

Foot Locker UK Limited

**Directors' report and consolidated
financial statements**

Registered number 2568406

31 December 2009



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Directors' report

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

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 group closed one store. For the year turnover decreased by 3.4% compared to 2008. The targeted operating margin is not achieved as a result of underperformance against the business plan set for the year.

For the year 2010 the group is planning to keep the store base as is and is anticipating a sales gain of 1.7% 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 for the year (2008: £Nil).

Directors and directors' interests

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

RA Johnson	(American – resigned 31 January 2010)
TP Mabbett	(British – resigned 31 January 2010)
LP Kimble	(American – appointed 31 January 2010)
RM van der Hoeven	(Dutch – appointed 31 January 2010)

Employees

The company and group gives equal consideration to applications for employment from disabled people having regard to their particular aptitudes and abilities. It is group and company 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.

Charitable and political donations

During the year, no charitable or political donations were made by the Company.

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 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 company's auditors are aware of that information.

Directors' report *(continued)*

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



LP Kimble
Director

363-367 Oxford Street
London
W1C 2LA

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 group and parent company and of their profit or loss for that period.

In preparing each of the group and parent company 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 group and the parent company continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and 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 2006. 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.



KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

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

We have audited the financial statements of Foot Locker UK Limited for the year ended 31 December 2009 set out on pages 6 to 16. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2009 and of the group's loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter 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.

Independent auditors' report to the members of Foot Locker UK Limited *(continued)*

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

SJ Purkess

**29 SEPTEMBER
2010**

**SJ Purkess (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
*Chartered Accountants***

Consolidated profit and loss account
for the year ended 31 December 2009

	<i>Note</i>	2009 £000	2008 £000
Turnover	<i>1</i>	78,083	78,752
Cost of sales		(72,723)	(77,925)
		<hr/>	<hr/>
Gross profit		3,360	827
Administrative expenses		(669)	(1,568)
		<hr/>	<hr/>
Operating profit/(loss)		2,691	(741)
Interest receivable and similar income	<i>3</i>	78	369
Interest payable and similar charges	<i>4</i>	(627)	(641)
		<hr/>	<hr/>
Profit/(loss) on ordinary activities before taxation	<i>2</i>	2,142	(1,013)
Tax on (profit)/loss on ordinary activities	<i>5</i>	(819)	148
		<hr/>	<hr/>
Profit/(loss) on ordinary activities after taxation and profit/(loss) for the financial year	<i>15</i>	1,323	(865)
		<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

Turnover and operating profit are derived solely from continuing operations

Consolidated balance sheet
at 31 December 2009

	<i>Note</i>	2009 £000	£000	2008 £000	£000
Fixed assets					
Tangible assets	<i>8</i>		8,979		9,529
Current assets					
Stocks	<i>10</i>	12,445		14,958	
Debtors	<i>11</i>	5,579		9,287	
Cash at bank and in hand		7,159		6,522	
		<u>25,183</u>		<u>30,767</u>	
Creditors, amounts falling due within one year	<i>12</i>	<u>(15,929)</u>		<u>(19,787)</u>	
Net current assets			<u>9,254</u>		<u>10,980</u>
Total assets less current liabilities			<u>18,233</u>		<u>20,509</u>
Provisions for liabilities and charges	<i>13</i>		(598)		(697)
Net assets			<u>17,635</u>		<u>19,812</u>
Capital and reserves					
Called up share capital	<i>14</i>		14,912		18,412
Profit and loss account	<i>15</i>		2,723		1,400
Shareholders' funds			<u>17,635</u>		<u>19,812</u>

The financial statements were approved by the board of directors on 27 September 2010 and were signed on its behalf by



LP Kimble
Director

Company balance sheet
at 31 December 2009

	<i>Note</i>	2009 £000	£000	2008 £000	£000
Fixed assets					
Investments	9		15,329		15,329
Current assets					
Debtors	11	122		3,555	
Creditors amounts falling due within one year	12	(366)		(376)	
Net current (liabilities)/assets			<u>(244)</u>		<u>3,179</u>
Total assets less current liabilities being net assets			<u>15,085</u>		<u>18,508</u>
Capital and reserves					
Called up share capital	14		14,912		18,412
Profit and loss account	15		173		96
Shareholders' funds			<u>15,085</u>		<u>18,508</u>

These financial statements were approved by the board of directors on 27 September 2010 and were signed on its behalf by



LP Kimble
Director

Registered number 2568406

Reconciliations of movements in shareholders' funds
for the ended 31 December 2009

	Group		Company	
	2009	2008	2009	2008
	£000	£000	£000	£000
Profit/(loss) for the financial year	1,323	(865)	77	12,539
Dividends on shares classified in shareholders' funds	-	(9,000)	-	(9,000)
Retained profit	1,323	(9,865)	77	3,539
Consideration paid for the reduction in share capital	(3,500)	-	(3,500)	-
Net (reduction in)/addition to shareholders' funds	(2,177)	(9,865)	(3,423)	3,539
Shareholders' funds at beginning of year	19,812	29,677	18,508	14,969
Shareholders' funds at end of year	17,635	19,812	15,085	18,508

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 2009. 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

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

Notes *(continued)*

1 Accounting policies *(continued)*

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

	2009 £000	2008 £000
<i>Profit/(loss) on ordinary activities before taxation is stated after charging</i>		
Depreciation	2,168	1,931
Exchange (losses)/gains	(1,674)	397
Operating leases		
Land and buildings	13,945	13,987
Other	54	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

	2009 £000	2008 £000
Bank interest	12	313
Amounts payable by group undertakings	66	56
	_____	_____
	78	369
	_____	_____

4 Interest payable and similar charges

	2009 £000	2008 £000
Bank interest	2	15
Amounts payable to group undertakings	625	626
	_____	_____
	627	641
	_____	_____

Notes (continued)

5 Tax on (loss)/profit on ordinary activities

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

	2009 £000	£000	2008 £000	£000
<i>UK corporation tax</i>				
Current tax on income for the period	898		(38)	
Adjustments in respect of prior periods	20		(31)	
	<hr/>		<hr/>	
Total current tax		918		(69)
<i>Deferred tax (see note 14)</i>				
Origination of timing differences	(115)		(116)	
Effect of reduction in tax rate	-		2	
Adjustments in respect of prior years	16		35	
	<hr/>		<hr/>	
		(99)		(79)
		<hr/>		<hr/>
		819		(148)
		<hr/>		<hr/>

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

The current tax charge (2008 credit) for the period is higher (2008 lower) than the standard rate of corporation tax in the UK of 28% (2008 28.5%). The differences are explained below

	2009 £000	2008 £000
<i>Current tax reconciliation</i>		
Profit/(loss) on ordinary activities before tax	2,142	(1,013)
	<hr/>	<hr/>
Tax thereon at 28% (2008 28.5%)	600	(289)
<i>Effects of</i>		
Capital allowances less than depreciation	115	116
Depreciation on ineligible assets	181	169
Expenses not deductible for tax purposes	16	57
Utilisation of previously unrecognised capital losses	(14)	(91)
Adjustments to tax charge in respect of prior periods	20	(31)
	<hr/>	<hr/>
	918	(69)
	<hr/>	<hr/>

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

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010 and will be effective from 1 April 2011. This will reduce the company's future current tax charge accordingly. It has not yet been possible to quantify the full anticipated effect of the announced rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liabilities accordingly.

6 Directors' remuneration

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

Notes (continued)

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	
	2009	2008
Sales	804	812
Administration	78	84
	<u>882</u>	<u>896</u>

The aggregate payroll costs of these persons were as follows

	£000	£000
Wages and salaries	9,121	9,228
Social security costs	513	841
	<u>9,634</u>	<u>10,069</u>

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.

8 Tangible fixed assets

Group

	Short leasehold property £000	Fixtures and fittings £000	Total £000
<i>Cost</i>			
At beginning of year	3,474	23,946	27,420
Additions	-	1,864	1,864
Disposals	-	(1,007)	(1,007)
	<u>3,474</u>	<u>24,803</u>	<u>28,277</u>
<i>Depreciation</i>			
At beginning of year	2,179	15,712	17,891
Charge for year	263	1,905	2,168
On disposals	(13)	(748)	(761)
	<u>2,429</u>	<u>16,869</u>	<u>19,298</u>
<i>Net book value</i>			
At 31 December 2009	<u>1,045</u>	<u>7,934</u>	<u>8,979</u>
At 31 December 2008	<u>1,295</u>	<u>8,234</u>	<u>9,529</u>

Notes (continued)

9 Investments

Company

	Shares in subsidiary undertaking £000
<i>Cost</i>	
At beginning 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 2009	15,329
	<hr/>
At 31 December 2008	15,329
	<hr/>

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

	2009 £000	2008 £000
Finished goods and goods for resale	12,445	14,958
	<hr/>	<hr/>

11 Debtors

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Trade debtors	177	178	-	-
Amounts owed by group undertakings	122	3,557	122	3,555
Other debtors	51	48	-	-
Prepayments and accrued income	5,066	4,976	-	-
Corporation tax	163	528	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	5,579	9,287	122	3,355
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

12 Creditors: amounts falling due within one year

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Trade creditors	52	158	-	-
Amounts owed to group undertakings	12,067	15,623	361	360
Corporation tax	-	-	4	16
Other taxation and social security	1,487	1,299	-	-
Accruals and deferred income	2,323	2,707	-	-
	<u>15,929</u>	<u>19,787</u>	<u>365</u>	<u>376</u>

13 Provisions for liabilities and charges

	Deferred taxation £000
At beginning of year	697
Credited to the profit and loss for the year	(115)
Effect of tax rate change	16
	<u>598</u>

Amounts provided for deferred taxation are as follows

	2009 £000	2008 £000
Accelerated capital allowances	<u>598</u>	<u>697</u>

14 Called up share capital

Company

	2009 £000	2008 £000
<i>Allotted, called up and fully paid</i>		
14,911,845 (2008 18,411,845) ordinary shares of £1 each	<u>14,912</u>	<u>18,412</u>

On 20 October 2009, the company passed a special resolution in pursuant of Chapter 2 of Part 13 of the Companies Act 2006 to reduce the share capital to 14,911,845 ordinary shares. The capital was repaid to the sole shareholder of Foot Locker Europe B V.

15 Reserves

	Profit and loss account	
	Group £000	Company £000
At beginning of year	1,400	96
Profit for the financial year	1,323	77
	<u>2,723</u>	<u>173</u>

Notes *(continued)*

16 Commitments under operating leases

Group

Annual commitments under non-cancellable operating leases are as follows

	Land and buildings	
	2009 £000	2008 £000
Operating leases which expire		
Within two to five years	3,366	3,447
After five years	9,850	11,277
	<u>13,216</u>	<u>14,724</u>

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 2009 were £39,007,266 (2008 £44,975,639)

Company

The company had no commitments at 31 December 2009 (2008 £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 34th Street
New York
NY 10120
USA

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