

Foot Locker UK Limited

**Directors' report and consolidated
financial statements**

Registered number 2568406

31 December 2007

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2007

Principal activities and business review

The principal activity of the company is that of a holding company for a group engaged in the sale of sports and leisure clothing, footwear and accessories through retail outlets in the UK. The objective is to grow the company's market share by "providing the most compelling performance and lifestyle fashion branded athletic footwear and apparel". This is both for the shorter and longer term and with the support of the Foot Locker World Wide brand.

During the year the group closed four stores. For the year the turnover decreased 0.53% while the operating profit increased 31.14% compared to 2006. The actual operating profit percentage is slightly below the targeted operating profit rate.

For the year 2008 the group is planning to close one store and is anticipating a sales gain of 2.0% and expense control programs to allow the operating profit to be at the targeted rate under the Limited Risk Distribution agreement signed with Foot Locker Europe B.V.

Exchange rate fluctuations could distort reported profits as a result of the product sourcing being based in EURO. In order to manage the risk currency hedges are entered into to allow the exchange rate to be controlled and forecasted. These are held at a group level. Furthermore, the directors do not perceive there to be a significant credit risk due to the nature of the sales transactions and liquidity risk is low as the company operates through intercompany funding arrangements.

The trading of the group is conducted through Freedom Sportsline Limited, a subsidiary of Foot Locker UK Limited. Foot Locker Realty Europe Limited, a subsidiary of Freedom Sportsline Limited, does not trade.

The state of the group's affairs and its result for the year are as shown in the accompanying financial statements. Future developments are likely to be in the same field for the retail outlets.

Results and dividends

On 15 August 2008, the directors recommended the payment of a dividend of £10,000,000 (2006 £Nil). This has not been recognised in these financial statements.

Directors

The directors who held office during the year were as follows:

RA Johnson	(American, appointed 16 August 2007)
K Daly	(American, resigned 16 August 2007)
TP Mabbett	(British)
MD Serra	(American, resigned 16 July 2007)

The directors had no beneficial interest in the shares of the group or any other group undertaking at the year-end.

Employees

The group gives equal consideration to applications for employment from disabled people having regard to their particular aptitudes and abilities. It is group policy wherever practicable to continue to employ, train and promote the career development of existing employees who become disabled.

Employee participation and involvement in matters which affect their interest continues to be developed through regular communications and meetings.

Directors' report *(continued)*

Charitable and political donations

During the year, no charitable or political donations were made by the group (2006 £Nil)

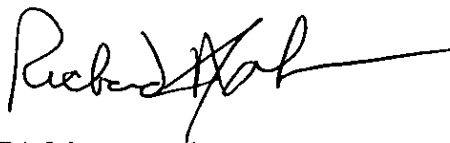
Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the group and company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the group and company's auditors are aware of that information

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting

On behalf of the board



RA Johnson
Director

Lovell House
271-273 High Street
Uxbridge
Middlesex
UB8 1Q

24 September 2008

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

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 UK Accounting Standards.

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and parent company and of the profit or loss for that period.

In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law the directors are also responsible for preparing a directors' report that complies with that law.



KPMG LLP
2 Cornwall Street
Birmingham
B3 2DL

Independent auditors' report to the members of Foot Locker UK Limited

We have audited the group and parent company financial statements (the 'financial statements') of Foot Locker UK Limited for the year ended 31 December 2007 which comprise the Consolidated profit and loss account, the Consolidated balance sheet, the Company balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 3.

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

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

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2007 and of the group's profit for the year then ended,
- have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

24 September 2008

Consolidated profit and loss account
for the year ended 31 December 2007

	<i>Note</i>	2007 £000	2006 £000
Turnover	1	78,686	79,102
Cost of sales		(74,503)	(75,223)
		<hr/>	<hr/>
Gross profit		4,183	3,879
Administrative expenses		(701)	(1,215)
		<hr/>	<hr/>
Operating profit		3,482	2,664
Interest receivable and similar income	3	321	143
Interest payable and similar charges	4	(385)	(363)
		<hr/>	<hr/>
Profit on ordinary activities before taxation	2	3,418	2,444
Tax on profit on ordinary activities	5	(1,186)	(975)
		<hr/>	<hr/>
Profit on ordinary activities after taxation and profit for the financial year	16	2,232	1,469
		<hr/> <hr/>	<hr/> <hr/>

The group has no recognised gains or losses other than those reflected in its consolidated profit and loss account for either the current or preceding financial year

There is no difference between the results as disclosed and the results on an unmodified historical cost basis

A reconciliation of the movements in shareholders' funds is shown in note 16 to the financial statements

Turnover and operating profit are derived solely from continuing operations

Consolidated balance sheet
 at 31 December 2007

	<i>Note</i>	2007		2006	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	8		11,377		13,070
Current assets					
Stocks	10	14,695		12,762	
Debtors	11	20,630		12,085	
Cash at bank and in hand		5,454		4,040	
		<u>40,779</u>		<u>28,887</u>	
Creditors amounts falling due within one year	12	<u>(21,703)</u>		<u>(13,619)</u>	
Net current assets			<u>19,076</u>		<u>15,268</u>
Total assets less current liabilities			<u>30,453</u>		<u>28,338</u>
Provisions for liabilities and charges	13		(776)		(893)
Net assets			<u>29,677</u>		<u>27,445</u>
Capital and reserves					
Called up share capital	14		18,412		18,412
Profit and loss account	15		11,265		9,033
Shareholders' funds	16		<u>29,677</u>		<u>27,445</u>

The financial statements were approved by the board of directors on 24 September 2008 and were signed on its behalf by



RA Johnson
 Director

Company balance sheet
at 31 December 2007

	<i>Note</i>	2007 £000	2006 £000
Fixed assets			
Investments	<i>9</i>	15,329	15,329
Creditors amounts falling due within one year	<i>12</i>	(360)	(360)
Net assets		14,969	14,969
Capital and reserves			
Called up share capital	<i>14</i>	18,412	18,412
Profit and loss account	<i>15</i>	(3,443)	(3,443)
Shareholders' funds	<i>16</i>	14,969	14,969

These financial statements were approved by the board of directors on 24 September 2008 and were signed on its behalf by



RA Johnson
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 company's financial statements

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with UK Generally Accepted Accounting Standards

Advantage has been taken of the exemption in paragraph 3(c) of Financial Reporting Standard 8 in respect of the disclosure of transactions with other group companies

The company is exempt from the requirement of Financial Reporting Statement 1 (Revised) to prepare a cash flow statement as 90% or more of the voting rights of the company's shares are controlled by other group companies. The consolidated financial statements of the ultimate holding company, Foot Locker Inc, which include the company, are publicly available

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2007. The acquisition method of accounting has been adopted. Under this method, the results of the subsidiary undertaking are included in the consolidated profit and loss account from the date of acquisition up to the date of disposal.

Under Section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services through retail operations to customers wholly within the UK during the year

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

Fixed assets and depreciation

Depreciation is provided on the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Short leasehold land and buildings	-	life of lease
Fixtures and fittings		
Expenditure on the acquisition of leasehold premises	-	life of lease
Other	-	20% per annum

Investments

Investments are stated at cost together with any incremental costs of acquisition. Provision is made against the cost of investments where, in the opinion of the directors, there is an impairment in the value of the individual investment

Notes (continued)

1 Accounting policies (continued)

Leases

Operating leases costs are charged to the profit and loss account on a straight line basis over the lease term. Premiums paid to take on certain leases are capitalised and written off over the term of the lease on a straight line basis.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard 19.

Pension costs

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged in the profit and loss account represents the contributions payable to the scheme in respect of the accounting period. Employees may make contributions into the scheme. Under the terms of the scheme, the company does not make any contributions.

2 Profit on ordinary activities before taxation

Group

	2007 £000	2006 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration		
Audit of these financial statements (borne by other group undertakings)	2	2
Amounts receivable by the auditors in respect of		
Audit of financial statements of subsidiaries pursuant to legislation	9	9
	2,199	2,683
Depreciation	(361)	281
Exchange (losses)/gains		
Operating leases		
Land and buildings	14,175	13,659
	14,175	13,659

3 Interest receivable and similar income

	2007 £000	2006 £000
Bank interest	321	143
	321	143

Notes (continued)

4 Interest payable and similar charges

	2007 £000	2006 £000
Bank interest	3	5
Amounts paid to group undertakings	382	358
	385	363
	385	363

5 Tax on profit on ordinary activities

(a) Analysis of charge in period

	2007		2006	
	£000	£000	£000	£000
<i>UK corporation tax</i>				
Current tax on income for the period	1,306		1,048	
Adjustments in respect of prior periods	(3)		(11)	
	1,303		1,037	
<i>Deferred tax (see note 14)</i>				
Origination of timing differences	(62)		(56)	
Adjustments in respect of prior periods	-		(6)	
Effect of reduction in tax rate	(55)		-	
	(117)		(62)	
	1,186		975	

(b) Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2006 higher) than the standard rate of corporation tax in the UK of 30% (2006 30%). The differences are explained below

	2007 £000	2006 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	3,418	2,444
	1,025	733
<i>Effects of</i>		
Capital allowances less than depreciation	62	56
Depreciation on ineligible assets	190	235
Expenses not deductible for tax purposes	29	25
Adjustments to tax charge in respect of prior periods	(3)	(11)
Tax losses utilised	-	(1)
	1,303	1,037
	1,303	1,037

Notes (continued)

5 Tax on profit on ordinary activities (continued)

(c) Factors that may affect future current and total tax charges

The Finance Act 2007 substantively enacted a change in the standard rate of UK corporation tax from 30% to 28% from 1 April 2008. The deferred tax liability has been calculated at 28% as it is expected that it will reverse after 1 April 2008.

6 Directors' remuneration

No director received any remuneration in respect of his services to the company in either the current or preceding financial year.

7 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2007	2006
Sales	838	914
Administration	88	89
	926	1,003

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	9,377	9,321
Social security costs	660	725
	10,037	10,046

The company operates a defined contribution scheme into which employees may make contributions. Under the terms of the scheme the company does not make any contributions.

The directors' pension schemes are funded by fellow members of the Foot Locker Group.

Notes (continued)

8 Tangible fixed assets

Group	Short leasehold property £000	Fixtures and fittings £000	Total £000
<i>Cost</i>			
At beginning of year	3,535	23,682	27,217
Additions	-	754	754
Disposals	-	(461)	(461)
	<hr/>	<hr/>	<hr/>
At end of year	3,535	23,975	27,510
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Depreciation</i>			
At beginning of year	1,679	12,468	14,147
Charge for year	265	1,934	2,199
On disposals	-	(213)	(213)
	<hr/>	<hr/>	<hr/>
At end of year	1,944	14,189	16,133
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Net book value</i>			
At 31 December 2007	1,591	9,786	11,377
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2006	1,856	11,214	13,070
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

9 Investments

Company	Shares in subsidiary undertaking £000
<i>Cost</i>	
At beginning of year and end of year	18,479
	<hr/>
<i>Provision</i>	
At beginning and end of year	(3,150)
	<hr/>
<i>Net book value</i>	
At 31 December 2007	15,329
	<hr/>
At 31 December 2006	15,329
	<hr/> <hr/>

Notes (continued)

9 Investments (continued)

Subsidiary undertakings	Country of incorporation	Holding (ordinary shares)	Nature of business
<i>Held directly</i>			
Freedom Sportsline Limited	Great Britain	100%	Sale of sports and leisure clothing, footwear and accessories
<i>Held indirectly</i>			
Foot Locker Realty Europe Limited	Great Britain	100%	Non-trading

Both of the above subsidiaries are included in these consolidated financial statements

10 Stocks

Group

	2007 £000	2006 £000
Finished goods and goods for resale	14,695	12,762

11 Debtors

Group

	2007 £000	2006 £000
Trade debtors	269	272
Amounts owed by group undertakings	15,049	7,203
Other debtors	132	29
Prepayments and accrued income	5,180	4,581
	<u>20,630</u>	<u>12,085</u>

12 Creditors: amounts falling due within one year

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Trade creditors	250	244	-	-
Amounts owed to group undertakings	15,623	8,117	360	360
Corporation tax	814	527	-	-
Other taxation and social security	1,529	1,436	-	-
Accruals and deferred income	3,487	3,295	-	-
	<u>21,703</u>	<u>13,619</u>	<u>360</u>	<u>360</u>

Notes (continued)

13 Provisions for liabilities and charges

	Deferred taxation £000
At beginning of year	893
Credited to the profit and loss for the year	(62)
Effect of tax rate change	(55)
	776
At the end of year	776

Amounts provided for deferred taxation are as follows

	2007 £000	2006 £000
Accelerated capital allowances	776	893

14 Called up share capital

Company

	2007 £000	2006 £000
<i>Authorised</i> 18,450,462 (2006 18,450,462) ordinary shares of £1 each	18,450	18,450
<i>Allotted, called up and fully paid</i> 18,411,845 (2006 18,411,845) ordinary shares of £1 each	18,412	18,412

15 Reserves

	Profit and loss account	
	Group £000	Company £000
At beginning of year	9,033	(3,443)
Profit for the financial year	2,232	-
	11,265	(3,443)
At end of year	11,265	(3,443)

Notes (continued)

16 Reconciliation of movements in shareholders' funds

	Group		Company	
	2007	2006	2007	2006
	£000	£000	£000	£000
Profit for the financial year being net addition to shareholders' funds	2,232	1,469	-	-
Shareholders' funds at beginning of year	27,445	25,976	14,969	14,969
	<hr/>	<hr/>	<hr/>	<hr/>
Shareholders' funds at end of year	29,677	27,445	14,969	14,969
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

17 Commitments under operating leases

Group

Annual commitments under non-cancellable operating leases are as follows

	Land and buildings	
	2007	2006
	£000	£000
Operating leases which expire		
Within two to five years	2,922	1,152
After five years	13,597	14,679
	<hr/>	<hr/>
	16,519	15,831
	<hr/> <hr/>	<hr/> <hr/>

Contingent liability

The group has guaranteed certain lease commitments for stores owned by fellow Foot Locker Inc group companies. The total lease commitments at 31 December 2007 were £33,440,797 (2006 £32,625,000)

Company

The company had no commitments at 31 December 2007 (2006 £Nil)

18 Post balance sheet events

Dividends

On 15 August 2008, the directors proposed a dividend of £10,000,000. This dividend has not been recognised in these financial statements.

19 Parent undertakings

The immediate parent company is FLE Holdings B V, a company incorporated in the Netherlands.

The company's ultimate parent undertaking and ultimate controlling party is Foot Locker Inc, a company incorporated in the USA. Copies of the group financial statements are available from

112 West 34th Street
 New York
 NY 10120
 USA

The group financial statements are also available on www.footlocker.com