

Section 172 Statement

The following sections serve as the Section 172 statement of ASDA Stores 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 its 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.

As more particularly detailed in the Company’s Wates Statement included in the Directors’ Report, the Company’s immediate parent undertaking, ASDA Group Limited plays an important role in the governance of the operations of the Company (being the principal trading entity within the ASDA group of companies), including consideration and approval of key commercial decisions which materially impact the Company, its stakeholders and its operations.

The board of ASDA Group Limited (the “Board”) meets monthly and includes both of the Company’s Directors. Where individuals are directors of separate legal entities within the Group, they are aware of their separate responsibilities regarding each of these legal entities. Additionally, a group which comprises the senior leadership of the Company, including all of the members of the Board and the Directors of the Company (the “Executive Team”) meets at least weekly to discuss and make operational decisions of the Company and to consider and implement decisions of the Board. In this forum, feedback from various business areas, with particular focus on specific stakeholder groups, is reviewed and considered by the Executive Team.

Details of the Board of ASDA Group Limited who served during the year are included in the financial statements of ASDA Group Limited which are available at ASDA House, Southbank, Great Wilson Street, Leeds LS11 5AD.

As the Board considers and makes decisions which impact the Company (which are then considered and if deemed appropriate, implemented by the Directors) it is important that the Board, the Directors and the wider Executive Team are involved in, and aware of the output of, engagement with stakeholders.

The Directors regularly review the Company’s principal stakeholders, who are material to the Company’s long-term success, and how the Directors and (wider Executive Team) engage with them. The sections below set out a more detailed summary of the Company’s relationships with its key stakeholders and how the Directors engage with those stakeholders.

In addition to a scheduled programme of monthly Board meetings, the Executive Team meet weekly, during which feedback from various business areas, with particular focus on specific stakeholder groups, is reviewed and considered by the Directors and the Executive Team. The same information is also shared with the Board.

The outcome of stakeholder engagement is taken into account in the formulation and ongoing review of the long-term strategy and financial planning to ensure that the Company’s 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.

Key Stakeholder Engagement

Investors - Walmart Inc. ("Walmart")

During the year ended 31 December 2020, corporate governance policies and procedures were in place (largely derived from the governance framework mandated by Walmart) which provided for a continuous and structured dialogue between Walmart and the Directors, including detailed corporate governance sign-off procedures. In addition, both R Burnley (CEO) and R McWilliam (CFO), both being Directors, had direct reporting lines into Walmart. For details of the change in ownership after the balance sheet date see note 26 of the financial statements.

Why?

During the year, the Company's ultimate parent, Walmart, was the Company's sole provider of investor capital. Their investment enabled the Company to fund growth where customers care and deliver long-term success.

As a wholly-owned subsidiary, Walmart required the Company to deliver a return on their investment.

As part of ensuring compliance with key legal, ethical and financial regulations, the Company engaged directly with Walmart on these matters.

Compliance with Walmart risk management policies enabled the Company to promote its long-term sustainability. This included the capital management policy which required the monitoring of cash levels and timing of funds available. This ensured that the Company was able to meet day to day obligations as they fell due.

How we engage and key outcomes

The Directors engaged with Walmart on all significant capital projects and approval was required over certain amounts. Principal investments during the year related to replacement of essential assets and refreshing the store estate.

Strategic plans and associated financial targets were discussed and signed off by both Walmart, the Board and the Directors. Following this there was regular communication between Walmart and the Directors regarding performance against these financial targets. During the year, certain business functions within the Company - including Finance, Legal, Internal Audit and Compliance - had an independent direct reporting line into Walmart and, on behalf of Walmart, these functions formally tested and reported on compliance with key laws and regulations applied in the Company. These included testing the design and operation of financial controls within the Sarbanes-Oxley financial control framework; testing and reporting on compliance with anti-bribery controls under the Foreign Corrupt Practices Act ("FCPA"); and reporting on any breaches of Walmart's Ethics guidance. Walmart also had formal oversight of these processes and played a role in ensuring that improvements were implemented where required.

The Company's enterprise risk management process is comprised of 12 functional risk groups, each with an individual risk register. There are also functional teams responsible for owning and managing their risks. On a bi-annual basis the enterprise risk register is reviewed by the Board, including the Directors.

Employees

The Group's Chief People Officer (CPO) oversees colleague engagement. The CPO also chairs working group meetings of members of management dedicated to employee matters and ensures that the results of the employee engagement mechanisms referred to below are provided to the Company. Both the CPO and the Group's Chief Operations Officer (COO), who are members of the Executive Team (noting that the Company's workforce is predominantly made up of employees working in the operational retail areas of the business) ensure that the employee perspective is vocalised and considered by the Directors. All members of the Board also sit on a quarterly Inclusion Forum meeting to maintain involvement and provide decision making on Diversity and Inclusion initiatives and activities.

Why?

The Company's employees reflect the communities the Company serves, which helps the Company to engage with its customers.

The Company believes in creating an inclusive culture that supports colleagues to thrive and reach their full potential.

How we engage and key outcomes

The Company is committed to building an inclusive culture that enables all colleagues to bring their best and true selves to work every day. The Company's 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. The Company uses Our Inclusion Network to help inform the Company's key focusses and implement improvements that support colleagues to thrive and reach their full potential. The Company's Inclusion Working Groups are teams made up of six nominated colleagues from across the Company who each represent one of the core strands of diversity. Partner teams across the Company's home offices act as an advisory board on selected projects to make sure inclusivity is at the heart of what we do. The Company's commitment to creating an inclusive environment that reflects the communities we serve allows the Company to attract, recruit and retain high calibre colleagues that represent the Company's core values and the communities that the Company serves. This is achieved through Our Inclusion Network, Inclusion Working Groups, Colleague Voice Groups, the 'Write to Roger' scheme', YourVoice engagement survey and OneAsda intranet site. Outputs from colleague engagement mechanisms are reviewed by the relevant teams who agitate change through engaging with the Board 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.

Trade unions and elected representatives

In addition to the employee engagement mechanisms referred to above, the Company meets regularly with its selected bodies and trade unions to discuss business performance, proposed changes and future initiatives. Meetings between trade union representatives and representatives of the Company, (nominated by the Directors or certain members of the Executive Team), meet on a minimum of a quarterly basis. During collective consultation on proposed changes, meetings are held weekly for the duration of the process. All meetings are chaired by a senior leader from the Company, facilitated by the Labour Relations team. Information is fed directly back to the Board, the Directors and the Executive Team, both following scheduled quarterly meetings and, as required, on a more frequent and ad hoc basis.

Why?

The Company engages 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 Company.

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 Company.

In ASDA Logistics Services Distribution, 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 Company on a regular basis.

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

Throughout 2020, we have had regular discussions with representatives on our response to COVID-19, informed and consulted on proposed organisational change, updated on employment policy change and provided regular updates on business performance.

Suppliers

The Group's Chief Merchandising Officer (CMO) engages directly with key suppliers and together with the Group's Chief Supply Chain Officer (CSCO), shares suppliers' views with the Directors and the wider Executive Team. The CMO's team includes people dedicated to supplier engagement and ensuring that the outcome of such engagement is fed back to the Directors and Executive Team. The joint business plans referred to below are a result of ongoing mutual engagement during which supplier interests and issues are vocalised and accommodated in a mutually acceptable manner.

Why?

The Company aims to maintain trust and engagement with its supplier base. There are clear communication channels to ensure suppliers' views are heard.

The Company works with its suppliers to develop new and innovative products that appeal to the changing demands of its customers.

How we engage and key outcomes

The Company 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 the guidance in GSCOP. Senior leadership, within the Company's Trading function, also host and attend supplier conferences to ensure the Company continues to understand suppliers' needs. The Company agrees joint business plans with its suppliers each year and business plans with key suppliers are signed off by members of the Executive Team.

During the year the Company has continued to work with its suppliers in order to reduce the amount of plastic used in packaging. The Sustain and Save exchange enables the Company to work with suppliers to help them understand how they can be more environmentally efficient in their operations. Furthermore, the Company has opened a new sustainability store in Middleton and partnered with a number of suppliers to help the Company's customers reduce, reuse and recycle with ease. This is an area generating an increased level of interest among many of the Company's stakeholders.

Customers

Through internal reporting lines the outcomes of customer engagement are fed back to the CCO (who is a member of the Executive Team) who is responsible for customer matters. Accordingly, the CCO ensures that the Company's customers' viewpoints are vocalised to the Directors and the wider Executive Team and taken into account when making decisions.

Why?

The Company's mission is to be the most trusted retailer, and this is supported by its purpose to save customers money so they can live better. To deliver this, the Company needs to understand the products where price is most critical to its customers.

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

How we engage and key outcomes

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

The Company provides customers with the facility to provide feedback on product quality. This is then disseminated amongst the Directors, at meetings of the Executive Team, at the Company's monthly leaders' meeting (a meeting of all senior Company employees) and the Performance Board (a meeting of senior Company colleagues).

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

A Joint Governance Forum ("JGF") which included the Company's nominated representatives, Walmart and Trustees of the AGPS was in place during the year. The JGF ensured that the interests of each stakeholder were represented in the decision-making process.

Why?

The Company works closely with the trustees of the AGPS and the insurer to ensure that sufficient funding is in place on a timely basis 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 are circulated by the Company's Pensions team who communicate 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.

Community and Charitable Causes

Members of the Executive Team chair the “Giving Committee” meetings which are attended by senior leaders from relevant areas of the Company. The “Giving Committee” operates under clearly documented terms of reference defining its scope of authority and regularly meets and reports back to the Directors and the Executive Team (at least monthly) ensuring that the Directors and the wider Executive Team are engaged in the decisions taken and aware of key outputs and actions. This is separate and distinct from the ASDA Foundation which is the responsibility of and under the governance of the trustees of the ASDA Foundation.

Why?

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

How we engage and key outcomes

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

Environment

The Directors and the wider Executive Team are aware of the need for environmental responsibility and the impact that the Company can have on the environment. The Directors have promoted the continued acceleration of innovation and focus on sustainability.

Why?

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

How we engage and key outcomes

The Company has continued to reduce its carbon footprint through initiatives on energy use and fuel consumption and are accelerating its commitment to reduce use of single-use plastics in its supply chain. See the Streamlined Energy & Carbon Reporting section of the ASDA Group Limited financial statements for further detail.

Key Principal Decisions

As referred to above ASDA Group Limited plays an important role in the governance of the operations of the Company. This includes consideration and approval of key commercial decisions which materially impact the Company, its stakeholders and its operations and so the decisions specified below were all taken in consultation with the wider Board, which includes the Directors.

COVID-19

The outbreak of COVID-19 was confirmed in the UK in early 2020 and has been prominent throughout the year. This led to a high level of disruption to UK economic, social and political activity. The Directors and Executive Team announced several initiatives to reduce the impact of the virus on our colleagues, customers and the general public.

Colleagues

In March 2020, the Company announced that all vulnerable colleagues, including the carers of extremely vulnerable people, would be able to self-isolate for a period of 12 weeks, thereby reducing the risk of them contracting the virus, whilst still continuing to receive full pay. Furthermore a 'Thank you' payment of an additional week's pay was made to our colleagues in recognition of their extra efforts that protected the health of their colleagues who needed to step away during this time. The Company also recruited additional colleagues over this period to ensure that the business could still operate and meet customers' needs despite both increased demand and increased levels of colleague absence. This had the additional benefit of offering temporary employment for individuals who had lost work as a result of the pandemic.

Suppliers

Due to reduced demand for certain products and significant impacts on certain parts of the Company's supply chain, the Company cancelled purchase orders for a small number of non-food items that had not yet been dispatched to the business. In recognition of the impact of the pandemic the Company made voluntary compensation payments to those suppliers.

In addition, ASDA confirmed that it would pay small suppliers on shorter payment terms to support their cashflows. Furthermore, a rent-free period was provided to around 250 small business tenants, who operate concessions in our stores or are lessees of the Company in retail units adjacent to our stores. These measures reduced the adverse impact of the pandemic on stakeholders within the supply chain and provided the wider economic benefits of helping those businesses to keep operating.

Customers

The Company also introduced several measures which reduced the risk to our customers of contracting the virus in our stores. This includes rolling out Scan and Go to all stores to support social distancing measures and reduce contact time with others. The Company has also increased the number of delivery slots available through our online channel, allowing us to keep pace with increasing customer demand for online shopping due to the pandemic. In addition, we offered priority delivery slots to vulnerable customers. The Company also introduced a number of in-store measures to improve customer and colleague safety such as dedicated safety marshals, customer counting technology, cleaning stations, signage and checkout screens. This was recognised when ASDA was named the safest place to shop during COVID-19 by the independent trade magazine The Grocer.

Community

The Directors and Executive Team made the decision in December 2020 to voluntarily repay the rates relief benefit provided by the government as part of their measures to help businesses during the pandemic. The relief provided in late March 2020 was vital in ensuring that ASDA could continue its important role in feeding the nation and meet the unexpected costs that came with this such as paying shielding colleagues and investing in COVID safety measures in stores, which outweighed the relief received. The Board's and Directors' decision to repay the rates relief was based on the recognition that there are other industries and businesses for whom the adverse impacts of COVID-19 will be much more long-lasting and whose survival is essential to thousands of jobs so repaying the rates relief will allow the government to re-invest this in providing financial support to those who need this the most.

The Company also made a donation of £5.0m to its partners Fareshare and Trussell Trust to help the country's most vulnerable people through COVID-19, this extensive package of measures provided meals to families in poverty impacted by Coronavirus. The Company also donated a significant number of face masks to care homes in addition to offering priority delivery slots to both care homes and nurseries.

Dividends

In October 2019, the trustees of the ASDA Group Pension Scheme ("AGPS") completed the buy-in of the AGPS and thereby secured the interests of the scheme members and trustees. Alongside creating greater security for pension scheme members this also reduced the potential risk to the Company's cashflows. As a result, this allowed the Company more flexibility with excess cash which had been generated through operations.

On 5 March 2020, the Board approved a cash dividend of £850.0m to ASDA Group Limited, the immediate parent undertaking at that time. This dividend was then subsequently paid up to the ultimate parent undertaking, at that time, Walmart Inc.. The dividend was paid out of surplus cash which had been generated over the 3 years since the last dividend paid to the Company's investors, Walmart, and represents a return on their investment in ASDA.

On 21 December 2020, the Directors approved dividends totalling £500.0m. The dividends were paid in accordance with the terms of the Sale and Purchase agreement between ASDA Holdings UK Limited and Bellis Acquisition Company 3 Limited relating to the sale of ASDA Group Limited on a cash-free, debt-free basis. As such, all surplus cash was required to be paid from the Group and Company to the intermediate parent company. Prior to approving all dividends, the Directors considered a severe but plausible cashflow forecast downside scenario and were satisfied that the Company would continue to meet liabilities as they fall due.

Future strategic intention

The Company's primary strategy is designed to "win on price" by narrowing the Company's price gap with discounters while providing good value and maintaining the Company's price leadership position against the Company's traditional grocery peers, which we expect to further enhance customer loyalty. 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 the Company's appeal to customers. We serve the Company's customers with the Company's team of flexible and engaged colleagues, while increasing the number of self-serve opportunities and transforming the in-store experience. We focus the Company's growth where customers care, expanding the Company's addressable markets in online grocery, wholesale and community convenience.