ASDA Group Limited

Directors' report and financial statements

Registered number 1396513

31 December 2011

DIRECTORS

J J McKenna	
A Clarke	
R Bendel	resigned 30 April 2012
C Kuchinad	resigned 14 March 2011
A J Moore	
C R Redfield	
S King	appointed 28 February 2011, resigned 11 July 2011
E Doohan	appointed 3 October 2011
K Hubbard	appointed 3 October 2011
H Tatum	appointed 3 October 2011

SECRETARY
E Doohan

AUDITORS
Ernst & Young LLP
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LS11 5QR

REGISTERED OFFICE
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Great Wilson Street
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REGISTRARS
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Contents

Directors' report

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

Principal activities

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

Group profit and dividends

Group profit before tax for the year increased to £767 8m (2010 £739 1m) and operating profit grew to £845 9m (2010 £805 1m) Revenue grew by 6 3% to £21 8bn (2010 £20 5bn) as a result of underlying sales growth and new store openings including the acquisition of Netto Foodstores Limited ('Netto') Operating costs grew broadly in line with revenue The converted Netto stores traded ahead of expectations incurring an operating loss of £31 4m reflecting the impact of planned first year integration and store conversion Profit after tax for the year was £573 4m (2010 £608 0m) as a result of an increased current tax expense due to a prior period adjustment which relates to the finalisation of group relief balances

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

Dividends of £nil (2010 £230 0m) were paid in the year

Significant events in the year

On 13 April 2011, the Group acquired Netto Foodstores Limited for consideration of £752m which gave rise to additional revenue of £416m

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

Following the scheme closure, enhanced employer contributions are being paid to reduce the deficit that under IFRIC 14 "Prepayments of a Minimum Funding Requirement" gave rise to an additional liability of £190m The Group's ultimate parent company Wal-Mart Stores, Inc , guarantees ASDA Stores' obligations to the pension scheme.

Business review, KPIs and future developments

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

Directors' report *(continued)*

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

Financial highlights

- Like-for-Like sales growth of 0 5% (excluding petrol and VAT)
- Total sales growth of 6 3% (excluding VAT), including growth due to new space acquired from Netto in the year
- Operating Profit increased by 5 1%, with operating costs growing broadly in line with sales growth
- Market share up 0 4%, to 17 3% (source Kantar 52 weeks to 25 December 2011)

Operational highlights

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

Delivering foundations for future growth

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

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

Directors' report *(continued)*

Risks and uncertainties

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

Key risks and mitigating actions are set out below

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

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

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

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

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

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

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

Directors' report *(continued)*

Risks and uncertainties *(continued)*

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

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

  Failure to protect our reputation could lead to a loss of trust in the ASDA brand and consequently erode customer loyalty ASDA regularly engages with customers, both directly and through the monitoring of available external data, in order to ensure that our positive customer perception is maintained

  We maintain strong relationships with our suppliers by operating on terms that are mutually agreed and updated as appropriate to reflect changes in both parties' respective needs

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

- **Environmental risk**
  As a retailer, we recognise that we have a responsibility to minimise the adverse impact that our business activities have on the environment Failure to do this may result not only in adverse environmental impacts, but also financial penalties and long term damage to our reputation

  In recent years, we have implemented a number of initiatives and processes in recognition of our environmental responsibilities We have reduced our absolute carbon footprint since 2007, and our existing stores emit 30 3% fewer carbon emissions than in 2005 The major focus of our strategy is now on our supply chain, including running a unique collaboration tool to help our suppliers become more efficient

- **Fraud risk**
  We have a control framework in place to help prevent and detect potential fraud and dishonest activity The ASDA-Wal-Mart Statement of Ethics also provides clear guidance to colleagues on appropriate behaviour, including guidance on how to raise any business conduct concerns they may have through the Open Door Communication Process or through the local Ethics Committee In addition, procedures are in place in respect of compliance with the UK Bribery Act and the Foreign Corrupt Practices Act

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

Directors' report *(continued)*

International Financial Reporting Standards (IFRS)

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

The Group's individual company financial statements, and those of its subsidiaries, continue to be prepared under UK GAAP This is with the exception of the International Produce Limited financial statements which are prepared under IFRS

Events since the balance sheet date

Change in rate of taxation

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

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

Business combinations

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

Financial instruments

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

Capital management

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

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

Directors' report *(continued)*

Innovation

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

Policy and practice on payment of creditors

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

Political and charitable contributions

During the year, cash donations to charitable organisations and other community projects totalled £11 9m (2010 £9 3m) ASDA's colleagues, customers and suppliers have collectively raised monies through events including BBC Children In Need, Tickled Pink (supporting Breast Cancer Care & Breast Cancer Campaign), Everyman, Sporting Chance, Pedal Power and Tommy's, the baby charity ASDA Foundation Limited, ASDA's charitable company, also supported a range of local charities and sustainable local projects These projects are local cause-related activities, contributing to local charities or causes that our colleagues wish to support During the year, we also made charitable donations of surplus clothing stocks

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

Disabled colleagues

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

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

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

Colleague involvement

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

Directors' liabilities

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

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

Directors' report *(continued)*

Directors' statement as to disclosure of information to auditors

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

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

Re-appointment of auditors

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

On behalf of the board

J J McKenna
Director
25 June 2012

ASDA House
Southbank
Great Wilson Street
Leeds
LS11 5AD

Directors' responsibilities statement

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

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

In preparing those financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and article 4 of IAS Regulation They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditor's report to the members of ASDA Group Limited

We have audited the Group financial statements of ASDA Group Limited for the year ended 31 December 2011 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes 1 to 28 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

Respective responsibilities of directors and auditors
As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

Opinion on financial statements
In our opinion the Group financial statements

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Other matter
We have reported separately on the parent company financial statements of ASDA Group Limited for the year ended 31 December 2011

Ernst & Young LLP

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

26-6-12

Consolidated income statement
for the year ended 31 December 2011

	Note	31 December 2011 £m	31 December 2010 £m
Continuing operations			
Revenue		21,847 7	20,546 4
Operating costs	3	(21,001 8)	(19,741 3)
Operating profit		845 9	805 1
Financial income	7	4 4	9 6
Financial costs	8	(82 5)	(75 6)
Profit on ordinary activities before tax		767 8	739 1
Income tax expense	9	(194 4)	(131 1)
Profit for the year		573 4	608 0
Profit for the year attributable to:			
Owners of the parent		568 6	608 0
Non-controlling interests		4 8	-

Consolidated statement of comprehensive income
for the year ended 31 December 2011

	Note	31 December 2011 £m	31 December 2010 £m
Profit for the year		573 4	608 0
Cash flow hedges - gains/(losses) arising in the year		8 8	(1 6)
Actuarial gain/(loss) on defined benefit pension scheme	20	4 4	(123 8)
Effect of minimum funding requirement	20	(190 0)	-
Tax on items recognised directly in equity	22	41 9	33 4
Other comprehensive income for the year		(134 9)	(92 0)
Total comprehensive income for the year		438 5	516 0
Total comprehensive income for the year attributable to:			
Owners of the parent		433 7	516 0
Non-controlling interests		4 8	-

Consolidated balance sheet
as at 31 December 2011

	Note	2011 £m	2010 £m
Assets			
Non-current assets			
Property, plant and equipment	*11*	8 227 5	7,616 9
Intangible assets	*12*	504 4	23 7
Operating lease prepayments	*13*	125 2	123 8
		8,857 1	7,764 4
Current assets			
Inventories	*15*	1,015 8	998 5
Trade and other receivables	*16*	282 2	260 2
Intercompany receivables	*16*	1,392 0	1,794 8
Cash and short term deposits	*17*	434 1	427 2
Income tax receivable		0 2	53 6
Operating lease prepayments	*13*	1 7	1 7
		3 126 0	3 536 0
Total assets		11,983 1	11,300 4
Equity and liabilities			
Equity attributable to the shareholders			
Called up share capital	*23*	783 9	783 9
Share premium account	*23*	568 4	568 4
Other reserves		437 1	437 1
Cash flow hedge reserve		5 1	(1 6)
Retained earnings		3 839 2	3,412 2
Total equity attributable to the shareholders		5,633 7	5,200 0
Non-controlling interests		17 3	-
Total equity		5,651 0	5,200 0
Liabilities			
Non-current liabilities			
Borrowings	*19*	185 8	182 6
Employee benefits	*20*	431 9	360 7
Provisions	*21*	22 3	22 0
Deferred tax liabilities	*22*	128 9	104 1
		768 9	669 4
Current liabilities			
Trade and other payables	*18*	2,871 6	2,853 8
Intercompany payables	*18*	2,651 0	2,543 3
Borrowings	*19*	1 3	1 1
Employee benefits	*20*	39 3	32 8
		5,563 2	5,431 0
Total liabilities		6,332 1	6,100 4
Total equity and liabilities		11,983 1	11 300 4

These financial statements were approved by the board of directors on 25 June 2012 and were signed on its behalf by

J J McKenna
Director

Consolidated statement of changes in equity
for the year ended 31 December 2011

	Share capital £m	Share premium £m	Other reserves £m	Cash flow hedge reserve £m	Retained earnings £m	Non-controlling interest £m	Total equity £m
Balance at 1 January 2010	783 9	568 4	437 1	-	3 124 6	-	4 914 0
Comprehensive income							
Profit for the year	-	-	-	-	608 0	-	608 0
Other comprehensive income							
Cash flow hedges - losses arising in the year	-	-	-	(1 6)	-	-	(1 6)
Actuarial loss on defined benefit pension scheme	-	-	-	-	(123 8)	-	(123 8)
Tax on actuarial losses recognised directly in equity	-	-	-	-	33 4	-	33 4
Total	-	-	-	(1 6)	(90 4)	-	(92 0)
Total comprehensive income	-	-	-	(1 6)	517 6	-	516 0
Transactions with shareholders							
Dividends	-	-	-	-	(230 0)	-	(230 0)
Balance at 1 January 2011	783 9	568 4	437 1	(1 6)	3 412 2		5 200 0
Comprehensive income							
Profit for the year	-	-	-	-	568 6	4 8	573 4
Other comprehensive income							
Cash flow hedges - gains arising in the year	-	-	-	8 8	-	-	8 8
Tax on cash flow hedges recognised directly in equity	-	-	-	(2 1)	-	-	(2 1)
Actuarial gains on defined benefit pension scheme	-	-	-	-	4 4	-	4 4
Effect of minimum funding requirement	-	-	-	-	(190 0)	-	(190 0)
Tax on actuarial losses recognised directly in equity	-	-	-	-	44 0	-	44 0
Total	-	-	-	6 7	(141 6)	-	(134 9)
Total comprehensive income	-	-	-	6 7	427 0	4 8	438 5
Net assets recognised on business combination	-	-	-	-	-	12 5	12 5
Balance at 31 December 2011	783 9	568 4	437 1	5 1	3839 2	17 3	5,651 0

Consolidated statement of cash flows
for the year ended 31 December 2011

	Note	31 December 2011 £m	31 December 2010 £m
Cash flows from operating activities			
Profit after tax from continuing operations		568 6	608 0
Adjustments to reconcile profit after tax to net cash flows			
Depreciation	*11*	379 7	384 8
Amortisation of intangible assets	*12*	3 2	2 8
Amortisation of lease prepayments	*13*	1 4	1 7
Financial income	*7*	(4 4)	(9 6)
Financial costs	*8*	82 5	75 6
Loss on sale of property, plant and equipment	*3*	17 5	19 7
Tax on continuing operations	*9*	194 4	131 1
(Excess)/shortage of contributions over pension service cost	*20*	(56 1)	3 6
Curtailment gain recognised	*20*	(57 0)	-
Share of results of non-controlling interests		4 8	-
Changes in working capital and provisions			
Increase in trade and other receivables		(11 3)	(15 0)
Decrease/(increase) in inventories		18 1	(83 6)
(Decrease)/increase in trade and other payables		(62 9)	167 8
Increase/(decrease) in provisions		7 5	(2 4)
Increase/(decrease) in share based payment liability	*20*	8 2	(4 6)
Other non cash charges		12 5	-
Tax paid		(123 9)	(179 0)
Net cash flows from operating activities		982 8	1,100 9
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		-	3 2
Decrease/(increase) in intercompany receivables		402 8	(204 6)
Purchase of property, plant and equipment		(658 3)	(566 6)
Acquisition of subsidiary net of cash acquired		(741 6)	-
Interest received	*7*	1 4	2 8
Net cash flows from investing activities		(995 7)	(765 2)
Cash flows from financing activities			
Interest paid		(92 8)	(87 8)
Increase in intercompany payables		109 2	139 9
Eurobond repayments	*19*	-	(75 9)
Increase/(decrease) in finance lease obligations	*19*	3 4	(0 9)
Dividends paid	*10*	-	(230 0)
Net cash flow from financing activities		19 8	(254 7)
Net increase in cash and cash equivalents		6 9	81 0
Cash and cash equivalents at start of year		427 2	346 2
Cash and cash equivalents at end of year	*17*	434 1	427 2

Notes
(forming part of the financial statements)

1 Accounting policies

General information

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

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

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

Authorisation of financial statements and statement of compliance with IFRSs

The financial statements of the Group for the year ended 31 December 2011 were authorised for issue by the directors on 25 June 2012 and the balance sheet was signed on behalf of the directors by J J McKenna

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRSs") The Company continues to prepare its company financial statements in accordance with UK GAAP, these are presented on pages 57-64

Basis of preparation

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

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

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

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011

IAS 24 Related Party Transactions (amendment) effective 1 January 2011
IAS 32 Financial Instruments Presentation (amendment) effective 1 February 2010
IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011
IFRS 3 (revised) Business Combinations effective 1 July 2009
Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below

IAS 24 Related Party Transactions (amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity The adoption of the amendment did not have any impact on the financial position or performance of the Group

Notes *(continued)*

1 Accounting policies *(continued)*

IAS 32 Financial Instruments: Presentation (amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments

IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset Following the closure of the defined benefit scheme in February 2011, there is no service cost prepayment and therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group

IFRS 3 (revised) Business Combinations

The revised standard increases the number of transactions to which it must be applied including business combinations of mutual entities and combinations without consideration IFRS 3 (revised) introduces significant changes in the accounting for business combinations such as valuation of non controlling interest, business combination achieved in stages, the initial recognition and subsequent measurement of a contingent consideration and the accounting for transaction costs The only significant impact on the accounts in the year was the treatment of transaction costs as an expense through the income statement

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording There are separate transitional provisions for each standard The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group

IFRS 3 Business Combinations The measurement options available for non-controlling interest (NCI) are amended Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets All other components are to be measured at their acquisition date fair value (see note 5)

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group
IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
IAS 27 Consolidated and Separate Financial Statements
IAS 34 Interim Financial Statements
IFRS 7 Financial Instruments — Disclosures
IAS 1 Presentation of Financial Statements

Notes *(continued)*

1 Accounting policies *(continued)*

The following interpretation and amendments to interpretations did not have any material impact on the accounting policies, financial position or performance of the Group
IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits)
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

New standards and interpretations not applied

There have been a number of new standards and interpretations issued by the IASB and IFRS Interpretations Committee, with effective dates after the date of these financial statements

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

IFRS 9 Financial Instruments Classification and Measurement (effective 1 January 2015)

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

IFRS 13 Fair Value Measurement (effective 1 January 2013)

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP The Group is yet to assess IFRS 13's full impact

Amendments to IAS 12 Income Taxes (effective 1 January 2012)

IAS 12 has been updated to include a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis The Group is yet to assess the full impact is IAS 12's amendment

Judgements, estimates and assumptions

Management are required to make judgements, estimates and assumptions that affect the application of policies and reported assets and liabilities, income and expenses Judgements, estimates and assumptions are continually evaluated and are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances

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

Judgements

Impairment of non-financial assets

The Group has significant carrying value of goodwill held within intangible assets on the balance sheet An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset The value in use calculation is based on a discounted cash flow model

Notes *(continued)*

1 Accounting policies *(continued)*

Judgements (continued)

The cash flows are derived from the budget for the next five years The recoverable amount is most sensitive to the sales growth, operating costs, growth rate for extrapolated cash flows and the discount rate The key assumptions used to determine the recoverable amount, including a sensitivity analysis, are further explained in note 12

Additional judgements are made with regard to provisions for onerous leases (note 21), doubtful debt (note 16) and litigation (note 18) 'Judgement is applied in determining whether control exists over entities and the fair value of the assets and liabilities determined at the point control is achieved with their subsequent results consolidated into the financial statements (note 14)

Estimates and assumptions

Pension benefits

The carrying value of the liabilities relating to the defined benefit pension scheme is valued using an actuarial valuation This valuation is based on assumptions All the assumptions used are estimates of future events Further details about the key assumptions used are given in note 20

Share-based payment transactions

The Group estimates fair value for share-based payment transactions depending on the terms and conditions of the grants This estimate also requires determining the most appropriate inputs to the valuation model including assumptions of the expected life of the share option, share price, volatility and dividend yield and making assumptions about them The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 20

Additional estimates and assumptions are made with regard to inventory net realisable values (note 15), establishing uniform depreciation (note 11) and the likelihood that tax assets can be realised (note 22) Actual results may differ from these estimates

Basis of consolidation

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

Subsidiaries which the Group control but do not own are consolidated at carrying value, the difference between the carrying value and fair value of the assets and liabilities of these subsidiaries is not material The carrying value of the non-controlling interests is recognised separately in equity and the profit attributable to non-controlling interests is disclosed separately within the consolidated income statement

Business combinations and goodwill

Business combinations from 1 July 2009 are accounted for under IFRS 3 (revised) '*Business Combinations*' using the acquisition method The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets is determined on a transaction by transaction basis Acquisition costs incurred are expensed and included in operating costs When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date This includes the separation of embedded derivatives in host contracts by the acquiree

Notes *(continued)*

1 Accounting policies *(continued)*

Business combinations and goodwill (continued)

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

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

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

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

Foreign currency

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

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction

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

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

Intangible assets

Intangible assets acquired are carried initially at cost Following initial recognition, the historic cost model is applied, with intangible assets being carried at cost less accumulated amortisation and accumulated impairment losses Intangible assets with a finite life have no residual value and are amortised on a straight line basis over their expected useful lives, with charges included in operating costs, as follows

Brands	up to 20 years
Design licences	licence period (5 years)

Notes *(continued)*

1 Accounting policies *(continued)*

Property, plant and equipment

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

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

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

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

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

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset Any gain or loss arising on the derecognition of the asset is included in the income statement

Impairment of non-financial assets

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

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

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

Provisions

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

Leases

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

Group as a lessee

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

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

Finance leases

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

Operating leases

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

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

Group as a lessor

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

Financial instruments

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

Financial assets and liabilities

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

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

All financial assets and liabilities are recognised initially at fair value The Group assesses at each balance sheet date whether there is objective evidence that financial assets are impaired

Notes *(continued)*

1 Accounting policies *(continued)*

Financial instruments (continued)

Financial assets and liabilities at fair value through profit and loss

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

Loans and receivables

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

Interest bearing loans and borrowings

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

Offsetting of financial instruments

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

Fair values

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

Derivative financial instruments and hedging

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

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

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

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

Financial instruments (continued)

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

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

Inventories

Inventories comprise goods for resale and are stated at the lower of cost and net realisable value

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

Trade and other receivables

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

Cash and short term deposits

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

Trade and other payables

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

Taxation

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

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

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

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

Borrowing costs

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

Pensions and other post employment benefits

Defined contribution plans

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

Defined benefit plans

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

In respect of actuarial gains and losses that arise, the Group recognises them in full to equity in the period they occur in the statement of other comprehensive income

The Group is subject to minimum funding requirements in the UK and does not have an unconditional right to a refund of a surplus This results in an obligation which is recognised as an additional liability and an increase to other comprehensive income

Revenue recognition

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

Income from concessions and commissions

Income from concessions and commissions is based on the terms of the contract and is included within rental income

Interest and dividend income

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

Supplier income

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

Notes *(continued)*

1 Accounting policies *(continued)*

Share-based payments

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

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

Dividend distribution

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

Notes *(continued)*

2 Segment reporting

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

In line with the Group's reporting framework and management structure, key operating decisions are made by the Executive Board which is considered to be the Chief Operating Decision Maker for the Group All significant revenue is generated by the sale of goods through retail outlets in the UK The operations of all product areas of the business are subject to similar economic characteristics and are sold in a similar retail environment

The Group has taken these factors into account and the core principals of IFRS 8 in determining that it has a single reportable operating segment

3 Operating costs

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

	Year Ended 31 December 2011 £m	Year Ended 31 December 2010 £m
Cost of inventories recognised as an expense	(16,823 2)	(15,701 7)
Employment costs *(note 5)*	(2,362 0)	(2,279 0)
Amortisation of intangible assets *(note 12)*	(3 2)	(2 8)
Amortisation of lease prepayments *(note 13)*	(1 4)	(1 7)
Depreciation *(note 11)*		
- Owned assets	(378 2)	(383 5)
- Assets held under finance leases	(1 5)	(1 3)
Operating lease expense		
- Plant and equipment	(47 5)	(45 4)
- Property	(84 3)	(74 1)
Rental income	89 9	81 2
Loss on sale of property, plant and equipment	(17 5)	(19 7)
License fees paid to fellow subsidiary of ultimate parent company *(note 26)*	(11 9)	(11 6)

4 Auditors' remuneration

Within operating costs	Year Ended 31 December 2011 £m	Year Ended 31 December 2010 £m
Fees payable to company's auditor for the audit of parent company and consolidated financial statements	0 3	0 3

Notes *(continued)*

5 Employee numbers and costs

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

	Number of employees	
	Year Ended 31 December 2011	Year Ended 31 December 2010
Total		
ASDA - Retail & Distribution	173,713	169,287
- Home offices	3,431	3,171
	177,144	172,458
Full time equivalents		
ASDA - Retail & Distribution	110,127	107,465
- Home offices	3,333	3,083
	113,460	110,548

The aggregate payroll costs of these people were as follows

	Year Ended 31 December 2011 £m	Year Ended 31 December 2010 £m
Wages and salaries	2,103 2	2,052 9
Share-based payments charge *(note 20)*	34 6	16 7
Social security costs	123 9	124 0
Other pension costs *(note 20)*	100 3	85 4
	2 362 0	2,279 0

Other pension costs comprise the cost of the defined contribution schemes and the transition payment to former members of the defined benefit scheme following the scheme closure All pension related costs and income are disclosed in note 20

6 Directors' remuneration

The total remuneration during the year is as follows

	Year Ended 31 December 2011 £'000	Year Ended 31 December 2010 £'000
Directors' emoluments	6,705	6,573
Share-based payments	2 054	5,966
Post employment benefits	56	766

Notes *(continued)*

6 Directors' remuneration *(continued)*

	Year Ended 31 December 2011 number	Year Ended 31 December 2010 number
Number of directors who were members of the defined benefit scheme during the year	6	8
Number of directors who exercised share options	6	8
Number of directors entitled to receive shares under long term incentive schemes	10	10

Amounts in respect of the highest paid director are as follows

	£'000	£'000
Total remuneration excluding pensions	1,415	1,317
Total accrued pension at the year end	44	42

Included within the remuneration totals above are emoluments and short term benefits in respect of the following directors, which were in respect of their services to the Broadstreet Great Wilson Europe Group (the ultimate parent company for the UK) as a whole J J McKenna, A Clarke, R Bendel, C Kuchinad, A J Moore, C R Redfield, K Hubbard, H Tatum, E Doohan and S King It is not possible to allocate their remuneration to individual companies within the Group

Three of the directors were members of the defined contribution schemes during the year (2010 none)

7 Financial income

	Year Ended 31 December 2011 £m	Year Ended 31 December 2010 £m
Bank interest receivable	1 4	2 8
Net return on pension scheme *(note 20)*	3 0	6 8
Financial income	4 4	9 6

Notes *(continued)*

8 Financial costs

	Year Ended 31 December 2011 £m	Year Ended 31 December 2010 £m
Interest payable on bonds - paid to fellow group undertakings	(9 9)	(12 4)
Interest payable on bonds - paid to external bondholders	-	(0 1)
External interest payable	(0 2)	(0 2)
Net interest payable on amounts owed to group undertakings	(78 4)	(65 2)
Finance lease interest	(4 3)	(4 2)
Interest capitalised	10 3	6 5
Financial costs	(82 5)	(75 6)

9 Income tax expense

Recognised in the income statement

	Year Ended 31 December 2011 £m	Year Ended 31 December 2010 £m
Current tax		
UK corporation tax on profit for the year	135 5	151 2
Adjustments in respect of prior periods	41 0	(20 4)
Current tax charge for the year	176 5	130 8

The current tax prior period adjustment relates to the finalisation of group relief balances

Deferred tax		
Origination and reversal of temporary differences	(7 4)	(12 7)
Adjustment in respect of prior periods	6 5	18 3
Adjustment arising from change in tax rate	(11 9)	(8 3)
Reduction in deferred tax asset relating to pension obligation	30 7	3 0
	17 9	0 3
Total tax charge for the year	194 4	131 1

Deferred tax on actuarial losses on defined benefit pension schemes of £44 0m (2010 £33 4m) has been credited to equity Deferred tax on cash flow hedges of £2 1m (2010 nil) has been charged to equity

Notes *(continued)*

9 Income tax expense *(continued)*

Reconciliation of effective tax rate

A reconciliation of the total tax charge compared to the standard rate of corporation tax in the UK of 26 5% (2010 28%) applied to the profit on ordinary activities before tax is as follows

	Year Ended 31 December 2011 £m	Year Ended 31 December 2010 £m
Profit before tax	767 8	739 1
Tax using the UK corporation tax rate of 26 5% *(2010 28%)*	203 5	206 9
Non-deductible expenses	1 0	3 2
Non-qualifying depreciation	21 1	26 6
Loss/(profit) on non-qualifying fixed assets	2 1	(0 4)
Group relief not paid for	(68 4)	(94 8)
Adjustments in respect of prior periods	47 5	(2 1)
Change in tax rate	(11 9)	(8 3)
Other	(0 5)	-
Total tax charge for the year	194 4	131 1

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

Following the Budget on 21 March 2012, the main rate of corporation tax was further reduced to 24% with effect from 1 April 2012 It has also been announced that the main rate of corporation tax rate will further reduce by 1% per annum down to 22% by 1 April 2014 These reductions were not substantively enacted at the balance sheet date If these changes had been substantively enacted the deferred tax liability/asset would have reduced by £9 5m

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

10 Dividends

	Year Ended 31 December 2011 £m	Year Ended 31 December 2010 £m
Declared and paid during the year		
No dividend declared in 2011 (2010 7 33p per share)	-	230 0

Notes *(continued)*

11 Property, plant and equipment

	Freehold properties £m	Finance leases & leasehold improvements £m	Plant, equipment, fixtures & fittings £m	Assets under construction £m	Total £m
Cost					
Balance at 1 January 2010	7,134 8	550 3	2,387 0	205 4	10,277 5
Additions at cost and transfers from assets under construction	279 7	64 1	204 8	27 8	576 4
Disposals	(22 1)	(1 2)	(59 7)	-	(83 0)
Transfers	(37 9)	37 9	-	-	-
Balance at 31 December 2010	7 354 5	651 1	2,532 1	233 2	10 770 9
Balance at 1 January 2011	7 354 5	651 1	2,532 1	233 2	10 770 9
Additions at cost and transfers from assets under construction	348 7	26 4	281 8	30 9	687 8
Acquisition of a subsidiary *(note 14)*	293 5	-	32 6	-	326 1
Disposals	(15 1)	(8 7)	(483 5)	-	(507 3)
Transfers	(29 4)	27 0	2 4	-	-
Balance at 31 December 2011	7 952 2	695 8	2,365 4	264 1	11,277 5
Accumulated depreciation and impairment					
Balance at 1 January 2010	956 2	239 5	1,633 6	-	2 829 3
Depreciation charge for the year	124 6	33 7	226 5	-	384 8
Disposals	(6 7)	(0 7)	(52 7)	-	(60 1)
Transfers	(10 8)	10 8	-	-	-
Balance at 31 December 2010	1,063 3	283 3	1,807 4	-	3 154 0
Balance at 1 January 2011	1 063 3	283 3	1 807 4	-	3 154 0
Depreciation charge for the year	134 8	28 9	216 0	-	379 7
Disposals	(3 2)	(1 2)	(479 3)	-	(483 7)
Transfers	(1 1)	1 0	0 1	-	-
Balance at 31 December 2011	1,193 8	312 0	1 544 2	-	3,050 0
Net book value					
At 31 December 2010	6,291 2	367 8	724 7	233 2	7 616 9
At 31 December 2011	**6,758 4**	**383 8**	**821 2**	**264 1**	**8,227.5**

Notes *(continued)*

11 Property, plant and equipment *(continued)*

The cumulative amount of capitalised interest included in the cost of fixed assets is £242 8m (2010 £232 5m) Details of interest capitalised during the year are given in note 8

Properties held under finance leases have the following net book values

	2011 £m	2010 £m
Cost	72 7	59 7
Depreciation	(10 9)	(9 4)
Net book value	61 8	50 3

12 Intangible assets

	Design licences £m	Brands £m	Goodwill £m	Total £m
Cost				
At 1 January 2010 and 1 January 2011	6 4	31 7	-	38 1
Acquisitions of subsidiary	-	1 6	482 3	483 9
At 31 December 2011	6 4	33 3	482 3	522 0
Amortisation				
At 1 January 2010	5 2	6 4	-	11 6
Amortisation during the year	1 2	1 6	-	2 8
At 31 December 2010	6 4	8 0	-	14 4
At 1 January 2011	6 4	8 0	-	14 4
Amortisation during the year	-	3 2	-	3 2
At 31 December 2011	6 4	11 2	-	17 6
Net book value at 31 December 2010	-	23 7	-	23 7
Net book value at 31 December 2011	**-**	**22.1**	**482.3**	**504.4**

The design licences asset has been amortised on a straight line basis over the licence period of 5 years The George brand is being amortised on a straight line basis over its estimated useful life of 20 years (14 years remaining)

Brands include intangible assets acquired in the year through business combinations The Netto brand acquired has been fully amortised during the year on a straight line basis over its estimated useful life of 6 months

See business combinations (note 14) for detail of goodwill arising on acquisition of subsidiary As at 31 December 2011, goodwill has been tested for impairment as follows

Notes *(continued)*

12 Intangible assets *(continued)*

Impairment testing of goodwill

Goodwill of £482 3m arose on the acquisition of Netto Foodstores Limited on 13 April 2011 (note 14) This has been tested for impairment as at 31 December 2011 by allocating to the chain of converted Netto stores along with other related assets This represents the lowest level to which management monitors goodwill There are no other intangible assets with indefinite useful lives

The recoverable amount is determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five year period This is the period to which specific reliable forecasts have been made The pre-tax discount rate applied to the cash flow projections is 11% and the growth rate used to extrapolate the cash flows beyond specific forecast period is 3 0%

The calculation of value in use is most sensitive to the assumptions of sales growth, operating costs, growth rate used to extrapolate cash flows beyond the initial forecast period and the discount rate

Sales growth - sales expectations were initially formed based on sales achieved by the Netto chain since acquisition and sales in existing stores of similar sizes The forecast then maps the growth profile to that expected based on historic growth levels seen by the Group

Operating costs - some costs are directly attributable to individual stores Other costs derive from central or shared costs for the whole Group and must be allocated to the chain on a reasonable basis Operating cost forecasts for the Netto chain reflects that experienced since acquisition and existing similar stores in 2010 and 2011 extrapolated as a proportion of sales

Growth rate used to extrapolate cash flows beyond the initial forecast period - long term growth rate forecasts are based on long term economic GDP growth forecasts for the UK

Discount rate - the pre tax discount rate used in calculating the value in use represents an assessment of the rate of return a market participant would expect for an equally risky investment This has been calculated by estimating the weighted average costs of capital of other likely acquirers as well as that of the Group

Sensitivity to changes in assumptions

With regard to the assessment of value in use, based upon calculations performed, management believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of the chain of Netto stores to materially exceed its recoverable amount

Notes *(continued)*

13 Operating lease prepayments

		2011 £m	2010 £m
Operating lease prepayments	- current	1 7	1 7
	- non-current	125 2	123 8
		126 9	125.5

14 Business combinations

Acquisition of Netto Foodstores Limited

On 13 April 2011, the Group acquired 100% of the voting shares of Netto Foodstores Limited, a retailer of food and household goods based in the United Kingdom The transaction enabled the Group to convert Netto's UK locations into ASDA stores

The total consideration of £752 million was satisfied in cash which was funded through an intercompany loan from Wal-Mart Stores (UK) Limited (note 26), a fellow subsidiary of the Group's ultimate parent company

The following table summarises the consideration paid for Netto Foodstores Limited, the fair value of assets acquired and the liabilities assumed at the acquisition date

Purchase consideration at 13 April 2011	£m
Cash	752 0
Total consideration	752 0

Recognised amounts of identifiable assets acquired and liabilities assumed	£m
Cash and cash equivalents	8 0
Property, plant and equipment *(note 11)*	326 1
Brand names *(note 12)*	1 6
Inventories	35 4
Trade and other receivables	11 9
Trade and other payables	(63 0)
Provisions *(note 21)*	(1 5)
Deferred tax *(note 22)*	(48 8)
Total identifiable net assets	269 7
Goodwill *(note 12)*	482 3

Analysis of cash flows on acquisition

Consideration paid (included in cash flows from investing activities)	(752 0)
Transaction costs of the acquisition (included in cash flows from operating activities)	(10 2)
Net cash acquired with the subsidiary (included in cash flows from investing activities)	8 0
Net cash flow on acquisition	(754 2)

Notes *(continued)*

14 Business combinations *(continued)*

Goodwill arising on the acquisition derives from being able to convert the existing Netto sites into ASDA stores The business combination provides the Group access to new local markets and customers across the UK, enables synergies by leveraging the Group's supply chain and logistics network and brings an experienced retail workforce in their local community An intangible for the temporary retail brand was separately recognised No other separate intangibles were identified requiring recognition under IAS38 None of the goodwill recognised is expected to be deductable for income tax purposes The fair value of trade and other receivables at the acquisition date amounted to £10 7m with a gross contractual value of £10 8m The value of the provision held was £0 1m

The post-acquisition revenue of the acquired business is £415 8m (13 April to 31 December 2011) This includes the periods trading as Netto, the temporary closure of stores and trading as ASDA following conversion This is included within revenue in the consolidated income statement

The post-acquisition loss of the acquired business is £31 4m This is impacted by the one off costs of converting the stores and integrating into ASDA In addition acquisition related professional fees of £10 2m were incurred These have been charged to operating costs in the consolidated income statement

Prior to acquisition, these stores (including stores divested by the Group) earned revenue of £190 1m, making a loss of £18 8m whilst under Dansk Group ownership (1 January to 12 April 2011) This result was significantly impacted by losses on disposal of stores not acquired by the Group These amounts are not consolidated in these financial statements

If the acquisition had taken place on 1 January 2011, then taking the results of pre and post acquisition periods would give total revenues of £605 9m and losses of £50 2m This result is significantly impacted by one off costs incurred in the year of acquisition and is not representative of expected future performance of the acquired stores

Other acquisitions

From 1 January 2011, the Group consolidated the results of Forza Foods Limited, Kober Limited and Vinpack Limited on the basis of control obtained under the rules of IAS 27 Indicators of control which are present include the ability to influence the composition of the board, the ability to significantly influence the operating and financial activities of each entity and the ability to actively participate in key decision making due to the signing of legal agreements

Forza Foods Limited, Kober Limited and Vinpack Limited are suppliers of goods to ASDA and do not make significant sales to any other third party customers The fair value of the consideration to the Group is £nil The net assets recognised on consolidation were £12 5m, representing property, plant and equipment of £24 8m, cash and cash equivalents of £4 1m, inventories of £10 7m, trade and other payables of (£27 1m) The non controlling interest represents 100% of the net assets measured at fair value, with no goodwill recognised Fair value is determined as being not materially different to the carrying value of the assets and liabilities of these entities These entities contributed profit of £4 8m for the year included within the Group's income statement

Notes *(continued)*

15 Inventories

	2011 £m	2010 £m
Goods held for resale	1,013 8	996 7
Goods not held for resale	2 0	1 8
	1,015 8	998 5

16 Trade and other receivables

	2011 £m	2010 £m
Trade receivables	134 4	144 6
Provision for doubtful debts	(11 3)	(8 0)
Other receivables	65 5	40.5
Prepayments and accrued income	93 6	83 1
	282 2	260 2
Amounts owed by group entities	1,392 0	1,794 8

Trade receivables are non-interest bearing and are generally on 30-90 day terms As at 31 December 2011, trade receivables at nominal value of £11 3m (2010 £8 0m) were impaired and fully provided for on the basis of the age of the debt and estimated ability of the customer to make payment Movements in the provision for doubtful debts in the year were as follows

	2011 £m	2010 £m
At 1 January	8 0	8 5
Net charge for the year	8 1	-
Provision utilised	(4 8)	(0 5)
At 31 December	11 3	8 0

There are no issues regarding the recoverability of amounts owed by Group entities

Notes *(continued)*

16 Trade and other receivables *(continued)*

As at 31 December 2011, the analysis of trade receivables that were not impaired was as follows

	2011 £m	2010 £m
Neither past due nor impaired	97 5	110 2
Up to 3 months past due	25 6	26 4
	123 1	136 6

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts As at 31 December 2011, trade receivables that were neither past due nor impaired related to a number of independent customers for whom there is no history of default

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

17 Cash and short term deposits

	2011 £m	2010 £m
Cash and short term deposits	434 1	427 2

18 Trade and other payables

	2011 £m	2010 £m
Trade payables	1,902 2	2 037 8
Other taxes and social security	206 8	186 7
Other payables	145 5	131 3
Accrued expenses	617 1	498 0
	2,871 6	2 853 8
Amounts owed to group entities	2,651 0	2,543 3

Notes *(continued)*

18 Trade and other payables *(continued)*

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

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

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

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

19 Financial instruments

Fair values of financial assets and financial liabilities

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

In the valuation of financial instruments during the year ended 31 December 2011 the Group used valuation techniques for which all inputs which have a significant effect on the recorded value are observable, either directly or indirectly

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

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

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

Trade and other receivables, trade and other payables- the fair value of trade and other receivables and trade and other payables is measured as the carrying value of contractual future cash flows

Derivatives designated as hedges– derivatives designated as hedges are measured at fair value by estimating the future settlement rates of forward contracts entered into

IFRS 7 requires an analysis of financial instruments carried at fair value, by valuation method All financial instruments carried at fair value within the Group are categorised as Level 2 instruments

Notes *(continued)*

19 Financial instruments *(continued)*

	2011	2010
	£m	£m
Current liabilities		
Current portion of finance lease liabilities	1 3	1 1
Non-current liabilities		
Eurobonds	149 2	149 2
Non-current portion of finance lease liabilities	36 6	33 4
	185 8	182 6

As at 31 December 2011 and 31 December 2010, all borrowings were in Sterling at fixed rates of interest The finance lease obligations are carried at amortised cost, which is considered to approximate to fair value The weighted average interest rate of fixed rate debt is 6 7% (2010 6 9%)

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

On 17 July 1998, the Group issued £150 0m of unsecured 6 5/8 % Eurobonds at 99 441% of nominal value redeemable at par on 17 July 2015 unless previously redeemed at the Group's request, at the higher of the principal amount or a price calculated to provide a yield equal to that earned on 8% Treasury Stock 2015

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

The 2015 Eurobond is denominated in Sterling and carried at amortised cost Its fair value as at 31 December 2011 was £190 5m (2010 £187 5m) The Eurobonds bear fixed interest, payable annually in arrears

Financial risk management

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

Interest rate risk

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

The Group's short term borrowings are all held with entities which are part of the Wal-Mart group and are at variable rates of interest Amounts owed to fellow subsidiaries (note 18) attract interest at an effective rate of 6% (2010 6%)

It is anticipated that a 1% movement in interest rates, which represents management's assessment of a reasonably possible change, would give rise to a decrease/increase in net profitability of £1 1m (2010 £0 5m)

Notes *(continued)*

19 Financial instruments *(continued)*

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

Terms and debt repayment schedule as at 31 December 2011

	Effective interest rate %	Total £m	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	5+ years £m
Eurobonds 2015	6 6	149 2	-	-	-	149 2	-	-
Finance lease obligations		37 9	1 3	1 4	1 6	1 9	2 1	29.6
		187 1	1 3	1 4	1 6	151 1	2 1	29 6

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

Amounts owed to fellow UK group companies

Loans from Corinth Investments Limited	6%	941 5	941.5	-	-	-	-	-
Loans from Broadstreet Great Wilson Europe Limited	6%	355 5	355.5	-	-	-	-	-
Loans from Wal-Mart LN (UK) Limited	6%	1 351 3	1,351.3	-	-	-	-	-
		2,648 3	2 648.3	-	-	-	-	-

Terms and debt repayment schedule as at 31 December 2010

	Effective interest rate %	Total £m	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	5+ years £m
Eurobonds 2015	6 6	149 2	-	-	-	-	149 2	-
Finance lease obligations		34 5	1 1	1 2	1 4	1 6	1 8	27 4
		183 7	1 1	1 2	1 4	1 6	151 0	27 4

Amounts owed to fellow UK group companies

Loans from Corinth Investments Limited	6%	886 7	886 7	-	-	-	-	-
Loans from Broadstreet Great Wilson Europe Limited	6%	290 8	290.8	-	-	-	-	-
Loans from Wal-Mart LN (UK) Limited	6%	1,341 6	1,341 6	-	-	-	-	-
		2,519 1	2,519 1	-	-	-	-	-

Notes *(continued)*

19 Financial instruments *(continued)*

Foreign currency risk

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

The Group implemented hedge accounting during the year ended 31 December 2010 The Group has forward currency hedging contracts outstanding at 31 December 2011, designated as hedges of expected future purchases from suppliers in US dollars The forward currency contracts are being used to hedge the foreign currency risk of the future purchases The terms of the forward currency hedging contracts have been negotiated to match the terms of the commitments and none exceed a period of more than 12 months after the 31 December 2011 Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss

The cash flow hedges of the expected future purchases were assessed to be highly effective and as at 31 December 2011, a net unrealised gain of £5 1m was included in other comprehensive income in respect of these hedging contracts

As the Group manages its foreign currency exposure through the use of forward currency contracts, changes in exchange rates are not expected to have a significant impact on profitability or cash flow It is anticipated that a 5% movement in the US dollar/Sterling exchange rate, which represents management's assessment of a reasonably possible change, would give rise to a decrease/increase in equity of £14 2m (2010 £9 9m) There would be no impact on profit from this movement

Credit risk

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

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

Liquidity risk

The Group's treasury function ensures that the Group continues to have sufficient funding by monitoring rolling forecasts of the Group's cash flows The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of short term borrowings and intercompany balances At 31 December 2011, the Group had no short term borrowings The Group's long term debt comprises the Eurobonds which are redeemable in 2015

As at 31 December 2011, the Group held cash of £434 1m (2010 £427 2m), utilised along with overdrafts where necessary, to secure short term flexibility At 31 December 2011, the Group had uncommitted overdraft facilities of £30 0m (2010 £30 0m), standby credit facilities (including bonds and guarantees) of £135 0m (2010 £135 0m) and uncommitted line of credit facilities of £250 0m (2010 £220 0m) Cash is placed on short term deposit wherever possible

The following table summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments The disclosed financial derivative instruments are the gross undiscounted cash flows However, these amounts may be settled gross or net

Notes *(continued)*

19 Financial instruments *(continued)*

Year ended 31 December 2011	Within 1 year £m	Between 1 and 5 years £m	After 5 years £m	Total £m
Eurobonds	9 9	179 7	-	189 6
Finance lease obligations	5 7	22 8	53 6	82 1
Financial derivatives	353 4	-	-	353 4
Trade and other payables	2 871 6	-	-	2,871 6
Amounts owed to fellow UK group companies	2,648 3	-	-	2,648 3
	5,888 9	202 5	53 6	6,145 0

Year ended 31 December 2010	Within 1 year £m	Between 1 and 5 years £m	After 5 years £m	Total £m
Eurobonds	9 9	189 6	-	199 5
Finance lease obligations	5 1	20 6	48 8	74 5
Financial derivatives	213 5	-	-	213 5
Trade and other payables	2 853 8	-	-	2,853 8
Amounts owed to fellow UK group companies	2,519 1	-	-	2,519 1
	5,601 4	210 2	48 8	5,860 4

Capital risk management

The Group is subject to the risk that its capital structure will not be sufficient to support the growth of the business In order to maintain or adjust the capital structure, the Group may adjust the amount of intercompany loans payable or receivable to/from the Wal-Mart group of companies There were no changes to the Group's approach to capital management during the year Full details of the Group's approach to capital management and how the Group define capital is provided on page 5

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

20 Employee benefits

	2011 £m	2010 £m
Present value of funded defined benefit obligations	(1 610 0)	(1 597 4)
Effect of minimum funding requirement	(190 0)	-
Fair value of plan assets	1 399 9	1 266 8
Recognised liability for defined benefit obligations	(400 1)	(330 6)
Cash-settled share-based payment transactions liability - non-current	(31 8)	(30 1)
Total non-current employee benefits liability	(431 9)	(360 7)
Cash-settled share-based payment transactions liability - current	(39 3)	(32 8)
Total employee benefits liability	(471 2)	(393 5)

Notes *(continued)*

20 Employee benefits *(continued)*

Pension plans

Total costs charged to the income statement in respect of employee benefits

	2011 £m	2010 £m
Wages and salaries	2,103 2	2,052 9
Share-based payments charge	34 6	16 7
Social security costs	123 9	124 0
Total cost before pension costs	2 261 7	2,193 6
Defined benefit pension scheme		
Curtailment gain recognised	(57 0)	-
Current service cost	6 6	53 9
Transition payment following scheme closure	43 0	-
Net return on pension scheme	(3 0)	(6 8)
Total defined benefit scheme (gain)/expense	(10 4)	47 1
Cost of defined contribution schemes	58 0	31 5
Total pension expense	47 6	78 6
Total employee benefit expense	2,309 3	2 272 2

Pension plans

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

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

The Group and trustee body undertook a review of the Group's pension arrangements and to ensure the long term sustainability of these arrangements, with effect from 12 February 2011, it was agreed to close the defined benefit scheme to future accrual and to remove the link between past service benefits and future salary increases As a result of the closure, plan participants became eligible to join one of ASDA's existing defined contribution schemes the benefits for which were enhanced In addition the Group paid £43 0m at the closure date to facilitate transition of active members to the replacement pension arrangements and agreed an enhanced schedule of employer contributions to reduce the pension deficit

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

Notes *(continued)*

20 Employee benefits *(continued)*

Pension plans *(continued)*

Following the closure of the defined benefit scheme during the year a revised schedule of contributions was agreed by the Group and scheme trustees in order to pay down the deficit Under IFRIC 14 this is considered to be a minimum funding requirement (also known as a statutory funding objective) At the current year end the present value of the contributions payable to meet Statutory Funding Objective requirements exceeds the pension scheme net liability which indicates that in future the scheme would go into a surplus As the scheme rules do not provide the Group with an unconditional right to a refund in the event of a surplus, under the requirements of IFRIC 14 the minimum funding requirement creates an obligation which is recognised as an additional liability of £190m In addition, the decision to close the defined benefit pension scheme also gave rise to a pension curtailment gain of £57m

The pension cost relating to the defined benefit pension scheme is assessed in accordance with the advice of an independent qualified actuary who conducted a full triennial actuarial valuation as at 5 April 2010 and updated the results of this valuation in accordance with IAS 19 *'Employee Benefits'* for the year ended 31 December 2011 Funding levels are monitored on a regular basis in between triennial valuations

Movements in present value of defined benefit obligation

	2011 £m	2010 £m
At 1 January	(1,597 4)	(1,322 7)
Current service cost	(6 6)	(53 9)
Interest cost	(82 1)	(74 4)
Actuarial losses	(8 9)	(182 7)
Benefits paid	28 0	36 4
Contributions by members	-	(0 1)
Curtailment gain	57 0	-
At 31 December	(1,610 0)	(1,597 4)

A decrease of 0 1% in the discount rate would increase the defined benefit obligation by £37 4m, an increase of 0 1% in the discount rate would reduce the defined benefit obligation by £37 9m

Movements in fair value of plan assets

	2011 £m	2010 £m
At 1 January	1,266 8	1,112 7
Expected return on plan assets	85 1	81 2
Actuarial gains	13 3	58 9
Contributions by employer	62 7	50 3
Contributions by members	-	0 1
Benefits paid	(28 0)	(36 4)
At 31 December	1,399 9	1,266 8

Notes *(continued)*

20 Employee benefits *(continued)*

Pension plans *(continued)*

Gain/(expense) recognised in the consolidated income statement

	2011 £m	2010 £m
Current service cost	(6 6)	(53 9)
Interest on defined benefit pension plan obligation	(82 1)	(74 4)
Expected return on defined benefit pension plan assets	85 1	81 2
Curtailment gain recognised	57 0	-
Transition payment to active members	(43 0)	-
Total gain/(expense)	10 4	(47 1)

The defined benefit pension scheme gain/(expense) is recognised in the following line items in the consolidated income statement

	2011 £m	2010 £m
Operating costs		
Curtailment gain recognised	57 0	-
Current service cost	(6 6)	(53 9)
Transition payment following scheme closure	(43 0)	-
Financial income		
Net return on pension scheme	3 0	6 8
Total gain/(expense)	10 4	(47 1)

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

The Group operates two defined contribution pension plans There were no unpaid contributions outstanding at the current or prior year end for the defined contribution schemes The charge for the year for the defined contribution schemes is £58 0m (2010 £31 5m)

Notes *(continued)*

20 Employee benefits *(continued)*

Pension plans *(continued)*

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

	2011 £m	2010 £m
Actuarial gains	13 3	58 9
Experience losses arising on plan obligation	(0 4)	(61 7)
Changes in demographic and financial assumptions underlying the present value of plan obligations	(8 5)	(121 0)
Actuarial loss recognised in the statement of comprehensive income	4 4	(123 8)
Effect of minimum funding requirement recognised in statement of comprehensive income	(190 0)	-
Total pension cost recognised in the statement of comprehensive income	(185 6)	(123 8)
Taxation on total pension cost recognised in the statement of other comprehensive income	44 0	33 4
Net pension cost recognised in the statement of other comprehensive income	(141 6)	(90 4)

The cumulative net actuarial movement reported recognised in the statement of other comprehensive income since the transition to IFRS are £397 8m (2010 £256 1m)

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

	2011 £m	2010 £m
Equity securities	578 6	681 5
Debt securities	350 7	215 4
Property	49 9	35 5
Other	420 7	334 4
	1 399 9	1 266 8
Actual return on plan assets	98 4	140 1

Principal actuarial assumptions (expressed as weighted averages)

	2011 %	2010 %
Discount rate	4 7	5 3
Inflation - RPI	3 1	3 6
Inflation - CPI	2 4	3 2
Future salary increases	-	4 3
Future pension increases	3 1	3 6
Expected return on plan assets		
- Equity securities	7.8	7 1
- Debt securities	3 1	4 3
- Property	7 8	7 1

Notes *(contınued)*

20 Employee benefits *(contınued)*

Pension plans *(contınued)*

As the defined benefit scheme closed to future accrual ın the year, future salary ıncreases ıs no longer a prıncıpal actuarıal assumptıon ın the year

To develop the expected long-term rate on assets assumptıons, the Group consıdered the current level of expected return on rısk free ınvestments (prımarıly government bonds), the hıstorıcal level of the rısk premıum assocıated wıth the other asset classes ın whıch the portfolıo ıs ınvested and the expectatıons for future returns of each asset class The expected return for each asset class was then weıghted based on the asset allocatıons of the scheme to develop the expected long-term rate of return on assets assumptıons for the portfolıo Thıs resulted ın the selectıon of the assumptıons shown above

The followıng table ıllustrates the resıdual lıfe expectancy for an average member on reachıng age 65, accordıng to the mortalıty assumptıons used to calculate the pensıon lıabılıtıes

		2011	2010
Retırıng at reportıng date at age 65	Male	22 9	21 9
	Female	25 2	24 7
Retırıng at reportıng date ın 25 years at age 65	Male	24 3	23 8
	Female	26 8	26 6

Hıstory of experıence gaıns and losses

The hıstory of experıence gaıns and losses for the current and prıor perıods are as follows

	2011 £m %	2010 £m %	2009 £m %	2008 £m %	2007 £m %
Dıfference between the expected and actual return on scheme assets					
Amount	**13.3**	58 9	24 0	(328 3)	(8 0)
Percentage of scheme assets	**1.0%**	4 6%	2 2%	(33 2%)	(0 7%)
Experıence adjustments on plan lıabılıtıes					
Amount	**(0.4)**	(61 7)	(3 1)	-	2 0
Percentage of scheme lıabılıtıes	**0 0%**	(3 9%)	(0 2%)	-	-
Effects of changes ın the demographıc and financıal assumptıons underlyıng the present value of the scheme lıabılıtıes					
Amount	**(8.9)**	(182 7)	(229 9)	305 7	46 1
Percentage of scheme assets	**(0.6%)**	(14 4%)	(20 7%)	30 1%	3 8%
Total amount recognısed ın the statement of other comprehensıve ıncome					
Amount	**4.4**	(123 8)	(205 9)	(22 6)	40 1
Percentage of scheme assets	**0.3%**	(9 8%)	(18 5%)	(2 2%)	3 3%
Present value of funded defined benefit oblıgatıons	**(1,610.0)**	(1,597 4)	(1,322 7)	(1,016 8)	(1,217 6)
Effect of mınımum fundıng requırement	**(190.0)**	-	-	-	-
Faır value of plan assets	**1,399.9**	1,266 8	1,112 7	987 4	1,200 1
Recognısed lıabılıty for defined benefit oblıgatıons	**(400.1)**	(330 6)	(210 0)	(29 4)	(17 5)

Notes *(continued)*

20 Employee benefits *(continued)*

Share-based payments

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

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

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

		2011 £m	2010 £m
Cash-settled share based payment charge		34 6	16 7
Total carrying amount of liabilities	- current	39 3	32 8
	- non-current	31 8	30 1
		71 1	62 9

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

	Weighted average exercise price £ 2011	**Number of options (thousands) 2011**	Weighted average exercise price £ 2010	Number of options (thousands) 2010
Outstanding at the beginning of the year	28 79	10,142	27 69	12,547
Exercised during the year	27 08	(3,631)	27 67	(3,271)
Granted during the year	26 05	1 953	29 20	1,824
Lapsed during the year	28 57	(1,151)	29 12	(958)
Outstanding at the end of the year	28 68	7,313	28 79	10,142
Exercisable at the end of the year	31 75	1 572	32 25	2,526

Share options were exercised on a regular basis throughout the year The average share price during the year to 31 December 2011 was £33 89 (2010 £34 32) The related shares are denominated in US dollars being the reporting currency of the ultimate parent company The sterling exercise price of the Sharesave scheme options is fixed at the exchange rate on issue, for all other schemes the exercise price is denominated in US dollars and the sterling equivalent is translated based on the current exchange rate

Sharesave scheme

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

Notes *(continued)*

20 Employee benefits *(continued)*

Share-based payments *(continued)*

31 December 2011				31 December 2010			
Number of options outstanding (thousands)	**Range of exercise price £**	**Weighted average exercise price £**	**Weighted average remaining contractual life (years)**	Number of options (thousands)	Range of exercise price £	Weighted average exercise price £	Weighted average remaining contractual life (years)
4,342	**19 95 to 29.05**	**27.53**	**1.36**	4,445	19 87 to 29 05	25 82	1 4

The fair value of the options outstanding under the Sharesave scheme at 31 December 2011 is £23 2m (2010 £23 8m)

Colleague Share Option Plan (CSOP) scheme

The scheme has been in existence for employees since 1995 and gained HMRC approval in 1999 Options were granted every year up to and including 2006 to employees who are not eligible for share options under the Wal-Mart Stock Incentive Plan, and are exercisable in three or six years from date of grant, depending on the year of grant The options under this scheme are treated as cash-settled

31 December 2011				31 December 2010			
Number of options outstanding (thousands)	**Exercise price £**	**Weighted average exercise price £**	**Weighted average remaining contractual life (years)**	Number of options (thousands)	Range of exercise price £	Weighted average exercise price £	Weighted average remaining contractual life (years)
1,082	**28 64**	**28.64**	**0 59**	2,326	28.50 to 35 81	30 06	1 1

The fair value of the options outstanding under the CSOP scheme at 31 December 2011 is £9 0m (2010 £7 8m)

Wal-Mart Stock Incentive Plan (WSIP) scheme

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

31 December 2011				31 December 2010			
Number of options outstanding (thousands)	**Range of exercise price £**	**Weighted average exercise price £**	**Weighted average remaining contractual life (years)**	Number of options (thousands)	Range of exercise price £	Weighted average exercise price £	Weighted average remaining contractual life (years)
1,889	**28.38 to 37.71**	**31 74**	**0 24**	3,371	28 24 to 37 53	31 82	0 5

The fair value of the options outstanding under the WSIP scheme at 31 December 2011 is £13 8m (2010 £8 0m)

Notes *(continued)*

20 Employee benefits *(continued)*

Share-based payments *(continued)*

Restricted Stock Rights (RSR) scheme

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

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

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

The fair value of the options outstanding under the RSR scheme at 31 December 2011 is £14 4m (2010 £10 3m)

The Group offers a PSP scheme, for which conditions exist in relation to exercise as described below

Performance Share Plan (PSP) scheme

The scheme came into existence on 20 July 2006 Under the scheme, selected executives were granted the right to receive shares in Wal-Mart Stores, Inc provided certain pre-determined performance goals are met In 2011 and 2010, these pre-determined goals were in respect of sales growth and return on investment All share awards under the PSP scheme have been issued for nil consideration and have a contractual life of between 1 and 3 years The share awards under this scheme are treated as cash-settled

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

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

The fair value of the options outstanding under the PSP scheme at 31 December 2011 is £10 7m (2010 £13 0m)

Notes *(continued)*

20 Employee benefits *(continued)*

Share-based payments *(continued)*

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

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

	2011	2010
Expected dividend yield (%)	2 93	2 30
Expected volatility (%)	15 25	17 10
Risk-free interest rate (%)	0 28	1 77
Weighted average fair value of options granted (£)	9 66	12 53
Weighted average share price (£)	28 79	28 04
Expected life of option (years)	0 95	3 07

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

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

Notes *(continued)*

21 Provisions

The provisions balance includes provisions for lease obligations arising from discontinued activities, the majority of this liability is expected to crystallise in the next 5 years Also included are provisions for asset retirement obligations

	2011 £m	2010 £m
Balance at 1 January	22 0	22 9
Provided during the year	5 0	2 0
Acquired on business combination	1 5	-
Utilised during the year	(6 2)	(2 9)
Balance at 31 December	22 3	22 0

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

22 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Property, plant and equipment	-	-	**251.3**	220 0	**251.3**	220 0
Employee benefits	**(117.8)**	(109 5)	-	-	**(117.8)**	(109 5)
Provisions	**(6.8)**	(7 9)	-	-	**(6.8)**	(7 9)
Other items	-	-	**2.2**	1 5	**2.2**	1 5
Tax (assets)/liabilities	**(124.6)**	(117 4)	**253.5**	221 5	**128 9**	104 1
Netting of tax (assets)/liabilities	**124 6**	117 4	**(124 6)**	(117 4)	-	-
Net tax liabilities	-	-	**128.9**	104 1	**128.9**	104 1

Certain properties have been revalued to their fair value prior to 1 January 2004 No provision has been made for deferred tax on the temporary differences arising on revalued land and buildings Historically upward revaluations have been made in respect of land and not in respect of buildings The tax base of land and buildings was adjusted to include within it any rolled-over gains which might subsequently become chargeable on a future sale of relevant properties It has been calculated that sufficient indexation exists to produce a temporary difference of £nil on the whole portfolio of assets such that no deferred tax recognition is required

The Group has brought forward capital losses of £350 0m (2010 £324 0m) available to reduce future capital gains No deferred tax asset has been recognised on the accumulated capital losses due to the uncertainty of when they may be utilised

Notes *(continued)*

22 Deferred tax assets and liabilities *(continued)*

Movement in deferred tax during the year

	1 January 2011 £m	Recognised in income £m	Recognised in equity £m	Recognised on business combination £m	31 December 2011 £m
Property, plant and equipment	220 0	(17 5)	-	48 8	251 3
Employee benefits	(109 5)	35 7	(44 0)	-	(117 8)
Provisions	(7 9)	1 1	-	-	(6 8)
Other items	1 5	(1 4)	2 1	-	2 2
	104 1	17 9	(41 9)	48 8	128 9

Movement in deferred tax during the prior year

	1 January 2010 £m	Recognised in income £m	Recognised in equity £m	31 December 2010 £m
Property, plant and equipment	223 5	(3 5)	-	220 0
Employee benefits	(79 4)	3 3	(33 4)	(109 5)
Provisions	(8 5)	0 6	-	(7 9)
Other items	1 6	(0 1)	-	1 5
	137 2	0 3	(33 4)	104 1

23 Share capital and premium

At 31 December 2011 31 December 2010 and 31 December 2009

	Number of shares thousands	Share capital £m	Share premium £m	Total £m
Allotted, called up and fully paid				
Ordinary shares of 25p each	3,135,705	783 9	568 4	1,352 3

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

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

Notes *(continued)*

24 Obligations under leases

Operating lease agreements where Group is lessee

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

	Land and buildings		Other	
	2011	2010	2011	2010
	£m	£m	£m	£m
No later than one year	86 2	79 1	29 9	31 0
Later than one year and no later than five years	268 9	278 6	49 8	47 8
Later than five years	532 7	636.5	3 4	3 7
	887 8	994 2	83 1	82 5

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

Operating lease agreements where Group is lessor

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

	2011	2010
	£m	£m
No later than one year	15 1	12 2
Later than one year and no later than five years	35 8	30 3
Later than five years	27 8	27 6
	78 7	70 1

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

Notes *(continued)*

24 Obligations under leases *(continued)*

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

	2011 £m	2010 £m
Future minimum payments due		
No later than one year	5 7	5 1
Later than one year and no later than five years	22 8	20 6
Later than five years	53 6	48 8
	82 1	74 5
Lease finance charges allocated to future periods	(44 2)	(40 0)
Present value of minimum lease payments	37 9	34 5

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

	2011 £m	2010 £m
No later than one year	1 3	1 1
Later than one year and no later than five years	7 0	6 0
Later than five years	29 6	27 4
	37 9	34 5

25 Commitments

As at 31 December 2011, the Group had entered into contracts to purchase property, plant and equipment for £11 4m (2010 £13 9m)

The Group is committed to purchase electricity under contracts with a number of providers As at 31 December 2011, the commitment for the purchase of electricity under these contracts totalled £55 4m (2010 £37 4m)

Notes *(continued)*

26 Related parties

Identity of related parties

The following transactions were carried out with group companies

	2011 £m	2010 £m
Technical assistance, services and royalties paid to Wal-Mart Stores, Inc	144.5	196 3
License fees paid to fellow subsidiary of ultimate parent company	11 9	11 6
Interest payable on loans from Broadstreet Great Wilson Europe Limited	22.5	30 5
Interest payable on loans from Corinth Investments Limited	54 8	51 9
Interest payable on loans from Wal-Mart LN (UK) Limited	78 8	58 1
Interest receivable on loans to Wal-Mart Stores (UK) Limited	77 7	75 3
Loans from Broadstreet Great Wilson Europe Limited	355.5	290 8
Loans from Corinth Investments Limited	941.5	886 7
Loans from Wal-Mart LN (UK) Limited	1,351 3	1,341 6
Loans from Wal-Mart Stores, Inc	-	17 7
Loans from WMGS Co Limited	2 7	6 5
Loans to Wal-Mart Stores, Inc	116 1	-
Loans to Wal-Mart Stores (UK) Limited	1,272 4	1 791 3
Loans to Global George Limited	3.5	3 5

Interest on intercompany loans within the Group is charged on an arm's length basis at a rate of 6% (2010 6%)

£9 9m was paid to Broadstreet of Munsbach Sarl, a fellow subsidiary of the Group's ultimate parent company, during the year for interest due on Eurobonds (note 8) At 31 December 2011, the Group's liability in respect of Eurobonds held by fellow subsidiaries of the ultimate parent company was £149 2m During the year, license fees of £11 9m have been charged by Global George Limited, a fellow subsidiary of the Group's ultimate parent company, which are included in intercompany payables at the year end

Amounts owed by fellow group entities totalled £1,392 0m at 31 December 2011, as disclosed in note 16

Amounts owed to fellow group entities totalled £2,651 0m at 31 December 2011, as disclosed in note 18

Other related party transactions

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

Notes *(continued)*

27 Ultimate parent company and parent company of larger group

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

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

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

28 Post balance sheet events

Change in rate of taxation

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

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

Business combinations

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

ASDA Group Limited – Parent Company

Directors' responsibilities statement

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

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

In preparing those financial statements, the directors are required to

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

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

Independent auditor's report to the members of ASDA Group Limited

We have audited the parent company financial statements of ASDA Group Limited for the year ended 31 December 2011 which comprise the balance sheet and the related notes 1 to 13 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 57, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent company financial statements

- Give a true and fair view of the state of the parent company's affairs as at 31 December 2011,
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- Have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the Group financial statements of ASDA Group Limited for the year ended 31 December 2011

Ernst & Young LLP

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

26-6-12

Company balance sheet
as at 31 December 2011

	Note	2011 £m	2010 £m
Fixed assets			
Investments	*5*	2 806 9	2,799 4
Current assets			
Debtors	*6*	2,195 8	1,170 0
Cash	*7*	354 4	200 3
		2,550 2	1,370 3
Creditors amounts falling due within one year			
Other creditors	*8*	(2,989 0)	(1,919 0)
Net current liabilities		(438 8)	(548 7)
Total assets less current liabilities		2,368 1	2,250 7
Creditors amounts falling due after more than one year			
Borrowings	*9*	(149 2)	(149 2)
Net assets		2,218 9	2,101 5
Capital and reserves			
Share capital	*10*	783 9	783 9
Share premium	*11*	568 4	568 4
Revaluation reserve	*11*	156 2	156 2
Profit and loss reserve	*11*	710 4	593 0
Total shareholders' funds		2,218 9	2 101.5

These financial statements were approved by the board of directors on 25 June 2012 and were signed on its behalf by

J J McKenna
Director

Notes

(forming part of the financial statements)

1 Accounting policies

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

Accounting basis

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

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

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

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

Investments

Investments in subsidiaries are stated at cost less provision for impairment

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

Foreign currencies

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

2 Auditors' remuneration

The Company's audit fee for the year ended 31 December 2011 was £2,800 (2010 £2,800) The Company's audit costs are paid by another group company

3 Employee numbers and costs

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

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

Notes *(contınued)*

4 Dıvidends

	Year Ended 31 December 2011 £m	Year Ended 31 December 2010 £m
Declared and paıd durıng the year		
No dıvıdend declared ın 2011 (2010 7 33p per share)	-	230 0

5 Fixed asset investments

	Investment ın subsıdıarıes £m
Cost at 1 January 2011	2,812 7
Addıtıons	7 5
Cost at 31 December 2011	2,820 2
Impaırment at 1 January 2011 and 31 December 2011	(13 3)
Net book value at 31 December 2011	2,806 9
Net book value at 31 December 2010	2,799 4

Durıng the year ASDA Southbank Lımıted (formerly George Davıes Holdıngs Lımıted), a 100% subsıdıary undertakıng of ASDA Group Lımıted, raısed £7 5m ın addıtıonal share capıtal

Followıng a revıew of the carryıng value of ınvestments held by the Company, no ımpaırment charge (2010 £nıl) has been recognısed

Subsıdıary undertakıngs

As at 31 December 2011, the followıng companıes, beıng those whose results prıncıpally affect the financıal posıtıon of the Group, were subsıdıary undertakıngs whose ordınary share capıtal was wholly owned, and whıch were regıstered ın England and Wales and operatıng ın the UK

	Prıncıpal actıvıtıes	*Holdıng company*
ASDA Stores Lımıted	Retaılıng	ASDA Group Lımıted
McLagan Investments Lımıted	Property Investment	ASDA Group Lımıted
The Burwood House Group Lımıted	Property Investment	McLagan Investments Lımıted

Notes *(continued)*

6 Debtors

	2011 £m	2010 £m
Amounts owed by group undertakings	2,195 8	1,170 0

Amounts owed by group undertakings attract interest at an effective rate of 6% (2010 6%)

7 Cash

	2011 £m	2010 £m
Cash	354 4	200 3

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

8 Creditors: amounts falling due within one year

	2011 £m	2010 £m
Amounts owed to group undertakings	2,984 0	1,914 0
Accruals	5 0	5 0
	2,989 0	1,919 0

Amounts owed to group undertakings attract interest at an effective rate of 6% (2010 6%)

Notes (continued)

9 Borrowings

	2011 £m	2010 £m
Amounts repayable between one and five years		
Bonds due 2015	149 2	149 2

On 17 July 1998, the Company issued £150 0m of unsecured 6 5/8% bonds at 99 441% of nominal value redeemable at par on 17 July 2015 unless previously redeemed at the Company's request, at the higher of the principal amount or a price calculated to provide a yield equal to that earned on 8% Treasury Stock 2015

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

As at 31 December 2011, all borrowings were in Sterling at fixed rates of interest

The weighted average interest rate of fixed rate debt is 6 7% (2010 6 9%)

10 Share capital

	Number	£m
Authorised at 31 December 2011 and 31 December 2010		
Ordinary shares of 25p each	5,000,000,000	1,250 0
Allotted, called up and fully paid at 31 December 2011 and 31 December 2010		
Ordinary shares of 25p each	3,135,704,690	783 9

11 Share premium and other reserves

	Share premium account £m	Revaluation reserve £m	Profit and loss reserve £m	Total £m
At 1 January 2011	568 4	156 2	593 0	1,317 6
Profit for the year	-	-	117 4	117 4
At 31 December 2011	568 4	156 2	710 4	1 435 0

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

The profit for the financial year in the financial statements of the Company was £117 4m (2010 £272 4m)

Notes *(continued)*

12 Commitments

The Company has no financial commitments (2010 none)

13 Ultimate parent company and parent company of larger group

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

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

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