

Strategic Report for the Year Ended 31 December 2021 (continued)

Section 172 Statement

The following sections serve as the section 172 statement for ASDA Group Limited (the "Company"), pursuant to the requirements of The Companies (Miscellaneous Reporting) Regulations 2018. Section 172 of the Companies Act 2006 ("CA 2006") recognises that whilst companies are run for the benefit of their shareholders, a business's long-term success and reputation are dependent upon maintaining relationships with stakeholders and an appreciation of the external impact of its activities.

The directors of the Company (the "Directors") are fully aware of their responsibilities to promote the success of the Company in accordance with section 172 of the CA 2006 and are keen to ensure proper reflection on stakeholder engagement and issues at Director level and promote continuous reflection on opportunities for development.

There were a number of director appointments and resignations during the course of year, namely on 31 July 2021, John Fallon replaced Robert McWilliam as Chief Financial Officer (CFO), on 6 August 2021 Roger Burnley resigned as Chief Executive Officer (CEO) and on 3 September 2021 Anthony Hemmerdinger resigned as Chief Operating Officer (COO). On 18 June 2021, post the lifting of the Competition and Market Authority's Interim Enforcement Order imposed as a result of the sale, representatives of the shareholders were appointed to the Board, with Mohsin and Zuber Issa representing their own interests and Manjit Dale and Gary Lindsay representing the interests of TDR Capital LLP.

The sections below set out a more detailed summary of ASDA Group Limited and its wholly-owned subsidiaries (together the "Group") and its relationships with its key stakeholders and how the business engages with those stakeholders.

The ASDA executive committee ("Executive Committee") consists of the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief People Officer (CPO), Chief Operating Officer (COO), Chief Merchandising Officer (CMO), Chief Supply Chain Officer (CSCO) and wider members of senior management. The Executive Committee meets both monthly and weekly, during which feedback from various business areas, with particular focus on specific stakeholder groups, is fed back to the Directors.

The outcome of stakeholder engagement generally, as fed back to the Directors via the channels referred to above and below, influences the formulation and ongoing review of the long-term strategy and financial planning to ensure that our approach continues to deliver sustainable returns and promotes reputational reward. The Directors aim to take the needs and priorities of each stakeholder group into account as part of their decision-making processes, recognising that the pertinence of a particular stakeholder group may vary depending upon the matter under discussion.

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Key Stakeholder Engagement

Investors

On 16 February 2021 following the sale of the Group, TDR Capital LLP, along with, Mohsin Issa and Zuber Issa (the “Issa Brothers”) became key stakeholders of the Company and the Group, who together have provided equity capital to partially fund the acquisition of ASDA. The Competition and Markets Authority however imposed an Interim Enforcement Order which imposed certain legal restrictions on ASDA management, TDR Capital LLP and the Issa Brothers.

Why?

Until 16 February 2021, the former ultimate parent, Walmart Inc. (“Walmart”), was a provider of investor capital to ASDA. Their investment enabled ASDA to fund growth where customers care and deliver long-term success. As a wholly-owned subsidiary during this period, Walmart required ASDA to deliver a return on their investment.

Following the change in ownership, TDR Capital LLP and the Issa Brothers became the key providers of investor capital to the Company and the Group from 16 February 2021. As a result, the investors require the Group to deliver a return on their investment.

How we engage and key outcomes

Prior to the change in ownership of the Group on 16 February 2021, there was regular communication between Walmart and the Directors of ASDA regarding matters such as the financial performance of the Group and formal sign-off by Walmart on certain key decisions to be taken by the Group, such as major capital expenditure.

Certain Directors of the Company are key representatives of the investors. M Dale and G Lindsay represent the interests of TDR Capital LLP and the Issa Brothers represent their own shareholder interest in the Company and the Group. As there are direct lines of communication between the investors and the Directors, this allows the investors’ views and interests to be represented during board meetings and through the decision-making process.

As part of the funding for the acquisition of ASDA during the year, an intermediate parent company of the Group, Bellis Topco 2 Limited (“Bellis Topco 2”), issued preference shares to a subsidiary of ASDA’s previous ultimate parent company, Walmart and the funds raised from this issue formed part of the initial equity funding of the immediate parent of the Company and the Group. The board of Bellis Topco 2 includes a director who is a member of Walmart’s senior leadership team. As a result, the Directors of the Group engage with Walmart via meetings of the Bellis Topco 2 board.

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Employees

The CPO oversees colleague engagement. The CPO also chairs working group meetings of members of management dedicated to employee matters and ensuring that the results of the employee engagement mechanisms referred to below are provided to Bellis Topco2, the Directors and the Executive Committee. The CPO ensures that the employee perspective is vocalised and considered in the boardroom.

Why?

We believe in creating an inclusive culture that supports colleagues to thrive and reach their full potential. Our employees reflect the communities ASDA serves, which helps us to engage with our customers.

How we engage and key outcomes

ASDA is committed to building an inclusive culture that enables all colleagues to bring their best and true selves to work every day. Our Inclusion Network is a digital platform that enables all colleagues across the business to engage on Diversity and Inclusion topics, share their experiences and ask questions. We use Our Inclusion Network to help inform our key focusses and implement improvements that support colleagues to thrive and reach their full potential. Our Inclusion Working Groups are teams made up of six nominated colleagues from across ASDA who each represent one of the core strands of diversity. The groups partner teams across our Home Offices on selected projects to act as an advisory board to make sure inclusivity is at the heart of what we do. In addition, our Colleague Your Voice Groups and YourVoice engagement survey provide output from colleagues and are reviewed by the relevant teams who agitate change through engaging with the Executive Committee and relevant functional areas. Colleague engagement is maintained through open communication both to share information about the business, inform how colleague feedback has led to improvements or new implementations, and to provide feedback about working at ASDA. Our commitment to creating an inclusive environment that reflects the communities we serve allows ASDA to attract, recruit and retain high calibre colleagues that represent our core values and the communities that ASDA serve.

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Trade unions and elected representatives

In addition to the employee engagement mechanisms referred to above, the business meets regularly with our elected bodies and trade unions to discuss business performance, proposed changes and proposed future initiatives. Meetings between trade union and colleague representatives with senior representatives of the Group, take place on a minimum of a quarterly basis. During collective consultation on proposed changes, meetings are generally held weekly. All meetings are chaired by a senior leader from ASDA, facilitated by the Labour Relations team. Information is fed directly back to the senior management both following scheduled quarterly meetings and, as required, on a more frequent and ad hoc basis.

Why?

We engage with trade unions and other elected colleague representatives, as one of many ways to ensure that the best interests of our employees are considered and that concerns can be raised and discussed to reach, where applicable, a mutually agreed outcome.

How we engage and key outcomes

We have regular engagement with the following groups:

Retail Trade Union (Great Britain) - There is a partnership agreement with the GMB Union for information and consultation purposes for all hourly paid retail employees in England, Scotland and Wales, who are GMB members. A Retail Forum of 10 representatives meet with the Group.

Retail Trade Union (Northern Ireland) - There is a collective bargaining agreement for negotiation of pay and terms with USDAW for all hourly paid retail employees in Northern Ireland. A Joint National Council (JNC) of 4 representatives meet with the Group.

In ASDA Logistics Services Distribution (ALS), there is a collective bargaining agreement for negotiation of pay and terms in place with the GMB for our hourly paid colleagues. The National Joint Council (NJC) comprises 10 colleague representatives who meet with the Group on a regular basis.

Following a transfer of colleagues from EV Cargo Logistics (Chill), Unite the Union and the United Road Transport Union (URTU) are also recognised in our Lutterworth CDC depot.

Colleague Voice Representatives - National Colleague Voice (NCV) groups represent salaried retail managers, salaried distribution managers and hourly paid retail colleagues and hourly paid ALS colleagues across the UK. Each NCV (15 representatives on the retail groups and 13 representatives on distribution) meet with the Group on a regular basis.

Throughout 2021, we continued to have regular discussions with representatives on our response to COVID-19, informed and consulted on proposed organisational change in both our Retail and ALS business, updated on employment policy change and provided regular updates on business performance.

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Suppliers

The CMO and authorised senior individuals within the CMO's team engage directly with key suppliers and together with the CSCO, bring suppliers' views into the boardroom.

Why?

We aim to maintain trust and engagement with our supplier base. We have clear communication channels to ensure our suppliers' views are heard.

How we engage and key outcomes

ASDA is subject to the requirements of the Groceries Supply Code of Practice ("GSCOP") and has formal policies in place around areas such as supplier payment, supplier queries and supplier income, which are in line with GSCOP. Senior leadership, within the Trading function, also host and attend supplier conferences to ensure we continue to understand our suppliers' needs.

Customers

Through internal reporting lines the outcomes of customer engagement are fed back to the Chief Customer Officer ("CCO"), a senior member of ASDA's leadership team who attends meetings of the Executive Committee and is responsible for customer matters. Accordingly, the CCO ensures that our customers' viewpoints are considered when making decisions in the boardroom.

Why?

ASDA's approach is to accelerate growth, by building on our strategy to provide great value for money. To deliver this, we need to understand the products where price is most critical to our customers.

How we engage and key outcomes

ASDA monitors external data on the prices of key product lines and sets category-specific targets for relative pricing against key competitors. This helps us to make targeted price investment decisions which best meet the needs of our customers.

Providing customers with a high standard of product is a key component of attracting and retaining customers.

ASDA provides customers with the opportunity to provide feedback on product quality. This is then disseminated amongst the Directors and the Executive Committee at board meetings but is also discussed amongst senior colleagues at the monthly leaders' meeting and the Performance Board, which is attended by the Executive Committee and other members of senior management of the business.

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Debt Holders

The Group and its intermediate parent holding companies up to and including Bellis Finco PLC (together the "Finco Group") raised external debt finance in the form of senior secured notes ("SSNs"), senior unsecured notes ("SUNs"), a bridge loan, revolving credit facility and term loans during the year which financed the acquisition of ASDA by Bellis Acquisition Company 3 Limited. As a result, the holders of the SSNs, SUNs, term loans, revolving credit facility and the bridge loan (together, the "debt holders") are key stakeholders of the Company and the Group due to a reliance on the cash flows of the Group to service this debt finance. During the year the bridge loan has been repaid.

Why?

In line with the requirements of the contractual terms of the external debt and to ensure that the debt holders are aware of the financial position and performance of the Finco Group, key events impacting the Finco Group in the period and other factors that impact their interests as lenders to the Finco Group, a quarterly call is held with these stakeholders.

How we engage and key outcomes

On a quarterly basis, members of the senior management of the Finco Group, present the results of the Finco Group to the debt holders. During the year, this consisted of delivery of interim financial statements prepared at the consolidated ASDA Group level under UK-adopted International Accounting Standards (IAS 34) accompanied by an investor presentation which includes relevant Finco Group information and a conference call. This allows direct communication between the Directors and these stakeholders. The Finco Group must also adhere to financial covenants imposed by the debt agreements and report compliance to the debt holders.

Further to this, the debt holders are able to provide feedback to the Directors via the Finco Group's Investor Relations team on an ongoing basis, enabling two-way dialogue between the Directors and debt holders throughout the year.

Trustees and members of the ASDA Group Pension Scheme ("AGPS" or "the Scheme")

During the year, a Joint Governance Forum ("JGF") which included ASDA's nominated representatives and Trustees of the AGPS was in place. The JGF ensured that the interests of each stakeholder were represented in the decision-making process. Following the pension buy-out completed on 9 July 2021, Rothesay Life PLC ("Rothesay") have become directly responsible for scheme liabilities.

Why?

Prior to the buy-out, ASDA worked closely with the trustees of the AGPS and the insurer to ensure that sufficient funding was in place to enable the Scheme to meet its liabilities to members as they fall due.

How we engage and key outcomes

Annual communications to members of the AGPS were circulated by the ASDA Pensions team which communicated the financial position of the Scheme and the current value of individuals' pension entitlement. Members have also been kept updated on the progress of the buy-out throughout the process. Rothesay are responsible for the ongoing admin and communications to the members of the AGPS following the buy-out.

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Community and Charitable Causes

Members of the Executive Committee chair the ESG Steering Committee meetings which are attended by senior leaders from relevant areas of the business. The ESG Steering Committee operates under clearly documented terms of reference defining its scope of authority and regularly meets and reports back to the Executive Committee and Directors to ensure that they are engaged in the decisions taken and aware of key outputs and actions. Community and charitable activity falls under the scope of the ESG programme and therefore receives strong oversight. This is separate and distinct from grant-making via the ASDA Foundation, which is the responsibility of and under the governance of the trustees of the ASDA Foundation.

Why?

ASDA is committed to providing funding to the good causes that our colleagues and customers support, providing a positive contribution to communities in which ASDA operates.

How we engage and key outcomes

The Community team, overseen by the Executive Committee, working with our Community Champions in our stores and depots, promote and co-ordinate fundraising for nominated national and local charities. By identifying local causes and charities this allows ASDA to have a meaningful impact on the communities which we are a part of. Fundraising by ASDA's colleagues, customers and suppliers has enabled donations to charities including; Trussell Trust, Fareshare, Breast Cancer Now, CoppaFeel!, Children in Need and thousands of local charities and community groups. Further detail of donations during the year is provided in the Directors' Report.

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Environment

The Directors and Executive Committee are aware of the need for the business to operate responsibly and of the impact ASDA can have on environmental and social issues. The Directors have promoted the continued acceleration of innovation and focus on sustainability under ASDA's strategic ESG programme, Creating Change for Better. This programme brings together ASDA's commitments across environmental, social and other responsibility issues, and these commitments were reported publicly for the first time as part of ASDA's Creating Change for Better report in May 2021. Members of the Executive Committee chair the ESG Steering Committee which is attended by senior leaders from relevant areas of the business. The ESG Steering Committee operates under clearly documented terms of reference defining its scope of authority and reports back to the Executive Committee and Directors are engaged in the decisions taken and aware of key outputs and actions.

Why?

ASDA has a responsibility to minimise the adverse impact our business activities have on the environment, which will also prevent financial penalties and long-term damage to our reputation.

How we engage and key outcomes

As part of the 2021 reporting, we have committed to providing sustainable choices that save our customers money, cut our costs and protect our planet. We have committed to being a net zero carbon business by 2040 and have continued to reduce our carbon footprint through initiatives on energy use and fuel consumption, as well as mapping our full Scope 3 carbon footprint for the first time. In 2021 we committed to setting a Science based target and have been recognised on the Science Based Targets initiative website. We continue to explore ways to radically address packaging waste as we have rolled out our refill zones to additional stores which utilise reusable and returnable bottles and containers. In addition, we are focused on reducing food waste throughout our supply chain. Please see the Streamlined Energy & Carbon Reporting section for further detail.

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Key Principal Decisions

Repayment and refinancing of the forecourt bridge loan

Part of the financing raised to fund the acquisition of ASDA was an external bridge loan for £750.0m entered into by an intermediate parent company of the Group on 16 February 2021 (“the Forecourt Bridge Loan”). The intention of the Directors prior to the acquisition of ASDA was to repay this loan using the proceeds arising out of a proposed sale of the Group’s forecourts business to EG Group Limited (“EG Group” or “EG”) - “the Forecourts Transaction”.

Prior to the acquisition of ASDA and then for a period up to 16 June 2021, the Group was subject to an Initial Enforcement Order (“IEO”) served by the Competition and Markets Authority (“CMA”). As a result, there were legal restrictions in place relating to the level of information that could be shared between ASDA management, TDR, the Issa Brothers and EG Group.

On 16 June 2021, both the ongoing restrictions imposed under UK Competition Law and the IEO on the acquisition of ASDA by TDR Capital and the Issa brothers were lifted. This allowed ASDA and EG Group’s teams to share commercial information relating to the EG’s Group’s proposed acquisition of the ASDA Forecourt Business, which had not been previously possible and resulted in a re-evaluation of the financial parameters of the proposed Forecourts Transaction. As a result, EG and ASDA decided they would no longer proceed with the Transaction, and it was terminated as of 18 October 2021, considering the best interests of the Group and its stakeholders.

Following the decision not to proceed with the Forecourts transaction, on 5 November 2021, having taken into account the Group’s cash position, a forecast of the Group’s future cash flows, the terms of the Forecourt Bridge Loan and the availability of alternative external financing, the Directors of the intermediate parent company took the decision, as recommended by the Directors of the Group, to repay the Forecourt Bridge Loan along with the fees and interest accrued to that date through the issuance of £500.0m of 4.5% Senior Secured Notes due in February 2026, and Group cash on hand of £255.4m. This refinancing reduces the Group’s future cash outflows to service the intermediate parent company’s interest liabilities and provides greater certainty over the Group’s medium-term cash flows.

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Warehouse asset sale-and-leaseback transaction

As noted above, on 16 February 2021, Bellis Acquisition Company 3 Limited ("BAC3L") purchased the entire issued share capital of ASDA Group Limited (the "Acquisition"). As part of the financing for this transaction, an intermediate parent undertaking of the Group issued a loan note to Bellis Noncore 2 Limited, a fellow wholly owned subsidiary of the ultimate parent company, for £902.5m. The cash received in exchange for this loan note originated from a bridge loan (the "Warehouse Asset Disposal Bridge Facility") which was drawn down by Bellis Noncore 2 Limited from a third party lender.

To secure the Warehouse Asset Disposal Bridge Facility, certain entities within the Group granted first priority mortgages, fixed charges or standard securities, as applicable, over certain of their warehouse assets (the "Warehouse Assets") and retail assets. Prior to the execution of these mortgages, fixed charges, standard securities and pledges, as applicable, and in respect of certain other Warehouse Assets which were not capable of being subject to security at the time of the Acquisition, entities within the ASDA Group entered into lease agreements in respect of certain of the Warehouse Assets.

On 23 and 24 June 2021, following the lifting of the CMA IEO on 16 June 2021, in line with the terms and requirements of the Warehouse Asset Disposal Bridge Facility, the Group transferred the Warehouse Assets to a fellow wholly-owned subsidiary of Bellis Topco Limited, Bellis Select Warehouse Limited ("BSWL"), in exchange for intercompany receivables in favour of subsidiary undertakings within the Group. The Warehouse Assets were then leased back to a subsidiary of the Group.

From 13 July 2021 to 21 October 2021, following a competitive auction process and following receipt and careful consideration by the Directors of external advice from property specialists relating to the fair value of the Warehouse Assets and the expected level of market rental associated with them, the Warehouse Assets that were transferred to BSWL were sold to entities controlled by a third party, The Blackstone Group. The Warehouse Assets continued to be leased back to the Group on leases carrying a 25 year term with the exception of two lease agreements for Warehouse Assets, which had terms of 1 year.

The Directors considered various matters including the financial impacts on the Group when enacting this series of transactions (together, the "Sale-and-Leaseback Transaction").

Pension buy-out

On 9 July 2021, the trustees of the ASDA Group Pension Scheme ("AGPS") completed a full buy-out of the Scheme with Rothesay Life PLC ("the buy-out"). Following this transaction, from the date of the buy-out, Rothesay Life PLC have become directly responsible for the Scheme liabilities.

Future strategic intention

Our primary strategy is designed to provide great value for money. Our strategy is to maintain and extend our advantage in offering value for money, increasing our appeal to existing and potential shoppers by ensuring that our prices are competitive. We aim to provide a consistent, trusted experience, incentivising customers not to shop elsewhere, through the creation of attractive store propositions and partnerships that increase our appeal to customers. We serve our customers with our team of flexible and engaged colleagues, while increasing the number of self-serve opportunities and transforming the in-store experience. We focus our growth where customers care, expanding our addressable markets in online grocery, wholesale and community convenience.