Foot Locker UK Limited

Directors' report and consolidated financial statements

Registered number 2568406

For the year ended 31 December 2011

Contents

Directors' report

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

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 sport 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 three and opened five stores For the year the turnover decreased by 0 4% compared to 2010 The targeted operating margin is achieved as a result of the expense monitoring programs and extraordinary income

For the year 2012 the company is planning to hold the store base and is anticipating a sales loss of 1 0% for the existing stores, expense control programs will be continued 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 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

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 *(2010 GBP Nil)*

Directors

The directors who held office during the year were as follows

LP Kimble	(American)	
RM van der Hoeven	(Dutch)	
JW Szumski	(American)	(appointed 23 December 2011)

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

Directors' report *(continued)*

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

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

23 August 2012

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

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Independent auditor's 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 2011 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 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 auditor

As explained more fully in the directors' responsibilities statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (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/private cfm.

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 2011 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 auditor's 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

GA Watts (Senior Statutory Auditor) 23 August 2012
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

Consolidated profit and loss account
for the year ended 31 December 2011

	Note	**2011 £000**	2010 £000
Turnover	*1*	**80,726**	81,048
Cost of sales		**(76,990)**	(78,273)
Gross profit		**3,736**	2,775
Administrative expenses		**(1,025)**	(1,507)
Operating profit		**2,711**	1,268
Interest receivable and similar income	*3*	**15**	35
Interest payable and similar charges	*4*	**(481)**	(536)
Profit on ordinary activities before taxation	*2*	**2,245**	767
Tax on profit on ordinary activities	*5*	**(616)**	(316)
Profit on ordinary activities after taxation and profit for the financial year	*15*	**1,629**	451

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 2011

	Note	2011 £000	£000	2010 £000	£000
Fixed assets					
Tangible assets	8		**8,057**		7,871
Current assets					
Stocks	10	**12,644**		12,233	
Debtors	11	**11,561**		5,432	
Cash at bank and in hand		**6,787**		9,252	
		30,992		26,917	
Creditors: amounts falling due within one year	12	**(19,133)**		(16,201)	
Net current assets			**11,859**		10,716
Total assets less current liabilities			**19,916**		18,587
Provisions for liabilities and charges	13		**(201)**		(501)
Net assets			**19,715**		18,086
Capital and reserves					
Called up share capital	14		**14,912**		14,912
Profit and loss account	15		**4,803**		3,174
Shareholders' funds			**19,715**		18,086

The financial statements were approved by the board of directors on 23 August 2012 and were signed on its behalf by

LP Kimble
Director

Company balance sheet
at 31 December 2011

	Note	**2011** **£000**	**£000**	2010 £000	£000
Fixed assets					
Investments	*9*		**15,329**		15,329
Current assets					
Debtors	*11*	**122**		122	
Creditors: amounts falling due within one year	*12*	**(368)**		(366)	
Net current liabilities			**(246)**		(244)
Total assets less current liabilities being net assets			**15,083**		15,085
Capital and reserves					
Called up share capital	*14*		**14,912**		14,912
Profit and loss account	*15*		**171**		173
Shareholders' funds			**15,083**		15,085

These financial statements were approved by the board of directors on 23 August 2012 and were signed on its behalf by

LP Kimble
Director

Registered number 2568406

Reconciliations of movements in shareholders' funds
for the ended 31 December 2011

	Group		Company	
	2011	2010	**2011**	2010
	£000	£000	**£000**	£000
Profit/(loss) for the financial year	**1,629**	451	**(2)**	-
Retained profit	**1,629**	451	**(2)**	-
Net addition to/(reduction in)/ shareholders' funds	**1,629**	451	**(2)**	-
Shareholders' funds at beginning of year	**18,086**	17,635	**15,085**	15,085
Shareholders' funds at end of year	**19,715**	18,086	**15,083**	15,085

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

As the company is a wholly-owned subsidiary of Footlocker Inc the company has taken advantage of the exemption contained in FRS 8 and has, therefore, not disclosed transactions or balances with wholly-owned subsidiaries which form part of the group

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 2011 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 408 of the Companies Act 2006 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

	2011	2010
	£000	£000
Profit on ordinary activities before taxation is stated after charging		
Depreciation	**1,909**	2,046
Exchange losses	**103**	444
Operating leases		
Land and buildings	**13,836**	13,722
Other	**52**	36
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

	2011	2010
	£000	£000
Bank interest	**15**	35

4 Interest payable and similar charges

	2011	2010
	£000	£000
Bank interest	**1**	-
Amounts payable to group undertakings	**480**	536
	481	536

Notes *(continued)*

5 Tax on profit on ordinary activities

(a) *Analysis of charge in period*

	2011 £000	£000	2010 £000	£000
UK corporation tax				
Current tax on income for the period	**861**		507	
Adjustments in respect of prior periods	**56**		(94)	
Total current tax		**917**		413
Deferred tax (see note 13)				
Origination of timing differences	**(115)**		(104)	
Effect of reduction in tax rate	**(175)**		26	
Adjustments in respect of prior years	**(10)**		(19)	
		(300)		(97)
		617		316

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

The current tax charge *(2010 charge)* for the period is higher *(2010 higher)* than the standard rate of corporation tax in the UK of 26 5% *(2010 28%)* The differences are explained below

	2011 £000	2010 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**2,245**	767
Tax thereon at 26 5% (*2010 28%)*	**596**	215
Effects of		
Capital allowances less than depreciation	**116**	104
Depreciation on ineligible assets	**138**	174
Expenses not deductible for tax purposes	**11**	14
Utilisation of previously unrecognised capital losses	**56**	-
Adjustments to tax charge in respect of prior periods	**-**	(94)
	917	413

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

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014 A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively

This will reduce the company's future current tax charge accordingly and further reduce the deferred tax liability at 31 December 2011 (which has been calculated based on the rate of 25% substantively enacted at the balance sheet date)

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liability accordingly

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	
	2011	2010
Sales	**723**	740
Administration	**83**	77
	806	817

The aggregate payroll costs of these persons were as follows

	£000	£000
Wages and salaries	**9,308**	9,309
Social security costs	**759**	675
	10,067	9,984

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	2,642	23,895	26,537
Additions	108	2,026	2,134
Disposals	(565)	(944)	(1,509)
Transfers	-	(18)	(18)
At end of year	2,185	24,959	27,144
Depreciation			
At beginning of year	1,892	16,774	18,666
Charge for year	169	1,740	1,909
On disposals	(565)	(923)	(1,488)
At end of year	1,496	17,591	19,087
Net book value			
At 31 December 2011	**689**	**7,368**	**8,057**
At 31 December 2010	750	7,121	7,871

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 2011 and 31 December 2010	**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

	2011	2010
	£000	£000
Finished goods and goods for resale	**12,644**	12,233

11 Debtors

	Group		Company	
	2011	2010	**2011**	2010
	£000	£000	**£000**	£000
Trade debtors	**316**	3	**-**	-
Amounts owed by group undertakings	**5,663**	122	**122**	122
Other debtors	**521**	294	**-**	-
Prepayments and accrued income	**5,061**	5,013	**-**	-
	11,561	5,432	**122**	122

Notes *(continued)*

12 Creditors: amounts falling due within one year

	Group		Company	
	2011	2010	**2011**	2010
	£000	£000	**£000**	£000
Trade creditors	**142**	260	**-**	-
Amounts owed to group undertakings	**13,413**	11,594	**368**	362
Corporation tax	**-**	159	**-**	4
Other taxation and social security	**2,885**	2,094	**-**	-
Accruals and deferred income	**2,693**	2,094	**-**	-
	19,133	16,201	**368**	366

13 Provisions for liabilities and charges

	Deferred taxation £000
At beginning of year	501
Credited to the profit and loss for the year	(115)
Effect of tax rate change	(10)
Adjustment to tax charge in respect of previous periods	(175)
At the end of year	**201**

Amounts provided for deferred taxation are as follows

	2011	2010
	£000	£000
Accelerated capital allowances	**201**	501

14 Called up share capital

Company

	2011	2010
	£000	£000
Allotted, called up and fully paid:		
14,911,845 *(2010 14,911,845)* ordinary shares of £1 each	**14,912**	14,912

15 Reserves

	Profit and loss account	
	Group	**Company**
	£000	**£000**
At beginning of year	3,174	173
Profit for the financial year	1,629	(2)
At end of year	**4,803**	**171**

Notes *(continued)*

16 Commitments under operating leases

Group

Annual commitments under non-cancellable operating leases are as follows

	Land and buildings	
	2011	2010
	£000	£000
Operating leases which expire		
Within one year	**1,447**	-
Within two to five years	**5,005**	5,166
After five years	**7,968**	8,423
	14,420	13,589

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 2011 were £31,869,179 *(2010 £35,337,522)*

Company

The company had no commitments at 31 December 2011 *(2010 £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