Foot Locker UK Limited

Directors' report and consolidated financial statements

Registered number 2568406

31 December 2006

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006

Principal activities and business review

The principal activity of the group during the year was the sale of sports and leisure clothing, footwear and accessories through retail outlets in the UK The objective is to grow the group'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 opened as well as closed two stores For the year the turnover decreased 11 5% while the operating profit decreased 17 63% compared to 2005 The actual operating profit percentage is slightly below the targeted operating profit rate

For the year 2007 the group is planning to close 3 stores and is anticipating a sales gain of 8 25% 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 group operates through intercompany funding arrangements

Group subsidiary, Foot Locker Realty Europe 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

The directors do not recommend the payment of a dividend for the year (*2005 £Nil*)

Directors and directors' interests

The directors who held office during the year were as follows

K Daly	(American, resigned 16 August 2007)
T P Mabbett	(British, appointed 1 September 2006)
M D Serra	(American, resigned 16 July 2007)
M G Zawoysky	(American, resigned 1 September 2006)

In addition to the above, and subsequent to the year end, on 16 August 2007 RA Johnson was appointed as a director

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

Directors' report *(continued)*

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

Charitable and political donations

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

On behalf of the board

RA Johnson
Director

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

19 October 2007

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 financial statements are required by law to 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 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 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 company 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

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 2006 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 2006 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

19 October 2007

Consolidated profit and loss account
for the year ended 31 December 2006

	Note	2006 £000	2005 £000
Turnover	1	**79,102**	89,384
Cost of sales		**(75,223)**	(85,807)
Gross profit		**3,879**	3,577
Administrative expenses		**(1,215)**	(346)
Operating profit		**2,664**	3,231
Interest receivable and similar income	3	**143**	212
Interest payable and similar charges	4	**(363)**	(350)
Profit on ordinary activities before taxation	2	**2,444**	3,093
Tax on profit on ordinary activities	5	**(975)**	(1,133)
Profit on ordinary activities after taxation and retained profit for the financial year	16	**1,469**	1,960

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 17 to the financial statements

Turnover and operating profit are derived solely from continuing operations

Consolidated balance sheet
at 31 December 2006

	Note	**2006** £000	**2006** £000	2005 £000	2005 £000
Fixed assets					
Tangible assets	*9*		**13,070**		12,707
Current assets					
Stocks	*11*	**12,762**		13,607	
Debtors	*12*	**12,085**		11,747	
Cash at bank and in hand		**4,040**		3,912	
		28,887		29,266	
Creditors amounts falling due within one year	*13*	**(13,619)**		(15,042)	
Net current assets			**15,268**		14,224
Total assets less current liabilities			**28,338**		26,931
Provisions for liabilities and charges	*14*		**(893)**		(955)
Net assets			**27,445**		25,976
Capital and reserves					
Called up share capital	*15*		**18,412**		18,412
Profit and loss account	*16*		**9,033**		7,564
Equity shareholders' funds	*17*		**27,445**		25,976

The financial statements were approved by the board of directors on 19 October 2007 and were signed on its behalf by

RA Johnson
Director

Company balance sheet
at 31 December 2006

	Note	2006 £000	2005 £000
Fixed assets			
Investments	*10*	**15,329**	15,329
Creditors amounts falling due within one year	*13*	**360**	(360)
Net assets		**14,969**	14,969
Capital and reserves			
Called up share capital	*15*	**18,412**	18,412
Profit and loss account	*16*	**(3,443)**	(3,443)
Equity shareholders' funds	*17*	**14,969**	14,969

These financial statements were approved by the board of directors on 19 October 2007 and were signed on its behalf by

RA Johnson
Director

Notes

(formıng part of the financial statements)

1 Accounting polıcies

The followıng accountıng polıcıes have been applıed consıstently ın dealıng wıth ıtems whıch are consıdered materıal ın relatıon to the company's financıal statements except as noted below

Basıs of preparatıon

The financıal statements have been prepared under the hıstorıcal cost conventıon and ın accordance wıth applıcable Accountıng Standards

Advantage has been taken of the exemptıon ın paragraph 3(c) of Fınancıal Reportıng Standard No 8 ın respect of the dısclosure of transactıons wıth other group companıes

The company ıs exempt from the requırement of Fınancıal Reportıng Statement No 1 (Revısed) to prepare a cashflow statement as 90% or more of the votıng rıghts of the company's shares are controlled by other group companıes The consolıdated financıal statements of the ultımate holdıng company, Foot Locker Inc, whıch ınclude the company, are publıcly avaılable

Basıs of consolidatıon

The consolıdated financıal statements ınclude the financıal statements of the company and ıts subsıdıary undertakıngs made up to 31 December 2006 The acquısıtıon method of accountıng has been adopted Under thıs method, the results of the subsıdıary undertakıng are ıncluded ın the consolıdated profit and loss account from the date of acquısıtıon up to the date of dısposal

Under Sectıon 230(4) of the Companıes Act 1985 the company ıs exempt from the requırement to present ıts own profit and loss account The loss dealt wıth by the parent company ıs shown ın note 8

Turnover

Turnover represents the amounts (excludıng value added tax) derıved from the provısıon of goods and servıces to customers wholly wıthın the UK durıng the year

Foreıgn currencıes

Transactıons ın foreıgn currencıes are recorded usıng the rate of exchange rulıng at the date of the transactıon Monetary assets and lıabılıtıes denomınated ın foreıgn currencıes are translated usıng the rate of exchange rulıng at the balance sheet date and the gaıns or losses on translatıon are ıncluded ın the profit and loss account

Fıxed assets and depreciatıon

Depreciatıon ıs provıded on the cost less the estımated resıdual value of tangıble fixed assets by equal ınstalments over theır estımated useful economıc lıves as follows

Short leasehold land and buıldıngs	-	lıfe of lease
Fıxtures and fittıngs		
Expendıture on the acquısıtıon of leasehold premıses	-	lıfe of lease
Other	-	20% per annum

Notes *(contınued)*

1 Accountıng polıcıes *(contınued)*

Leases

Operatıng leases rentals are charged to the profit and loss account on a straıght lıne basıs over the lease term Premıums paıd to take on certaın leases are capıtalısed and wrıtten off over the term of the lease on a straıght lıne basıs

Stocks

Stocks are stated at the lower of cost and net realısable value

Taxatıon

The charge for taxatıon ıs based on the profit or loss for the year and takes ınto account taxatıon deferred because of tımıng dıfferences between the treatment of certaın ıtems for taxatıon and accountıng purposes Deferred tax ıs recognısed wıthout dıscountıng, ın respect of all tımıng dıfferences between the treatment of certaın ıtems for taxatıon and accountıng purposes whıch have arısen but not reversed by the balance sheet date, except as otherwıse requıred by FRS 19

Pensıon costs

The group operates a defined contrıbutıon pensıon scheme The assets of the scheme are held separately from those of the group ın an ındependently admınıstered fund The amount charged ın the profit and loss account represents the contrıbutıons payable to the scheme ın respect of the accountıng perıod Employees may make contrıbutıons ınto the scheme Under the terms of the scheme, the company does not make any contrıbutıons

2 Profit on ordınary activıtıes before taxation

Group

	2006 £000	2005 £000
Profit on ordınary actıvıtıes before taxatıon ıs stated		
after chargıng		
Audıtors' remuneratıon		
Audıt of these financıal statements	2	2
Amounts receıvable by the audıtors ın respect of		
Audıt of financıal statements ın respect of other group undertakıngs	9	9
Deprecıatıon	2,683	2,231
Exchange losses	55	74
Operatıng leases		
Land and buıldıngs	13,611	12,466
Hıre of plant and machınery	-	32

Audıtors' remuneratıon ın respect of the audıt of Foot Locker UK Lımıted financıal statements amounted to £Nıl *(2005 £Nıl)*

3 Interest receıvable and sımılar ıncome

	2006 £000	2005 £000
Bank ınterest	143	209
Other ınterest	-	3
	143	212

Notes *(continued)*

4 Interest payable and similar charges

	2006 £000	2005 £000
Bank interest	**5**	53
Amounts paid to group undertakings	**358**	297
	363	350

5 Tax on profit on ordinary activities

(a) Analysis of charge in period

	2006 £000	2006 £000	2005 £000	2005 £000
UK corporation tax				
Current tax on income for the period	**1,048**		1,126	
Adjustments in respect of prior periods	**(11)**		(4)	
Total current tax		**1,037**		1,122
Deferred tax (see note 14)				
Origination of timing differences	**(56)**		12	
Adjustments in respect of prior periods	**(6)**		(1)	
		(62)		11
		975		1,133

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

The current tax charge for the period is higher *(2005 higher)* than the standard rate of corporation tax in the UK of 30% *(2005 30%)* The differences are explained below

	2006 £000	2005 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**2,444**	3,093
Tax thereon at 30% *(2005 30%)*	**734**	928
Effects of		
Capital allowances less than depreciation	**290**	181
Expenses not deductible for tax purposes (primarily depreciation on ineligibles)	**25**	19
Adjustments to tax charge in respect of prior periods	**(11)**	(4)
Tax losses utilised	**(1)**	(2)
	1,037	1,122

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

It has been announced that the corporation tax rate applicable to the company is to change from 30% to 28% from 1 April 2008 The deferred tax asset has been calculated at 30% in accordance with FRS 19 Any timing differences which reverse before 1 April 2008 will be charged at 30%, any timing differences which exist at 1 April 2008 will reverse at 28% and, because of the uncertainty of when the deferred tax asset will reverse, it is not possible to calculate the full financial impact of this change

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	
	2006	2005
Sales	**914**	922
Administration	**89**	88
	1,003	1,010

The aggregate payroll costs of these persons were as follows

	£000	£000
Wages and salaries	**9,321**	9,520
Social security costs	**725**	811
	10,046	10,331

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 Loss for the financial year

The loss for the financial year dealt with in the financial statements of the parent company was £Nil *(2005 £Nil)*

Notes *(continued)*

9 Tangible fixed assets

Group

	Short leasehold property £000	Fixtures and fittings £000	Total £000
Cost			
At beginning of year	3,476	21,509	24,985
Additions	113	3,103	3,216
Disposals	(54)	(930)	(984)
At end of year	3,535	23,682	27,217
Depreciation			
At beginning of year	1,462	10,816	12,278
Charge for year	268	2,415	2,683
On disposals	(51)	(763)	(814)
At end of year	1,679	12,468	14,147
Net book value			
At 31 December 2006	**1,856**	**11,214**	**13,070**
At 31 December 2005	2,014	10,693	12,707

10 Investments

Company

	Shares in subsidiary undertaking £000
Cost	
At beginning of year and end of year	18,479
Provision	
At beginning and end of year	3,150
Net book value	
At 31 December 2006	**15,329**
At 31 December 2005	15,329

Notes *(continued)*

10 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

11 Stocks

Group

	2006 £000	2005 £000
Finished goods and goods for resale	**12,762**	13,607

12 Debtors

Group

	2006 £000	2005 £000
Trade debtors	**272**	280
Amounts owed by group undertakings	**7,203**	6,668
Other debtors	**29**	111
Prepayments and accrued income	**4,581**	4,478
Corporation tax debtor	-	210
	12,085	11,747

13 Creditors: Amounts falling due within one year

	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Trade creditors	**244**	431	-	-
Amounts owed to group undertakings	**8,117**	9,585	**360**	360
Corporation tax	**527**	-	-	-
Other taxation and social security	**1,436**	2,014	-	-
Other creditors	-	-	-	-
Accruals and deferred income	**3,295**	3,012	-	-
	13,619	15,042	**360**	**360**

Notes *(continued)*

14 Provision for liabilities and charges

	Deferred taxation £000
At beginning of year	955
Credited to the profit and loss for the year	(62)
At the end of year	**893**

Amounts provided for deferred taxation are as follows

	2006 £000	2005 £000
Accelerated capital allowances	**893**	955

15 Called up share capital

Company

	2006 £000	2005 £000
Authorised:		
Ordinary shares of £1 each	**18,450**	18,450
Allotted, called up and fully paid		
Ordinary shares of £1 each	**18,412**	18,412

In the prior year, the company increased its authorised nominal capital by £200,000 on 24 November 2004 The company also allotted 161,383 shares at a par value of £1 each during the prior year

16 Reserves

	Profit and loss account	
	Group £000	**Company £000**
At beginning of year	7,564	14,969
Retained profit for the financial year	1,469	-
At end of year	**9,033**	**14,969**

Notes *(continued)*

17 Reconciliation of movements in shareholders' funds

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Retained profit for the financial year	**1,469**	1,960	-	-
Shares allotted	-	-	-	-
Net addition to shareholders' funds	**1,469**	1,960	-	-
Shareholders' funds at beginning of year	**25,976**	24,016	**14,969**	14,969
Shareholders' funds at end of year	**27,445**	25,976	**14,969**	14,969

18 Commitments under operating leases

Group

Annual commitments under non-cancellable operating leases are as follows

	Land and buildings	
	2006	2005
	£000	£000
Operating leases which expire		
Within two to five years	**1,152**	1,344
After five years	**14,679**	12,385
	15,831	13,729

Contingent liability

The group has guaranteed the lease commitments for stores owned by fellow group companies within the Foot Locker Inc group The total lease commitments at 31 December 2006 were £32,625,000 *(2005 £33,371,000)*

Company

The company had no commitments at 31 December 2006 *(2005 £Nil)*

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