Registration number: 12855336

Bellis Finco PLC

Annual Report and Consolidated Financial Statements

For the Year Ended 31 December 2022

Contents

Company Information

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Company secretary	I Patel
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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 2022. 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 grocery retailer headquartered in Leeds, UK.

With roots dating back to a family business in the 1920's in West Yorkshire, today Asda serves over 15 million customers each week from over 600 stores located around the UK with its team of over 140,000 colleagues.

Our primary operations include the sales of groceries, clothing, general merchandise and fuel through our stores and online. We also offer a range of other services including 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 an icon 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.

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.

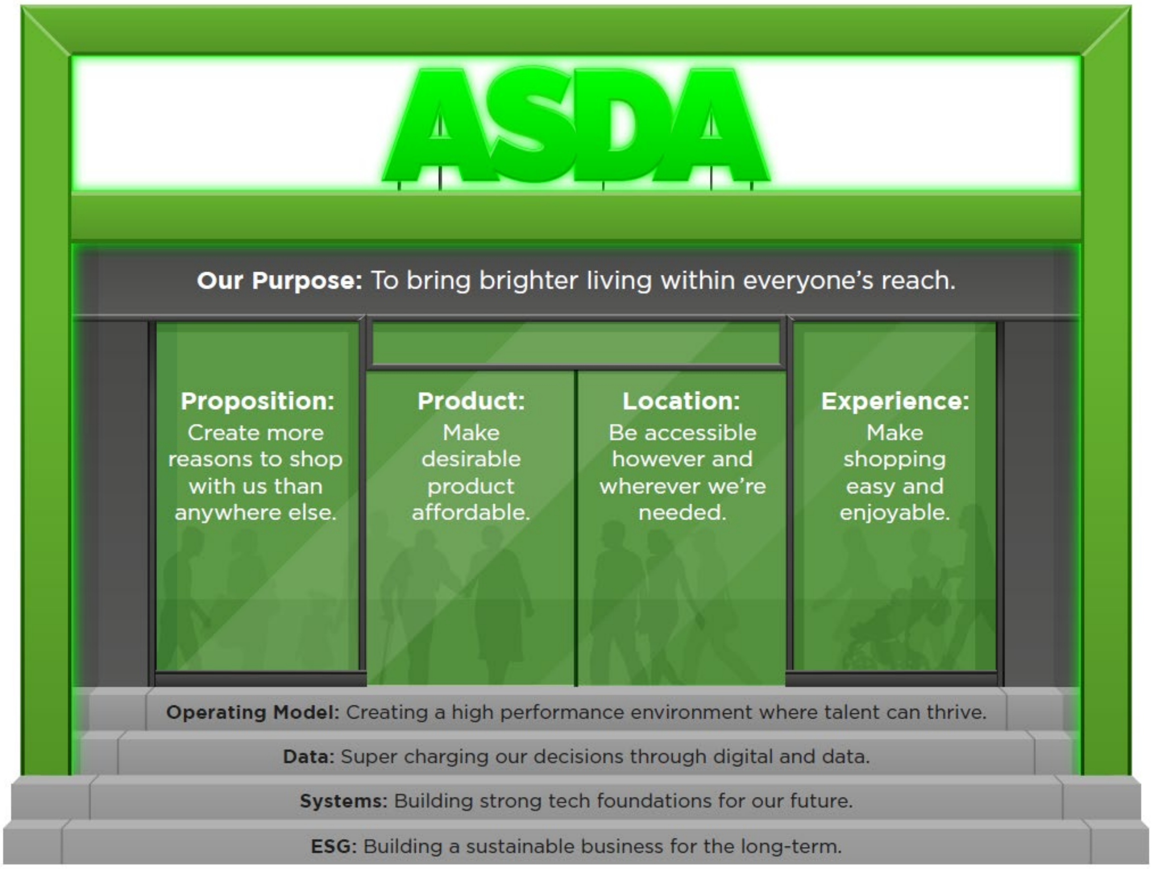
Mohsin and Zuber Issa are the co-founders of EG Group, a leading petrol forecourt retail convenience operator founded from a single petrol forecourt in Bury, Lancashire in 2001. The business now has more than 6,200 sites in 10 countries.

Our Purpose and Strategy

Our purpose it 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 people 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 them to our customers.
- ***We are all colleagues, together one team:*** we are over 140,000 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 and fuel markets. We create value in our business through four key operational steps: plan, buy, move, sell. All parts of our business directly or indirectly aligned to achieve one of these outcomes.

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 2,900 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.
- This reduces 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 each week.

Sell

- We sell our products through our network of 633 stores and online through Asda.com and George.com.
- Around 85% of our sales excluding petrol in FY22 were in grocery, with the remainder in George clothing and general merchandise.
- 123,000 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 table below are those against which the Group measures its performance on an ongoing basis.

Note: to provide a more meaningful comparison, throughout the Strategic Report, the results for the year ended 31 December 2021 ("FY21") down to the level of operating profit are presented on an annualised basis as if Asda Group Ltd had been acquired by Bellis Finco plc on 1 January 2021. Prior year comparative results presented in the Financial Statements and associated notes later within this Annual Report relate to the period from 3 September 2020 to 31 December 2021. The Asda Group was acquired by Bellis Finco plc on 16 February 2021 and the actual FY21 results therefore do not represent a full comparative trading period.

IFRS Financial Measures

The Group's key IFRS financial measures are summarised in the table below.

	FY22	**FY21 (annualised)**	**Period ended 31 December 2021 (actual)**
Revenue	£24,478m	£23,489m	£20,710m
Operating profit pre non-underlying items*	£406m	£623m	£565m
Operating profit post-non-underlying items*	£217m	£506m	£448m
(Loss)/profit before tax	£(74)m	*n/a*	£3,036m
(Loss)/profit after tax	£(62)m	*n/a*	£2,790m

**Non-underlying items are defined in Note 4 to the Financial Statements.*

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

Alternative Performance Measures

Some of the 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.

Metric	Definition	FY22	FY21 (annualised)
Revenue ex-petrol	Total sales (excluding VAT) excluding fuel.	£20,452m	£20,424m
Like-for-like sales (ex-petrol)	A measure of annual growth of sales (excluding VAT) calculated as comparable current year sales minus prior year sales for the current year comparable sales divided by prior year sales for the current year comparable sales. Current year comparable sales includes all revenue except petrol 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, toyou. Sales are net of Asda Rewards earned and other discounts. Refer below for details of the calculation of like-for-like sales growth.	(0.2)%	*n/a*
Adjusted EBITDA	EBITDA is calculated by adding back to profit for the period income tax expense, finance income, finance costs, amortisation and depreciation related charges, and other income. EBITDA is then adjusted for the period for certain historical costs, including impairment charges for both tangible, intangible and leased assets, asset-write offs, elimination of IFRS 16 impact, pension guarantees, share award costs, 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 below.	£886m	£1,172m
Capital Expenditure	Capital Expenditure is defined as 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). It excludes capital expenditure on Project Future, investment required by Asda to separate from Walmart's IT systems.	£276m	£419m
Free Cash Flow	Free Cash Flow is calculated as Adjusted EBITDA less Capital Expenditure (excluding capital expenditure on Project Future).	£610m	£753m

Non-Financial KPIs

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

Unaudited	FY22	FY21 (annualised)
Kantar FMCG Grocery Panel – Grocery market share[1]	12.0%	12.0%
Number of transactions (thousands)[2]	862,799	825,471

Online sales participation[3]	16.2%	17.7%
Asda Rewards active customer numbers[4]	3.0m	*n/a*
Asda Rewards participation[5]	32%	*n/a*

Note 1: Kantar week FMCG grocery panel, grocery market share, 12 weeks ending 25 December 2022 and 26 December 2021 respectively
Note 2: Total number of individual transactions during the year
Note 3: proportion of food sales through online and click and collect channels
Note 4: number of customers using Asda Rewards in the last 30 days, rolling four-week average, as at 31 December 2022. Asda Rewards was launched in FY22 and there is therefore no comparative value for FY21.
Note 5: proportion of sales linked to Asda Rewards, December 2022.

Discussion of each of these KPIs in the context of FY22 performance is included within the Financial Review section 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.

Financial Review

Summary

FY22 marked the first full financial year under the Group's new ownership. The year presented a range of macro-economic challenges: as the world emerged from the global pandemic, Russia's invasion of Ukraine sparked an energy crisis, which further accelerated growing inflation. As a result, cost-of-living pressures have continued to create uncertainty for customers and businesses alike.

Against this backdrop, Asda recorded a resilient performance in the year ended 31 December 2022 ("FY22"), with sales flat to the prior year. The Group focused on initiatives to support customers in the cost-of-living crisis and protect market share by investing in price and quality. In addition, supply side inflation impacting the cost of goods and energy costs, alongside wage increases to support colleagues, all contributed to reduced profitability, with Adjusted EBITDA of £886m 24% lower than the prior year.

The Group remained highly cash generative, with Free Cash Flow of £610m in the year (FY21 annualised: £753m).

In October 2022 Asda Stores Ltd, a subsidiary within the Group, acquired 132 convenience sites from the Co-operative Group, Arthur Foodstores Ltd. This marks a significant step for the group into the convenience market. An Initial Enforcement Order is in place from the Competition and Markets Authority whilst it undertakes an investigation on the transaction. As a result, the Group is not deemed to have control and the financial results of Arthur Foodstores Ltd have therefore not been consolidated into the Group's accounts for FY22.

On 14 March 2023 the CMA delivered its Phase 1 decision in respect of its investigation into the transaction. They identified 13 potential areas for competition concern, with the potential for local remedies. The Group has offered to dispose of the 13 sites in question and the CMA has indicated that it considers that there are reasonable grounds for believing that the undertakings offered, or a modified version of them, might be accepted under the Enterprise Act 2002.

Further detail of performance in the year is discussed below.

Revenue

The Group's strategic focus is on revenue excluding petrol, which was £20,452m in FY22 (FY21 annualised: £20,424m; actual: £17,900m). On an annualised basis, this represents a year on year increase of 0.1% and a like-for-like decrease of (0.2)%.

Ex-petrol sales comprise food, clothing and general merchandise sales, c. 85% of ex-petrol revenue in FY22 comprised food sales (FY22 annualised: 84%). FY22 revenue was broadly in line with the prior year. Performance in the first half of the year was challenging. In the context of growing inflation and cost of living pressures and prior year of exceptional sales during FY21 Covid-19 lockdowns, the Group experienced a decline in like for like sales and some loss of market share. Performance recovered in the second half of the year and showed strong growth, driven by Asda putting initiatives in place to drive its strategic objectives and offering customers great value and choice to support them with cost of living pressures, including launching Dropped and Locked prices, Just Essentials and Asda Rewards. Market share recovered in the second half of the year and the total number of customer transactions increased.

Revenue including petrol of £24,478m was £989m higher than the prior year on an annualised basis (FY21 actual revenue: £20,710m), due to higher fuel prices in the year driven by inflation in oil prices, and higher fuel volume sales following lockdowns in FY21 impacting travel.

Further commentary below provides detail on the performance of Asda's key categories.

Food

In the first six months of FY22 ("H1 22") the Group experienced like-for-like decline in sales due to Covid-19 related lockdowns in the prior year which led to an increase in at-home grocery consumption. The lockdown was in place for the majority of Q1 21, with some restrictions continuing into Q2 and beyond. The Group also experienced loss of market share over H1 which further contributed to like-for-like sales declines.

From Q2 onwards, the Group experienced an improvement in sales momentum and recorded positive like-for-like results for the second half of the year. Food sales were boosted following the launch of Asda's Dropped and Locked price campaign, the first major supermarket to lock prices for customers in light of cost-of-living pressures. The campaign saw prices of a wide selection of family favourite products dropped by an average of 12% and locked until the end of the year, to give customers certainty around their shopping. In May Asda launched its new opening price point own brand range, Just Essentials by Asda. The range replaced Asda Smart Price, with new branding and products reformulated for taste and quality, doubling the number of items in the range and providing all the products customers need to keep the household running on a budget.

Throughout the year the Group also continued its investment in mid-tier own-brand ranges. Following on from refreshing the produce range in FY21, Asda overhauled its bakery and meat, fish and poultry categories including expanding the range of products, improving the quality and refreshing the packaging. 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 and contributing to strong like-for-like sales growth in food in the last six months of FY22 ("H2 22").

In August, Asda rolled out its new loyalty programme Asda Rewards nationwide, following successful trials in a number of stores since the start of the year. Asda Rewards is unique amongst its competitors in providing customers with Asda pounds not points for their loyalty through an app-based scheme. Customers earn cash back on their shopping, with regularly updated missions and star products enabling extra savings. Asda Rewards grew to almost three million active users by the end of the year and continues to deliver strong incremental sales for the Group, with more than a third of all sales being linked to Asda Rewards.

Non-food

In non-food sales, performance in Q1 was similarly lower than the comparative period in FY21 when Asda benefited from non-essential retail stores being closed during Covid-19 lockdowns. Sales in both clothing and general merchandise were also impacted by supply chain challenges from Q4 21 which led to the wrong stock being in place in the early part of the year. Direction provided by new leadership contributed to significant improvement in sales momentum in Q2 22, in particular following the Jubilee Weekend, when our proposition appealed strongly to customers and we delivered new relevant product. In Q3, clothing grew ahead of the market, with particular strengths in women's wear and back to school sales, supported by improvements in merchandising and in-store shopping experience following reopening fitting rooms after Covid-related closures. George is the market leader in children's wear, baby wear and school wear[1]. In Q4, clothing sales were impacted by availability challenges resulting which arose during a major system upgrade. Some issues with the transfer to the new system led to challenges in visibility and allocating stock, preventing product from being distributed around the store network appropriately; however sales recovered in December

[1] Source: Kantar Worldpanel, 52 weeks ending 5 February 2023

following resolution of these issues and have since continued in positive growth in line with expectations.

In General Merchandise, the George Home range delivered standout performance in the second half of the year, offering an affordable and stylish proposition to customers. Highlights included summer outdoor and seasonal ranges, with particular growth in energy-saving and winter products to support customers through the cost of living and energy crisis in Q4.

Online

Asda ended the year with the number two market share position in grocery home shopping[2], with around 16% of its food sales coming through online channels in FY22 (including home delivery and click and collect services). Online continues to be a key part of Asda's omnichannel strategy to enable customers to shop wherever and however they choose. Online sales stabilised in FY22 following considerable growth in the channel during the pandemic; total online sales for the full year were slightly lower than the prior year and lower as a proportion of total sales, as more customers returned to shopping instore. The Group held the number two market share position in online grocery home shopping during H2[3] and achieved its highest ever peak in order numbers in the week leading up to Christmas in December 2022. The Group continues to invest in ways to optimise the online experience for customers, focusing on availability, range, and service.

Operating Profit Before Non-underlying Items

Operating profit pre-non-underlying items was £406m in FY22, a decline of £217m or 35% versus FY21 on an annualised basis (versus FY21 actual: £159m).

Underlying profitability has been impacted in the year by the significant increase in inflation across the cost base. This has been offset to a certain extent by cost saving initiatives.

There has been a significant increase in supply side inflation in FY22, in particular following Russia's invasion of Ukraine. Labour shortages, investment in colleague wages, increases in energy and fuel cost inflation have driven higher cost prices in our supply base and in our own cost base.

To support customers, Asda has continued to invest in its prices and manage the extent to which cost price inflation has been passed on from its suppliers, which included significant investment in Just Essentials by Asda and Dropped and Locked price campaign. The Group is focused on supporting customers by keeping prices low where it matters most, and protecting and growing its market share position for the long-term benefit of the business.

In Asda's non-food business, margins were also impacted by significant increases in freight, detention and demurrage costs as the global economy emerged from the pandemic, exacerbated by further lockdowns in China, and adverse movements in foreign exchange rates following the mini-budget in September 2022.

In the selling, general and administrative (SG&A) cost base, notable price increases which impacted profitability included primarily energy costs for operating our stores, depots and offices, and fuel costs in running our logistics and online operations. The Group has an 18-month rolling energy hedging policy which provides certainty over future costs and to some extent mitigated the impact of energy price volatility during the year.

[2] Source: Kantar FMCG panel, 12 weeks ending 25 December 2022
[3] Source: Kantar FMCG panel, 12 weeks ending 25 December 2022

We are also committed to supporting our colleagues in light of cost of living pressures. Asda consistently pays competitive, fair and affordable rates which are in line with the National Living Wage. Hourly rates for its c. 123,000 retail colleagues were increased by 8% on an annualised basis to £10.10 per hour in July 2022, and 13,000 logistics colleague hourly rates by 11.4% annualised from April 2022.

The Group has also delivered cost savings which in part offset some of the inflationary pressures experienced in the year. Examples included savings from bringing cleaning in-house from a third-party supplier; delivering operating efficiencies in its stores and depots; and reduction in covid-related costs. Asda has ongoing transformation plans in place to continue to manage cost inflation in FY23 and beyond as part of our core strategy.

Operating Profit Post Non-underlying Items

Operating profit post non-underlying items was £217m, a decline of £289m (57%) versus FY21 on an annualised basis (FY21 actual: £448m). In addition to the factors described in underlying operating profit above, additional exceptional costs were incurred in the year relating to the Group's investment in Project Future (£189m), its 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 (see Note 1 in the Notes to the Accounts 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 Accounting Policies for further detail).

Exceptional costs impacting operating profit in the prior year comprised £117m, of which £24m related to the initial investment in Project Future, and £93m of acquisition fees incurred upon TDR and the Issa Brothers' acquisition of Asda Group Ltd.

Please refer to Notes 1 and 4 to in the Notes to the Accounts for further detail on non-underlying items.

Adjusted EBITDA

Some further adjustments are made to operating profit pre-underlying items to arrive at Adjusted EBITDA, which provides an alternative view of underlying operating performance of the business, as tracked by management. Adjusted EBITDA declined by 24% year on year on an annualised basis as a result of the pressures on cost prices and the SG&A cost base, in part offset by cost savings, as described under operating profit pre-non-underlying items above.

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

Interest

Finance Income

Interest receivable increased from £29m (FY21 actual) to £55m primarily due to approximately 10 months' interest being earned on the intercompany receivable balance which arose out of the warehouse sale-and-leaseback transaction, compared to approximately six months' interest in the prior period.

Finance Costs

Interest payable has increased from £375m (FY21 actual) to £396m due to:

- An increase of £40m in interest payable on lease liabilities reflecting a full year of interest being recorded in relation to the warehouse sale-and-leaseback transaction which was largely completed in June 2021 (see Note 9 to the Financial Statements for further detail); partially offset by

- A reduction of £11m in external interest payable driven primarily by settlement of the Forecourt Bridge Facility in November 2021;

- A reduction of £8m in intercompany interest payable driven by settlement of an amount owing to the immediate parent company during the year (see Note 18 to the Financial Statements for further detail).

90% of the par value of the Group's external debt incurs interest at rates which are fixed until at least Q1 FY24. Increases in the Bank of England's base rate and other reference rates such as SONIA and EURIBOR during FY22 have therefore had an immaterial impact on interest costs in the year. Please refer to the capital structure section below for further information.

Loss/Profit Before Tax

The Group recorded a loss before tax in the year of £74m compared to £3,036m profit before tax in the prior year, which was a result of the gain on bargain purchase of the Asda Group Ltd by Bellis Finco plc of £2,654m, and the gain on sale and leaseback of the warehouse assets of £279m.

Tax

The Group's income tax credit in the year was £12m compared to a prior period charge of £246m. This year-on-year change is driven primarily by a prior period deferred tax charge of £281m arising from an increase in the headline corporation tax rate which was substantively enacted in May 2021; partially offset by a one-off prior period net credit of £74m relating to the 2021 warehouse sale-and-leaseback transaction. See Note 10 Income Tax in the Notes to the Accounts for further details.

Net Loss/Profit

The Group recorded a net loss for the year of £62m, as a result of the lower operating profit and reduction in other income in the year (FY21: profit of £2,790m).

Please refer to the Consolidated Income Statement for further information.

Capital Expenditure

Capital Expenditure of £276m in the year was £143m lower than the prior year on an annualised basis. Historically Asda's capital expenditure strategy involved significant investment each year in a small number of stores. Its policy has been revised in FY22 to take a more customer-focused approach to investment decisions, focusing spend on projects which enable more frequent investment in a higher number of stores which deliver better returns on investment.

Around 53% of the Group's investment in FY22 was on essential asset replacement and maintenance, including replacement of store refrigeration units and property maintenance costs, and 32% was focused on discretionary spend to drive growth, including upgrades to store environment and investment in systems to improve efficiency of operations. The remaining 15% (£49m) was invested in Project Future, comprising investment in the detailed design and initial build phase of Asda's standalone IT environment as we separates from previous owner Walmart's IT systems.

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

Free Cash Flow

Free cash flow of £610m was £142m lower than the prior year, due to a reduction in Adjusted EBITDA offset in part by a decrease in Capital Expenditure.

Please refer to the Reconciliation of Non-IFRS to IFRS Measures section below for detail on the calculation of Free Cash Flow.

Cash Flows from Operating, Investing and Financing Activities

Net cash flow from operating activities in FY22 was £1,177m, comprising primarily operating profit of £217m plus depreciation and amortisation of £679m, and a net working capital inflow of £259m. This inflow was driven principally by an increase in trade and other payables of £408m, due to strong like-for-like sales growth in the fourth quarter, improvements in supplier payment terms, and favourable timing impacts of supplier payment runs relative to the year-end date. The increase was partly offset by an increase in inventory of £109m, driven in part by inflationary cost increases, as well as a proactive decision to build the inventory position to protect availability.

Net cash outflow from investing activities of £789m was comprised primarily of purchase of property, plant and equipment and intangibles of £320m (refer to Capital Expenditure section above), and a cash outflow related to the acquisition of Arthur Foodstores of £424m (of which £200m was funded through debt and the remainder from cash on balance sheet net of £5m bank fees).

Net cash flows from financing activities of £(231)m included the drawdown on a corporate facility of £200m to finance the Arthur Foodstores acquisition (net of £5m bank fees); £150m of interest payments on external debt; and capital and interest payments of £277m in respect of finance lease obligations.

Closing cash was £663m, with a net inflow of £157m recorded for the year.

Please refer to the Consolidated Statement of Cash Flows for further information.

Balance Sheet

The Group had net assets of £4.1bn as at 31 December 2022 (FY21: £4.1bn), primarily comprised of:

- £14.4bn of non-current assets including PPE, intangibles, investment in Arthur Foodstores Ltd and intercompany receivables;
- Net working capital of £(2.5)bn, including £1.3bn of inventory and £0.3bn of trade and other receivables, offset by £4.0bn of trade and other payables;
- Net debt of £(6.8)bn, comprising £(4.4)bn of external borrowings and £(3.1)bn of lease liabilities, net of £0.7bn of cash; and
- £(1.0)bn deferred tax liability.

Key movements in the balance sheet between 31 December 2021 and 31 December 2022 include:

- A net decrease in non-current assets of £0.8bn, driven by depreciation and amortisation and a decrease in intercompany receivables, offset by the investment in Arthur Foodstores Ltd
- An increase in current assets of £0.4bn due to higher year end inventories to support higher Q4 sales and to protect availability, increased trade and other receivables, and higher year end cash;

- A decrease in non-current liabilities of £1.0bn driven by the settlement of intercompany balances; and
- £0.6bn increase in current liabilities driven by an increase in trade and other payables due to improved supplier payment terms, higher Q4 trading and timing differences around the year end, as well as additional borrowings to support financing of the Arthur Foodstores acquisition.

Capital Structure and Net Debt

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 at 31 December 2022.

Facility	Amount (£m)	Maturity	Interest	Notes
Term Loan A	**195**	Aug-25	SONIA + 3.25%	
Term Loan B	**€845**	Feb-26	EURIBOR + 2.75%	Fixed via cross-currency rate swap at effective rate of 3.73% until Feb-24
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%	
Arthur Additional Bridge Facility	**200**	Oct-23	SONIA +7.75%	Option to extend facility for a further 12 months Rate increases to SONIA + 8.00% upon extension
Revolving Credit Facility	**500**	Jul-25	SONIA + 3.25%	Commitment fee of 0.975%. Interest payable on any drawn portion only
Cash and cash equivalents	**663**			

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. The Group has policies and procedures in place to ensure that it continues to comply with its covenants. Asda was compliant with its covenants throughout FY22.

The capital structure has enabled the business to be resilient during a challenging trading period as well as providing investment to drive growth through investment in strategic initiatives and through the recent acquisition of Arthur Foodstores Ltd.

Please refer to the Consolidated Balance Sheet and Note 20, 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 of £500m.

The Group also benefits from supply chain finance facilities in place which enable suppliers participating in the programme to receive payment sooner than its standard payment terms. The facility is at no cost to the Group. Please refer to Note 19 Financial Instruments to the Financial Statements for further information about this and the Group's other working capital facilities.

Key Principal Decisions

Acquisition of Arthur Foodstores Ltd

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 £462m. This comprised initial cash consideration of £424m, of which £229m was funded from cash in hand and £195m has been raised through the issue of additional senior facilities of £200m, less bank fees of £5m; and a balance owed to Arthur Foodstores Limited of £38m.

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 29 October 2022, the day the parties completed the transaction.

The acquisition comprises a portfolio of 129 leading convenience and grocery focused retail stores and three development sites. This is a well-invested portfolio with a geographical spread across the country in community-based locations. The acquisition will enable more customers to benefit from access to Asda's value-led proposition and expand Asda's brand reach, and enables Asda to diversify into the growing convenience market at scale, thereby supporting our growth ambitions.

Each site includes a grocery retail store between 1,500-3,000 square feet of space and an attached petrol filling station driving footfall. The stores are community-focused and strategically located at the heart of residential areas with a diversified footprint across the UK, and represent broader retail destinations with ancillary services such as parcel delivery, car wash and last mile food delivery, with opportunity to expand further. The sites also present a significant opportunity for further synergies across Asda's business through higher volumes, buying synergies and cost savings through operational leverage.

As a result of the Initial Enforcement Order in place from the Competition and Markets Authority, the Group is not deemed to have had control of the entity during the reporting period in accordance with the principles as defined in IFRS10 Consolidated Financial Statements. As such the revenue and costs associated with the acquired sites have not been consolidated into FY22 results. Please refer to Note 1, Accounting Policies, in the Notes to the Accounts for further information.

On 14 March 2023 the CMA delivered its Phase 1 decision in respect of its investigation into the transaction. They identified 13 potential areas for competition concern, with the potential for local remedies. The Group has offered to dispose of the 13 sites in question and the CMA has indicated that it considers that there are reasonable grounds for believing that the undertakings offered, or a modified version of them, might be accepted under the Enterprise Act 2002.

Launch of Asda Express convenience proposition

In December 2022, Asda opened its first two convenience sites under the Asda Express banner, with an ambition to open 300 sites by 2026.

Expansion into the convenience market is a key part of Asda's strategy to be accessible however and wherever we're needed and represents a significant growth opportunity for the Group. The opening of these two sites complements the acquisition of Arthur Foodstores Ltd.

Launch of Just Essentials

In May 2022 the Group launched a new grocery opening price point range, Just Essentials By Asda. The range replaced the existing budget offering, Asda Smart Price, expanding the range from c. 150 to over 300 products, with items reformulated and refreshed to offer optimum price and quality. The total range is designed to enable customers to keep the household running on a budget. The range experienced year on year growth of over 110% during FY22 compared to prior year sales in the opening price point range. It is a key part of Asda's strategy to make desirable product affordable, giving customers the opportunity to reappraise Asda's quality and value offering.

Roll out of Asda Rewards

In FY22 Asda implemented a new loyalty programme, Asda Rewards. Initial trials began in early FY22 and the scheme moved to full rollout in August 2022. The scheme is app-based and unique in the market in enabling customers to earn cash back on their shopping, building Asda Pounds in their cash pots to spend in store. The scheme also provides the opportunity to leverage data insights which enable to Group to better target investment in the customer proposition.

Asda Rewards had over three million active customers by the year end and continues to drive incremental sales. It is central to Asda's strategic objective around proposition, to create more reasons to shop with us than anyone else.

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 economic uncertainty and the ongoing war in Ukraine. However, Asda has remained highly resilient in the face of these challenges and has remained focused on supporting customers and colleagues with cost-of-living pressures. Whilst the Group expects the UK grocery market to remain resilient into 2023, it also expects customers to continue feeling the impact of cost pressures on their household budgets as they face a real wage decline, making it more important than ever that Asda continues to focus on providing its strong value offering in food and non-food to enable it to serve customers on any type of budget. Additionally, the Group's expansion into the convenience market provides further opportunity as customers increasingly desire convenience and accessibility, and represents progress towards our strategic objective to be accessible to customers however and wherever we're needed.

Reconciliation of IFRS to Non-IFRS Measures

Reconciliation of revenue to like-for-like sales

	FY22	FY21 (annualised)
Unaudited		
Revenue	**24,478**	**23,489**
Fuel	(4,026)	(3,065)
Non-Store Sales	(42)	(17)
New Stores	-	-
Permanently closed stores	(2)	(5)
Temporarily closed stores	(53)	(13)
Like for like sales	**20,355**	**20,389**
% like-for-like sales growth	(0.2%)	

Reconciliation of operating profit post-and pre-non-underlying items to Adjusted EBITDA

Unaudited	FY22	FY21 (annualised)
Operating profit post-non-underlying items	**217**	**506**
One-off separation costs for Project Future (1)	189	24
One-off costs relating to the acquisition of Asda Group Ltd (2)	-	93
Operating profit pre-non-underlying items	**406**	**623**
Amortisation of intangible assets	101	83
Depreciation of owned assets	406	466
Depreciation of assets held under finance leases	172	155
Proxy rental charge for operating leased assets (3)	(251)	(207)
Restructuring costs	5	31
Share options	-	18
Uplift in colleague incentive	-	(16)
Impairments	20	4
Asset write-offs	6	8
EBITDA attributed to Arthur Foodstores Ltd (4)	13	-
One-off acquisition costs relating to Arthur Foodstores Ltd	6	-
Other	2	7
Adjusted EBITDA	**886**	**1,172**

Adjustments between operating profit post-non-underlying items and pre-non-underlying items comprise:

(1) 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.

(2) One-off costs in relation to the acquisition of Asda Group Ltd. This relates to third party advisor fees and stamp duty paid in relation to the acquisition in the prior period of the entire issued share capital of Asda Group Ltd.

Please refer to Note 1 Accounting Policies and Note 4 Operating Profit in the Notes to the Accounts for further information.

There are further adjustments between operating profit pre-exceptional items and Adjusted EBITDA. Adjusted EBITDA provides a view of underlying operating performance of the business and is a non-IFRS measure tracked by management. Adjustments include:

(3) Proxy rental charge for finance leased assets. Adjusted EBITDA is presented on a pre-IFRS16 basis to provide a view of rental cost. Therefore, this adjustment relates to the charge for operating leases under IAS 17.

(4) EBITDA attributed to Arthur Foodstores Ltd. The Group acquired Arthur Foodstores Ltd, a carve-out of 132 convenience sites from the Co-operative Group, in October 2022. The acquisition is subject to an Initial Enforcement Order by the Competition and Markets Authority and it has therefore been deemed that Asda does not have control according to the principles defined in IFRS10 Consolidated Financial Statements in order to consolidate the results into the Group in FY22. 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.

The majority of the remaining adjustments are legacy items which arose upon acquisition of the Group in FY21 and as such are expected to unwind in FY23.

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	**FY22**	**FY21 (annualised)**
Capital Expenditure KPI	276	419
Project Future capital expenditure	49	1
Timing differences	(5)	17
Purchase of PPE and intangibles per Cash Flow*	**320**	**437**

**FY21 purchase of PPE and intangibles are as per the Cash Flow of Asda Group Ltd Financial Statements for the year ended 31 December 2021, which presents a full trading period and more meaningful comparison of this metric to Bellis Finco plc's FY22 Capital Expenditure.*

Reconciliation of Adjusted EBITDA to Free Cash Flow

Unaudited	FY22	FY21 (annualised)
Adjusted EBITDA	**886**	**1,172**
Capital Expenditure	276	419
Free Cash Flow	**610**	**753**

Reconciliation of full year FY21 IFRS measures to annualised Bellis Finco plc FY21

As detailed above, Bellis Finco plc does not include a full year of trading in FY21, as it acquired the trading group Asda Group Ltd part way through the year on 16 February 2021. As a result, FY21 results for the consolidated group Bellis Finco plc in the prior year do not constitute a full comparative period.

The table below provides a reconciliation from the audited Asda Group Ltd Consolidated Financial Statements for the year ended 31 December 2021 to annualised results for Bellis Finco plc, as presented in the Financial Measures sections above and discussed in the Financial Review below.

Accounts for Asda Group Ltd and Bellis Finco plc for the year and period ended 31 December 2021 respectively are available from Asda House, Great Wilson Street, Leeds LS11 5AD.

	Asda Group Ltd FY21	Fair value adj. (1)	Acquisition fees (2)	Advisor fees and mgmt. recharge (3)	Bellis Finco plc annualised FY21	Elimination of pre-acquisition profit (4)	Bellis Finco plc actual FY21
Revenue	23,489	0	0	0	23,489	(2,779)	20,710
Operating profit post non-underlying items	**693**	**(90)**	**(93)**	**(4)**	**506**	**(58)**	**448**

Adjustments between Asda Group Ltd and Bellis Finco plc comprise:

(1) Fair value adjustments related to the fair value uplift of assets upon acquisition of Asda Group Ltd by Bellis Finco plc, including principally additional depreciation and amortisation;

(2) Acquisition fees incurred in Bellis Finco plc to support the acquisition of Asda Group Ltd;

(3) Advisor fees incurred in Bellis Finco plc; and

(4) The pre-acquisition profit for the period 1 January – 16 February 2021 is eliminated to arrive at the actual results as presented in the audited Bellis Finco plc Consolidated Financial Statements for FY21.

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 Ltd, McLagan Ltd, The Burwood House Group Ltd, International Procurement and Logistics Ltd) 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 deliver of our purpose, focused around proposition, product, location and experience. Please refer to the strategy section above 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 five 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 Ltd 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	*Founding Partner of TDR Capital LLP.* Prior to founding TDR Capital LLP 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 Masters degree in Economics from Cambridge University.
Gary Lindsay – ***Director****	September 2020	*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 Masters 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.
Mohsin Issa – ***Director****	September 2020	*Co-Owner of Bellis Topco Ltd, 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 Ltd, 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 Asda Group's 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. 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 Zurich Insurance and 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	*Executive Vice President and Chief Operating Officer, Walmart.* Chris is 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.

** Denotes directors of both Bellis Finco plc and Bellis Topco 2 Ltd.*

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
Steven Nuttall – Interim Chief Financial Officer	2022	Steven joined Asda in 2021 and was appointed Interim CFO in 2022. Prior to joining Asda he was Finance Director of the food business at the Co-op, where he also held a number of other roles. Steven also spent over two years in Australia in senior positions at Coles.
Hayley Tatum – Chief People and Corporate Affairs Officer	2011	Hayley oversees all matters related to our c. 140,000 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	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 champion 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.
Sam Dickson – Interim Chief Customer Officer	2022	Sam leads Asda's customer function. Prior to joining Asda, Sam spent her early career at Sainsbury's and B&Q before spending 12 years at Waitrose where she held various leadership roles.

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 section below.

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.

Committees are described below. Those at the level of Bellis Topco 2 Ltd are marked with an asterisk and for Bellis Finco plc with two asterisks. All other committees sit at Asda Group Ltd level, the Group's main trading entity and its subsidiaries.

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 Ltd 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.

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.

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 General Counsel and attended by the CFO and a NED. 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.

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 Ltd and Asda Group Ltd, 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 are 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 section below 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 2022, 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 15 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 2022 we have listened to over two 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:

- Co-creating propositions with our customers to help support them during the cost of living crisis, resulting in Dropped and Locked, Asda's 2022 lead price proposition to support customers manage their grocery budgets
- Testing our value proposition and pricing mechanics with customers
- Understanding customer mindsets to help support the development of our propositions during key moments across the year, including Easter, Summer, Halloween, Christmas
- Exploring customer missions important partnerships with our customers to help inform our strategy
- Customer research to evaluate our new convenience and wholesale propositions Asda Express and Asda on the Move
- 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 Bakery range launch and Asda Rewards
- Supporting commercial teams with research to inform delivery of category strategies.

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

- **Customer satisfaction survey**: 1.9m customers provided feedback on their experience shopping with us in store and online 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 18,000 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
- **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 crises 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 over 140,000 colleagues across 633 stores, 26 depots and our three home office locations. Our retail colleagues make up the largest proportion of this, with approximately 88% of our workforce serving customers in store, 9% in the distribution network and online fulfilment centres, and 3% in home offices.

We believe in creating an inclusive culture that supports colleagues to thrive and reach their full potential. Our employees reflect the communities that Asda serves, which helps us to engage with our customers. Our commitment to creating an inclusive environment that reflects the communities we serve allows the Group to attract, recruit and retain high-calibre colleagues.

We pride ourselves on involving our colleagues in helping to make Asda a great place to work. Examples include regular local engagement with store and depot 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 Values.

In addition, we inform and consult with National Colleague Voice groups and trade unions, including USDAW and the GMB, on business change proposals we may have. In addition, we have quarterly engagement meetings with these groups to update and listen to their views. Agenda topics in 2022 included updates on health and safety, our Project Future IT separation programme, employment policy updates and inclusion. Members of our Executive attended throughout the year to hear directly from the groups and update on our strategy.

55% participated in our annual Your Voice engagement survey in 2022 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.

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.

We have a range of apprenticeship programmes on offer, from manager training in one of our stores or distribution centres to specialist roles in our home offices. In FY22 we have supported over 800 colleagues to work towards or complete a qualification.

We also have a range of leadership development programmes in place, including 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. Our "How to get on at Asda" programme is a set of tools and guidance available to all colleagues, tailored to retail, distribution and home office accordingly, to equip colleagues with the information to understand how to drive their own development.

We're also investing in our future leaders and have refreshed our retail graduate programme for 2023, with a range of our graduate-level roles available all year round. Colleagues will be given a range of support to achieve leadership roles and this investment will fuel a representative talent pipeline for our future.

Employee 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. In February 2023 the Group announced market-leading pay rates for retail colleagues.

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.

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.

Our five colleague-led Inclusion Networks (Disability, Ethnicity, Gender, LGBTQIA+ and Wellbeing) continue to raise awareness and dialogue in the workplace. Colleagues can also access support through closed connection groups, including baby loss, carers, fertility, menopause, trans, non-binary and gender fluid. And, we added inclusion working groups across our main business departments on age, disability, ethnicity, gender, pride and wellbeing, with each group chaired by a senior director or vice president.

In 2022 we launched a new two-hour Inclusion Matters course for all of our line managers. The course aims to improve our colleagues' understanding of the importance and benefits of diversity and inclusion in the workplace and the important role they play in making it happen. We've also been focusing on the importance of allyship through our #AsdaAllies campaign. The campaign raised awareness of the importance of allyship to inclusivity, sharing colleague case studies, celebrating allyship specifically within gender representation in action. The campaign was sponsored by our Executive Committee and created a real momentum behind the importance of inclusivity.

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 Grocery. 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.

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 2022 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.

	Total	Men	Women	Male %	Female %
Directors	4	4	-	*100%*	*0%*
Senior Managers	1,053	656	397	*62%*	*38%*
Employees	91,309	46,808	44,501	*51%*	*49%*
Total FTEs	**92,366**	**47,468**	**44,898**	***51%***	***49%***

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 6 in the Notes to the Financial Statements for further employee information.

Our Plans to Close the Gap

In 2022, we ran a bespoke six-month development programme to help improve female representation at senior levels in our business. This is a significant step in our commitment towards levelling the playing field in gender diversity. The programme brought together over 290 female colleagues from all functions across our business to work with over 80 senior leadership mentors. We will be running a similar programme in 2023 which focusses on skill development and career advancement.

Alongside our Inclusion Networks, we have Connection Groups which bring colleagues together to talk and find support on shared experiences such as menopause, fertility, and gender fluidity. In 2022, we ran sessions on the menopause and we have a working group of 30 colleagues from across the business who are driving positive actions in the workplace, for example, reviewing our policy. We will be joining the Menopause Friendly Membership in 2023, as a further commitment to making the business an inclusive workplace for all.

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 and socially well. For example, throughout the year we keep up the conversations on mental health in an effort to break the stigma and encourage all our colleagues to understand that mental health is important. We train at least one manager in every store and depot to lead their teams in recognising signs of mental illness, how to support colleagues and where to sign up for further support.

We provide a range of health services for our colleagues including offering free flu vaccinations, blood pressure checks and free eye tests. We provide free 24/7 online GP access, access to medical second opinions and access to financial well-being tools and support.

Taking learning from the Covid-19 pandemic, we offer a hybrid "work where it works" policy for our home office colleagues. This approach enables colleagues to select the best location to do their job, which could be from home, head office or a store or depot, and we have adapted a range of people programmes to home settings. 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 2,900 Goods For Resale (GFR) suppliers that supply products for food, clothing and general merchandise, and 2,000 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 dedicated supplier website, 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 2022, 94% of suppliers ranked Asda as "consistently or mostly" following GSCOP.

Shareholders and Finance Providers

Mohsin and Zuber Issa and TDR Capital acquired Asda in FY21. As board members, the Issa brothers and 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. 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 or 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.

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 Asda. 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 stems from the Group Risk Management Policy which is subject to periodic review and is designed to support the business achieve 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.
- 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	Mitigations
• 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.	• The Asda Legal &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

- 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.

Mitigations

- 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 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 (EVP).

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 ensure our pay and benefits remain fair, competitive and affordable.
- 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.
- Development programmes have been accelerated to ensure all grades have access to development material relevant for their career and have an opportunity to update, learn and develop their skills.
- Talent reviews take place twice a year to ensure we continue to identify and develop talent within the organisation.
- Wellbeing support is available through wellbeing programmes and colleague support schemes

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

- There is a risk of continued disruption as a result of COVID-19 outbreaks at locations within our supply chain, or other related disruption at suppliers, which impacts on availability. Other risks associated with COVID-19 may be ongoing including increasing freight costs and wholesale energy prices and shortages of certain raw materials.
- 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.

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 executive 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 end-to-end net zero by 2040. We have committed to setting and ratifying a near-term science-based target through 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.
- On Scope 3 we continue to engage with our suppliers to reduce product-related emissions and in 2022 worked with 150 of our strategic suppliers to set climate commitments for the products they sell us.
- We also engage in projects to mitigate climate-related impacts in the supply chain, e.g. through IPL we are supporting industry projects on water stewardship in our produce supply chain.

Oversight is provided by the Executive Committee.

Separation and Transformation

Due to managing multiple transformation programmes there is a risk change management is not effective to protect day-to-day operations resulting in disruption, inability to separate from Walmart within defined timescales and we also do not meet our strategic objectives.

Context

- The separation of ASDA from Walmart is a complex transaction that will require significant management attention and poses a number of risks including, but not limited to, the implementation and new IT infrastructure independent from Walmart.
- ASDA's other ongoing transformation programmes create a complex landscape for navigating delivery of transformation alongside business operations.

Mitigations

- 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.

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 the supplier's benefits 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 are 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 19 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 19 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 section above 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 allows a number of the Group’s suppliers to participate in Supply Chain Finance (“SCF”). There is no significant liquidity risk in relation to SCF as suppliers using the facilities are on industry-standard terms and were this to be withdrawn there would be no significant impact on the Group's working capital, as payments would be made directly to the majority of suppliers on the same 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.

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 and third-party wholesale customers.

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, Facility A and Facility B. The EURIBOR interest rate risk on Facility B is hedged through entering cross-currency interest rate swaps to fix the interest payments in pound sterling. Taking into account the swap in place, the proportion of the Group's total debt which is exposed to variable interest rates is limited to 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.

Environment

Environmental Matters

Asda's leadership is aware of the impact that the operations of the Group can have on the environment, and our key environmental priorities are highlighted in the Better Planet pillar of our Creating Change for Better programme. Our goal is to be greener at Asda Price: offer sustainable choices that save our customers money, cut our costs and protect our planet.

We have four areas of focus, including:

- **Carbon** – reducing our carbon emissions;
- **Nature** – sourcing and farming which respects and restores;
- **Waste** – reducing food, product and packaging waste; and
- **Customer value** – making greener choices which save our customers money.

Carbon

We continue our work to reduce carbon emissions from across our operations and in FY22 continued the transition of our HGV fleet from diesel to Liquified Natural Gas (LNG), expanding the total LNG fleet to 550 trucks. On average, each truck produces c. 60 tonnes less CO2 per year than its diesel counterpart. We have also been trialling electric grocery home shopping vans in a small number of stores as a proof of concept, with plans to roll out further in FY23. We also invested in electric infrastructure to enable the fridge trailer fleet to run on electricity rather than diesel generators whilst maintaining food temperatures on site. Refer to the carbon reporting section below for further details about our emissions reduction.

Nature

We track the proportion of sustainable sourcing of some of our key products including soy and palm within our supply chains and we have plans to more sustainably source our top 20 commodities. Refer to our ESG report for further information.

In FY22 we also commenced a number of projects working on water stewardship. We extended a successful water remediation scheme in East Anglia on which we have partnered with the Rivers Trust. We are supporting work to increase the scheme's capacity with up to three wetlands connected to a small chalk stream in the scheme's upper catchment area, which will take out nutrients, slow the flow, provide an aquatic habitat and collect sediment. We are also working with the Waste and Resources Action Programme (WRAP) on water stewardship in key sourcing areas, including contributing funding to a three-year collaboration in Southern Spain focusing on the water risks for strawberry production.

Waste

In FY22 we made a significant step in supporting customers to reduce food waste in the home by scrapping best before dates on hundreds of fruit and vegetable products, replacing them with codes that our colleagues use to check quality and freshness. Following robust food safety and quality evaluations, we have also since removed use by dates on over half of our own-brand yoghurts.

Customer Value

In FY22 we announced a refill price promise which guarantees that each product sold in the refill zone in our refill stores will be cheaper than the packaged alternative. We first introduced refill two years ago and have been continually testing and learning, working with customers to find what most appeals to them. Asda has partnered with WRAP and Unilever, with funding from Innovate UK, to find out customer barriers to participation, so we could look at ways to increase participation in refills. Clear pricing was the top priority, emphasised by the cost of living crisis, leading to us implementing a new refill pricing strategy. To further support customers looking for ways to reduce their environmental impact, our biggest refill zones have also introduced new product ranges to help customers reduce energy usage at home, promote reusable food containers, reduce food waste, and shop more sustainably.

For more detail about our Better Planet commitments, please refer to our ESG report 2022.

Environmental claims matter

On 29 July 2022, the Competition and Markets Authority ("CMA") publicly announced that they would be investigating environmental claims made by the Group in relation to certain products within the Group's George clothing range, and ranges of two other clothing retailers with operations in the UK. Within the scope of this investigation, the CMA has stated that they will be considering the following factors:

- Whether statements and language used by the businesses are too broad and vague, and may create the impression that clothing collections are more environmentally sustainable than they actually are;
- Whether the criteria used to decide which products to include in these collections may be lower than customers might reasonably expect from their descriptions and overall presentation;
- Whether some items have been included in these collections when they do not meet the criteria;
- Whether there is a lack of information provided to customers about products included in any of the companies' eco ranges, such as missing information about what the fabric is made from; and
- Whether any statements made by the companies about fabric accreditation schemes and standards are potentially misleading, such as a lack of clarity as to whether the accreditation applies to particular products or to the firm's wider practices.

In the event that the Group is found to have acted inappropriately within the scope of this investigation, possible outcomes include the CMA securing undertakings from the Group to change its operating practices, possible court action against the Group, or closing the case without further action.

At the balance sheet date and the date of approval of the financial statements, the CMA has not communicated any findings of wrongdoing by the Group in relation to this investigation.

Streamlined Energy and Carbon Reporting

In FY22 we continued our track record in reducing carbon emissions from our operations. 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 committed to setting our own Scope 1, 2 and 3 SBTi targets and Forest, Land and Agriculture (FLAG) targets by early 2024.

The table below details our emissions for the year to 31 December 2022. 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 2022. Scope 2 emissions from purchased electricity are reported using a location-based approach.

In FY22 our Scope 1 and 2 footprint stood at 576m tCO_2e, representing a 7.9% decrease on FY21.

	31-Dec-22	31-Dec-21
Emissions source		
Energy usage to calculate emissions		
Electricity	1,074,402,641	1,109,312,657
Natural gas	438,033,074	487,251,509
Other stationary	69,812,650	97,711,188
Transport fuel	648,742,420	645,551,700
Total kWh	**2,230,990,785**	**2,339,827,054**
Greenhouse gas emissions		
Direct combustion	99,814	116,870
Fugutive emissions	108,546	116,839
Fleet vehicles	159,700	156,422
Total Scope 1	**368,060**	**390,131**
Scope 2: electricity (location)	206,839	234,548
Scope 3: business travel	606	233
Total tCO_2e	**575,505**	**624,912**
Intensity ratio (tCO2e/£million in sales)	**23.51**	**26.61**

Note: for FY21, emissions have not been time-apportioned for the period between 1 January 2021 and 16 February 2021 prior to the acquisition of Asda Group Ltd by Bellis Finco plc. There are no emissions attributable to the Company and as such the figures set out below relate to Asda Group Limited and its subsidiaries for the full period of 1 January 2021 to 31 December 2021.

In FY23 we are implementing the recommendations from the Taskforce on Climate-related Financial Disclosures and will report on Asda's approach to climate-related financial governance, strategy, risk management, and metrics and targets in future annual reports.

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 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
- Hot water pump optimisation in 25 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 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
- Low flush WC's and ultra-low water use taps in stores.

In FY21, £8m was invested in almost 1,000 projects across the Group's retail and logistics estates to reduce energy demand and emissions, with a further £0.5m invested in innovation trials. This included:

- Developing and deploying software to improve fridge control solutions to minimise electricity consumption, extending our demand management capacity to over 25 MW, almost a fifth of our total energy demand. The Group used this functionality to support the National Grid balance of UK electricity supply and demand
- Close monitoring of energy usage through our extensive network of 16,000 main and submeters, making over 800 interventions to address the risk of increasing energy and water consumption supported by a range of in-store technicians and specialists
- Trialling retro-fitting refrigerator doors in store, which has since commenced rollout across our estate in FY22
- Trialling and modelling the electrification of our diesel-powered refrigerated trailers.

In FY21, City FM was accepted into the EU ENOUGH consortium which will provide demonstrators for "Farm to Fork" decarbonisation of the food chain, a pan-European effort of 28 organisations including academia and manufacturers. This will provide significant insights and innovation opportunities to our business for the ongoing development of our Net Zero route-map and strategy.

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

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 14,500 days volunteering and supported over 21,000 groups.

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 FY22, through this programme we have fundraised over £3.3m for our charity partners BBC Children in Need, providing them with vital funds. We donated £125,000 worth of Asda gift vouchers to children's poverty charity Buttle UK, which will enable Buttle to provide school uniforms and other school essentials for 2,000 of the UK's most vulnerable children.

Through our partnership with Rethink Food, alongside our community champions we have rolled out our 'Rethinking food with Asda' educational programme to 45 schools, delivering over 6,500 hours of learning and reaching over 1,500 children. Continuing our legacy of fighting hunger, in FY22 year through our food donation trollies instore and our back of store donations, together with our customers we have donated the equivalent of over 5.4 million meals.

Further to this, in FY22 we served almost one million free meals to school children in our in-store cafes, as part of our "Kids eat for free 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 October 2022 we also served a Winter Warmers offer to over 280,000 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 across the country our stores were used over 5,600 times to support local community events and fundraising.

We continue our important national fundraising and awareness partnership Asda Tickled Pink with breast cancer charities, Breast Cancer Now and CoppaFeel!, with FY22 marking 26 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. £6m in FY22. In addition, over 600,000 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 all internationally-recognised 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 through Sedex, an online responsible sourcing management platform which helps us to identify our salient labour risks. We monitor and investigate issues in the supply chain, we enable colleagues within the business to understand their role in human rights and its impacts, and 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 28 April 2023 and signed on its behalf by:

Mohsin Issa

Director

Directors' Report

The Directors present their Report and the Consolidated Financial Statements for the year ended 31 December 2022.

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	46-48
Likely future developments in the business of the company	19
Detail on the company's training, career development and promotion of disabled persons	33
Information on the Group's communication and engagement with employees:	32-35
Summary of the directors' regard for relationships with stakeholders and key principal decisions	31-36; 18-19
Information on the Group's greenhouse energy consumption, gas emissions and energy efficiency actions	49-52

Going Concern

The financial statements for the year ended 31 December 2022 have been prepared on the going concern basis as the Directors have determined that the Group has sufficient resources and liquidity facilities to meet its liabilities as they fall due for the period from the date of approval of the accounts to 30 June 2024 ('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 FY23 plan and the FY24 forecasts from the three-year planning process.

The Group's Treasury function ensures that the Group continues to have sufficient funding by monitoring rolling forecasts of the Group's cash flows and maintaining a sufficient level of standby facilities via the Revolving Credit Facility. Any capital repayments of long-term financing are forecast in the cash flow model used in the going concern scenarios. The Revolving Credit Facility remains undrawn at the year end and no utilisation is forecast in the base case cash flow model. For more information on liquidity risk and maturity of financial liabilities see note 19.

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 from the date of approval of the accounts to 30 June 2024, in the event of various cash flow scenarios, including a severe but plausible downside scenario. This scenario applies severe but plausible economic downsides to our base case forecast, modelling the impact of a decline of the Group's participation in the UK grocery market compared to planned growth alongside the risk of fuel margin decline, inflationary pressures and risk of not achieving forecast levels of cost transformation activities. Furthermore, the Directors have considered the likely impacts on the business of levels of geo-political instability and uncertainty arising out of external events which are ongoing at the date of approval of the financial statements. The Directors are satisfied that the potential economic impacts of these events are adequately taken into account in the severe but plausible downside scenario.

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.

In the severe but plausible downside scenario the maximum utilisation of the RCF is 4%. Where management do not implement any mitigating actions the maximum utilisation of the RCF is 31%. 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 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.

Furthermore, the Directors have considered the potential impact of strategic options which would further accelerate the Group's ability to achieve its growth ambitions. These include, but are not limited to, investments to enable organic growth as well as significant potential acquisition opportunities, some of which may require additional capital and funding required to execute these opportunities.

Whilst no options have reached the commitment stage, the impact of the most advanced of these options, including incremental capital and funding requirements, has been modelled based on the Directors' best estimate of the assumptions required for the initial investment, terms of financing and post-acquisition trading. In addition to undertaking normal diligence processes before committing to such a strategic option, and in accordance with the Group's established governance framework as outlined on pages 23-30 of the Strategic Report, the Boards of the controlling parent (Bellis Topco 2 Limited) and of the Company have approved a resolution that sets out the required financial and associated criteria that must apply for the most advanced strategic option to be executed in the going concern review period. Such criteria include, inter alia, not progressing until appropriate financing is in place within specified cost parameters which ensure both affordability and the ability of the Group to continue to meet its liabilities and covenant requirements in the going concern period.

For the most advanced strategic option, the Group has modelled a potential severe but plausible downside scenario of the combined Group, which includes, where relevant, sensitivities of the post-acquisition trading and any assumed synergies. In such scenarios, the Group maintains sufficient liquidity and covenant headroom in the going concern period, having applied mitigations under the control of management where necessary.

Whilst the most advanced strategic option (and any related finance) are not committed to, as of the date of approval of the financial statements, the Directors consider that the governance processes outlined in this note will ensure that if the modelled strategic option were committed to, that this would not impact the ability of the Group to meet its liabilities for the going concern period to 30 June 2024.

Thus, the Directors have concluded that it is appropriate to adopt the going concern basis without any material uncertainties.

Dividends

No dividends were paid during the year (2021: £nil).

Political Donations

The Group did not make any political donations during the period (2021: £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

The auditors Ernst & Young LLP are deemed to be reappointed under section 487(2) 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

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 has offered to dispose of the 13 sites in question and the CMA has indicated that it considers that there are reasonable grounds for believing that the undertakings offered, or a modified version of them, might be accepted by the CMA under the Enterprise Act 2002.

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 28 April 2023 and signed on its behalf by:

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.

Independent Auditors' Report to the Members of Bellis Finco PLC

Opinion

In our opinion:

- Bellis Finco plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's loss 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 United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Bellis Finco plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2022 which comprise:

Group	Parent company
Consolidated balance sheet as at 31 December 2022	Balance sheet as at 31 December 2022
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Related notes 1 to 11 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the year then ended	
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 29 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Determining whether in our judgement the process applied by management in making their assessment of going concern, including supporting cash flow forecasts to 30 June 2024 and covenant compliance calculations, was fit for purpose.
- Assessing key assumptions used both in the base case and in the severe but plausible downside scenario forecasts by reference to historical data and external market perspectives.
- Assessing whether we considered the downside sensitivities to be appropriately severe in the current retail grocery market;
- Corroborating key assumptions in the group forecasts (e.g. market share, product price, mix and volume, cost inflation and finance costs) to other evidence including external research, historical performance and internal sector specialists, and ensuring this was consistent with our audit work in other areas;
- Testing the mathematical accuracy of management's cash flow models;
- Reperforming the group's covenant compliance test calculations to determine if the covenant tests apply in the base case or downside scenarios;
- For the strategic growth option modelled by management, performing the same procedures as outlined above for the related base case and downside scenarios plus a further assessment of the related financing structure and terms required to provide sufficient liquidity and covenant headroom;
- Assessing the Directors' and Shareholders' commitment through a Board resolution to only progress the most advanced strategic option if the terms of the funding were within prescribed boundaries that would not cause a breach of facilities under the various scenarios modelled; and
- Reviewing the disclosures in the financial statements relating to the going concern basis of preparation and evaluating that these provided an explanation of the Directors' assessment that was consistent with the audit evidence we obtained.

As part of the governance processes documented by the Board, there is a commitment to only progress the most advanced strategic option with funding arrangements that will secure adequate liquidity and covenant headroom through the going concern review period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for the going concern period to 30 June 2024. Going concern has also been determined to be a key audit matter.

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

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of three components. • The components where we performed full audit procedures accounted for 100% of adjusted EBITDA, 100% of revenue and 100% of total assets.
Key audit matters	• Going concern • Supplier income
Materiality	• Overall group materiality of £25m which represents 2.3% of adjusted EBITDA

An overview of the scope of the parent company and group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group wide controls, changes in the business environment, and other factors such as recent Internal audit results when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the three reporting components of the group, we selected all components covering entities in the UK, which represent the principal business units within the group.

Of the three components selected, we performed an audit of the complete financial information of all components ("full scope components") which were selected based on their size or risk characteristics.

The three full scope reporting components where we performed audit procedures accounted for 100% (2021:100%) of the group's adjusted EBITDA, 100% (2021: 100%) of the group's revenue and 100% (2021: 100%) of the group's total assets. Our scoping is consistent with the prior year.

Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the group audit team.

Climate change

Stakeholders are increasingly interested in how climate change will impact Bellis Finco plc. The group has determined that the most significant future impacts from climate change will be physical risk and the impact it could have on operations, property and supply chain. This is disclosed as part of the principal risks and uncertainties on page 44 which form part of the “Other information,” rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on “Other information”.

In planning and performing our audit we assessed the potential impacts of climate change on the group’s business and any consequential material impact on its financial statements.

The group has explained in in the Basis of Preparation their consideration of climate change and its impact on their financial statements. These disclosures also explain where governmental and societal responses to climate change risks are still developing, and where the degree of certainty of these changes means that they cannot be taken into account when determining asset valuations and the timing of future cashflows under UK adopted international accounting standards.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management’s assessment of the impact of climate risk have been reflected in the valuation of long-lived assets.

We also challenged the Directors’ considerations of climate change risks in their assessment of going concern and associated disclosures.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters include 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Supplier Income ***Refer to Accounting policies (pages 96-97)*** **Total supplier income recognised in the year is in the form of volume agreements and fixed agreements. We consider fixed agreements to have a higher degree of subjectivity as they are manual in nature and can be retrospective, compared to the volume agreements which are agreed up front and largely automated, and therefore our risk procedures are focused on these types of agreements.** **There is a risk of inappropriate cut-off around early or late funding, or false recognition of supplier income due back from suppliers.**	We performed full scope audit procedures over this risk area on one component which covered 100% of the total amount. We performed the following procedures: • We reviewed and challenged the appropriateness of the group's supplier income accounting policies • We performed walkthroughs of the supplier income process and identified and tested the operating effectiveness of key controls within the process • We tested and relied on management's IT general controls across the supplier income IT application • We used data analytics to perform analytic procedures across the entire population of both fixed and volume agreements to identify unusual trends, material supplier agreements, and potential late adjustments. We then tested these outliers through to underlying agreements and validated that the accounting was correct and that the agreements had been appropriately approved in line with policy • We analysed the margin across different operating departments to identify any unusual changes. We sought explanations for these movements and corroborated to external support where possible (i.e. to macro-economic conditions) • We held meetings with buyers across key departments to understand significant agreements and the impact they had on the overall	We did not identify any evidence of material misstatement in relation to the recognition of supplier income.

performance of that department

- We performed a correlation analysis to confirm that the flow of transactions through the income statement and balance sheet is complete and accurately recorded

- We obtained confirmations from a sample of material vendors to confirm key terms back to signed agreements

- Certain supplier agreements have the right to be offset against accounts payable. We substantively tested that where balances had been offset, that right existed within the agreement and was therefore appropriate.

- We tested material funding received post year end to ensure it was accounted for in the correct period.

In the prior year, our auditor's report also included two additional key audit matters in relation to Purchase Price Allocation and Sale and Leaseback. In the current year, these are no longer key audit matters as these transactions were specific to the prior year.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the group to be £25 million (2021: £34 million), which is 2.3% of adjusted EBITDA (2021: 5% of adjusted EBIT). We believe that adjusted EBITDA provides us with an appropriate basis for materiality and is the most relevant measure for stakeholders. The adjusted EBITDA has been adjusted to add back the separation costs related to the IT transformation project of £188.7m which we consider to be non-recurring and we have excluded the receipt of the indemnification income of £49.3m which we also consider to be non-recurring. In the prior year, we used adjusted EBIT as the basis for materiality. In the current year, adjusted EBITDA has been established as the key performance indicator that is used with external and internal stakeholders.

We determined materiality for the parent company to be £25 million (2021: £27 million) which is 1.8% of equity (2021: 2% of equity).

During the course of our audit, we reassessed initial materiality and no change from our original assessment at planning was required.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was 75% (2021: 75%) of our planning materiality, namely £19m (2021: £25m). We have set performance materiality at this percentage due to there being limited factors present that indicate a higher likelihood that misstatements may occur.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £5m to £19m (2021: £5m to £25m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1m (2021: £2m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 4-58, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 59, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group 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 the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

Use of our report

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

DocuSigned by:

Ernst & Young LLP

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Kate Jarman (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Leeds

28 April 2023

Consolidated Income Statement for the Year Ended 31 December 2022

Year ended 31 December 2022	**Note**	**Pre non-underlying items £ m**	**Non-underlying items £ m**	**Post non-underlying items £ m**
Revenue	3	24,477.8	-	24,477.8
Operating costs	4	(24,072.3)	(188.7)	(24,261.0)
Operating profit/(loss)		405.5	(188.7)	216.8
Finance income	8	55.4	-	55.4
Finance costs	8, 4	(386.5)	(9.0)	(395.5)
Other income	2, 4, 9	-	49.3	49.3
(Loss)/profit on ordinary activities before tax		74.4	(148.4)	(74.0)
Income tax credit/(expense)	10, 4	16.8	(4.4)	12.4
(Loss)/profit for the year		91.2	(152.8)	(61.6)

Period ended 31 December 2021 (restated)	**Note**	**Pre non-underlying items £ m**	**Non-underlying items £ m**	**Post non-underlying items £ m**
Revenue	3	20,710.4	-	20,710.4
Operating costs	4	(20,145.8)	(116.7)	(20,262.5)
Operating profit/(loss)		564.6	(116.7)	447.9
Finance income	8	29.4	-	29.4
Finance costs	8	(375.1)	-	(375.1)
Other income	2, 4, 9	-	2,933.4	2,933.4
Profit on ordinary activities before tax		218.9	2,816.7	3,035.6
Income tax credit/(expense)	10, 4	(325.3)	79.6	(245.7)
(Loss)/profit for the year		(106.4)	2,896.3	2,789.9

The above results were derived from continuing operations. Further detail of amounts presented as non-underlying items is provided in note 1 and 4.

The presentation of prior period comparatives has been restated to separately show amounts classified as non-underlying items. See notes 1 and 4 for further details.

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2022

	Note	Year Ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
(Loss)/profit for the year/period		(61.6)	2,789.9
Items that will not be reclassified to profit or loss in subsequent years			
Total remeasurements on defined benefit obligation	21	5.5	172.3
Decrease in value of BPA asset	21	-	(171.6)
Decrease in value of non-BPA assets excluding interest income	21	-	(13.9)
Tax on items recognised directly in other comprehensive income	10	(1.5)	3.3
		4.0	(9.9)
Items to be reclassified subsequently to profit or loss in subsequent years			
Forward contracts:			
Reclassification during the year/period to Income Statement		(23.4)	42.3
Net gain during the year/period on not-yet-matured contracts		14.4	11.6
Tax on cash flow hedges recognised directly in other comprehensive income	10	1.5	(10.2)
Cross-currency hedge:			
Reclassification during the year/period to Income Statement		(35.4)	34.6
Net gain/(loss) during the year/period on cross-currency swap		54.9	(25.5)
Currency basis movements on cost of hedging reserve		1.6	(0.6)
Time-value movements on cost of hedging reserve		(1.8)	1.2
Tax on cross currency swaps	10	(4.8)	(2.4)
		7.0	51.0
Other comprehensive income for the year/period		11.0	41.1
Total comprehensive (expense)/income for the year/period		(50.6)	2,831.0

Consolidated Balance Sheet as at 31 December 2022

Registration number: 12855336

	Note	Year Ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
Assets			
Non-current assets			
Property, plant and equipment	11	9,228.1	9,467.6
Right-of-use assets	12	2,366.4	2,420.3
Intangible assets	13	1,618.9	1,652.2
Investments	15	461.8	-
Intercompany receivables	16	747.4	1,722.0
Other non-current financial assets	20	5.1	7.2
		14,427.7	15,269.3
Current assets			
Inventories	14	1,276.0	1,166.7
Trade, other receivables and derivative assets	16	252.6	161.1
Loans receivable	16	26.6	-
Intercompany receivables	16	4.0	2.3
Cash and cash equivalents	17	662.5	505.5
Income tax asset		24.3	34.6
		2,246.0	1,870.2
Total assets		16,673.7	17,139.5
Equity and liabilities			
Equity			
Share capital	23	0.1	0.1
Share premium	23	1,280.0	1,280.0
Cash flow hedge reserve	24	57.4	50.3
Cost of hedging reserve		0.6	0.7
Retained earnings	24	2,723.1	2,780.0
Equity attributable to owners of the Company		4,061.2	4,111.1
Non-current liabilities			
Deferred tax liabilities	10	975.4	1,034.3
Intercompany payables	18	-	967.4
Lease liabilities	19	2,945.0	2,948.2
Borrowings	20	4,120.2	4,073.2
Pension liability	21	8.1	13.4
Provisions	22	153.0	209.2
		8,201.7	9,245.7
Current liabilities			
Trade, other payables and derivative liabilities	18	4,008.4	3,640.6
Intercompany payables	18	6.8	1.3
Lease liabilities	19	115.7	120.8
Provisions	22	33.3	20.0
Borrowings	20	246.6	-
		4,410.8	3,782.7
Total liabilities		12,612.5	13,028.4
Total equity and liabilities		16,673.7	17,139.5

Approved by the Board on 28 April 2023 and signed on its behalf by:

M Issa
Director

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2022

Period ended 31 December 2021

	Note	Share capital £ m	Share premium £ m	Cash flow hedging reserve £ m	Cost of hedging reserve £ m	Retained earnings £ m	Total equity £ m
At 3 September 2020		-	-	-	-	-	-
Profit for the period	24	-	-	-	-	2,789.9	2,789.9
Defined benefit pension scheme:		-	-	-	-	-	-
Total remeasurement on defined benefit obligation	21	-	-	-	-	172.3	172.3
Decrease in value of BPA asset	21	-	-	-	-	(171.6)	(171.6)
Decrease in value of non-BPA assets (excluding interest income)	21	-	-	-	-	(13.9)	(13.9)
Tax on items recognised directly in other comprehensive income	10	-	-	-	-	3.3	3.3
Forward contracts:							
Cash flow hedges - reclassified during period to Income Statement		-	-	42.3	-	-	42.3
Cash flow hedges - net gain during period on not-yet matured contracts		-	-	11.6	-	-	11.6
Tax on cash flow hedges recognised directly in other comprehensive income	10	-	-	(10.2)	-	-	(10.2)
Cross-currency interest rate swaps:							
Reclassification during the period to Income Statement		-	-	34.5	0.1	-	34.6
Net loss during the period on cross-currency interest rate swaps		-	-	(25.5)	-	-	(25.5)
Currency basis movements on cost of hedging reserve		-	-	-	(0.6)	-	(0.6)
Time-value movements on cost of hedging reserve		-	-	-	1.2	-	1.2
Tax on cross-currency interest rate swaps	10	-	-	(2.4)	-	-	(2.4)
Total comprehensive income		-	-	50.3	0.7	2,780.0	2,831.0
Ordinary share capital issued		0.1	1,280.0	-	-	-	1,280.1
At 31 December 2021		0.1	1,280.0	50.3	0.7	2,780.0	4,111.1

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2022 (continued)

Year ended 31 December 2022

	Note	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 2022		0.1	1,280.0	50.3	0.7	2,780.0	4,111.1
Loss for the year	24	-	-	-	-	(61.6)	(61.6)
Defined benefit pension scheme: Total remeasurements on defined benefit obligation	21	-	-	-	-	5.5	5.5
Tax on items recognised directly in other comprehensive income	10	-	-	-	-	(1.5)	(1.5)
Forward contracts: Cash flow hedges - reclassified during the 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	10	-	-	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 swap		-	-	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 swap	10	-	-	(4.8)	-	-	(4.8)
Total comprehensive income		-	-	7.1	(0.1)	(57.6)	(50.6)
Change in fair value of share-based payments		-	-	-	-	0.7	0.7
At 31 December 2022		0.1	1,280.0	57.4	0.6	2,723.1	4,061.2

Consolidated Statement of Cash Flows for the Year Ended 31 December 2022

	Note	Year ended 31 December 2022 (£ m)	Period ended 31 December 2021 (£ m)
(Loss)/profit for the year/period		(61.6)	2,789.9
Depreciation of property, plant and equipment	4	405.8	418.5
Depreciation of right-of-use assets	4	172.2	133.9
Amortisation of intangible assets	4	101.0	74.6
Impairment of property, plant and equipment	4	13.0	3.9
Impairment of right-of-use assets	12	6.9	-
Impairment of investments	4	-	0.5
Financial income	8	(55.4)	(29.4)
Financial costs	8	395.5	375.1
Loss on sale of property, plant and equipment	4	3.4	8.6
Gain on disposal of right-of-use assets	4	(1.6)	-
Other income	2, 9	(49.3)	(2,933.4)
Pension contributions	21	(0.1)	(0.4)
Settlement loss relating to pension buy-out	21	-	8.7
(Increase)/decrease in trade and other receivables		(45.6)	98.9
Increase in inventories		(109.3)	(82.4)
Increase/(decrease) in trade and other payables		407.5	(29.0)
Increase in provisions		6.8	8.3
Decrease in share-based payment liability		-	(144.2)
Tax paid		-	(25.8)
Tax (credit)/charge on continuing operations		(12.4)	245.7
Net cash flow from operating activities		1,176.8	922.0
Cash consideration paid for acquisition of ASDA Group Limited	2	(38.8)	(6,518.0)
Cash acquired on acquisition of ASDA Group Limited	2	-	567.5
Proceeds from sale of property, plant and equipment		11.4	5.4
Proceeds from sale of assets held for sale		-	9.1
Purchase of property, plant and equipment		(251.2)	(289.2)
Purchase of intangible assets		(68.5)	(96.0)
Buy-in loan repayment		0.7	39.0
External interest received	8	6.1	0.1
Increase in intercompany receivables		(1.1)	(20.0)
Cash consideration paid for acquisition of the investment in Arthur Foodstores Limited	15	(423.6)	-
Loan to Arthur Foodstores Limited		(23.6)	-
Net cash flows from investing activities		(788.6)	(6,302.1)
Proceeds from draw down of external debt (net of fees)		195.0	4,920.6
Proceeds from issuance of shares		-	1,280.0
Repayment of external debt		-	(750.0)
Drawdown of revolving credit facility		150.0	-
Repayment of revolving credit facility		(150.0)	(105.9)
Revolving credit facility fees paid		(4.5)	(10.5)
External interest paid		(150.1)	(126.9)
Increase in intercompany payables		5.5	903.8
Interest payments relating to leases		(145.2)	(102.3)
Capital payments relating to leases		(131.9)	(123.2)
Net cash flows from financing activities		(231.2)	5,885.6
Net increase in cash and cash equivalents		157.0	505.5
Cash and cash equivalents at beginning of the year/period		505.5	-
Cash and cash equivalents at end of the year/period	17	662.5	505.5

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022

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:
Waterside Head Office
Haslingden Road
Guide
Blackburn
Lancashire
BB1 2FA
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 28 April 2023.

Statement of compliance
The Group financial statements have been prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006.

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.

Basis of preparation
The financial statements have been prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006.

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 changed its accounting reference date in the prior period from 30 September to 31 December. As a result, the comparative amounts presented in the financial statements are not entirely comparable and represent the period from 3 September 2020 to 31 December 2021.

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

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

1 Accounting policies (continued)

The Group is currently working to identify the physical risk to our business and supply chains from the changing climate, along with the potential impact of policy, technology and market changes as we transition to a lower carbon future. This is a developing area with inherent uncertainty which is constantly evolving. The work being undertaken will be embedded in our risk management framework to help inform our overall response to the risks and opportunities that are identified. Our assessment to date has not identified material expenditure arising out of the impact of climate-related risk and this is reflected in the financial forecasts used to assess the going concern basis and to determine the recoverable amount of long-lived assets. Management will continue to monitor this in future periods.

Going concern

The financial statements for the year ended 31 December 2022 have been prepared on the going concern basis as the Directors have determined that the Group has sufficient resources and liquidity facilities to meet its liabilities as they fall due for the period from the date of approval of the accounts to 30 June 2024 ('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 FY23 plan and the FY24 forecasts from the three-year planning process.

The Group's Treasury function ensures that the Group continues to have sufficient funding by monitoring rolling forecasts of the Group's cash flows and maintaining a sufficient level of standby facilities via the Revolving Credit Facility. Any capital repayments of long-term financing are forecast in the cash flow model used in the going concern scenarios. The Revolving Credit Facility remains undrawn at the year end and no utilisation is forecast in the base case cash flow model. For more information on liquidity risk and maturity of financial liabilities see note 19.

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 from the date of approval of the accounts to 30 June 2024, in the event of various cash flow scenarios, including a severe but plausible downside scenario. This scenario applies severe but plausible economic downsides to our base case forecast, modelling the impact of a decline of the Group's participation in the UK grocery market compared to planned growth alongside the risk of fuel margin decline, inflationary pressures and risk of not achieving forecast levels of cost transformation activities. Furthermore, the Directors have considered the likely impacts on the business of levels of geo-political instability and uncertainty arising out of external events which are ongoing at the date of approval of the financial statements. The Directors are satisfied that the potential economic impacts of these events are adequately taken into account in the severe but plausible downside scenario.

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.

In the severe but plausible downside scenario the maximum utilisation of the RCF is 4%. Where management do not implement any mitigating actions the maximum utilisation of the RCF is 31%. The Directors consider that a scenario with no mitigating actions is not realistic as all modelled mitigating actions are readily accessible.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

1 Accounting policies (continued)

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 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.

Furthermore, the Directors have considered the potential impact of strategic options which would further accelerate the Group's ability to achieve its growth ambitions. These include, but are not limited to, investments to enable organic growth as well as significant potential acquisition opportunities, some of which may require additional capital and funding required to execute these opportunities.
Whilst no options have reached the commitment stage, the impact of the most advanced of these options, including incremental capital and funding requirements, has been modelled based on the Directors' best estimate of the assumptions required for the initial investment, terms of financing and post-acquisition trading. In addition to undertaking normal diligence processes before committing to such a strategic option, and in accordance with the Group's established governance framework as outlined on pages 23-30 of the Strategic Report, the Boards of the controlling parent (Bellis Topco 2 Limited) and of the Company have approved a resolution that sets out the required financial and associated criteria that must apply for the most advanced strategic option to be executed in the going concern review period. Such criteria include, inter alia, not progressing until appropriate financing is in place within specified cost parameters which ensure both affordability and the ability of the Group to continue to meet its liabilities and covenant requirements in the going concern period.

For the most advanced strategic option, the Group has modelled a potential severe but plausible downside scenario of the combined Group, which includes, where relevant, sensitivities of the post-acquisition trading and any assumed synergies. In such scenarios, the Group maintains sufficient liquidity and covenant headroom in the going concern period, having applied mitigations under the control of management where necessary.

Whilst the most advanced strategic option (and any related finance) are not committed to, as of the date of approval of the financial statements, the Directors consider that the governance processes outlined in this note will ensure that if the modelled strategic option were committed to, that this would not impact the ability of the Group to meet its liabilities for the going concern period to 30 June 2024.

Thus, the Directors have concluded that it is appropriate to adopt the going concern basis without any material uncertainties.

Changes in accounting policy
None of the standards, interpretations and amendments effective for the first time from 1 January 2022 have had a material impact on the financial statements.

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

1 Accounting policies (continued)

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

The key 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 (current year)

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 comprises initial cash consideration of £423.6m, of which £228.6m has been funded from cash in hand and £195.0m has been raised through the issue of additional senior facilities of £200.0m, less bank fees of £5.0m; and a balance owed 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.

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 requires the Group to effectively 'hold separate' the Arthur business, an independent management team has been appointed to run the Arthur business during the IEO period and the parties are prohibited from performing any integration activities or exchanging of commercially sensitive information.

As at 31 December 2022, as a result of the IEO restrictions, the Group has concluded that it does not have control of Arthur Foodstores Limited and therefore the results of the business are not consolidated in these financial statements. The Group expects to obtain control over Arthur Foodstores Limited from the date that the IEO is lifted, unless there are significant derogations from the CMA entered into before this date which provide evidence of the Group obtaining control. From the date control is obtained, Arthur Foodstores Limited will be consolidated into the Group accounts.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

1 Accounting policies (continued)

Business combinations - acquisition date relating to the Group's acquisition of ASDA Group Limited (prior period)

On 16 February 2021, Mohsin and Zuber Issa, founders and co-CEOs of EG Group, a global convenience and forecourts retailer, headquartered in Blackburn, UK, and investment funds managed by TDR Capital LLP ("TDR Capital"), a leading UK-based private equity firm, together acquired ASDA Group Limited ("ASDA").

Under the new ownership structure, Mohsin and Zuber Issa and TDR Capital indirectly own 100% of the ordinary shares in Bellis Acquisition Company 3 Limited ("BAC3") a wholly-owned subsidiary of the Company, which in turn acquired the entire issued share capital of ASDA.

On 10 February 2021, the Competition and Markets Authority ("CMA") served an initial enforcement order (IEO) under section 72(2) of the Enterprise Act 2002 on Zuber Issa, Mohsin Issa, TDR Capital LLP and ASDA in relation to the acquisition by BAC3 of ASDA. The IEO commenced on 16 February 2021, the day transaction legally completed and was lifted on 16 June 2021.

In determining the acquisition date, for the purposes of applying IFRS 3 Business Combinations, the Directors considered whether the IEO restrictions prevented BAC3 from controlling ASDA. In making this judgement the Directors considered BAC3's ability to direct the relevant activities of ASDA that could impact its return during the IEO period. The Directors concluded that control transferred on 16 February 2021, as there was sufficient evidence of BAC3's ability to direct ASDA from this date. The IEO was subsequently lifted on 16 June 2021. As a result, ASDA Group Limited and its subsidiaries have been consolidated in these financial statements since 16 February 2021.

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 are no examples of term reassessment in 2022.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

1 Accounting policies (continued)

IFRS 16 discount rate

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

The incremental borrowing rate is considered a key judgement and under IFRS 16 reflects the rate of interest a lessee would 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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

1 Accounting policies (continued)

Supply Chain Finance

Judgement is made in determining whether balances under supply chain financing arrangements should be classified as trade payables or as another line item on the Balance Sheet. In determining the classification, the Group reviews each arrangement against a number of characteristics to assess whether the substance of liabilities owed by the Group to the participating banks under the contractual terms of the arrangements is consistent with other trade payables. These include:
- Whether participation in the schemes is voluntary for suppliers;
- Whether the Group is involved in the negotiations and agreements between the banks and suppliers or tri-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.

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 (note 27).

<u>*Estimates*</u>

Deferred gain relating to sale-and-leaseback transaction

The Group estimates the gain on sale to be recognised in the Income Statement based on the amount of the gain that relates to the rights transferred to the buyer-lessor. The remaining gain is deferred as a reduction to the right-of-use asset relating to the leaseback. This estimate requires determining the fair value of the properties transferred and calculating the lease liability of the leaseback. As noted in the 'IFRS 16 discount rate' section above, there is inherent judgement included in the determination of the appropriate discount rate. The fair value of properties transferred is determined using third party valuation specialists. Please see further detail on financial amounts in the prior period in note 9.

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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

1 Accounting policies (continued)

Business combinations and goodwill

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

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

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

The fair value of assets and liabilities acquired in a business combination are measured at acquisition date fair value in accordance with IFRS 13 'Fair Value Measurement' with the exception of income taxes, employee benefits, 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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

1 Accounting policies (continued)

Foreign currency

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

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

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

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

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

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. The presentation of prior period comparatives has been restated to the same basis as current year amounts to ensure consistency in the reporting periods presented in the current year consolidated Income Statement.

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 year and prior period is provided in note 4.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

1 Accounting policies (continued)

Intangible assets

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

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

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

Integration costs between different software is 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 the implementation costs do not meet the recognition criteria of a separate intangible asset, an assessment is then made as to whether the costs represent configuration of the software product or customisation. If configuration, these costs are recognised in the Consolidated Income Statement as incurred, whereas if customisation the Directors will assess whether these should be recognised over the term of the SAAS contract if they are not distinct from the underlying software product itself. Purchases of new hardware are capitalised as Property, Plant and Equipment and so would not be included in intangibles.

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 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 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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

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 in accordance with IAS 36 ‘Impairment of Assets’.

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

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

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

1 Accounting policies (continued)

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each Balance Sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Indefinite lived intangibles are tested annually for impairment regardless of whether any indicators for impairment exist.

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

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

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

Assets held for sale

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

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

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

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

Provisions

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

1 Accounting policies (continued)

Leases

The Group as a lessee

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

Lease liability

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

1 Accounting policies (continued)

Discount rate

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

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

Right-of-use Assets

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

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

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

Non-lease components and variable rent expense

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

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

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

1 Accounting policies (continued)

The Group as a lessor

The Group enters into lease agreements as a lessor with respect to a small amount of its excess property and space inside operational stores. Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Where the Group is an intermediate lessor, the head lease and sub-lease are accounted for as two separate contracts and assessment of classification is made with reference to the right-of-use asset resulting from the head lease rather than the underlying asset. The Group currently has no leases classified as finance where it is the lessor.

Where the Group owns the freehold, assets are included in property, plant and equipment and depreciated over their useful economic lives. Rental income from operating leases, including the effect of lease incentives, is recognised on a straight-line basis over the lease term.

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

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 19 for further details). In addition, the Group uses cross-currency-interest-rate swaps to hedge its exposure to foreign currency risk and floating interest rate risk relating to its foreign currency borrowings.

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, 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' 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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

1 Accounting policies (continued)

Inventories

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

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

Taxation

The tax expense 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.

Trade and other receivables

Trade and other receivables are stated at their original invoiced value (discounted if material) as reduced by appropriate allowances for estimated irrecoverable amounts. Impaired debts are derecognised when they are assessed as uncollectible.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, credit and debit card receivables, short-term deposits and short-term highly liquid investments with an original maturity of three months or less. Bank overdrafts and other credit facilities that are repayable on demand, to the extent that they are used, are included as a component of cash and cash equivalents for the purpose of the Consolidated Statement of Cash Flows.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

1 Accounting policies (continued)

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

Unapproved Unfunded Retirement Benefits Scheme ("UURBS")

The Group's liabilities in respect of the 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.

ASDA Group Pension Scheme ("AGPS")

As described in note 21, a buy-out of the AGPS was executed during the prior period on 9 July 2021 which extinguished the Group's responsibility to fund the AGPS as sponsoring employer. As such, the assets and liabilities of the AGPS, other than assets and liabilities amounting to £0.5m for which the Group remains the sponsoring employer, were de-recognised as pension assets and liabilities during the prior period.

During the prior period, prior to the buy-out, the assets and liabilities of the AGPS met the definition of pension assets and liabilities as set out in IAS 19 and as such, changes in fair value of the assets and liabilities of the AGPS - including losses relating to deferred consideration paid prior to the buy-out which related to the 2019 AGPS buy-in transaction - were accounted for in other comprehensive income.

The settlement loss arising from the de-recognition of AGPS pension assets and liabilities at buy-out was recorded as a loss within operating expenses in the consolidated Income Statement in the prior period.

Investments

In the Groups' financial statements, investments in subsidiaries 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 would be taken directly through the Income Statement. The Directors have assessed these investments for impairment at year-end and determined that no impairment was required.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

1 Accounting policies (continued)

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.

Revenue recognition
Revenue represents sales to customers through retail outlets and online, excluding value added tax. Revenue is recognised net of ASDA Rewards pounds earned, intercompany transactions, colleague and Blue Light discounts, coupons and the free element of multi-save transactions.

Wholesale revenue
Wholesale revenue is recognised when the goods are delivered to the wholesale customer. Sale proceeds collected on behalf of wholesale customers are not recognised as revenue other than related commission which is based on the terms of the contract with the wholesale customer. Revenue is recorded net of VAT.

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

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

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

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

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

1 Accounting policies (continued)

Unbilled amounts of income to which the Group is contractually entitled are included in trade and other receivables, or offset against corresponding trade payables, however these amounts are not material. 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 (note 16) at the year-end for which estimation and judgement is required is £1.2m (2021: £0.8m). This represents the net amount of accrued income of £1.2m (2021: £0.8m) and deferred income of £nil (2021: £nil) on deals running across the year-end.

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

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

Management Incentive Plan
During the 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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

1 Accounting policies (continued)

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 Other 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

Prior period

On 16 February 2021, Bellis Acquisition Company 3 Limited, a wholly-owned subsidiary of Bellis Finco PLC, acquired 100% of the entire issued share capital of ASDA Group Limited (ASDA) from ASDA Holdings UK Limited, a wholly owned subsidiary of Walmart Inc. (Walmart) for an enterprise value of £6,725.8m.

The agreed consideration transferred was £6,725.8m. This comprised cash consideration of £6,568.3m payable on or after 16 February 2021 and £157.5m which was settled by ASDA on behalf of Bellis Acquisition Company 3 Limited prior to 16 February 2021.

Included within the £6,568.3m is £6,518.0m which was settled during the prior period, £38.8m, which has been settled during the current year, and £11.5m which is outstanding at the balance sheet date and is included in trade and other payables.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

2 Business Combinations (continued)

The fair value of the net assets acquired on 16 February 2021 and the resulting gain on bargain purchase recognised during the prior period is set out in the table below.

	Fair value of net assets acquired (£m)
Non-current assets	
Property, plant and equipment	10,405.2
Right-of-use assets	1,814.2
Intangible assets	1,623.6
Pension asset	59.6
Investments	0.5
	13,903.1
Current assets	
Assets held for sale	9.1
Inventories	1,084.2
Trade and other receivables	246.0
Cash and cash equivalents	567.5
Income tax asset	58.4
	1,965.2
Total assets	15,868.3
Non-current liabilities	
Lease liabilities	1,781.3
Provisions	157.0
Deferred tax liability	829.0
	2,767.3
Current liabilities	
Trade and other payables	3,599.2
Lease liabilities	111.8
Employee benefits	144.2
Provisions	23.2
	3,878.4
Total liabilities	6,645.7
Fair value of net assets acquired	9,222.6
Consideration	(6,568.3)
Gain on bargain purchase	2,654.3

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

2 Business Combinations (continued)

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

The acquisition resulted in a gain on bargain purchase being recognised as Other Income in the consolidated income statement of £2,654.3m for the period ending 31 December 2021. The gain on bargain purchase arises as a result of the valuation basis applied to individual assets in accordance with IFRS 13 Fair Value Measurement differing from the basis on which the purchase price was determined - notably the property valuations included in the net assets acquired being determined on a rental yield basis compared to the purchase price being determined based on a multiple of EBITDA. In addition, further details on internally generated intangibles, including the ASDA and George brand licences and customer relationships, that have been capitalised are included in note 13.

Costs directly relating to completion of the business combinations in the prior period of £92.6m have been included in prior period operating costs in the consolidated Income Statement. These acquisition-related costs included stamp duty and advisory fees in respect of legal, accounting, property valuation and other professional matters. No further amounts have been incurred during the year in respect of this acquisition.

For the period ended 31 December 2021, ASDA contributed revenue of £20,710.4m and profit before tax of £963.9m to the Group's results. If the acquisition had occurred on 3 September 2020, management estimates that consolidated revenue would have been £31,378.7m, and consolidated profit before tax for the period would have been £3,145.1m. 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 3 September 2020.

Reimbursement income
As a condition of the sale of ASDA to the Group, the Group was indemnified by ASDA Holdings UK Limited ("AHUKL") - a third party to the Group - in respect of tax expenses and any associated interest which may arise as a result of events that occurred prior to 16 February 2021. During the year, wholly-owned subsidiaries of the Group recognised tax expenses relating to corporation tax reliefs claimed by those entities in the years ending 31 December 2011 to 31 December 2017 (see note 10 for further detail). A fellow wholly-owned subsidiary of the ultimate parent undertaking of AHUKL has settled tax and interest relating to this matter on the Group's behalf and this amount of £49.3m is included in other income.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

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 2022 £ m	**Period ended 31 December 2021 £ m**
Sale of goods	20,452.3	17,900.1
Fuel	4,025.5	2,810.3
	24,477.8	20,710.4

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

4 Operating costs

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

	Note	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
Cost of inventories recognised as an expense		(18,229.2)	(15,141.0)
Cost of inventories written off in the year/period		(482.5)	(380.7)
Employment costs	6	(2,816.6)	(2,468.5)
Amortisation of intangible assets	13	(101.0)	(74.6)
Depreciation on property, plant and equipment	11	(405.8)	(418.5)
Depreciation on right of use assets	12	(172.2)	(133.9)
Rental income		12.3	10.8
Other income		42.5	31.4
Loss on sale of property, plant and equipment		(3.4)	(8.6)
Gain on disposal of right-of-use assets		1.6	-
Impairment charge relating to property, plant and equipment	11	(13.0)	(3.9)
Impairment charge relating to right-of-use assets	12	(6.9)	-
Impairment of investments		-	(0.5)

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 in the prior period by virtue of their size and nature. The consolidated Income Statement impact of these items is as follows.

		Year ended 31 December 2022 £m		
	Note	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)
		(188.7)	35.9	(152.8)
Non-underlying items included in finance costs:				
Reimbursed settlement relating to historic tax reliefs	*10*	(9.0)	9.0	-
Non-underlying items included in other income:				
Reimbursed settlement relating to historic tax reliefs	*10*	49.3	(49.3)	-
		49.3	(49.3)	-
Total		(148.4)	(4.4)	(152.8)

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

4 Operating costs (continued)

		Period ended 31 December 2021 £m		
Non-underlying items included in operating costs	Note	Pre-tax increase/(decrease) in profit	(Increase)/decrease in tax expense	Post-tax increase/(decrease) in profit
Transaction costs relating to acquisition of ASDA Group Limited (i)		(92.6)	0.8	(91.8)
Project Future costs (ii)		(24.1)	4.6	(19.5)
		(116.7)	5.4	(111.3)
Non-underlying items included in other income:				
Gain on bargain purchase	*2*	2,654.3	-	2,654.3
Sale-and-leaseback gain	*9, 10*	279.1	74.2	353.3
		2,933.4	74.2	3,007.6
Total		2,816.7	79.6	2,896.3

(i) Relates to third party advisor fees and stamp duty paid in relation to the acquisition in the prior period of the entire issued share capital of ASDA Group Limited.
(ii) Since the acquisition of ASDA Group Limited in the prior period, 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 for an initial period of three years. 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 its 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 period relate to 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 and as these costs arise out of the normal course of business, they are considered to be underlying costs of the business.

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

	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)

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

4 Operating costs (continued)

	Period ended 31 December 2021 £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)	(83.7)	-	(83.7)
Project Future costs (ii)	(17.6)	(2.0)	(19.6)
	(101.3)	(2.0)	(103.3)

(i) Cash flows in relation to transaction costs relating to the acquisition of ASDA Group Limited are as per the the amounts expensed in the consolidated Income Statement adjusted for accruals which were outstanding at 31 December 2022 and 31 December 2021.
(ii) Operating cash flows in relation to Project Future costs are as per the the amounts expensed in the consolidated Income Statement adjusted for related prepayments and accruals which were outstanding at 31 December 2022 and 31 December 2021. Investing cash flows relate to Project Future-related amounts incurred in the current year and prior period which have been capitalised as intangible assets.

Gain on bargain purchase: The amount recognised in the prior period in respect of the Group's acquisition of ASDA Group Limited is a non-cash item arising out of the fair value of net assets acquired being higher than the consideration payable. For detail on the cashflows incurred in the prior period and current year in relation to the acquisition of ASDA Group Limited, see note 2.

Sale-and-leaseback gain: As detailed in note 9, the consideration received in the prior period by the Group in relation to the warehouse sale-and-leaseback transaction was in the form of an intercompany loan note from a fellow wholly owned subsidiary of the ultimate parent company. This amount has not been settled in cash and as such, there is no impact on the Group's cash flows in the prior period or the current year arising out of the warehouse sale-and-leaseback.

Reimbursed settlement relating to historic tax reliefs: As detailed in note 10, the Group's tax and interest liabilities to the tax authorities arising out of settlement of this matter were settled 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 year.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

5 Auditors' remuneration

	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
Within operating costs:		
Fees payable to Company's auditor for the audit of parent company and consolidated financial statements	1.4	1.2
Fees payable to Company's auditor for other assurance services	-	0.5
Total fees to auditor	1.4	1.7

Included within fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements is £1.2m (2021: £0.9m) in relation to the audit of wholly-owned subsidiary undertakings of the parent company Bellis Finco PLC.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

6 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 2022 No.	Period ended 31 December 2021 No.
Total		
Retail & Distribution	140,251	98,078
Home offices	4,993	3,115
	145,244	101,193
Full time equivalents		
Retail & Distribution	86,722	60,073
Home offices	4,816	2,998
	91,538	63,071

The prior period comparative figures calculate the average number of persons employed by the Group since incorporation in September 2020. This includes a period up until the acquisition of the ASDA Group on 16 February 2021 where the Group employed no colleagues. The average number of persons employed by the Group following the acquisition of the ASDA Group is shown below:

For the period from 16 February 2021 to 31 December 2021, the average number of colleagues was 147,191 (Retail & Distribution - 142,660, Home offices - 4,531), the average number of full time equivalents was 91,740 (Retail & Distribution - 87,379, Home offices - 4,361).

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

	Note	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
Wages and salaries	21	2,526.4	2,210.1
Share-based payment expenses	21	0.7	14.0
Social security costs	21	167.0	133.5
Other pension costs	21	122.5	110.9
		2,816.6	2,468.5

Other pension costs comprise the cost of the defined contribution schemes and, in the prior period, the settlement relating to the buy-out of the ASDA Group Pension Scheme. All pension-related costs and income are disclosed in note 21.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

7 Directors' remuneration

The Directors received remuneration of £48,571 (2021: £11,895) 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 £48,571 (2021: £11,895) during the year.

8 Finance income and costs

	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
Finance income		
Bank interest receivable	6.1	0.1
Interest receivable on amounts owed from fellow subsidiary of the ultimate parent	49.3	29.3
Total finance income	55.4	29.4
Finance costs		
External interest payable	191.1	202.3
Interest on lease liabilities	145.6	105.5
Net interest cost on pension scheme	0.3	1.0
Asset retirement obligations discount unwind	2.1	1.4
Interest payable on amounts owed to fellow subsidiary of the ultimate parent	56.4	64.9
Total finance costs	395.5	375.1

External interest payable includes interest on external debt issued by the Group during the current year and prior period, amortisation of fees incurred in relation to external debt and commitment fees and interest relating to the Revolving Credit Facility entered into during the prior period.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

9 Sale-and-Leaseback transaction - prior period

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

In accordance with IFRS 15, it was determined that the transfer of the distribution properties to BSWL for proceeds of £1,675.0m is considered a sale. In the period ended 31 December 2021, assets relating to the distribution properties with a Net Book Value of £831.3m were sold to BSWL and the Group recognised a gain on sale of £279.1m representing the amount of the gain that relates to the rights transferred to the buyer-lessor during the prior period. The remaining gain of £564.6m was deferred as a reduction to the right-of-use asset relating to the leaseback.

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

The leasebacks of the depots, taking into account the deferral of a proportion of the disposal gain into the right-of-use asset and subsequent modification to the lease term, resulted in an increase in right-of-use assets of £624.9m and lease liabilities of £1,177.4m in the prior period.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

10 Income tax

Tax charged/(credited) in the Income Statement

	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
Current taxation		
UK corporation tax	-	49.7
UK corporation tax relating to previous years	51.3	-
Current tax charge for the year/period	51.3	49.7
Total current income tax	51.3	49.7
Deferred taxation		
Arising from origination and reversal of temporary differences	(41.4)	(84.9)
Arising from changes in tax rates and laws	(17.0)	280.9
Adjustments in respect of prior period	(5.3)	-
Total deferred taxation	(63.7)	196.0
Tax (credit)/expense in the Income Statement	(12.4)	245.7

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

10 Income tax (continued)

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

	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
(Loss)/profit before tax	(74.0)	3,035.6
Corporation tax at standard rate	(14.1)	576.8
Adjustment in respect of previous years (a)	46.0	-
Enhanced capital allowance deduction	(8.4)	(9.1)
Change in tax rate	(17.0)	280.9
Expenses not deductible	6.5	21.7
Group relief not paid for	(13.3)	(3.8)
Non-taxable reimbursement income (a)	(9.4)	-
Non-taxable gain on bargain purchase	-	(504.2)
Depreciation and other amounts in relation to non-qualifying fixed assets	(4.9)	-
Gain on non-qualifying fixed assets	-	(42.4)
Deferred accounting gain on sale-and-leaseback (b)	-	(139.4)
Chargeable gains (b)	2.2	65.2
Total tax (credit)/charge	(12.4)	245.7

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

10 Income tax (continued)

The standard rate of corporation tax in the United Kingdom for the year is 19% (2021: 19%).

On 3 March 2021, it was announced in the UK Budget that the main rate of corporation tax in the United Kingdom will increase to 25% on 1 April 2023, and this rate change was substantively enacted in May 2021. The deferred tax liability is calculated using the tax rate at which it is expected to unwind (of between 19% and 25% for 2021 and 2022). The tax charge in relation to the rate change in the prior period is £280.9m. The future increase in tax rates to 25% was substantively enacted in the prior period and the full deferred tax liability was revalued to reflect this rate change. The rate change credit of £17m mostly relates to new deferred tax assets arising in the year for trading losses and for interest disallowed under the Corporate Interest Restriction to be reactivated in future years (interest carried forward).

(a) Adjustments in respect of previous years of £46.0m includes a tax expense of £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 reimbursable by a wholly-owned subsidiary of ASDA Holdings UK Limited's ("AHUKL's") ultimate parent under an indemnity it provided on the sale of ASDA (note 2). The total reimbursement income of £49.3m is included as other income in the income statement. This is non-taxable income for the Group. A wholly-owned subsidiary of AHUKL's ultimate parent settled this tax and interest directly on the Group's behalf.

(b) The prior period tax credit in relation to the sale-and-leaseback of the Group’s distribution properties was £74.2m. A tax credit arose on the transaction, despite an accounting gain of £279.1m. The tax on the chargeable gain on disposal (after the offset of capital losses) was £74.0m, of which £65.2m was recognised in the prior period. However, a deferred tax asset of £139.4m arose where the accounting gain on the disposal of fixed assets was deferred as a reduction of the right-of-use asset of the leaseback, as the full proceeds were taxed as a capital gain.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

10 Income tax (continued)

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

	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
Deferred tax (charge)/credit on pensions	(1.5)	3.3
Deferred tax credit/(charge) on cash flow hedges	1.5	(10.2)
Deferred tax charge on cross currency swaps	(4.8)	(2.4)
Total tax on items charged to Consolidated Statement of Comprehensive Income	(4.8)	(9.3)

Deferred tax

Deferred tax assets and liabilities are attributable to the following:

2022	Asset £ m	Liability £ m	Net deferred tax £ m
Property, plant and equipment	-	(752.6)	(752.6)
Employee benefits	4.4	-	4.4
Provisions	8.6	-	8.6
Capital losses	6.1	-	6.1
Cash flow hedges	-	(8.5)	(8.5)
Intangible assets	-	(374.4)	(374.4)
Right-of-use assets and lease liabilities	38.0	-	38.0
Interest	48.9	-	48.9
Trading losses	54.1	-	54.1
	160.1	(1,135.5)	(975.4)

2021	Asset £ m	Liability £ m	Net deferred tax £ m
Property, plant and equipment	-	(767.1)	(767.1)
Employee benefits	38.6	-	38.6
Provisions	7.1	-	7.1
Capital losses	1.8	-	1.8
Cash flow hedges	-	(5.3)	(5.3)
Intangible assets	-	(374.9)	(374.9)
Right-of-use assets and lease liabilities	65.5	-	65.5
Interest	-	-	-
Trading losses	-	-	-
	113.0	(1,147.3)	(1,034.3)

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

10 Income tax (continued)

Capital losses carried forward at 31 December 2022 are £68.6m (2021: £20.1m) of which £24.1m (2021: £7.0m) are recognised and £44.5m (2021: £13.1m) are unrecognised. Capital losses are not recognised where, at the balance sheet date, it is not considered probable that the losses will be used. The increase in capital losses in 2022 relates to the finalisation of the chargeable gains calculations for the sale and leaseback in 2021. In 2022, £5.0m of capital losses were used. Capital losses can be carried forward indefinitely.

A deferred tax asset has been recognised at 31 December 2022 in relation to trading losses carried forward of £220.5m and disallowed interest carried forward under the UK Corporate Interest Restriction of £195.5m. 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.

Deferred tax movement during the year:

	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)	14.5	-	(752.6)
Employee benefits	38.6	(32.7)	(1.5)	4.4
Provisions	7.1	1.5	-	8.6
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 and lease liabilities	65.5	(27.5)	-	38.0
Interest	-	48.9	-	48.9
Trading losses	-	54.1	-	54.1
Net tax liabilities	(1,034.3)	63.7	(4.8)	(975.4)

Deferred tax movement during the prior period:

	Arising on acquisition of ASDA Group Limited £ m	Recognised in income £ m	Recognised in other comprehensive income £ m	At 31 December 2021 £ m
Property, plant and equipment	(622.9)	(144.2)	-	(767.1)
Employee benefits	85.7	(50.4)	3.3	38.6
Provisions	8.8	(1.7)	-	7.1
Capital losses	11.0	(9.2)	-	1.8
Cash flow hedges	7.3	-	(12.6)	(5.3)
Intangible assets	(282.3)	(92.6)	-	(374.9)
Right-of-use assets and lease liabilities	(36.6)	102.1	-	65.5
Interest	-	-	-	-
Trading losses	-	-	-	-
Net tax liabilities	(829.0)	(196.0)	(9.3)	(1,034.3)

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

11 Property, plant and equipment

	Freehold properties £ m	Leasehold improvements £ m	Plant, equipment, fixtures & fittings £ m	Assets under construction £ m	Total £ m
Cost					
On acquisition of ASDA Group Limited	8,648.5	858.5	819.2	79.0	10,405.2
Additions	106.0	40.7	82.7	99.6	329.0
Disposals	(864.7)	(3.1)	(9.4)	-	(877.2)
Transfers from Assets Under Construction	80.3	-	67.3	(147.6)	-
At 31 December 2021	7,970.1	896.1	959.8	31.0	9,857.0
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
Accumulated depreciation and impairment					
Depreciation charge for period	171.9	78.5	168.1	-	418.5
Disposals	(24.1)	(0.8)	(8.1)	-	(33.0)
Impairment charges/(reversals)	2.1	(0.3)	2.1	-	3.9
At 31 December 2021	149.9	77.4	162.1	-	389.4
At 1 January 2022	149.9	77.4	162.1	-	389.4
Depreciation charge for the year	176.7	45.1	184.0	-	405.8
Disposals	(8.8)	(37.8)	(14.0)	-	(60.6)
Impairment charges	8.7	-	4.3	-	13.0
At 31 December 2022	326.5	84.7	336.4	-	747.6
Net book value					
At 31 December 2021	7,820.2	818.7	797.7	31.0	9,467.6
At 31 December 2022	**7,690.5**	**734.0**	**761.2**	**42.4**	**9,228.1**

Assets held for sale
At 31 December 2022, the carrying value of assets held for sale was £nil (2021: £nil).

Impairment
Both the operational and non-operational estate are regularly reviewed for indicators of impairment. Following reviews in the year, impairment charges of £13.0m (2021: £3.9m) were recognised in operating costs during the year.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

12 Right-of-use assets

	Land and Buildings £ m	Plant and Equipment £ m	Total £ m
Cost			
On acquisition of ASDA Group Limited	1,673.2	141.0	1,814.2
Additions	655.3	86.7	742.0
Disposals	(2.6)	(5.5)	(8.1)
At 31 December 2021	2,325.9	222.2	2,548.1
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
Accumulated depreciation and impairment			
On acquisition of ASDA Group Limited	-	-	-
Depreciation of right-of-use assets	83.9	50.0	133.9
Eliminated on disposal	(1.1)	(5.0)	(6.1)
At 31 December 2021	82.8	45.0	127.8
At 1 January 2022	82.8	45.0	127.8
Depreciation of right-of-use-assets year	106.2	66.0	172.2
Eliminated on disposal	-	(7.2)	(7.2)
Impairment	6.9	-	6.9
At 31 December 2022	195.9	103.8	299.7
Net book value			
At 31 December 2021	2,243.1	177.2	2,420.3
At 31 December 2022	2,201.4	165.0	2,366.4

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

12 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. Impairment charges of £6.9m (2021: £nil) were recognised during the year. The impairment charge in the year is driven primarily by declining performance of two sites.

Average remaining lease term is 37 years (2021: 32 years). This figure is a weighted average which is calculated using undiscounted future lease payments whereas the prior period figure was calculated using discounted future lease payments. Due to the increase in discount rates during the year, the Directors believe that a weighted average lease term based on undiscounted payments is more representative and the calculation has been updated accordingly. The weighted average lease term at 31 December 2021 using undiscounted future lease payments would have been 38 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 (2021: 4 years).

Included within prior period additions of £742.0m is £624.9m relating to the sale and leaseback transaction. This is stated net of a £564.6m deferral of the gain on sale. The remaining additions related to renewals or modifications of previously existing leases for land and buildings, new leases for plant, vehicles and equipment, alongside modifications to the lease term on the sale and leaseback properties.

Additions during the year relate primarily to renewals or modifications of previously existing leases for land and buildings; and new leases for plant, vehicles and equipment.

For further details of lease liabilities please see note 25.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

13 Intangible assets

	Brand licences £ m	Contractual customer relationships £ m	Software and development costs £ m	Total £ m
Cost				
At 30 September 2020	-	-	-	-
On acquisition of ASDA Group Limited	1,327.2	112.8	183.6	1,623.6
Additions	-	-	103.7	103.7
Disposals	-	-	(0.5)	(0.5)
At 31 December 2021	1,327.2	112.8	286.8	1,726.8
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
Amortisation				
At 30 September 2020	-	-	-	-
Amortisation during the period	-	10.1	64.5	74.6
At 31 December 2021	-	10.1	64.5	74.6
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
Net book value				
At 31 December 2021	1,327.2	102.7	222.3	1,652.2
At 31 December 2022	**1,327.2**	**91.4**	**200.3**	**1,618.9**

Software and development costs are amortised on a straight-line basis over their estimated useful life of 4 years (2021: 4 years).

Contractual customer relationships are amortised on a straight-line basis over their estimated useful life of 10 years (2021: 10 years).

Intangible additions in 2022 include development costs associated with the ongoing project to implement new systems following separation from Walmart in 2021, alongside the continued development of software to support our George business.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

13 Intangible assets (continued)

Impairment testing of indefinite life intangibles

George brand licence

This asset relates to the acquisition in 2021 of a perpetual licence to use the George brand in the UK and elsewhere in Europe and has a carrying value of £463.8m (2021: £463.8m). This has been tested for impairment as at 31 December 2022 by assessing the present value of forecasted cash flows arising from the George clothing business.

The recoverable amount is determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a three-year period. Forecasts 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 11.0% (2021: 8.0%).

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 George brand.

ASDA brand

This asset relates to the acquisition in 2021 of the ASDA brand and has a carrying value of £863.4m (2021: £863.4m). This has been tested for impairment as at 31 December 2022 by assessing the present value of forecasted cash flows arising from the ASDA 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. Forecasts 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 11.0% (2021: 8.0%).

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 ASDA brand.

14 Inventories

	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
Goods held for resale	1,272.7	1,164.1
Goods not held for resale	3.3	2.6
	1,276.0	1,166.7

Cost of inventories written off in the year is disclosed in note 4.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

15 Investments

	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
At 1 January	-	-
Additions - Arthur Foodstores Limited	461.8	-
At 31 December	461.8	-

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 comprises initial cash consideration of £423.6m, of which £228.6m has been funded from cash in hand and £195.0m has been 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.

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 requires the Group to effectively ‘hold separate’ the Arthur business. An independent management team has been appointed to run the Arthur business during the IEO period and the parties are 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 has concluded that it does not have control of Arthur Foodstores Limited and therefore the results of the business are not consolidated in these financial statements. The Group expects to obtain control over Arthur Foodstores Limited from the date that the IEO is lifted, unless there are significant derogations from the CMA entered into before this date which provide evidence of the Group obtaining control. From the date control is obtained, Arthur Foodstores Limited will be consolidated into the Group accounts.

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 has offered to dispose of the 13 sites in question and the CMA has indicated that it considers that there are reasonable grounds for believing that the undertakings offered, or a modified version of them, might be accepted by the CMA under the Enterprise Act 2002.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

16 Trade, other receivables and derivative assets

	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
Trade receivables	94.7	76.3
Allowance for expected credit losses	(1.1)	(0.6)
Other receivables	50.8	50.5
Prepayments and accrued income	48.2	20.8
Derivative assets	60.0	14.1
	252.6	161.1
Intercompany receivables		
Current	4.0	2.3
Non-current	747.4	1,722.0
Loans receivable		
Current	26.6	-

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

Trade receivables are presented net where a legally enforceable right of set off exists. Included in the above is an offset of £166.1m (2021: £210.2m). The trade receivable prior to the offset is £260.8m (2021: £286.5m).

Other receivable balances have been assessed to determine the value of ECLs as per the requirements of IFRS 9 and the impact is £nil (2021: £nil).

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

The non-current intercompany receivable balance of £747.4m (2021: £1,722.0m) is largely due to the intercompany receivables arising out of the sale-and-leaseback transaction, as properties owned by the Group were sold to a fellow wholly-owned subsidiary of the ultimate parent undertaking in exchange for an intercompany receivable. During the year, £1,023.8m of this receivable was used as consideration to settle an intercompany payable owing to the immediate parent undertaking.

Loans receivable of £26.6m include 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 have been assessed to determine the value of ECLs as per the requirements of IFRS 9 and the impact is £nil (2021: £nil).

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

16 Trade, other receivables and derivative assets (continued)

As at 31 December 2022, trade receivables at nominal value of £1.1m (2021: £0.6m) were impaired and fully provided for. Movements in the allowance for expected credit losses in the year were as follows:

	31 December 2022 £ m	31 December 2021 £ m
At beginning of year/period	0.6	-
Charge for the year/period	1.5	1.2
Provision utilised during the year/period	(0.6)	(0.6)
Unused amounts reversed during the year/period	(0.4)	-
At end of year/period	1.1	0.6

The Group has not made any provision for intercompany receivables.

17 Cash and cash equivalents

	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
Cash in hand and bank balances	310.1	238.5
Money market funds and deposits	352.4	267.0
	662.5	505.5

At 31 December 2022, included in the cash and cash equivalents balance is an amount of £160.0m (2021: £73.0m) relating to card receipts for sales during the year for which cleared funds were received after the year end.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

18 Trade, other payables and derivative liabilities

	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
Trade payables	3,241.4	2,930.9
Other taxes and social security	203.1	183.1
Other payables	141.1	172.8
Accrued expenses	405.5	329.7
Derivative liabilities	17.3	24.1
	4,008.4	3,640.6

Intercompany payables		
Current	6.8	1.3
Non-current	-	967.4

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

Trade receivables are presented net where a legally enforceable right of offset exists. Included in the above is an offset of £166.1m (2021: £210.2m). The trade payable prior to the offset is £3,407.5m (2021: £3,141.1m).

The decrease in non-current interest-bearing intercompany payables of £967.4m since 31 December 2021 was driven by settlement of intercompany payables owing to the Company's immediate parent of £1,023.8m using intercompany receivable balances, partially offset by intercompany interest payable accrued during the year prior to settlement of £56.4m.

For terms and conditions relating to amounts owed to related parties, refer to note 28.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

19 Financial instruments

Financial assets and liabilities

The carrying value and classification of financial assets and liabilities are disclosed in the following tables.

	Note	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
Non-interest-bearing financial assets at amortised cost			
Trade receivables	16	93.6	75.7
Other receivables	16	50.8	50.5
		144.4	126.2
Non-current interest-bearing financial assets at amortised cost			
Intercompany receivables	16	747.4	1,722.0
Current non-interest-bearing financial assets at amortised cost			
Intercompany receivables		4.0	2.3
Non-current non-interest-bearing financial assets at amortised cost			
Other non-current assets	20	5.1	7.2
Derivatives designated as hedging instrument			
Forward contracts	16	24.0	14.1
Cross-currency interest rate swaps	16	36.0	-
Other financial assets			
Cash and cash equivalents	17	662.5	505.5
Investments		461.8	-
Total financial assets		2,085.2	2,377.3

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

19 Financial instruments (continued)

As at 31 December 2022 and 31 December 2021, 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% (2021: 3.45%). Intercompany receivables are disclosed in note 28.

Movements in receivables arising from financing activities
Interest-bearing financial assets in the prior period comprised of an intercompany receivable from the sale of the distribution properties to Bellis Select Warehouse Limited of £1,675.0m - which was due from Bellis Midco 2 Limited. Interest of £29.3m was charged on this balance during the prior period. The Group also recognised an intercompany receivable of £17.7m due from Bellis Midco 2 Limited from financing activities to fund the repayment of the warehouse bridge loan in the prior period. During the year, movement in intercompany receivables was driven by interest of £49.3m which has been charged on this balance and £1,023.8m of this balance which has been used during the year to settle an intercompany payable balance. Total carrying value of receivables due from Bellis Midco 2 Limited at 31 December 2022 is £747.4m (2021: £1,722.0m).

Non-interest-bearing financial assets comprise intercompany receivables due from Bellis Topco Limited of £3.1m (2021: £2.3m), Bellis Topco 2 Limited of £0.5m, Bellis Midco 4 Limited of £0.2m, Bellis Midco 2 Limited £0.1m and Bellis Holdco Limited of £0.1m relating to fees paid by the Group on its behalf.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

19 Financial instruments (continued)

	Note	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
Non-interest-bearing financial liabilities at amortised cost			
Trade payables	18	3,241.4	2,930.9
Other payables	18	141.1	172.8
Accrued expenses	18	405.5	329.7
		3,788.0	3,433.4
Derivative liabilities designated as hedging instrument			
Forward contracts		17.3	1.4
Cross-currency interest rate swaps		-	22.7
Current non-interest-bearing financial liabilities at amortised cost			
Intercompany payables	18	6.8	1.3
Non-current interest-bearing financial liabilities at amortised cost			
Intercompany payables	18	-	967.4
Current interest-bearing borrowings			
Borrowings	20	246.6	-
Lease liabilities	25	115.7	120.8
Non-current interest-bearing borrowings			
Borrowings	20	4,120.2	4,073.2
Lease liabilities	25	2,945.0	2,948.2
Total financial liabilities		11,239.6	11,568.4

As at 31 December 2022 and 31 December 2021, 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 10.89% (2021: 0.4% - 8.25%). This comprises external borrowings, intercompany payables and lease liabilities. Details of obligations under leases are included in note 25.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

19 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 (see note 2) and a loan entered into during the year to finance the acquisition of Arthur Foodstores Limited. Further details of external borrowings are disclosed in note 20.

On 16 February 2021, the Group entered into two Revolving Credit Facilities (RCF) totalling £690.0m with £190.0m maturing in February 2022 and £500.0m maturing in July 2025. Fees paid relating to the RCFs of £10.5m have been capitalised and will be expensed over the term of the facilities. Amortisation of £2.1m (2021: £3.3m) was charged in the year. The carrying amount of RCF fees at 31 December 2022 was £5.1m (2021: £7.2m). On 16 September 2021, the Group voluntarily cancelled the £190.0m RCF. The Group retains the availability of the £500.0m RCF.

On 26 July 2021, the Group entered into a framework agreement in respect of a short-term working capital facility. The facility provides the Group with a credit facility pursuant to which payment to the relevant beneficiaries and suppliers is made by ASDA Stores Limited using the facility on the relevant invoice due date, with ASDA Stores Limited then settling these liabilities in the normal course of business. An amount of £39.1m (2021: £16.2m) is outstanding on this facility at 31 December 2022 and is included in other payables.

On 5 November 2021, the Group repaid the £750.0m Forecourt Asset Disposal Bridge Facility including accrued interest through the issuance of £500.0m 4.5% Senior Secured Notes due in February 2026 and cash on hand of £255.4m.

On 24 July 2022, the Group entered into a framework agreement in respect of a short-term working capital facility. The facility was unused as at 31 December 2022.

Total lease cash outflow in the year was £300.4m (2021: £246.5m). Amounts included in financing activities in the cash flow statement are cash payments for the principal portion of the lease liability £131.9m (2021: £123.2m) and cash payments for the interest portion of the lease liability of £145.2m (2021: £102.3m). £23.3m (2021: £21.0m) has been included in operating activities in the cash flow statement and relates to short term and variable lease expenses.

	Drawdowns (net of fees) £m	Cash repayments £m	Non-cash movements £m	Total £m
Year ended 31 December 2022				
Current liabilities				
Borrowings	(345.0)	150.0	(51.6)	(246.6)
Intercompany payables	(5.5)	-	-	(5.5)
Non-current liabilities				
Borrowings	-	-	(47.0)	(47.0)
Intercompany payables	-	-	967.4	967.4
Period ended 31 December 2021				
Current liabilities				
Borrowings	(105.9)	105.9	-	-
Intercompany payables	(1.3)	-	-	(1.3)
Non-current liabilities				
Borrowings	(4,814.7)	750.0	(8.5)	(4,073.2)
Intercompany payables	(902.5)	-	(64.9)	(967.4)

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

19 Financial instruments (continued)

Security pledged

The Group pledged certain assets as security for the indebtedness of parent undertakings in the form of a first-ranking charge over certain material bank accounts, material intercompany receivables, the shares owned by the 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 has 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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

19 Financial instruments (continued)

Fair values of financial assets and financial liabilities

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 the fair value of these financial instruments. Derivative instruments are also excluded as the carrying value equals fair value at the period end.

	Year ended 31 December 2022		Period ended 31 December 2021	
	Carrying Value £m	Fair Value £m	Carrying Value £m	Fair Value £m
Non-current interest-bearing borrowings				
External borrowings	4,120.2	3,401.1	4,073.2	3,949.7
Current interest-bearing borrowings				
External borrowings	246.6	258.8	-	-

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 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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

19 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 2022, the Group held £24.0m (2021: £14.1m) in-the-money assets, and £17.3m (2021: £1.4m) out-of-the-money liabilities in respect of its forward contracts. During the year, the Group recognised net losses on revaluation of hedged monetary assets and liabilities from historical cost to period-end spot rate of £2.7m (2021: £0.3m gains). 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 2022, the Group held £36.0m (2021: £nil) in-the-money assets, and £nil (2021: £22.7m) out-of-the-money liabilities in respect of its cross-currency interest rate swaps.

Investments- fair value through profit and loss
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 the year end and the Directors are not aware of any material changes to the underlying business, they are satisfied that the price paid equates to fair value at the year end. The key assumptions used in the valuation performed are the underlying EBITDA generated by Arthur Foodstores Limited in the preceding 12 months, combined with expected ongoing synergy benefits generated by the Group as a result of this investment; and a multiple applied to this combined amount. If either of these were to be sensitised by 5% this would change the valuation by £23.1m. £461.8m is both the carrying value and fair value of the investment at 31 December 2022.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

19 Financial instruments (continued)

Financial risk management

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 credit risk, interest rate risk, liquidity 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. 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 Arthur Additional Bridge Facility. 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%. The Senior Secured Notes and the Senior Unsecured Notes are set 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 loan (Term Loan A and Arthur Additional Bridge Facility). It is anticipated that a 0.5% increase in the SONIA rate would give rise to a decrease in profit before tax of £1.2m (2021: £0.9m).

The Group's Term Loan A, Arthur Additional Bridge Facility and Revolving Credit Facilities have been impacted by the interest rate benchmark reform. The Group has 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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

19 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 2022, designated as hedges of expected future purchases from suppliers in US dollars. The forward currency contracts are being used to hedge the foreign currency risk of the future purchases. The terms of the forward currency hedging contracts have been negotiated to match the terms of the commitments and none exceed a period of more than 12 months after 31 December 2022. 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 2022, a net unrealised gain of £36.2m (2021: £43.7m 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 £7.5m (2021: £43.7m gain). This consists of a £14.4m (2021: £11.6m) gain on not-yet-matured contracts during the year, £23.4m of gains reclassified to the Income Statement during the year (2021: £42.3m losses) and a £1.5m taxation credit (2021: £10.2m charge).

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 2022 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 (2021: £nil).

At 31 December 2022, the Group held £749.5m (2021: £699.9m) of outstanding forward foreign currency contracts, designated as cash flow hedges. These forward contracts are largely in relation to purchases of US Dollars (notional $908.4m) and Euros (notional €7.1m) with varying maturities up to December 2023. For the above currencies the rates ranged from USD/GBP from 1.098 to 1.369 (2021: 1.315 to 1.420) and Euro/GBP 1.132 to 1.157 (2021: 1.165 to 1.189).

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 £34.6m (2021: £33.5m).

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 profit or loss on a consolidated basis.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

19 Financial instruments (continued)

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 2022 relating to ineffectiveness and excluded items was less than £0.1m.

At 31 December 2022, 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.

The CCIRSs were assessed to be highly effective and as at 31 December 2022, a net unrealised gain of £21.2m (2021: £6.6m) was included in the hedge reserve in respect of these swaps. The net gain recognised in other comprehensive income during the year in respect of these swaps was £14.5m (2021: £7.3m). This consists of a £35.5m gain reclassified to the Income Statement during the year (2021: £34.5m loss) and a net loss debited to the cost of hedging reserve of £0.1m (2021: £0.7m net gain), offset by a £54.9m gain (2021: £25.5m loss) on the fair value of the swaps at period end and a taxation charge of £4.8m (2021: £2.4m).

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 £2.9m (2021: £6.5m) change in value of the CCIRSs and a 5% change in the EUR/GBP exchange rates results in a £38.9m (2021: £38.1m) 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 (2021: £0.4m).

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

19 Financial instruments (continued)

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 16 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 no impairment is required.

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 2022, the RCF and overdraft facilities are unutilised.

At 31 December 2022, the Group held cash of £662.5m (2021: £505.5m) to secure short-term flexibility. The amount of financing facilities available at the year/period end are disclosed below:

	Utilised at 31 December 2022 £ m	Remaining at 31 December 2022 £ m	Utilised at 31 December 2021 £ m	Remaining at 31 December 2021 £ m
Committed overdraft facilities	-	5.0	-	5.0
Revolving credit facilities	-	500.0	-	500.0
Standby credit facilities - bonds	-	64.4	-	53.2
Other short-term facilities	39.1	43.2	16.2	98.8
Supply chain financing facilities	415.7	114.3	323.7	75.3

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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

19 Financial instruments (continued)

	Within 1 year £ m	Between 1 and 5 years £ m	After 5 years £ m	Total £ m
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
Period ended 31 December 2021				
External borrowings	140.6	4,165.9	507.6	4,814.1
Lease obligations	267.0	921.2	5,065.3	6,253.5
Financial derivatives	-	-	-	-
Forward contracts	712.3	-	-	712.3
Cross-currency interest rate swaps	3.9	46.2	-	50.1
Trade and other payables	3,433.4	-	-	3,433.4
Intercompany payables	1.3	-	2,267.3	2,268.6
	4,558.5	5,133.3	7,840.2	17,532.0

Cross-currency interest rate swaps are in-the-money in at 31 December 2022 (£41.2m asset). At 31 December 2021, cross-currency interest rate swaps were out-of-the-money (£50.1m liability).

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 2022, there have been no breaches of financial covenants.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

20 Borrowings

	Par Value	*Maturity*	*Capital outstanding £m*	*Unamortised fees £m*	*Carrying value £m*
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
Period ended 31 December 2021					
Non-current borrowings					
Senior Unsecured Notes	£500.0m	16 Feb 2027	500.0	(17.5)	482.5
Sterling Senior Secured Notes	£2,250.0m	16 Feb 2026	2,250.0	(55.3)	2,194.7
Term Loan A	£195.0m	16 Aug 2025	195.0	(2.9)	192.1
Euro Term Loan B	€845.0m	16 Feb 2026	708.8	-	708.8
Sterling Senior Secured Notes	£500.0m	16 Feb 2026	500.0	(4.9)	495.1
			4,153.8	(80.6)	4,073.2
Other non-current assets					
Revolving Credit Facility - £500.0m			-	7.2	7.2
			-	7.2	7.2

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

20 Borrowings (continued)

During the year, the Group issued the following notes and loans:

- An additional 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 attracts interest of SONIA +7.75% per annum and payments of interest are made on a semi-annual basis. The loan matures on 28 October 2023 and has therefore been classified as current.

During the prior period, the Group issued the following notes and loans:

- 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 + 3.25% per annum (2021: LIBOR + 3.25%) 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.

- 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. This effectively fixes the interest payments in GBP at a rate of 3.73%. 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.

- Forecourt Bridge Loan with a par value of £750.0m was entered into on 16 February 2021. This loan attracted interest at LIBOR +7.75%, with a step-up of 0.5% each quarter and payments of interest were made on a semi-annual basis. This loan along with fees and interest accrued was repaid in full on 5 November 2021 through the issuance of £500.0m of 4.5% Sterling senior secured notes due in February 2026 and cash on hand in ASDA Group Limited of £255.4m.

- Sterling senior secured notes bridging facility with a par value of £2,250.0m was entered into on 16 February 2021 and re-financed on 24 February 2021 through the issue of the Senior secured notes with a par value of £2,250.0m referred to above. The interest costs on this bridge loan were repaid through cash on hand in ASDA Group Limited.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

20 Borrowings (continued)

- Sterling senior unsecured notes bridging facility with a par value of £500.0m was entered into on 16 February 2021 and re-financed on 24 February 2021 through the issue of the Senior unsecured notes with a par value of £500.0m referred to above. The interest costs on this bridge loan were repaid through cash on hand in ASDA Group Limited.

The Group also entered into two Revolving Credit Facilities (RCF) totalling £690.0m with £190.0m maturing in February 2022 and £500.0m maturing in July 2025. During the prior period, it was deemed that the RCF of £190.0m was no longer required and on 16 September 2021 this facility was voluntarily cancelled. At 31 December 2021 and 31 December 2022, there was £nil drawn down on the remaining £500.0m facility.

Other current borrowings with a carrying value at 31 December 2022 of £41.0m include a balance owed to Arthur Foodstores Limited ("Arthur") by the Group of £38.2m in relation to a loan agreement entered into by Arthur's former parent prior to 29 October 2022, which was novated to the Group on completion of the acquisition as part of the Sale & Purchase Agreement - see note 15 for further detail. A further loan balance with a carrying value of £2.8m owed by the Group to Arthur in relation to other matters is outstanding at 31 December 2022.

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 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**
Period ended 31 December 2021			
Capitalised fees			
Senior Unsecured Notes	19.9	(2.4)	17.5
Sterling Senior Secured Notes	65.6	(10.3)	55.3
Term Loan A	3.6	(0.7)	2.9
Sterling Senior Secured Notes	5.0	(0.1)	4.9
Revolving Credit Facility - £500.0m	9.2	(2.0)	7.2
Revolving Credit Facility - £190.0m	1.3	(1.3)	-
	104.6	**(16.8)**	**87.8**

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 £500.0m RCF which have been classified as a non-current asset.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

21 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 2022 £ m	Period ended 31 December 2021 £ m
Charge to operating costs		
Wages and salaries	2,526.4	2,210.1
Share-based payments charge	0.7	14.0
Social security costs	167.0	133.5
Cost of defined contribution schemes	122.5	102.2
Settlement expense in relation to pension buy-out	-	8.7
Total charge to operating costs	2,816.6	2,468.5
Charge to finance costs		
Net interest expense on pension scheme	0.3	1.0
Total charge to finance costs	0.3	1.0
Total employee benefit expense	2,816.9	2,469.5

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 2022 £ m	Period ended 31 December 2021 £ m
Fair value of scheme assets	0.5	0.5
Present value of scheme liabilities	(8.6)	(13.9)
Net liability for defined benefit pension schemes	(8.1)	(13.4)

Prior to the acquisition by the Group of the entire issued share capital of ASDA Group Limited on 16 February 2021 ("the Acquisition"), ASDA Stores Limited ("ASDA Stores"), a wholly-owned subsidiary of ASDA Group Limited, provided retirement benefits for eligible employees through two defined benefit plans in the UK, one funded, the ASDA Group Pension Scheme ("AGPS" or "the Scheme") and one unfunded, the Unapproved Unfunded Retirement Benefit Scheme ("UURBS").

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

21 Employee costs and benefits (continued)

Defined benefit pension schemes

Background to the AGPS buy-in and buy-out

The AGPS was subject to a buy-in transaction ("the buy-in") on 17 October 2019 through the purchase of a bulk purchase annuity (“BPA”) policy with the insurer Rothesay Life PLC (“Rothesay”), under which the benefits payable to all AGPS pensioners and deferred members became fully insured. In order to enable the AGPS to execute the buy-in, ASDA Stores made a contribution in 2019 to the AGPS of £707.5m (“the buy-in contribution”) and advanced a loan to the Scheme with an original book value of £467.3m ("the buy-in loan"). Interest is charged at an arms-length rate on this loan. To the extent that the AGPS is unable to settle the buy-in loan balance in full out of the proceeds realised through the liquidation of assets retained by the Scheme after buy-in, ASDA Stores is contractually obliged under a back-to-back agreement (“the BTB Agreement”) to make a contribution to the Scheme to the value of the shortfall between the assets in the Scheme and the outstanding balance on the buy-in loan, the proceeds of which can be used by the Scheme to settle outstanding amounts on the buy-in loan. At the point of the buy-in, the Scheme retained ownership of various assets, including illiquid investments and cash, some of which will be required to meet ongoing expenses incurred by the Scheme and the remainder of which the Scheme has used and will continue to use to repay principal and interest on the buy-in loan.

On 9 July 2021, the Trustees of AGPS completed a full buy-out of the Scheme with Rothesay. Other than estimated pension liabilities of £0.5m (“the retained liabilities”) for which ASDA Stores remains sponsoring employer, together with Scheme assets to that value which will be used to settle the retained liabilities, the buy-out extinguished ASDA Stores’ responsibility for funding the AGPS as sponsoring employer and as such, all other assets and liabilities of the AGPS were de-recognised from the Group consolidated balance sheet during the prior period. See further detail below for amounts recognised in the consolidated Statement of Other Comprehensive Income and the consolidated Income Statement in respect of this.

Amounts recognised in Other Comprehensive Income - prior period

Prior to the buy-out on 9 July 2021, as the remaining assets of the AGPS were held within the Scheme as a separate legal entity from the Group and could be used to settle pension liabilities in the event of a shortfall from the BPA, they met the definition of pension assets under IAS 19 - Employee Benefits. As such, changes in the fair value of Scheme assets and liabilities in the period prior to 9 July 2021 were accounted for as actuarial gains and losses in other comprehensive income with a total net actuarial loss recognised of £13.9m, including an amount of £15.1m in respect of deferred consideration for the BPA arising out of the buy-in transaction.

Further to the above, an actuarial gain of £0.7m was recognised in respect of actuarial movements relating to the liabilities of the UURBS.

Total pre-tax net losses recognised in other comprehensive income during the prior period were £13.2m.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

21 Employee costs and benefits (continued)

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

Amounts recognised in the consolidated Income Statement - current year
Interest expense of £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 - current year
Pre-tax net gains of £5.5m have been recognised during the year in relation to actuarial movements on the liabilities of the UURBS. No actuarial gains or losses on the retained assets and liabilities of the AGPS have arisen during the year.

Classification of AGPS pension cashflows
During the year, the AGPS has made repayments of principal on the buy-in loan of nil (2021: £38.5m) and interest payments of £0.7m (2021: £0.5m). These are presented as investing inflows on the Consolidated Statement of Cash Flows.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

21 Employee costs and benefits (continued)

Scheme liabilities
Changes in the present value of defined benefit obligation:

	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
Present value at 1 January 2022/acquisition date	(13.9)	(2,947.7)
Interest cost	(0.3)	(15.6)
Effect of changes in financial assumptions	5.5	172.3
Benefits paid	0.1	46.6
Effect of settlement	-	2,730.5
Present value at end of year/period	(8.6)	(13.9)

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

	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
Fair value at 1 January 2022/acquisition date	0.5	3,007.3
Interest income	-	15.7
Decrease in value of plan assets excluding interest income	-	(170.4)
Reclassification of pension assets	-	(11.5)
Employer contributions	0.1	0.4
Effect of settlement	-	(2,739.2)
Repayment of buy-in loan	-	(39.0)
Benefits paid	(0.1)	(46.6)
Deferred consideration in respect of buy-in premium	-	(15.1)
Administrative expenses	-	(1.1)
Fair value at end of year/period	0.5	0.5

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

21 Employee costs and benefits (continued)

Amounts recognised in the Consolidated Income Statement

	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
Amounts recognised in operating profit		
Loss on settlement relating to pension buy-out	-	(8.7)
Amounts recognised in finance income or costs		
Net interest (expense)/income on plan assets and liabilities	(0.3)	0.1
Administrative expenses	-	(1.1)
Total Income Statement charge	(0.3)	(9.7)

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

	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
Total remeasurements on defined benefit obligation	5.5	172.3
Decrease in value of BPA asset	-	(171.6)
Decrease in value of plan assets excluding interest income	-	(13.9)
Deferred tax	(1.5)	3.3
Amounts recognised in the Statement of Comprehensive Income	4.0	(9.9)

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

21 Employee costs and benefits (continued)

Fair value of plan assets:
At 31 December 2022 the fair value of plan assets was £0.5m (2021: £0.5m). This relates to cash and cash equivalents.

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

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

	Year ended 31 December 2022 %	Period ended 31 December 2021 %
Discount rate	4.9	1.9
Inflation - RPI	3.2	3.3
Inflation - CPI	2.3	2.6
Future pension increases	3.1	3.2

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 2022 Years	Period ended 31 December 2021 Years
Current UK pensioners at retirement age - male	21.8	22.1
Current UK pensioners at retirement age - female	23.5	23.6
Future UK pensioners at retirement age - male	23.2	23.5
Future UK pensioners at retirement age - female	25.8	26.0

Sensitivity analysis
Sensitivity analysis has not been presented as the remaining carrying value of defined benefit pension liabilities is not material.

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:

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

21 Employee costs and benefits (continued)

Share-based payments (continued)

	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
Cash-settled share-based payment charge	-	14.0
Equity-settled share-based payment charge	0.7	-

Settlement of share-based payment liabilities in the prior period
As a result of the Sale & Purchase Agreement ("SPA") relating to the acquisition by the Group of the entire issued share capital of ASDA Group Limited from ASDA Holdings UK Limited ("the Acquisition") on 16 February 2021, all share awards granted to employees prior to the Acquisition under the Walmart Stock Incentive Plan ("WSIP") scheme, Restricted Stock Rights ("RSR") scheme and Performance Share Plan ("PSP") scheme vested according to the proportion of the relevant vesting or performance period that had elapsed as at the Acquisition date of 16 February 2021. Furthermore, options granted prior to the Acquisition date to participants in the Sharesave scheme were exercised in the six-month period following completion of the Acquisition. As a result, all share-based payment liabilities of the Group were extinguished during the prior period. The carrying value of share-based payment liabilities relating to these schemes at 31 December 2022 is £nil (2021: £nil).

Details of changes in the share-based payments liabilities relating to the pre-Acquisition schemes are provided in the consolidated financial statements of the Group for the period ended 31 December 2021 which are available from the registered office of the Group - Waterside Head Office, Haslingden Road, Guide, Blackburn, Lancashire, United Kingdom, BB1 2FA.

Management Incentive Plan- current year
During the 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 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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

21 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 2022 Number (thousands)	Period ended 31 December 2021 Number (thousands)
Granted during the year/period	7	-
Expired during the year/period	-	-
Outstanding, end of year/period	7	-
Exercisable, end of year/period	-	-

The fair value of the options outstanding under the MIP scheme at 31 December 2022 is £4.8m (2021: nil).

An amount of £0.7m (2021: £nil) has been accounted for as an equity-settled share based payments expense in respect on the MIP in accordance with the proportion of the vesting period which has elapsed during the year.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

22 Provisions

	Dilapidations £ m	Insurance £ m	Total £ m
At 1 January 2022	126.4	102.8	229.2
Provided during the year	0.1	49.8	49.9
Provisions utilised during the year	-	(33.3)	(33.3)
Unused provision reversed during the year	-	(9.7)	(9.7)
Discount changes and unwinding	(49.8)	-	(49.8)
At 31 December 2022	76.7	109.6	186.3
Current liabilities	-	33.3	33.3
Non-current liabilities	76.7	76.3	153.0

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

The dilapidation provision represents provisions for the cost of works required to remove leasehold improvements within leasehold properties at the end of their lease term. The amount provided during the year is accounted for 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 decrease in the year is reflected in disposals (see note 11). A discount rate of 4.0% (2021: 1.1%) 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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

23 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 2021 and 31 December 2022	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.

24 Reserves

Cash flow hedge reserve
The cash flow hedge reserve of £57.4m (2021: £50.3m) represents the gains and losses arising on revaluation of derivatives, being forward currency contracts, cross-currency interest rate swaps and the revaluation of hedged monetary assets and liabilities from historical cost to year-end spot rate.

Retained earnings
The retained earnings balance of £2,723.1m (2021: £2,780.0m) represents the brought forward retained earnings, £61.6m loss during the year, £4.0m post-tax remeasurements on defined benefit obligations and £0.7m share-based payment charges relating to the equity-settled MIP scheme (see note 21).

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

25 Obligations under leases

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

	31 December 2022 £ m	31 December 2021 £ m
Future minimum payments due:		
No later than one year	268.8	267.0
Later than one year and no later than two years	253.5	251.3
Later than two years and no later than three years	243.9	237.4
Later than three years and no later than four years	219.9	227.5
Later than four years and no later than five years	204.9	205.0
Later than five years	5,048.1	5,065.3
	6,239.1	6,253.5
Lease finance charges allocated to future years/periods	(3,178.4)	(3,184.5)
Present value of minimum lease payments	3,060.7	3,069.0

Total lease cash outflow in the year was £300.4m (2021: £246.5m). Included in financing activities in the cash flow statement are cash payments for the principal portion of the lease liability £131.9m (2021: £123.2m) and cash payments for the interest portion of the lease liability £145.2m (2021: £102.3m). £23.3m (2021: £21.0m) 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 2022 where future rental payments have been committed but not yet included in the lease liability.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

25 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 2022 £ m	31 December 2021 £ m
Depreciation - land and buildings right-of-use assets		106.2	83.9
Depreciation - plant and equipment right-of-use assets		66.0	50.0
Impairment - land and buildings right-of-use assets		6.9	-
Short-term lease expense[1]		7.6	8.0
Variable lease expense[2]		15.7	13.0
Sub-lease income		(9.0)	(6.5)
		193.4	148.4
Interest expense related to lease liabilities	8	145.6	105.5
Total amount recognised in Income Statement		339.0	253.9

Notes

[1] Short-term lease expense consists primarily of rental of equipment for temporary purposes during the year/period.

[2] Variable lease expense consists primarily of contractual land and building service and insurance charges as a result of the Group election to combine lease and non-lease components. These are not fixed payments and therefore are not included in the lease liability. Variable payments represent 5.2% (2021: 5.3%) of overall lease payments in the year/period.

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 2022 £ m	Period ended 31 December 2021 £m
No later than one year	9.4	9.4
Later than one year and no later than five years	26.7	25.0
Later than five years	35.9	36.3
	72.0	70.7

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

26 Commitments

Capital commitments

As at 31 December 2022, the Group had entered into contracts of £14.3m (2021: £3.1m) to purchase property, plant and equipment and intangible assets.

Other financial commitments

As at 31 December 2022, the Group had entered into contracts to purchase US Dollars for £742.9m (2021: £686.4m) and energy for £254.5m (2021: £99.1m).

27 Contingent liabilities

Equal Value Claims

ASDA Stores Limited, a wholly-owned subsidiary of the Group, has been served with circa 50,000 employment tribunal claims that have been presented on behalf of current and former ASDA store employees, who allege that their work in ASDA's stores is of equal value in terms of the demands of their jobs to that of employees working in ASDA's distribution centres, and that the differences in pay and terms and conditions between the different jobs are not objectively justified. The claimants are requesting differential back pay based on higher wage rates in the distribution centres and those higher wage rates and more favourable terms and conditions on a prospective basis as part of these equal value proceedings. ASDA believes that further claims may be served.

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

As a result of the change of ownership on 16 February 2021, the Group have entered into an indemnification agreement which is guaranteed by 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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

28 Related parties

Identity of related parties

The following transactions were entered into with related parties during the year/period. The amounts disclosed below represent the total (charge) or credit recognised in the Income Statement:

Transactions recognised through Income Statement	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
Sales to Euro Garages Limited[1]	28.9	5.4
Reimbursements from Euro Garages Limited[2]	78.0	21.7
Recharges from Euro Garages Limited[3]	-	(1.3)
Rental income from Euro Garages Limited[4]	0.3	-
Rental income from We Buy Any Car Limited[14]	0.6	-
Recharges from TDR Capital LLP	-	(0.5)
Commission and funding received from Jaja Finance Holding (UK) Limited[15]	0.6	-
Purchases from Leon Grocery Limited[5]	(0.2)	-
Disposal of lease to Monte Blackburn Limited[6]	0.1	-
Interest expense on loans due to Bellis Midco 4 Limited	(56.4)	(64.9)
Gain on sale of distribution properties to Bellis Select Warehouse Limited[7]	-	279.1
Total lease charges on distribution properties leased back from Bellis Select Warehouse Limited	-	(3.3)
Interest receivable on loans to Bellis Midco 2 Limited	49.3	29.3

The following balances were in place with related parties at the reporting date.

Outstanding receivables and payables on Balance Sheet	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
Current payables due to Bellis Midco 4 Limited	(4.3)	-
Non-current payables due to Bellis Midco 4 Limited[8]	-	(967.4)
Payables due to Bellis Select Warehouse Limited[9]	(1.5)	(1.3)
Payables due to Bellis Topco Limited	(0.4)	-
Payables due to Property Newco Limited	(0.6)	-
Payables due to Euro Garages Limited[10]	(1.1)	(1.0)
Payables due to TDR Capital LLP	-	(0.3)
Payables due to Leon Grocery Limited	(0.1)	-
Current receivables due from Bellis Midco 2 Limited	0.1	-
Non-current receivables due from Bellis Midco 2 Limited[11]	747.4	1,722.0
Receivables due from Bellis Topco Limited[12]	3.1	2.3
Receivables due from Bellis Topco 2 Limited	0.5	-
Receivables due from Bellis Midco 4 Limited	0.2	-
Receivables due from Bellis Holdco Limited	0.1	-

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

28 Related parties (continued)

Outstanding receivables and payables on Balance Sheet	Year ended 31 December 2022 £ m	Period ended 31 December 2021 £ m
Receivables due from Euro Garages Limited[13]	10.8	1.6

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

[3] In the prior period, Euro Garages Limited recharged the Group for legal costs incurred in relation to the raising of finance for the acquisition of ASDA Group Limited by Bellis Acquisition Company 3 Limited on 16 February 2021

[4] The Group is earning 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. The cost of sales incurred in the year ended 31 December 2022 in relation to these goods is £0.1m.

[6] A lease with a net book value of £1.0m was granted to Monte Blackburn Limited for proceeds of £1.1m, resulting in a profit on disposal of £0.1m.

[7] See note 9 of the Bellis Finco PLC Financial Statements for the period ended 31 December 2021 for further details of the sale-and-leaseback transaction.

[8] This comprised a loan to fund the acquisition of ASDA Group by Bellis Acquisition Company 3 Limited and was settled in full during the year (see note 18).

[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 year, for which payment was outstanding at year end. This related to the supply of goods for resale products in the prior period.

[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. £1,023.8m of this balance was used during the year to settle an intercompany payable owed to Bellis Midco 4 Limited.

[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 are presented in trade and other receivables.

[14] This relates to concession income and is classed as a related party via investment from TDR.

[15] This relates to marketing contributions and is classed as a related party via investment from TDR.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

28 Related parties (continued)

Amounts owed by fellow group entities totalled £751.4m at 31 December 2022 (2021: £1,724.3m), as disclosed in note 16.

Amounts owed to fellow group entities totalled £6.8m at 31 December 2022 (2021: £968.7m), as disclosed in note 18.

During the year ended 31 December 2022, the Group also earned parking income from Paragon Automotive Limited and at the end of the period, there were balances outstanding due from Paragon Automotive Limited. Additionally, the Group earned income for distribution services from Leon Grocery Limited and at the period end, there were balances outstanding due from Leon Grocery Limited. All of these amounts were less than £0.1m individually and in aggregate.

Transactions with the Directors are disclosed in note 7.

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.

With regard to the prior period, no comparatives have been presented as the governance structures in place as described above were not embedded prior to 31 December 2021 due to a number of factors including the change in ownership of ASDA Group Limited on 16 February 2021 and the subsequent Initial Enforcement Order ("IEO") issued by the Competition and Markets Authority. Therefore, for the period ending 31 December 2021, there were no Key Management Personnel with the exception of the Directors of Bellis Finco PLC.

Transactions with key management personnel in the year ended 31 December 2022 and balances outstanding at the balance sheet date are as follows:

	Year ended 31 December 2022 £m
Short-term employee benefits	7.7
Share-based payments	0.5
Compensation for loss of office	1.0
Total	9.2

Receipts of cash by the Group from key management personnel	3.0
Balances owed to key management personnel at year end	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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2022 (continued)

28 Related parties (continued)

- 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 21.
- Cash receipts of £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 21. 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 2022 consist of employment costs recorded in the consolidated Income Statement during the year which are outstanding at the balance sheet date.

29 Ultimate parent company and parent company of larger group

At 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 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.

Company Balance Sheet as at 31 December 2022

Registration number: 12855336

Bellis Finco PLC - Parent Company

	Note	31 December 2022 £ m	31 December 2021 £ m
Assets			
Non-current assets			
Investments	4	665.3	7.8
Intercompany receivables	6	1,246.4	2,809.3
		1,911.7	2,817.1
Current assets			
Cash and cash equivalents		4.1	-
Total assets		1,915.8	2,817.1
Equity and liabilities			
Equity			
Share capital	7	0.1	0.1
Share premium	8	1,280.0	1,280.0
Retained earnings	8	117.4	59.3
Total equity		1,397.5	1,339.4
Non-current liabilities			
Borrowings	5	485.6	482.5
Intercompany payables	9	-	967.4
		485.6	1,449.9
Current liabilities			
Trade and other payables	9	5.0	4.9
Intercompany payables	9	27.7	22.9
		32.7	27.8
Total liabilities		518.3	1,477.7
Total equity and liabilities		1,915.8	2,817.1

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 £58.1m (2021: £59.3m profit for the period). There were no other items of comprehensive income during the year.

Approved by the Board on 28 April 2023 and signed on its behalf by:

M Issa
Director

Company Statement of Changes in Equity for the Year Ended 31 December 2022

	Share capital £ m	Share premium £ m	Retained earnings £ m	Total £ m
At 3 September 2020	-	-	-	-
Profit for the period	-	-	59.3	59.3
Ordinary share capital issued	0.1	1,280.0	-	1,280.1
At 31 December 2021	0.1	1,280.0	59.3	1,339.4

	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

Notes to the Parent Company Statements for the Year Ended 31 December 2022

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 2022 were authorised for issue by the Board of Directors on 28 April 2023 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 31 December 2024 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.

Notes to the Parent Company Statements for the Year Ended 31 December 2022 (continued)

1 Accounting policies (continued)

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

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

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

Investments
Investments in subsidiaries are stated at cost less provision for impairment.

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 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. Bank overdrafts and other credit facilities that are repayable on demand, to the extent that they are used, are included as a component of cash and cash equivalents for the purpose of the Consolidated Statement of Cash Flows.

Trade and other payables
Trade and other payables are initially recorded at fair value and subsequently recognised at amortised cost. 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 2022 was £0.2m (2021: £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.

Notes to the Parent Company Statements for the Year Ended 31 December 2022 (continued)

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 7 of the Bellis Finco PLC consolidated financial statements.

4 Investments

Group subsidiaries

	Investment in subsidiaries £ m
Cost or valuation	
At 1 January 2022	7.8
Additions	657.5
At 31 December 2022	665.3
Carrying amount	
At 31 December 2022	665.3
At 31 December 2021	7.8

Following a review of the carrying value of investments held by the Company, no impairment charge has been recognised.

The increase of £657.5m in the investment balance during the year was due to an agreement to waive an intercompany receivable from the Company's wholly-owned subsidiary undertaking, Bellis Acquisition Company PLC. The waiving of this balance has been accounted for as an increase in the Company's investment in Bellis Acquisition Company PLC.

Notes to the Parent Company Statements for the Year Ended 31 December 2022 (continued)

4 Investments (continued)

Subsidiary undertakings
As at 31 December 2022, the following companies were subsidiary undertakings.

	Country of incorporation and principal place of business	% equity held
ASDA Delivery Limited	United Kingdom	100%
ASDA Employee Share Schemes Trustee Limited	United Kingdom	100%
ASDA Finance Limited	Jersey	100%
ASDA Financial Services Limited	United Kingdom	100%
ASDA Guernsey Limited	Guernsey	100%
ASDA Group Limited	United Kingdom	100%
ASDA Pension Plan Trustees Limited	United Kingdom	100%
ASDA Quest Trustee Limited	United Kingdom	100%
ASDA Southbank Limited	United Kingdom	100%
ASDA Storage Limited	United Kingdom	100%
ASDA Stores Limited	United Kingdom	100%
ASDA Supermarkets Limited	United Kingdom	100%
ASDA Stores (Belfast) Limited	United Kingdom	100%
Bandsound Limited	United Kingdom	100%
Chorley Renaissance Limited	United Kingdom	100%
Erteco U.K. Limited	United Kingdom	100%
Essencerealm Limited	United Kingdom	100%
Ever 1295 Limited	United Kingdom	100%
Ever 2010 Limited	United Kingdom	100%
Ever 2010 North Limited	United Kingdom	100%
Ever 2010 South Limited	United Kingdom	100%
Forza AW Limited	United Kingdom	100%
Forza Foods Limited	United Kingdom	100%
George Sourcing Services UK Limited	United Kingdom	100%
George Tedarik Hizmetleri A.S.	Turkey	100%
International Procurement and Logistics Limited	United Kingdom	100%
International Produce Sociedad Limitada	Spain	100%
Kent Nominee 1 Limited	Jersey	100%
Kent Nominee 2 Limited	Jersey	100%
Kober Limited	United Kingdom	100%
McLagan Investments Limited	United Kingdom	100%
Nordicline Limited	United Kingdom	100%
Porth Investments Limited	United Kingdom	100%
Power4all Limited	United Kingdom	100%
Reach Belvedere Limited	United Kingdom	100%
Selby Produce Limited	United Kingdom	100%
The Burwood House Group Limited	United Kingdom	100%
The George Davies Partnership Limited	United Kingdom	100%
Vinpack Limited	United Kingdom	100%
Westry Produce Limited	United Kingdom	100%
Bellis Acquisition Company PLC*	United Kingdom	100%
Bellis Acquisition Company 2 Limited	Jersey	100%
Bellis Acquisition Company 3 Limited	Jersey	100%

Notes to the Parent Company Statements for the Year Ended 31 December 2022 (continued)

4 Investments (continued)

*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*

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

Kent Nominee 1 Limited & Kent Nominee 2 Limited *12 Castle Street, St Helier, Jersey, JE2 3RT*

Kober Limited *Unit 1 Foxbridge Way, Normanton Industrial Estate, Normanton, Wakefield, WF6 1TN*

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

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

Bellis Acquisition Company PLC *Waterside Head Office, Haslingden Road, Guide, Blackburn, Lancashire, United Kingdom, BB1 2FA*

Bellis Acquisition Company 3 Limited & Bellis Acquisition Company 2 Limited *13-14 Esplanade, PO BOX 536, St Helier, Jersey*

Notes to the Parent Company Statements for the Year Ended 31 December 2022 (continued)

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
.			
Period ended 31 December 2021			
Non-current borrowings			
Senior Unsecured Notes	£500.0m	16 February 2027	500.0

During the prior period, the Company issued Senior unsecured notes ("SUNs") with a par value of £500.0m 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.

Sterling senior unsecured notes bridging facility with a par value of £500.0m was entered into on 16 February 2021 and re-financed on 24 February 2021 through the issue of the Senior unsecured notes with a par value of £500.0m referred to above. The interest costs on this bridge loan were repaid through cash on hand in ASDA Group Limited.

No fees have been capitalised in the year (2021: £19.9m) in relation to the SUNs. At 31 December 2022, accumulated amortisation on these fees is £5.5m (2021: £2.4m), resulting in an unamortised balance of £14.4m being outstanding at 31 December 2022 (2021: £17.5m). This is included in borrowings at 31 December 2022 and therefore the net carrying amount of the SUNs is £485.6m (2021: £482.5m).

6 Trade and other receivables

	31 December 2022 £ m	**31 December 2021 £ m**
Amounts owed by group entities	1,246.4	2,809.3

Intercompany receivables attract interest at a fixed rate of 3.45% - 4.25% (2021: 4.25% - 8.25%) and are repayable on demand.

7 Share capital

Allotted, called up and fully paid shares

	No.	**£m**
Ordinary shares of £1 each at 31 December 2021 and 31 December 2022	50,001	0.1

Notes to the Parent Company Statements for the Year Ended 31 December 2022 (continued)

8 Share premium and other reserves

	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

The changes to each component of equity resulting from items of other comprehensive income for the prior period were as follows:

	Share premium £ m	Retained earnings £ m	Total £ m
At 3 September 2020	-	-	-
Profit for the period	-	59.3	59.3
Ordinary share capital issued in the period	1,280.0	-	1,280.0
At 31 December 2021	1,280.0	59.3	1,339.3

9 Trade and other payables

	31 December 2022 £ m	31 December 2021 £ m
Accrued expenses	5.0	4.9
Intercompany payables		
Non-current	-	967.4
Current	27.7	22.9
	27.7	990.3

Current intercompany payables are non-interest bearing and are repayable on demand.

10 Commitments

The Company has no financial commitments.

11 Ultimate parent company and parent company of a larger group

At 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 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.