

ASDA Group Limited

Directors' report and financial  
statements

Registered number 1396513  
31 December 2010

THURSDAY



\*A5C3RXYG\*

A08

29/09/2011

135

COMPANIES HOUSE

**DIRECTORS**

A J Bond	resigned 1 January 2011
J J McKenna	
A Clarke	
D Blackhurst	resigned 14 October 2010
R Bendel	
A Thompson	resigned 30 March 2010
D Gurr	resigned 1 January 2011
C Kuchinad	resigned 14 March 2011
A J Moore	appointed 30 March 2010
C R Redfield	appointed 18 October 2010
S King	appointed 28 February 2011

**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

**REGISTRARS**

Lloyds TSB Registrars  
54 Pershore Road South  
Birmingham  
B30 3EP

**BANKERS**

National Westminster Bank plc  
Leeds City Office  
8 Park Row  
Leeds  
LS1 1QS

## Contents

Directors' report	1
Directors' responsibilities statement	8
Independent auditors' report to the members of ASDA Group Limited	9
Consolidated income statement	10
Consolidated statement of comprehensive income	10
Consolidated balance sheet	11
Consolidated statement of changes in equity	12
Consolidated statement of cash flows	13
Notes	14
ASDA Group Limited – Parent Company	
Directors' responsibilities statement	52
Independent auditors' report to the members of ASDA Group Limited	53
Company balance sheet	54
Notes	55

## **Directors' report**

The directors present their directors' report and financial statements for the year ended 31 December 2010

### **Principal activities**

The principal activities of ASDA Group Limited and its subsidiaries (together referred to as "ASDA" or "the Group") are the retailing of food, clothing, home and leisure products and services throughout the United Kingdom and online

### **Group profit and dividends**

Group profit after taxation for the year was £608 0m, a decrease of £42 2m on the previous year. However, as reported last year, the prior year result was flattered by a one-off reduction in royalties paid to the ultimate parent company, Wal-Mart Stores, Inc., which has led to a year on year increase in technical assistance, services and royalties of £137 0m. In addition, the accounting adjustment in respect of share option costs, in accordance with IFRS 2 'Share-Based Payments', has given rise to a year on year increase in share option costs of £17 9m. Excluding technical assistance, services and royalties and share option costs, operating profit has grown more quickly than revenue in 2010.

The share options adjustment required in these financial statements is a consequence of our employees being granted share options in the ultimate parent company, Wal-Mart Stores, Inc., and results in the options being treated as if they are cash settled, despite them being equity settled by Wal-Mart Stores, Inc. This adjustment 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.

During the year, the defined benefit pension obligation has increased to £330 6m from £210 0m, as a result of the impact of changes in market conditions on the actuarial assumptions used to value the obligation. The movement is primarily driven by increased inflation rates and decreased interest rates year on year, partially offset by an improvement in the performance of the scheme's assets. We continue to liaise with the pension scheme trustees and the scheme actuary to actively manage the ongoing defined benefit pension obligation. After the year end, the Group and the trustee body agreed to close the defined benefit pension scheme to future accrual, as disclosed in further detail later in the Directors' Report and in Note 28 of the financial statements.

Dividends of £230 0m (2009: £180 0m) were paid in the year. The dividends were paid to the Group's UK parent company.

### **Balance sheet**

The Group has adopted an amendment to IAS 17 Leases which is effective for all annual periods beginning on or after 1 January 2010. The amendment removes the automatic classification of land leases as operating leases and requires a review of all land leases held to assess whether they are operating or finance leases.

The amendment is classified as a change in accounting policy, and therefore the financial statements include a prior year restatement. The adoption of the amendment has resulted in derecognising a land lease in respect of one store previously classified within operating lease prepayments and recognising a corresponding increase in the net book value of finance leases within property, plant and equipment to reflect the carrying value of the leased assets. Therefore, the impact on the balance sheet is reclassification only and there is no impact on net profit before tax for the years ended 31 December 2010 and 31 December 2009 or on reserves of the current and comparative periods.

### **Business review, KPIs and future developments**

2010 was a successful year for ASDA. We continued to improve many aspects of the customer offer – including price, product quality and service. At the same time, operating profit excluding technical assistance, services and royalties and share option costs, grew at a faster rate than sales.

The economic environment continued to challenge consumers with disposable income falling each month of the year, according to the ASDA Income Tracker. With this in mind, our strategy of being the lowest cost to operate of the major food retailers continued to prove effective, and enabled ASDA to widen its price advantage over the competition.

## **Directors' report** *(continued)*

### **Business review, KPIs and future developments** *(continued)*

#### **Financial highlights**

- Like-for-like sales growth of 0.6% (excluding petrol and VAT)
- Total sales growth of 3.6% (excluding VAT)
- Operating profit reduced by £94.0m (10.5%) to £805.1m in 2010
- Operating profit excluding technical assistance services and royalties and share option costs increased by £61.2m (6.4%) to £1,018.2m

#### **Operational highlights**

- ASDA achieved price leadership for every week of the year, according to independent website [mysupermarket.co.uk](http://mysupermarket.co.uk). In addition, we were recognised as price leader by "The Grocer" magazine for a thirteenth successive year.
- We launched the ASDA Price Guarantee, committing to being cheaper than competitors or giving the customer a voucher for the difference.
- We strengthened our food quality credentials, winning almost 400 quality awards, and launched the new mid-tier own label "Chosen By You" range, with products tried, tasted and approved by customers.
- George, our clothing label, was a stand-out performer delivering another excellent year and was the fastest growing area of ASDA's business.
- The "We Operate For Less" programme continued to deliver efficiencies in stores, distribution centres and the home office, which enabled us to grow expenses at a slower rate than sales.

#### **Delivering foundations for future growth**

- 2010 was another good year for development of new channels, new space and new formats, particularly in the smaller supermarket format.
- Fourteen new stores were opened during the year, including one ASDA Living, adding a total of 500,000 sq ft of new space to our store estate.
- Our grocery home shopping business, which covers 94% of the UK population, grew ahead of the UK home shopping market.
- ASDA Direct, our online non-food offer, continued to develop range and service, and sales via [George.com](http://George.com) more than doubled in the year.
- ASDA announced in the year a strategic intent to operate a chain of supermarkets with a smaller footprint than typical superstores. Since the end of the financial year, ASDA has completed the acquisition of Netto Foodstores Limited, and we have now commenced the conversion of 147 stores to ASDA's supermarket format.

In the context of an uncertain economic outlook, ASDA's purpose to save customers money everyday with everyday low prices remains highly relevant to customers. Our strong performance in 2010 reflects the consistency in the ASDA model of low prices across all our stores, great products, low costs and great colleagues.

## Directors' report (*continued*)

### 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 to review the corporate risk map, and the ongoing work of the Group Internal Audit team.

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. In 2010 the ASDA Price Guarantee was launched, through which ASDA has committed to customers to being 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 Group'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.

At 31 December 2010, ASDA operated a number of pension arrangements for our employees including a defined benefit pension scheme. This was subject to risk in relation to its pension deficit which is shown as a liability on the balance sheet. We have mitigated this risk 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 20% 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.

## Directors' report *(continued)*

### Risks and uncertainties *(continued)*

- **Regulatory 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.

- **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.

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 line with Wal-Mart group's global strategy, ASDA's sustainability work plan falls under three aspirational targets: to be supplied 100% by renewable energy, to create zero waste and to sell products that sustain our natural environment and resources. To protect our lowest cost to operate model and to act in a responsible way, we have set measurable targets and objectives in each of these areas.

In recent years, we have implemented a number of initiatives and processes in recognition of our environmental responsibilities. We have diverted 100% of the food which we are unable to sell away from landfill, and we have over 200 stores which send zero waste to landfill. Our mantra of 'Fewer, Friendlier Miles' has also helped us to cut fleet emissions by 42% since 2005.

- **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.

### International Financial Reporting Standards (IFRS)

Until 17 September 2007, an element of the Group's debt securities were listed on the London Stock Exchange, which meant that the Group prepared its consolidated financial statements under IFRS as required by EU regulation. After this date, these debt securities were migrated from the Main Market to the Professional Securities Market of the London Stock Exchange. This migration enables the Group to follow the wholesale regime introduced by the Prospectus Directive, which states that preparing financial statements under IFRS is not a requirement and local accounting standards are acceptable. However, the Group has elected to maintain IFRS as its applicable GAAP.

The Group's individual company financial statements and those of its subsidiaries continue to be prepared under UK GAAP.

## **Directors' report** (*continued*)

### **Events since the balance sheet date**

#### ***Business combinations***

On 13 April 2011, ASDA acquired 100% of the voting shares of Netto Foodstores Limited for an initial consideration of £750m. The transaction will enable us to convert Netto's UK locations into ASDA stores and integrate them into our supermarkets format.

Due to the limited time available between the acquisition and the approval of the financial statements, we are still in the process of establishing the fair value of the assets and liabilities acquired. The book value of the net assets acquired was £321m. The consideration was satisfied by cash, which was funded by the receipt of an intercompany loan from a fellow subsidiary of the Group's ultimate parent company.

#### ***Defined benefit pension scheme closure***

On 12 February 2011, the Group and the trustee body agreed to close the defined benefit pension scheme to future accrual. As a result of the closure, plan participants became eligible to join one of ASDA's existing defined contribution schemes, and the Group will pay £43.0m to the plan participants to facilitate transition to the replacement pension arrangements. This transitional payment will be recorded as an expense in the year ending 31 December 2011. The effect of this decision on the pension liability as at the date of closure is a reduction in the liability of £57.0m. This impact has not been reflected in these financial statements as the relevant recognition criteria were not met at the balance sheet date.

#### ***Change in rate of taxation***

The Finance (No 2) Act received Royal Assent on 27 July 2010 and announced a reduction in the main rate of corporation tax from 28% to 27% with effect from 1 April 2011. Deferred tax has therefore been provided at 27% at 31 December 2010. Since the balance sheet date it has been announced that the corporation tax rate will be reduced to 26% with effect from 1 April 2011. The budget on 23 March 2011 announced further reductions of 1% per annum in the main rate of corporation tax down to 23% by 1 April 2014. None of these subsequent changes had been substantively enacted by the balance sheet date.

In addition, on 22 June 2010 the Government announced 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. These changes were not substantively enacted at the balance sheet date.

If these changes had been substantially enacted at the balance sheet date, the deferred tax liability at 31 December 2010 would have reduced by £15.4m. The maximum increase in the deferred tax expense for the year ended 31 December 2010 would have been £10.5m and the maximum decrease in the deferred tax credit to the statement of changes in equity would be £4.9m.

#### **Financial instruments**

ASDA's financial risk management objectives and policies are further discussed in notes 1 and 19.

#### **Capital management**

The primary objective of ASDA's capital management is to ensure that we maintain healthy capital ratios in order to support our business and maximise shareholder value.

No adjustments have been made to the capital structure of the Group in recent years and no changes have been made to ASDA's objectives, policies or processes during 2010 or 2009.

As a wholly owned subsidiary the capital of the Group is monitored in accordance with the overall capital management policy of the ultimate parent company.



## **Directors' report** *(continued)*

### **Research and development**

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. The parent company has no trade creditors in its balance sheet.

### **Political and charitable contributions**

During the year, cash donations to charitable organisations and other community projects totalled £9.3m (2009 £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), 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 (2009 £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 have recruited over 1,000 disabled colleagues, helping them transform their lives through meaningful and sustainable employment, while delivering 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**

During the year, the policy of providing colleagues with information about the business was continued through briefings on the ASDA internal website. 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 We're Listening Survey which provides them with the opportunity to give feedback on all aspects of working at ASDA.

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.

## **Directors' report** (*continued*)

### **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.

### **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 Group'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 Group'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 Group's auditors are aware of that information.

### **Re-appointment of auditors**

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of Ernst & Young LLP as auditors of the Group is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board



**J J McKenna**  
Director  
17 June 2011

ASDA House  
Southbank  
Great Wilson Street  
Leeds  
LS11 5AD

## Directors' responsibilities statement

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union

Under company law the directors must not approve the financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance,
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements

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

## **Independent auditors' report to the members of ASDA Group Limited**

We have audited the consolidated financial statements of ASDA Group Limited for the year ended 31 December 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

### **Respective responsibilities of directors and auditors**

As explained more fully in the directors' responsibilities statement set out on page 8, 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 Group'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 Directors' report 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 Group financial statements

- give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, 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:

- 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.

### **Other matters**

We have reported separately on the parent company financial statements of ASDA Group Limited for the year ended 31 December 2010.

*Ernst & Young LLP*  
Christabel Cowling (*Senior Statutory Auditor*)

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

*22nd June 2011*

**Consolidated income statement**  
*for the year ended 31 December 2010*

		31 December 2010 £m	31 December 2009 £m
	<i>Note</i>		
<b>Continuing operations</b>			
Revenue		20 546 4	19,836 4
Operating costs	3	(19,741 3)	(18,937 3)
<b>Operating profit</b>		805 1	899 1
Financial income	7	9 6	10 8
Financial costs	8	(75 6)	(111 2)
<b>Profit on ordinary activities before tax</b>		739 1	798 7
Income tax expense	9	(131 1)	(148 5)
<b>Profit for the year</b>		608 0	650 2

Total profit for the year is attributable to the equity holders

**Consolidated statement of comprehensive income**  
*for the year ended 31 December 2010*

		31 December 2010 £m	31 December 2009 £m
	<i>Note</i>		
<b>Profit for the year</b>		608 0	650 2
Cash flow hedges - losses arising in the year	19	(1 6)	-
Actuarial loss on defined benefit pension scheme	20	(123 8)	(205 9)
Tax on actuarial losses recognised directly in equity	20	33 4	57 7
<b>Other comprehensive income for the year</b>		(92 0)	(148 2)
<b>Total comprehensive income for the year</b>		516 0	502 0

Total comprehensive income for the year is attributable to the equity holders

**Consolidated balance sheet**  
*at 31 December 2010*

	Note	2010 £m	2009 - restated (see note 11) £m
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	7,616.9	7,448.2
Intangible assets	12	23.7	26.5
Operating lease prepayments	13	123.8	125.5
		<u>7,764.4</u>	<u>7,600.2</u>
<b>Current assets</b>			
Inventories	15	998.5	914.9
Trade and other receivables	16	260.2	245.2
Intercompany receivables	16	1,794.8	1,572.5
Cash and short term deposits	17	427.2	346.2
Corporation tax		53.6	5.3
Operating lease prepayments	13	1.7	1.7
		<u>3,536.0</u>	<u>3,085.8</u>
<b>Total assets</b>		<u>11,300.4</u>	<u>10,686.0</u>
<b>Equity and liabilities</b>			
<b>Equity attributable to the shareholders</b>			
Called up share capital	23	783.9	783.9
Share premium account	23	568.4	568.4
Other reserves		437.1	437.1
Cash flow hedge reserve		(1.6)	-
Retained earnings		3,412.2	3,124.6
<b>Total equity</b>		<u>5,200.0</u>	<u>4,914.0</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	19	182.6	183.7
Employee benefits	20	360.7	248.9
Provisions	21	13.3	15.7
Deferred tax liabilities	22	104.1	137.2
		<u>660.7</u>	<u>585.5</u>
<b>Current liabilities</b>			
Trade and other payables	18	2,862.5	2,689.8
Intercompany payables	18	2,543.3	2,391.3
Borrowings	19	1.1	76.8
Employee benefits	20	32.8	28.6
		<u>5,439.7</u>	<u>5,186.5</u>
<b>Total liabilities</b>		<u>6,100.4</u>	<u>5,772.0</u>
<b>Total equity and liabilities</b>		<u>11,300.4</u>	<u>10,686.0</u>

These financial statements were approved by the board of directors on 17 June 2011 and were signed on its behalf by

**J J McKenna**  
Director



**Consolidated statement of changes in equity**  
*for the year ended 31 December 2010*

	Share capital £m	Share premium £m	Other reserves £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
<b>Balance at 1 January 2009</b>	783.9	568.4	437.1	-	2,802.6	4,592.0
<b>Comprehensive income</b>						
Profit for the year	-	-	-	-	650.2	650.2
<b>Other comprehensive income</b>						
Actuarial loss on defined benefit pension scheme	-	-	-	-	(205.9)	(205.9)
Tax on actuarial losses recognised directly in equity	-	-	-	-	57.7	57.7
<b>Total</b>	-	-	-	-	(148.2)	(148.2)
<b>Total comprehensive income</b>	-	-	-	-	502.0	502.0
<b>Transactions with shareholders</b>						
Dividends	-	-	-	-	(180.0)	(180.0)
<b>Balance at 1 January 2010</b>	783.9	568.4	437.1	-	3,124.6	4,914.0
<b>Comprehensive income</b>						
Profit for the year	-	-	-	-	608.0	608.0
<b>Other comprehensive income</b>						
Cash flow hedges - losses arising in the year	-	-	-	(1.6)	-	(1.6)
Actuarial loss on defined benefit pension scheme	-	-	-	-	(123.8)	(123.8)
Tax on actuarial losses recognised directly in equity	-	-	-	-	33.4	33.4
<b>Total</b>	-	-	-	(1.6)	(90.4)	(92.0)
<b>Total comprehensive income</b>	-	-	-	(1.6)	517.6	516.0
<b>Transactions with shareholders</b>						
Dividends	-	-	-	-	(230.0)	(230.0)
<b>Balance at 31 December 2010</b>	783.9	568.4	437.1	(1.6)	3,412.2	5,200.0

The other reserve relates to a revaluation reserve previously disclosed separately from retained earnings for information purposes

**Consolidated statement of cash flows**  
*for the year ended 31 December 2010*

		31 December 2010 £m	31 December 2009 £m
	<i>Note</i>		
<b>Operating activities</b>			
Profit after tax from continuing operations		608 0	650 2
<i>Adjustments to reconcile profit after tax to net cash flows</i>			
Depreciation	11	384 8	364 2
Amortisation of intangible assets	12	2 8	2 9
Amortisation of lease prepayments	13	1 7	1 7
Financial income	7	(9 6)	(10 8)
Financial costs	8	75 6	111 2
Loss on sale of property, plant and equipment	3	19 7	24 1
Tax on continuing operations	9	131 1	148 5
Shortage/(excess) of contributions over pension service cost	20	3 6	(16 2)
<i>Changes in working capital and provisions</i>			
Increase in trade and other receivables		(15 0)	(33 0)
(Increase)/decrease in inventories		(83 6)	7 2
Increase in trade and other payables		167 8	272 0
(Decrease)/increase in provisions	21	(2 4)	3 3
Decrease in share based payment liability	20	(4 6)	(23 2)
Tax paid		(179 0)	(182 1)
<b>Net cash flows from operating activities</b>		<b>1,100 9</b>	<b>1,320 0</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		3 2	4 9
Increase in intercompany receivables		(204 6)	(1,571 7)
Purchase of property, plant and equipment		(566 6)	(508 6)
Interest received	7	2 8	1 7
<b>Net cash flows from investing activities</b>		<b>(765 2)</b>	<b>(2 073 7)</b>
<b>Cash flows from financing activities</b>			
Interest paid		(87 8)	(111 2)
Increase in intercompany payables		139 9	1,264 9
Eurobond repayments	19	(75 9)	-
Finance lease repayments	19	(0 9)	(0 3)
Dividends paid	10	(230 0)	(180 0)
<b>Net cash flow from financing activities</b>		<b>(254 7)</b>	<b>973 4</b>
Net increase in cash and cash equivalents		81 0	219 7
Cash and cash equivalents at start of year		346 2	126 5
<b>Cash and cash equivalents at end of year</b>	17	<b>427 2</b>	<b>346 2</b>



## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

#### *General information*

ASDA Group Limited (the "Company") is a company incorporated in the UK under the Companies Act 2006 (registration number 1396513). The address of the registered office is ASDA House, Southbank, Great Wilson Street, Leeds, LS11 5AD UK.

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

As described in the directors' report, the main activities of the Group are the retailing of food, clothing, home and leisure products and services throughout the United Kingdom and online.

#### *Authorisation of financial statements and statement of compliance with IFRSs*

The financial statements of the Group for the year ended 31 December 2010 were authorised for issue by the directors on 17 June 2011 and the balance sheet was signed on behalf of the directors by J J McKenna.

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"). The Company continues to prepare its company financial statements in accordance with UK GAAP; these are presented on pages 52-59.

#### *Basis of preparation*

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

The Group financial statements are presented in Sterling and all values are rounded to the nearest hundred thousand pounds except where otherwise stated.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

#### *Changes in accounting policies*

The accounting policies adopted are consistent with those of the previous financial year except for the following new and revised standards which the Group has adopted this year.

#### *Amendment to IAS 17 Leases*

The amendment to IAS 17 is effective for annual periods beginning on or after 1 January 2010. During the period, the Group has reassessed the classification of unexpired land leases between operating and finance leases. The adoption of the amendment to IAS 17 has resulted in derecognising a land lease in respect of one store previously classified within operating lease prepayments and recognising a corresponding increase in the net book value of finance leases within property, plant and equipment to reflect the carrying value of the leased assets.

The Group has assessed the present value of future minimum lease payments and considers these obligations to be immaterial for disclosure. As the reclassification relates only to land leases there is no impact on depreciation or amortisation.

#### *Amendment to IAS 39 Financial Instruments - Eligible hedged items*

The amendment provides clarification on how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Changes in accounting policies (continued)*

##### *IFRIC 17 Distribution of Non-cash Assets to Owners*

The interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The amendment clarifies the accounting for group cash-settled share-based payment transactions, where a subsidiary receives goods or services from suppliers or employees but the parent or another entity in the group pays for those goods or services. This amendment did not have any impact on the financial position of the group.

##### *IFRS 3 (revised) Business Combinations*

The revised standard increases the number of transactions to which it must be applied including business combinations of mutual entities and combinations without consideration. IFRS 3 (revised) introduces significant changes in the accounting for business combinations such as valuation of non-controlling interest, business combination achieved in stages, the initial recognition and subsequent measurement of a contingent consideration and the accounting for transaction costs. These changes may have a significant impact on profit or loss reported in the period of an acquisition, the amount of goodwill recognised in a business combination and profit or loss in future periods.

##### *IAS 27 (amended) Consolidated and Separate Financial Statements*

The amended standard requires that a change in the ownership of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners and these transactions will no longer give rise to goodwill or gains and losses. The standard also specifies the accounting when control is lost and any retained interest is remeasured to fair value with gains or losses recognised in profit or loss.

##### *Amendment to IAS 39 Financial Instruments – Recognition and Measurement – Eligible hedged items*

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment did not have any impact on the financial position of the Group.

#### *New standards and interpretations not applied*

There have been a number of new standards and interpretations issued by the IASB and IFRS Interpretations Committee, with effective dates after the date of these financial statements. The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group when adopted.

The following standards and interpretations have an effective date after the date of these financial statements and the Group has not early adopted them:

##### *IAS 24 Related Party Disclosures (amendment effective 1 January 2011)*

The amended standard clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Group does not expect any impact on its financial position or performance.

##### *IAS 32 Financial Instruments – Presentation – Classification of Rights Issues (amendment effective for periods beginning on or after 1 February 2010)*

The amendment to IAS 32 amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

## Notes (continued)

### 1 Accounting policies (continued)

#### *New standards and interpretations not applied (continued)*

##### *IFRS 9 Financial Instruments Classification and Measurement (effective 1 January 2013)*

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial instruments as defined in IAS 39. In subsequent phases, the IASB will address, among other areas, impairment of financial instruments, hedge accounting and derecognition. The completion of this project is expected in 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets and liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

##### *IFRIC 14 Prepayments of a minimum funding requirement (amendment)*

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

##### *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010)*

IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

The effective dates stated above are those given in the original IASB/IFRIC standards and interpretations. As the Group prepares its financial statements in accordance with IFRS as adopted by the European Union (EU), the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the Group's discretion to early adopt standards.

#### *Judgements and key sources of estimation and uncertainty*

Management are required to make judgements, estimates and assumptions that affect the application of policies and reported assets and liabilities, income and expenses. Estimates and judgements 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. Actual results may differ from these estimates.

Estimates and assumptions are made in particular with regard to impairment testing, establishing uniform depreciation and amortisation periods for the Group, provisions for onerous leases and doubtful debt and assumptions for measuring pensions provisions and fair value of share-based payments and the likelihood that tax assets can be realised.

#### *Basis of consolidation*

Subsidiaries are all entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company. All intragroup balances and transactions, including unrealised profits arising from them, are eliminated.

## Notes (continued)

### Accounting policies (continued)

#### *Business combinations and goodwill*

Business combinations from 1 January 2010 must be accounted for under IFRS 3 (revised) '*Business Combinations*' using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets is determined on a transaction by transaction basis. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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

If the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest is lower than the fair value of assets, liabilities and contingent liabilities and the fair value of any pre-existing interest held in the business acquired, the difference is measured in profit and loss.

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

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

#### *Foreign currency*

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

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences are taken to the income statement, except when hedge accounting is applied and differences are taken to other comprehensive income.

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.

## Notes (continued)

### Accounting policies (continued)

#### Foreign currency (continued)

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

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

#### 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	20 years
Design licences	Licence period (5 years)

#### Property, plant and equipment

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

Certain items of property, plant and equipment that had been revalued to fair value prior to 1 January 2004, the date of transition to adopted IFRSs, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

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

Assets acquired by way of a finance lease are stated at an amount equal to the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

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

Freehold buildings	30-50 years
Properties held under finance leases and leasehold improvements	Shorter of 30-50 years and the lease period
Plant and equipment	3-15 years
Fixtures and fittings	3-15 years

All property, plant and equipment are reviewed for impairment in accordance with IAS 36 'Impairment of Assets' when there are indications that 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 income statement.

## **Notes (continued)**

### **Accounting policies (continued)**

#### ***Impairment of non-financial assets***

The carrying amounts of the Group's non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

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

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

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

#### ***Provisions***

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

#### ***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.

#### ***Group as a lessee***

Leases in which the Group 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.

## **Notes (continued)**

### **Accounting policies (continued)**

#### ***Leases (continued)***

##### ***Operating leases***

Rental payments are taken to the income statement on a straight line basis over the life of the lease. Leases that contain predetermined fixed rental increases are accounted for such that the increases are recognised on a straight line basis over the life of the lease. Lease incentives received are recognised in the income statement 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.

##### ***Group as a lessor***

Assets leased out under operating leases are included in property, plant and equipment 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.

#### ***Financial instruments***

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

##### ***Financial assets and liabilities***

The Group classifies its financial assets and liabilities in the following categories: financial assets at fair value through profit and loss, loans and receivables, interest bearing loans and borrowings, derivatives designated as hedges and trade payables.

Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

All financial assets and liabilities are recognised initially at fair value.

The Group assesses at each balance sheet date whether there is objective evidence that financial assets are impaired.

##### ***Financial assets and liabilities at fair value through profit and loss***

Derivatives are categorised as held for trading unless they are designated as hedges. Gains or losses arising from changes in the fair value of the financial assets and liabilities at fair value through profit or loss are included in the income statement in the period in which they arise.

##### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are carried at amortised cost. They are included in current assets except for those with maturities greater than 12 months after the balance sheet date. Loans and receivables comprise cash and short-term deposits and trade and other receivables.

##### ***Interest bearing loans and borrowings***

Interest bearing bank loans and overdrafts are recorded initially at fair value less directly attributable transaction costs. Subsequently, these liabilities are carried at amortised cost using the effective interest method. Gains or losses arising on repurchase, settlement or cancellation of liabilities are recognised respectively in finance income or finance cost.

##### ***Offsetting of financial instruments***

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

## **Notes (continued)**

### **Accounting policies (continued)**

#### *Fair values*

Fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length transactions, reference to the current value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

#### *Derivative financial instruments and hedging*

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

Derivatives are stated at their fair value. The fair value of foreign currency derivative contracts is their market value at the balance sheet date. Market values are calculated using mathematical models and are based on the duration of derivative together with quoted market data including interest rates, foreign exchange rates and market volatility at the balance sheet date.

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

All of the Group's hedges are considered to be cash flow hedges, hedging exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income, while the ineffective portion is recognised in profit and loss. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs.

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

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecasted transactions and firm commitments. Refer to note 19 for further details.

#### *Inventories*

Inventories comprise goods for resale 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 inventories and bringing them to their existing location and condition. Inventories at retail outlets are valued at average cost prices.

#### *Trade and other receivables*

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

#### *Cash and short term deposits*

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 and cash equivalents for the purpose of the statement of cash flows.



## **Notes** *(continued)*

### **Accounting policies** *(continued)*

#### **Trade and other payables**

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

#### **Taxation**

Taxation comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity in which case it is recognised in equity.

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 provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes except:

- the initial recognition of goodwill or of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination,
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future, and
- deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

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

#### **Borrowing costs**

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

#### **Pensions and other post employment benefits**

##### **Defined contribution plans**

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

##### **Defined benefit plans**

The Group'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 Group recognises them in full to equity in the period they occur in the statement of other comprehensive income.

## **Notes (continued)**

### **Accounting policies (continued)**

#### **Revenue recognition**

Revenue represents sales to customers through retail outlets and online, excluding value added tax. Revenue is recognised net of intragroup transactions, 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 rental income.

#### **Interest and dividend income**

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

#### **Supplier income**

Supplier incentives, rebates and discounts are recognised on an accruals basis, based on the expected entitlement which has been earned up to the balance sheet date for each relevant contract.

#### **Share-based payments**

For all liabilities arising from share-based payment arrangements the Group has applied IFRS 2 'Share-Based Payments' to liabilities that were settled on or after 7 November 2002.

The share option programme allows Group employees to acquire shares of the ultimate parent company; these awards are granted by the Group. 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 remeasured at each balance sheet date and at settlement date and any changes in fair value are recognised in the income statement during the vesting period.

These share based payment transactions are considered as cash settled and accounted for in accordance with IFRS 2 'Share-based Payments'.

#### **Dividend distribution**

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

## Notes (continued)

### 2 Segment reporting

The Board has determined that the primary segment reporting format is business segments based on the Group's management and internal reporting structure. The directors are of the opinion that the Group is engaged in a single segment of the business, being the operation of food, clothing, home and leisure stores in the United Kingdom.

### 3 Operating costs

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

	Year Ended 31 December 2010 £m	Year Ended 31 December 2009 £m
Cost of inventories recognised as an expense	(15,701.7)	(15,115.9)
Employment costs (Note 5)	(2,279.0)	(2,104.0)
Amortisation of intangible assets (Note 12)	(2.8)	(2.9)
Amortisation of lease prepayments	(1.7)	(1.7)
Depreciation (Note 11)		
- Owned assets	(383.5)	(362.8)
- Assets held under finance leases	(1.3)	(1.4)
Operating lease expense		
- Plant and equipment	(45.4)	(46.2)
- Property	(74.1)	(73.4)
Rental income	81.2	78.4
Loss on sale of property, plant and equipment	(19.7)	(24.1)
License fees paid to fellow subsidiary of ultimate parent company	(11.6)	(11.7)

### 4 Auditors' remuneration

	Year Ended 31 December 2010 £m	Year Ended 31 December 2009 £m
<b>Within operating costs</b>		
Audit	0.3	0.3

## Notes (continued)

### 5 Employee numbers and costs

The average number of people employed by the Group (including directors) during the year was as follows

	Number of employees	
	Year Ended 31 December 2010	Year Ended 31 December 2009
<i>Total</i>		
ASDA - Retail	169,287	165,630
- Home office	3,171	3,036
	<u>172,458</u>	<u>168,666</u>
<i>Full time equivalents</i>		
ASDA - Retail	107,465	105,055
- Home office	3,083	2,952
	<u>110,548</u>	<u>108,007</u>

The aggregate payroll costs of these people were as follows

	Year Ended 31 December 2010 £m	Year Ended 31 December 2009 £m
Wages and salaries	2,052.9	1,917.7
Share-based payments charge/(credit) (Note 20)	16.7	(1.2)
Social security costs	124.0	117.5
Other pension costs (Note 20)	85.4	70.0
	<u>2,279.0</u>	<u>2,104.0</u>

### 6 Directors' remuneration

The total remuneration of the directors for each of the last two financial years is as follows

	Year Ended 31 December 2010 £000	Year Ended 31 December 2009 £000
Directors' emoluments	<u>6,573</u>	<u>6,228</u>
Share-based payments	<u>5,966</u>	<u>4,822</u>
Post employment benefits	<u>766</u>	<u>694</u>

## Notes (continued)

### 6 Directors' remuneration (continued)

	Year Ended 31 December 2010 number	Year Ended 31 December 2009 number
Number of directors who are members of the defined benefit scheme	8	9
Number of directors who exercised share options	8	8
Number of directors entitled to receive shares under long term incentive schemes	10	8
Amounts in respect of the highest paid director are as follows	£000	£000
Total remuneration excluding pensions	1,317	1,714
Total accrued pension at the year end	42	93

Included within the remuneration totals above are emoluments and short term benefits in respect of the directors listed below, which were in respect of their services to the Broadstreet Great Wilson Europe Group (the ultimate parent company for the UK) as a whole A J Bond, J J McKenna, A Clarke, R Bendel, D Blackhurst, A Thompson, C Kuchinad, D Gurr A J Moore and C R Redfield It is not possible to allocate their remuneration to the companies within the Group

None of the directors were a member of the defined contribution scheme during the year (2009 none)

### 7 Financial income

	Year Ended 31 December 2010 £m	Year Ended 31 December 2009 £m
Bank interest receivable	2.8	1.7
Net return on pension scheme (Note 20)	6.8	9.1
Financial income	9.6	10.8

## Notes (continued)

### 8 Financial costs

	Year Ended 31 December 2010 £m	Year Ended 31 December 2009 £m
Interest payable on bonds - paid to fellow group undertakings	(12.4)	(18.1)
Interest payable on bonds - paid to external bondholders	(0.1)	(0.1)
External interest payable	(0.2)	(0.1)
Interest capitalised	6.5	5.1
	<hr/>	<hr/>
	(6.2)	(13.2)
Net interest payable on amounts owed to group undertakings	(65.2)	(93.1)
Finance lease interest	(4.2)	(4.9)
	<hr/>	<hr/>
Financial costs	<hr/> (75.6) <hr/>	<hr/> (111.2) <hr/>

### 9 Income tax expense

#### Recognised in the income statement

	Year Ended 31 December 2010 £m	Year Ended 31 December 2009 £m
<b>CURRENT TAX</b>		
UK corporation tax on profit for the year	151.2	124.3
Adjustments in respect of prior periods	(20.4)	17.6
	<hr/>	<hr/>
<b>CURRENT TAX CHARGE FOR THE YEAR</b>	<hr/> 130.8 <hr/>	<hr/> 141.9 <hr/>
<b>DEFERRED TAX</b>		
Origination and reversal of temporary differences	(12.7)	(7.5)
Adjustment in respect of prior periods	18.3	-
Adjustment arising from change in tax rate	(8.3)	8.6
Reduction in deferred tax asset relating to pension obligation	3.0	5.5
	<hr/>	<hr/>
	0.3	6.6
	<hr/>	<hr/>
<b>TOTAL TAX CHARGE FOR THE YEAR</b>	<hr/> 131.1 <hr/>	<hr/> 148.5 <hr/>

Deferred tax on actuarial losses on defined benefit pension schemes of £33.4m (2009 £57.7m) has been credited to equity

## Notes (continued)

### 9 Income tax expense (continued)

#### Reconciliation of effective tax rate

A reconciliation of the total tax charge compared to the standard rate of corporation tax in the UK of 28% (2009 28%) applied to the profit on ordinary activities before tax is as follows

	Year Ended 31 December 2010 £m	Year Ended 31 December 2009 £m
Profit before tax	739.1	798.7
Tax using the UK corporation tax rate of 28% (2009 28%)	206.9	223.6
Non-deductible expenses	3.2	2.5
Non-qualifying depreciation	26.6	20.9
Profit on non-qualifying fixed assets	(0.4)	1.9
Group relief not paid for	(94.8)	(94.4)
Current year income taxed in prior periods	-	(32.2)
Adjustments in respect of prior periods	(2.1)	26.2
Change in tax rate	(8.3)	-
<b>TOTAL TAX CHARGE FOR THE YEAR</b>	<b>131.1</b>	<b>148.5</b>

### 10 Dividends

	Year Ended 31 December 2010 £m	Year Ended 31 December 2009 £m
<i>Declared and paid during the year</i>		
Dividend of 7.33p per share (2009 5.74p per share)	230.0	180.0

## Notes (continued)

### 11 Property, plant and equipment

	Freehold properties £m	Finance leases & leasehold improvements (restated) £m	Plant, equipment, fixtures & fittings £m	Assets under construction £m	Total £m
<b>Cost</b>					
Balance at 1 January 2009 (restated)	6,649.8	574.2	2,262.0	512.3	9,998.3
Additions at cost and transfers from assets under construction	533.5	0.5	269.7	(306.9)	496.8
Disposals	(48.5)	(24.4)	(144.7)	-	(217.6)
Balance at 31 December 2009 (restated)	7,134.8	550.3	2,387.0	205.4	10,277.5
Balance at 1 January 2010 (restated)	7,134.8	550.3	2,387.0	205.4	10,277.5
Additions at cost and transfers from assets under construction	279.7	64.1	204.8	27.8	576.4
Disposals	(22.1)	(1.2)	(59.7)	-	(83.0)
Transfers	(37.9)	37.9	-	-	-
Balance at 31 December 2010	7,354.5	651.1	2,532.1	233.2	10,770.9
<b>Accumulated depreciation and impairment</b>					
Balance at 1 January 2009	864.9	239.8	1,549.0	-	2,653.7
Depreciation charge for the year	123.1	23.4	217.7	-	364.2
Disposals	(31.8)	(23.7)	(133.1)	-	(188.6)
Balance at 31 December 2009	956.2	239.5	1,633.6	-	2,829.3
Balance at 1 January 2010	956.2	239.5	1,633.6	-	2,829.3
Depreciation charge for the year	124.6	33.7	226.5	-	384.8
Disposals	(6.7)	(0.7)	(52.7)	-	(60.1)
Transfers	(10.8)	10.8	-	-	-
Balance at 31 December 2010	1,063.3	283.3	1,807.4	-	3,154.0
<b>Net book value</b>					
At 31 December 2009 (restated)	6,178.6	310.8	753.4	205.4	7,448.2
At 31 December 2010	6,291.2	367.8	724.7	233.2	7,616.9

Finance leases have been restated for the comparative period as a result of an amendment to IAS 17 Leases. At 31 December 2010, the effect is a decrease of £21.4m (2009 £21.4m) to non-current operating lease prepayments and an increase to closing net book value of finance leases of £21.4m (2009 £21.4m).



## Notes (continued)

### 11 Property, plant and equipment (continued)

The cumulative amount of capitalised interest included in the cost of fixed assets is £232.5m (2009 £226.0m). Details of interest capitalised during the year are given in Note 8.

Properties held under finance leases have the following net book values

	2010 £m	2009 (restated) £m
Cost	59.7	59.7
Depreciation	(9.4)	(8.1)
Net book value	50.3	51.6

### 12 Intangible assets

	Design licences £m	Brands £m	Total £m
<b>Cost</b>			
At 1 January 2009, 1 January 2010 and 31 December 2010	6.4	31.7	38.1
<b>Amortisation</b>			
At 1 January 2009	3.9	4.8	8.7
Amortisation during the year	1.3	1.6	2.9
At 31 December 2009	5.2	6.4	11.6
At 1 January 2010	5.2	6.4	11.6
Amortisation during the year	1.2	1.6	2.8
At 31 December 2010	6.4	8.0	14.4
Net book value at 31 December 2009	1.2	25.3	26.5
Net book value at 31 December 2010	-	23.7	23.7

The design licences asset has been amortised on a straight line basis over the licence period of 5 years.

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

## Notes (continued)

### 13 Operating lease prepayments

	2010 £m	2009 (restated) £m
Operating lease prepayments - current	1 7	1 7
- non-current	123 8	125 5
	<u>125 5</u>	<u>127 2</u>

Operating lease prepayments have been restated for the comparative period as a result of an amendment to IAS 17 Leases. As disclosed in Note 11, the impact on operating lease prepayments at 31 December 2010 is a decrease of £21.4m (2009 £21.4m).

### 14 Investments in subsidiaries

The Company's investments in principal subsidiaries are shown in Company Note 5.

On 6 August 2009, as part of a group reconstruction, the group disposed of a subsidiary company, Corinth Services Limited, to its immediate parent company, Wal-Mart Stores (UK) Limited, in exchange for intercompany debt of £753.2m. The consideration of £753.2m was equal to the value of net assets disposed, and hence gave rise to nil gain or loss on disposal. Following this group reconstruction, on 21 August 2009 Corinth Services Limited changed its name to Corinth Investments Limited.

### 15 Inventories

	2010 £m	2009 £m
Goods held for resale	996 7	914 1
Goods not held for resale	1 8	0 8
	<u>998 5</u>	<u>914 9</u>

### 16 Trade and other receivables

	2010 £m	2009 £m
Trade receivables	144 6	151 6
Provision for doubtful debts	(8 0)	(8 5)
Other receivables	40 5	29 1
Prepayments and accrued income	83 1	73 0
	<u>260 2</u>	<u>245 2</u>
Amounts owed by group entities	<u>1 794 8</u>	<u>1 572 5</u>

## Notes (continued)

### 16 Trade and other receivables (continued)

Trade receivables are non-interest bearing and are generally on 30-90 day terms. As at 31 December 2010, trade receivables at nominal value of £8.0m (2009: £8.5m) were impaired and fully provided for on the basis of the solvency of the debtor. Movements in the provision for doubtful debts in the year were as follows:

	2010 £m	2009 £m
At 1 January 2010	8.5	8.6
Net charge for the year	-	2.9
Provision utilised	(0.5)	(3.0)
	<hr/>	<hr/>
At 31 December 2010	8.0	8.5
	<hr/>	<hr/>

As at 31 December 2010, the analysis of trade receivables that were not impaired was as follows:

	2010 £m	2009 £m
Neither past due nor impaired	26.4	31.3
Up to 3 months past due	110.2	111.8
	<hr/>	<hr/>
	136.6	143.1
	<hr/>	<hr/>

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts. As at 31 December 2010, trade debtors that were neither past due nor impaired related to a number of independent customers for whom there is no history of default.

The allowance for doubtful debt assumes VAT in relation to the impaired balances will be fully recoverable.

### 17 Cash and short term deposits

	2010 £m	2009 £m
Cash and short term deposits	427.2	346.2
	<hr/>	<hr/>

**Notes (continued)**

**18 Trade and other payables**

	2010 £m	2009 £m
Trade payables	2,037.8	1,915.3
Other taxes and social security	186.7	160.3
Other payables	131.3	116.0
Accrued expenses	506.7	498.2
	<u>2,862.5</u>	<u>2,689.8</u>
Amounts owed to group entities	<u>2,543.3</u>	<u>2,391.3</u>

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

For terms and conditions relating to amounts owed to related parties, refer to Note 26.

Included within trade and other payables is an allowance for costs associated with the Office of Fair Trading ('OFT') inquiries into dairy and tobacco pricing activities. The OFT has made its decision on the tobacco investigation and ASDA has appealed that decision. A decision on dairy is expected in the autumn of 2011. Until the appeal is resolved and the decision on dairy is made, the amounts included in these financial statements have not been disclosed on the basis that it could be prejudicial.

## Notes (continued)

### 19 Financial instruments

#### *Fair values of financial assets and financial liabilities*

The Group's principal financial instruments during the year comprised cash, cash equivalents and borrowings. Other financial assets and liabilities, such as trade receivables, derivatives designated as hedges, trade payables, and accruals arise directly from the Group's operating activities. The difference between the carrying value and the fair value of these financial instruments is not material.

In the valuation of financial instruments during the year ended 31 December 2010 the Group used valuation techniques for which all inputs which have a significant effect on the recorded value are observable, either directly or indirectly.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

*Floating rate borrowings* – the fair value of floating rate borrowings approximates to carrying value because interest rates are reset to market rates at intervals of less than one year.

*Fixed rate borrowings* – the fair value of fixed rate borrowings is estimated by discounting the future contracted cash flow using appropriate interest rates to net present value.

*Trade and other receivables, trade and other payables, derivatives designated as hedges and cash* – for these items with a remaining life of less than one year, the notional amount is deemed to reflect the fair value as a result of the short term maturity of these instruments.

Details of the Group's borrowings are as follows:

	2010 £m	2009 £m
<b><i>Current liabilities</i></b>		
Eurobonds	-	75.9
Current portion of finance lease liabilities	1.1	0.9
	<hr/>	<hr/>
	1.1	76.8
	<hr/>	<hr/>
<b><i>Non-current liabilities</i></b>		
Eurobonds	149.2	149.2
Non-current portion of finance lease liabilities	33.4	34.5
	<hr/>	<hr/>
	182.6	183.7
	<hr/>	<hr/>

As at 31 December 2010 and 31 December 2009, all borrowings were in Sterling at fixed rates of interest. The finance lease obligations are carried at amortised cost, which is considered to approximate to fair value. The weighted average interest rate of fixed rate debt is 6.9% (2009: 8.1%).

Amounts owed to fellow subsidiaries are included in trade and other payables within Note 18. Details of obligations under finance leases are included in Note 24.

## Notes (continued)

### 19 Financial instruments (continued)

The 2010 Eurobond which was redeemed in full in the year had a fair value as at 31 December 2009 of £89.3m

a) On 31 March 1989, the Group issued £125.0m of unsecured 10 7/8 % Eurobonds at 101.753% of nominal value redeemable at par on 20 April 2010, unless previously redeemed at the Group's request, at the higher of par or a price calculated to provide a yield equal to that earned on 12% Exchequer Stock 2013/2017. £16.2m of these Eurobonds were subsequently redeemed at the Group's request in 1993 and a further £33.0m was redeemed at the Group's request in 1997. The remaining bonds have been redeemed in full in 2010.

b) On 17 July 1998, the Group issued £150.0m of unsecured 6 5/8 % Eurobonds at 99.441% of nominal value redeemable at par on 17 July 2015 unless previously redeemed at the Group's request, at the higher of the principal amount or a price calculated to provide a yield equal to that earned on 8% Treasury Stock 2015.

On 17 September 2007, all of the outstanding Eurobonds issued by the Group were officially migrated from the Main Market to the Professional Securities Market of the London Stock Exchange.

The 2015 Eurobond is denominated in Sterling and carried at amortised cost. Its fair value as at 31 December 2010 was £187.5m (2009: £185.0m). The Eurobonds bear fixed interest, payable annually in arrears.

#### *Financial risk management*

The treasury function manages the Group's financial risk, considering its borrowings and exposure to foreign currency fluctuations. The Group finances its operations through Eurobonds, issued a number of years ago and substantially held within the Wal-Mart group. The Group utilises its cash balances as well as bank overdrafts to satisfy short-term cash flow requirements. Foreign currency exposure is managed through entering into forward currency contracts.

#### *Interest rate risk*

The Group's long term borrowings are at fixed interest rates, through the issue of Eurobonds which are listed on the Professional Securities Market of the London Stock Exchange, with the majority being held by Wal-Mart group companies. As interest rates are fixed on all of the Group's long term debt, interest rate movements would not have an impact on profitability, cash flow or equity.

The Group's short term borrowings are all held with entities which are part of the Wal-Mart group and are at variable rates of interest. Amounts owed to fellow subsidiaries (Note 18) attract interest at an effective rate of 6% (2009: 6%).

It is anticipated that a 1% movement in interest rates, which represents management's assessment of a reasonably possible change, would give rise to a decrease/increase in net profitability of £0.5m (2009: £2.9m).

## Notes (continued)

### 19 Financial instruments (continued)

The disclosures below exclude short term receivables and payables which are primarily of a trading nature and expect to be settled within normal commercial terms

Terms and debt repayment schedule as at 31 December 2010

	Effective interest rate %	Total £m	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	5+ years £m
Eurobonds 2015 (b)	6.6	149.2	-	-	-	-	149.2	-
Finance lease obligations		34.5	1.1	1.2	1.4	1.6	1.8	27.4
		<u>183.7</u>	<u>1.1</u>	<u>1.2</u>	<u>1.4</u>	<u>1.6</u>	<u>151.0</u>	<u>27.4</u>

See Note 24 for further information relating to the present value of finance lease obligations

Amounts owed to fellow UK subsidiaries

Loans from Cornith Investments Limited	6%	886.7	886.7	-	-	-	-	-
Loans from Broadstreet Great Wilson Europe Limited	6%	290.8	290.8	-	-	-	-	-
Loans from Wal-Mart LN (UK) Limited	6%	1,341.6	1,341.6	-	-	-	-	-
		<u>2,519.1</u>	<u>2,519.1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Terms and debt repayment schedule as at 31 December 2009

	Effective interest rate %	Total £m	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	5+ years £m
Eurobonds 2010 (a)	10.8	75.9	75.9	-	-	-	-	-
Eurobonds 2015 (b)	6.6	149.2	-	-	-	-	-	149.2
Finance lease obligations		35.4	0.9	1.1	1.2	1.4	1.6	29.2
		<u>260.5</u>	<u>76.8</u>	<u>1.1</u>	<u>1.2</u>	<u>1.4</u>	<u>1.6</u>	<u>178.4</u>

Amounts owed to fellow UK subsidiaries

Loans from Cornith Investments Limited	6%	807.2	807.2	-	-	-	-	-
Loans from Broadstreet Great Wilson Europe Limited	6%	504.5	504.5	-	-	-	-	-
Loans from Wal-Mart LN (UK) Limited	6%	1,077.6	1,077.6	-	-	-	-	-
		<u>2,389.3</u>	<u>2,389.3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

## Notes (continued)

### 19 Financial instruments (continued)

#### *Foreign currency risk*

The Group purchases goods and services denominated in currencies other than Sterling. Cash flows can be affected by movements in exchange rates primarily US Dollars, Euros, Australian Dollars and HK Dollars. Purchases in foreign currencies are managed through the use of forward contracts.

The Group has implemented hedge accounting during the year ended 31 December 2010. The Group has forward currency hedging contracts outstanding at 31 December 2010, designated as hedges of expected future purchases from suppliers in US dollars. The forward currency contracts are being used to hedge the foreign currency risk of the future purchases. The terms of the forward currency hedging contracts have been negotiated to match the terms of the commitments and none exceed a period of more than 12 months after the 31 December 2010. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss.

The cash flow hedges of the expected future purchases were assessed to be highly effective and as at 31 December 2010, a net unrealised loss of £1.6m was included in other comprehensive income in respect of these hedging contracts.

As the Group manages its foreign currency exposure through the use of forward currency contracts, changes in exchange rates are not expected to have a significant impact on profitability or cash flow. It is anticipated that a 5% movement in the US dollar/Sterling exchange rate, which represents management's assessment of a reasonably possible change, would give rise to a decrease/increase in equity of £9.9m (2009: £nil). There would be no impact on profit from this movement.

#### *Credit risk*

There are no significant concentrations of credit risk within the Group. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date. See Note 16 for further information on trade receivables.

The Group has established procedures to minimise the risk of default by trade debtors including detailed credit checks undertaken before a customer is accepted. Historically, these procedures have proved effective in minimising the level of impaired and past due debtors.

#### *Liquidity risk*

The Group's treasury function ensures that the Group continues to have sufficient funding by monitoring rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of short term borrowings. At 31 December 2010, the Group had no short term borrowings. The Group's long term debt comprises the Eurobonds which are redeemable in 2015.

As at 31 December 2010, the Group held cash of £427.2m (2009: £346.2m), utilised along with overdrafts where necessary, to secure short term flexibility. At 31 December 2010, the Group had uncommitted overdraft facilities of £30.0m (2009: £30.0m), standby credit facilities (including bonds and guarantees) of £135.0m (2009: £135.0m) and uncommitted line of credit facilities of £220.0m (2009: £125.0m). Cash is placed on short term deposits wherever possible.



## Notes (continued)

### 19 Financial instruments (continued)

#### Capital risk management

The Group is subject to the risk that its capital structure will not be sufficient to support the growth of the business. In order to maintain or adjust the capital structure, the Group may adjust the amount of intercompany loans payable or receivable to/from the Wal-Mart group of companies. There were no changes to the Group's approach to capital management during the year. The board encourages employees to hold shares in the ultimate parent company, Wal-Mart Stores, Inc., through the use of share option schemes. Full details are provided in Note 20.

Full details of the amount of intercompany loans payable or receivable to/from the Wal-Mart group of companies is disclosed in Note 26.

### 20 Employee benefits

	2010 £m	2009 £m
Present value of funded defined benefit obligations	(1,597.4)	(1,322.7)
Fair value of plan assets	1,266.8	1,112.7
Recognised liability for defined benefit obligations	(330.6)	(210.0)
Cash-settled share-based payment transactions liability - non-current	(30.1)	(38.9)
Total non-current employee benefits	(360.7)	(248.9)
Cash-settled share-based payment transactions liability - current	(32.8)	(28.6)
Total employee benefits	(393.5)	(277.5)

#### Pension plans

The Group 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 Group'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 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 preliminary results of this valuation in accordance with IAS 19 'Employee Benefits' for the year ended 31 December 2010.

## Notes (continued)

### 20 Employee benefits (continued)

#### Pension plans (continued)

On 12 February 2011 the Group and the trustee body agreed to close the defined benefit pension scheme to future accrual. As a result of the closure, plan participants became eligible to join one of ASDA's existing defined contribution schemes, and the Group will pay £43.0m to the plan participants to facilitate transition to the replacement pension arrangements. This transitional payment will be recorded as an expense in the year ending 31 December 2011. The effect of this decision on the pension liability as at the date of closure is a reduction in the liability of £57.0m. This impact has not been reflected in these financial statements as the relevant recognition criteria were not met at the balance sheet date.

#### Movements in present value of defined benefit obligation

	2010 £m	2009 £m
At 1 January	(1,322.7)	(1,016.8)
Current service cost	(53.9)	(39.9)
Interest cost	(74.4)	(63.9)
Actuarial losses	(182.7)	(229.9)
Benefits paid	36.4	27.9
Contributions by members	(0.1)	(0.1)
	<hr/>	<hr/>
At 31 December	(1,597.4)	(1,322.7)
	<hr/>	<hr/>

#### Movements in fair value of plan assets

	2010 £m	2009 £m
At 1 January	1,112.7	987.4
Expected return on plan assets	81.2	73.0
Actuarial gains	58.9	24.0
Contributions by employer	50.3	56.1
Contributions by members	0.1	0.1
Benefits paid	(36.4)	(27.9)
	<hr/>	<hr/>
At 31 December	1,266.8	1,112.7
	<hr/>	<hr/>

#### Expense recognised in the consolidated income statement

	2010 £m	2009 £m
Current service cost	(53.9)	(39.9)
Interest on defined benefit pension plan obligation	(74.4)	(63.9)
Expected return on defined benefit pension plan assets	81.2	73.0
	<hr/>	<hr/>
Total	(47.1)	(30.8)
	<hr/>	<hr/>

The expense is recognised in the following line items in the consolidated income statement

## Notes (continued)

### 20 Employee benefits (continued)

#### Pension plans (continued)

	2010 £m	2009 £m
Operating costs	(53.9)	(39.9)
Financial income	6.8	9.1
	<hr/>	<hr/>
Total	(47.1)	(30.8)
	<hr/>	<hr/>

The amounts recognised in the statement of other comprehensive income in the period were

	2010 £m	2009 £m
Actuarial gains	58.9	24.0
Experience losses arising on plan obligation	(61.7)	(3.1)
Changes in demographic and financial assumptions underlying the present value of plan obligations	(121.0)	(226.8)
	<hr/>	<hr/>
Actuarial loss recognised in the statement of other comprehensive income	(123.8)	(205.9)
Taxation on actuarial loss recognised in the statement of other comprehensive income	33.4	57.7
	<hr/>	<hr/>
Net actuarial loss recognised in the statement of other comprehensive income	(90.4)	(148.2)
	<hr/>	<hr/>

Cumulative net actuarial losses recognised in the statement of other comprehensive income since the transition to IFRS are £256.1m (2009 £165.7m)

The fair value of the plan assets and the return on those assets were as follows

	2010 £m	2009 £m
Equity securities	681.5	831.3
Debt securities	215.4	227.3
Property	35.5	40.6
Other	334.4	13.5
	<hr/>	<hr/>
	1,266.8	1,112.7
	<hr/>	<hr/>
Actual return on plan assets	140.1	97.0
	<hr/>	<hr/>

## Notes (continued)

### 20 Employee benefits (continued)

#### Pension plans (continued)

Principal actuarial assumptions (expressed as weighted averages)

	2010 %	2009 %
Discount rate	5.3	5.7
Inflation - RPI	3.6	3.3
Inflation - CPI	3.2	n/a
Future salary increases	4.3	4.0
Future pension increases	3.6	3.3
Expected return on plan assets		
- Equity securities	7.1	8.0
- Debt securities	4.3	4.5
- Property	7.1	8.0

On 8 July 2010, the Government announced that the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) will be used as the basis for inflationary increases to pensions in its next update of the statutory requirement. As a result, for the first time in 2010 the valuation of the year end defined pension liability reflects the use of CPI rather than RPI for the revaluation of deferred pensions.

To develop the expected long-term rate on assets assumptions, the Group 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 following table illustrates the residual life expectancy for an average member on reaching age 60, according to the mortality assumptions used to calculate the pension liabilities.

		2010	2009
Retiring at reporting date at age 60	Male	26.7	26.8
	Female	29.6	29.8
Retiring at reporting date in 25 years at age 60	Male	29.3	28.1
	Female	32.2	31.0

## Notes (continued)

### 20 Employee benefits (continued)

#### Pension plans (continued)

##### History of experience gains and losses

The history of experience gains and losses for the current and prior periods are as follows

	2010	2009	2008	2007	2006
	£m	£m	£m	£m	£m
	%	%	%	%	%
Difference between the expected and actual return on scheme assets					
Amount	58.9	24.0	(328.3)	(8.0)	80.6
Percentage of scheme assets	4.6%	2.2%	(33.2%)	(0.7%)	7.6%
Experience adjustments on plan liabilities					
Amount	(61.7)	(3.1)	-	2.0	-
Percentage of scheme liabilities	(3.9%)	(0.2%)	-	-	-
Present value of funded defined benefit obligations	(1,597.4)	(1,322.7)	(1,016.8)	(1,217.6)	(1,170.0)
Fair value of plan assets	1,266.8	1,112.7	987.4	1,200.1	1,065.9
Recognised liability for defined benefit obligations	(330.6)	(210.0)	(29.4)	(17.5)	(104.1)

The Group expects to contribute approximately £62.7m to its defined benefit plan in the next financial year

#### Defined contribution plans

The Group operates two defined contribution pension plans. 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 £31.5m (2009: £30.1m).

#### Share-based payments

These share-based payment transactions are accounted for as cash settled in accordance with IFRS 2 'Share-Based Payments'.

The Group 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 pre-determined exercise prices and two of the schemes involve the granting of rights to receive shares in the ultimate parent company for nil consideration. With the exception of one of these schemes, no performance conditions exist in relation to the rights to exercise options or receive shares and there are no cash settlement alternatives for any of the current schemes outstanding.

## Notes (continued)

### 20 Employee benefits (continued)

#### Share-based payments (continued)

The number and weighted average exercise prices for the three schemes which involve the granting of options to employees to acquire shares in the ultimate parent company at predetermined exercise prices are as follows

	Weighted average exercise price £ 2010	Number of options (thousands) 2010	Weighted average exercise price £ 2009	Number of options (thousands) 2009
Outstanding at the beginning of the period	27.69	12,547	29.50	15,046
Exercised during the period	27.67	(3,271)	24.31	(2,315)
Granted during the period	29.20	1,824	27.61	1,713
Lapsed during the period	29.12	(958)	29.43	(1,897)
Outstanding at the end of the period	28.79	10,142	27.69	12,547
Exercisable at the end of the period	32.25	2,526	31.16	2,842

Share options were exercised on a regular basis throughout the year. The average share price during the year to 31 December 2010 was £34.32 (2009 £32.38).

#### 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 options under this scheme are treated as cash-settled.

31 December 2010				31 December 2009			
Number of options (thousands)	Range of exercise price £	Weighted average exercise price £	Weighted average remaining contractual life (years)	Number of options (thousands)	Range of exercise price £	Weighted average exercise price £	Weighted average remaining contractual life (years)
4,445	19.87 to 29.05	25.82	1.4	4,352	19.87 to 27.45	22.57	1.4

#### 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 year up to and including 2006 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.

31 December 2010				31 December 2009			
Number of options (thousands)	Range of exercise price £	Weighted average exercise price £	Weighted average remaining contractual life (years)	Number of options (thousands)	Range of exercise price £	Weighted average exercise price £	Weighted average remaining contractual life (years)
2,326	28.50 to 35.81	30.06	1.1	3,600	27.52 to 34.58	30.17	1.6

## Notes (continued)

### 20 Employee benefits (continued)

#### Share-based payments (continued)

##### 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 options under this scheme are treated as cash-settled.

31 December 2010				31 December 2009			
Number of options (thousands)	Range of exercise price £	Weighted average exercise price £	Weighted average remaining contractual life (years)	Number of options (thousands)	Range of exercise price £	Weighted average exercise price £	Weighted average remaining contractual life (years)
3,371	28.24 to 37.53	31.82	0.5	4,595	27.27 to 36.24	30.58	1.0

##### 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 predetermined number of shares in the ultimate parent company three years from the award date. All RSRs are classed as unapproved from 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) 2010	Number of options (thousands) 2009
Outstanding at the beginning of the period	582	308
Granted during the period	322	306
Lapsed during the period	(112)	(32)
Outstanding at the end of the period	792	582
Vested at the end of the period	-	-

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

##### Performance Share Plan (PSP) scheme

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 2010 and 2009, 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.

## Notes (continued)

### 20 Employee benefits (continued)

#### Share-based payments (continued)

The number of share awards under the PSP scheme is as follows

	Number of options (thousands) 2010	Number of options (thousands) 2009
Outstanding at the beginning of the period	627	643
Exercised during the period	(167)	(179)
Conditionally granted during the period	246	260
Lapsed during the period	(172)	(97)
	<hr/>	<hr/>
Outstanding at the end of the period	534	627
	<hr/>	<hr/>
Vested at the end of the period	-	-
	<hr/>	<hr/>

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 assumptions applied to the options granted in the respective periods shown

	2010	2009
Expected dividend yield (%)	2.30	2.11
Expected volatility (%)	17.10	18.65
Risk-free interest rate (%)	1.77	1.36
Weighted average fair value of options granted	12.53	6.67
Weighted average share price (£)	28.04	31.52
Expected life of option (years)	3.07	3.12

Volatility is a measure of the amount by which a price is expected to fluctuate during the period. The Group 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.

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

	2010 £m	2009 £m
Cash-settled share based payment charge/(credit)	16.7	(1.2)
	<hr/>	<hr/>
Total carrying amount of liabilities		
- current	32.8	28.6
- non-current	30.1	38.9
	<hr/>	<hr/>
	62.9	67.5
	<hr/>	<hr/>



## Notes (continued)

### 21 Provisions

The provision represents provisions for lease obligations arising from discontinued activities. The majority of this liability is expected to crystallise in the next 5 years.

	2010 £m	2009 £m
Balance at 1 January	15.7	12.4
Provided during the year	0.5	5.0
Utilised during the year	(2.9)	(1.7)
<b>Balance at 31 December</b>	<b>13.3</b>	<b>15.7</b>

### 22 Deferred tax assets and liabilities

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Property, plant and equipment	-	-	220.0	223.5	220.0	223.5
Employee benefits	(109.5)	(79.4)	-	-	(109.5)	(79.4)
Provisions	(7.9)	(8.5)	-	-	(7.9)	(8.5)
Other items	-	-	1.5	1.6	1.5	1.6
<b>Tax (assets)/liabilities</b>	<b>(117.4)</b>	<b>(87.9)</b>	<b>221.5</b>	<b>225.1</b>	<b>104.1</b>	<b>137.2</b>
<b>Netting of tax (assets)/liabilities</b>	<b>117.4</b>	<b>87.9</b>	<b>(117.4)</b>	<b>(87.9)</b>	<b>-</b>	<b>-</b>
<b>Net tax (assets)/liabilities</b>	<b>-</b>	<b>-</b>	<b>104.1</b>	<b>137.2</b>	<b>104.1</b>	<b>137.2</b>

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 Group considers it impractical to quantify the amount of tax which would become payable if rollover relief was not available.

Corporation tax of £77.1m (2009: £97.6m) has been deferred as a consequence of rollover relief claims made in respect of the disposal of certain fixed assets in prior periods.

## Notes (continued)

### 22 Deferred tax assets and liabilities (continued)

Movement in deferred tax during the year

	1 January 2010 £m	Recognised in income £m	Recognised in equity £m	31 December 2010 £m
Property, plant and equipment	223.5	(3.5)	-	220.0
Employee benefits	(79.4)	3.3	(33.4)	(109.5)
Provisions	(8.5)	0.6	-	(7.9)
Other items	1.6	(0.1)	-	1.5
	<u>137.2</u>	<u>0.3</u>	<u>(33.4)</u>	<u>104.1</u>

Movement in deferred tax during the prior year

	1 January 2009 £m	Recognised in income £m	Recognised in equity £m	31 December 2009 £m
Property, plant and equipment	236.7	(13.2)	-	223.5
Employee benefits	(40.9)	19.2	(57.7)	(79.4)
Provisions	(9.1)	0.6	-	(8.5)
Other items	1.6	-	-	1.6
	<u>188.3</u>	<u>6.6</u>	<u>(57.7)</u>	<u>137.2</u>

### 23 Share capital and premium

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company

The share premium account is used to record amounts received in excess of the nominal value of shares on issue of new shares

At 31 December 2010, 31 December 2009 and 31 December 2008

	Number of shares thousands	Share capital £m	Share premium £m	Total £m
Allotted, called up and fully paid				
Ordinary shares of 25p each	<u>3,135,705</u>	<u>783.9</u>	<u>568.4</u>	<u>1,352.3</u>

## Notes (continued)

### 24 Obligations under leases

#### *Operating lease agreements where Group is lessee*

Future minimum lease payments under non-cancellable agreements is payable as follows

	Land and buildings		Other	
	2010	2009	2010	2009
	£m	£m	£m	£m
No later than one year	79.1	73.0	31.0	26.3
Later than one year and no later than five years	278.6	237.1	47.8	42.5
Later than five years	636.5	554.1	3.7	-
	<u>994.2</u>	<u>864.2</u>	<u>82.5</u>	<u>68.8</u>

The Group leases various offices, stores, warehouses, vehicles and equipment under non-cancellable operating lease agreements. The leases have various terms and renewal rights. They have no purchase options or escalation clauses.

#### *Operating lease agreements where Group is lessor*

Future minimum lease income under non-cancellable agreements is receivable as follows

	2010	2009
	£m	£m
No later than one year	12.2	11.7
Later than one year and no later than five years	30.3	28.5
Later than five years	27.6	23.9
	<u>70.1</u>	<u>64.1</u>

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

## Notes (continued)

### 24 Obligations under leases (continued)

The Group also leases buildings under finance leases. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the lessee. Future minimum lease payments under finance leases are as follows:

	2010 £m	2009 £m
<i>Future minimum payments due</i>		
No later than one year	5.1	5.1
Later than one year and no later than five years	20.6	20.6
Later than five years	48.8	53.9
	<hr/>	<hr/>
	74.5	79.6
Lease finance charges allocated to future periods	(40.0)	(44.2)
	<hr/>	<hr/>
Present value of minimum lease payments	34.5	35.4
	<hr/>	<hr/>

The present value of minimum lease payments is analysed as follows:

No later than one year	1.1	0.9
Later than one year and no later than five years	6.0	5.3
Later than five years	27.4	29.2
	<hr/>	<hr/>
	34.5	35.4
	<hr/>	<hr/>

### 25 Commitments

As at 31 December 2010, the Group had entered into contracts to purchase property, plant and equipment for £13.9m (2009: £52.8m).

The Group is committed to purchase electricity under contracts with a number of providers. As at 31 December 2010, the commitment for the purchase of electricity under these contracts totalled £37.4m (2009: £92.5m).

## Notes (continued)

### 26 Related parties

#### *Identity of related parties*

The following transactions were carried out with group companies

	2010 £m	2009 £m
Technical assistance, services and royalties paid to Wal-Mart Stores, Inc	196.3	59.3
Interest payable on loans from Broadstreet Great Wilson Europe Limited	30.5	30.1
Interest payable on loans from Corinth Investments Limited	51.9	21.5
Interest payable on loans from Wal-Mart LN (UK) Limited	58.1	60.6
Interest receivable on loans to Wal-Mart Stores (UK) Limited	75.3	42.5
Loans from Broadstreet Great Wilson Europe Limited	290.8	504.5
Loans from Corinth Investments Limited	886.7	807.2
Loans from Wal-Mart LN (UK) Limited	1,341.6	1,077.6
Loans from Global George Limited	-	2.1
Loans from Wal-Mart Stores, Inc	17.7	-
Loans from WMGS Co Limited	6.5	-
Loans to Wal-Mart Stores (UK) Limited	1,791.3	1,513.9
Loans to Wal-Mart Stores Inc	-	58.6
Loans to Global George Limited	3.5	-

Interest on intercompany loans within the group is charged on an arm's length basis at a rate of 6% (2009 6%)

£12.4m was paid to Broadstreet of Munsbach Sarl, a fellow subsidiary of the Group's ultimate parent company, during the year for interest due on Eurobonds (Note 8). At 31 December 2010, the Group's liability in respect of Eurobonds held by fellow subsidiaries of the ultimate parent company was £149.2m. During the year, license fees of £11.6m have been charged by Global George Limited, a fellow subsidiary of the Group's ultimate parent company, which are included in intercompany payables at the year end.

Amounts owed by fellow group entities totalled £1,794.8m at 31 December 2010, as disclosed in Note 16.

Amounts owed to fellow group entities totalled £2,543.3m at 31 December 2010, as disclosed in Note 18.

#### *Other related party transactions*

Key management are the statutory directors and transactions with them are disclosed in Note 6.

## Notes (continued)

### 27 Ultimate parent company and parent company of larger group

The Group's immediate parent company is Corinth Investments Limited, a company incorporated in England and Wales

The next smallest group at which consolidated financial statements are prepared is Wal-Mart Stores (UK) Limited. Copies of these financial statements are available for inspection at its registered office ASDA House, Southbank, Great Wilson Street, Leeds, LS11 5AD

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

### 28 Post balance sheet events

#### *Business combinations*

On 13 April 2011, the Group acquired 100% of the voting shares of Netto Foodstores Limited for an initial consideration of £750m. The transaction will enable the Group to convert Netto's UK locations into ASDA stores and integrate them into its supermarkets format

Due to the limited time available between the acquisition and the approval of the financial statements, the Group is still in the process of establishing the fair value of the assets and liabilities acquired. The book value of the net assets acquired was £321m. The consideration was satisfied by cash, which was funded by the receipt of an intercompany loan from a fellow subsidiary of the Group's ultimate parent company

#### *Defined benefit pension scheme closure*

On 12 February 2011, the Group and the trustee body agreed to close the defined benefit pension scheme to future accrual. As a result of the closure, plan participants became eligible to join one of ASDA's existing defined contribution schemes, and the Group will pay £43 0m to the plan participants to facilitate transition to the replacement pension arrangements. This transitional payment will be recorded as an expense in the year ending 31 December 2011. The effect of this decision on the pension liability as at the date of closure is a reduction in the liability of £57 0m. This impact has not been reflected in these financial statements as the relevant recognition criteria were not met at the balance sheet date

#### *Change in rate of taxation*

The Finance (No 2) Act received Royal Assent on 27 July 2010 and announced a reduction in the main rate of corporation tax from 28% to 27% with effect from 1 April 2011. Deferred tax has therefore been provided at 27%. Since the balance sheet date it has been announced that the corporation tax rate will be reduced to 26% with effect from 1 April 2011. The budget on 23 March 2011 announced further reductions of 1% per annum in the main rate of corporation tax down to 23% by 1 April 2014. None of these subsequent changes had been substantively enacted by the balance sheet date

In addition, on 22 June 2010 the Government announced 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. These changes were not substantively enacted at the balance sheet date. If these changes had been substantively enacted at the balance sheet date, the deferred tax liability at 31 December 2010 would have reduced by £15 4m

The maximum increase in the deferred tax expense for the year ended 31 December 2010 would have been £10 5m and the maximum decrease in the deferred tax credit to the statement of changes in equity would be £4 9m

## ASDA Group Limited – Parent Company

### 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 of the profit or loss of the company for that period. In preparing those 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 GROUP LIMITED

We have audited the parent company financial statements of ASDA Group Limited for the year ended 31 December 2010 which comprise the balance sheet and the related notes 1 to 13. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### *Respective responsibilities of directors and auditors*

As explained more fully in the directors' responsibilities statement set out on page 52, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company 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 parent 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 Directors' report 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 parent company's affairs as at 31 December 2010,
- 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 parent company 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 parent company financial statements are not in agreement with the accounting records and returns, or
- Certain disclosures of directors' remuneration specified by law are not made, or
- We have not received all the information and explanations we require for our audit.

### *Other matters*

We have reported separately on the consolidated financial statements of ASDA Group Limited for the year ended 31 December 2010.

*Ernst & Young LLP*  
Christabel Cowling (Senior statutory auditor)

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

*22nd June 2011*



**Company balance sheet**  
*as at 31 December 2010*

	<i>Note</i>	2010 £m	2009 £m
<b>Fixed assets</b>			
Investments	5	2 799 4	2 799 4
<b>Current assets</b>			
Debtors	6	1,170 0	1,829 4
Cash	7	200 3	115 2
		1,370 3	1,944 6
<b>Creditors</b> amounts falling due within one year			
Borrowings	9	-	(75 9)
Other creditors	8	(1,919 0)	(2 459 8)
		(1,919 0)	(2 535 7)
<b>Net current liabilities</b>		(548 7)	(591 1)
<b>Total assets less current liabilities</b>		2 250 7	2 208 3
<b>Creditors</b> amounts falling due after more than one year			
Borrowings	9	(149 2)	(149 2)
<b>Net assets</b>		2,101 5	2,059 1
<b>Capital and reserves</b>			
Share capital	10	783 9	783 9
Share premium	11	568 4	568 4
Revaluation reserve	11	156 2	156 2
Profit and loss account	11	593 0	550 6
<b>Total shareholders' funds</b>		2,101 5	2,059 1

These financial statements were approved by the board of directors on 17 June 2011 and were signed on its behalf by

  
J.J. McKenna  
Director

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

#### *Accounting basis*

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

No profit and loss account is presented by the Company, as permitted by Section 408 of the Companies Act 2006. The Company has taken the exemption under FRS 1 '*Cash Flow Statements*' not to present a cash flow statement

Under the provisions of FRS 8 '*Related Parties*' the Company is not required to disclose details of intragroup transactions between group entities as the parent's financial statements are presented with consolidated accounts

The Company has taken advantage of the exemption in paragraph 2D of FRS 29 '*Financial Instruments Disclosures*' and has not disclosed information required by that standard, as the Group's consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7 '*Financial Instruments Disclosures*'

#### *Investments*

Investments in subsidiaries are stated at cost less provision for impairment

Short term investments are stated at the lower of cost and net realisable value. All income from these investments is included in profit and loss as interest receivable and similar income

#### *Foreign currencies*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate. All differences are taken to profit and loss

### 2 Auditors' remuneration

The Company's audit fee for the year ended 31 December 2010 was £2,800 (2009 £2,800). The Company's audit costs are paid by another group company

### 3 Employee numbers and costs

The Company is an intermediate holding company and has no employees other than directors

Directors' remuneration is paid by another group company. Directors' time is spent predominantly in relation to ASDA Stores Limited, with limited time spent in relation to ASDA Group Limited as a company. It is therefore not deemed practical to allocate a portion of these costs to ASDA Group Limited as a company

## Notes (continued)

### 4 Dividends

	Year Ended 31 December 2010 £m	Year Ended 31 December 2009 £m
<i>Declared and paid during the year</i>		
Dividend of 7.33p per share (2009 5.74p per share)	230.0	180.0

### 5 Fixed asset investments

	Investment in subsidiaries £m
Cost at 1 January 2010 and 31 December 2010	2,812.7
Impairment at 1 January 2010 and 31 December 2010	(13.3)
<b>Net book value at 31 December 2010</b>	<b>2,799.4</b>
Net book value at 31 December 2009	2,799.4

Following a review of the carrying value of investments held by the Company, no impairment charge (2009 £nil) has been recognised.

In the prior year (6 August 2009) as part of a group reconstruction the Company sold its investment in one of its subsidiaries, Corinth Services Limited, to its immediate parent company Wal-Mart Stores (UK) Limited, in exchange for intercompany debt of £174.7m. The carrying value of the investment disposed was £150.9m, giving rise to a gain on disposal in the prior year in the Company of £23.8m. Following this group reconstruction, on 21 August 2009, Corinth Services Limited changed its name to Corinth Investments Limited.

#### *Subsidiary undertakings*

As at 31 December 2010, the following companies, being those whose results principally affect the financial position of the Group, were subsidiary undertakings whose ordinary share capital was wholly owned, and which were registered in England and Wales and operating in the UK.

	<i>Principal activities</i>	<i>Holding company</i>
ASDA Stores Limited	Retailing	ASDA Group Limited
McLagan Investments Limited	Property Investment	ASDA Group Limited
The Burwood House Group Limited	Property Investment	McLagan Investments Limited

**Notes (continued)**

**6 Debtors**

	2010 £m	2009 £m
Amounts owed by group undertakings	1,170.0	1,829.4

Amounts owed by group undertakings attract interest at an effective rate of 6% (2009: 6%)

**7 Cash**

	2010 £m	2009 £m
Cash	200.3	115.2

Cash held by the company is in short term instruments with approved counterparties

**8 Creditors – amounts falling due within one year**

	2010 £m	2009 £m
Amounts owed to group undertakings	1,914.0	2,449.2
Accruals	5.0	10.6
	1,919.0	2,459.8
Borrowings (Note 9)	-	75.9

Amounts owed to group undertakings attract interest at an effective rate of 6% (2009: 6%)

## Notes (continued)

### 9 Borrowings

	2010 £m	2009 £m
<i>Amounts repayable within one year</i>		
Bonds due 2010 (a)	-	75.9
<i>Amounts repayable between one and five years</i>		
Bonds due 2015 (b)	149.2	-
<i>Amounts repayable in five years or more</i>		
Bonds due 2015 (b)	-	149.2
	<u>149.2</u>	<u>225.1</u>

a) On 31 March 1989, the Company issued £125.0m of unsecured 10 7/8% bonds at 101.753% of nominal value redeemable at par on 20 April 2010, unless previously redeemed at the Company's request, at the higher of par or a price calculated to provide a yield equal to that earned on 12% Exchequer Stock 2013/2017. £16.2m of these bonds were subsequently redeemed at the Company's request in 1993 and a further £33.0m were redeemed at the Company's request in 1997. The remaining bonds have been redeemed in full on 20 April 2010.

b) On 17 July 1998, the Company issued £150.0m of unsecured 6 5/8% bonds at 99.441% of nominal value redeemable at par on 17 July 2015 unless previously redeemed at the Company's request, at the higher of the principal amount or a price calculated to provide a yield equal to that earned on 8% Treasury Stock 2015.

On 17 September 2007, all of the outstanding Eurobonds issued by the Company were officially migrated from the Main Market to the Professional Securities Market of the London Stock Exchange.

As at 31 December 2010, all borrowings were in Sterling at fixed rates of interest.

The weighted average interest rate of fixed rate debt is 6.9% (2009: 8.1%).

### 10 Share capital

	Number	£m
<i>Authorised at 31 December 2009 and 31 December 2010</i>		
Ordinary shares of 25p each	5,000,000,000	1,250.0
<i>Allotted, called up and fully paid at 31 December 2009 and 31 December 2010</i>		
Ordinary shares of 25p each	3,135,704,690	783.9

## Notes (continued)

### 11 Share premium and other reserves

	Share premium account £m	Revaluation reserve £m	Profit and loss account £m	Total £m
At 1 January 2010	568.4	156.2	550.6	1,275.2
Profit for the year	-	-	272.4	272.4
Dividends paid during the year	-	-	(230.0)	(230.0)
<b>At 31 December 2010</b>	<b>568.4</b>	<b>156.2</b>	<b>593.0</b>	<b>1,317.6</b>

In accordance with the exemptions given by Section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account

The profit for the financial year in the financial statements of the Company was £272.4m (2009 £282.2m)

### 12 Commitments

The Company has no financial commitments (2009 none)

### 13 Ultimate parent company and parent company of larger group

The Company's immediate parent company is Corinth Investments Limited a company incorporated in England and Wales

The next smallest group at which consolidated financial statements are prepared is Wal-Mart Stores (UK) Limited. Copies of these financial statements are available for inspection at its registered office ASDA House, Southbank Great Wilson Street, Leeds LS11 5AD

In the directors' opinion the ultimate parent company 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