adidas (UK) Limited

Directors' report and financial statements

Registered Number 1075951

31 December 2010

Contents

Directors' report

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

Principal activities

The principal activity during the year was the distribution and retail of sports goods to the sports trade in the UK

Business review

Development and performance of the business

Sales increased by 13 9% versus prior year to £470 million *(2009 £412 million)* This growth has been achieved despite the difficult economic climate that has been facing all businesses in the UK and globally We have maintained good relationships with our customers and continued to develop our business with them We continue to place new product and marketing initiatives into the UK and follow their success

Operating profit increased by 23 0% versus prior year to £14 6 million *(2009 £11 7m)* Despite the growth in sales, within this tough economic climate, there was a decline in gross margins Distribution costs rose year on year driven largely by increased volume of sales

Principal risks and uncertainties

The company's primary commercial and operational risks include loss of market share to competitors, retailer trading environment, bad debts and IT/power failures

The management of these risks include process manuals and documentation, annual risk assessments, internal audits, disaster recovery procedures and insurance

Key Performance Indicators

KPI's used to monitor the performance of the business include the following

Brand Share
Market Growth
Turnover
Gross margin %
Sales and margin by Product Group
Sales and margin by Customer Group
Sales and Outstanding Orders and Contracts by Customer Group
Orderbook Conversion
Operating Profit
Employee headcount, turnover and absence

All financial KPI's are monitored compared to budget, forecast, and previous years

Results for the year

The profit for the year after taxation amounted to £10 8 million *(2009 £7 2 million)*

Proposed dividend and transfer to reserves

No interim dividend has been paid in the year *(2009 £nil)*

The directors do not recommend the payment of a final dividend *(2009 £nil)*

The profit for the year retained by the company is £10 8 million *(2009 profit of £7 2 million)*

Directors' report *(continued)*

Directors and directors' interests

The directors who held office during the year were as follows

RH Auschel
GACR Steyaert
PA Suchoparek
N Griffiths (Resigned 21 April 2010)
KL Smith
AR Hackett

GACR Steyaert, KL Smith, PA Suchoparek, and AR Hackett were remunerated in their capacities as directors of adidas (UK) Limited RH Auschel and N Griffiths were remunerated by other group companies

Employment of disabled persons

Consideration and effort is made to support the employment of disabled people wherever possible, both in recruitment and by retention of employees who become disabled whilst in the employment of the company, through training and career development

Employees

The company arranges annual meetings to present financial information and factors affecting the achievements of the company, as well as matters of employee interest

Political and charitable contributions

The company made no political contributions during the year Donations to UK charities amounted to £18,621 *(2009 £42,953)*

Supplier payment policy

The company policy is normally to pay suppliers according to agreed terms of business These terms are agreed upon entering into binding contracts and the company seeks to adhere to the payment terms providing the relevant goods and services have been supplied in accordance with the contracts

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 he ought to have taken as a director to make himself 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

By order of the board

AR Hackett
Secretary

The adidas Centre
Pepper Road
Hazel Grove
Stockport
Cheshire
SK7 5SA

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 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 judgements 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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 company and to prevent and detect fraud and other irregularities

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

KPMG

KPMG LLP

St James' Square
Manchester
M2 6DS
United Kingdom

Independent auditors' report to the members of adidas (UK) Limited

We have audited the financial statements of adidas (UK) Limited for the year ended 31 December 2010 set out on pages 6 to 17 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 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 company's affairs as at 31 December 2010 and of its profit 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 adidas (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 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

Jonathan Hurst 12/5/2011

Jonathan Hurst (Senior Statutory Auditor)
for and on behalf of KPMG LLP Statutory Auditor
Chartered Accountants
St James Square
Manchester
M2 6DS

Profit and loss account

for the year ended 31 December 2010

	Note	2010 £000	2009 £000
Turnover	*1*	**469,972**	412,463
Cost of sales		**(359,703)**	(306,089)
Gross profit		**110,269**	106,374
Distribution costs		**(87,035)**	(81,008)
Administrative expenses		**(8,599)**	(13,472)
Profit on ordinary activities before interest		**14,635**	11,894
Other interest receivable and similar income	*5*	**82**	4
Interest payable and similar charges	*6*	**(57)**	(159)
Profit on ordinary activities before taxation	*2-16*	**14,660**	11,739
Tax on profit on ordinary activities	*7*	**(3,854)**	(4,532)
Profit for the financial year		**10,806**	7,207

Turnover and operating profit all derive from continuing activities

The Company has no recognised gains or losses in either the current or preceding year other than those presented in the profit and loss account and therefore no statement of total recognised gains and losses has been presented

The notes on pages 9 to 17 form part of these financial statements

Reconciliation of movement in shareholders' funds
for the year ended 31 December 2010

	2010	2009
	£000	£000
Profit for the financial year	**10,806**	7,207
Dividends	-	-
Net addition in shareholders' funds	**10,806**	7,207
Opening shareholders' funds	**37,892**	30,685
Closing shareholders' funds	**48,698**	37,892

Balance sheet
at 31 December 2010

	Note	2010 £000	2010 £000	2009 £000	2009 £000
Fixed assets					
Tangible assets	*8*		**27,031**		29,923
Investments	*9*		**560**		560
			27,591		30,483
Current assets					
Stocks	*10*	**4,032**		2,574	
Debtors	*11*	**70,869**		71,576	
Cash at bank and in hand		**1,002**		1,005	
		75,903		75,155	
Creditors: amounts falling due within one year	*12*	**(52,262)**		(64,421)	
Net current assets			**23,641**		10,734
Total assets less current liabilities			**51,232**		41,217
Creditors: amounts falling due after more than one year	*13*		**(2,534)**		(3,325)
Net assets			**48,698**		37,892
Capital and reserves					
Called up share capital	*15*		**1,000**		1,000
Profit and loss account	*16*		**47,698**		36,892
Shareholders' funds			**48,698**		37,892

These financial statements were approved by the board of directors on 09|05|2011 and were signed on its behalf by

GACR Steyaert
Director

Company registered number 1075951

The notes on pages 9 to 17 form part of these financial statements

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 financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules

The company is exempt by virtue of s408 of the Companies Act 2006 from the requirement to prepare group accounts

Cash flow statement

As a wholly owned subsidiary undertaking of a parent company established under the law of a member state of the European Union, the company has taken advantage of the exemption in FRS 1 and has not prepared a cash flow statement The parent company's financial statements include a consolidated cash flow statement

Related party transactions

The directors have taken advantage of the exemption in FRS 8, paragraph 3 (c) and have not disclosed related party transactions with parent, fellow subsidiary and subsidiary undertakings

Fixed assets, depreciation and impairment

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Freehold buildings	-	25 years
Plant and machinery	-	4 to 5 years
Motor vehicles	-	3 to 4 years
Fixtures and fittings	-	3 to 10 years
Computer equipment	-	2 to 4 years

No depreciation is provided on freehold land

Premiums paid or incentives received on the acquisition of trading locations are written off over the period from store opening to the end of the lease or to the next rent review, whichever is shorter

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment If any such indication exists, the asset's recoverable amount is estimated

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount Impairment losses are recognised in the income statement

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets

Notes *(continued)*

1 Accounting policies *(continued)*

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or at the rate at which the company has contracted to purchase the relevant currency Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date or at the rate at which the company has contracted to purchase the relevant currency and the gains or losses on translation are included in the profit and loss account

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease' The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter Future instalments under such leases, net of finance charges, are included within creditors Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i e forming part of shareholders' funds) only to the extent that they meet the following two conditions

a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company, and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

Pension costs

The company operated a defined contribution pension scheme, the adidas (UK) Pension Plan, which was closed on 30th June 2008 On 1st July 2009 the company opened a stakeholder (defined contribution) pension plan operating as the adidas Group (UK) Pension Plan The assets of these schemes are held separately from those of the company in an independently administered fund The amount charged against profits represents the contributions payable to these schemes in respect of the accounting period

Notes *(continued)*

1 Accounting policies *(continued)*

Stocks

Stocks are stated at the lower of cost and net realisable value Cost includes expenditure incurred in bringing each product to its present location and condition Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal

Taxation

The charge for taxation is based on the profit 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 FRS 19

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year All turnover is derived in the UK

2 Profit on ordinary activities before taxation

	2010	2009
	£000	£000
Profit on ordinary activities before taxation is stated after charging /(crediting)		
Auditors remuneration		
Audit	**71**	83
Other services	**62**	45
Depreciation and other amounts written off tangible fixed assets		
Owned	**5,882**	6,248
Leased	**-**	7
Impairment charge	**-**	294
Hire of plant and machinery – rentals payable under operating leases	**-**	(9)
Hire of other assets - operating leases	**6,531**	5,908
Profit on disposal of fixed assets	**61**	(16)
Onerous contract	**-**	3,000

Notes *(continued)*

3 Remuneration of Directors

	2010 £000	2009 £000
Directors' emoluments	**1,301**	993
Company contributions to money purchase pension schemes	**97**	114
	1,398	1,107

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £595,000 *(2009 £310,000)*, and company pension contributions of £43,000 *(2009 £52,000)* were made to a money purchase scheme on his behalf

At the end of the year, 4 directors *(2009 4)* were accruing benefits under a money purchase scheme

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows

	Number of employees 2010	2009
Office management	**409**	359
Distribution and retail	**610**	542
	1,019	939

The comparative information for staff numbers has been changed from 901to 939

The aggregate payroll costs of these persons were as follows

	2010 £000	2009 £000
Wages and salaries	**23,451**	21,959
Social security costs	**2,306**	2,118
Other pension costs (see note 20)	**815**	897
	26,572	24,974

5 Other interest receivable and similar income

	2010 £000	2009 £000
Interest receivable from group undertakings	**3**	1
Other	**79**	3
	82	4

Notes *(continued)*

6 Interest payable and similar charges

	2010 £000	2009 £000
Amounts payable to group undertakings	**45**	136
Bank Interest	**12**	23
	57	159

7 Taxation

Analysis of charge in period

	2010 £000	2009 £000
Current taxation		
UK corporation tax at 28% *(2009 28%)* on profits for the year	**4,545**	4,992
Adjustments in respect of prior periods	**33**	(759)
	4,578	4,233
Deferred taxation		
Timing differences	**(90)**	(67)
Effect of change in tax rate	**40**	-
Adjustment in respect of prior years	**(674)**	366
	(724)	299
Tax on profit on ordinary activities	**3,854**	4,532

Factors affecting the tax charge for the current period

The effective rate of tax for the year of 31% *(2009 36%)* is higher than *(2009 higher)* the standard rate of corporation tax in the UK of 28% *(2009 28%)* due principally to the differences explained below

	2010 £000	2009 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**14,660**	11,739
Profit on ordinary activities multiplied by standard rate of Corporation tax in the UK of 28% *(2009 28%)*	**4,105**	3,287
Effects of		
Expenses not deductible for tax purposes	**347**	1,638
Depreciation for the year higher than capital allowances	**493**	235
Other timing differences	**(400)**	(168)
Adjustments to tax charge in respect of previous years	**33**	(759)
Total current tax charge (see above)	**4,578**	4,233

Notes *(continued)*

8 Tangible fixed assets

	Freehold Land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Computer equipment £000	Total £000
Cost					
At beginning of year	19,419	19,806	20,657	5,218	65,100
Additions	404	91	2,468	258	3,221
Disposals	-	-	(189)	-	(189)
At end of year	19,823	19,897	22,936	5,476	68,132
Depreciation					
At beginning of year	8,288	7,334	14,841	4,714	35,177
Charge for year	933	2,159	2,677	283	6,052
On disposals	-	-	(128)	-	(128)
At end of year	9,221	9,493	17,390	4,997	41,101
Net book value					
At 31 December 2010	**10,602**	**10,404**	**5,546**	**479**	**27,031**
At 31 December 2009	11,131	12,472	5,816	504	29,923

Included in the cost of land and buildings is £17,299,000 *(2009 £17,299,000)* of depreciable assets

9 Fixed assets investments

	Shares in group undertakings £000
Cost and net book value	
At beginning of year and end of year	560

The companies in which the company's interest is more than 10% are as follows

Subsidiary undertakings	Country of registration or incorporation	Principal activity	Class and percentage of shares held
Larasport (UK) Limited	England	Dormant	100% ordinary
adidas (Ilkley) Limited	England	Dormant	100% ordinary
Three Stripes Limited	England	Dormant	50% ordinary
Sarragan (UK) Limited	England	Dormant	100% ordinary

Notes *(continued)*

10 Stocks

	2010 £000	2009 £000
Finished goods and goods for resale	**4,032**	2,574

There is no material difference between the replacement cost of stocks and their balance sheet value

11 Debtors

	2010 £000	2009 £000
Trade debtors	**18,108**	15,739
Amounts owed by parent and fellow subsidiary undertakings	**17,524**	26,524
Other debtors	**7**	375
Prepayments and accrued income	**31,051**	28,500
Corporation tax	**3,017**	-
Deferred tax asset (Note 14)	**1,162**	438
	70,869	71,576

All debtors fall due within one year, with the exception of prepayments and accrued income For this category, £14,445,000 (*2009 £17,841,000*) falls due after more than one year

12 Creditors: amounts falling due within one year

	2010 £000	2009 £000
Bank loans and overdrafts	**-**	6,264
Trade creditors	**32,046**	27,059
Amounts due to subsidiary undertakings	**560**	560
Amounts due to parent and fellow subsidiary undertakings	**9,851**	12,373
Taxation creditors	**817**	4,658
Other creditors	**24**	39
Accruals and deferred income	**8,963**	13,468
	52,262	64,421

13 Creditors : amounts falling due after more than one year

	2010 £000	2009 £000
Accruals and deferred income	**2,534**	3,325

Notes *(contınued)*

14 Provısıons for liabilities and charges

Deferred tax

An analysıs of the deferred taxatıon asset ıs set out below

	2010 £000
Deferred tax brought forward	438
Current year movement	724
Deferred tax carried forward	1,162

15 Called up share capital

	2010 £000	2009 £000
Authorised		
Ordınary shares of £1 each	1,000	1,000
Allotted, called up and fully paıd		
Ordınary shares of £1 each	1,000	1,000

16 Reserves

	Profit and loss account £000
At begınnıng of year	36,892
Profit for the financıal year	10,806
At end of year	47,698

18 Contıngent lıabilities

Adıdas (UK) Lımıted has gıven guarantees to HM Customs & Excıse ın respect of VAT and duty deferment of £500,000 (*2009 £1,000,000*)

Notes *(continued)*

19 Commitments

Annual commitments under non-cancellable operating leases are as follows

	Land and buildings 2010 £000	**Other 2010 £000**	Land and buildings 2009 £000	Other 2009 £000
Operating leases which expire				
within one year	**546**	-	172	-
within two to five years	**1,201**	-	2,051	-
in over five years	**5,306**	-	5,550	-
	7,053	-	7,773	-

20 Pension scheme

The company operates a defined contribution pension scheme The pension cost charge for the period represents contributions payable by the company to the fund and amounted to £815,000 *(2009 £897,000)*

No contributions *(2009 £nil)* were payable to the fund at the year-end

21 Ultimate parent company and parent undertaking of larger group of which the company is a member

The immediate parent company is Reebok International Limited, incorporated in the United Kingdom Their address is 4th Floor, 11/12 Pall Mall, London, SW1Y 5LU The ultimate parent company is adidas AG, incorporated in Germany The consolidated accounts of the group may be obtained from adidas AG, Adi-Dassler-Strasse 1-2, D-91074 Herzogenaurach, Germany