ASDA STORES LIMITED

Report and Financial Statements

31 December 2009

Registered No 464777

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DIRECTORS

A J Bond	
J J Mckenna	
A Clarke	
D Blackhurst	
R Bendel	
D Smith	Resigned 31 January 2009
A Thompson	Resigned 30 March 2010
D J Gurr	
C Kuchinad	Appointed 1 December 2009
A J Moore	Appointed 30 March 2010

SECRETARY
E Doohan

AUDITORS
Ernst & Young LLP
1 Bridgewater Place
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REGISTERED OFFICE
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BANKERS
National Westminster Bank plc
Leeds City Office
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REGISTERED NUMBER 464777

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 December 2009

Principal activities

The principal activity of the company is the sale of food, clothing, home and leisure products throughout the United Kingdom

Results and dividends

Profit after taxation for the year at £445 4m increased by £7 2m on the previous year

No dividend was paid during the year (2008 £300 0m)

On 6 August 2009, ASDA Stores Limited issued 9,925,122 £1 redeemable ordinary shares as part of a group reorganisation 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 Further details of the share issue are provided in note 20

Business review and future developments

ASDA delivered a strong performance in 2009, with its highest ever market share and profit growth ahead of sales growth This has been achieved by giving customers great quality products at outstanding value at a time when they needed it most

2009 was another difficult year for consumers, confidence fell as people worried about unemployment and customers chose to use any extra money they had to pay down debt and save more

In this context, ASDA's strategy of being the lowest cost to operate supermarket proved effective once again With customers prioritising their spend more than ever, seeking out value for every pound, ASDA continued to lower prices across the weekly shop, maintaining its position as price leader in the UK supermarket sector

Financial highlights

- Like-for-like sales growth of 6 0% (excluding petrol and VAT)
- Sales outperformance versus the market for fifteen successive quarters to 31 December 2009 (source TNS)
- Operating profit growth ahead of sales growth
- Market share up 0 3% on prior year, to 17 1% (source TNS, total till roll 52 weeks to 27 December 2009)

Operational highlights

- ASDA maintained its price leadership for every week of the year, according to the independent price checker mysupermarket co uk In addition, in June, ASDA won The Grocer Magazine's lowest supermarket for a twelfth successive year, by a record margin
- All parts of the business - food, home and leisure and clothing - performed ahead of their respective markets, with George becoming the highest volume clothing retailer in the UK in November 2009
- ASDA continued to make significant strides forward on quality, winning over 320 quality awards including multiple award winning Wine and Cheese ranges
- ASDA has the longest serving colleagues in retail, this market-leading experience is enabling ASDA to provide customers with even better levels of service
- Expenses as a percentage of sales declined as the ASDA we operate for less programme continued to deliver efficiencies in stores, distribution centres and the home office

DIRECTORS' REPORT

Delivering foundations for future growth

- Fifteen new stores opened during the year, of which three were ASDA Living
- ASDA's grocery home shopping sales are growing rapidly, supported by the launch of a new web platform and dedicated picking centre, and now cover over 97% of the UK population
- ASDA's non-food internet platform continued to be developed and now stocks over a million products, many of which can be ordered online and collected in store

In the context of an uncertain economic outlook, the ASDA purpose to save customers money every day remains highly relevant to customers The strong performance in 2009 reflects the consistency in the ASDA model of low prices, great products, low costs and great colleagues

On 27 May 2010, the company announced the purchase of Netto Foodstores Limited The transaction, which remains subject to regulatory approval, will enable ASDA to convert Netto's UK locations into ASDA stores and integrate them into its new supermarkets division The post balance sheet events note provides further details

Risks and uncertainties

Risk is an inevitable part of business One of the ongoing challenges facing the company is the identification of principal risks, assessment of their likelihood and consequence, and development and monitoring of appropriate controls The company's 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

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 delivering a broad range of products at the lowest prices, and failure to deliver on this could lead to a loss of trust

  This understanding is achieved through regular monitoring of relevant data on aspects such as price position in the market, product availability and other measures of quality and service that are important to ASDA's customers ASDA constantly monitors market information to understand its position relative to competitors and enable appropriate action to be taken on a timely basis

- **Financial risk**

  The company's principal financial risk is ensuring that funds are available at the right time to meet business needs This risk is managed by the Treasury function, which forecasts cash flows and ensures that adequate short term borrowing facilities are in place to meet liabilities to suppliers, colleagues and investors

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

  The company operates a number of pension arrangements for its employees including a defined benefit pension scheme This is subject to risk in relation to its pension deficit which is shown as a liability on the balance sheet The company mitigates 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

DIRECTORS' REPORT

- **Supplier risk**

  The economic climate is becoming more challenging for ASDA's suppliers and customers This puts increased importance on the strength of our control processes and our ability to recognise and respond to supplier issues The company has 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

- **Reputational risk**

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

  Failure to protect the business's reputation could lead to a loss of trust in the ASDA brand and consequently erode this loyalty ASDA regularly engages with customers, both directly and through the monitoring of available external data, in order to ensure that the business does not damage customer perception

  The company operates on terms with suppliers that are mutually agreed and updated as appropriate to reflect changes in the two parties' respective needs To preserve the goodwill of colleagues, all colleagues are involved in shaping the company's People strategy through initiatives such as the annual 'We're Listening Survey' which provide them with the opportunity to give feedback on all aspects of working at ASDA

  Reputational risk is also monitored via the corporate risk mapping process If issues arise the company reviews existing plans to ensure that the right mitigation is in place When matters arise they are managed by tried and tested methods, allowing the rest of the business to focus on the job of delivering for its customers

- **Business continuity risk**

  Detailed disaster recovery plans are in place in the event of an incident which could severely affect the company's ability to trade These plans are regularly tested and updated

- **Regulatory risk**

  The company recognises that it operates in an environment where it can be greatly impacted by changes in Government policy In response to this, ASDA continues to risk assess all regulatory developments and test compliance with internal processes designed to mitigate risks Current processes and procedures continue to be reviewed and where required improvements are made

- **Environmental risk**

  As a retailer, ASDA recognises that it has a responsibility to minimise the adverse impact that its 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 reputation

  In line with Wal-Mart'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, the company has set measurable targets and objectives in each of these areas

  Over the past two years, ASDA has reduced its carbon emissions output by 83,000 tonnes To reduce fleet emissions, ASDA has introduced the use of double-decked trailers, and increased the use of rail as an alternative to road freight ASDA's first 'eco-depot' opened in July 2009 in Didcot, Oxfordshire, constructed using eco-friendly sustainable timber, reclaimed brick and on a previously brownfield site

- **Fraud risk**

  The company has 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

On 31 March 2010, an Advance Pricing Agreement, which would determine the amount of royalty paid to Wal-Mart Stores, Inc each year, received formal approval from the appropriate UK and US authorities These changes included revisions to royalties charged in prior years, which has resulted in the company recognising a reduction of royalties for prior years of £114 9m in these financial statements, and accordingly a net increase in tax liability and tax charge The changes follow discussions with UK and US authorities over a number of years The revision of the royalty agreement is one off in nature and is not expected to recur During the year the underlying royalty payments made to Wal-Mart Stores, Inc , excluding this refund, increased by £46 0m

On 27 May 2010, the company announced it had reached agreement with Dansk Supermarked A/S to purchase its fully owned subsidiary, Netto Foodstores Limited The transaction, which remains subject to regulatory approval, will enable the company to convert Netto's UK locations into ASDA stores and integrate them into its new supermarkets division for units smaller than 25,000 square feet

On 22 June 2010, the UK government announced its intention to propose that Parliament reduce the UK corporate income tax rate from 28% to 24% over a period of four years commencing from 1 April 2011 As at 31 December 2009, the tax rate changes were not substantively enacted If these changes had been substantively enacted, the maximum effect on the net deferred tax liability as at 31 December 2009 would have been a decrease of approximately £26 1m and a net decrease on the deferred tax expense of approximately £26 1m The effect on the deferred tax asset held in relation to the pension fund deficit would be a reduction of £8 4m which would be recognised through the STGRL

Financial instruments

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

Capital management

The primary objective of the company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value

No adjustments have been made to the capital structure of the company in recent years and no changes have been made to the company's objectives, policies or processes during 2009 or 2008

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

Research and development

Essential to the company's success is the delivery of fresh, innovative, good value products, which are unique to ASDA Buying teams, food technologists and marketeers, working closely with suppliers, are continuously searching to improve the quality of the company's products and to develop new ideas, many of which are sold under the ASDA brand, Smartprice, Extra Special and George labels

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DIRECTORS' REPORT

Policy and practice on payment of creditors

The company deals with over ten thousand separate suppliers, and has established trading terms which are appropriate to the particular relationship and product supplied Whenever an order is placed the parties will be aware of the payment terms and it is the company's policy to abide by these terms when satisfactory invoices have been received 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 (2008 £8 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, 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

The company did not make any political donations during the year (2008 £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, the company has recruited over 1,000 disabled colleagues, helping them transform their lives through meaningful and sustainable employment, while delivering on the company's commitment to recruit and retain colleagues who reflect the customers and the communities that ASDA serves

The company is committed to providing equal employment opportunities for all sections of society and gives 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 the company's policy, wherever possible, to work with the individual to provide suitable and continuing employment under normal terms and conditions The company is committed to providing equal access to training, career development and promotion to its disabled colleagues

Colleague involvement

During the year, the policy of providing colleagues with information about the company 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

Directors' liabilities

The company 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

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DIRECTORS' REPORT

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
23 September 2010

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 proper 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 company's financial statements for the year ended 31 December 2009 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 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

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 2009 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

Liz Barber (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Leeds
27 September 2010

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2009

	Notes	Year Ended 31 December 2009 £000	Year Ended 31 December 2008 £000
Turnover	2	19,818,594	18,569,839
Operating costs	3	(19,305,181)	(18,320,792)
Operating profit		513,413	249,047
Gain on sale of investments	6	78,526	-
Profit on ordinary activities before interest and taxation		591,939	249,047
Interest receivable and similar income	7	229,846	325,385
Interest payable and similar charges	8	(259,763)	(97,756)
Other finance income	23	9,089	20,500
Profit on ordinary activities before taxation		571,111	497,176
Taxation	9	(125,681)	(58,978)
Profit for the year		445,430	438,198

The results above are all attributable to continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2009

	Notes	Year Ended 31 December 2009 £000	Year Ended 31 December 2008 £000
Profit for the year		445,430	438,198
Actuarial loss on pension scheme	23	(205,970)	(25,500)
Movement on deferred tax relating to pension deficit		57,672	7,140
Total recognised gains and losses relating to the year		297,132	419,838

RECONCILIATION OF SHAREHOLDERS' FUNDS
for the year ended 31 December 2009

	Notes	Year Ended 31 December 2009 £000	Year Ended 31 December 2008 £000
Profit for the year		445,430	438,198
Dividends		-	(300,000)
Shares issued in the year	21	960,000	-
Actuarial loss on pension scheme	23	(205,970)	(25,500)
Movement on deferred tax relating to pension deficit		57,672	7,140
Net increase in shareholders' funds		1,257,132	119,838
Opening shareholders' funds		2,759,588	2,639,750
Closing shareholders' funds		4,016,720	2,759,588

NOTE OF HISTORICAL COST PROFITS AND LOSSES
for the year ended 31 December 2009

	Year Ended 31 December 2009 £000	Year Ended 31 December 2008 £000
Profit on ordinary activities before taxation	571,111	497,176
Adjustment of depreciation to historical cost basis	(2,587)	(2,089)
Historical cost profit on ordinary activities before taxation	568,524	495,087
Hisorical cost profit after taxation	442,843	436,109

BALANCE SHEET
as at 31 December 2009

	Notes	*31 December 2009 £000*	*31 December 2008 £000*
FIXED ASSETS			
Intangible assets	*10*	26,661	29,525
Tangible fixed assets	*11*	4,319,966	4,362,580
Investments	*12*	200	500,100
		4,346,827	4,892,205
CURRENT ASSETS			
Stocks	*13*	911,010	918,760
Debtors	*14*	4,070,675	1,733,681
Cash at bank and in hand		221,002	-
		5,202,687	2,652,441
CREDITORS amounts falling due within one year	*15*	(5,115,842)	(4,492,335)
NET CURRENT ASSETS/(LIABILITIES)		86,845	(1,839,894)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,433,672	3,052,311
PROVISIONS FOR LIABILITIES AND CHARGES	*16*	(265,829)	(271,492)
NET ASSETS EXCLUDING PENSION OBLIGATION		4,167,843	2,780,819
Defined benefit pension obligation	*23*	(151,123)	(21,231)
NET ASSETS INCLUDING PENSION OBLIGATION		4,016,720	2,759,588
CAPITAL AND RESERVES			
Called up share capital	*20*	594,790	584,865
Share premium account	*21*	950,335	260
Revaluation reserve	*21*	111,483	111,483
Profit and loss account	*21*	2,360,112	2,062,980
TOTAL SHAREHOLDERS' FUNDS		4,016,720	2,759,588

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

J J Mckenna
Director
23 September 2010

NOTES TO THE ACCOUNTS
as at 31 December 2009

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
Licences	Licence period (5 years)

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 - 20 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

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 UITF 44 *'Group and Treasury Share Transactions'*

NOTES TO THE ACCOUNTS
as at 31 December 2009

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

The estimates and assumptions that have a significant impact on the carrying value of assets and liabilities are

- Pension scheme assumptions The assumptions used for the defined benefit pension plans are estimates of future events, on the advice of actuaries
- Deferred tax assets The likelihood that assets are recovered is based on assumptions as to the extent that it is probable that future tax profits will be available based on forecasted profitability

2. ANALYSIS OF 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

	Year Ended 31 December 2009 £000	*Year Ended 31 December 2008 £000*
Cost of inventories recognised as an expense	15,115,956	14,191,881
Employment costs (note 5)	2,103,925	2,109,530
Amortisation of intangible assets (note 10)	2,864	2,865
Depreciation of tangible fixed assets (note 11)	314,527	291,105
Loss on sale of tangible fixed assets	23,397	30,823
OPERATING LEASE CHARGES		
- Land and buildings	80,937	75,211
- Plant and machinery	46,226	41,879
	127,163	117,090
AMOUNTS PAID TO AUDITORS		
- Audit fees	312	280
- Non-audit fees	-	-
	312	280

NOTES TO THE ACCOUNTS
as at 31 December 2009

4. DIRECTORS' EMOLUMENTS

	Year Ended 31 December 2009 £000	*Year Ended 31 December 2008 £000*
Total directors' remuneration excluding pension costs	6,228	7,167
	No	*No*
Number of directors who are members of the defined benefit scheme	9	11
Number of directors who exercised share options	8	8
Number of directors entitled to receive shares under long term incentive schemes	8	11
Amounts in respect of the highest paid director are as follows		
Total remuneration excluding pensions	1,714	1,268
Accumulated total accrued pension entitlement	93	83

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

	Year Ended 31 December 2009 £000	*Year Ended 31 December 2008 £000*
Wages and salaries	1,917,709	1,821,983
Share based payments	(1,186)	98,825
Social security costs	117,452	115,134
Other pension costs	69,950	73,588
	2,103,925	2,109,530

The average number of employees during the year was 168,666 (2008 162,105) The average number of full-time equivalents was 108,007 (2008 105,644)

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

	Year Ended 31 December 2009 £000	*Year Ended 31 December 2008 £000*
Bank interest receivable	746	157
Interest receivable to group undertakings	229,020	25,228
Income from subsidiary undertakings	80	300,000
	229,846	325,385

8. INTEREST PAYABLE AND SIMILAR CHARGES

	Year Ended 31 December 2009 £000	*Year Ended 31 December 2008 £000*
Other interest payable	-	60
Interest payable to group undertakings	259,763	97,696
	259,763	97,756

9. TAXATION

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

	Year Ended 31 December 2009 £000	*Year Ended 31 December 2008 £000*
CURRENT TAX		
UK corporation tax on profit for the year	101,103	85,516
Adjustments in respect of prior periods	10,352	(3,954)
TOTAL CURRENT TAX CHARGE	111,455	81,562
DEFERRED TAX		
Origination and reversal of timing differences	(5,144)	(20,686)
Adjustments in respect of prior periods	19,370	(4,766)
Reduction in deferred tax asset relating to pension obligation	-	2,868
TOTAL DEFERRED TAX (NOTE 17)	14,226	(22,584)
TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES	125,681	58 978

A reconciliation of the current tax charge compared to the standard rate of corporation tax in the UK of 28% (2008 28 5%) applied to the profit on ordinary activities before tax is as follows

	Year Ended 31 December 2009 £000	*Year Ended 31 December 2008 £000*
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	571,111	497,176
PROFIT ON ORDINARY ACTIVITIES MULTIPLIED BY THE STANDARD RATE OF UK CORPORATION TAX 28% (2008 28.5%)	159,911	141,695
Effects of		
Accelerated capital allowances and other timing differences	5,145	20,681
Non-qualifying depreciation	10,476	8,279
Non-taxable dividend	-	(85,500)
Profit on sale of non-qualifying assets	2,139	3,612
Permanent differences	(1,563)	(4,672)
Pension contributions in excess of profit and loss charge	(4,578)	1,054
Prior period adjustments	10,352	(3,954)
Losses surrendered from parent company for no payment	(14,250)	-
Sale of investments	(21,987)	-
Current year income taxed in prior periods	(34,190)	-
Change in tax rate	-	367
CURRENT TAX CHARGE FOR YEAR	111,455	81,562

NOTES TO THE ACCOUNTS
as at 31 December 2009

10. INTANGIBLE ASSETS

	Design Licenses £000	*Brand* £000	*Total* £000
COST			
At 1 January 2009 and 31 December 2009	6,390	31,730	38,120
AMORTISATION			
At 1 January 2009	3,834	4,761	8,595
Amortisation during the year	1,278	1,586	2,864
At 31 December 2009	5,112	6,347	11,459
NET BOOK VALUE			
At 31 December 2009	1,278	25,383	26,661
At 31 December 2008	2,556	26,969	29,525

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

NOTES TO THE ACCOUNTS
as at 31 December 2009

11. TANGIBLE FIXED ASSETS

	Freehold properties £000	*Leasehold properties £000*	*Plant, fixtures and fittings £000*	*Total £000*
COST				
At 1 January 2009	3,236,586	368,592	2,238,855	5,844,033
Additions	500,808	1,092	269,549	771,449
Disposals	(30,412)	(24,377)	(144,725)	(199,514)
Transfers to other group undertakings	(186,508)	-	-	(186,508)
At 31 December 2009	3,520,474	345,307	2,363,679	6,229,460
DEPRECIATION				
At 1 January 2009	304,597	133,642	1,524,579	1,962,818
Charge for the year	76,918	19,149	218,460	314,527
Disposals	(18,276)	(23,693)	(133,130)	(175,099)
At 31 December 2009	363,239	129,098	1,609,909	2,102,246
Net book amounts at 31 December 2009	3,157,235	216,209	753,770	4,127,214
Assets under construction 31 December 2009				192,752
NET BOOK VALUE AT 31 DECEMBER 2009				4,319,966
Net book amounts at 31 December 2008	2,931,989	234,950	714,276	3,881,215
Assets under construction 31 December 2008				481,365
NET BOOK VALUE AT 31 DECEMBER 2008				4,362,580

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

11. TANGIBLE FIXED ASSETS (CONTINUED)

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

	31 December 2009 £000	*31 December 2008 £000*
Freehold properties	240,904	248,561

The net book amount of leasehold property includes

	31 December 2009 £000	*31 December 2008 £000*
Leases with 50 years or more unexpired	144,715	161,252
Leases with less than 50 years unexpired	71,494	73,698
	216,209	234,950

12. INVESTMENTS

	£000
Cost at 1 January 2009	500,100
Additions	100
Disposals	(500,000)
Cost at 31 December 2009	200

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

NOTES TO THE ACCOUNTS
as at 31 December 2009

13. STOCKS

	31 December 2009 £000	31 December 2008 £000
Goods held for resale	910,199	917,994
Goods not held for resale	811	766
	911,010	918,760

14. DEBTORS: amounts falling due within one year

	31 December 2009 £000	31 December 2008 £000
Amounts owed by group undertakings	3,723,689	1,376,575
Trade debtors	151,632	129,755
Bad debt provision	(8,471)	(8,609)
Other debtors	26,403	26,751
Prepayments and accrued income	99,296	100,375
Taxation	78,126	108,834
	4,070,675	1,733,681

15. CREDITORS: amounts falling due within one year

	31 December 2009 £000	31 December 2008 £000
Bank overdraft	-	46,167
Trade creditors	1,915,328	1,743,245
Amounts owed to group undertakings	2,461,651	1,922,547
Amounts owed to ultimate parent company	18,760	70,612
Other taxes and social security	160,285	127,872
Other creditors	115,043	97,334
Accruals	444,775	484,558
	5,115,842	4,492,335

Included within trade and other creditors 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 2010 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

16. PROVISION FOR LIABILITIES AND CHARGES

	31 December 2009 £000	*31 December 2008 £000*
Deferred taxation (note 16)	182,674	168,448
Provisions (note 17)	83,155	103,044
	265,829	271,492

17. DEFERRED TAXATION

	31 December 2009 £000	*31 December 2008 £000*
AMOUNT PROVIDED		
Accelerated capital allowances	208,461	201,356
Pension costs	(264)	(241)
Origination and reversal of timing differences	(25,523)	(32,667)
	182,674	168,448

	Total £000
MOVEMENT IN DEFERRED TAX PROVISION	
At 1 January 2009	168,448
Provision charged through the profit and loss account (note 9)	14,226
At 31 December 2009	182,674

Deferred tax has been provided at 28% (2008 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 (2008 £17 7m) has been deferred as a consequence of rollover relief claims made in respect of the disposal of certain fixed assets in prior periods

NOTES TO THE ACCOUNTS
as at 31 December 2009

18. PROVISIONS

	Share option provision £000	*Onerous lease provision £000*	*Total £000*
At 1 January 2009	90,671	12,373	103,044
Provided during the year	(1,186)	5,000	3,814
Utilised during the year	(21,986)	(1,717)	(23,703)
At 31 December 2009	67,499	15,656	83,155

Detailed disclosures relating to the share option provision are shown in note 18

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

19. SHARE BASED PAYMENTS

These share based payment transactions are accounted for as cash settled in accordance with UITF 44 *'Group and Treasury Share Transactions'*

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 £ 2009	**Number of options (thousands) 2009**	Weighted average exercise price £ 2008	Number of options (thousands) 2008
Outstanding at the beginning of the period	**29 50**	**15,046**	23 77	20,530
Exercised during the period	**24 31**	**(2,315)**	25 09	(5,364)
Granted during the period	**27.61**	**1,713**	20 60	2,029
Lapsed during the period	**29 43**	**(1,897)**	25 06	(2,149)
Outstanding at the end of the period	**27 69**	**12,547**	29 50	15,046
Exercisable at the end of the period	**31.16**	**2,842**	23 70	2,410

Share options were exercised on a regular basis throughout the year The average share price during the year to 31 December 2009 was £32 38 (2008 £30 04)

NOTES TO THE ACCOUNTS
as at 31 December 2009

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

31 December 2009				31 December 2008			
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)
4,352	**19 87 to 27 45**	**22.57**	**1.4**	4,586	19 87 to 21 42	20 18	1 5

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

31 December 2009				31 December 2008			
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)
3,600	**27.52 to 34.58**	**30 17**	**1 6**	5,073	30 48 to 38 30	33 40	2 2

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

31 December 2009				31 December 2008			
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)
4,595	**27.27 to 36.24**	**30 58**	**1.0**	5,387	28 26 to 40 13	33 77	1 7

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 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) 2009	Number of options (thousands) 2008
Outstanding at the beginning of the period	308	-
Granted during the period	306	316
Lapsed during the period	(32)	(8)
Outstanding at the end of the period	582	308
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 2009 and 2008, 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) 2009	Number of options (thousands) 2008
Outstanding at the beginning of the period	643	154
Exercised during the period	(179)	(127)
Conditionally granted during the period	260	714
Lapsed during the period	(97)	(98)
Outstanding at the end of the period	627	643
Vested at the end of the period	-	-

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

19. SHARE BASED PAYMENTS (CONTINUED)

The following table gives the assumptions applied to the options granted in the respective periods shown

	2009	2008
Expected dividend yield (%)	2 11	1 86
Expected volatility (%)	18 65	16 68
Risk free interest rate (%)	1 36	1 99
Weighted average fair value of options granted (£)	6 67	5 47
Weighted average share price (£)	31 52	29 55
Expected life of option (years)	3 12	3 24

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

	2009 £000	2008 £000
Cash-settled share based payment (credit)/charge	(1,186)	98,825
Total carrying amount of liabilities	67,499	90,671

20. CALLED UP SHARE CAPITAL

	No	£000
Alloted, called up and fully paid		
At 31 December 2009		
Ordinary shares of £1 each	28,008,978	28,009
Redeemable ordinary shares of £1 each	566,781,240	566,781
	594,790,218	594,790

	No	£000
Alloted, called up and fully paid		
At 31 December 2008		
Ordinary shares of £1 each	28,008,978	28,009
Redeemable ordinary shares of £1 each	556,856,118	556,856
	584,865,096	584,865

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

	Share capital £000	*Share premium* £000	*Revaluation reserve* £000	*Profit and loss account* £000	*Total* £000
At 1 January 2009	584,865	260	111,483	2,062,980	2,759,588
Profit for the year	-	-	-	445,430	445,430
Shares issued during the year	9,925	950,075	-	-	960,000
Actuarial loss on pension scheme	-	-	-	(205,970)	(205,970)
Deferred tax movement relating to pension scheme	-	-	-	57,672	57,672
At 31 December 2009	594,790	950,335	111,483	2,360,112	4,016,720

Dividends paid £nil (2008 £300,000,000), Nil pence per share (2008 51 3 pence per share)

22. FINANCIAL COMMITMENTS

a) Company capital commitments

	31 December 2009 £000	*31 December 2008 £000*
Contracted but not provided for in the financial statements	52,750	19,900

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

	31 December 2009 £000	*31 December 2008 £000*
Less than one year	502	-
Between one and five years	3,664	1,390
More than five years	76,637	67,785
	80,803	69,175

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

	31 December 2009 £000	*31 December 2008 £000*
Less than one year	2,699	6,728
Between one and five years	25,865	19,446
	28,564	26,174

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 triennial valuation as at 5 April 2007 using the projected unit method The company has no significant exposure to any other post-retirement benefit obligations

A full actuarial valuation of the company's defined benefit scheme was carried out at 5 April 2007 and updated to 31 December 2009 by a qualified independent actuary The major assumptions used by the actuary were (in nominal terms)

	31 December 2009	*31 December 2008*
Rate of increase in salaries	4 00%	4 30%
Rate of increase in pensions payment	3 25%	2 80%
Rate of increase in pensions in deferment	3 25%	2 80%
Discount rate	5 70%	6 35%
Inflation assumption	3 25%	2 80%

23. PENSIONS (CONTINUED)

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

		31 December 2009 £m		31 December 2008 £m
Equities	8 0%	831 3	7 9%	779 5
Gilts Bonds	4 5%	227 3	4 2%	119 5
Property	8 0%	40 6	7 9%	44 7
Cash	4 5%	13 5	4 2%	43 7
Total market value of assets		1,112 7		987 4
Actuarial value of liability		(1,322 6)		(1,016 8)
Total deficit in the scheme		(209 9)		(29 4)
Related deferred tax asset		58 8		8 2
Net pension liability		(151 1)		(21 2)

Analysis of the amount charged to operating profit

	31 December 2009 £m	31 December 2008 £m
Service cost	39 9	59 7
Total operating charge	39 9	59 7

Analysis of the amount credited to other finance income

	31 December 2009 £m	31 December 2008 £m
Expected return on pension scheme assets	73 0	88 6
Interest on pension liabilities	(63 9)	(68 1)
Net return	9 1	20 5

23. PENSIONS (CONTINUED)

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

	31 December 2009 £m	*31 December 2008* £m
Actual return less expected return on assets	24 0	(331 2)
Experience gains and losses on liabilities	(3 1)	-
Changes in assumptions	(226 9)	305 7
	(206 0)	(25 5)

	31 December 2009 £m	*31 December 2008* £m
At 1 January	(29 4)	(14 7)
Current service cost	(39 9)	(59 7)
Contributions	56 3	50 0
Other finance income	9 1	20 5
Actuarial losses	(206 0)	(25 5)
At 31 December	(209 9)	(29 4)

The actuarial valuation at 31 December 2009 showed an increase in the deficit from £29 4 million to £209 9 million

History of experience gains and losses

	31 December 2009 *£m*	*31 December 2008* *£m*	*31 December 2007* *£m*	*31 December 2006* *£m*	*31 December 2005* *£m*
Difference between actual and expected return on scheme assets					
Amount (£)	24 0	(331 2)	(10 1)	80 8	68 2
Percentage of scheme assets	2 2%	(34 0%)	(1 0%)	8 0%	8 0%
Experience gains and losses on scheme liabilities					
Amount (£)	(3 1)	-	2 4	-	(6 6)
Percentage of scheme assets	(0 3%)	-	0 0%	-	1 0%
Total amount recognised in statement of total recognised gains and losses					
Amount (£)	(206 0)	(25 5)	40 3	(8 8)	(22 1)
Percentage of scheme assets	(18 5%)	(3 0%)	3 0%	(1 0%)	(2 0%)

23. PENSIONS (CONTINUED)

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 £30 1m (2008 £13 9m)

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 smallest group at which consolidated financial statements are prepared is ASDA Group Limited Copies of these financial statements are available from Companies House, Crown Way, Cardiff, CF14 3UZ

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

26. POST BALANCE SHEET EVENTS

On 31 March 2010, an Advance Pricing Agreement, which would determine the amount of royalty paid to Wal-Mart Stores, Inc each year, received formal approval from the appropriate UK and US authorities These changes included revisions to royalties charged in prior years, which has resulted in the company recognising a reduction of royalties for prior years of £114 9m in these financial statements, and accordingly a net increase in the tax liability and tax charge The changes follow discussions with UK and US authorities over a number of years The revision of the royalty agreement is one off in nature and is not expected to recur During the year the underlying royalty payments made to Wal-Mart Stores, Inc , excluding this refund, increased by £46 0m

On 27 May 2010, the company announced it had reached agreement with Dansk Supermarked A/S to purchase its fully owned subsidiary, Netto Foodstores Limited The transaction, which remains subject to regulatory approval, will enable the company to convert Netto's UK locations into ASDA stores and integrate them into its new supermarkets division for units smaller than 25,000 square feet

On 22 June 2010, the UK government announced its intention to propose that Parliament reduce the UK corporate income tax rate from 28% to 24% over a period of four years commencing from 1 April 2011 As at 31 December 2009, the tax rate changes were not substantively enacted If these changes had been substantively enacted, the maximum effect on the net deferred tax liability as at 31 December 2009 would have been a decrease of approximately £26 1m and a net decrease on the deferred tax expense of approximately £26 1m The effect on the deferred tax asset held in relation to the pension fund deficit would be a reduction of £8 4m which would be recognised through the STGRL