

Foot Locker UK Limited

**Directors' report and consolidated
financial statements**

Registered number 2568406

For the year ended 31 December 2010

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2010

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 one store. For the year the turnover increased by 6.5% compared to 2010. The targeted operating margin is achieved as a result of the over plan sales performance and the results of the expense control programs.

For the year 2011 the company is planning to grow the store base and is anticipating a sales gain of 2.5% 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 is 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 and was struck from the "Register at Companies House".

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 (2009 GBP Nil).

Directors

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

LP Kimble	(American)
RM van der Hoeven	(Dutch)

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.

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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

6 September 2011

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 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 2010 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 2010 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

SJ Purkess

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

6 September 2011



Consolidated profit and loss account
for the year ended 31 December 2010

	<i>Note</i>	2010 £000	2009 £000
Turnover	<i>1</i>	81,048	76,083
Cost of sales		<u>(78,273)</u>	<u>(72,723)</u>
Gross profit		2,775	3,360
Administrative expenses		<u>(1,507)</u>	<u>(669)</u>
Operating profit		1,268	2,691
Interest receivable and similar income	<i>3</i>	35	78
Interest payable and similar charges	<i>4</i>	<u>(536)</u>	<u>(627)</u>
Profit on ordinary activities before taxation	<i>2</i>	767	2,142
Tax on profit on ordinary activities	<i>5</i>	<u>(316)</u>	<u>(819)</u>
Profit on ordinary activities after taxation and profit for the financial year	<i>15</i>	<u>451</u>	<u>1,323</u>

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 2010

	<i>Note</i>	2010		2009	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	8		7,871		8,979
Current assets					
Stocks	10	12,233		12,445	
Debtors	11	5,432		5,579	
Cash at bank and in hand		9,252		7,159	
		<u>26,917</u>		<u>25,183</u>	
Creditors amounts falling due within one year	12	<u>(16,201)</u>		<u>(15,929)</u>	
Net current assets			<u>10,716</u>		<u>9,254</u>
Total assets less current liabilities			<u>18,587</u>		<u>18,233</u>
Provisions for liabilities and charges	13		<u>(501)</u>		<u>(598)</u>
Net assets			<u>18,086</u>		<u>17,635</u>
Capital and reserves					
Called up share capital	14		14,912		14,912
Profit and loss account	15		3,174		2,723
Shareholders' funds			<u>18,086</u>		<u>17,635</u>

The financial statements were approved by the board of directors on 6 September 2011 and were signed on its behalf by



LP Kimble
Director

Company balance sheet
at 31 December 2010

	<i>Note</i>	2010 £000	£000	2009 £000	£000
Fixed assets					
Investments	<i>9</i>		15,329		15,329
Current assets					
Debtors	<i>11</i>	122		122	
Creditors, amounts falling due within one year	<i>12</i>	(366)		(366)	
Net current liabilities			<u>(244)</u>		<u>(244)</u>
Total assets less current liabilities being net assets			<u><u>15,085</u></u>		<u><u>15,085</u></u>
Capital and reserves					
Called up share capital	<i>14</i>		14,912		14,912
Profit and loss account	<i>15</i>		173		173
Shareholders' funds			<u><u>15,085</u></u>		<u><u>15,085</u></u>

These financial statements were approved by the board of directors on 6 September 2011 and were signed on its behalf by



LP Kimble
Director

Registered number 2568406

Reconciliations of movements in shareholders' funds
for the ended 31 December 2010

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Profit for the financial year	451	1,323	-	77
Dividends on shares classified in shareholders' funds	-	-	-	-
Retained profit	451	1,323	-	77
Consideration paid for the reduction in share capital	-	(3,500)	-	(3,500)
Net addition to/(reduction in)/ shareholders' funds	451	(2,177)	-	(3,423)
Shareholders' funds at beginning of year	17,635	19,812	15,085	18,508
Shareholders' funds at end of year	18,086	17,635	15,085	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 2010. 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

	2010 £000	2009 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Depreciation	2,046	2,168
Exchange losses/(gains)	444	(1,674)
Operating leases		
Land and buildings	13,722	13,945
Other	36	54
	-----	-----
Auditor's remuneration		
Audit of these financial statements (borne by other group undertakings)	-	2
Amounts receivable by the auditors in respect of		
Audit of financial statements of subsidiaries pursuant to legislation	9	9
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3 Interest receivable and similar income

	2010 £000	2009 £000
Bank interest	35	12
Amounts payable by group undertakings	-	66
	-----	-----
	35	78
	-----	-----

4 Interest payable and similar charges

	2010 £000	2009 £000
Bank interest	-	2
Amounts payable to group undertakings	536	625
	-----	-----
	536	627
	-----	-----

Notes (continued)

5 Tax on profit on ordinary activities

(a) Analysis of charge in period

	2010 £000	£000	2009 £000	£000
<i>UK corporation tax</i>				
Current tax on income for the period	507		898	
Adjustments in respect of prior periods	(94)		20	
	<hr/>		<hr/>	
Total current tax		413		918
<i>Deferred tax (see note 13)</i>				
Origination of timing differences	(104)		(115)	
Effect of reduction in tax rate	26		-	
Adjustments in respect of prior years	(19)		16	
	<hr/>		<hr/>	
		(97)		(99)
		<hr/>		<hr/>
		316		819
		<hr/> <hr/>		<hr/> <hr/>

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

The current tax charge (2009 charge) for the period is higher (2009 higher) than the standard rate of corporation tax in the UK of 28% (2009 28%). The differences are explained below

	2010 £000	2009 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	767	2,142
	<hr/>	<hr/>
Tax thereon at 28% (2009 28%)	215	600
<i>Effects of</i>		
Capital allowances less than depreciation	104	115
Depreciation on ineligible assets	174	181
Expenses not deductible for tax purposes	14	16
Utilisation of previously unrecognised capital losses	-	(14)
Adjustments to tax charge in respect of prior periods	(94)	20
	<hr/>	<hr/>
	413	918
	<hr/> <hr/>	<hr/> <hr/>

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

On 22 June 2010, the Chancellor announced that the main rate of UK corporation tax will reduce from 28% to 27% with effect from 1 April 2011. This tax change became substantively enacted in July 2010 and therefore the effect of the rate reduction on the deferred tax balances as at 31 December 2010 has been included in the figures above.

On 23 March 2011, the Chancellor announced a further reduction in the main rate of UK corporation tax to 26% with effect from 1 April 2011. This change became substantively enacted on 29 March 2011 and therefore the effect of the rate would create an additional reduction in the deferred tax liability of approximately £19,000. This has not been reflected in the figures above as it was not substantively enacted at the balance sheet date.

The Chancellor also proposed changes to further reduce the main rate of corporation tax by 1% per annum to 23% by 1 April 2014, but these changes have not yet been substantively enacted and therefore are not included in the figures above. The overall effect of the further reductions from 27% to 23%, if these applied to the deferred tax balance at 31 December 2010, would be to further reduce the deferred tax liability by approximately £56,000.

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	
	2010	2009
Sales	740	804
Administration	77	78
	817	882

The aggregate payroll costs of these persons were as follows

	£000	£000
Wages and salaries	9,309	9,121
Social security costs	675	513
	9,984	9,634

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	24,803	28,277
Additions	-	1,012	1,012
Disposals	(832)	(1,920)	(2,752)
	2,642	23,895	26,537
<i>Depreciation</i>			
At beginning of year	2,429	16,869	19,298
Charge for year	251	1,738	1,989
On disposals	(788)	(1,833)	(2,621)
	1,892	16,774	18,666
<i>Net book value</i>			
At 31 December 2010	750	7,121	7,871
At 31 December 2009	1,045	7,934	8,979

Notes (continued)

9 Investments

Company

	Shares in subsidiary undertaking £000
<i>Cost</i>	
At beginning and end of year	18,479
<i>Provision</i>	
At beginning and end of year	(3,150)
<i>Net book value</i>	
At 31 December 2010	15,329
At 31 December 2009	15,329

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

	2010 £000	2009 £000
Finished goods and goods for resale	12,233	12,445

11 Debtors

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Trade debtors	3	177	-	-
Amounts owed by group undertakings	122	122	122	122
Other debtors	294	51	-	-
Prepayments and accrued income	5,013	5,066	-	-
Corporation tax	-	163	-	-
	5,432	5,579	122	122

Notes (continued)

12 Creditors, amounts falling due within one year

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Trade creditors	260	52	-	-
Amounts owed to group undertakings	11,594	12,067	362	362
Corporation tax	159	-	4	4
Other taxation and social security	2,094	1,487	-	-
Accruals and deferred income	2,094	2,323	-	-
	<u>16,201</u>	<u>15,929</u>	<u>366</u>	<u>366</u>

13 Provisions for liabilities and charges

	Deferred taxation £000
At beginning of year	598
Credited to the profit and loss for the year	(104)
Effect of tax rate change	(19)
Adjustment to tax charge in respect of previous periods	26
At the end of year	<u><u>501</u></u>

Amounts provided for deferred taxation are as follows

	2010 £000	2009 £000
Accelerated capital allowances	<u>501</u>	<u>598</u>

14 Called up share capital

Company	2010 £000	2009 £000
<i>Allotted, called up and fully paid</i>		
14,911,845 (2009 14,911,845) ordinary shares of £1 each	<u>14,912</u>	<u>14,912</u>

15 Reserves

	Profit and loss account	
	Group £000	Company £000
At beginning of year	2,723	173
Profit for the financial year	451	-
At end of year	<u><u>3,174</u></u>	<u><u>173</u></u>

Notes *(continued)*

16 Commitments under operating leases

Group

Annual commitments under non-cancellable operating leases are as follows

	Land and buildings	
	2010 £000	2009 £000
Operating leases which expire		
Within two to five years	5,166	3,366
After five years	8,423	9,850
	<u>13,589</u>	<u>13,216</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 2010 were £35,337,522 (2009 £39,007,266)

Company

The company had no commitments at 31 December 2010 (2009 £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