

ASDA Group Limited

Directors' report and financial
statements

Registered number 1396513

31 December 2005



DIRECTORS

A J Bond
D J Dible (resigned 1 September 2005)
J B Menzer (resigned 1 September 2005)
H L Scott (resigned 1 September 2005)
D Smith
A Spindler
D Downie (resigned 1 July 2005)
J J McKenna
J Longworth
T Page (appointed 1 January 2005, resigned 30th June 2006)
A De Nunzio (resigned 1 April 2005)
D Cheesewright (appointed 19 September 2005)
A Clarke (appointed 5 September 2005)
D Blackhurst (appointed 9 January 2006)

SECRETARY

J Longworth

AUDITORS

Ernst & Young LLP
PO Box 61
Cloth Hall Court
14 King Street
Leeds
LS1 2JN

REGISTERED OFFICE

Asda House
Southbank
Great Wilson Street
Leeds
LS11 5AD

REGISTRARS

Lloyds TSB Registrars
54 Pershore Road South
Birmingham
B30 3EP

BANKERS

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

Contents

Directors' report	1
Statement of directors' responsibilities in respect of the directors' report and the consolidated financial statements	3
Report of the independent auditors to the members of ASDA Group Limited	4
Consolidated income statement	6
Consolidated statement of recognised income and expense	6
Consolidated balance sheet	7
Consolidated cash flow statement	8
Notes to the consolidated financial statements	9
Statement of directors' responsibilities in respect of the company financial statements	39
Report of the independent auditors to the members of ASDA Group Limited	40
Company balance sheet	42
Notes to the parent company financial statements	43

Directors' report

The directors present their directors' report and financial statements for the year ended 31 December 2005.

Principal activities

The principal activities of the Group are the operation of food, clothing, home and leisure superstores throughout United Kingdom and property development. The directors are optimistic that the business will continue to grow in the foreseeable future.

International Financial Reporting Standards (IFRS)

As required by EU Regulations for companies with debt or equity listed on regulated exchanges within the EU, the Group has prepared its consolidated financial statements under IFRS for the first time. The EU regulation impacts the Group as an element of its debt securities are listed on the London Stock Exchange. The company's individual financial statements continue to be prepared under UK GAAP.

Reconciliation from UK GAAP to IFRS of equity as at 1 January 2004 and 31 December 2004 and profit for the year ended 31 December 2004 is shown in note 28.

Group profit and dividends

Group profit before taxation for the year amounted to £571.9million (2004: £629.8million). Dividends paid in the year were £400.0 million (2004: £nil).

Financial instruments

The group's financial risk management objectives and policies are further discussed in notes 1 and 20.

Research and development

Essential to the company's success is the delivery of fresh, innovative, good value products, which are unique to Asda. Our buying teams, food technologists and marketeers 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.

Policy and practice on payment of creditors

The Group deals with over sixteen thousand separate suppliers and has established trading terms which are appropriate to the particular relationship and product supplied. Whenever an order is placed the parties will be aware of the payment terms and it is the Group's policy to abide by these terms when satisfactory invoices have been received. The parent company has no trade creditors in its Balance Sheet.

Political and charitable contributions

During the year, fundraising from colleagues and customers around the business, together with donations from Asda Foundation, was approximately £6.3 million (2004: approximately £4.4 million). The company did not make any political contributions in the year.

Disabled employees

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the Group's policy wherever possible to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

Employee involvement

During the year, the policy of providing employees with information about the Group has been continued through briefings on the Asda internal website. Employees have also been encouraged to present their suggestions and views on the Group's performance. Regular meetings are held between local management and employees to allow a free flow of information and ideas. Employees benefit directly in the success of the business through participation in the share option schemes.

Directors' report *(continued)*

Directors' interests

None of the directors have any interests in the share capital of the company. The directors' shareholdings and share options are holdings and options in Wal-Mart Stores, Inc. As Wal-Mart Stores, Inc. is incorporated in the USA, disclosure of these interests is not required.

Directors' liabilities

The Group has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. 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.

Auditors

In accordance with Section 384 of the Companies Act 1985, 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
18th October 2006

Asda House
Southbank
Great Wilson Street
Leeds
LS11 5AD

Statement of directors' responsibilities in respect of the directors' report and the financial statements

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

The directors are required to prepare financial statements for each financial year which present fairly the financial position of the company and of the Group and the financial performance and cash flows of the company and of the Group for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. 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.

Report of the independent auditors to the members of ASDA Group Limited

We have audited the consolidated financial statements of ASDA Group Limited for the year ended 31 December 2005 which comprise the Consolidated Income Statement, Consolidated Statement of Recognised Income and Expense, Consolidated Balance Sheet, Consolidated Cash Flow Statement and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

This consolidated report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company'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

The directors' are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements are properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

In our opinion, the consolidated financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Leeds

19 October 2006

Consolidated income statement
for year ended 31 December 2005

	<i>Note</i>	Year ended 31 December 2005 £m	Year ended 31 December 2004 £m
Revenue	2	14,865.2	14,318.2
Operating costs	3	(14,217.9)	(13,633.5)
Operating profit		647.3	684.7
Share of post-tax profits/(losses) of jointly controlled entities	12	3.3	(0.6)
Financial income	7	16.1	31.6
Financial expenses	7	(94.8)	(85.9)
Profit before tax		571.9	629.8
Taxation	8	(108.9)	(142.7)
Profit for the year		463.0	487.1

Profit for the year is attributable to the equity holders.

Consolidated statement of recognised income and expense
for year ended 31 December 2005


	<i>Note</i>	31 December 2005 £m	31 December 2004 £m
Actuarial losses on defined benefit pension schemes	21	(22.6)	(11.7)
Tax recognised on actuarial losses recognised directly in equity	21	6.8	3.6
Net loss recognised directly in equity		(15.8)	(8.1)
Profit for the year		463.0	487.1
Total recognised income and expense for the year		447.2	479.0

Total recognised income and expense for the year is attributable to equity holders.

Consolidated balance sheet
at 31 December 2005

	Note	31 December 2005 £m	31 December 2004 £m
Non-current assets			
Property, plant and equipment	10	6,327.6	5,867.8
Operating lease prepayments	11	66.1	67.1
Investments in jointly controlled entities	12	6.1	6.8
		<u>6,399.8</u>	<u>5,941.7</u>
Current assets			
Inventories	14	825.5	781.1
Trade and other receivables	15	408.4	527.2
Current tax		5.1	-
Cash and short term deposits	16	211.7	447.3
Operating lease prepayments	11	0.9	0.9
		<u>1,451.6</u>	<u>1,756.5</u>
Assets classified as held for sale	17	4.6	-
Total assets	2	<u>7,856.0</u>	<u>7,698.2</u>
Current liabilities			
Trade and other payables	18	(3,400.1)	(3,186.5)
Financial liabilities	19	(0.6)	(0.6)
Employee benefits	21	(4.3)	(8.1)
Current tax payable		-	(61.8)
		<u>(3,405.0)</u>	<u>(3,257.0)</u>
Non-current liabilities			
Financial liabilities	19	(461.1)	(461.4)
Employee benefits	21	(150.2)	(226.8)
Provisions	22	(3.7)	(4.0)
Deferred tax liabilities	13	(165.7)	(126.0)
		<u>(780.7)</u>	<u>(818.2)</u>
Total liabilities	2	<u>(4,185.7)</u>	<u>(4,075.2)</u>
Net assets		<u>3,670.3</u>	<u>3,623.0</u>
Shareholders' equity			
Called up share capital	23	783.9	783.9
Share premium account	23	568.4	568.4
Other reserves	23	437.1	437.1
Retained earnings	23	1,880.9	1,833.6
Total equity		<u>3,670.3</u>	<u>3,623.0</u>

These financial statements were approved by the board of directors on 18 October 2006 and were signed on its behalf by:


J J McKenna
Director

Consolidated cash flow statement
for year ended 31 December 2005

	<i>Note</i>	31 December 2005 £m	31 December 2004 £m
Cash flows from operating activities			
Profit for the year		463.0	487.1
<i>Adjustments for:</i>			
Depreciation		258.5	228.4
Amortisation of lease prepayments		1.0	0.9
Financial income		(16.1)	(31.6)
Financial expense		94.8	85.9
(Profit)/loss on sale of property, plant and equipment		(15.6)	1.8
Taxation		108.9	142.7
Excess of contributions over pension service cost		(90.3)	(25.2)
Share of results of jointly controlled entities		(3.3)	0.6
		<hr/>	<hr/>
		800.9	890.6
<i>Changes in working capital and provisions</i>			
Decrease/(increase) in trade and other receivables		118.7	(405.2)
Increase in stock		(44.4)	(96.7)
Increase in trade and other payables		176.9	231.6
Decrease in provisions		(0.3)	(1.3)
Decrease in share based payment liability		(8.9)	(12.2)
		<hr/>	<hr/>
Cash generated from operations		1,042.9	606.8
Interest paid		(67.5)	(37.6)
Tax paid		(129.3)	(115.2)
		<hr/>	<hr/>
Net cash from operating activities		846.1	454.0
		<hr/>	<hr/>
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		49.7	59.2
Purchase of property, plant and equipment		(747.1)	(1,004.2)
Payments to acquire interest in jointly controlled entities		(0.7)	(7.4)
Profits from jointly controlled entities		3.0	-
Redemption of shares in jointly controlled entities		1.7	-
Interest received		12.4	33.0
		<hr/>	<hr/>
Net cash outflow from investing activities		(681.0)	(919.4)
		<hr/>	<hr/>
Cash flows from financing activities			
Finance lease repayments		(0.7)	(0.3)
Dividends paid	9	(400.0)	-
		<hr/>	<hr/>
Net cash from financing activities		(400.7)	(0.3)
		<hr/>	<hr/>
Net decrease in cash and cash equivalents		(235.6)	(465.7)
Cash and cash equivalents at start of year		447.3	913.0
		<hr/>	<hr/>
Cash and cash equivalents at end of year	16	211.7	447.3
		<hr/>	<hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

General information

ASDA Group Limited (the "Company") is a company incorporated in the UK under the Companies Act 1985 (Registration number 1396513). The address of the registered office is ASDA House, Southbank, Great Wilson Street, Leeds, LS11 5AD, UK.

As described in the Directors' report, the main activities of the Group is that of operation of food, clothing, home and leisure stores throughout United Kingdom and property development.

Basis of preparation

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The financial statements are prepared on a going concern basis as the Company has agreed that it will continue to provide financial support to the Group to enable it to meet its liabilities as they fall due.

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"). The Company continues to prepare its company financial statements in accordance with UK GAAP; these are presented on pages 39 to 47.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements and in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to Adopted IFRSs and the comparatives have been restated from UK GAAP.

Transition to Adopted IFRSs

The Group is preparing its financial statements in accordance with adopted IFRSs for the first time and consequently has applied IFRS 1. An explanation of how the transition to adopted IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 28.

The Group has taken advantage of the transitional arrangements of IFRS 1 not to restate corresponding amounts in accordance with IAS 32 and IAS 39. There are no material differences for the Group under the requirements of UK GAAP compared to IAS 32 and IAS 39. In addition, IFRS 1 grants certain exemptions from the full requirements of IFRSs in the transition period.

The following exemptions have been taken in these financial statements:

- Fair value or revaluation as deemed cost – At the date of transition, fair value has been used as deemed cost for properties previously measured at fair value.
- Employee benefits – All cumulative actuarial gains and losses on defined benefit plans have been recognised in equity at 1 January 2004.
- Cumulative translation differences – Cumulative translation differences for all foreign operations are deemed to be zero at 1 January 2004.

Basis of consolidation

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

Notes (continued)

1 Accounting policies (continued)

A jointly controlled entity is an undertaking over which the Group exercises joint control, established by contractual agreement. An associate is an undertaking, not being a subsidiary or jointly controlled entity, over which the Group has significant influence and can participate in the financial and operating policy decisions of the entity. The Group's share of the profits and losses of jointly controlled entities and associates is included in the consolidated income statement using the equity method of accounting. The Group's interest in their net assets is included in investments in the consolidated balance sheet, less any impairment in value.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement.

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

Exchange differences arising from this translation of foreign operations are taken directly to the translation reserve. They are released into the income statement upon disposal. The Group has taken advantage of relief available in IFRS 1 to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to IFRS (1 January 2004).

Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised in profit or loss. The Group uses forward currency contracts to hedge its risks associated with foreign currency fluctuations. From 1 January 2005, such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles at the balance sheet date.

For the accounting policy in 2004, where forward currency contracts were used to hedge existing assets and liabilities, the contract rates were used to value the related assets and liabilities. Gains and losses arising on hedges of future transactions were not recognised until the transactions occurred.

Notes (continued)

1 Accounting policies (continued)

Financial liabilities

Interest-bearing bank loans and overdrafts are recorded initially at fair value less directly attributable issue costs. Subsequently, these liabilities are carried at amortised cost using the effective interest method. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Property, plant and equipment

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

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

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

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

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

Freehold buildings	50 years
Properties held under finance leases and leasehold improvements	Shorter of 50 years and the lease period
Plant and equipment	3-20 years
Fixtures and fittings	3-20 years

All property, plant and equipment are reviewed for impairment in accordance with IAS 36 *Impairment of Assets* when there are indications that the carrying value may not be recoverable.

Impairment

The carrying amounts of the Group's assets other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

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

Reversals of impairment

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

Trade and other receivables

Trade and other receivables are stated at their nominal amount (discounted if material) as reduced by appropriate allowances for estimated irrecoverable amounts.

Notes (continued)

1 Accounting policies (continued)

Inventories

Inventories comprise goods and development properties and are stated at the lower of cost and net realisable value.

Goods at warehouses are valued at weighted average cost. Cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Inventories at retail outlets are valued at average cost prices.

Development property is stated at cost plus profit recognised to date less a provision for foreseeable losses and less progress billings. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity. The amount of profit attributable to the stage of completion is recognised when the outcome of the contract can be foreseen with reasonable certainty.

Cash and short term deposits

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

Non-current assets held for sale

A non-current asset or a Group of assets containing a non-current asset (a disposal Group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

On initial classification as held for sale, non-current assets and disposal Groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent remeasurement. In accordance with IFRS 5, the above policy is effective from 1 January 2005; no reclassifications are made in prior periods.

Leases

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

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

Finance leases

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

Operating leases

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

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

Borrowing costs

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

Notes (continued)

1 Accounting policies (continued)

Net financing costs

Net financing costs comprise interest payable, finance charges on finance leases, interest receivable on funds invested, dividend income and foreign exchange gains and losses.

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

Trade and other payables

Trade payables, other than inter-company loans, are not interest bearing and are stated at their nominal value.

Provisions

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

Revenue

Revenue represents sales to customers through retail outlets, excluding value added tax, and sales of development properties. Revenue is recognised net of intra-Group transactions, staff discounts, coupons and the free element of multi-save transactions. Revenue from the sale of development property is recognised on completion, unless otherwise stated in the specific terms of the contract, when it is recognised in line with the terms of this contract on a stage completion basis.

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.

Employee benefits

Defined contribution plans

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

Defined benefit plans

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

All actuarial gains and losses as at 1 January 2004, the date of transition to Adopted IFRSs, were recognised.

In respect of actuarial gains and losses that arise subsequent to 1 January 2004 the Group recognises them in full in the period they occur in the statement of recognised income and expense.

Notes (continued)

1 Accounting policies (continued)

Share-based payment transactions

For all liabilities arising from share-based payment arrangements the Group has applied IFRS2 to liabilities that were settled on or after 7 November 2002.

The share option programme allows Group employees to acquire shares of the ultimate parent company; these awards are granted by the Group. The fair value of options granted is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The charge is recognised as an employee expense, with a corresponding increase in liabilities. The fair value of the share option is measured based on an option valuation model, taking into account the terms and conditions upon which the instruments were granted. The liability is remeasured at each balance sheet date and at settlement date and any changes in fair value 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 IFRIC D17.

Taxation

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

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

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

- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.
- deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

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

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.

New standards and interpretations not applied

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

However, upon adoption of IFRS 7 *Financial Instruments: Disclosures*, the Group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to.

Notes (continued)

2 Segment reporting

The Board have determined that the primary segment reporting format is business segments, based on the Group's management and internal reporting structure. There is a single geographical segment, being in the United Kingdom.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise balances in respect of borrowings.

The Group operates in two business segments as follows:

- ASDA – operation of food, clothing, home and leisure stores (“retailing”);
- Gazeley – property development (“property development”).

	Year ended 31 December 2005 £m	Year ended 31 December 2004 £m
Revenue		
Retailing	14,787.9	14,225.9
Property development	77.3	92.3
	<hr/>	<hr/>
Total	14,865.2	14,318.2
	<hr/>	<hr/>
Operating profit		
Retailing	640.5	669.5
Property development	6.8	15.2
	<hr/>	<hr/>
Total	647.3	684.7
	<hr/>	<hr/>
Share of post-tax profit from Joint ventures		
Retailing	-	-
Property development	3.3	(0.6)
	<hr/>	<hr/>
Total	3.3	(0.6)
	<hr/>	<hr/>
Capital expenditure		
Retailing	960.8	1,011.7
Property development	0.1	-
	<hr/>	<hr/>
Total	960.9	1,011.7
	<hr/>	<hr/>
Depreciation		
Retailing	258.4	228.3
Property development	0.1	0.1
	<hr/>	<hr/>
Total	258.5	228.4
	<hr/>	<hr/>

Notes (continued)

2 Segmental reporting (continued)

	Year ended 31 December 2005 £m	Year ended 31 December 2004 £m
Total assets		
Retailing	7,702.6	7,564.0
Property development	153.4	134.2
	<hr/>	<hr/>
Total	7,856.0	7,698.2
	<hr/>	<hr/>
Total liabilities		
Retailing	(3,744.3)	(3,645.0)
Property development	(17.0)	(6.2)
Unallocated	(424.4)	(424.0)
	<hr/>	<hr/>
Total	(4,185.7)	(4,075.2)
	<hr/>	<hr/>
Investment in Jointly Controlled Entities		
Retailing	-	-
Property development	6.1	6.8
	<hr/>	<hr/>
Total	6.1	6.8
	<hr/>	<hr/>

Unallocated net liabilities comprise balances in respect of borrowings.

3 Operating costs

The operating profit is stated after (charging)/crediting the following:

	Year ended 31 December 2005 £m	Year ended 31 December 2004 £m
Other operating income	16.9	2.1
Cost of inventories recognised as an expense	(11,277.3)	(10,824.3)
Employment costs (note 5)	(1,602.2)	(1,561.4)
Depreciation		
- Owned assets	(257.2)	(227.1)
- Assets held under finance leases	(1.3)	(1.3)
Operating lease expense		
- Plant and equipment	(35.9)	(33.2)
- Property	(53.2)	(50.1)
Operating lease income	10.3	10.4
Profit/(loss) on sale of property, plant and equipment	15.6	(1.8)
Other operating charges	(1,033.6)	(946.8)
	<hr/>	<hr/>
	(14,217.9)	(13,633.5)
	<hr/>	<hr/>

Notes (continued)

4 Auditors' remuneration

	Year ended 31 December 2005 £m	Year ended 31 December 2004 £m
<i>Within other operating charges:</i>		
Audit	0.3	0.2
Non-audit	-	0.1
	<u>0.3</u>	<u>0.3</u>

5 Employee numbers and costs

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

	Number of employees	
	Year ended 31 December 2005	Year ended 31 December 2004
<i>Total</i>		
ASDA	145,089	143,089
Gazeley	45	36
	<u>145,134</u>	<u>143,125</u>
<i>Full time equivalents</i>		
ASDA	91,598	90,663
Gazeley	41	35
	<u>91,639</u>	<u>90,698</u>

The aggregate payroll costs of these persons were as follows:

	£m	£m
Wages and salaries	1,443.6	1,435.8
Share based payments (note 21)	(8.9)	(14.8)
Social security costs	94.0	90.3
Other pension costs (note 21)	73.5	50.1
	<u>1,602.2</u>	<u>1,561.4</u>

6 Directors' remuneration

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

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Directors' emoluments	2,297	5,213
Share-based payments	<u>0.3</u>	<u>0.4</u>

Notes (continued)

6 Directors' remuneration (continued)

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Number of directors who are members of the defined benefit scheme	11	9
Number of directors who exercised share options	5	4
Number of directors entitled to receive shares under option schemes	3	4

Amounts in respect of the highest paid director are as follows:

Total remuneration excluding pensions	406	915
Accumulated total accrued pension	54	57

The highest paid director exercised share options during the year and did not receive or become entitled to any shares from qualifying services under a share option plan. Included within the remuneration totals above are emoluments in respect of the directors listed below, which were in respect of their services to the Broadstreet Great Wilson Europe Group (the ultimate parent company for the UK) as a whole: A Bond; J J McKenna; D Smith; A Spindler; D Downie; J Longworth; T Page; A De Nunzio; D Cheesewright; A Clarke and D Blackhurst. It is not possible to allocate their remuneration to the companies within the Group.

7 Financial income and expense

	Year ended 31 December 2005 £m	Year ended 31 December 2004 £m
Bank interest receivable	9.9	30.1
Net return on pension scheme assets	3.8	-
Interest receivable on amounts owed by Group undertakings	2.4	1.5
Financial income	16.1	31.6
Interest payable on bonds	(34.9)	(33.3)
Interest capitalised	11.5	6.0
Interest payable on amounts owed to Group undertakings	(23.4)	(27.3)
Net pension liability interest	(66.9)	(51.5)
Finance lease interest	-	(2.6)
Finance lease interest	(4.5)	(4.5)
Financial expenses	(94.8)	(85.9)

Notes (continued)

8 Taxation

Recognised in the income statement

	Year ended 31 December 2005 £m	Year ended 31 December 2004 £m
<i>Current tax expense</i>		
Current year	83.6	114.2
Adjustment in respect of prior periods	(21.2)	(0.4)
	<hr/> 62.4	<hr/> 113.8
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	46.2	29.8
Adjustment in respect of prior periods	0.3	(0.9)
	<hr/> 46.5	<hr/> 28.9
Total tax in income statement	<hr/> 108.9	<hr/> 142.7

Reconciliation of effective tax rate

Profit before tax	571.9	629.8
Tax using the UK corporation tax rate of 30% (2004: 30%)	171.6	188.9
Non-qualifying depreciation	15.1	13.5
Non-deductible expenses	0.6	1.4
Profit on non qualifying fixed assets	(7.4)	(3.5)
Share option provision	-	(2.0)
Non taxable income	-	(0.1)
Group relief not paid for	(51.7)	(57.6)
Overseas withholding tax suffered	0.3	-
Prior year adjustments	(20.9)	(1.3)
Tax in respect of share in joint ventures	1.1	-
Other	0.2	3.4
Total tax in income statement	<hr/> 108.9	<hr/> 142.7

9 Dividends

	Year ended 31 December 2005 £m	Year ended 31 December 2004 £m
<i>Declared and paid during the year</i>		
Final dividend of 12.76p per share (2004: £nil)	400.0	-

Notes (continued)

10 Property, plant and equipment

	Freehold properties £m	Finance leases & leasehold improvements £m	Plant, fixtures & fittings £m	Under construction £m	Total £m
Cost					
Balance at 1 January 2004	4,334.7	554.0	1,398.1	390.8	6,677.6
Additions at cost	594.8	8.6	244.7	164.3	1,012.4
Disposals	(63.7)	(2.7)	(80.1)	-	(146.5)
Balance at 31 December 2004	4,865.8	559.9	1,562.7	555.1	7,543.5
Balance at 1 January 2005	4,865.8	559.9	1,562.7	555.1	7,543.5
Additions at cost and transfers from assets under construction	702.1	17.9	233.9	(196.9)	757.0
Transfer to non-current assets held for sale	-	(6.1)	-	-	(6.1)
Disposals	(32.4)	(4.6)	(47.6)	-	(84.6)
Balance at 31 December 2005	5,535.5	567.1	1,749.0	358.2	8,209.8
Accumulated depreciation					
Balance at 1 January 2004	491.1	197.9	843.8	-	1,532.8
Depreciation charge for the year	63.5	16.4	148.5	-	228.4
Disposals	(19.3)	(2.2)	(64.0)	-	(85.5)
Balance at 31 December 2004	535.3	212.1	928.3	-	1,675.7
Balance at 1 January 2005	535.3	212.1	928.3	-	1,675.7
Depreciation charge for the year	79.6	12.3	166.6	-	258.5
Transfer to non-current assets held for sale	-	(1.5)	-	-	(1.5)
Disposals	(8.6)	(4.0)	(37.9)	-	(50.5)
Balance at 31 December 2005	606.3	218.9	1,057.0	-	1,882.2
Net book value					
At 1 January 2004	3,843.6	356.1	554.3	390.8	5,144.8
At 31 December 2004 and 1 January 2005	4,330.5	347.8	634.4	555.1	5,867.8
At 31 December 2005	4,929.2	348.2	692.0	358.2	6,327.6

Property held under finance leases have the following net book values

	2005 £m	2004 £m
Cost	38.3	38.3
Depreciation	(2.6)	(1.3)
Net book value	35.7	37.0

Notes (continued)

11 Operating lease prepayments

	2005 £m	2004 £m
Operating lease prepayments - current	0.9	0.9
- non-current	66.1	67.1
	<u>67.0</u>	<u>68.0</u>

12 Investments in subsidiaries and jointly controlled entities

The company's investments in principal subsidiaries are shown in company note 4. The Group has the following investments in jointly controlled entities, held by a subsidiary:

	Country of incorporation	Class of shares held	Ownership	
			2005	2004
Magna Park Management Limited	England and Wales	Ordinary - equity	50%	50%
Simons Gazeley Limited	England and Wales	Ordinary - equity	50%	50%
Fen Farm Developments Limited	England and Wales	Ordinary - equity	50%	50%
Manormount Limited	England and Wales	Ordinary - equity	50%	50%
BI Gazeley Limited	England and Wales	Ordinary - equity	50%	50%
A14 Partnership	England and Wales	Ordinary - equity	50%	50%
Wensum Developments Limited	England and Wales	Ordinary - equity	50%	50%
HH (LP) Limited	England and Wales	Ordinary - equity	50%	50%
		Preference - non-equity	20%	20%
Magna 1400 Limited	England and Wales	Ordinary - equity	50%	50%
		Preference - non-equity	20%	20%
Magna 1500 Limited	England and Wales	Ordinary - equity	50%	50%
		Preference - non-equity	20%	20%
Magna 3520 Limited	England and Wales	Ordinary - equity	50%	50%
		Preference - non-equity	20%	20%
Magna 5420 Limited	England and Wales	Ordinary - equity	50%	50%
		Preference - non-equity	20%	20%
Magna 6130 Limited	England and Wales	Ordinary - equity	50%	50%
		Preference - non-equity	20%	20%
Marsh Leys Property Development Limited	England and Wales	Ordinary - equity	50%	50%
		Preference - non-equity	20%	20%

Fen Farm Developments Limited's period end is 31 March 2005, it had net assets of £1,000 at that date. The Group's other jointly controlled entities have period ends of 31 December 2005.

The Group accounts for jointly controlled entities using the equity method, the movement in investments is as follows:

	2005 £m	2004 £m
Investments in jointly controlled entities at 1 January	6.8	-
Additions	0.7	7.4
Share of profit/ (loss) of jointly controlled entities	3.3	(0.6)
Income received from jointly controlled entities	(3.0)	-
Redemption of shares in jointly controlled entities	(1.7)	-
	<u>6.1</u>	<u>6.8</u>
Investments in jointly controlled entities at 31 December		

Notes (continued)

12 Investments in subsidiaries and jointly controlled entities (continued)

The Group's share of assets, liabilities, revenue and profit are as follows:

	2005 £m	2004 £m
Assets - current	20.4	17.8
Liabilities - current	(4.3)	(1.1)
Liabilities - non-current	(10.0)	(9.9)
	<u>6.1</u>	<u>6.8</u>
Revenue	22.0	-
Expenses	(18.7)	(0.6)
Profit/(loss) for the year	<u>3.3</u>	<u>(0.6)</u>

13 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Property, plant and equipment	-	-	230.6	211.1	230.6	211.1
Employee benefits	(55.2)	(68.4)	0.9	0.2	(54.3)	(68.2)
Provisions	(11.6)	(18.8)	-	-	(11.6)	(18.8)
Other items	(0.8)	-	1.8	1.9	1.0	1.9
	<u>(67.6)</u>	<u>(87.2)</u>	<u>233.3</u>	<u>213.2</u>	<u>165.7</u>	<u>126.0</u>
Tax (assets)/liabilities	(67.6)	(87.2)	233.3	213.2	165.7	126.0
Net of tax liabilities/(assets)	67.6	87.2	(67.6)	(87.2)	-	-
	<u>-</u>	<u>-</u>	<u>165.7</u>	<u>126.0</u>	<u>165.7</u>	<u>126.0</u>
Net tax (assets)/liabilities	-	-	165.7	126.0	165.7	126.0

No deferred tax has been recognised for timing differences in respect of undistributed profits in jointly controlled entities and overseas subsidiaries of £1.6m (2004: £0.9m) as no liability is expected to be incurred in the foreseeable future.

Unrecognised deferred tax assets in respect of capital losses which are not expected to be utilised in the foreseeable future amount to £88.3m (2004: £88.3m).

Movement in deferred tax during the year

	1 January 2005 £m	Recognised in income £m	Recognised in equity £m	31 December 2005 £m
Property, plant and equipment	211.1	19.5	-	230.6
Employee benefits	(68.2)	20.7	(6.8)	(54.3)
Provisions	(18.8)	7.2	-	(11.6)
Other items	1.9	(0.9)	-	1.0
	<u>126.0</u>	<u>46.5</u>	<u>(6.8)</u>	<u>165.7</u>

Notes (continued)

13 Deferred tax assets and liabilities (continued)

Movement in deferred tax during the prior year

	1 January 2004 £m	Recognised in income £m	Recognised in equity £m	31 December 2004 £m
Property, plant and equipment	184.7	26.4	-	211.1
Employee benefits	(71.1)	6.5	(3.6)	(68.2)
Provisions	(14.8)	(4.0)	-	(18.8)
Other items	1.9	-	-	1.9
	<u>100.7</u>	<u>28.9</u>	<u>(3.6)</u>	<u>126.0</u>

14 Inventories

	2005 £m	2004 £m
Goods held for resale	709.2	681.1
Development properties	116.3	100.0
	<u>825.5</u>	<u>781.1</u>

The write-down provision against goods held for resale was reduced by £2.4m in the year ended 31 December 2005 (year ended 31 December 2004: increase of £3.7m).

15 Trade and other receivables

	2005 £m	2004 £m
Amounts owed by fellow subsidiaries	261.6	428.2
Other receivables	96.7	56.6
Prepayments and accrued income	50.1	42.4
	<u>408.4</u>	<u>527.2</u>

16 Cash and short term deposits

	2005 £m	2004 £m
Cash	211.7	134.3
Cash on overnight deposit	-	313.0
	<u>211.7</u>	<u>447.3</u>

17 Non-current assets held for sale

Non-current assets held for sale as at 31 December 2005 relate to property, plant and equipment in the retail segment, for which the carrying amount will principally be recovered through a sale transaction rather than through continuing use. The assets no longer feature in the future plans of the Group. Timing of disposal is anticipated for within one year.

There has been no disposal of non-current assets held for sale during the year.

Notes (continued)

18 Trade and other payables

	2005 £m	2004 £m
Trade payables	1,465.1	1,402.2
Amounts owed to fellow subsidiaries	1,444.7	1,355.0
Other taxes and social security	27.9	26.8
Other payables	195.7	120.5
Accrued expenses	266.7	282.0
	<u>3,400.1</u>	<u>3,186.5</u>

19 Financial assets and liabilities

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

Financial assets

Amounts owed by fellow subsidiaries attract interest at an effective rate of 4.5% to 5.1%.

Financial liabilities

	31 December 2005 £m	31 December 2004 £m
Current liabilities		
Current portion of finance lease liabilities (note 24)	0.6	0.6
	<u>0.6</u>	<u>0.6</u>
Non-current liabilities		
Bonds	424.4	424.0
Non-current portion of finance lease liabilities (note 24)	36.7	37.4
	<u>461.1</u>	<u>461.4</u>

Terms and debt repayment schedule as at 31 December 2005:

	Effective interest rate %	Total £m	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	5 Years+ £m
Eurobonds 2007	8.4	199.6	-	199.6	-	-	-
Eurobonds 2010	10.8	75.8	-	-	-	-	75.8
Eurobonds 2015	6.6	149.0	-	-	-	-	149.0
Finance lease obligations	12.0	37.3	0.6	0.6	0.7	0.8	34.6
		<u>461.7</u>	<u>0.6</u>	<u>200.2</u>	<u>0.7</u>	<u>0.8</u>	<u>259.4</u>
Loans from Wal-Mart Stores (UK) Limited	4.8	962.1	962.1	-	-	-	-
Loans from Broadstreet Great Wilson Limited	5.1	408.0	408.0	-	-	-	-

These balances are included within amounts owed to fellow subsidiaries (note 18)

Notes (continued)

19 Financial liabilities (continued)

Terms and debt repayment schedule as at 31 December 2004:

	Effective interest rate %	Total £m	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	5 Years+ £m
Eurobonds 2007	8.4	199.3	-	-	199.3	-	-
Eurobonds 2010	10.8	75.8	-	-	-	-	75.8
Eurobonds 2015	6.6	148.9	-	-	-	-	148.9
Finance lease obligations	12.0	38.0	0.6	0.6	0.6	0.7	35.5
	8.2	462.0	0.6	0.6	199.9	0.7	260.2
Loans from Wal-Mart Stores (UK) Limited	4.5	962.1	962.1	-	-	-	-
Loans from Broadstreet Great Wilson Limited	5.1	408.0	408.0	-	-	-	-

These balances are included within amounts owed to fellow subsidiaries (note 18)

The Eurobonds are denominated in Sterling and carried at amortised cost. Their fair value as at 31 December 2005 was £444.0m (31 December 2004: £449.7m). The bonds bear fixed interest, payable annually in arrears.

a) On 24 April 1997, the company issued £200 million of unsecured 8 3/8 % bonds at 98.872% of nominal value redeemable at par on 24 April 2007 unless previously redeemed at the company's request, at the higher of the principal amount or a price calculated to provide a yield equal to that earned on 7.5% Treasury Stock 2006.

b) On 31 March 1989, the company issued £125 million of unsecured 10 7/8% bonds at 101.753% of nominal value redeemable at par on 20 April 2010, unless previously redeemed at the company's request, at the higher of par or a price calculated to provide a yield equal to that earned on 12% Exchequer Stock 2013/2017.

c) On 17 July 1998, the company issued £150 million of unsecured 6 5/8% bonds at 99.441% of nominal value redeemable at par on 17 July 2015 unless previously redeemed at the company's request, at the higher of the principal amount or a price calculated to provide a yield equal to that earned on 8% Treasury Stock 2015.

As at 31 December 2005 all borrowings were in sterling at fixed rates of interest.

The finance lease obligations are carried at amortised cost, which is considered to approximate to fair value.

20 Financial instruments

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

Foreign currency risk

The Group purchases goods and services denominated in currencies other than Sterling. Cash flows can be affected by movements in exchange rates, primarily US Dollars, Euros and HK Dollars. Purchases in foreign currencies are managed through the use of forward contracts and there was no material gain or loss at the balance sheet date.

Within the property development segment, the Group has invested in operations outside of the United Kingdom and has a small amount of revenue in Euros. The Group continues to monitor its currency risk in respect of foreign operations but due to their size there is no material currency risk.

Notes (continued)

20 Financial instruments (continued)

Interest rate risk

The Group's borrowings are at fixed interest rates, through the issue of Eurobonds of which a minority are listed on the London Stock Exchange.

Liquidity risk

The treasury function ensures that the Group continues to have sufficient funding. The Group's Eurobonds are redeemable between 2007 and 2015 and Group funding is available for the 2007 redemption. As at 31 December 2005 the Group held £211.7m cash, utilised along with overdrafts where necessary to secure short-term flexibility. Cash is placed on short-term deposits wherever possible.

Credit risk

There are no significant concentrations of credit risk within the Group. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date.

21 Employee benefits

Pension plans

The Group operates a defined benefit pension scheme open to all full time and part time salaried colleagues who commenced their employment with the Group prior to 1 January 2005; a defined contribution scheme open to full-time and part-time colleagues who commenced their employment with the Group 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 following disclosures relate to both of the above defined benefit schemes.

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

The trustees of these schemes have been selected to represent the wide range of members and consist of eight colleagues (nine for the defined contribution plan) performing a range of roles in stores, depots and ASDA House. In addition there is one pensioner trustee and a professional independent trustee.

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 2004 (5 April 2003, 5 April 2002) and updated this for IAS 19 *Employee Benefits* purposes for the year ended 31 December 2005 (31 December 2004, 31 December 2003).

	2005 £m	2004 £m
Present value of funded defined benefit obligations	(987.0)	(803.6)
Fair value of plan assets	852.1	597.2
	<hr/>	<hr/>
Recognised liability for defined benefit obligations	(134.9)	(206.4)
Cash-settled share-based payment transactions liability – current	(4.3)	(8.1)
– non-current	(15.3)	(20.4)
	<hr/>	<hr/>
Total employee benefits	(154.5)	(234.9)
	<hr/>	<hr/>

Notes (continued)

21 Employee benefits (continued)

Pension plans (continued)

Movements in present value of defined benefit obligation

	2005 £m	2004 £m
At 1 January	(803.6)	(690.0)
Current service cost	(62.7)	(39.6)
Interest cost	(42.2)	(38.4)
Actuarial losses	(90.3)	(32.7)
Benefits paid	13.1	10.8
Contributions by members	(1.3)	(13.7)
	<hr/>	<hr/>
At 31 December	(987.0)	(803.6)
	<hr/>	<hr/>

Movements in fair value of plan assets

	2005 £m	2004 £m
At 1 January	597.2	472.7
Expected return on plan assets	46.0	35.8
Actuarial gains	67.7	21.0
Contributions by employer	153.0	64.8
Contributions by members	1.3	13.7
Benefits paid	(13.1)	(10.8)
	<hr/>	<hr/>
At 31 December	852.1	597.2
	<hr/>	<hr/>

Expense recognised in the consolidated income statement

	2005 £m	2004 £m
Current service cost	(62.7)	(39.6)
Interest on defined benefit pension plan obligation	(42.2)	(38.4)
Expected return on defined benefit pension plan assets	46.0	35.8
	<hr/>	<hr/>
Total	(58.9)	(42.2)
	<hr/>	<hr/>

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

	2005 £m	2004 £m
Operating costs	(62.7)	(39.6)
Finance income/(expense)	3.8	(2.6)
	<hr/>	<hr/>
Total	(58.9)	(42.2)
	<hr/>	<hr/>

Notes (continued)

21 Employee benefits (continued)

Pension plans (continued)

The amounts recognised in the statement of recognised income and expense ('SORIE') were:

	2005 £m	2004 £m
Actual return less expected return on scheme assets	67.7	21.0
Experience gains and losses arising on plan obligation	(6.6)	(2.1)
Changes in demographic and financial assumptions underlying the present value of plan obligations	(83.7)	(30.6)
	<hr/>	<hr/>
Actuarial loss recognised in the SORIE	(22.6)	(11.7)
Taxation on actuarial loss recognised in the SORIE	6.8	3.6
	<hr/>	<hr/>
Net actuarial loss recognised in the SORIE	(15.8)	(8.1)
	<hr/>	<hr/>

Cumulative actuarial losses reported in the statement of recognised income and expenses since 1 January 2004, the transition date to Adopted IFRSs, are £23.9m (31 December 2004 : £8.1m).

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

	2005 £m	2004 £m
Equity securities	755.8	520.9
Debt securities	86.9	66.9
Property	9.4	9.4
	<hr/>	<hr/>
	852.1	597.2
	<hr/>	<hr/>
Actual return on plan assets	113.7	56.8
	<hr/>	<hr/>

Principal actuarial assumptions (expressed as weighted averages):

	2005 %	2004 %
Discount rate	4.9	5.3
Inflation	2.8	2.8
Future salary increases	4.3	4.3
Future pension increases	2.8	2.8
Return on assets		
- Equities	7.5	7.5
- Bonds	4.4	4.9
- Property	7.5	7.5
	<hr/>	<hr/>

The pension liabilities as at 31 December 2005 have been calculated using the mortality tables PMA92(Base) for retired male members and PFA92(Base) for retired female members. For members not yet retired the same tables have been applied, but with a three year age adjustment.

Notes (continued)

21 Employee benefits (continued)

Pension plans (continued)

The following table illustrates the residual life expectancy for an average member on reaching age 60, according to the mortality assumptions used to calculate the pension liabilities:

		2005	2004
Retiring at Reporting date at age 60:	Male	21.1	21.1
	Female	24.2	24.2
Retiring at Reporting date in 25 years at age 60:	Male	23.9	23.9
	Female	26.9	26.9

History of experience gains and losses

The history of the plans for the current and prior periods is as follows:

	2005	2004
	£m	£m
	%	%
Difference between the expected and actual return on scheme assets		
Amount	67.7	21.0
Percentage of scheme assets	7.9%	3.5%
Experience adjustments on plan liabilities		
Amount	(6.6)	(2.1)
Percentage of present value of plan obligation	(0.7%)	(0.3%)
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities		
Amount	(83.7)	(30.6)
Percentage of present value of plan obligation	(8.5%)	(3.8%)
Total amount recognised in the SORIE		
Amount	(22.6)	(11.7)
Percentage of present value of plan obligation	(2.3%)	(1.5%)

The Group expects to contribute approximately £87m to its defined benefit plan in the next financial year.

Defined contribution plans

The Group operates two defined contribution pension plans. The unpaid contributions outstanding at the year end, included in other creditors are £0.9m (2004: £0.5m) for the defined contribution scheme. The charge for the year for the defined contribution schemes is £10.8m (2004: £10.5m).

Notes (continued)

21 Employee benefits (continued)

Share-based payments

The share-based payment transactions are considered as cash settled and accounted for in accordance with IFRIC D17.

The Group offers share-based payments schemes to employees to enable them to own shares in the ultimate parent company. No performance conditions exist in relation to exercise and there are no cash settlement alternatives for the schemes listed below.

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

	Weighted average exercise price £ 2005	Number of options (thousands) 2005	Weighted average exercise price £ 2004	Number of options (thousands) 2004
Outstanding at the beginning of the period	29.32	18,628	29.01	16,399
Exercised during the period	24.81	(1,257)	23.86	(2,336)
Granted during the period	26.77	8,922	28.31	6,639
Lapsed during the period	29.23	(4,358)	29.76	(2,074)
Outstanding at the end of the period	28.35	21,935	29.32	18,628
Exercisable at the end of the period	28.66	3,328	27.82	1,768

Share options were exercised on a regular basis throughout the year. The average share price during the year to 31 December 2005 was £26.20 (£29.78).

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 2005				31 December 2004			
Number of options (thousands)	Range of exercise price £	Weighted average exercise price £	Weighted average contractual life (years)	Number of options (thousands)	Range of exercise price £	Weighted average exercise price £	Weighted average contractual life (years)
5,687	21.42 to 35.31	23.79	3.2	6,203	16.83 to 35.31	21.82	3.6

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 2005				31 December 2004			
Number of options (thousands)	Range of exercise price £	Weighted average exercise price £	Weighted average contractual life (years)	Number of options (thousands)	Range of exercise price £	Weighted average exercise price £	Weighted average contractual life (years)
9,335	27.74 to 39.20	30.53	4.4	6,241	27.74 to 39.20	30.81	3.5

Notes (continued)

21 Employee benefits (continued)

Share-based payments (continued)

Wal-Mart Stock Incentive Plan (WSIP) scheme

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

31 December 2005				31 December 2004			
Number of options (thousands)	Range of exercise price £	Weighted average exercise price £	Weighted average contractual life (years)	Number of options (thousands)	Range of exercise price £	Weighted average exercise price £	Weighted average contractual life (years)
6,913	23.62 to 33.27	29.14	2.4	6,184	23.62 to 33.27	28.71	2.7

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on 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.

	2005	2004
Expected dividend yield (%)	1.9	1.1
Expected volatility (%)	24.9	26.2
Risk-free interest rate (%)	4.2	3.5
Weighted average fair value of options granted (£)	6.43	6.48
Weighted average share price	27.6	27.4
Expected life of option (years)	3.0	3.3

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 rate.

The total expenses recognised for the period arising from share based payments are as follows:

	2005 £m	2004 £m
Cash-settled share based payment	8.9	14.8
Total carrying amount of liabilities – current	4.3	8.1
- non-current	15.3	20.4
	19.6	28.5

22 Provisions

	Onerous lease provision £m
Balance at 1 January 2005	4.0
Utilised during the year	(0.3)
Balance at 31 December 2005	3.7

The provision represents provisions for lease obligations arising from activities discontinued in a prior year. The majority of this liability will crystallise in the next 5 years.

Notes (continued)

23 Capital and reserves

Reconciliation of movement in capital and reserves

	Share capital £m	Share premium £m	Other reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2004	783.9	568.4	437.1	1,354.7	3,144.1
Profit for the year	-	-	-	487.1	487.1
Actuarial loss on pension scheme	-	-	-	(11.7)	(11.7)
Deferred tax movement relating to pension scheme	-	-	-	3.6	3.6
Balance at 31 December 2004	783.9	568.4	437.1	1,833.7	3,623.1
Balance at 1 January 2005	783.9	568.4	437.1	1,833.7	3,623.1
Profit for the year	-	-	-	463.0	463.0
Dividends	-	-	-	(400.0)	(400.0)
Actuarial loss on pension scheme	-	-	-	(22.6)	(22.6)
Deferred tax movement relating to pension scheme	-	-	-	6.8	6.8
Balance at 31 December 2005	783.9	568.4	437.1	1,880.9	3,670.3

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

The other reserve relates to a revaluation reserve previously shown under UK GAAP, disclosed separately from retained earnings for these IFRS financial statements for information purposes.

Share capital

	2005 thousands	2004 thousands	2005 £m	2004 £m
Authorised <i>Ordinary shares of 25p each</i>	5,000,000	5,000,000	1,250.0	1,250.0
Allotted, called up and fully paid <i>Ordinary shares of 25p each</i>	3,135,705	3,135,705	783.9	783.9

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

24 Obligations under leases

Operating lease agreements where Group is lessee

Future minimum lease payments under non-cancellable operating lease rentals are payable as follows:

	2005 £m	2004 £m
Less than one year	49.2	50.9
Between one and five years	155.0	144.2
More than five years	395.2	443.3
	599.4	638.4

Notes (continued)

24 Obligations under leases (continued)

The Group leases various offices, stores and warehouses under non-cancellable operating lease agreements. The leases have various terms and renewal rights.

Operating lease agreements where Group is lessor

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

	2005 £m	2004 £m
Less than one year	10.9	10.3
Between one and five years	30.0	28.9
More than five years	32.6	33.9
	<hr/>	<hr/>
	73.5	73.1
	<hr/>	<hr/>

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

Obligations under finance leases

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

	2005 £m	2004 £m
<i>Future minimum payments due:</i>		
No later than one year	4.5	4.7
After one year and not later than five years	19.9	19.9
Later than five years	77.4	82.4
	<hr/>	<hr/>
	101.8	107.0
	<hr/>	<hr/>
Lease finance charges allocated to future periods	(64.5)	(69.0)
	<hr/>	<hr/>
Present value of minimum lease payments	37.3	38.0
	<hr/>	<hr/>
<i>The present value of minimum lease payments is analysed as follows;</i>		
No later than one year	0.6	0.7
After one year and not later than five years	3.0	2.7
Later than five years	33.7	34.6
	<hr/>	<hr/>
	37.3	38.0
	<hr/>	<hr/>

25 Capital commitments

During the year ended 31 December 2005, the Group entered into a contract to purchase property, plant and equipment for £60.2m (2004: £60.0m).

In respect of its interest in Jointly Controlled Entities, the Group is committed to incur capital expenditure of £6.9m (2004: £1.7m). These commitments are expected to be settled in the following financial year.

Notes (continued)

26 Related parties

Identity of related parties

The Group had the following transactions with parent companies during the financial years ended 31 December 2005 and 31 December 2004;

	2005 £m	2004 £m
Technical assistance, services and royalties paid to Wal-Mart Stores Inc.	126.8	162.4
ASDA Group Limited management recharges to other subsidiaries	4.3	3.3
Interest received on loans to Wal-Mart Stores (UK) Limited	2.4	1.5
Interest received on loans to Broadstreet Great Wilson Europe Limited	-	-
Interest payable on loans from Wal-Mart Stores (UK) Limited	46.2	44.0
Interest payable on loans from Broadstreet Great Wilson Europe Limited	20.7	7.5
Loans from Wal-Mart Stores (UK) Limited	962.1	970.1
Loans from Broadstreet Great Wilson Europe Limited	408.0	408.0
Other debtor balances with Group companies	0.2	0.6

Interest on inter-company loans is charged on an arm's length basis at rates within the range 5.75%-8%.

Amounts due from and to Group companies are disclosed in notes 15 and 18 respectively.

Details of the transactions with jointly controlled entities are disclosed below, these transactions were made at arms' length and made in the normal course of business.

- Funds were paid from HH (LP) Limited to Gazeley UK Limited of £6.2m for the purchase of land, construction works and relevant fees. At the year end, HH (LP) Limited owed Gazeley UK Limited £0.3m.
- Payments were made from Magna 1400 Limited to Gazeley UK Limited of £3.1m in respect of construction work.
- Payments were made from Magna 1500 Limited to Gazeley UK Limited of £2.1m in respect of construction work.
- Payments were made from Magna 3520 Limited to Gazeley UK Limited of £2.7m in respect of construction work.
- Gazeley UK Limited paid £0.1m on behalf of Magna 6130 Limited which is incorporated within creditors.
- Payments were made from Marsh Leys Property Development Limited to Gazeley UK Limited of £0.7m in respect of construction work, environmental work, development management fee and legal fees.

Other related party transactions

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

27 Ultimate parent company and parent company of larger Group

The Group's immediate parent company is Wal-Mart Stores (UK) Limited, for which consolidated Group financial statements have been prepared and are available for inspection at its registered office: Asda House, Southbank, Great Wilson Street, Leeds, LS11 5AD.

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

Notes (continued)

28 Explanation of transition to Adopted IFRSs

As stated in note 1, these are the Group's first consolidated financial statements prepared in accordance with adopted IFRSs.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2005, the comparative information presented in these financial statements for the year ended 31 December 2004 and in the preparation of an opening IFRS balance sheet at 1 January 2004 (the Group's date of transition).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to Adopted IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of profit

		Year ended 31 December 2004		
	Note	UK GAAP £m	Effect of transition to Adopted IFRSs £m	Adopted IFRSs £m
Revenue		14,318.2	-	14,318.2
Operating costs	a, d	(13,632.1)	(1.4)	(13,633.5)
Operating profit before net financing costs		686.1	(1.4)	684.7
Share of losses in jointly controlled entities		(0.6)	-	(0.6)
Financial income		31.6	-	31.6
Financial expenses	a, c	(78.8)	(7.1)	(85.9)
Profit before tax		638.3	(8.5)	629.8
Taxation	b	(142.7)	-	(142.7)
Profit for the year		495.6	(8.5)	487.1

Notes (continued)

28 Explanation of transition to Adopted IFRSs (continued)

Reconciliation of equity

	Note	31 December 2004			1 January 2004		
		UK GAAP	Effect of transition to Adopted IFRSs	Adopted IFRSs	UK GAAP	Effect of transition to Adopted IFRSs	Adopted IFRSs
		£m	£m	£m	£m	£m	£m
Non-current assets							
Property, plant and equipment	a	5,904.0	(36.2)	5,867.8	5,180.4	(35.6)	5,144.8
Investments in jointly controlled entities		6.8	-	6.8	-	-	-
Other investments		-	-	-	8.9	-	8.9
Operating lease prepayments	a	-	67.1	67.1	-	68.0	68.0
		<u>5,910.8</u>	<u>30.9</u>	<u>5,941.7</u>	<u>5,189.3</u>	<u>32.4</u>	<u>5,221.7</u>
Current assets							
Inventories		781.1	-	781.1	684.4	-	684.4
Trade and other receivables	c	578.0	(50.8)	527.2	144.1	(20.7)	123.4
Cash and cash equivalents		447.3	-	447.3	913.0	-	913.0
Operating lease prepayments	a	-	0.9	0.9	-	0.9	0.9
		<u>1,806.4</u>	<u>(49.9)</u>	<u>1,756.5</u>	<u>1,741.5</u>	<u>(19.8)</u>	<u>1,721.7</u>
Total assets		<u>7,717.2</u>	<u>(19.0)</u>	<u>7,698.2</u>	<u>6,930.8</u>	<u>12.6</u>	<u>6,943.4</u>
Current liabilities							
Trade and other payables	a	(3,186.5)	-	(3,186.5)	(2,907.1)	-	(2,907.1)
Financial liabilities		(0.2)	(0.4)	(0.6)	(0.3)	(0.5)	(0.8)
Employee benefits	c,d	-	(8.1)	(8.1)	-	-	-
Current tax payable		(61.8)	-	(61.8)	(63.2)	-	(63.2)
		<u>(3,248.5)</u>	<u>(8.5)</u>	<u>(3,257.0)</u>	<u>(2,970.6)</u>	<u>(0.5)</u>	<u>(2,971.1)</u>
Non-current liabilities							
Financial liabilities	a	(424.0)	(37.4)	(461.4)	(423.8)	(37.8)	(461.6)
Employee benefits	c,d	(25.8)	(201.0)	(226.8)	(40.7)	(219.9)	(260.6)
Provisions		(4.0)	-	(4.0)	(5.3)	-	(5.3)
Deferred tax liabilities	b,c	(209.9)	83.9	(126.0)	(181.0)	80.3	(100.7)
		<u>(663.7)</u>	<u>(154.5)</u>	<u>(818.2)</u>	<u>(650.8)</u>	<u>(177.4)</u>	<u>(828.2)</u>
Total liabilities		<u>(3,912.2)</u>	<u>(163.0)</u>	<u>(4,075.2)</u>	<u>(3,621.4)</u>	<u>(177.9)</u>	<u>(3,799.3)</u>
Net assets		<u>3,805.0</u>	<u>(182.0)</u>	<u>3,623.0</u>	<u>3,309.4</u>	<u>(165.3)</u>	<u>3,144.1</u>
Equity attributable to equity holders of the parent							
Called up share capital		783.9	-	783.9	783.9	-	783.9
Share premium account		568.4	-	568.4	568.4	-	568.4
Other reserves		437.1	-	437.1	437.1	-	437.1
Retained earnings		2,015.6	(182.0)	1,833.6	1,520.0	(165.3)	1,354.7
Total equity		<u>3,805.0</u>	<u>(182.0)</u>	<u>3,623.0</u>	<u>3,309.4</u>	<u>(165.3)</u>	<u>3,144.1</u>

Notes (continued)

28 Explanation of transition to Adopted IFRSs (continued)

The following describes the most significant adjustments arising from transition to IFRSs.

a) Leases (IAS 17)

Under UK GAAP the Group's payments for leasehold land were capitalised as tangible fixed assets and depreciated over the life of the lease. Under IFRS payment for the land is treated as a prepaid operating lease, with the premiums shown separately from plant and equipment and spread over the lease term.

The Group's balance sheet shows a reclassification from plant, property and equipment to lease prepayments and current other receivables of £68.0m as at 31 December 2004 (1 January 2004: £68.9m). Net assets at 1 January 2004 are reduced by £5m due to a net adjustment to reserves for prior period depreciation and lease prepayment amortisation, and an additional £0.2m of lease prepayment amortisation is charged in 2004.

The finance lease tests under IAS 17 require that the land and building elements of property leases are considered separately; the Group has classified a number of building components as finance leases. The Group's transition balance sheet as at 1 January 2004 includes additional property of £38.3m and finance lease obligations of £38.3m. Net assets are unaffected.

The Group's balance sheet as at 31 December 2004 includes additional property of £37.0m and finance lease obligations of £37.8m. Net assets are unaffected. In the income statement for the year ended 31 December 2004 depreciation of £1.3m and financial expenses of £4.5m are charged, whilst operating lease costs are reduced by £5.0m.

b) Income taxes (IAS 12)

Under UK GAAP deferred tax was recognised in respect of all timing differences that had originated but not reversed by the Balance Sheet date and which could give rise to an obligation to pay more or less taxation in the future. Deferred tax under IAS 12 is recognised in respect of all temporary timing differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying value for financial reporting purposes.

Adjustments made to the financial statements on the transition to IFRS result in related adjustments to deferred tax, particularly with regard to share based payments and employee benefits.

The net balance sheet adjustments as at 1 January 2004 and 31 December 2004 are £6.5m and £6.8m increases respectively.

c) Employee Benefits (IAS 19)

For UK GAAP the Group accounted for its defined benefit pension plans under SSAP 24, whereby the costs are charged to operating profit so as to spread the cost over the remaining average service lives of current employees in the scheme. Differences between paid and cumulative amounts charged to profit were shown as prepayments or accruals. Under SSAP 24 the assets and liabilities of the plan are not recognised on the balance sheet.

IAS 19 requires the Group to recognise on the balance sheet the present value of the defined benefit obligation at the balance sheet date, net of the fair value of assets in the pension schemes and any unrecognised actuarial gains and losses and past service costs. The Group has elected to recognise actuarial gains and losses in full in the period in which they occur and directly in equity through the statement for recognised income and expense. The resultant reduction in net assets from recognising the pension scheme obligations, and reversing previous balances carried under SSAP 24 is; recognition of a net pension deficit at 1 January 2004 of £217.3m (31 December 2004: £206.4m), reduction in SSAP 24 debtor of £20.7m at 1 January 2004 (31 December 2004: £50.8m), and an increase in the deferred tax asset of £73.8m at 1 January 2004 (31 December 2004: £77.1m).

In the income statement for the year ended 31 December 2004, net financial expenses of £2.6m are charged, being the difference between interest on the pension plan obligation and the expected returns on the pension plan assets.

Notes (continued)

28 Explanation of transition to Adopted IFRSs (continued)

d) Share-based payment (IFRS 2)

Under IFRS 2 the Group recognises a liability for the obligation to make a cash payment to the issuer of the equity instruments. This is measured at the fair value of the awards using an option pricing model, unlike UK GAAP where intrinsic value of the awards is used. The liability accrues over the period in which the employees' services are rendered. At each balance sheet date the fair value of the liability is remeasured and changes in fair value recognised in the income statement over the vesting period of the instruments.

On adoption of IFRS 2 the Group's share-based payment liability was increased by £2.6m as at 1 January 2004 and by £2.7m as at 31 December 2004. Retained earnings hence reduced by the same amount each year. The profit for the year ended 31 December 2004 is reduced by £0.1m.

ASDA Group Limited – Parent Company

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which 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 apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

Ernst & Young LLP

Report of the independent auditors to the members of ASDA Group Limited

We have audited the parent company financial statements of ASDA Group Limited for the year ended 31 December 2005 which comprise the Parent Company Balance Sheet and the related notes 1 to 12. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of ASDA Group Limited for the year ended 31 December 2005.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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

The directors are responsible for preparing the Annual Report and the parent financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the parent company financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the Company's affairs as at 31 December 2005; and
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
Leeds

19 October 2006

Company balance sheet
as at 31 December 2005

	<i>Note</i>	2005 £m	2004 £m
Fixed assets			
Investments	4	1,649.4	1,662.7
		<u>1,649.4</u>	<u>1,662.7</u>
Current assets			
Debtors	5	3,363.6	3,239.0
Cash	6	-	313.0
		<u>3,363.6</u>	<u>3,552.0</u>
Creditors: amounts falling due within one year			
Other creditors	7	(2,920.1)	(2,642.8)
		<u>443.5</u>	<u>909.2</u>
Net current assets			
		<u>2,092.9</u>	<u>2,571.9</u>
Total assets less current liabilities			
Creditors: amounts falling due after more than one year			
Borrowings	8	(424.4)	(424.0)
		<u>1,668.5</u>	<u>2,147.9</u>
Net assets			
Capital and reserves			
Called up share capital	9	783.9	783.9
Share premium account	10	568.4	568.4
Revaluation reserve	10	156.2	156.2
Profit and loss account	10	160.0	639.4
		<u>1,668.5</u>	<u>2,147.9</u>
Total equity shareholders' funds			
		<u>1,668.5</u>	<u>2,147.9</u>

These financial statements were approved by the board of directors on 18 October 2006 and were signed on its behalf by:


J J McKenna
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

In the year ended 31 December 2005 the following standards were effective for the first time:

- FRS 20 'Share-based payments';
- FRS 21 'Events after the balance sheet date';
- the presentation requirements of FRS 25 'Financial instruments: presentation and disclosure'; and
- FRS 28 'Corresponding amounts'.

The recognition and measurement requirements of FRS 17 'Retirement benefits' have also been adopted, previously the transitional disclosures of that standard have been followed. This has no impact on the company balance sheet and profit and loss account.

FRS 20, FRS 21 and FRS 26 had no impact on the company.

FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

Accounting basis

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

Under the provisions of FRS 8 the company is not required to disclose details of inter-Group transactions between group entities as the parents financial statements are presented with consolidated accounts.

Deferred taxation

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;
- 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.

Notes (continued)

1 Accounting policies (continued)

Investments

Investments in subsidiaries are stated at cost less provision for impairment.

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

Foreign currencies

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

2 Auditors' remuneration

The company's audit costs are paid by another Group company.

3 Staff numbers and costs

The company is an intermediate holding company and employs no staff.

Directors' remuneration is paid by another Group company.

4 Fixed asset investments

	Investment in subsidiaries £m
Cost at 1 January 2005 and 31 December 2005	1,662.7
Impairment at 1 January 2005	-
Charge for the year	13.3
Impairment provided at 31 December 2005	13.3
Net book value at 31 December 2005	1,649.4
Net book value at 1 January 2005	1,662.7

Following a review of the carrying value of investments held by the company, an impairment charge of £13.3m has been recognised.

Notes (continued)

4 Fixed asset investments (continued)

Subsidiary undertakings

As at 31 December 2005, the following companies, being those whose results principally affect the financial position of the Group, were subsidiary undertakings whose ordinary share capital was wholly owned, and which were registered in England and Wales and operating in the UK.

	<i>Principal activities</i>	<i>Holding Company</i>
ASDA Stores Limited	Retailing	ASDA Group Limited
Gazeley UK Limited	Property Development	Gazeley Limited
McLagan Investments Limited	Property Investment	ASDA Group Limited
The Burwood House Group Limited	Property Investment	McLagan Investments Limited

5 Debtors

	2005 £m	2004 £m
Amounts owed by subsidiary undertakings	3,363.6	3,232.0
Other debtors	-	7.0
	<u>3,363.6</u>	<u>3,239.0</u>

6 Cash

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

	2005 £m	2004 £m
On overnight deposit	-	313.0
	<u>-</u>	<u>313.0</u>

7 Creditors: amounts falling due within one year

	2005 £m	2004 £m
Bank overdraft	4.6	1.2
Amounts owed to subsidiary undertakings	2,893.6	2,619.9
Corporation tax	0.2	-
Accruals	21.7	21.7
	<u>2,920.1</u>	<u>2,642.8</u>

Notes (continued)

8 Creditors: amounts falling due after more than one year

	2005 £m	2004 £m
<i>Amounts repayable between one and two years</i>		
Bonds due 2007 (a)	199.6	-
<i>Amounts repayable between two and five years</i>		
Bonds due 2007 (a)	-	199.3
<i>Amounts repayable in five years or more</i>		
Bonds due 2010 (b)	75.8	75.8
Bonds due 2015 (c)	149.0	148.9
	<u>424.4</u>	<u>424.0</u>

a) On 24 April 1997, the company issued £200 million of unsecured 8 3/8 % bonds at 98.872% of nominal value redeemable at par on 24 April 2007 unless previously redeemed at the company's request, at the higher of the principal amount or a price calculated to provide a yield equal to that earned on 7.5% Treasury Stock 2006.

b) On 31 March 1989, the company issued £125 million of unsecured 10 7/8% bonds at 101.753% of nominal value redeemable at par on 20 April 2010, unless previously redeemed at the company's request, at the higher of par or a price calculated to provide a yield equal to that earned on 12% Exchequer Stock 2013/2017.

c) On 17 July 1998, the company issued £150 million of unsecured 6 5/8% bonds at 99.441% of nominal value redeemable at par on 17 July 2015 unless previously redeemed at the company's request, at the higher of the principal amount or a price calculated to provide a yield equal to that earned on 8% Treasury Stock 2015.

As at 31 December 2005 all borrowings were in sterling at fixed rates of interest, except for the bank overdraft which is at a floating rate of interest.

The weighted average interest rate of fixed rate debt is 8.2%.

9 Called up share capital

	Number	£m
<i>Authorised at 31 December 2004 and 31 December 2005</i>		
Ordinary shares of 25p each	5,000,000,000	1250.0
<i>Allotted, called up and fully paid at 31 December 2004 and 31 December 2005</i>		
Ordinary shares of 25p each	3,135,704,690	783.9

Notes (continued)

10 Share premium and other reserves

	Share premium account £m	Revaluation reserve £m	Profit and loss account £m	Total £m
At 1 January 2005	568.4	156.2	639.4	1,364.0
Loss for the year	-	-	(79.4)	(79.4)
Dividends paid during the year	-	-	(400.0)	(400.0)
At 31 December 2005	568.4	156.2	160.0	884.6

In accordance with the exemptions given by Section 230 (3) of the Companies Act 1985 the company has not presented its own profit and loss account.

The loss for the financial year in the financial statements of the company was £79.4 million (31 December 2004: loss £17.5 million).

11 Commitments

The company has no financial commitments.

12 Ultimate parent company and parent company of larger Group

The company's immediate parent company is Wal-Mart Stores (UK) Limited, for which consolidated Group financial statements have been prepared and are available for inspection at its registered office: Asda House, Southbank, Great Wilson Street, Leeds, LS11 5AD.

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