# Foot Locker UK Limited

# Directors' report and consolidated financial statements

Registered number 2568406

31 December 2008

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# Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

*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 main objective is to grow the company's market share by "providing the most compelling performance and lifestyle fashion branded athletic footwear and apparel". This both for the shorter and longer term and with the support of the Foot Locker World Wide brand.

During the year the company closed one store. For the year the turnover increased 0.1% compared to 2007. However, the targeted operating margin was not achieved as a result of underperformance against the business plan set for the year.

For the year 2009 the company is planning to close one store and is anticipating a sales increase of 1.8% 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 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 group operates through intercompany funding agreements.

Foot Locker Realty Europe Limited, a group undertaking did not trade during the period.

The state of the company'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*

The directors do not recommend the payment of a dividend *(2007: £9,000,000).*

*Directors*

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

| | |
|---|---|
| RA Johnson | (American) |
| TP Mabbett | (British) |

*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 *(2007: £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***

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be re-appointed and KPMG LLP will, therefore, continue in office.

On behalf of the board

**RA Johnson**
*Director*

363-367 Oxford Street
London
W1C 2LA

20 October 2009

## 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 2008 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 2008 and of the group's loss 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*

20 October 2009

## Consolidated profit and loss account

*for the year ended 31 December 2008*

| | Note | 2008<br>£000 | 2007<br>£000 |
|---|---|---|---|
| **Turnover** | *1* | 78,752 | 78,686 |
| Cost of sales | | (77,925) | (74,503) |
| **Gross profit** | | 827 | 4,183 |
| Administrative expenses | | (1,568) | (701) |
| **Operating (loss)/profit** | | (741) | 3,482 |
| Interest receivable and similar income | *3* | 369 | 321 |
| Interest payable and similar charges | *4* | (641) | (385) |
| **(Loss)/profit on ordinary activities before taxation** | *2* | (1,013) | 3,418 |
| Tax on loss/(profit) on ordinary activities | *5* | 148 | (1,186) |
| **(Loss)/profit on ordinary activities after taxation and (loss)/profit for the financial year** | *15* | (865) | 2,232 |

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.

Turnover and operating profit are derived solely from continuing operations.

# Consolidated balance sheet
*at 31 December 2008*

| | *Note* | 2008 £000 | £000 | 2007 £000 | £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | *8* | | 9,529 | | 11,377 |
| **Current assets** | | | | | |
| Stocks | *10* | 14,958 | | 14,695 | |
| Debtors | *11* | 9,287 | | 20,630 | |
| Cash at bank and in hand | | 6,522 | | 5,454 | |
| | | 30,767 | | 40,779 | |
| **Creditors:** amounts falling due within one year | *12* | (19,787) | | (21,703) | |
| **Net current assets** | | | 10,980 | | 19,076 |
| **Total assets less current liabilities** | | | 20,509 | | 30,453 |
| Provisions for liabilities and charges | *13* | | (697) | | (776) |
| **Net assets** | | | 19,812 | | 29,677 |
| **Capital and reserves** | | | | | |
| Called up share capital | *14* | | 18,412 | | 18,412 |
| Profit and loss account | *15* | | 1,400 | | 11,265 |
| **Shareholders' funds** | | | 19,812 | | 29,677 |

The financial statements were approved by the board of directors on 20 October 2009 and were signed on its behalf by:

**RA Johnson**
*Director*

# Company balance sheet
*at 31 December 2008*

| | *Note* | 2008 £000 | £000 | 2007 £000 | £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Investments | *9* | | 15,329 | | 15,329 |
| **Current assets** | | | | | |
| Debtors | *11* | 3,555 | | - | |
| **Creditors:** amounts falling due within one year | *12* | (376) | | (360) | |
| **Net current assets/(liabilities)** | | | 3,179 | | (360) |
| **Total assets less current liabilities being net assets** | | | 18,508 | | 14,969 |
| **Capital and reserves** | | | | | |
| Called up share capital | *14* | | 18,412 | | 18,412 |
| Profit and loss account | *15* | | 96 | | (3,443) |
| **Shareholders' funds** | | | 18,508 | | 14,969 |

These financial statements were approved by the board of directors on 20 October 2009 and were signed on its behalf by:

**RA Johnson**
*Director*

Registered number: 2568406

# Reconciliations of Movements in Shareholders' Funds
*for the ended 31 December 2008*

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **£000** | £000 | **£000** | £000 |
| (Loss)/profit for the financial year | **(865)** | 2,232 | **12,539** | - |
| Dividends on shares classified in shareholders' funds | **(9,000)** | - | **(9,000)** | - |
| **Net movement in shareholders' funds** | **(9,865)** | 2,232 | **3,539** | - |
| **Shareholders' funds at beginning of year** | **29,677** | 27,445 | **14,969** | 14,969 |
| **Shareholders' funds at end of year** | **19,812** | 29,677 | **18,508** | 14,969 |

# 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 2008. 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**

| | 2008 £000 | 2007 £000 |
|---|---|---|
| *(Loss)/profit on ordinary activities before taxation is stated after charging* | | |
| Depreciation | 1,931 | 2,199 |
| Exchange gains/(losses) | 397 | (361) |
| Operating leases: | | |
| Land and buildings | 13,987 | 14,175 |
| Other | 82 | - |
| 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 |

## 3 Interest receivable and similar income

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Bank interest | 313 | 321 |
| Amounts payable by group undertakings | 56 | - |
| | 369 | 321 |

## Notes *(continued)*

### 4 Interest payable and similar charges

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Bank interest | 15 | 3 |
| Amounts payable to group undertakings | 626 | 382 |
| | 641 | 385 |

### 5 Tax on (loss)/profit on ordinary activities

#### *(a) Analysis of (credit)/charge in period*

| | 2008 £000 | £000 | 2007 £000 | £000 |
|---|---|---|---|---|
| *UK corporation tax* | | | | |
| Current tax on income for the period | (38) | | 1,306 | |
| Adjustments in respect of prior periods | (31) | | (3) | |
| Total current tax | | (69) | | 1,303 |
| *Deferred tax (see note 14)* | | | | |
| Origination of timing differences | (116) | | (62) | |
| Effect of reduction in tax rate | 2 | | (55) | |
| Adjustments in respect of prior years | 35 | | - | |
| | | (79) | | (117) |
| | | (148) | | 1,186 |

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

The current tax credit *(2007: charge)* for the period is lower *(2007: higher)* than the standard rate of corporation tax in the UK of 28.5% *(2007: 30%)*. The differences are explained below:

| | 2008 £000 | 2007 £000 |
|---|---|---|
| *Current tax reconciliation* | | |
| (Loss)/profit on ordinary activities before tax | (1,013) | 3,418 |
| Tax thereon at 28.5% *(2007: 30%)* | (289) | 1,025 |
| *Effects of:* | | |
| Capital allowances less than depreciation | 116 | 62 |
| Depreciation on ineligible assets | 169 | 190 |
| Expenses not deductible for tax purposes | 57 | 29 |
| Utilisation of previously unrecognised capital losses | (91) | - |
| Adjustments to tax charge in respect of prior periods | (31) | (3) |
| | (69) | 1,303 |

With effect from 1 April 2008, the statutory rate of corporation tax changed to 28%. As a result, the standard rate of tax for the year ended 31 December 2008 was 28.5%, being 30% from 1 January 2008 to 31 March 2008 and 28% from 1 April to 31 December 2008.

# Notes *(continued)*

## 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 | |
|---|---|---|
| | **2008** | 2007 |
| Sales | **812** | 838 |
| Administration | **84** | 88 |
| | **896** | 926 |

The aggregate payroll costs of these persons were as follows:

| | **£000** | £000 |
|---|---|---|
| Wages and salaries | **9,228** | 9,377 |
| Social security costs | **841** | 660 |
| | **10,069** | 10,037 |

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 |
|---|---|---|---|
| *Cost* | | | |
| At beginning of year | 3,535 | 23,975 | 27,510 |
| Additions | - | 239 | 239 |
| Disposals | (61) | (268) | (329) |
| At end of year | 3,474 | 23,946 | 27,420 |
| *Depreciation* | | | |
| At beginning of year | 1,944 | 14,189 | 16,133 |
| Charge for year | 266 | 1,665 | 1,931 |
| On disposals | (31) | (142) | (173) |
| At end of year | 2,179 | 15,712 | 17,891 |
| *Net book value* | | | |
| **At 31 December 2008** | **1,295** | **8,234** | **9,529** |
| At 31 December 2007 | 1,591 | 9,786 | 11,377 |

## 9 Investments

### Company

| | Shares in subsidiary undertaking £000 |
|---|---|
| *Cost* | |
| At beginning and end of year | 18,479 |
| *Provision* | |
| At beginning and end of year | (3,150) |
| *Net book value* | |
| **At 31 December 2008** | **15,329** |
| At 31 December 2007 | 15,329 |

# Notes *(continued)*

## 9 Investments *(continued)*

| Subsidiary undertakings | Country of incorporation | Holding (ordinary shares) | Nature of business |
|---|---|---|---|
| *Held directly* | | | |
| Freedom Sportsline Limited | Great Britain | 100% | Sale of sports and leisure clothing, footwear and accessories |
| *Held indirectly* | | | |
| 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**

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Finished goods and goods for resale | 14,958 | 14,695 |

## 11 Debtors

| | Group 2008 £000 | Group 2007 £000 | Company 2008 £000 | Company 2007 £000 |
|---|---|---|---|---|
| Trade debtors | 178 | 269 | - | - |
| Amounts owed by group undertakings | 3,557 | 15,049 | 3,555 | - |
| Other debtors | 48 | 132 | - | - |
| Prepayments and accrued income | 4,976 | 5,180 | - | - |
| Corporation tax | 528 | - | - | - |
| | 9,287 | 20,630 | 3,355 | - |

## 12 Creditors: amounts falling due within one year

| | Group 2008 £000 | Group 2007 £000 | Company 2008 £000 | Company 2007 £000 |
|---|---|---|---|---|
| Trade creditors | 158 | 250 | - | - |
| Amounts owed to group undertakings | 15,623 | 15,623 | 360 | 360 |
| Corporation tax | - | 814 | 16 | - |
| Other taxation and social security | 1,299 | 1,529 | - | - |
| Accruals and deferred income | 2,707 | 3,487 | - | - |
| | 19,787 | 21,703 | 376 | 360 |

# Notes *(continued)*

## 13 Provisions for liabilities and charges

| | Deferred taxation £000 |
|---|---|
| At beginning of year | 776 |
| Credited to the profit and loss for the year | (81) |
| Effect of tax rate change | 2 |
| **At the end of year** | **697** |

Amounts provided for deferred taxation are as follows:

| | **2008 £000** | 2007 £000 |
|---|---|---|
| Accelerated capital allowances | **697** | 776 |

## 14 Called up share capital

### Company

| | **2008 £000** | 2007 £000 |
|---|---|---|
| ***Authorised:*** | | |
| 18,450,462 *(2007: 18,450,462)* ordinary shares of £1 each | **18,450** | 18,450 |
| ***Allotted, called up and fully paid:*** | | |
| 18,411,845 *(2007: 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 | 11,265 | (3,443) |
| (Loss)/profit for the financial year | (865) | 12,539 |
| Dividends on shares classified in shareholders' funds | (9,000) | (9,000) |
| **At end of year** | 1,400 | 96 |

## Notes *(continued)*

### 16 Commitments under operating leases

**Group**

Annual commitments under non-cancellable operating leases are as follows:

| | Land and buildings | |
|---|---|---|
| | **2008** | 2007 |
| | **£000** | £000 |
| Operating leases which expire: | | |
| Within two to five years | **3,447** | 2,922 |
| After five years | **11,277** | 13,597 |
| | **14,724** | 16,519 |

### 17 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 2008 were £44,975,639. *(2007: £33,440,797).*

**Company**

The company had no commitments at 31 December 2008 *(2007: £Nil).*

### 18 Parent undertakings

The immediate parent company is Foot Locker Europe 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 $34^{th}$ Street
New York
NY 10120
USA

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