

ASDA STORES LIMITED

Report and Financial Statements

31 December 2010

Registered No 464777

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# ASDA Stores Limited

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Registered No 464777

## **DIRECTORS**

A J Bond	resigned 1 January 2011
J J McKenna	
A Clarke	
D Blackhurst	resigned 12 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, resigned 20 July 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

## **BANKERS**

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

## DIRECTORS' REPORT

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

### **Principal activities**

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

### **Results and dividends**

Profit after taxation for the year of £328.8m (2009: £445.4m), a decrease of £116.6m on the previous year.

No dividend was paid during the year (2009: £nil)

### **Business review 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.

### **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 £89.3m (17.4%) to £424.2m
- Operating profit excluding technical assistance, services and royalties and share option costs increased by £65.6m (11.5%) to £637.2m

### **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.

## DIRECTORS' REPORT (CONTINUED)

### *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 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.

### **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.

## DIRECTORS' REPORT (CONTINUED)

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.

- **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.

## DIRECTORS' REPORT (CONTINUED)

- **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.

### **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%. 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, the maximum effect on the net deferred tax liability as at 31 December 2010 would have been a decrease of £24.5m and a net decrease on the deferred tax expense of approximately £24.5m. The effect on the deferred tax asset held in relation to the pension fund deficit would be a reduction of £5.0m which would be recognised through the Statement of recognised gains and losses.

#### ***OFT dairy enquiry***

On 10 August 2011 the OFT made a decision on the dairy pricing investigation, see note 15 for further details of the impact on the Company of this decision.

# ASDA Stores Limited

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REGISTERED NUMBER 464777

## DIRECTORS' REPORT (CONTINUED)

### Financial instruments

The company's financial risk management objectives and policies are further discussed in note 1

### 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

### 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.

# ASDA Stores Limited

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REGISTERED NUMBER 464777

## DIRECTORS' REPORT (CONTINUED)

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' 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 company's auditors, each of these directors confirms that

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

### Re-appointment of auditors

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

On behalf of the board

  
J J McKenna  
Director  
19 September 2011



## DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ASDA STORES LIMITED

We have audited the financial statements of ASDA Stores Limited for the year ended 31 December 2010 which comprise the profit and loss account, the statement of total recognised gains and losses, the reconciliation of shareholders' funds, the note of historical cost profits and losses, the balance sheet and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### *Respective responsibilities of directors and auditors*

As explained more fully in the directors' responsibilities statement set out on page 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 company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### *Opinion on financial statements*

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### *Opinion on other matters prescribed by the Companies Act 2006*

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

### *Matters on which we are required to report by exception*

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

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

*Ernst & Young LLP*

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

23-9-11

# ASDA Stores Limited

## PROFIT AND LOSS ACCOUNT for the year ended 31 December 2010

		<i>Year Ended 31 December 2010 £m</i>	<i>Year Ended 31 December 2009 £m</i>
	<i>Notes</i>		
<b>Turnover</b>	2	20,535.3	19,818.6
<b>Operating costs</b>	3	(20,111.1)	(19,305.1)
<b>Operating profit</b>		424.2	513.5
<b>Gain on sale of investments</b>	6	-	78.5
<b>Profit on ordinary activities before interest and taxation</b>		424.2	592.0
<b>Interest receivable and similar income</b>	7	186.5	229.8
<b>Interest payable and similar charges</b>	8	(125.7)	(259.8)
<b>Other finance income</b>	23	6.8	9.1
<b>Profit on ordinary activities before taxation</b>		491.8	571.1
<b>Taxation</b>	9	(163.0)	(125.7)
<b>Profit for the year</b>		328.8	445.4

The results above are all attributable to continuing operations

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 December 2010

		<i>Year Ended 31 December 2010 £m</i>	<i>Year Ended 31 December 2009 £m</i>
	<i>Notes</i>		
<b>Profit for the year</b>		328.8	445.4
<b>Actuarial loss on pension scheme</b>	23	(123.8)	(206.0)
<b>Movement on deferred tax relating to pension deficit</b>		33.4	57.7
<b>Total recognised gains and losses relating to the year</b>		238.4	297.1

# ASDA Stores Limited

## RECONCILIATION OF SHAREHOLDERS' FUNDS

for the year ended 31 December 2010

	<i>Notes</i>	<i>Year Ended 31 December 2010 £m</i>	<i>Year Ended 31 December 2009 £m</i>
Profit for the year		328 8	445 4
Shares issued in the year	20	-	960 0
Actuarial loss on pension scheme	23	(123 8)	(206 0)
Movement on deferred tax relating to pension deficit		33 4	57 7
Net increase in shareholders' funds		238 4	1,257 1
Opening shareholders' funds		4,016 7	2,759 6
Closing shareholders' funds		4,255 1	4,016 7

## NOTE OF HISTORICAL COST PROFITS AND LOSSES

for the year ended 31 December 2010

	<i>Year Ended 31 December 2010 £m</i>	<i>Year Ended 31 December 2009 £m</i>
Profit on ordinary activities before taxation	491 8	571 1
Adjustment of depreciation to historical cost basis	-	(2 6)
Historical cost profit on ordinary activities before taxation	491 8	568 5
Historical cost profit after taxation	328 8	442 8


# ASDA Stores Limited

## BALANCE SHEET

as at 31 December 2010

		31 December 2010 £m	31 December 2009 £m
	<i>Notes</i>		
<b>FIXED ASSETS</b>			
Intangible assets	10	23 8	26 7
Tangible fixed assets	11	4,407 2	4,320 0
Investments	12	0 2	0 2
		<hr/>	<hr/>
		4,431 2	4,346 9
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Stocks	13	992 1	911 0
Debtors	14	2,536 1	4,070 7
Cash at bank and in hand		211 0	221 0
		<hr/>	<hr/>
		3,739 2	5,202 7
<b>CREDITORS</b> amounts falling due within one year	15	(3,432 6)	(5,115 8)
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>		306 6	86 9
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		4,737 8	4,433 8
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	16	(241 4)	(266 0)
		<hr/>	<hr/>
<b>NET ASSETS EXCLUDING PENSION OBLIGATION</b>		4,496 4	4,167 8
Defined benefit pension obligation	23	(241 3)	(151 1)
		<hr/>	<hr/>
<b>NET ASSETS</b>		4,255 1	4,016 7
		<hr/>	<hr/>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	20	594 8	594 8
Share premium account	21	950 3	950 3
Revaluation reserve	21	111 5	111 5
Profit and loss account	21	2,598 5	2,360 1
		<hr/>	<hr/>
<b>TOTAL SHAREHOLDERS' FUNDS</b>		4,255 1	4,016 7
		<hr/>	<hr/>

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

  
 J. McKenna  
 Director  
 19 September 2011

# ASDA Stores Limited

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## NOTES TO THE ACCOUNTS

as at 31 December 2010

### 1. ACCOUNTING POLICIES

#### ACCOUNTING BASIS

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. They have been prepared on the going concern basis, as the directors have assured themselves that the company will be able to continue in operational existence for the foreseeable future.

In accordance with FRS 1 '*Cash Flow Statements*' no cash flow statement has been prepared as the company is a wholly owned subsidiary undertaking of ASDA Group Limited, which produces a consolidated cash flow statement.

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

#### TURNOVER

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

#### INCOME FROM CONCESSIONS AND COMMISSIONS

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

#### INTEREST RECEIVABLE AND SIMILAR INCOME

Interest receivable and similar income comprises interest receivable on funds invested, dividend income and foreign exchange gains.

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

#### INTEREST PAYABLE AND SIMILAR CHARGES

Interest payable and similar charges comprise interest payable and foreign exchange losses.

Interest payable is recognised in the profit and loss account as it accrues, using the effective interest method.

#### 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.

#### 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)

NOTES TO THE ACCOUNTS

as at 31 December 2010

1. ACCOUNTING POLICIES (CONTINUED)

**TANGIBLE FIXED ASSETS**

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

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

Freehold property	30 - 50 years
Long leasehold property	30 - 50 years
Short leasehold property	Over period of lease
Plant, fixtures and fittings	3 - 15 years

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

**INVESTMENTS**

In the company's accounts, investments in subsidiary undertakings are stated at cost less amounts written off. Provision against the underlying value of the investments in subsidiary undertakings is made where, in the opinion of the directors, there is impairment to the value of the underlying business.

**OPERATING LEASES**

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

**CASH AT BANK AND IN HAND**

Cash at bank and in hand comprises cash balances and call deposits with an original maturity of three months or less.

**DEBTORS**

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

**STOCKS**

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

**TRADE AND OTHER CREDITORS**

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

NOTES TO THE ACCOUNTS

as at 31 December 2010

1. ACCOUNTING POLICIES (CONTINUED)

**TAXATION**

Taxation comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in 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 recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

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

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

**PROVISIONS**

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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.

**PENSIONS**

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

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

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

**SHARE BASED PAYMENTS**

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



NOTES TO THE ACCOUNTS

as at 31 December 2010

1. ACCOUNTING POLICIES (CONTINUED)

**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 the profit and loss account.

**USE OF ASSUMPTIONS AND ESTIMATES**

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, assumptions for measuring pensions provisions and fair value of share based payments and the likelihood that tax assets can be realised.

2. **TURNOVER**

Turnover comprises the value of sales excluding value added tax. Turnover is derived from the principal operations in the United Kingdom.

3. **OPERATING COSTS**

This is stated after charging

	<i>Year Ended 31 December 2010 £m</i>	<i>Year Ended 31 December 2009 £m</i>
Cost of inventories recognised as an expense	15,701.7	15,116.0
Employment costs (note 5)	2,279.0	2,104.0
Amortisation of intangible assets (note 10)	2.9	2.9
Depreciation of tangible fixed assets (note 11)	333.9	314.5
Loss on sale of tangible fixed assets	13.3	23.4
	<hr/>	<hr/>
<b>OPERATING LEASE CHARGES</b>		
- Land and buildings	82.0	80.9
- Plant and machinery	45.4	46.2
	<hr/>	<hr/>
	127.4	127.1
	<hr/>	<hr/>
<b>AMOUNTS PAID TO AUDITORS</b>		
- Audit fees	0.3	0.3
	<hr/>	<hr/>

# ASDA Stores Limited

## NOTES TO THE ACCOUNTS as at 31 December 2010

### 4. DIRECTORS' EMOLUMENTS

	<i>Year Ended 31 December 2010 £m</i>	<i>Year Ended 31 December 2009 £m</i>
Total directors' remuneration excluding pension costs	6.6	6.2
	<i>No</i>	<i>No</i>
Number of directors who are members of the defined benefit scheme	9	9
Number of directors who exercised share options	8	8
Number of directors entitled to receive shares under long term incentive schemes	4	8
Amounts in respect of the highest paid director are as follows		
Total remuneration excluding pensions	1.3	1.7
Accumulated total accrued pension entitlement	0.1	0.1

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

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

### 5. EMPLOYMENT COSTS

	<i>Year Ended 31 December 2010 £m</i>	<i>Year Ended 31 December 2009 £m</i>
Wages and salaries	2,052.9	1,917.7
Share based payments (note 19)	16.7	(1.2)
Social security costs	124.0	117.5
Other pension costs	85.4	70.0
	2,279.0	2,104.0

The average number of employees during the year was 172,548 (2009 168,666). The average number of full-time equivalents was 110,548 (2009 108,007).

# ASDA Stores Limited

## NOTES TO THE ACCOUNTS

as at 31 December 2010

### 6. GAIN ON SALE OF INVESTMENTS

On 6 August 2009, as part of a Group reconstruction, the company sold its investment in Corinth Services Limited, to a fellow Group company, Wal-Mart Stores (UK) Limited, in exchange for intercompany debt of £578.5m. This gave rise to a gain on disposal in the year of £78.5m.

At ASDA Group consolidated level, the consideration was equal to the value of net assets disposed, and hence nil gain or loss on disposal recognised. The restructure was performed to improve the financial and administrative efficiency of the ASDA UK Group, without impacting the amount of tax payable by the overall UK Group.

Following the Group reconstruction, on 21 August 2009 Corinth Services Limited changed its name to Corinth Investments Limited.

### 7. INTEREST RECEIVABLE AND SIMILAR INCOME

	<i>Year Ended 31 December 2010 £m</i>	<i>Year Ended 31 December 2009 £m</i>
Bank interest receivable	1.6	0.7
Interest receivable from group undertakings	184.8	229.0
Income from subsidiary undertakings	0.1	0.1
	<u>186.5</u>	<u>229.8</u>

### 8. INTEREST PAYABLE AND SIMILAR CHARGES

	<i>Year Ended 31 December 2010 £m</i>	<i>Year Ended 31 December 2009 £m</i>
Interest payable to group undertakings	<u>125.7</u>	<u>259.8</u>

# ASDA Stores Limited

## NOTES TO THE ACCOUNTS as at 31 December 2010

### 9. TAXATION

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

	<i>Year Ended 31 December 2010 £m</i>	<i>Year Ended 31 December 2009 £m</i>
<b>CURRENT TAX</b>		
UK corporation tax on profit for the year	161.5	101.0
Adjustments in respect of prior periods	16.1	10.4
<b>TOTAL CURRENT TAX CHARGE</b>	<b>177.6</b>	<b>111.4</b>
<b>DEFERRED TAX</b>		
Origination and reversal of timing differences	(11.8)	(5.1)
Adjustments in respect of prior periods	0.3	19.4
Reduction in deferred tax asset relating to pension obligation	3.0	-
Effect of rate change	(6.1)	-
<b>TOTAL DEFERRED TAX (NOTE 17)</b>	<b>(14.6)</b>	<b>14.3</b>
<b>TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES</b>	<b>163.0</b>	<b>125.7</b>

A reconciliation of the current 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

	<i>Year Ended 31 December 2010 £m</i>	<i>Year Ended 31 December 2009 £m</i>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b>	<b>491.8</b>	<b>571.1</b>
<b>PROFIT ON ORDINARY ACTIVITIES MULTIPLIED BY THE STANDARD RATE OF UK CORPORATION TAX OF 28% (2009: 28%)</b>	<b>137.7</b>	<b>159.9</b>
Effects of		
Accelerated capital allowances and other timing differences	11.4	5.1
Non-qualifying depreciation	12.3	10.6
Loss on sale of non-qualifying assets	0.9	2.1
Permanent differences	(0.3)	(1.6)
Pension contributions in excess of profit and loss charge	(0.9)	(4.6)
Prior period adjustments	16.1	10.4
Losses surrendered from parent company for no payment	-	(14.3)
Sale of investments	-	(22.0)
Current year income taxed in prior periods	-	(34.2)
Change in tax rate	0.4	-
<b>CURRENT TAX CHARGE FOR YEAR</b>	<b>177.6</b>	<b>111.4</b>

# ASDA Stores Limited

## NOTES TO THE ACCOUNTS as at 31 December 2010

### 10 INTANGIBLE ASSETS

	<i>Design Licenses</i> £m	<i>Brand</i> £m	<i>Total</i> £m
<b>COST</b>			
At 1 January 2010 and 31 December 2010	6.4	31.7	38.1
<b>AMORTISATION</b>			
At 1 January 2010	5.1	6.3	11.4
Amortisation during the year	1.3	1.6	2.9
At 31 December 2010	6.4	7.9	14.3
<b>NET BOOK VALUE</b>			
At 31 December 2010	-	23.8	23.8
At 31 December 2009	1.3	25.4	26.7

The design licences asset is being 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.

# ASDA Stores Limited

## NOTES TO THE ACCOUNTS as at 31 December 2010

### 11. TANGIBLE FIXED ASSETS

	<i>Freehold properties £m</i>	<i>Leasehold properties £m</i>	<i>Plant, fixtures and fittings £m</i>	<i>Total £m</i>
<b>COST</b>				
At 1 January 2010	3,520.5	345.3	2,363.6	6,229.4
Additions	274.4	64.1	204.2	542.7
Disposals	(9.1)	(1.2)	(59.8)	(70.1)
Transfers	(171.8)	37.9	-	(133.9)
At 31 December 2010	3,614.0	446.1	2,508.0	6,568.1
<b>DEPRECIATION</b>				
At 1 January 2010	363.2	129.1	1,609.9	2,102.2
Charge for the year	70.2	37.2	226.5	333.9
Disposals	(3.4)	(0.7)	(52.7)	(56.8)
Transfers to other group undertakings	(0.4)	-	-	(0.4)
At 31 December 2010	429.6	165.6	1,783.7	2,378.9
Net book amounts at 31 December 2010	3,184.4	280.5	724.3	4,189.2
Assets under construction at 31 December 2010				218.0
<b>NET BOOK VALUE AT 31 DECEMBER 2010</b>				4,407.2
Net book amounts at 31 December 2009	3,157.3	216.2	753.7	4,127.2
Assets under construction at 31 December 2009				192.8
<b>NET BOOK VALUE AT 31 DECEMBER 2009</b>				4,320.0

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

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

# ASDA Stores Limited

## NOTES TO THE ACCOUNTS

as at 31 December 2010

### 11. TANGIBLE FIXED ASSETS (CONTINUED)

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

	<i>31 December 2010 £m</i>	<i>31 December 2009 £m</i>
Freehold properties	<u>240 0</u>	<u>240 9</u>

The net book amount of leasehold property includes

	<i>31 December 2010 £m</i>	<i>31 December 2009 £m</i>
Leases with 50 years or more unexpired	171 3	144 7
Leases with less than 50 years unexpired	109 2	71 5
	<u>280 5</u>	<u>216 2</u>

### 12. INVESTMENTS

	<i>£m</i>
Cost at 1 January 2010 and 31 December 2010	<u>0 2</u>

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

On 6 October 2009, the company acquired International Produce Limited for a consideration of £0 1m, which was equal to the value of its net assets at that date. Further analysis of the acquisition has not been disclosed on the grounds of materiality.

On 6 August 2009 as part of a Group reconstruction, the company sold its investment in Corinth Services Limited to a fellow Group company, Wal-Mart Stores (UK) Limited in exchange for intercompany debt of £578 5m. This gave rise to a gain on disposal in the year of £78 5m. Full details are provided in note 6.

### 13. STOCKS

	<i>31 December 2010 £m</i>	<i>31 December 2009 £m</i>
Goods held for resale	990 3	910 2
Goods not held for resale	1 8	0 8
	<u>992 1</u>	<u>911 0</u>

# ASDA Stores Limited

## NOTES TO THE ACCOUNTS

as at 31 December 2010

### 14. DEBTORS

	<i>31 December</i> 2010 £m	<i>31 December</i> 2009 £m
Amounts owed by group undertakings	2,224.3	3,723.7
Trade debtors	144.3	151.6
Bad debt provision	(7.8)	(8.5)
Other debtors	35.0	26.5
Prepayments and accrued income	114.3	99.3
Taxation	26.0	78.1
	<u>2,536.1</u>	<u>4,070.7</u>

### 15. CREDITORS: amounts falling due within one year

	<i>31 December</i> 2010 £m	<i>31 December</i> 2009 £m
Trade creditors	2,039.7	1,915.3
Amounts owed to group undertakings	531.1	2,461.7
Amounts owed to ultimate parent company	97.6	18.8
Other taxes and social security	186.4	160.3
Other creditors	129.6	115.0
Accruals	448.2	444.7
	<u>3,432.6</u>	<u>5,115.8</u>

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

Also included within trade and other payables is an allowance for costs associated with the OFT inquiries into dairy pricing activities. The OFT published its decision on dairy on 10 August 2011 and ASDA has until 10 October 2011 to decide whether it intends to appeal the decision. Until this is resolved, the amounts included in these financial statements have not been disclosed on the basis that it could be prejudicial.

### 16. PROVISION FOR LIABILITIES AND CHARGES

	<i>31 December</i> 2010 £m	<i>31 December</i> 2009 £m
Deferred taxation (note 17)	165.2	182.8
Provisions (note 18)	76.2	83.2
	<u>241.4</u>	<u>266.0</u>



# ASDA Stores Limited

## NOTES TO THE ACCOUNTS

as at 31 December 2010

### 17 DEFERRED TAXATION

	31 December 2010 £m	31 December 2009 £m
<b>AMOUNT PROVIDED</b>		
Accelerated capital allowances	188 6	208 6
Pension costs	(0 2)	(0 3)
Origination and reversal of timing differences	(23 2)	(25 5)
	<u>165 2</u>	<u>182 8</u>
		<i>Total</i> <i>£m</i>
<b>MOVEMENT IN DEFERRED TAX PROVISION</b>		
At 1 January 2010		182 8
Provision charged through the profit and loss account (note 9)		(14 6)
Less FRS17 charge to deferred tax included in net pension obligations		(3 0)
		<u>165 2</u>
At 31 December 2010		

Deferred tax has been provided at 27% (2009 28%)

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

Corporation tax of £17 0m (2009 £17 0m) has been deferred as a consequence of rollover relief claims made in respect of the disposal of certain fixed assets in prior periods.

No provision has been made for deferred tax on accumulated capital losses in the company of £39 0m (2009 £39 0m) as the likelihood of future use cannot be determined with certainty.

### 18. PROVISIONS

	Share option provision £m	Onerous lease provision £m	Total £m
At 1 January 2010	67 5	15 7	83 2
Provided during the year	16 7	0 5	17 2
Utilised during the year	(21 3)	(2 9)	(24 2)
	<u>62 9</u>	<u>13 3</u>	<u>76 2</u>
At 31 December 2010			

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

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

## ASDA Stores Limited

### NOTES TO THE ACCOUNTS

as at 31 December 2010

#### 19 SHARE BASED PAYMENTS

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

The company offers five share based payment schemes to employees to enable them to own shares in the ultimate parent company. Three of these schemes involve the granting of options to employees to acquire shares in the ultimate parent company at predetermined exercise prices and two of the schemes involve the granting of rights to receive shares in the ultimate parent company for nil consideration. 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.

The number and weighted average exercise prices of all share options 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).

# ASDA Stores Limited

## NOTES TO THE ACCOUNTS

as at 31 December 2010

### 19. SHARE BASED PAYMENTS (CONTINUED)

#### *Sharesave scheme*

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

Number of options (thousands)	31 December 2010			Number of options (thousands)	31 December 2009		
	Range of exercise price £	Weighted average exercise price £	Weighted average remaining contractual life (years)		Range of exercise price £	Weighted average exercise price £	Weighted average remaining contractual life (years)
4,445	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 Inland Revenue approval in 1999. Options are granted every three years to employees who are not eligible for share options under the Wal-Mart Stock Incentive Plan, and are exercisable in three or six years from date of grant, depending on the year of grant. The exercise of options under this scheme are treated as cash-settled.

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

#### *Wal-Mart Stock Incentive Plan (WSIP) scheme*

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

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

# ASDA Stores Limited

## NOTES TO THE ACCOUNTS

as at 31 December 2010

### 19. SHARE BASED PAYMENTS (CONTINUED)

#### *Restricted Stock Rights (RSR) scheme*

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

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

	Number of options (thousands) 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	-	-

#### *Performance share plan (PSP) scheme*

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

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

In 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.

The number of share options 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)
Outstanding at the end of the period	534	627
Vested at the end of the period	-	-

# ASDA Stores Limited

## NOTES TO THE ACCOUNTS

as at 31 December 2010

### 19. SHARE BASED PAYMENTS (CONTINUED)

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 company has used historical volatilities that correlate with the expected term of the options.

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

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)
Total carrying amount of liabilities	62.9	67.5

### 20. CALLED UP SHARE CAPITAL

Allotted, called up and fully paid	No	£m
At 31 December 2010 and 31 December 2009		
Ordinary shares of £1 each	28,008,978	28.0
Redeemable ordinary shares of £1 each	566,781,240	566.8
	594,790,218	594.8

# ASDA Stores Limited

## NOTES TO THE ACCOUNTS

as at 31 December 2010

### 20. CALLED UP SHARE CAPITAL (CONTINUED)

#### Ordinary redeemable shares

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

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

On 6 August 2009, as part of a group reconstruction, ASDA Stores Limited issued 9,925,122 redeemable ordinary shares of £1 to its immediate parent, ASDA Group Limited, in exchange for intercompany debt of £960.0m

### 21. RESERVES

	<i>Share capital</i>	<i>Share premium</i>	<i>Revaluation reserve</i>	<i>Profit and loss account</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
At 1 January 2010	594.8	950.3	111.5	2,360.1	4,016.7
Profit for the year	-	-	-	328.8	328.8
Actuarial loss on pension scheme	-	-	-	(123.8)	(123.8)
Deferred tax movement relating to pension scheme	-	-	-	33.4	33.4
At 31 December 2010	594.8	950.3	111.5	2,598.5	4,255.1

### 22. FINANCIAL 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)

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

	<i>31 December 2010 £m</i>	<i>31 December 2009 £m</i>
Less than one year	1.1	0.5
Between one and five years	3.7	3.7
More than five years	82.1	76.6
	86.9	80.8

NOTES TO THE ACCOUNTS

as at 31 December 2010

**22. FINANCIAL COMMITMENTS (CONTINUED)**

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

	<i>31 December 2010 £m</i>	<i>31 December 2009 £m</i>
Less than one year	6.6	2.7
Between one and five years	19.4	25.9
After five years	5.0	-
	<u>31.0</u>	<u>28.6</u>

**23. PENSIONS**

The company operates a defined benefit pension scheme open to all full-time and part-time salaried colleagues who commenced their employment with the company prior to 1 January 2005, a defined contribution scheme open to full-time and part-time colleagues who commenced their employment with the company after 1 January 2005, and a defined contribution plan open to all hourly paid colleagues. These schemes provide a pension in addition to the basic state pension together with other benefits such as life assurance. There is also an unfunded final salary arrangement for salaried colleagues whose salary is in excess of the earnings cap.

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 professional fund managers. The assets of these schemes are held separate from the company's assets.

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

The 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 2007 and updated this in accordance with IAS 19 'Employee Benefits' for the year ended 31 December 2010.

On 12 February 2011, the company and the trustee body agreed to close the scheme to future accruals and, with the consent of a majority of the plan participants, also removed the link between past accrual and future pay increases. In return, the company has paid £43.0m in compensation costs to the plan participants. This curtailment charge will be recorded as an expense in the year ending 31 December 2011. The effect of this decision on the pension liability is expected to be a reduction in the liability of approximately £57m. This impact has not been reflected in these financial statements as the relevant recognition criteria were not met at the balance sheet date.

# ASDA Stores Limited

## NOTES TO THE ACCOUNTS

as at 31 December 2010

### 23. PENSIONS (CONTINUED)

A full triennial actuarial valuation has been conducted by an independent qualified actuary as at 5 April 2010 which reflects the impact of the scheme closure. The major assumptions used by the actuary were (in nominal terms)

	31 December 2010	31 December 2009
Rate of increase in salaries	4.35%	4.00%
Rate of increase in pensions payment	3.60%	3.25%
Rate of increase in pensions in deferment	3.60%	3.25%
Discount rate	5.30%	5.70%
Inflation assumption		
- RPI	3.60%	3.25%
- CPI	3.20%	n/a

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 where the scheme rules allow.

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

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

	31 December 2010 £m	31 December 2009 £m
Equity securities	7.10% 681.6	8.0% 831.3
Debt securities	4.30% 215.4	4.5% 227.3
Property	7.10% 35.5	8.0% 40.6
Cash	5.80% 334.4	4.5% 13.5
Total market value of assets	1,266.9	1,112.7
Actuarial value of liability	(1,597.4)	(1,322.6)
Total deficit in the scheme	(330.5)	(209.9)
Related deferred tax asset	89.2	58.8
Net pension liability	(241.3)	(151.1)



# ASDA Stores Limited

## NOTES TO THE ACCOUNTS as at 31 December 2010

### 23. PENSIONS (CONTINUED)

#### Analysis of the amount charged to operating profit

	<i>31 December 2010 £m</i>	<i>31 December 2009 £m</i>
Service cost	53.9	39.9

#### Analysis of the amount credited to other finance income

	<i>31 December 2010 £m</i>	<i>31 December 2009 £m</i>
Expected return on pension scheme assets	81.2	73.0
Interest on pension liabilities	(74.4)	(63.9)
Net return	6.8	9.1

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

	<i>31 December 2010 £m</i>	<i>31 December 2009 £m</i>
Actual return less expected return on assets	58.9	24.0
Experience gains and losses on liabilities	(61.7)	(3.1)
Changes in assumptions	(121.0)	(226.9)
	(123.8)	(206.0)

#### Movement in deficit during the year

	<i>31 December 2010 £m</i>	<i>31 December 2009 £m</i>
At 1 January	(209.9)	(29.4)
Current service cost	(53.9)	(39.9)
Contributions by employer	50.2	56.2
Contributions by members	0.1	0.1
Other finance income	6.8	9.1
Actuarial losses	(123.8)	(206.0)
At 31 December	(330.5)	(209.9)

The actuarial valuation at 31 December 2010 showed an increase in the deficit from £209.9m to £330.5m

# ASDA Stores Limited

## NOTES TO THE ACCOUNTS as at 31 December 2010

### 23. PENSIONS (CONTINUED)

#### History of experience gains and losses

	31 December 2010 £m	31 December 2009 £m	31 December 2008 £m	31 December 2007 £m	31 December 2006 £m
<i>Difference between actual and expected return on scheme assets</i>					
Amount (£)	58.9	24.0	(331.2)	(10.1)	80.8
Percentage of scheme assets	4.6%	2.2%	(34.0%)	(1.0%)	8.0%
<i>Experience gains and losses on scheme liabilities</i>					
Amount (£)	(61.7)	(3.1)	0.0	2.4	0.0
Percentage of scheme liabilities	(3.9%)	(0.3%)	0.0%	0.0%	0.0%
<i>Total amount recognised in statement of total recognised gains and losses</i>					
Amount (£)	(123.8)	(206.0)	(25.5)	40.3	(8.8)
Percentage of scheme assets	(9.8%)	(18.5%)	(3.0%)	3.0%	(1.0%)

The company operates two defined contribution schemes and a defined benefit pension scheme. The assets of the schemes are held separately from those of the company in an independently administered fund. There were no unpaid contributions outstanding at the current or prior year end for the defined contribution schemes. The charge for the year for the defined contribution schemes is £31.5m (2009: £30.1m).

### 24. RELATED PARTY TRANSACTIONS

As a wholly owned subsidiary, the company has taken advantage of the exemption in FRS 8 'Related Party Disclosures' from disclosing transactions with other members of the group.

### 25. PARENT UNDERTAKING AND CONTROLLING PARTY

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

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

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

NOTES TO THE ACCOUNTS

as at 31 December 2010

**26. EVENTS SINCE THE BALANCE SHEET DATE**

*Business combinations*

On 13 April 2011, the Company 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, the maximum effect on the net deferred tax liability as at 31 December 2010 would have been a decrease of £24.5m and a net decrease on the deferred tax expense of approximately £24.5m. The effect on the deferred tax asset held in relation to the pension fund deficit would be a reduction of £5.0m which would be recognised through the Statement of recognised gains and losses.

*OFT dairy enquiry*

On 10 August 2011 the OFT made a decision on the dairy pricing investigation, see note 15 for further details of the impact on the Company of this decision.