

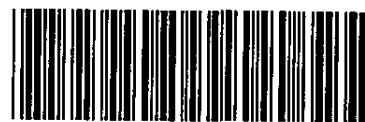
ASDA STORES LIMITED

Report and Financial Statements

31 December 2011

Registered No 464777

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COMPANIES HOUSE

ASDA Stores Limited

DIRECTORS

J J McKenna

A Clarke

A J Bond resigned 1 January 2011

D Gurr resigned 1 January 2011

R Bendel resigned 30 April 2012

C Kuchinad resigned 14 March 2011

A J Moore

C R Redfield resigned 22 May 2012

S King appointed 28 February 2011, resigned 11 July 2011

E Doohan appointed 3 October 2011

K Hubbard appointed 3 October 2011

H Tatum appointed 3 October 2011

S Smith appointed 14 May 2012

SECRETARY

E Doohan

AUDITORS

Ernst & Young LLP

1 Bridgewater Place

Water Lane

Leeds

LS11 5QR

REGISTERED OFFICE

ASDA House

Southbank

Great Wilson Street

Leeds

LS11 5AD

United Kingdom

BANKERS

National Westminster Bank plc

Leeds City Office

8 Park Row

Leeds

LS1 1QS

ASDA Stores Limited

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 December 2011

Principal activities

The principal activity of ASDA Stores Limited (referred to as "the company") is the retail of food, clothing, home and leisure products and services throughout the United Kingdom and online. The next smallest group at which consolidated financial statements are prepared is ASDA Group Limited (referred to as "the Group" and / or "ASDA")

Results and dividends

Profit before tax for the year increased to £506.9m (2010: £491.8m) and operating profit grew to £463.3m (2010: £424.2m). Turnover grew by 5.5% to £21.7bn (2010: £20.5bn) as a result of underlying sales growth and new store openings including the acquisition of Netto Foodstores Limited ('Netto'). Operating costs grew slower than sales growth. The converted Netto stores traded ahead of expectations incurring an operating loss of £21.1m reflecting the impact of planned first year integration and store conversion. Profit after tax for the year was £368.1m (2010: £328.8m).

As a consequence of our employees being granted share options in the ultimate parent company, Wal-Mart Stores, Inc., share options are treated as if they are cash settled, despite them being equity settled by Wal-Mart Stores, Inc. The impact of this is eliminated in the consolidated financial statements of Wal-Mart Stores, Inc. and would not be required if the Group was granting options on its own shares in a way consistent with UK public limited companies. In addition, the company incurs charges from Wal-Mart Stores, Inc. which relate to technical assistance, services and royalties; these charges are eliminated in the consolidated financial statements of Wal-Mart Stores, Inc.

No dividend was paid during the year (2010: £nil)

Significant events in the year

On 13 April 2011, the company acquired Netto Foodstores Limited for consideration of £752m which gave rise to additional sales in the company of £255m in 2011. Following conversion of the Netto stores into ASDA format, the store assets were transferred into the company at book value and commenced trading as ASDA stores.

On 12 February 2011, to ensure the long term sustainability of the company's pension arrangements the defined benefit pension scheme was closed to future accrual. Plan participants became eligible to join one of ASDA's existing defined contribution schemes, the benefits for which were enhanced.

Business review, KPIs and future developments

2011 continued to be a challenging period for the economy and consumers. In this context, ASDA had a successful year by continuing to build trust with customers who are increasingly selective about what they buy and where they shop. We delivered against our core purpose of saving customers money every day by strengthening our position as price leader. We also improved product quality and customer service, supported by innovations like the 'Chosen By You' food range. Over the same period, we also successfully acquired and integrated the Netto UK business, converting the new space into ASDA trading stores.

Financial highlights

- Like-for-Like sales growth of 0.5% (excluding petrol and VAT)
- Total sales growth of 5.5% (excluding VAT), including growth due to new space acquired from Netto in the year
- Operating Profit increased by 9.2%, with operating costs growing slower with sales growth
- Market share up 0.4%, to 17.3% (source: Kantar 52 weeks to 25 December 2011)

DIRECTORS' REPORT (CONTINUED)

Operational highlights

- We strengthened our price leadership by enhancing the ASDA Price Guarantee (APG) in the year, assuring customers that ASDA will be 10% cheaper than its competitors. In addition, in June, ASDA won The Grocer Magazine's lowest priced supermarket award for a fourteenth successive year.
- We continued to enhance the quality of our food ranges, including the expansion of the 'Chosen By You' range to over 8,500 products and partnering with Leith's world famous cookery school to develop new products in our Extra Special range.
- The ASDA on-line platforms delivered strong double digit growth across grocery, general merchandise and clothing. This was achieved by continuing to expand product ranges, together with improved service levels in both home delivery and in-store collect.
- We continue to develop talent and diversity across the whole organisation, and over the course of the year we increased the average number of colleagues employed by 4,686. We also believe we have the friendliest and most helpful colleagues in the industry and it is thanks to their continued commitment, that in June, ASDA was voted by customers as 'Britain's Favourite Supermarket', as awarded by The Grocer Magazine.
- The ASDA "We Operate For Less" programme delivered another record year of productivity savings across stores, distribution centres and home offices, helping to offset inflationary pressures in utilities and commodities.

Delivering foundations for future growth

- ASDA completed the acquisition of Netto Foodstores Limited in April and then successfully completed an ambitious conversion programme that added 1,099,000 sq ft of new ASDA selling space by November. This was delivered ahead of time and within budget.
- Twenty two other new stores were opened during the year, taking total new space added including Netto additions to 1,650,000 sq ft.
- ASDA's multichannel capability has been upgraded through investments in people, technology, systems and processes, one outcome of which is improved customer service and on time delivery of orders.
- In January 2012, we announced that our George clothing business was planning to launch franchise partner operations in the Middle East and the Channel Islands. The first of these stores will open in mid 2012.

In the context of the uncertain economic outlook, the ASDA purpose to save customers money every day remains highly relevant to customers. Our strong performance in 2011 reflects our commitment to deliver against this core purpose, at the same time as strengthening the trust customers place in us for the quality of our products and the warm and friendly service delivered by our colleagues.

Risks and uncertainties

Risk is an inevitable part of business. One of the ongoing challenges facing ASDA is the identification of principal risks, assessment of their likelihood and consequence, and development and monitoring of appropriate controls. The Board has overall responsibility for risk management and ensuring that this is aligned with business strategy and objectives. The Board is supported by a Risk and Audit Committee that meets quarterly.

DIRECTORS' REPORT (CONTINUED)

Risks and uncertainties (*continued*)

Key risks and mitigating actions are set out below

- **Competitive risk**

In the highly competitive retail industry, success depends on satisfying changing customer needs better than the competition. ASDA has a brand reputation for offering a broad range of products at the lowest prices, and failure to uphold this reputation could lead to a loss of market share.

ASDA regularly monitors relevant data on aspects such as price position in the market, product availability and other measures of quality and service that are important to our customers. We constantly monitor market information to understand our position relative to competitors and enable appropriate action to be taken on a timely basis. The ASDA Price Guarantee continued to operate during 2011, through which ASDA has committed to customers to being 10% cheaper than our competitors or a voucher will be given for the difference.

- **Financial risk**

ASDA's principal 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 borrowing facilities are in place to meet liabilities to suppliers, colleagues and investors.

Certain transactions with suppliers and with the company's ultimate parent undertaking are denominated in foreign currency. The Treasury function uses information from around the business to forecast the timing and level of foreign currency requirements and buys forward accordingly. It is ASDA's policy not to buy or hold foreign currency speculatively.

ASDA operates a number of pension arrangements for our employees including a defined benefit pension scheme. This is subject to risk in relation to its pension deficit which is shown as a liability on the balance sheet. This risk was been reduced when the defined benefit pension scheme was closed to future accrual. The risk has been further mitigated through consultation with the pension scheme trustees to identify appropriate long term funding solutions for the scheme. To further minimise this risk, the trustees appointed a new fund manager in 2009 with delegated responsibility for managing 30% of the scheme's assets using a liability driven investment approach.

- **Supplier risk**

The current economic climate is challenging for our suppliers and customers. This puts increased importance on the strength of our control processes and our ability to recognise and respond to supplier issues. We have set up a periodic review process of supplier risk to identify issues, develop appropriate action plans and improve our controls in relation to supplier monitoring.

- **Systems risk**

Detailed disaster recovery plans are in place in the event of an incident which could severely affect ASDA's ability to trade. A comprehensive Incident Response Plan exists to ensure business continuity in the event of a major incident.

- **Regulatory and compliance risk**

We recognise that ASDA operates in an environment where we can be impacted by changes in Government policy. In response to this, we continue to risk assess all regulatory developments and test compliance with internal processes designed to mitigate risks, making improvements where required.

DIRECTORS' REPORT (CONTINUED)

Risks and uncertainties *(continued)*

- **Reputational risk**

The key to ASDA's success is the loyalty and goodwill shown by our customers, suppliers and colleagues

Failure to protect our reputation could lead to a loss of trust in the ASDA brand and consequently erode customer loyalty. ASDA 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

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

Retention of key individuals and succession planning is important for long term stability and success. We have a robust appraisal process and PAR (People Asset Review) to ensure that the right individuals are in the right roles, with a clear career path to long term development. The goodwill of colleagues is maintained through open communication, both to allow management to share information about the business and to give colleagues the opportunity to provide feedback about working at ASDA

- **Environmental risk**

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

In recent years, we have implemented a number of initiatives and processes in recognition of our environmental responsibilities. We have reduced our absolute carbon footprint since 2007, and our existing stores emit 30.3% fewer carbon emissions than in 2005. The major focus of our strategy is now on our supply chain, including running a unique collaboration tool to help our suppliers become more efficient

- **Fraud risk**

We have a control framework in place to help detect potential fraud and dishonest activity. The ASDA-Wal-Mart 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 through the Open Door Communication Process or through the local Ethics Committee. In addition, procedures are in place in respect of compliance with the UK Bribery Act and the Foreign Corrupt Practices Act

- **Strategic risk**

We continue to invest in new opportunities and areas of growth in order to diversify our offering to customers. The board invests significant time in formulating, reviewing and communicating strategy effectively to those delivering it

ASDA Stores Limited

DIRECTORS' REPORT (CONTINUED)

Events since the balance sheet date

Change in rate of taxation

The Finance Act 2011 received Royal Assent on 19 July 2011 and enacted a reduction in the main rate of corporation tax to 25% with effect from 1 April 2012. Deferred tax has therefore been provided at 25%.

It was subsequently announced in the Budget 2012, that the main rate of corporation tax effective from 1 April 2012 will be 24%. It is also currently expected that further reductions of 1% per annum will result in a decrease in the main rate of corporation tax to 22% from April 2014. The reduction in the corporation tax rate to 24% from 1 April 2012 was enacted by the use of the Provisional Collection of Taxes Act 1968 on 26 March 2012.

Business combinations

On 26 April 2012, ASDA acquired the sourcing division of GAAT, which manages the sourcing of clothing for George in countries including Turkey, Sri Lanka and Egypt. The transaction will help the company extend its sourcing capabilities and become even more responsive in delivering style, quality and value as the business expands in the UK and worldwide.

Capital management

As a wholly owned subsidiary, the capital of the company is monitored in accordance with the overall capital management policy of the ultimate parent company Wal-Mart Stores, Inc. and the primary objective of ASDA's capital management policy is to be consistent with the requirements of the ultimate parent.

A key element of funding is through intercompany loans which can change from time to time. The consolidated financial statements of the ultimate parent company disclose how the Wal-Mart group define and manage capital and meet the group capital objectives.

Innovation

Essential to our success is the delivery of innovative, good value products, which are unique to ASDA. Buying teams, food technologists and marketers, working closely with suppliers, are continuously searching to improve the quality of our products and to develop new ideas, many of which are sold under the ASDA brand, Smartprice, Extra Special and George labels as well as the Chosen By You brand which was launched in 2010. We also benefit from synergies in research and development from being part of the Wal-Mart group.

Policy and practice on payment of creditors

ASDA 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 our policy to abide by these terms when satisfactory invoices have been received.

ASDA Stores Limited

DIRECTORS' REPORT (CONTINUED)

Political and charitable contributions

During the year, cash donations to charitable organisations and other community projects totalled £11.9m (2010 £9.3m). ASDA's colleagues, customers and suppliers have collectively raised monies through events including BBC Children In Need, Tickled Pink (supporting Breast Cancer Care & Breast Cancer Campaign), Everyman, Sporting Chance, Pedal Power and Tommy's, the baby charity. ASDA Foundation Limited, ASDA's charitable company, also supported a range of local charities and sustainable local projects. These projects are local cause-related activities, contributing to local charities or causes that our colleagues wish to support. During the year, we also made charitable donations of surplus clothing stocks.

ASDA did not make any political donations during the year (2010 £nil).

Disabled colleagues

ASDA is proud to work in partnership with Remploy, one of the UK's leading providers of specialist employment services for disabled people and people facing complex barriers to employment. Working with Remploy, we continue to deliver on our commitment to recruit and retain colleagues who reflect the customers and the communities that ASDA serves.

We are committed to providing equal employment opportunities for all sections of society and give full and equal consideration to disabled job applicants who have the suitable skills, abilities and potential to fulfil a role.

If an existing colleague becomes disabled, it is our policy, wherever possible, to work with the individual to provide suitable and continuing employment under normal terms and conditions. We are committed to providing equal access to training, career development and promotion to our disabled colleagues.

Colleague involvement

Regular meetings are held between local management and colleagues to allow a free flow of information and ideas. All colleagues are also involved in shaping our People strategy through the Your Voice Survey which provides them with the opportunity to give feedback on all aspects of working at ASDA. During the year, the policy of providing colleagues with information about the business was continued through briefings on the ASDA internal website. As part of our ongoing commitment to training and development we launched the ASDA Academy in 2011, providing all colleagues with a structured development programme.

Directors' liabilities

ASDA has granted an indemnity to each of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity remains in force as at the date of approving the Directors' Report.

The indemnity is controlled and paid centrally by the ultimate parent company.

ASDA Stores Limited

DIRECTORS' REPORT (CONTINUED)

Directors' statement as to disclosure of information to auditors


The directors who were members of the board at the time of approving the Directors' Report are listed at the front of the Directors' Report and financial statements. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information

Re-appointment of auditors

In accordance with Section 485 of the Companies Act 2006, a resolution for the re-appointment of Ernst & Young LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting

On behalf of the board



J J McKenna
Director
21 September 2012

ASDA House
Southbank
Great Wilson Street
Leeds
LS11 5AD

ASDA Stores Limited

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards 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 inappropriate to presume that the company will continue in business.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ASDA STORES LIMITED

We have audited the financial statements of ASDA Stores Limited for the year ended 31 December 2011 which comprise the profit and loss account, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the note of historical cost profits and losses, the balance sheet and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditors' 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.

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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.

Ernst & Young LLP

Christabel Cowling (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds

24-9-12

ASDA Stores Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2011

	<i>Notes</i>	<i>Year Ended 31 December 2011 £m</i>	<i>Year Ended 31 December 2010 £m</i>
Turnover	2	21,661 0	20,535 3
Operating costs	3	(21,197 7)	(20,111 1)
Operating profit		463 3	424 2
Interest receivable and similar income	6	161 1	186 5
Interest payable and similar charges	7	(120 4)	(125 7)
Other finance income	23	2 9	6 8
Profit on ordinary activities before taxation		506 9	491 8
Taxation	8	(138 8)	(163 0)
Profit for the financial year		368 1	328 8

The results above are all attributable to continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 December 2011

	<i>Notes</i>	<i>Year Ended 31 December 2011 £m</i>	<i>Year Ended 31 December 2010 £m</i>
Profit for the year		368 1	328 8
Actuarial gain/(loss) on pension scheme	23	4 4	(123 8)
Movement on deferred tax relating to pension deficit		(3 6)	33 4
Total recognised gains and losses relating to the year		368 9	238 4

ASDA Stores Limited

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 December 2011

	<i>Notes</i>	<i>Year Ended 31 December 2011 £m</i>	<i>Year Ended 31 December 2010 £m</i>
Profit for the year		368 1	328 8
Actuarial gain/(loss) on pension scheme	23	4 4	(123 8)
Movement on deferred tax relating to pension deficit		(3 6)	33 4
Net increase in shareholders' funds		368 9	238 4
Opening shareholders' funds		4,255 1	4,016 7
Closing shareholders' funds		4,624 0	4,255 1

NOTE OF HISTORICAL COST PROFITS AND LOSSES

for the year ended 31 December 2011

	<i>Year Ended 31 December 2011 £m</i>	<i>Year Ended 31 December 2010 £m</i>
Profit on ordinary activities before taxation	506 9	491 8
Adjustment of depreciation to historical cost basis	(1 0)	-
Historical cost profit on ordinary activities before taxation	505 9	491 8
Historical cost profit after taxation	367 1	328 8

ASDA Stores Limited

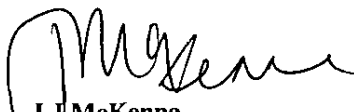
BALANCE SHEET

as at 31 December 2011

REGISTERED NUMBER 464777

		<i>Year Ended 31 December 2011 £m</i>	<i>Year Ended 31 December 2010 £m</i>
	<i>Notes</i>		
FIXED ASSETS			
Intangible assets	9	22 2	23 8
Tangible fixed assets	10	4,544 6	4,407 2
Investments	11	752 2	0 2
		<hr/> 5,319 0	<hr/> 4,431 2
CURRENT ASSETS			
Stocks	12	981 3	992 1
Debtors	13	2,662 9	2,536 1
Cash at bank and in hand		63 0	211 0
		<hr/> 3,707 2	<hr/> 3,739 2
CREDITORS amounts falling due within one year			
Trade and other creditors	14	(4,001 0)	(3,423 9)
Borrowings	18	(0 1)	-
		<hr/> (293 9)	<hr/> 315 3
NET CURRENT (LIABILITIES)/ASSETS			
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 5,025 1	<hr/> 4,746 5
CREDITORS: amounts falling due after more than one year			
Borrowings	18	(4 5)	-
PROVISIONS FOR LIABILITIES AND CHARGES	15	(239 0)	(250 1)
		<hr/> 4,781 6	<hr/> 4,496 4
NET ASSETS EXCLUDING PENSION OBLIGATION			
Defined benefit pension obligation	23	(157 6)	(241 3)
NET ASSETS		<hr/> 4,624 0	<hr/> 4,255 1
CAPITAL AND RESERVES			
Called up share capital	20	594 8	594 8
Share premium account	21	950 3	950 3
Revaluation reserve	21	110 5	111 5
Profit and loss reserve	21	2,968 4	2,598 5
TOTAL SHAREHOLDERS' FUNDS		<hr/> 4,624 0	<hr/> 4,255 1

The financial statements were approved by the board of directors and signed on its behalf by


J J McKenna
 Director
 21 September 2012

ASDA Stores Limited

NOTES TO THE ACCOUNTS

as at 31 December 2011

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements are prepared on the going concern basis as the ultimate holding company has agreed that it will continue to provide financial support to this company to enable it to meet its liabilities as they fall due

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards

In accordance with FRS1 '*Cash Flow Statements*' no cash flow statement has been prepared as the company is a wholly owned subsidiary undertaking of Wal-Mart Stores, Inc which produces a consolidated cash flow statement

In accordance with the exemptions allowed by section 400 of the Companies Act 2006, the company has prepared accounts on a stand alone basis Group accounts have been prepared by ASDA Group Limited, the immediate parent undertaking

TURNOVER

Turnover represents sales to customers through retail outlets and online, excluding value added tax Turnover is recognised net of staff discounts, coupons and the free element of multi-save transactions

INCOME FROM CONCESSIONS AND COMMISSIONS

Income from concessions and commissions is based on the terms of the contract and is included within operating costs

SUPPLIER INCOME

Supplier incentives, rebates and discounts are recognised at the point that they are earned and agreed with the supplier for each relevant contract Amounts are recognised as a deduction in operating costs

INTEREST PAYABLE AND RECEIVABLE

Interest payable and receivable comprises interest payable and interest receivable on funds invested Interest income and interest payable is recognised in the profit and loss account as it accrues, using the effective interest method

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 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

Brands

Up to 20 years

BORROWING COSTS

Borrowing costs are recognised in the company's profit and loss account 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

ASDA Stores Limited

NOTES TO THE ACCOUNTS

as at 31 December 2011

1. ACCOUNTING POLICIES (CONTINUED)

TANGIBLE FIXED ASSETS

The company's tangible fixed assets are included in the balance sheet at cost less depreciation, with exception of its food retailing properties acquired prior to July 1999 which have been included at valuation less depreciation and amounts written off. Assets under the course of construction are included in the balance sheet at cost. In accordance with the transitional provisions of FRS 15 '*Tangible Fixed Assets*' the directors have elected to freeze all future revaluations.

The company's tangible fixed assets are depreciated over their estimated useful lives, on a straight line basis, as follows:

Freehold property	20 - 50 years
Long leasehold property	20 - 50 years
Short leasehold property	Over period of lease
Plant, fixtures and fittings	3 - 15 years

There is no depreciation charged on freehold land. The carrying values of tangible fixed assets are periodically reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

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 profit and loss account.

INVESTMENTS

In the company's accounts, investments in subsidiary undertakings 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.

LEASES

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

COMPANY AS A LESSEE

Leases in which the company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Other leases are classified as operating leases.

Where land and buildings are held under leases the determination of the land is considered separately from that of the buildings.

FINANCE LEASES

Assets acquired by way of a finance lease are recognised at an amount equal to the lower of the fair value and the present value, calculated using the interest rate implicit in the lease, of the minimum lease payments at inception of the lease with a corresponding liability as an obligation to pay future rentals. Lease payments are apportioned between the finance charge and the outstanding obligation so as to produce a constant rate of interest on the remaining balance of the liability.

ASDA Stores Limited

NOTES TO THE ACCOUNTS

as at 31 December 2011

1. ACCOUNTING POLICIES (CONTINUED)

OPERATING LEASES

Rental payments are taken to the profit and loss account on a straight line basis over the life of the lease. Leases that contain predetermined fixed rental increases are accounted such that the increases are recognised on a straight line basis over the life of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

Prepaid operating leases are recognised on a straight line basis over the life of the lease.

COMPANY AS A LESSOR

Assets leased out under operating leases are included in tangible fixed assets and depreciated over their useful economic lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

CASH AT BANK AND IN HAND

Cash and short term deposits comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash at bank and in hand.

TRADE AND OTHER DEBTORS

Debtors are stated at their nominal amount (discounted if material) as reduced by appropriate allowances for estimated irrecoverable amounts. Intercompany receivables are interest bearing (6%-8%), unsecured, with no fixed repayment date.

STOCKS

Stocks comprise goods for sale and are stated at the lower of cost and net realisable value. Goods at warehouses are valued at weighted average cost. Cost includes expenditure incurred in acquiring the stocks and bringing them to their existing location and condition. Stocks at retail outlets are valued at average cost prices.

TRADE AND OTHER CREDITORS

Trade and other creditors, other than intercompany loans, are not interest bearing and are stated at their nominal value. Intercompany payables are interest bearing (6%-8%), unsecured, with no fixed repayment date.

TAXATION

Taxation comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in reserves, in which case it is recognised in reserves.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold, and
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

ASDA Stores Limited

NOTES TO THE ACCOUNTS

as at 31 December 2011

1. ACCOUNTING POLICIES (CONTINUED)

TAXATION (CONTINUED)

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

PROVISIONS

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, and 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.

DEFINED CONTRIBUTION PENSION PLANS

Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account as incurred.

DEFINED BENEFIT PENSION PLANS

The company's net obligation in respect of its defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. The operating and financing costs of the scheme are recognised in the period in which they arise.

In respect of actuarial gains and losses that arise, the company recognises them in full to equity in the period they occur in the statement of total recognised gains and losses.

SHARE BASED PAYMENTS

The share option programme allows company employees to acquire shares of the ultimate parent company, these awards are granted by the company. The fair value of options granted is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The charge is recognised as an employee expense, with a corresponding increase in liabilities. The fair value of the share option is measured based on an option valuation model, taking into account the terms and conditions upon which the instruments were granted. The liability is re-measured at each balance sheet date and at settlement date and any changes in fair value recognised in profit or loss spread equally over the vesting period. These share based payment transactions are considered as cash settled and accounted for in accordance with FRS 20 '*Share-based Payments*'.

FOREIGN CURRENCY

The presentational currency of the company is Sterling. The primary functional currency of the company 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 taken to the profit and loss account.

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.

ASDA Stores Limited

NOTES TO THE ACCOUNTS

as at 31 December 2011

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 estimates and assumptions that have significant risk of causing a material adjustment to the carrying value of assets and liabilities are discussed further below.

JUDGEMENTS

Judgements are made with regard to provisions for litigation (note 14) and property leases (note 17).

ESTIMATES AND ASSUMPTIONS

Pension benefits

The carrying value of the liabilities relating to the defined benefit pension scheme is valued using an actuarial valuation. This valuation is based on assumptions. All the assumptions used are estimates of future events. Further details about the key assumptions used are given in note 23.

Share-based payment transactions

The company estimates fair value for share-based payment transactions depending on the terms and conditions of the grants. This estimate also requires determining the most appropriate inputs to the valuation model including assumptions of the expected life of the share option, share price, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 19.

Additional estimates and assumptions are made with regard to establishing uniform depreciation (note 10), stock net realisable values (note 12) and the likelihood that tax assets can be realised (note 16). Actual results may differ from these estimates.

2. TURNOVER AND SEGMENTAL ANALYSIS

Turnover comprises the value of sales excluding value added tax. Turnover is derived from the principal activities in the United Kingdom. Turnover is recognised net of staff discounts, coupons and the free element of multisave transactions.

The company is engaged in a single reportable operating segment of business, being the operation of retail stores for the sale of food, clothing, home and leisure products in the United Kingdom. The company is not reliant on any individual major customers.

All significant revenue is generated by the sale of goods through retail outlets in the UK. The operations of all product areas of the business are subject to similar economic characteristics and are sold in a similar retail environment.

The company has taken these factors into account and the core principals of SSAP 25 in determining that it has a single reportable operating segment.

ASDA Stores Limited

NOTES TO THE ACCOUNTS

as at 31 December 2011

3. OPERATING PROFIT

Operating profit is stated after (charging)

	<i>Year Ended 31 December 2011 £m</i>	<i>Year Ended 31 December 2010 £m</i>
Cost of inventories recognised as an expense	(16,685 9)	(15,701 7)
Employment costs (note 5)	(2,340 3)	(2,279 0)
Amortisation of intangible assets (note 9)	(1 6)	(2 9)
Depreciation of tangible fixed assets (note 10)		
- Owned assets	(322 1)	(333 9)
- Leased assets	(0 2)	-
Loss on sale of tangible fixed assets	(16 6)	(13 3)
OPERATING LEASE CHARGES		
- Land and buildings	(87 9)	(82 0)
- Plant and machinery	(47 5)	(45 4)
	(135 4)	(127 4)
AMOUNTS PAID TO AUDITORS		
- Fees payable to the company's auditors for the audit of the company financial statements	(0 3)	(0 3)

4. DIRECTORS' REMUNERATION

	<i>Year Ended 31 December 2011 £'000</i>	<i>Year Ended 31 December 2010 £'000</i>
Total directors' remuneration excluding pension costs	6,705	6,573
Post employment benefits	54	766
	<i>No</i>	<i>No</i>
Number of directors who are members of the defined benefit scheme	6	9
Number of directors who exercised share options	5	8
Number of directors entitled to receive shares under long term incentive schemes	5	4
Amounts in respect of the highest paid director are as follows	<i>£'000</i>	<i>£'000</i>
Total remuneration excluding pensions	1,415	1,278
Post employment benefits	19	82
Accumulated total accrued pension entitlement	44	101

The highest paid director exercised share options during the year and received shares from qualifying services under a long term incentive scheme

ASDA Stores Limited

NOTES TO THE ACCOUNTS

as at 31 December 2011

4. DIRECTORS' REMUNERATION (CONTINUED)

The remuneration of the directors was in respect of their services to the Broadstreet Great Wilson Europe Group (the highest UK holding company in which the company is consolidated) as a whole. It is not possible to allocate their remuneration to the companies within the group.

5. EMPLOYMENT COSTS

	<i>Year Ended 31 December 2011 £m</i>	<i>Year Ended 31 December 2010 £m</i>
Wages and salaries	2,081.5	2,052.9
Share based payments (note 19)	34.6	16.7
Social security costs	123.9	124.0
Other pension costs	100.3	85.4
	<u>2,340.3</u>	<u>2,279.0</u>

	Number of employees	
	<i>Year Ended 31 December 2011</i>	<i>Year Ended 31 December 2010</i>
<i>Total</i>		
- Retail & Distribution	173,035	169,287
- Home offices	3,418	3,171
	<u>176,453</u>	<u>172,458</u>
<i>Full time equivalents</i>		
- Retail & Distribution	109,456	107,465
- Home offices	3,313	3,083
	<u>112,769</u>	<u>110,548</u>

ASDA Stores Limited

NOTES TO THE ACCOUNTS

as at 31 December 2011

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	<i>Year Ended</i> <i>31 December</i> <i>2011</i> <i>£m</i>	<i>Year Ended</i> <i>31 December</i> <i>2010</i> <i>£m</i>
Bank interest receivable	0.1	1.6
Interest receivable from group undertakings	161.0	184.9
	<u>161.1</u>	<u>186.5</u>

7. INTEREST PAYABLE AND SIMILAR CHARGES

	<i>Year Ended</i> <i>31 December</i> <i>2011</i> <i>£m</i>	<i>Year Ended</i> <i>31 December</i> <i>2010</i> <i>£m</i>
Interest payable to group undertakings	(120.8)	(125.7)
Finance lease interest	(0.2)	-
Interest capitalised	0.6	-
	<u>(120.4)</u>	<u>(125.7)</u>

ASDA Stores Limited

NOTES TO THE ACCOUNTS

as at 31 December 2011

8. TAXATION

The charge to UK corporation tax for the year arises as follows

	<i>Year Ended 31 December 2011 £m</i>	<i>Year Ended 31 December 2010 £m</i>
CURRENT TAX		
UK corporation tax on profit for the year	120.3	161.5
Adjustments in respect of prior periods	2.6	16.1
TOTAL CURRENT TAX CHARGE	122.9	177.6
DEFERRED TAX		
Origination and reversal of timing differences	(11.1)	(11.8)
Adjustments in respect of prior periods	5.9	0.3
Reduction in deferred tax asset relating to pension obligation	30.7	3.0
Effect of rate change	(9.6)	(6.1)
TOTAL DEFERRED TAX CHARGE/(CREDIT) (NOTE 16)	15.9	(14.6)
TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES	138.8	163.0

A reconciliation of the current tax charge compared to the standard rate of corporation tax in the UK of 26.5% (2010: 28%) applied to the profit on ordinary activities before tax is as follows

	<i>Year Ended 31 December 2011 £m</i>	<i>Year Ended 31 December 2010 £m</i>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	506.9	491.8
PROFIT ON ORDINARY ACTIVITIES MULTIPLIED BY THE STANDARD RATE OF UK CORPORATION TAX OF 26.5% (2010: 28%)	134.3	137.7
Effects of		
Accelerated capital allowances and other timing differences	11.1	11.4
Non-qualifying depreciation	9.2	12.3
Loss on sale of non-qualifying assets	1.9	0.9
Permanent differences	(5.5)	(0.3)
Pension contributions in excess of profit and loss charge	(30.7)	(0.9)
Prior period adjustments	2.6	16.1
Change in tax rate	-	0.4
CURRENT TAX CHARGE FOR YEAR	122.9	177.6

ASDA Stores Limited

NOTES TO THE ACCOUNTS

as at 31 December 2011

8. TAXATION (CONTINUED)

The Finance Act 2011 received Royal Assent on 19 July 2011 and enacted a reduction in the main rate of corporation tax to 25% with effect from 1 April 2012. Deferred tax has therefore been provided at 25%.

Following the Budget on 21 March 2012, the main rate of corporation tax was further reduced to 24% with effect from 1 April 2012. It has also been announced that the main rate of corporation tax rate will further reduce by 1% per annum down to 22% by 1 April 2014. These reductions were not substantively enacted at the balance sheet date. If these changes had been substantively enacted the deferred tax liability would have reduced by £21.2m.

In addition, Finance Act 2011 introduced changes to the capital allowances regime, including a reduction in the rate of capital allowances on plant and machinery additions from 20% to 18% with effect from 1 April 2012.

9. INTANGIBLE ASSETS

	<i>Brand</i> <i>£m</i>
COST	
At 1 January 2011 and 31 December 2011	31.7
	<hr/>
AMORTISATION	
At 1 January 2011	7.9
Amortisation during the year	1.6
	<hr/>
At 31 December 2011	9.5
	<hr/>
NET BOOK VALUE	
At 31 December 2011	22.2
	<hr/>
At 31 December 2010	23.8
	<hr/>

The George brand is being amortised on a straight line basis over its estimated useful life of 20 years.

ASDA Stores Limited

NOTES TO THE ACCOUNTS as at 31 December 2011

10. TANGIBLE FIXED ASSETS

	<i>Freehold properties £m</i>	<i>Leasehold properties £m</i>	<i>Plant, fixtures and fittings £m</i>	<i>Total £m</i>
COST				
At 1 January 2011	3,614.0	446.1	2,508.0	6,568.1
Additions	383.3	17.9	253.9	655.1
Disposals	(12.8)	(2.6)	(483.5)	(498.9)
Transfers to other group undertakings	(236.8)	27.0	2.4	(207.4)
At 31 December 2011	3,747.7	488.4	2,280.8	6,516.9
DEPRECIATION				
At 1 January 2011	429.6	165.6	1,783.7	2,378.9
Charge for the year	82.4	23.9	216.0	322.3
Disposals	(1.8)	(1.2)	(479.4)	(482.4)
Transfers to other group undertakings	(1.6)	1.0	0.1	(0.5)
At 31 December 2011	508.6	189.3	1,520.4	2,218.3
Net book amounts at 31 December 2011	3,239.1	299.1	760.4	4,298.6
Assets under construction at 31 December 2011				246.0
NET BOOK VALUE AT 31 DECEMBER 2011				4,544.6
Net book amounts at 31 December 2010	3,184.4	280.5	724.3	4,189.2
Assets under construction at 31 December 2010				218.0
NET BOOK VALUE AT 31 DECEMBER 2010				4,407.2

Assets held under finance leases and capitalised in leasehold properties

	2011 £m	2010 £m
Cost	13.0	-
Accumulated depreciation	(0.2)	-
Net book value	12.8	-

ASDA Stores Limited

NOTES TO THE ACCOUNTS

as at 31 December 2011

10. TANGIBLE FIXED ASSETS (CONTINUED)

Food retailing properties acquired before 1 June 1999 were revalued at 1 June 1999 by External Valuers, Messrs G L Hearn and Partners, Chartered Surveyors. The open market valuations were carried out on the basis of "Existing Use Value" as defined in Practice Statement 4 of, and in accordance with the RICS Appraisal and Valuation Manual (the New Red Book) published by the Royal Institute of Chartered Surveyors, with the exception of certain superstores which, in the opinion of the directors, had a limited future economic life in existing use. In respect of these properties, the directors estimated their lower, alternative use value.

In accordance with the transitional provisions of FRS 15 'Tangible Fixed Assets', the directors have elected to freeze all future revaluations and the revalued assets have not been restated to their historical cost.

The cumulative amount of capitalised interest included in the cost of fixed assets is £0.6m (2010: £nil). Details of interest capitalised during the year are included in note 7.

The historical cost of food retailing properties included at valuation is as follows:

	31 December 2011 £m	31 December 2010 £m
Freehold properties	240.0	240.0

11. INVESTMENTS

	£m
Cost and net book value at 1 January 2011	0.2
Additions	752.0
Cost and net book value at 31 December 2011	752.2

In the directors' opinion, the aggregate values of net assets of these subsidiaries are not less than the carrying value of the investment recorded in the balance sheet.

On 13 April 2011, the company acquired 100% of the voting shares of Netto Foodstores Limited, a retailer of food and household goods based in the United Kingdom. The transaction enabled the company to convert Netto's UK locations into ASDA stores. The total consideration of £752 million was satisfied in cash which was funded through an intercompany loan from a fellow subsidiary of the company's ultimate parent company. Following conversion of the Netto stores into ASDA format, the store assets were transferred into the company at book value and commenced trading as ASDA stores.

Subsidiary undertakings

	Country of incorporation	% of equity held
International Produce Limited	United Kingdom	100
Netto Foodstores Limited	United Kingdom	100
Asda Storage Limited	United Kingdom	100
Essencerealm Limited	United Kingdom	100
Ever 1295 Limited	United Kingdom	100
Nordicline Limited	United Kingdom	100
Asda Supermarkets Limited	United Kingdom	100
Forza Foods Limited	United Kingdom	0
Kober Limited	United Kingdom	0

ASDA Stores Limited

NOTES TO THE ACCOUNTS as at 31 December 2011

12. STOCKS

	<i>31 December 2011 £m</i>	<i>31 December 2010 £m</i>
Goods held for resale	979.3	990.3
Goods not held for resale	2.0	1.8
	<u>981.3</u>	<u>992.1</u>

13. DEBTORS

	<i>31 December 2011 £m</i>	<i>31 December 2010 £m</i>
Trade debtors	123.0	136.5
Amounts owed by group undertakings	2,362.4	2,224.3
Other debtors	31.9	35.0
Prepayments and accrued income	123.3	114.3
Taxation	22.3	26.0
	<u>2,662.9</u>	<u>2,536.1</u>

14. CREDITORS: amounts falling due within one year

	<i>31 December 2011 £m</i>	<i>31 December 2010 £m</i>
Trade creditors	1,902.4	2,039.7
Amounts owed to group undertakings	1,224.1	531.1
Amounts owed to ultimate parent company	53.6	97.6
Other taxes and social security	206.1	186.4
Other creditors	143.8	129.6
Accruals	471.0	439.5
	<u>4,001.0</u>	<u>3,423.9</u>

The company 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 company's policy to abide by these terms when satisfactory invoices have been received.

Included within accruals at the prior year end was an allowance for costs associated with the Office of Fair Trading ('OFT') inquiries into alleged Dairy and Tobacco pricing activities. During 2011 a fine was imposed by the OFT on several sellers in respect of pricing of Dairy products. In December 2011 the Competition Appeals Tribunal upheld our appeal in respect of Tobacco.

The amounts included in the financial statements were not disclosed on the basis that to do so would have been inappropriate given that the investigation had not concluded on Dairy and the OFT decision on Tobacco had been appealed to the Competition Appeals Tribunal. The allowances attributable to these cases were fully utilised or released in the year.

ASDA Stores Limited

NOTES TO THE ACCOUNTS

as at 31 December 2011

15. PROVISION FOR LIABILITIES AND CHARGES

	<i>31 December 2011 £m</i>	<i>31 December 2010 £m</i>
Deferred taxation (note 16)	147.9	165.2
Provisions (note 17)	91.1	84.9
	<u>239.0</u>	<u>250.1</u>

16. DEFERRED TAXATION

	<i>31 December 2011 £m</i>	<i>31 December 2010 £m</i>
AMOUNT PROVIDED		
Accelerated capital allowances	172.5	188.6
Pension costs	(0.2)	(0.2)
Origination and reversal of timing differences	(24.4)	(23.2)
	<u>147.9</u>	<u>165.2</u>

MOVEMENT IN DEFERRED TAX PROVISION

At 1 January 2011	165.2
Provision charged through the profit and loss account (note 8)	15.9
Less FRS17 charge to deferred tax included in net pension obligations	(33.2)
At 31 December 2011	<u>147.9</u>

Deferred tax has been provided at 25% (2010 27%)

No provision has been made for deferred tax on potential capital gains which would arise as a consequence of the disposal of properties at revalued amounts as any capital gain should be covered by indexation allowance, rollover relief or capital losses. The company considers it impractical to quantify the amount of tax which would arise if rollover relief was not available.

Corporation tax of £16.4m (2010 £17.0m) has been deferred as a consequence of rollover relief claims made in respect of the disposal of certain fixed assets in prior periods.

No provision has been made for deferred tax on accumulated capital losses in the company of £39.0m (2010 £39.0m) as the likelihood of future use cannot be determined with certainty.

ASDA Stores Limited

NOTES TO THE ACCOUNTS as at 31 December 2011

17. PROVISIONS

	<i>Share option provision £m</i>	<i>Property provision £m</i>	<i>Total £m</i>
At 1 January 2011	62.9	22.0	84.9
Provided during the year	34.6	4.2	38.8
Utilised during the year	(26.4)	(6.2)	(32.6)
At 31 December 2011	71.1	20.0	91.1

Detailed disclosures relating to the share option provision are shown in note 19

The property provision represents onerous lease provisions for lease obligations arising from discontinued activities. The majority of this liability is expected to crystallise in the next 5 years. Also included are provisions for asset retirement obligations.

The prior year numbers have been restated to include asset retirement obligations which were previously included within accruals.

18. BORROWINGS

	<i>31 December 2011 £m</i>	<i>31 December 2010 £m</i>
<i>Finance lease obligation</i>		
Less than one year	0.1	-
Between one and five years	0.3	-
After five years	4.2	-
	4.6	-
<i>Obligations under finance leases</i>		
	<i>31 December 2011 £m</i>	<i>31 December 2010 £m</i>
<i>Future minimum payments due</i>		
No later than one year	0.6	-
Later than one year and no later than five years	2.3	-
Later than five years	9.9	-
	12.8	-
Lease finance charges allocated to future periods	(8.2)	-
Present value of minimum lease payments	4.6	-

ASDA Stores Limited

NOTES TO THE ACCOUNTS

as at 31 December 2011

19. SHARE BASED PAYMENTS

These share based payment transactions are considered as cash settled and accounted for in accordance with FRS 20 'Share-based payments'

The company offers five share based payment schemes to employees to enable them to own shares in the ultimate parent company. Three of these schemes involve the granting of options to employees to acquire shares in the ultimate parent company at predetermined exercise prices and two of the schemes involve the granting of rights to receive shares in the ultimate parent company for nil consideration. The executive performance share plan has performance conditions relating to the total payout of options issued, no other scheme has any performance conditions attached to the scheme.

The total expenses recognised for the year arising from share based payments and the associated amounts recognised in the balance sheet are as follows

	2011 £m	2010 £m
Cash-settled share based payment charge	34.6	16.7
Total carrying amount of liabilities	71.1	62.9

The number and weighted average exercise prices of all share options are as follows

	Weighted average exercise price £ 2011	Number of options (thousands) 2011	Weighted average exercise price £ 2010	Number of options (thousands) 2010
Outstanding at the beginning of the period	28.79	10,142	27.69	12,547
Exercised during the period	27.08	(3,631)	27.67	(3,271)
Granted during the period	26.05	1,953	29.20	1,824
Lapsed during the period	28.57	(1,151)	29.12	(958)
Outstanding at the end of the period	28.68	7,313	28.79	10,142
Exercisable at the end of the period	31.75	1,572	32.25	2,526

Share options were exercised on a regular basis throughout the year. The average share price during the year to 31 December 2011 was £33.89 (2010: £34.32). The related shares are denominated in US dollars being the reporting currency of the ultimate parent company. The sterling exercise price of the Sharesave scheme options is fixed at the exchange rate on issue, for all other schemes the exercise price is denominated in US dollars and the sterling equivalent is translated based on the current exchange rate.

ASDA Stores Limited

NOTES TO THE ACCOUNTS

as at 31 December 2011

19. SHARE BASED PAYMENTS (CONTINUED)

Sharesave scheme

The scheme has been in existence for employees since 1982 and gained HMRC approval in 2000. Employees with six months service are invited to join the scheme annually. Options are granted annually to employees who elect to join, and are exercisable in three or five years from date of grant, depending on the year of grant. Currently only three year grants are being offered. The exercise of options under this scheme are treated as cash-settled.

Number of options (thousands)	31 December 2011			Number of options (thousands)	31 December 2010		
	Range of exercise price £	Weighted average exercise price £	Weighted average remaining contractual life (years)		Range of exercise price £	Weighted average exercise price £	Weighted average remaining contractual life (years)
4,342	19.95 to 29.05	27.53	1.36	4,445	19.87 to 29.05	25.82	1.4

The fair value of the options outstanding under the Sharesave scheme at 31 December 2011 is £23.2m (2010 £23.8m)

Colleague Share Option Plan (CSOP) scheme

The scheme has been in existence for employees since 1995 and gained HMRC approval in 1999. Options were granted every three years to employees who are not eligible for share options under the Wal-Mart Stock Incentive Plan, and are exercisable in three or six years from date of grant, depending on the year of grant. The options under this scheme are treated as cash-settled.

Number of options (thousands)	31 December 2011			Number of options (thousands)	31 December 2010		
	Exercise price £	Weighted average exercise price £	Weighted average remaining contractual life (years)		Range of exercise price £	Weighted average exercise price £	Weighted average remaining contractual life (years)
1,082	28.64	28.64	0.59	2,326	28.50 to 35.81	30.06	1.1

The fair value of the options outstanding under the CSOP scheme at 31 December 2011 is £9.0m (2010 £7.8m)

Wal-Mart Stock Incentive Plan (WSIP) scheme

The scheme has been in existence since 1999. Options are granted to employees annually and are exercisable in five or seven years from date of grant, depending on the grant agreement. The exercise of options under this scheme are treated as cash-settled.

Number of options (thousands)	31 December 2011			Number of options (thousands)	31 December 2010		
	Range of exercise price £	Weighted average exercise price £	Weighted average remaining contractual life (years)		Range of exercise price £	Weighted average exercise price £	Weighted average remaining contractual life (years)
1,889	28.38 to 37.71	31.74	0.24	3,371	28.24 to 37.53	31.82	0.5

The fair value of the options outstanding under the WSIP scheme at 31 December 2011 is £13.8m (2010 £8.0m)

ASDA Stores Limited

NOTES TO THE ACCOUNTS

as at 31 December 2011

19. SHARE BASED PAYMENTS (CONTINUED)

Restricted Stock Rights (RSR) scheme

The scheme was introduced in 2008 as an alternative to the WSIP scheme. Under the RSR scheme, employees are awarded the right to receive a pre-determined number of shares in the ultimate parent company three years from the award date. All RSRs are classed as unapproved for an Income Tax and National Insurance perspective. RSR awards are treated as cash-settled.

The number of share awards under the RSR scheme is as follows:

	Number of options (thousands) 2011	Number of options (thousands) 2010
Outstanding at the beginning of the year	792	582
Exercised during the year	(236)	-
Conditionally granted during the year	469	322
Lapsed during the year	(77)	(112)
Outstanding at the end of the year	948	792
Vested at the end of the year	236	-

The fair value of the options outstanding under the RSR scheme at 31 December 2011 is £14.4m (2010: £10.3m).

Performance share plan (PSP) scheme

The company offers a performance share plan (PSP) scheme, for which conditions exist in relation to exercise as described below.

The scheme came into existence on 20 July 2006. Under the scheme, selected executives were granted the right to receive shares in Wal-Mart Stores Inc. provided certain pre-determined performance goals are met.

In 2011 and 2010, these pre-determined goals were in respect of sales growth and return on investment. All share awards under the PSP scheme have been issued for nil consideration and have a contractual life of between 1 and 3 years. The share awards under this scheme are treated as cash-settled.

The number of share options under the PSP scheme is as follows:

	Number of options (thousands) 2011	Number of options (thousands) 2010
Outstanding at the beginning of the year	534	627
Exercised during the year	(123)	(167)
Conditionally granted during the year	108	246
Lapsed during the year	(188)	(172)
Outstanding at the end of the year	331	534
Vested at the end of the year	123	-

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as at 31 December 2011

19. SHARE BASED PAYMENTS (CONTINUED)

The fair value of the options outstanding under the PSP scheme at 31 December 2011 is £10.7m (2010 £13.0m)

The fair value of share options is measured using a Black-Scholes model taking into account the terms and conditions upon which the instruments were granted

The following table gives the weighted average assumptions applied to the options outstanding in the respective periods shown

	2011	2010
Expected dividend yield (%)	2.93	2.30
Expected volatility (%)	15.25	17.10
Risk free interest rate (%)	0.28	1.77
Weighted average fair value of options granted (£)	9.66	12.53
Weighted average share price (£)	28.79	28.04
Expected life of option (years)	0.95	3.07

Volatility is a measure of the amount by which a price is expected to fluctuate during the year. The company has used historical volatilities that correlate with the expected term of the options.

Share options are exercisable in US dollars and the risk free interest rate is based on the applicable US Treasury rate.

20. CALLED UP SHARE CAPITAL

Allotted, called up and fully paid	No	£m
At 31 December 2011 and 31 December 2010		
Ordinary shares of £1 each	28,008,978	28.0
Redeemable ordinary shares of £1 each	566,781,240	566.8
	<u>594,790,218</u>	<u>594.8</u>

Redeemable ordinary shares

The redeemable ordinary shares rank in all respects *pari passu* with, and have the same rights as the ordinary shares except that they are redeemable at par together with any arrears or accruals of dividend calculated down to and including the due date for redemption.

The redeemable shares are redeemable at the option of the company on or before 31 December 2099.

ASDA Stores Limited

NOTES TO THE ACCOUNTS as at 31 December 2011

21. RESERVES

	<i>Share capital</i>	<i>Share premium</i>	<i>Revaluation reserve</i>	<i>Profit and loss reserve</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
At 1 January 2011	594.8	950.3	111.5	2,598.5	4,255.1
Profit for the year	-	-	-	368.1	368.1
Transfer of historical cost	-	-	(1.0)	1.0	-
Actuarial gain on pension scheme	-	-	-	4.4	4.4
Deferred tax movement relating to pension scheme	-	-	-	(3.6)	(3.6)
At 31 December 2011	594.8	950.3	110.5	2,968.4	4,624.0

22. CAPITAL AND FINANCIAL COMMITMENTS

As at 31 December 2011, the company had entered into contracts to purchase property, plant and equipment for £11.4m (2010 £13.9m)

The company is committed to purchase electricity under contracts with a number of providers. As at 31 December 2011, the commitment for the purchase of electricity under these contracts totalled £55.4m (2010 £37.4m)

As at 31 December 2011, the company had entered into contracts to purchase US dollars for £344.2m (2010 £294.8m)

The annual commitment under non-cancellable operating leases in respect of land and buildings are as follows

	<i>31 December 2011 £m</i>	<i>31 December 2010 £m</i>
Within one year	0.4	1.1
Within two to years	4.3	3.7
After five years	85.8	82.1
	90.5	86.9

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as at 31 December 2011

22. CAPITAL AND FINANCIAL COMMITMENTS (CONTINUED)

The annual commitment under non-cancellable operating leases in respect of plant and machinery are as follows

	<i>31 December 2011 £m</i>	<i>31 December 2010 £m</i>
Within one year	6.4	6.6
Within two to years	20.3	20.9
After five years	3.3	3.5
	<u>30.0</u>	<u>31.0</u>

23. PENSIONS

The company operates both defined benefit and defined contribution pension schemes. The assets of the defined contribution plan are invested with the Prudential Life Assurance company whilst the assets of the defined benefit pension scheme are placed by the trustees under the management of a number of professional fund managers. The assets of these schemes are held separately from the company's assets.

The trustee body of the defined benefit scheme is made up of eleven trustees: five of these are member nominated trustees including one pensioner, four are company appointed, and there are two professional independent trustees. There are two defined contribution plans: one trust based, and one contract based. On the trust based plan, the trustee body is made up of nine trustees: four of these are member nominated, four are company appointed, and there is one professional independent trustee. There is a governance group in place which monitors the running of the contract based plan. This has six members: two are nominated by colleagues, and four are company appointed.

The company and trustee body undertook a review of the company's pension arrangements and to ensure the long term sustainability of these arrangements, with effect from 12 February 2011, it was agreed to close the defined benefit scheme to future accrual and to remove the link between past service benefits and future salary increases. As a result of the closure, plan participants became eligible to join one of ASDA's existing defined contribution schemes the benefits for which were enhanced. The company paid £43.0m at the closure date to facilitate transition of active members to the replacement pension arrangements and agreed an enhanced schedule of employer contributions to reduce the pension deficit. The decision to close the defined benefit pension scheme also gave rise to a pension curtailment gain of £57m.

The company's ultimate parent company Wal-Mart Stores, Inc., guarantees ASDA Stores' obligations to the pension scheme up to a maximum amount of £900m. This guarantee has no time limit.

The pension cost relating to the defined benefit pension scheme is assessed in accordance with the advice of an independent qualified actuary who conducted a full triennial actuarial valuation as at 5 April 2010 and updated the results of this valuation in accordance with FRS 17 'Retirement Benefits' for the year ended 31 December 2011. Funding levels are monitored on a regular basis in between triennial valuations.

ASDA Stores Limited

NOTES TO THE ACCOUNTS

as at 31 December 2011

23. PENSIONS (CONTINUED)

Principal actuarial assumptions (expressed as weighted averages)

	31 December 2011	31 December 2010
Discount rate	4.70%	5.30%
Inflation assumption		
- RPI	3.10%	3.60%
- CPI	2.40%	3.20%

As the defined benefit scheme closed to future accrual in the year, future salary increases is no longer a principal actuarial assumption in the year

To develop the expected long-term rate on assets assumptions, the company considered the current level of expected return on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the asset allocations of the scheme to develop the expected long-term rate of return on assets assumptions for the portfolio. This resulted in the selection of the assumptions shown above.

The assets in the scheme and the expected rate of return were

	31 December 2011 £m	31 December 2010 £m
Equity securities	7.8% 578.5	7.1% 681.6
Debt securities	3.1% 350.7	4.3% 215.4
Property	7.8% 49.9	7.1% 35.5
Other	4.7% 420.8	5.8% 334.4
Total market value of assets	1,399.9	1,266.9
Actuarial value of liability	(1,610.0)	(1,597.4)
Total deficit in the scheme	(210.1)	(330.5)
Related deferred tax asset	52.5	89.2
Net pension liability	(157.6)	(241.3)

ASDA Stores Limited

NOTES TO THE ACCOUNTS as at 31 December 2011

23. PENSIONS (CONTINUED)

Movements in present value of defined benefit obligation

	2011 £m	2010 £m
At 1 January	(1,597.4)	(1,322.7)
Current service cost	(6.6)	(53.9)
Interest cost	(82.1)	(74.4)
Actuarial losses	(8.9)	(182.7)
Benefits paid	28.0	36.4
Contributions by members	-	(0.1)
Curtailment gain	57.0	-
	<hr/>	<hr/>
At 31 December	(1,610.0)	(1,597.4)
	<hr/>	<hr/>

Movements in fair value of plan assets

	2011 £m	2010 £m
At 1 January	1,266.8	1,112.7
Expected return on plan assets	85.0	81.2
Actuarial gains	13.3	58.9
Contributions by employer	62.8	50.3
Contributions by members	-	0.1
Benefits paid	(28.0)	(36.4)
	<hr/>	<hr/>
At 31 December	1,399.9	1,266.8
	<hr/>	<hr/>

Analysis of the amount charged to operating profit

	31 December 2011 £m	31 December 2010 £m
Curtailment gain recognised	57.0	-
Current service cost	(6.6)	(53.9)
Transition payment to active members	(35.7)	-
	<hr/>	<hr/>
Total	14.7	(53.9)
	<hr/>	<hr/>

ASDA Stores Limited

NOTES TO THE ACCOUNTS

as at 31 December 2011

23. PENSIONS (CONTINUED)

Analysis of the amount credited to other finance income

	<i>31 December 2011 £m</i>	<i>31 December 2010 £m</i>
Expected return on pension scheme assets	85 0	81 2
Interest on pension liabilities	(82 1)	(74 4)
Net return	<u>2 9</u>	<u>6 8</u>

Analysis of amount recognised in statement of total recognised gains and losses

	<i>31 December 2011 £m</i>	<i>31 December 2010 £m</i>
Actual return less expected return on assets	13 3	58 9
Experience gains and losses on liabilities	(0 4)	(61 7)
Changes in assumptions	(8 5)	(121 0)
	<u>4 4</u>	<u>(123 8)</u>

Movement in deficit during the year

	<i>31 December 2011 £m</i>	<i>31 December 2010 £m</i>
At 1 January	(330 5)	(209 9)
Current service cost	(6 6)	(53 9)
Contributions by employer	62 7	50 2
Contributions by members	-	0 1
Other finance income	2 9	6 8
Actuarial losses	4 4	(123 8)
Curtailment gain	57 0	-
At 31 December	<u>(210 1)</u>	<u>(330 5)</u>

The actuarial valuation at 31 December 2011 showed a decrease in the deficit from £330 5m to £210 1m

The Company expects to contribute approximately £85 0m to its defined benefit scheme in the next financial year

ASDA Stores Limited

NOTES TO THE ACCOUNTS

as at 31 December 2011

23. PENSIONS (CONTINUED)

History of experience gains and losses

	31 December 2011 £m	31 December 2010 £m	31 December 2009 £m	31 December 2008 £m	31 December 2007 £m
<i>Difference between actual and expected return on scheme assets</i>					
Amount	13.3	58.9	24.0	(331.2)	(10.1)
Percentage of scheme assets	1.0%	4.6%	2.2%	(34.0%)	(1.0%)
<i>Experience gains and losses on scheme liabilities</i>					
Amount	(0.4)	(61.7)	(3.1)	-	2.4
Percentage of scheme liabilities	0.0%	(3.9%)	(0.3%)	-	0.0%
<i>Total amount recognised in statement of total recognised gains and losses</i>					
Amount	4.4	(123.8)	(206.0)	(25.5)	40.3
Percentage of scheme assets	0.3%	(9.8%)	(18.5%)	(3.0%)	3.0%
Present value of funded defined benefit obligations	(1,610.0)	(1,597.4)	(1,322.7)	(1,016.8)	(1,217.6)
Fair value of plan assets	1,399.9	1,266.8	1,112.7	987.4	1,200.1
Recognised liability for defined benefit obligations	(210.1)	(330.6)	(210.0)	(29.4)	(17.5)

The company operates two defined contribution schemes and a defined benefit pension scheme. The assets of the schemes are held separately from those of the company in an independently administered fund. There were no unpaid contributions outstanding at the current or prior year end for the defined contribution schemes. The charge for the year for the defined contribution schemes is £58.0m (2010 £31.5m).

24. RELATED PARTY TRANSACTIONS

As a wholly owned subsidiary, the company has taken advantage of the exemption in FRS 8 'Related Party Disclosures' from disclosing transactions with other wholly owned subsidiaries of the Broadstreet Great Wilson Europe Limited group.

25. PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking is ASDA Group Limited, a company incorporated in England and Wales.

The smallest group at which consolidated financial statements are prepared is ASDA Group Limited. Copies of these financial statements are available from the registered office, ASDA House, Southbank, Great Wilson Street, Leeds, LS11 5AD.

In the directors' opinion, the ultimate parent undertaking and controlling party is Wal-Mart Stores, Inc, which is incorporated in the USA. Copies of its consolidated financial statements, which include this company, can be obtained from the Company Secretary, Wal-Mart Stores, Inc, Corporate Offices, 702 SW 8th Street, Bentonville, AR72716, USA.

ASDA Stores Limited

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as at 31 December 2011

26. EVENTS SINCE THE BALANCE SHEET DATE

Change in rate of taxation

The Finance Act 2011 received Royal Assent on 19 July 2011 and enacted a reduction in the main rate of corporation tax to 25% with effect from 1 April 2012. Deferred tax has therefore been provided at 25%.

It was subsequently announced in the Budget 2012, that the main rate of corporation tax effective from 1 April 2012 will be 24%. It is also currently expected that further reductions of 1% per annum will result in a decrease in the main rate of corporation tax to 22% from April 2014. The reduction in the corporation tax rate to 24% from 1 April 2012 was enacted by the use of the Provisional Collection of Taxes Act 1968 on 26 March 2012.

Business combinations

On 26 April 2012, the company acquired the sourcing division of GAAT, which manages the sourcing of clothing for George in countries including Turkey, Sri Lanka and Egypt. The transaction will help the Group extend its sourcing capabilities and become even more responsive in delivering style, quality and value as the business expands in the UK and worldwide.