (Jersey) Limited	28.6	922.1	-	1.4	952.1
Additions	-	-	-	57.3	57.3
Disposals	-	-	-	(33.1)	(33.1)
Reclassification to Property, Plant & Equipment	-	-	-	(165.5)	(165.5)
At 31 December 2023	1,355.8	1,182.2	112.8	214.1	2,864.9
Amortisation					
At 1 January 2022	-	-	10.1	64.5	74.6
Amortisation charge	-	-	11.3	89.7	101.0
Amortisation eliminated on disposals	-	-	-	(0.5)	(0.5)
At 31 December 2022	-	-	21.4	153.7	175.1
At 1 January 2023	-	-	21.4	153.7	175.1
Amortisation charge	-	-	11.3	71.0	82.3
Amortisation eliminated on disposals	-	-	-	(29.3)	(29.3)
Reclassification to Property, Plant & Equipment	-	-	-	(126.3)	(126.3)
At 31 December 2023	-	-	32.7	69.1	101.8
Net book value					
At 31 December 2022	1,327.2	-	91.4	200.3	1,618.9
At 31 December 2023	**1,355.8**	**1,182.2**	**80.1**	**145.0**	**2,763.1**
At 1 January 2022	1,327.2	-	102.7	222.3	1,652.2

Software and development costs are amortised on a straight-line basis over their estimated useful life of 4 years (2022: 4 years).

Contractual customer relationships comprise the George.com and Grocery Home Shopping customer lists that were acquired as part of the Asda Group business combination in the period ended 31 December 2021. Contractual customer relationships are amortised on a straight-line basis over their estimated useful life of 10 years (2022: 10 years).

Software additions in 2023 include development costs associated with the ongoing project to implement new systems following separation from Walmart in 2021.

15 Intangible assets (continued)

Reclassification to Property, Plant & Equipment

In 2023 the Directors identified that hardware assets with a net book value of £39.2m were originally classified as intangible assets. These have been reclassified to plant, equipment, fixtures and fittings during the year. There has been no change to the useful economic life of these assets and as such this reclassification has had no impact on the consolidated income statement.

Impairment testing of indefinite life intangibles

George brand licence and ASDA Brand

These assets relate to the acquisition in 2021 of a perpetual licence to use the George brand in the UK and elsewhere in Europe with a carrying value of £463.8m (2022: £463.8m), and the ASDA brand which has a carrying value of £863.4m (2022: £863.4m). These brands have been tested for impairment as at 31 December 2023 in combination with other long-lived assets utilised in the ASDA and George business by assessing the present value of forecasted cash flows arising from the 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.

For cashflows arising out of the grocery, clothing and general merchandising activities of the business, forecasts are extrapolated beyond three years using estimated long term average growth rates. The pre-tax discount rate applied to the cash flow projections is 8.9% (post-tax 6.7%) alongside a long term growth rate of 2.0%.

For cashflows arising out of ASDA’s fuel retailing business, the cashflow forecast includes an assumed decline in sales volumes beyond the three-year forecast with an accompanying unwind of working capital over the medium term due to an expected transition to alternative fuel vehicles. In line with guidance in IAS 36, these forecasts do not include cashflows arising out of expansionary capital expenditure. The pre-tax discount rate applied to the fuel retailing cash flow projections is 11.4% (post-tax 8.5%).

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 brands and other long-lived assets used in the ASDA and George business.

Please refer to note 13 of the 2022 financial statements for details of methodology and key assumptions included in the prior year impairment testing of the George and ASDA brand intangibles.

15 Intangible assets (continued)

Goodwill arising on acquisition of Arthur Foodstores Limited

As set out in note 2, during the year, the Group obtained control of Arthur Foodstores Limited ("Arthur") with goodwill arising of £290.5m, of which £30.4m has since been allocated to assets held for sale. This goodwill has been tested for impairment as at 31 December 2023 in combination with other long-lived assets utilised in the Arthur business by assessing the present value of forecasted cash flows arising from the 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.

In line with guidance in IAS 36, these forecasts do not include cashflows arising out of expansionary capital expenditure. The pre-tax discount rate applied to the cash flow projections is 11.4% (post-tax 8.5%).

For cashflows arising out of Arthur's grocery convenience retailing business, cashflows included in the initial three-year forecast are extrapolated to five years based on management's expectations and beyond five years using estimated long term average growth rates. The pre-tax discount rate applied to the cash flow projections is 11.4% (post-tax 8.5%) alongside a long term growth rate of 2.0%.

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 goodwill and other long-lived assets used in the Arthur business.

Goodwill arising on acquisition of Euro Garages (Jersey) Limited

As set out in note 2, during the year, the Group acquired the entire issued share capital of Euro Garages (Jersey) Limited ("EG(J)L") with goodwill arising of £922.1m. This goodwill has been tested for impairment as at 31 December 2023 in combination with other long-lived assets utilised in the EG(J)L business by assessing the present value of forecasted cash flows arising from the 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.

In line with guidance in IAS 36, these forecasts do not include cashflows arising out of expansionary capital expenditure. The pre-tax discount rate applied to the cash flow projections is 11.4% (post-tax 8.5%).

For cashflows arising out of EG(J)L's grocery convenience retailing business, cashflows have been forecast over the same medium term period as fuel cashflows with a terminal value calculated at the end of that period using estimated long term average growth rates. The pre-tax discount rate applied to the cash flow projections is 11.4% (post-tax 8.5%). A long term growth rate of 2.0% has been used in the calculation of the terminal value.

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 goodwill and other long-lived assets used in the EG(J)L business.

16 Inventories

	Year ended 31 December 2023 £ m	Year ended 31 December 2022 £ m
Goods held for resale	1,331.8	1,272.7
Goods not held for resale	2.5	3.3
	1,334.3	1,276.0

Included within the cost of goods sold figure disclosed in note 5 is an amount of £662.1m (2022: £482.5m) relating to the cost of inventory written off or provided for.

17 Investments

	Year ended 31 December 2023 £ m	Year ended 31 December 2022 £ m
At 1 January	461.8	-
Post-completion consideration adjustment - Arthur Foodstores Limited	(4.4)	-
Consolidation - Arthur Foodstores Limited	(457.4)	461.8
At 31 December	-	461.8

Prior year - Acquisition of Arthur Foodstores Limited by Asda Stores Limited - a wholly owned subsidiary of Bellis Finco PLC

On 29 October 2022, Asda Stores Limited - a wholly owned subsidiary of Bellis Finco PLC - purchased 100% of the share capital of Arthur Foodstores Limited, a grocery retailer operating in the United Kingdom for an initial purchase price of £461.8m. This comprised initial cash consideration of £423.6m, of which £228.6m was funded from cash in hand and £195.0m was raised through the issue of additional senior facilities of £200.0m, less bank fees of £5.0m; and a loan balance owing to Arthur Foodstores Limited of £38.2m. Prior to completion of the acquisition, the seller owed a balance of £38.2m to Arthur Foodstores Limited. This liability was novated to the Group on completion at 29 October 2022 as part of the Sale and Purchase Agreement.

The final purchase price for Arthur Foodstores Limited was £457.4m, as a result of a £4.4m post-completion adjustment comprising a reduction of £8.8m in the Group's payable to Arthur Foodstores Limited offset by £4.4m additional cash consideration which was paid prior to 30 May 2023, when control was deemed to have transferred to the Group.

On 26 October 2022 the Competition and Markets Authority (“CMA”) served an initial enforcement order (“IEO”) under section 72 (2) of the Enterprise Act 2002 on Asda Stores Limited; Asda Group Limited; Mr Mohsin Issa; Mr Zuber Issa; TDR Capital LLP; TDR Capital III Portfolio No. 2 L.P.; TDR Capital III Investments (2019) L.P.; Co-operative Group Limited and Arthur Foodstores Limited. The IEO commenced on 30 October 2022. The IEO required the Group to hold separate the Arthur business. An independent management team was appointed to run the Arthur business during the IEO period and the parties were prohibited from performing any integration activities or exchanging of commercially sensitive information.

At 31 December 2022, as a result of the IEO restrictions, the Group concluded that it did not have control of Arthur Foodstores Limited and therefore the results of the business were not consolidated in the 2022 financial statements.

On 14 March 2023 the CMA delivered its Phase 1 decision in respect of its investigation into the Group’s acquisition of Arthur Foodstores Ltd. They identified 13 potential areas for competition concern, with the potential for local remedies. The Group offered to dispose of the 13 sites in question.

On 30 May 2023 these undertakings were accepted by the CMA, and the IEO was lifted. Control is deemed to have transferred to the Group on 30 May 2023 and Arthur Foodstores has been consolidated from this date in these financial statements.

18 Trade, other receivables and derivative assets

	Year ended 31 December 2023 £ m	Year ended 31 December 2022 £ m
Trade receivables	127.4	94.7
Allowance for expected credit losses	(1.2)	(1.1)
Other receivables	78.4	50.8
Prepayments and accrued income	102.7	48.2
Current derivative assets	0.3	60.0
	307.6	252.6
Intercompany receivables - amounts due from fellow wholly owned subsidiaries of the ultimate parent undertaking		
Current	9.2	4.0
Non-current	773.2	747.4
Loans receivable		
Current	-	26.6
Derivative assets		
Non-current	0.2	-

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

Trade receivables are presented net where a legally enforceable right of set off exists. The Group routinely recovers receivables from suppliers with which a legal right of offset exists by settling payables with those suppliers on a net basis at the earliest point following the balance sheet date at which payables of a value equal to or in excess of the receivable amount are due for settlement. Included in the above is an offset of £190.4m (2022: £166.1m). The trade receivable prior to the offset is £317.8m (2022: £260.8m).

Other receivable balances have been assessed to determine the value of ECLs as per the requirements of IFRS 9 and the impact is less than £0.1m (2022: less than £0.1m).

18 Trade, other receivables and derivative assets (continued)

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

The non-current intercompany receivable balance of £773.2m (2022: £747.4m) has arisen largely from the sale-and-leaseback transaction that occurred in 2021, as properties owned by the Group were sold to a fellow wholly-owned subsidiary of the ultimate parent undertaking in exchange for an intercompany receivable balance for which the counterparty is Bellis Midco 2 Limited - a fellow wholly-owned subsidiary of the ultimate parent, which itself owns a 100% interest in the Group. This receivable matures on 23 June 2026 and attracts on interest rate of 3.45%. See note 30 for further detail.

In order to assess the probability of default and to determine the value of expected credit losses in respect of the Group’s intercompany receivables, the directors have modelled an orderly settlement of all intercompany balances between entities within the Group and entities outside the Group which are fellow wholly-owned subsidiaries of the ultimate parent.

This analysis is based on the directors’ forecast of future cashflows. Downside sensitivities to the base case assumptions within this forecast have been modelled and in all scenarios, the value of cashflows realised is sufficient to enable full and orderly settlement of all balances. As such, the directors have determined that the probability of default in relation to the Group’s intercompany receivables is remote and the impact of expected credit losses is immaterial. Accordingly, the carrying value of the Group’s expected credit losses provision in respect of intercompany receivables is less than £0.1m (2022: less than £0.1m).

In the prior year, loans receivable of £26.6m included a balance of £23.6m arising out of cash lent to Arthur Foodstores Limited, largely in order to enable that entity to satisfy short-term working capital requirements; and a further balance of £3.0m which was transferred to the Group on 29 October 2022. These balances were assessed to determine the value of ECLs as per the requirements of IFRS 9 and the impact in the prior year was less than £0.1m.

The remaining balance at 31 December 2023 has been eliminated in these financial statements as the results of Arthur Foodstores Limited have been consolidated since 30 May 2023 (see note 2).

As at 31 December 2023, trade receivables at nominal value of £1.2m were impaired and fully provided for (2022: £1.1m). Movements in the allowance for expected credit losses in the year were as follows:

	31 December 2023 £ m	**31 December 2022 £ m**
At beginning of year	1.1	0.6
Charge for the year	4.8	1.5
Provision utilised during the year	(1.0)	(0.6)
Unused amounts reversed during the year	(3.7)	(0.4)
At end of year	1.2	1.1

19 Cash and cash equivalents

	Year ended 31 December 2023 £ m	Period ended 31 December 2022 £ m
Cash in hand and bank balances	448.5	310.1
Money market funds and deposits	579.2	352.4
	1,027.7	662.5

Money market funds and deposits are readily available on demand.

At 31 December 2023, included in the cash and cash equivalents balance is an amount of £237.2m (2022: £160.0m) relating to card receipts for sales during the year for which cleared funds were received after the year end. In the vast majority of cases, credit and debit card receivables are settled on the first working day after the Balance Sheet date.

20 Trade, other payables and derivative liabilities

	Year ended 31 December 2023 £ m	Year ended 31 December 2022 £ m
Trade payables	3,741.1	3,241.4
Other taxes and social security	189.0	203.1
Other payables	98.6	141.1
Accrued expenses	550.4	405.5
Current derivative liabilities	25.6	17.3
	4,604.7	4,008.4
Intercompany payables - amounts owed to fellow wholly owned subsidiaries of the ultimate parent undertaking		
Current	9.9	6.8
Derivative liabilities		
Non-current	6.0	-
Shareholder loans		
Non-current	409.1	-

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

Trade receivables are presented net where a legally enforceable right of offset exists. Included in the above is an offset of £190.4m (2022: £166.1m). The trade payable prior to the offset is £3,931.5m (2022: £3,407.5m).

The £409.1m non-current shareholder loan balance comprises of a £401.0m subordinated shareholder loan used to partially fund the acquisition of Euro Garages (Jersey) Limited and £8.1m interest accrued on this balance. This loan has a maturity of May 2033 and attracts an interest rate of 11.94%.

For terms and conditions relating to amounts owed to related parties, refer to note 30.

21 Financial instruments

Financial assets and liabilities

The carrying value and classification of financial assets and liabilities are disclosed in the following tables. All financial assets and liabilities are classified as Level 2 within the fair value hierarchy.

	Note	Year ended 31 December 2023 £ m	Year ended 31 December 2022 £ m
Non-interest-bearing financial assets at amortised cost			
Trade receivables	18	126.2	93.6
Other receivables	18	78.4	50.8
		204.6	144.4
Non-current interest-bearing financial assets at amortised cost			
Intercompany receivables	18	773.2	747.4
Current non-interest-bearing financial assets at amortised cost			
Intercompany receivables	18	9.2	4.0
Non-current non-interest-bearing financial assets at amortised cost			
Other non-current assets	22	5.5	5.1
Current derivatives designated as hedging instrument			
Forward contracts	18	0.3	24.0
Cross-currency interest rate swaps	18	-	36.0
Non-current derivatives designated as hedging instruments			
Forward contracts		0.2	-
Other financial assets			
Cash and cash equivalents	19	1,027.7	662.5
Investments		-	461.8
Total financial assets		2,020.7	2,085.2

21 Financial instruments (continued)

As at 31 December 2023 and 31 December 2022, all of the Group's interest-bearing financial assets were denominated in Sterling at fixed rates of interest. The interest rate of interest-bearing receivables is 3.45% (2022: 3.45%). Intercompany receivables are disclosed in note 30.

Movements in receivables arising from financing activities
During the year, movement in non-current interest-bearing intercompany receivables was driven by interest of £25.8m which has been charged on the balance. Total carrying value of receivables due from Bellis Midco 2 Limited at 31 December 2023 is £773.2m (2022: £747.4m).

Non-interest-bearing intercompany receivables comprise amounts due from Bellis Topco Limited of £4.1m (2022: £3.1m), Bellis Topco 2 Limited of £4.7m (2022: £0.5m), Bellis Midco 4 Limited of £0.2m (2022: £0.2m), Bellis Midco 2 Limited £0.1m (2022: £0.1m) and Bellis Holdco Limited of £0.1m (2022: £0.1m) relating to fees paid by the Group on their behalf of these entities.

21 Financial instruments (continued)

	Note	Year ended 31 December 2023 £ m	Year ended 31 December 2022 £ m
Non-interest-bearing financial liabilities at amortised cost			
Trade payables	20	3,741.1	3,241.4
Other payables	20	98.6	141.1
Accrued expenses	20	550.4	405.5
		4,390.1	3,788.0
Current derivative liabilities designated as hedging instrument			
Forward contracts		16.3	17.3
Cross-currency interest rate swaps		2.9	-
Interest rate swaps		6.4	-
Non-current derivative liabilities designated as hedging instruments			
Forward contracts		6.0	-
Current non-interest-bearing financial liabilities at amortised cost			
Intercompany payables	20	9.9	6.8
Non-current interest-bearing financial liabilities at amortised cost			
Shareholder loan	20	409.1	-
Current interest-bearing borrowings			
Borrowings	22	22.7	246.6
Lease liabilities	27	139.0	115.7
Non-current interest-bearing borrowings			
Borrowings	22	5,140.5	4,120.2
Lease liabilities	27	3,651.2	2,945.0
Total financial liabilities		13,794.1	11,239.6

As at 31 December 2023 and 31 December 2022, the Group held borrowings in both Sterling and Euro at fixed and variable rates of interest. The interest rate of interest-bearing borrowings is between 0.5% and 11.94% (2022: 0.5% - 10.89%). This comprises external borrowings, intercompany payables and lease liabilities. Details of obligations under leases are included in note 27.

21 Financial instruments (continued)

Movements in liabilities arising from financing activities

External borrowings comprise the financing drawn down to fund the acquisition of ASDA Group Limited, a loan entered into during the prior year to finance the acquisition of Arthur Foodstores Limited, which has been repaid in full during the current year and loans entered into during the year to fund the acquisition of EG Garages (Jersey) Limited. Further details of external borrowings are disclosed in note 22.

During the year, the Group extended the Revolving Credit Facility (RCF) which was entered into in a previous year, from a limit of £500.0m to a limit of £667.3m. The RCF expires in August 2025. The carrying amount of RCF fees at 31 December 2023 was £5.5m, which includes £2.5m in relation to the RCF extension entered into during the year (2022: £5.1m). Amortisation of £2.1m (2022: £2.1m) was charged in the year.

On 31 October 2023, the Group entered into a loan of £683.9m to part-fund the acquisition of Euro Garages (Jersey) Limited ("EG"). This loan attracts interest per annum of 6.75% plus SONIA. The loan matures on 31 October 2029 and has therefore been classified as non-current. In addition, the Group entered into a bridge facility of £290.0m to part-fund the acquisition of EG. The bridge facility attracted interest per annum of 7.0% plus SONIA. The facility was repaid in full on 21 December 2023.

On 12 December 2023, the Group entered into a Corporate Ground Rent transaction and received a £400.0m loan. The loan is split into Facility A and Facility B which attract interest per annum of 3.79% and 3.97% respectively. The facility matures in December 2073 and has therefore been classified as non-current.

The £409.1m non-current shareholder loan balance comprises of a £401.0m subordinated shareholder loan used to partially fund the acquisition of Euro Garages (Jersey) Limited and £8.1m interest accrued on this balance.

Total lease cash outflow in the year was £350.3m (2022: £300.4m). Amounts included in financing activities in the cash flow statement are cash payments for the principal portion of the lease liability £148.5m (2022: £131.9m) and cash payments for the interest portion of the lease liability of £175.9m (2022: £145.2m). £25.9m (2022: £23.3m) has been included in operating activities in the cash flow statement and relates to short term and variable lease expenses.

During the prior year, the Group had access to a facility that provided the Group with a credit facility pursuant to which payment to the relevant beneficiaries and suppliers is made by ASDA Stores Limited using the facility on the relevant invoice due date, with ASDA Stores Limited then settling these liabilities in the normal course of business. An amount of £39.1m was outstanding on this facility at 31 December 2022 and was fully repaid during the current year. The Group no longer utilises this facility and the balance at 31 December 2023 was £nil.

On 24 July 2022, the Group entered into a framework agreement in respect of a short-term financing facility. The facility was unused as at 31 December 2022. The Group no longer has access to this facility.

	Drawdowns (net of fees)	Cash repayments	Amortisation of capitalised fees	Accrued interest	Reclassification of current borrowings	Other	Total
	£m	£m	£m	£m	£m	£m	£m
Year ended 31 December 2023							
Current liabilities							
Borrowings	(269.0)	499.8	(30.0)	-	(19.5)	42.6	223.9
Intercompany payables	-	-	-	-	-	(3.1)	(3.1)
Non-current liabilities							
Borrowings	(1,035.3)	-	(18.5)	-	19.5	14.0	(1,020.3)
Shareholder loan	(401.0)	-	-	(8.1)	-		(409.1)

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2023 (continued)

21 Financial instruments (continued)

	Drawdowns (net of fees)	Cash repayments	Amortisation of capitalised fees	Accrued interest	Reclassification of current borrowings	Other	Total
	£m	£m	£m		£m	£m	£m
Year ended 31 December 2022							
Current liabilities							
Borrowings	(345.0)	150.0	(0.8)	-	(9.8)	(41.0)	(246.6)
Intercompany payables	-	-	-	-	-	(5.5)	(5.5)
Non-current liabilities							
Borrowings	-	-	(17.9)	-	9.8	(38.9)	(47.0)
Intercompany payables	-	-	-	-	-	967.4	967.4

Other movements in the current year are due primarily to the elimination on consolidation of a balance at £41.0m at 31 December 2022 which was owed by the Group to Arthur Foodstores Limited ("Arthur"). The results of Arthur have been consolidated since 30 May 2023 (see note 1 and note 2).

Other movements in the prior year relate primarily to non-cash settlement of an intercompany payable balance using an intercompany receivable- see prior year financial statements for further detail.

21 Financial instruments (continued)

Security pledged

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

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

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

On 29 October 2023, an additional fixed charge on the existing security pledged over certain material bank accounts and the shares owned by the Group in ASDA Stores Limited, McLagan Investments Limited and The Burwood House Group Limited was pledged in relation to the bridge facility agreement that was entered into by Bellis Acquisition Company PLC on the same date.

On 20 December 2023, Asda Propco Limited, a subsidiary of the group, entered into a £400m loan facility agreement as part of a Corporate Ground Rent transaction. As part of this transaction 55 store properties, including leases back to Asda Stores Limited as tenant, have been transferred into Asda Propco Limited and a first floating charge over all property and assets of Asda Propco Limited has been granted to the lenders.

21 Financial instruments (continued)

Fair values of financial assets and financial liabilities

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

• Level 1 - using quoted prices (unadjusted) in active markets for identical assets or liabilities;
• Level 2 - using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
• Level 3 - using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group classifies all financial liabilities at Level 2 in the fair value hierarchy. At 31 December 2023, the Group did not have any assets or liabilities classified at Level 3 (2022: none).

The Group's principal financial instruments during the year comprised cash, cash equivalents, external borrowings, intercompany payables and receivables, derivatives classified as hedges and lease liabilities. Other financial assets and liabilities, such as trade receivables, other receivables, trade payables, other payables, and accruals arise directly from the Group's operating activities. Set out in the table below is a comparison, by class, of the carrying amounts and fair values of the Group's financial instruments. This table excludes trade receivables, other receivables, trade payables, other payables, accruals, intercompany receivables, intercompany payables and lease liabilities as the carrying value reasonably approximates to the fair value of these financial instruments. Derivative instruments are also excluded as the carrying value equals fair value at the year end.

	Year ended 31 December 2023		**Year ended 31 December 2022**	
	Carrying Value £m	**Fair Value £m**	**Carrying Value £m**	**Fair Value £m**
Non-current interest-bearing borrowings				
External borrowings	5,140.5	4,839.7	4,120.2	3,401.1
Current interest-bearing borrowings				
External borrowings	22.7	22.7	246.6	258.8

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

External borrowings

For listed and traded instruments (i.e. Senior Secured Notes, Senior Unsecured Notes and Euro Term Loan B) over-the-counter prices are used to determine the fair value (Level 2). For unlisted instruments the fair value is estimated by discounting the future contracted cash flow using prevailing interest rates to net present value (Level 2).

Intercompany payables and receivables

The fair value of fixed rate intercompany payables and receivables is estimated by discounting the future contracted cash flow using prevailing interest rates to net present value. The fair values of the Group's intercompany payables and receivables have been calculated at the observable unquoted interest rates and are categorised as Level 2 within the fair value hierarchy.

21 Financial instruments (continued)

Derivatives
Forward contracts - these derivatives are measured at fair value by estimating the future settlement rates of forward contracts entered into and are split between in-the-money (assets) and out-of-the-money (liabilities). At 31 December 2023, the Group held £0.5m (2022: £24.0m) in-the-money assets, and £22.3m (2022: £17.3m) out-of-the-money liabilities in respect of its forward contracts. During the year, the Group recognised net gains on revaluation of hedged monetary liabilities from historical cost to period-end spot rate of £4.9m (2022: £2.7m loss). The fair values of the Group's financial derivatives have been calculated at the observable unquoted interest rates and are categorised as Level 2 within the fair value hierarchy.

Cross-currency interest rate swaps - these derivatives are measured at fair value using a swap valuation model. The model incorporates various observable market inputs (Level 2) including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies and interest rate curves. The model incorporates a credit valuation adjustment attributable to derivative counter-party default risk. These derivatives are measured at fair value by estimating the future settlement rates of cross-currency interest rate swaps entered into and are split between in-the-money (assets) and out-of-the-money (liabilities). At 31 December 2023, the Group held £nil (2022: £36.0m assets) in-the-money assets, and £2.9m (2022: £nil) out-of-the-money liabilities in respect of its cross-currency interest rate swaps.

Interest rate swaps - these derivatives are measured at fair value using a swap valuation model. The model incorporates various observable market inputs (Level 2) including the credit quality of counterparties and interest rate curves. The model incorporates a credit valuation adjustment attributable to derivative counter-party default risk. These derivatives are measured at fair value by estimating the future settlement rates of interest rate swaps entered into and are either in-the-month (assets) or out-of-the-month (liabilities). At 31 December 2023, the Group held £nil (2022: £nil) in-the-money assets and £6.4m (2022: £nil) out-of-the-money liabilities in respect of its interest rate swaps.

Investments- fair value through profit and loss - prior year
The fair value of the investment in Arthur Foodstores Limited on initial recognition was considered to be the purchase price. Prior to acquiring the investment in Arthur Foodstores Limited the Directors performed a valuation exercise using a "market" (or "income") approach. As the acquisition occurred in close proximity to 31 December 2023 and the Directors were not aware of any material changes to the underlying business, they were satisfied that the price paid equated to fair value at that date. Further detail is provided in the 2022 financial statements. Control of Arthur Foodstores Limited is deemed to have transferred to the Group on 30 May 2023 and as such, the results of Arthur Foodstores Limited have been consolidated from this date.

21 Financial instruments (continued)

Financial risk management

Market risks

In the ordinary course of the Group's business, it is exposed to a variety of market risks arising in relation to its financial assets and liabilities, including interest rate risk, foreign currency risk and capital risk. The Group has a risk management programme in place through which it seeks to mitigate the adverse effects of these market risks. In addition, the Group hedges interest and exchange rate exposure on foreign currency debt obligations and hedges interest rate risk on a proportion of its loan facilities with interest rates linked with SONIA. The Group does not enter into financial instruments for trading or speculative purposes.

Interest rate risk

The Group is exposed to interest rate risk on its floating rate liabilities (based on SONIA and EURIBOR) primarily composed of the Senior Facilities, which consist of the Revolving Credit Facility, Term Loan A, Term Loan B and an additional Term Loan entered into during the year. During the year, the Group was exposed to interest rate risk on the Arthur Additional Bridge Facility, this was settled in full on 23 October 2023. The EURIBOR interest rate risk on Facility B is hedged through entering into cross-currency interest rate swaps to fix the interest payments in pound sterling at rates between 3.70% - 3.76% which expired on 16 February 2024. The SONIA interest rate risk on the Term Loan entered into during the year is hedged through entering into interest rate swaps to fix a proportion of the interest payments at a fixed interest rate between 4.75% - 4.78% which expires on 16 November 2025. Interest on the Senior Secured Notes and the Senior Unsecured Notes is charged at fixed rates between 3.25% and 4.50%.

The Group, after the impact of hedge accounting, is exposed to possible changes in SONIA on its outstanding floating rate loans (Term Loan A and a proportion of the Term Loan entered into during the year). It is anticipated that a 0.5% increase in the SONIA rate would give rise to an annualised decrease in profit before tax of £1.8m (2022: £1.2m).

The Group's Term Loan A and Revolving Credit Facilities were impacted in the prior year by the interest rate benchmark reform. The Group transitioned these agreements to the new UK risk-free rate benchmark, SONIA, which was applied to the Group's interest period starting 1 April 2022.

21 Financial instruments (continued)

Foreign currency risk

Forward currency hedging contracts

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

The Group implements hedge accounting and has forward currency hedging contracts outstanding at 31 December 2023, designated as hedges of expected future purchases from suppliers in US dollars. The forward currency contracts are being used to hedge the foreign currency risk of future purchases. The terms of the forward currency hedging contracts have been negotiated to match the terms of the commitments and none exceed a period of more than 18 months after 31 December 2023. Amounts recognised in other comprehensive income are transferred to the Income Statement when the hedged transaction affects profit or loss.

The cash flow hedges of the expected future purchases were assessed to be highly effective and as at 31 December 2023, a net unrealised loss of £12.2m (2022: £36.2m gain) was included in the hedge reserve in respect of hedging contracts. The net loss recognised in other comprehensive income during the year in respect of these hedging contracts was £15.8m (2022: £7.5m loss) and a gain of £32.6m was reclassified to retained earnings during the year (see note 26). This consists of a £36.3m loss (2022: £14.4m gain) on not-yet-matured contracts during the year, £15.3m of loss reclassified to the Income Statement during the year (2022: £23.4m gains) and a £5.2m taxation credit (2022: £1.5m credit).

Under the Group's hedging policy, forward currency contracts can be used for both goods for resale and goods not for resale. The only items for which forward currency contracts are in place as at 31 December 2023 are forecast purchases of goods for resale. The Group hedges up to 100% of forecast cash flows. Gains and losses attributable to forward contracts are transferred to cost of inventories recognised as an expense within the Income Statement at the point of sale. Forward contracts entered into which are not in line with forecast cash flows would be the principal source of hedge ineffectiveness. No instances of this have occurred during the year, therefore, amounts recognised in the Income Statement in relation to ineffective forward contract hedges is £nil (2022: £nil).

At 31 December 2023, the Group held £1,234.4m (2022: £760.2m) of outstanding forward foreign currency contracts, designated as cash flow hedges. These forward contracts are largely in relation to purchases of US Dollars (notional $1,470.0m) and Euros (notional €71.4m) with varying maturities up to June 2025. For the above currencies the rates ranged from USD/GBP from 1.210 to 1.302 (2022: 1.098 to 1.369) and Euro/GBP 1.142 to 1.164 (2022: 1.132 to 1.157).

As the Group manages much of its foreign currency exposure using forward currency contracts, changes in exchange rates are not expected to have a significant impact on short-term profitability or cash flow. It is anticipated that a 5% movement in the US Dollar/Sterling exchange rate, which represents management's assessment of a reasonably possible change, would give rise to a movement in the cash flow hedge reserve of £47.2m (2022: £34.6m).

21 Financial instruments (continued)

Cross-currency swap

The Group has entered into a floating rate Euro denominated Term Loan B. The non-GBP interest and principal repayment cash flows from the Euro debt agreement expose the Company to fluctuations in foreign exchange rates that impact the consolidated Income Statement.

Under the Group's hedging policy, the Group hedges both the foreign exchange and interest rate risk associated with a portion of the Group's existing, Euro foreign-currency denominated debt using EUR-GBP cross currency interest rate swap contracts to effectively eliminate variability in the Group's functional currency equivalent cash flows due to variability in the EUR-GBP exchange rate and the variable interest rate. The hedge ratio is 100% on a current notional basis. The Group has excluded from the cross-currency interest rate swap both the time value and currency basis elements of the cross-currency interest rate swap. Ineffectiveness could arise from movements in counterparty credit spread, the non-zero fair value at the hedge designation date due to market changes that have occurred since the instrument's inception and changes to critical terms (e.g. reset dates, index mismatches, payment dates). To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the change in fair value of the hedged items attributable to the hedged risks. The amounts recognised in the Income Statement for the period ended 31 December 2023 relating to ineffectiveness and excluded items was £0.3m (2022: less than £0.1m).

At 31 December 2023, the Group holds cross-currency interest rate swaps (CCIRS) with a total nominal value of €844.5m, designated as cash flow hedges. These swaps result in a fixed GBP interest rate ranging from 3.70% to 3.76% and EUR/GBP rate of 1.1412. On 16 February 2024 - following the expiration of the CCIRSs in place at the Balance Sheet date - the Group entered into new CCIRSs with an expiration date of 16 February 2025 with the same counterparty banks. This eliminates variability in the Group's functional currency equivalent cash flows in relation to Term Loan B for the Group for the 12 month period to 16 February 2025 and fixes the interest rate on Term Loan B at fixed GBP interest rates of between 8.03% and 8.06%.

The CCIRSs were assessed to be highly effective and as at 31 December 2023, a net unrealised gain of £3.1m (2022: £21.2m gain) was included in the hedge reserve in respect of these swaps. The net loss recognised in the cash flow hedge reserve during the year in respect of these swaps was £18.1m (2022: £14.5m gain). This consists of a £2.6m gain reclassified to the Income Statement during the year (2022: £35.5m gain), a £21.8m loss (2022: £54.9m gain) on the fair value of the swaps at period end and a taxation credit of £6.3m (2022: £4.8m charge).

The value of the CCIRSs are sensitive to movements in EURIBOR and EUR/GBP exchange rates. A 0.5% change in EURIBOR results in a £2.8m (2022: £2.9m) change in value of the CCIRSs and a 5% change in the EUR/GBP exchange rates results in a £40.2m (2022: £38.9m) change in the value of the CCIRSs. The amounts charged to the income statement are not sensitive to a change in interest rates but a 5% increase in the FX rate increases the amount of ineffectiveness by £nil (2022: £nil).

Interest rate swaps

The Group has entered into a Term Loan with interest rates calculated based on SONIA. The variable interest rate exposes the Group to interest rate fluctuations that impact the consolidated Income Statement.

At 31 December 2023, the Group holds interest rate swaps (IRS) with a total nominal value of £540.0m, designated as cash flow hedges. The hedge ratio is on a 79% current notional basis. These swaps result in a fixed GBP interest rate ranging from 11.50% to 11.53%.

The IRSs were assessed to be highly effective and as at 31 December 2023, a net unrealised loss of £4.8m (2022: £nil) was included in the hedge reserve in respect of these swaps. The net loss recognised in other comprehensive income during the year in respect of these swaps was £4.8m (2022: £nil). This consists of a £0.4m gain reclassified to the Income Statement during the year (2022: £nil), a £6.0m loss (2022: £nil) on the fair value of the swaps at year end and a taxation credit of £1.6m (2022: £nil).

21 Financial instruments (continued)

The value of the IRSs are sensitive to movements in SONIA. A 0.5% change in SONIA results in a £10.9m (2022: £nil) change in value of the IRSs.

Credit risk
The maximum credit risk exposure relating to financial assets is included in their carrying value as at the Balance Sheet date. See note 18 for further information on trade receivables and intercompany receivables and details of recoverability.

The Group has established procedures to minimise the risk of default in relation to trade receivables including detailed credit checks undertaken before a customer is accepted.

Surplus cash is placed in both short-term deposits and money market funds with various global financial institutions. This is managed by the Group Treasury function which actively monitors the market in order to identify the best terms of deposit in keeping with internal objectives. This includes monitoring the credit rating of counterparties and investing in accordance with our internal policy. Counterparty credit limits are reviewed on a monthly basis, and may be updated throughout the financial year. The limits are set to minimise the concentration of risk and are set taking into account the type of financial asset and the credit rating of the financial institution.

Intercompany receivables have been considered in relation to the expected credit losses model under IFRS 9 and the impact is not material. As such, the provision for expected credit losses is less than £0.1m (2022: less than £0.1m).

Liquidity risk
The Group’s Treasury function ensures that the Group continues to have sufficient funding by monitoring rolling forecasts of the Group’s cash flows. The Group’s objective is to maintain a balance between continuity of funding and flexibility using operating cash flows and intercompany balances. At 31 December 2023, the RCF and overdraft facilities are unutilised.

21 Financial instruments (continued)

At 31 December 2023, the Group held cash of £1,027.7m (2022: £662.5m) to secure short-term flexibility. The amount of financing facilities available at the year end are disclosed below:

	Utilised at 31 December 2023 £ m	Remaining at 31 December 2023 £ m	Utilised at 31 December 2022 £ m	Remaining at 31 December 2022 £ m
Committed overdraft facilities	-	5.0	-	5.0
Revolving credit facilities	-	667.3	-	500.0
Standby credit facilities - bonds	-	167.4	-	64.4
Other short-term facilities	-	-	39.1	43.2
Supply chain financing facilities	426.3	148.8	415.7	114.3

The following table summarises the maturity profile of the Group’s financial liabilities based on contractual undiscounted payments. The disclosed forward contracts are the gross undiscounted cash flows. However, these amounts may be settled gross or net.

	Within 1 year £ m	Between 1 and 5 years £ m	After 5 years £ m	Total £ m
Year ended 31 December 2023				
External borrowings	294.8	4,828.5	1,521.3	6,644.6
Lease obligations	328.6	1,165.3	6,448.4	7,942.3
Financial derivatives				
Forward contracts	948.9	285.5	-	1,234.4
Cross-currency interest rate swaps	(1.8)	-	-	(1.8)
Interest rate swaps	(1.1)	7.9	-	6.8
Trade and other payables	4,390.1	-	-	4,390.1
Intercompany payables	9.9	-	-	9.9
Shareholder loan	-	-	451.0	451.0
	5,969.4	6,287.2	8,420.7	20,677.3
Year ended 31 December 2022				
External borrowings	394.7	4,563.9	-	4,958.6
Lease obligations	268.8	922.2	5,048.1	6,239.1
Financial derivatives				
Forward contracts	760.2	-	-	760.2
Cross-currency interest rate swaps	(12.5)	(28.7)	-	(41.2)
Trade and other payables	3,788.0	-	-	3,788.0
Intercompany payables	6.8	-	-	6.8
	5,206.0	5,457.4	5,048.1	15,711.5

21 Financial instruments (continued)

Capital risk management

The Group is subject to the risk that its capital structure may not be sufficient to support the growth of its business and maintain its existing credit rating. The capital structure of the Group consists of debt obligations (including the Senior Facilities, the Senior Secured Notes, Term Loans and the Senior Unsecured Notes) and equity (issued share capital, share premium and reserves).

Part of the Group's capital risk management strategy is to monitor a broad range of financial metrics and manage compliance with financial covenants relating to the Group's debt obligations. As at 31 December 2023, there have been no breaches of financial covenants.

22 Borrowings

	Par Value	*Maturity*	*Capital outstanding £m*	*Unamortised fees £m*	*Carrying value £m*
Year ended 31 December 2023					
Non-current borrowings					
Senior Unsecured Notes	£500.0m	16 Feb 2027	500.0	(11.1)	488.9
Sterling Senior Secured Notes	£2,250.0m	16 Feb 2026	2,250.0	(29.6)	2,220.4
Term Loan A	£195.0m	16 Aug 2025	165.8	(1.1)	164.7
Euro Term Loan B	€845.0m	16 Feb 2026	733.6	-	733.6
Sterling Senior Secured Notes	£500.0m	16 Feb 2026	500.0	(2.7)	497.3
Apollo Facility	£683.9m	31 Oct 2029	683.9	(35.9)	648.0
Corporate Ground Rent	£400.0m	12 Dec 2073	396.8	(9.2)	387.6
			5,230.1	(89.6)	5,140.5
Current borrowings					
Term Loan A	£195.0m	16 Aug 2025	19.5	-	19.5
Corporate Ground Rent	£400.0m	12 Dec 2073	3.2	-	3.2
			22.7	-	22.7
Other non-current assets					
Revolving Credit Facility - £667.3m			-	5.5	5.5
			-	5.5	5.5
Year ended 31 December 2022					
Non-current borrowings					
Senior Unsecured Notes	£500.0m	16 Feb 2027	500.0	(14.4)	485.6
Sterling Senior Secured Notes	£2,250.0m	16 Feb 2026	2,250.0	(42.7)	2,207.3
Term Loan A	£195.0m	16 Aug 2025	185.2	(1.8)	183.4
Euro Term Loan B	€845.0m	16 Feb 2026	747.7	-	747.7
Sterling Senior Secured Notes	£500.0m	16 Feb 2026	500.0	(3.8)	496.2
			4,182.9	(62.7)	4,120.2
Current borrowings					
Term Loan A	£195.0m	16 Aug 2025	9.8	-	9.8
Arthur Additional Bridge Facility	£200.0m	28 Oct 2023	200.0	(4.2)	195.8
Other current borrowings	£41.0m	31 Dec 2023	41.0	-	41.0
			250.8	(4.2)	246.6
Other non-current assets					
Revolving Credit Facility - £500.0m			-	5.1	5.1
			-	5.1	5.1

22 Borrowings (continued)

During the year, the Group issued the following notes and loans:

-A Term Loan with a par value of £683.9m was entered into on 31 October 2023. This loan attracts interest at SONIA + 6.75% per annum and payments of interest are made on a semi-annual basis. This loan matures on 31 October 2029 and has therefore been classified as non-current.

-A Bridge Loan with a par value of £290.0m was entered into on 31 October 2023. The loan attracted interest at SONIA + 7.00% per annum. The loan was repaid in full on 21 December 2023.

-The Group entered into a Corporate Ground Rent transaction and received a loan of £400.0m on 12 December 2023. This loan is split into Facility A and Facility B which attract interest per annum of 3.79% and 3.97% respectively. The loan matures in December 2073 and has monthly repayments of principal and interest. The loan has been classified as non-current except for principal that is repayable up to 31 December 2024, which has been classified as current.

The Group increased the size of the Revolving Credit Facility (RCF) by £167.3m to £667.3m, maturing in August 2025.

During the prior periods, the Group issued the following notes and loans:

- A senior facility with a par value of £200.0m was entered into on 28 October 2022 in order to fund the acquisition of Arthur Foodstores Limited. This facility attracted interest of SONIA +7.75% per annum and payments of interest are made on a semi-annual basis. The loan was repaid in full on 23 October 2023.

- Senior unsecured notes with a par value of £500.0m were issued on 24 February 2021. These notes attract interest at 4.0% per annum and payments of interest are made on a semi-annual basis. The notes mature on 16 February 2027 and have therefore been classified as non-current. These notes are listed on The International Stock Exchange ("TISE").

- Senior secured notes with a par value of £2,250.0m were issued on 24 February 2021. These notes attract interest at 3.25% per annum and payments of interest are made on a semi-annual basis. The notes mature on 16 February 2026 and have therefore been classified as non-current. These notes are listed on TISE.

- Term loan A with a par value of £195.0m was entered into on 16 February 2021. This loan attracts interest at SONIA (formerly LIBOR)+ 3.25% per annum and payments of interest are made on a semi-annual basis. This loan matures on 16 August 2025 and has therefore been classified as non-current, other than an amount of £19,500,000 which is due for repayment on 16 February 2024 and the amount of £9,750,000 which was repaid on 16 February 2023.

- Euro term loan B with a par value of €845.0m was entered into on 16 February 2021. This loan attracts interest at EURIBOR + 2.75% per annum and payments of interest are made on a semi-annual basis. This loan matures on 16 February 2026 and has therefore been classified as non-current. The Group has entered into Cross Currency Interest Rate Swaps relating to Euro Term Loan B to hedge the foreign currency and interest rate risk on both the principal and interest payments (see note 21 for further detail). This term loan is listed on TISE.

- Sterling senior secured notes with a par value of £500.0m were entered into on 5 November 2021. These notes attract interest at 4.5% per annum and payments of interest are made on a semi-annual basis. The notes mature on 16 February 2026 and have therefore been classified as non-current. These notes are listed on TISE.

At 31 December 2022 and 31 December 2023, there was £nil drawn down on the RCF facility.

22 Borrowings (continued)

Following the recognition of the liabilities under the debt agreements disclosed above, the Group also capitalised transaction costs which were directly attributable to the issue of the borrowings. Details of which are set out below:

	Fees incurred	*Accumulated amortisation*	*At 31 December*
	£m	*£m*	*£m*
Year ended 31 December 2023			
Capitalised fees			
Senior Unsecured Notes	19.9	(8.8)	11.1
Sterling Senior Secured Notes	65.6	(36.0)	29.6
Term Loan A	3.6	(2.5)	1.1
Sterling Senior Secured Notes	5.0	(2.3)	2.7
Apollo Facility	36.2	(0.3)	35.9
Corporate Ground Rent	9.2	-	9.2
Revolving Credit Facility - £667.3m	11.5	(6.0)	5.5
	151.0	**(55.9)**	**95.1**

	Fees incurred	*Accumulated amortisation*	*At 31 December*
	£m	*£m*	*£m*
Year ended 31 December 2022			
Capitalised fees			
Senior Unsecured Notes	19.9	(5.5)	14.4
Sterling Senior Secured Notes	65.6	(22.9)	42.7
Term Loan A	3.6	(1.8)	1.8
Sterling Senior Secured Notes	5.0	(1.2)	3.8
Arthur Additional Bridge Facility	5.0	(0.8)	4.2
Revolving Credit Facility - £500.0m	9.2	(4.1)	5.1
	108.3	**(36.3)**	**72.0**

Borrowings on the Consolidated Balance Sheet have been presented net of unamortised capitalised fees with the exception of the capitalised fees in relation to the £667.3m RCF which have been classified as a non-current asset.

23 Employee costs and benefits

Employee costs
Total costs charged to the Consolidated Income Statement in respect of employee benefits are as follows:

	Year ended 31 December 2023 £ m	Year ended 31 December 2022 £ m
Charge to operating costs		
Wages and salaries	2,737.4	2,526.4
Share-based payments charge	0.9	0.7
Social security costs	180.4	167.0
Defined contribution pension scheme costs	131.0	122.5
Total charge to operating costs	3,049.7	2,816.6
Charge to finance costs		
Net interest expense on pension scheme	0.4	0.3
Total charge to finance costs	0.4	0.3
Total employee benefit expense	3,050.1	2,816.9

Expenses relating to the Group's defined contribution pension schemes are included within operating costs and recognised on an accruals basis.

Defined benefit pension schemes
The amounts recognised in the Consolidated Balance Sheet are as follows:

	Year ended 31 December 2023 £ m	Year ended 31 December 2022 £ m
Fair value of scheme assets	-	0.5
Present value of scheme liabilities	(8.6)	(8.6)
Net liability for defined benefit pension schemes	(8.6)	(8.1)

23 Employee costs and benefits (continued)

Historically, ASDA Stores Limited ("ASDA Stores"), a wholly-owned subsidiary of the Group, has provided retirement benefits for eligible employees through two defined benefit plans in the UK, one funded, the ASDA Group Pension Scheme ("AGPS") and one unfunded, the Unapproved Unfunded Retirement Benefit Scheme ("UURBS").

On 9 July 2021, the Trustees of AGPS completed a full buy-out of this scheme with a third party insurer. The buy-out extinguished ASDA Stores' responsibility for funding the AGPS as sponsoring employer and as such, all assets and liabilities of the AGPS were de-recognised from the Group consolidated balance sheet during the 2021 financial year other than a small proportion of liabilities which have been settled in full during the year and have a carrying value at 31 December 2023 of £nil (2022 carrying value: £0.5m).

ASDA Stores remains the sponsoring employer of the UURBS and as such, liabilities relating to future pension payments to UURBS members are accounted for as employee benefit liabilities in the Group balance sheet.

Defined benefit pension schemes

Background to the AGPS buy-in and buy-out
For further detail, please refer to the Group's financial statements for the year ended 31 December 2022.

Amounts recognised in the consolidated Income Statement
Interest expense of £0.4m (2022: £0.3m) has been recognised during the year in relation to the unwind of discount on the liabilities of the UURBS.

Amounts recognised in Other Comprehensive Income
Pre-tax net losses of £0.1m (2022: net gains of £5.5m) have been recognised during the year in relation to actuarial movements on the liabilities of the UURBS.

23 Employee costs and benefits (continued)

Scheme liabilities

Changes in the present value of defined benefit obligation:

	Year ended 31 December 2023 £ m	Year ended 31 December 2022 £ m
Present value at start of year	(8.6)	(13.9)
Interest cost	(0.4)	(0.3)
Effect of changes in financial assumptions	(0.1)	5.5
Benefits paid	0.5	0.1
Present value at end of year	(8.6)	(8.6)

Scheme assets

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

	Year ended 31 December 2023 £ m	Year ended 31 December 2022 £ m
Fair value at start of year	0.5	0.5
Employer contributions	-	0.1
Benefits paid	(0.5)	(0.1)
Fair value at end of year	-	0.5

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2023 (continued)

23 Employee costs and benefits (continued)

Amounts recognised in the Consolidated Income Statement

	Year ended 31 December 2023 £ m	Year ended 31 December 2022 £ m
Amounts recognised in finance income or costs		
Net interest expense on plan liabilities	(0.4)	(0.3)
Total Income Statement charge	(0.4)	(0.3)

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

	Year ended 31 December 2023 £ m	Year ended 31 December 2022 £ m
Total remeasurements on defined benefit obligation	(0.1)	5.5
Deferred tax	0.1	(1.5)
Amounts recognised in the Statement of Comprehensive Income	-	4.0

23 Employee costs and benefits (continued)

Fair value of plan assets:
At 31 December 2023 the fair value of plan assets was £nil (2022: £0.5m) following settlement during the year of all remaining liabilities of the AGPS.

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

	Year ended 31 December 2023 %	Year ended 31 December 2022 %
Discount rate	4.6	4.9
Inflation - RPI	3.1	3.2
Inflation - CPI	2.3	2.3
Future pension increases	3.0	3.1

Post-retirement mortality assumptions

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

	Year ended 31 December 2023 Years	Year ended 31 December 2022 Years
Current UK pensioners at retirement age - male	21.4	21.8
Current UK pensioners at retirement age - female	23.0	23.5
Future UK pensioners at retirement age - male	22.7	23.2
Future UK pensioners at retirement age - female	25.4	25.8

Sensitivity analysis
Sensitivity analysis has not been presented as the remaining carrying value of defined benefit pension liabilities and their sensitivity to reasonable changes in the principal actuarial assumptions is not material.

23 Employee costs and benefits (continued)

Share-based payments

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

The total expenses recognised for the year arising from share-based payments are as follows:

	Year ended 31 December 2023 £ m	Year ended 31 December 2022 £ m
Equity-settled share-based payment charge	0.9	0.7

Management Incentive Plan

During the prior year, management shares in the immediate parent company of the Group were issued to eligible members of senior management employed by the Group as part of a Management Incentive Plan (“MIP”) in exchange for proceeds determined by an independently determined fair value calculated at the issue date. Under the MIP, an intermediate holding company of the Group - Bellis Midco 2 Limited - has entered into an agreement with the holders of MIP management shares (“MIP scheme members”) whereby MIP scheme members are granted put options which, when exercised, enable them to sell their management shares to Bellis Midco 2 Limited or another non-Group entity for a value which is based on an independent valuation determined at the exercise date.

MIP scheme members are required to be employed by the Group at the grant date of the MIP shares. If a member of the scheme ceases to be employed by the Group during the vesting period, Bellis Midco 2 Limited, a parent of Bellis Finco PLC, has the option to repurchase, or nominate another entity of the Group to repurchase, the shares during the 12 month period after the member’s leave date. As such, the Directors have determined that the MIP scheme falls within the scope of IFRS 2.

The difference between the IFRS 2 fair value and the fair value paid by MIP scheme members at the grant date is expensed over the vesting period (i.e. the period from the date on which the MIP shares are granted to the estimated exercise date) as an expense in the consolidated Income Statement.

As neither MIP shares nor put options over MIP shares are issued by entities within the Group, and as there is no recharge agreement in place which requires any entity within the Group to settle liabilities in respect of MIP shares, changes in the fair value of MIP shares are accounted for on an equity-settled basis.

23 Employee costs and benefits (continued)

Share-based payments (continued)

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

	Year ended 31 December 2023 Number (thousands)	Year ended 31 December 2022 Number (thousands)
Exercisable, beginning of year	7	-
Granted during the year	-	7
Expired during the year	(1)	-
Outstanding, end of year	6	7
Exercisable, end of year	-	-

The fair value of the options outstanding under the MIP scheme at 31 December 2023 is £4.2m (2022: £4.8m).

An amount of £0.9m (2022: £0.7m) has been accounted for as an equity-settled share based payments expense in respect of the MIP in accordance with the proportion of the vesting period which has elapsed during the year.

24 Provisions

	Dilapidations £ m	Insurance £ m	Other £ m	Total £ m
At 1 January 2023	76.7	109.6	-	186.3
On acquisition of Arthur Foodstores Limited	9.0	-	-	9.0
On acquisition of Euro Garages (Jersey) Limited	8.0	-	8.3	16.3
Provided during the year	9.3	46.9	-	56.2
Discount changes and unwinding	10.6	-	-	10.6
Provisions utilised during the year	-	(39.0)	-	(39.0)
Unused provision reversed during the year	(0.8)	(21.4)	-	(22.2)
At 31 December 2023	112.8	96.1	8.3	217.2
Current liabilities	-	39.0	-	39.0
Non-current liabilities	112.8	57.1	8.3	178.2

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

Where the Group settles insurance claims for which it has recourse to a third-party insurer, the amount due from the insurer is included within trade and other receivables. The carrying value of these amounts at 31 December 2023 is £nil (2022: £nil).

The dilapidation provision represents provisions for the cost of works required to remove leasehold improvements within leasehold properties at the end of their lease term. The amount of the provision recognised is adjusted based on the length of the lease remaining to reflect the uncertainty in the value of the provision where a lease has a substantial remaining term (greater than 35 years). The amount provided during the year is accounted for as an increase or decrease in the cost of property, plant and equipment and the impact of this will be recognised as depreciation over the lease terms of the sites to which the provision relates. The increase in the year is due primarily to additions relating to the sale & leaseback transaction (see note 10), and liabilities acquired during the year relating to the leasehold property of Arthur Foodstores Limited and subsidiaries of Euro Garages (Jersey) Limited.

A discount rate of 4.2% (2022: 4.0%) has been used in determining this provision. The provision will be utilised at the end of the respective terms of the leases giving rise to these liabilities.

25 Share capital and premium

	Number of shares	Share capital £ m	Share premium £ m	Total £ m
Authorised, allotted, called up and fully paid				
Ordinary shares of £1 each at 31 December 2022 and 31 December 2023	50,001	0.1	1,280.0	1,280.1

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

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

Included in the number of shares issued were 50,000 shares issued at par for a nominal value of £0.1m and an additional share issued at a premium for a value of £1,280.0m.

26 Reserves

Cash flow hedge reserve
The cash flow hedge reserve of £(13.9)m (2022: £57.4m) represents the gains and losses arising on revaluation of derivatives, being forward currency contracts, cross-currency interest rate swaps and interest rate swaps.

Retained earnings
The retained earnings balance of £2,658.8m (2022 restated: £2,430.8m) represents the brought forward retained earnings, £194.5m profit during the year and £0.9m share-based payment charges relating to the equity-settled MIP scheme (see note 23).

During the year, gains of £32.6m previously reclassified in the cash flow hedge reserve were reclassified to retained earnings. This amount relates to forward contract derivatives which were in place on 16 February 2021 - the date that the group acquired the entire issued share capital of ASDA Group Limited ("the acquisition date"). At the acquisition date, forward contracts entered into by ASDA Group Limited prior to that date were out of the money with a post-tax unrealised loss of £32.6m recognised as a net liability within the carrying value of net assets acquired by the Group on that date. This had the impact of reducing the bargain purchase gain recognised on the acquisition within the 2021 Income Statement (see 2021 financial statements for further detail). During the period between the acquisition date and 31 December 2021, realised losses on these contracts were recognised within cost of goods sold and tax expense with a corresponding gain recognised in the cash flow hedge reserve but as the unrealised losses were also recognised as a charge within the gain on bargain purchase, this resulted in an overstatement of the cash flow hedge reserve of £32.6m and a corresponding understatement of retained earnings of £32.6m at 31 December 2021. This has been corrected by transferring the amount from the cash flow hedge reserve to retained earnings in 2023 with no impact on total equity shareholders' funds at 31 December 2023 or 31 December 2022, no impact on profit for the current or prior year, and no impact on net assets at 31 December 2023 or 31 December 2022.

27 Obligations under leases

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

	31 December 2023 £ m	31 December 2022 £ m
Future minimum payments due:		
No later than one year	328.6	268.8
Later than one year and no later than two years	322.1	253.5
Later than two years and no later than three years	294.3	243.9
Later than three years and no later than four years	279.0	219.9
Later than four years and no later than five years	269.9	204.9
Later than five years	6,448.4	5,048.1
	7,942.3	6,239.1
Lease finance charges allocated to future years/periods	(4,152.1)	(3,178.4)
Present value of minimum lease payments	3,790.2	3,060.7

Total lease cash outflow in the year was £350.3m (2022: £300.4m). Included in financing activities in the cash flow statement are cash payments for the principal portion of the lease liability £148.5m (2022: £131.9m) and cash payments for the interest portion of the lease liability £175.9m (2022: £145.2m). £25.9m (2022: £23.3m) has been included in operating activities in the cash flow statement and relates to short term and variable lease expenses.

There are no instances at 31 December 2023 where future rental payments have been committed but not yet included in the lease liability.

27 Obligations under leases (continued)

Amounts recognised in Income Statement

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

	Note	31 December 2023 £ m	31 December 2022 £ m
Depreciation - land and buildings right-of-use assets		121.0	106.2
Depreciation - plant and equipment right-of-use assets		71.2	66.0
Impairment - land and buildings right-of-use assets: (reversal)/charge		(76.8)	144.6
Short-term lease expense[1]		9.6	7.6
Variable lease expense[2]		16.3	15.7
Sub-lease income		(9.3)	(9.0)
		132.0	331.1
Interest expense related to lease liabilities	9	176.8	145.6
Total amount recognised in Income Statement		308.8	476.7

Notes

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

[2] Variable lease expense consists primarily of contractual land and building service and insurance charges as a result of the Group election to combine lease and non-lease components. These are not fixed payments and therefore are not included in the lease liability. Variable payments represent 4.7% (2022: 5.2%) of overall lease payments in the year.

Operating leases

Operating lease agreements where Group is lessor

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

	Year ended 31 December 2023 £ m	Year ended 31 December 2022 £m
No later than one year	10.7	9.4
Later than one year and no later than five years	32.4	26.7
Later than five years	56.6	35.9
	99.7	72.0

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

28 Commitments

Capital commitments
As at 31 December 2023, the Group had entered into contracts of £22.8m (2022: £14.3m) to purchase property, plant and equipment and intangible assets.

Other financial commitments
As at 31 December 2023, the Group had entered into contracts to purchase US Dollars for £1,174.6m (2022: £742.9m) and energy for £243.7m (2022: £254.5m).

29 Contingent liabilities

Equal Value Claims
ASDA Stores Limited ("ASDA"), a wholly-owned subsidiary of the Group, has been served with circa 53,000 employment tribunal claims (and notified of an additional 6,410 High Court claims that have not been served and are stayed pending the outcome of the employment tribunal claims). The claims 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.

There are three stages to these proceedings:

• Comparability - on 26 March 2021, the Supreme Court upheld the Court of Appeal's decision that the work of hourly-paid workers in distribution centres and the work of hourly-paid workers in stores can be compared.
• Equal Value - this stage is a legal process to determine whether any of the claimants' roles are of equal value to any of the comparator roles. A court hearing on this stage of the proceedings is scheduled to commence on 9 September 2024.
• Material Factor Defence - if it is established that any roles are of equal value, there will be a further legal process to determine whether there are objective, non-discriminatory reasons for these differentials in pay and other terms.

At the balance sheet date and the date of approval of the accounts, the proceedings are at the Equal Value stage.

The Directors believe that there are substantial factual and legal defences to these claims and intend to defend the claims vigorously. No provision continues to be recognised on the basis that any potential liability is only a possible obligation, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits.

Following the acquisition by the Group of the entire issued share capital of ASDA Group Limited (the immediate parent of ASDA Stores Limited) on 16 February 2021, the Group has entered into an indemnification agreement which is guaranteed by a wholly owned subsidiary of the former ultimate parent of ASDA Stores Limited, Walmart Inc. ("Walmart") with respect to these claims. Walmart has indemnified the Group for these claims up to a contractually agreed amount.

30 Related parties

Identity of related parties

The following transactions were entered into with related parties during the current and prior year. The amounts disclosed below represent the total (charge) or credit recognised in the Income Statement:

Transactions recognised through Income Statement	Year ended 31 December 2023 £ m	Year ended 31 December 2022 £ m
Sales to Euro Garages Limited[1]	76.2	28.9
Reimbursements from Euro Garages Limited[2]	90.0	78.0
Rental income from Euro Garages Limited[4]	0.4	0.3
Sales to EG On The Move Limited[3]	1.1	-
Rental income from We Buy Any Car Limited[14]	0.9	0.6
Funding received on purchases from Leon Grocery Limited[7]	0.1	-
Commission and funding received from Jaja Finance Holding (UK) Limited[15]	2.5	0.6
Reimbursement from EG Finco Limited[16]	0.1	-
Rental income from Egspresso Limited[18]	2.2	-
Rental income from Clokken Limited[19]	0.1	-
Reimbursement from EG Corporate Services Limited[17]	1.4	-
Donation made to The Prince's Trust	(0.1)	-
Purchases from Leon Grocery Limited[5]	(0.9)	(0.2)
Disposal of lease to Monte Blackburn Limited[6]	-	0.1
Interest expense on loans due to Bellis Midco 4 Limited	-	(56.4)
Interest receivable on loans to Arthur Foodstores Limited	0.5	-
Interest expense on loan due to shareholders	(8.1)	-
Interest receivable on loans to Bellis Midco 2 Limited	25.8	49.3

The Group also made capital purchases of £2.1m from Euro Garages Limited and £0.1m from Leon Restaurants Limited. The following balances were in place with related parties at the reporting date.

Outstanding receivables and payables on Balance Sheet	Year ended 31 December 2023 £ m	Year ended 31 December 2022 £ m
Non-current payables due to shareholders[8]	(409.1)	-
Current payables due to Bellis Midco 4 Limited	(3.8)	(4.3)
Current payables due to Bellis Midco 2 Limited	(0.1)	-
Current payables due to Bellis Select Warehouse Limited[9]	(1.5)	(1.5)
Current payables due to Bellis Topco Limited	(0.5)	(0.4)
Current payables due to Property Newco Limited	(0.6)	(0.6)
Current payables due to Bellis Topco 2 Limited	(3.4)	-
Current payables due to Euro Garages Limited[10]	-	(1.1)
Current payables due to Monte Blackburn Limited	(0.5)	-
Current payables due to Scotco Restaurants Limited	(0.2)	-
Current payables due to Leon Grocery Limited	-	(0.1)

30 Related parties (continued)

Outstanding receivables and payables on Balance Sheet	Year ended 31 December 2023 £ m	Year ended 31 December 2022 £ m
Non-current receivables due from Bellis Midco 2 Limited[11]	773.2	747.4
Current receivables due from Bellis Midco 2 Limited	0.1	0.1
Current receivables due from Bellis Topco Limited[12]	4.1	3.1
Current receivables due from Bellis Topco 2 Limited	4.7	0.5
Current receivables due from Bellis Midco 4 Limited	0.2	0.2
Current receivables due from Bellis Holdco Limited	0.1	0.1
Current receivables due from Euro Garages Limited[13]	-	10.8
Current receivables due from EG Finco Limited	0.2	-
Current receivables due from EG Corporate Services Limited[20]	1.4	-
Current receivables due from EG On The Move Limited[21]	3.0	-
Current receivables due from EV Point Services Limited	0.6	-
Current receivables due from Monte Blackburn Limited[22]	1.9	-
Current receivables due from Scotco Restaurants Limited	0.1	-

In addition to the above, the Group paid consideration of £2,000.1m to EG Finco Limited to acquire Euro Garages (Jersey) Limited. At the same time, the Group entered into a Transitional Services Agreement ("TSA") with consideration allocated to this transaction of £27.3m. Furthermore, the Group also entered into an integration support agreement for a fixed amount of £11.3m payable over 2 years. Further to this, the Group has estimated deferred consideration of £25.3m which is included in trade and other payables. Please see further detail of these balances in note 2.

Up to 31 October 2023, transactions between the Group and Euro Garages Limited and Leon Grocery Limited are disclosed as related party transactions. The results of both entities have been consolidated from 31 October 2023 so are eliminated within the Group consolidated results from that date.

At 31 December 2022, an amount of £41.0m (see note 21) was payable to Arthur Foodstores Limited ("Arthur"). Prior to consolidation of Arthur's results from 30 May 2023, the amount was reduced by £8.8m following the finalisation of completion accounts (see note 2 for further detail). The remaining outstanding payable has been eliminated in the consolidated results of the Group from 30 May 2023.

At 31 December 2022, an amount of £26.6m due from Arthur Foodstores Limited was presented in loans receivable (see note 18). This included a balance of £23.6m arising out of cash lent to Arthur Foodstores Limited, largely in order to enable that entity to satisfy short-term working capital requirements; and a further balance of £3.0m which was transferred to the Group on 29 October 2022. In March 2023, Arthur repaid an amount of £18.0m plus interest of £0.5m. The remaining outstanding receivable has been eliminated in the consolidated results of the Group from 30 May 2023.

Further to these amounts, the Group purchased electricity on Arthur Foodstores Limited's behalf amounting to £0.8m which was recharged at cost prior to 30 May 2023. Any recharges to Arthur Foodstores Limited since that date have been eliminated on consolidation.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2023 (continued)

30 Related parties (continued)

[1] These sales relate to the wholesale supply of grocery products to Euro Garages Limited as part of the ASDA Express proposition.

[2] During the current year and the prior period, one of ASDA's fuel suppliers made deliveries direct to forecourts owned and operated by Euro Garages Limited. Euro Garages Limited has reimbursed the Group for the cost of these fuel supplies (£89.3m). The Group also received reimbursement relating to ASDA discount provided to EG Colleagues (£0.7m).

[3] These sales relate to the wholesale supply of grocery products to EG On The Move Limited.

[4] The Group has earned rental income from Euro Garages Limited for concessions that operate on ASDA sites.

[5] This relates to the purchase of Leon Grocery Limited products for sale in ASDA stores.

[6] A lease with a net book value of £1.0m was granted to Monte Blackburn Limited in the prior year for proceeds of £1.1m, resulting in a profit on disposal of £0.1m.

[7] This relates to funding earnt on purchases of goods for sale from Leon Grocery.

[8] This comprised a loan to fund the acquisition of Euro Garages (Jersey) Limited by the Group. This balance is owed to Bellis Midco 2 Limited, a fellow wholly-owned subsidiary of the ultimate parent.

[9] This relates predominantly to the VAT recovered and transaction fees paid on behalf of Bellis Select Warehouse Limited.

[10] This relates to the purchase of property, plant and equipment items during the prior year.

[11] This relates primarily to the sale of distribution properties to Bellis Select Warehouse Limited for a five-year promissory note. The receivables were novated to Bellis Midco 2 Limited on 31 December 2021.

[12] This relates predominantly to transaction fees paid on behalf of Bellis Topco Limited.

[13] This relates to receivables due from Euro Garages Limited which were presented in trade and other receivables in the prior year.

[14] This relates to rental income and is classed as a related party via investment from TDR.

[15] This relates to to commission earned by the Group from Jaja Finance Holding (UK) Limited in respect of ASDA rewards pounds earned by customers when they use credit cards issued by Jaja Finance Holding (UK) Limited.

[16] This relates to IT costs recharged to EG Finco Limited.

[17] This relates to IT, payroll costs and colleague discount recharged to EG Corporate Services Limited.

[18] The Group is earnings rental income from Egspresso Limited on Starbucks sites.

[19] The Group is earning rental income from Clokken Limited on KFC sites.

[20] This relates to third-party invoices settled by the Group on behalf of EG Corporate Services Limited which have been recharged in full, IT recharges and colleague discount costs as explained above.

[21] This relates to third party invoices settled by the Group on behalf of EG On The Move Limited which have been recharged in full.

[22] This relates to assets disposed of by the Group to Monte Blackburn Limited for which settlement remained outstanding at the Balance Sheet date and which resulted in no gain or loss in the Income Statement.

30 Related parties (continued)

Amounts owed by fellow subsidiaries of the ultimate parent totalled £782.4m at 31 December 2023 (2022: £751.4m), as disclosed in note 21.

Amounts owed to fellow subsidiaries of the ultimate parent totalled £419.0m at 31 December 2023 (2022: £6.8m), as disclosed in note 21.

In addition to the transactions disclosed above, during the year ended 31 December 2023 the following transactions took place, all of which were less than £0.1m individually:

• the Group earned parking income from Paragon Automotive Limited and at the end of the period, there were balances outstanding due from Paragon Automotive Limited.

• the Group earned parking income from Walon Limited and at the end of the period, there were balances outstanding due from Walon Limited.

• the Group earned income for distribution services from Leon Grocery Limited.

• the Group earned a share of the profit/loss from Leon Restaurants in ASDA offices from Leon Restaurants Limited.

• the Group earned income for communication on Wagestream services from Wagestream Limited.

• the Group made a contribution to research on semi-autonomous hydrogen vehicles to Hydrogen Vehicle Solutions Limited.

• the Group reimbursed TDR for expenses incurred on behalf of the Group, and at the end of the year, there were no balances outstanding to or from TDR.

At 31 December 2023, the Group had outstanding balances due to Coopland and Son (Scarborough) Limited and Jaja Finance Limited and outstanding balances due from EG Retail Services and Jaja Finance Limited, both of which were less than £0.1m individually and in aggregate.

Transactions with the Directors are disclosed in note 8.

30 Related parties (continued)

Transactions with key management personnel

In line with guidance in IAS 24 - Related Party Disclosures, transactions with individuals identified as key management personnel and outstanding balances with those individuals at the balance sheet date are disclosed below. As detailed in the Strategic Report, the board of directors of Bellis Topco 2 Limited ("the Topco 2 Board"), together with the Executive Committee, are the key decision-making forums responsible for the operational management of the Group's activities and for setting and guiding the strategic direction of the Group. As such, the directors have determined that transactions and balances with individuals employed by the Group - for the time period that they held formal roles on either or both of the Topco 2 Board and Executive Committee - fall within the IAS 24 scope of transactions with key management personnel.

Transactions with key management personnel in the year ended 31 December 2023 and 31 December 2022 and balances outstanding at the balance sheet date are as follows:

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Short-term employee benefits	10.8	7.7
Share-based payments	0.8	0.5
Compensation for loss of office	-	1.0
Total	11.6	9.2
Receipts of cash by the Group from key management personnel	0.1	3.0
Balances owed to key management personnel at year end	4.9	0.6

- Short-term employee benefits consist of salary, cash bonuses and benefits recorded as expenses by the Group during the year in respect of individuals identified as key management personnel.
- The amount disclosed as share-based payments represents the expense recorded in the consolidated Income Statement in respect of the MIP scheme - further detail is provided in note 23.
- Cash receipts of £0.1m (2022: £3.0m) arose during the year due to key management personnel subscribing for management shares in Bellis Midco 4 Limited under the MIP scheme described in note 23. As this cash is being held by the Group on behalf of Bellis Midco 4 Limited, it is accounted for as an intercompany payable balance.
- Balances owed to key management personnel at 31 December 2023 and 31 December 2022 consist of employment costs recorded in the consolidated Income Statement during the year which are outstanding at the balance sheet date.

30 Related parties (continued)

Subsidiary audit exemptions

The following UK subsidiary undertakings are exempt from the requirements of the Companies Act 2006 (the Act) relating to the audit of individual accounts by virtue of section 479A of the Act.

Name	Company number
ASDA Delivery Limited	03873501
ASDA Southbank Limited	02686810
ASDA Supermarkets Limited	04144792
Chorley Renaissance Limited	06310474
Forza AW Limited	05967526
George Sourcing Services UK Limited	04007013
EG Foodservice Limited	10948832
Leon Naturally Fast Food Limited	08106329
Wolfson Trago Limited	07379589
Wycliffe Moore Limited	07152865

31 Ultimate parent company and parent company of larger group

At 31 December 2023 and 31 December 2022 and at the date of approval of the financial statements, the Company's immediate parent was Bellis Midco 4 Limited, a company incorporated in Jersey.

At 31 December 2023 and 31 December 2022 and at the date of approval of the financial statements, the ultimate parent company and controlling party was Bellis Topco Limited, which is incorporated in Jersey and is jointly controlled by the Issa brothers and TDR Capital LLP.

32 Events since the Balance Sheet date

On 22 April 2024, the Group announced that it intended to launch the syndication of a new £900 million (equivalent) euro-denominated term loan B facility with a maturity of seven years. In addition, the Group also announced that it had commenced a process with key relationship banks and lenders seeking an extension of its revolving credit facilities and term loan A facility.

On 26 April 2024, the Group launched an invitation to holders of its 3.25% Senior Secured Notes due in 2026 and its 4.5% Senior Secured Notes due in 2026 to tender the notes for cash. The offer to tender expires on 7 May 2024.

Company Balance Sheet as at 31 December 2023

Registration number: 12855336

Bellis Finco PLC - Parent Company

	Note	31 December 2023 £ m	31 December 2022 £ m
Assets			
Non-current assets			
Investments	4	665.3	665.3
Intercompany receivables	6	1,682.8	1,246.4
		2,348.1	1,911.7
Current assets			
Cash and cash equivalents		3.7	4.1
Total assets		2,351.8	1,915.8
Equity and liabilities			
Equity			
Share capital	7	0.1	0.1
Share premium	8	1,280.0	1,280.0
Retained earnings	8	137.9	117.4
Total equity		1,418.0	1,397.5
Non-current liabilities			
Borrowings	5	488.9	485.6
Shareholder loan	9	409.1	-
		898.0	485.6
Current liabilities			
Trade and other payables	9	4.9	5.0
Intercompany payables	9	30.9	27.7
		35.8	32.7
Total liabilities		933.8	518.3
Total equity and liabilities		2,351.8	1,915.8

In accordance with the exemptions given by Section 408 of the Companies Act 2006, the Company has not presented its own Income Statement. The profit for the year in the financial statements of the Company was £20.5m (2022: £58.1m). There were no other items of comprehensive income during the year.

Approved by the Board on 26 April 2024 and signed on its behalf by:

Mohsin Issa

M Issa
Director

Company Statement of Changes in Equity for the Year Ended 31 December 2023

	Share capital £ m	Share premium £ m	Retained earnings £ m	Total £ m
At 1 January 2022	0.1	1,280.0	59.3	1,339.4
Profit for the year	-	-	58.1	58.1
At 31 December 2022	0.1	1,280.0	117.4	1,397.5

	Share Capital £ m	Share Premium £ m	Retained Earnings £ m	Total £ m
At 1 January 2023	0.1	1,280.0	117.4	1,397.5
Profit for the year	-	-	20.5	20.5
At 31 December 2023	0.1	1,280.0	137.9	1,418.0

Notes to the Parent Company Statements for the Year Ended 31 December 2023

1 Accounting policies

The following accounting policies have been applied consistently in the year.

Authorisation of financial statements and statement of compliance with FRS 101
The financial statements of Bellis Finco PLC (the "Company") for the year ended 31 December 2023 were authorised for issue by the Board of Directors on 26 April 2024 and the Balance Sheet was signed on behalf of the Directors by M Issa. The Company is incorporated and domiciled in England under the Companies Act 2006 (registration number 12855336).

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

The Company's financial statements are presented in Sterling and all values are rounded to the nearest hundred thousand pounds (£0.1m) except when otherwise indicated. The presentational currency is also the Company's functional currency.

Basis of preparation
The Directors have assessed the Company's ability to continue as a going concern including a review of the forecast cash flows, future trading performance and existing borrowings in place. Whilst the Company is currently in a net current liabilities position, based on the reviews previously described, the Directors confirm that the Company has adequate resources to continue to operate for a period up to twelve months from the date of approval of the accounts and accordingly the going concern basis continues to be appropriate for the preparation of the Financial Statements.

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

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

Where applicable, equivalent disclosures are included in the Consolidated Financial Statements of Bellis Finco PLC, in which the Company is consolidated.

1 Accounting policies (continued)

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

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

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

Investments
Investments in subsidiaries are stated at cost less provision for impairment.

Intercompany receivables
Intercompany receivables are initially recorded at fair value and subsequently recognised at amortised cost. Intercompany receivables are interest-bearing, unsecured and are repayable at maturity.

Cash and cash equivalents
Cash and cash equivalent comprise of cash balances.

Trade and other payables
Trade and other payables are initially recorded at fair value and subsequently recognised at amortised cost. Non-interest-bearing intercompany payables are unsecured and repayable on demand. Interest-bearing intercompany payables are repayable at maturity.

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

2 Auditors' remuneration

The Company's audit fee for the year ended 31 December 2023 was £0.2m (2022: £0.2m). The Company's audit costs are paid by another group company. There were no non-audit fees paid to the Company's auditor.

3 Employee numbers and costs

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

Directors' remuneration is paid by another group company and cannot be allocated between entities and therefore has not been recharged to this Company. The Directors' remuneration in respect of the Group is disclosed in note of the Bellis Finco PLC consolidated financial statements.

4 Investments

Group subsidiaries

	Investment in subsidiaries £ m
Cost or valuation	
At 1 January 2023	665.3
At 31 December 2023	665.3
Carrying amount	
At 31 December 2023	665.3
At 31 December 2022	665.3

The recoverable amount of the Company's investments has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a three-year period. Assumptions used to calculate value in use are consistent with those described in note 15 of the consolidated financial statements. Following this review, no impairment has been recognised.

4 Investments (continued)

Subsidiary undertakings
As at 31 December 2023, the following companies were subsidiary undertakings.

Name of subsidiary	Country of incorporation and principal place of business	% equity held
Arthur Foodstores Limited	United Kingdom	100%
ASDA Delivery Limited	United Kingdom	100%
ASDA Employee Share Schemes Trustee Limited	United Kingdom	100%
ASDA Finance Limited	Jersey	100%
ASDA Financial Services Limited	United Kingdom	100%
ASDA Guernsey Limited	Guernsey	100%
ASDA Group Limited	United Kingdom	100%
ASDA Holdco Limited	United Kingdom	100%
ASDA Holdco 2 Limited	United Kingdom	100%
ASDA Pension Plan Trustees Limited	United Kingdom	100%
ASDA Propco Limited	United Kingdom	100%
ASDA Quest Trustee Limited	United Kingdom	100%
ASDA Southbank Limited	United Kingdom	100%
ASDA Storage Limited	United Kingdom	100%
ASDA Stores Limited	United Kingdom	100%
ASDA Stores (Belfast) Limited	United Kingdom	100%
ASDA Supermarkets Limited	United Kingdom	100%
Bandsound Limited	United Kingdom	100%
Beehive FTG Limited	United Kingdom	100%
Bellis Acquisition Company PLC*	United Kingdom	100%
Bellis Acquisition Company 2 Limited	Jersey	100%
Bellis Acquisition Company 3 Limited	Jersey	100%
Chorley Renaissance Limited	United Kingdom	100%
EG Foodservice Limited	United Kingdom	100%
Erteco U.K. Limited	United Kingdom	100%
Essencerealm Limited	United Kingdom	100%
Euro Garages Limited	United Kingdom	100%
Euro Garages (Jersey) Limited	Jersey	100%
Ever 1295 Limited	United Kingdom	100%
Ever 2010 Limited	United Kingdom	100%
Ever 2010 North Limited	United Kingdom	100%
Ever 2010 South Limited	United Kingdom	100%
FeedBritain Limited	United Kingdom	100%
Forza AW Limited	United Kingdom	100%
Forza Foods Limited	United Kingdom	100%
George Sourcing Services UK Limited	United Kingdom	100%
George Tedarik Hizmetleri A.S.	Turkey	100%
International Procurement and Logistics Limited	United Kingdom	100%
International Produce Sociedad Limitada	Spain	100%
Kent Nominee 1 Limited	Jersey	100%
Kent Nominee 2 Limited	Jersey	100%
Kober Limited	United Kingdom	100%
Leon Grocery Limited	United Kingdom	100%
Leon Naturally Fast Food Limited	United Kingdom	100%
Leon Restaurants Limited	United Kingdom	100%
McLagan Investments Limited	United Kingdom	100%
Nordicline Limited	United Kingdom	100%
Porth Investments Limited	United Kingdom	100%

4 Investments (continued)

Name of subsidiary	Country of incorporation and principal place of business	% equity held
Power4all Limited	United Kingdom	100%
Project America Bidco Limited	Jersey	100%
Reach Belvedere Limited	United Kingdom	100%
Selby Produce Limited	United Kingdom	100%
The Burwood House Group Limited	United Kingdom	100%
The George Davies Partnership Limited	United Kingdom	100%
Vinpack Limited	United Kingdom	100%
Westry Produce Limited	United Kingdom	100%
Wolfson Trago Limited	United Kingdom	100%
Wycliffe Moore Limited	United Kingdom	100%

*indicates a direct investment of Bellis Finco PLC

All investments listed above have 100% ordinary share capital, except for ASDA Finance Limited which includes 0.1% preference share capital as part of total capital.

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

ASDA Finance Limited *12 Castle Street, St Helier, Jersey, JE2 3RT*

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

ASDA Stores (Belfast) Limited *ASDA, 150 Junction One International Outlet, Antrim, United Kingdom, BT41 4GY*

Bellis Acquisition Company 3 Limited, Bellis Acquisition Company 2 Limited & Project America Bidco Limited *13-14 Esplanade, PO BOX 536, St Helier, Jersey*

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

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

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

Kent Nominee 1 Limited & Kent Nominee 2 Limited *12 Castle Street, St Helier, Jersey, JE2 3RT*

Kober Limited *Unit 1 Foxbridge Way, Normanton Industrial Estate, Normanton, Wakefield, WF6 1TN*

Euro Garages (Jersey) Limited *47 Esplanade, St Helier, Jersey, JE1 OBD*

5 Borrowings

Year ended 31 December 2022	*Par Value*	*Maturity*	*Carrying value £m*
Non-current borrowings			
Senior Unsecured Notes	£500.0m	16 February 2027	500.0
.			
Year ended 31 December 2022			
Non-current borrowings			
Senior Unsecured Notes	£500.0m	16 February 2027	500.0

During the period ended 31 December 2021, the Company issued Senior unsecured notes ("SUNs") with a par value of £500.0m. These notes attract interest at 4.0% per annum and payments of interest are made on a semi-annual basis. The notes mature on 16 February 2027 and have therefore been classified as non-current.

No fees have been capitalised in the year (2022: £nil) in relation to the SUNs. At 31 December 2023, accumulated amortisation on these fees is £8.8m (2022: £5.5m), resulting in an unamortised balance of £11.1m being outstanding at 31 December 2023 (2022: £14.4m). This is included in borrowings at 31 December 2023 and therefore the net carrying amount of the SUNs is £488.9m (2022: £485.6m).

6 Receivables

	31 December 2023 £ m	**31 December 2022 £ m**
Amounts owed by fellow wholly-owned subsidiaries of the ultimate parent	1,682.8	1,246.4

Intercompany receivables attract interest at a fixed rate of 3.45% - 11.94% (2022: 3.45% - 4.25%) and are repayable at their maturity.

The increase in intercompany receivables was predominantly driven by an intercompany loan of £401.0m to the Company's wholly-owned subsidiary, Bellis Acquisition Company PLC, to partially fund the acquisition of Euro Garages (Jersey) Limited.

In order to assess the probability of default and to determine the value of expected credit losses in respect of the Company’s intercompany receivables, the directors have modelled an orderly settlement of all intercompany balances between entities within the Group and entities outside the Group which are fellow wholly-owned subsidiaries of the ultimate parent, including the Company.

This analysis is based on the directors’ forecast of future cashflows. Downside sensitivities to the base case assumptions within this forecast have been modelled and in all scenarios, the value of cashflows realised is sufficient to enable full and orderly settlement of all balances. As such, the directors have determined that the probability of default in relation to the Group’s intercompany receivables is remote and the impact of expected credit losses is immaterial. Accordingly, the carrying value of the Company’s expected credit losses provision in respect of intercompany receivables is less than £0.1m (2022: less than £0.1m).

7 Share capital

Allotted, called up and fully paid shares

	No.	**£m**
Ordinary shares of £1 each at 31 December 2022 and 31 December 2023	50,001	0.1

8 Share premium and other reserves

	Share premium £ m	Retained earnings £ m	Total £ m
At 1 January 2023	1,280.0	117.4	1,397.4
Profit for the year	-	20.5	20.5
At 31 December 2023	1,280.0	137.9	1,417.9

The changes to each component of equity resulting from items of other comprehensive income for the prior year were as follows:

	Share premium £ m	Retained earnings £ m	Total £ m
At 1 January 2022	1,280.0	59.3	1,339.3
Profit for the year	-	58.1	58.1
At 31 December 2022	1,280.0	117.4	1,397.4

9 Trade and other payables

	31 December 2023 £ m	31 December 2022 £ m
Accrued expenses	4.9	5.0
Intercompany payables		
Current	30.9	27.7
Shareholder loan		
Non-current	409.1	-

Current intercompany payables are non-interest bearing and are repayable on demand.

The £409.1m non-current shareholder loan balance comprises of a £401.0m subordinated shareholder loan used to partially fund the acquisition of Euro Garages (Jersey) Limited and £8.1m interest accrued on this balance. This loan has a maturity of May 2033 and attracts an interest rate of 11.94%.

10 Commitments

The Company has no financial commitments.

11 Ultimate parent company and parent company of a larger group

At 31 December 2023 and at the date of approval of the financial statements, the Company's immediate parent was Bellis Midco 4 Limited, a company incorporated in Jersey.

At 31 December 2023 and at the date of approval of the financial statements, the ultimate parent company and controlling party was Bellis Topco Limited, which is incorporated in Jersey and is jointly controlled by the Issa brothers and TDR Capital LLP.