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OFFICE DEPOT INTERNATIONAL (UK) LIMITED

Reports and Financial Statements

Year ended 28 December 2002



REPORTS AND FINANCIAL STATEMENTS 2002

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Mr M B Nelson (USA)
Mr G Cundick
Mr D Hulse
Mr D Fannin (USA)
Mr P Birks

SECRETARY

Mr G Cundick

REGISTERED OFFICE

Bursom Industrial Park
Tollwell Road
Leicester LE4 1BR

BANKERS

Royal Bank of Scotland
5 Market Street
Leicester LE1 6DN

Citibank
1 North Wall Quay
Dublin 1
Ireland

SOLICITORS

Clifford Chance
200 Aldersgate Street
London EC1A 4JJ

The Smith Partnership
Celtic House
Heritage Gate
Friary Street
Derby

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
Nottingham

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 28 December 2002.

ACTIVITIES

The company's principal activity continues to be the distribution of office supplies by mail order and from telephone, internet and facsimile order. The company traded via operations in Leicester, London and Manchester in the United Kingdom and from branches in Lilles, France; Madrid, Spain; and Lisbon, Portugal.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The company had sales of £391,558,000 (2001: £357,751,000) during the year and is well placed to increase turnover given favourable economic conditions.

DIVIDENDS AND TRANSFERS TO RESERVES

The company did not pay a dividend during the year (2001: £10.98 per share). The retained profit for the year of £769,000 (2001: loss £114,000) has been transferred to reserves.

DIRECTORS AND THEIR INTERESTS

The directors who served during the period are as follows:

Mr K Cain		(resigned 8 January 2002)
Mr M B Nelson	(USA)	
Mr G Cundick		
Mr D Hulse		
Mr D Fannin	(USA)	
Mr R Vale		(appointed 8 January 2002, resigned 12 June 2003)
Mr P Birks		(appointed 12 June 2003)

None of the directors had any interest in the shares of the company during the year.

DONATIONS

During the year, the company made the following donations :

Charitable purposes £275 (2001 : £12,855)

EMPLOYEE INVOLVEMENT

Regular meetings are held with employee representatives to discuss business performance, prospects and matters that concern them as employees. Opportunity is given at these meetings for senior executives to be questioned about these and other matters relating to the business and their employment.

EMPLOYMENT OF DISABLED PERSONS

The company has continued its policy regarding the employment of disabled persons. Full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. Appropriate training is arranged for disabled persons, including retraining for alternative work of employees who become disabled, to promote their career development within the organisation.

DIRECTORS' REPORT

AUDITORS

On 1 August 2003, Deloitte & Touche, the Company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to reappoint Deloitte & Touche LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those 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 accounting standards have been followed; 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 records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors on 5/9/03.
and signed on behalf of the Board

G Cundick
Secretary

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF OFFICE DEPOT INTERNATIONAL (UK) LIMITED

We have audited the financial statements of Office Depot International (UK) Ltd for the year ended 28 December 2002 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 21. 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 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 described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 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 the information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 of the state of the company's affairs as at 28 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Nottingham

9th September 2003

PROFIT AND LOSS ACCOUNT
Year ended 28 December 2002

	Note	Year ended 28 December 2002 £'000	Year ended 29 December 2001 £'000
TURNOVER – continuing operations	2	391,558	357,751
Cost of sales		(254,455)	(230,703)
Gross profit		137,103	127,048
Distribution costs		(43,994)	(39,971)
Administrative expenses		(68,005)	(51,272)
Share of losses of subsidiary undertaking	10	(18,310)	(16,942)
OPERATING PROFIT - continuing operations	4	6,794	18,863
Profit on sale of fixed assets		-	7,095
Investment income	5	1,779	739
Interest payable and similar charges	6	(5,696)	(5,179)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,877	21,518
Tax on profit on ordinary activities	7	(2,108)	(6,632)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION BEING PROFIT FOR THE FINANCIAL YEAR	17	769	14,886
Dividends paid	8	-	(15,000)
RETAINED PROFIT/(LOSS) FOR FINANCIAL YEAR	16	769	(114)

All results come from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Year ended 28 December 2002 £'000	Year ended 29 December 2001 £'000
Profit for the financial year	769	14,886
Currency translation differences on foreign currency investments	8,233	(2,321)
TOTAL RECOGNISED GAINS AND LOSSES FOR THE FINANCIAL YEAR	9,002	12,565

BALANCE SHEET
As at 28 December 2002

	Note	£'000	28 December 2002 £'000	£'000	29 December 2001 £'000
FIXED ASSETS					
Tangible fixed assets	9		34,050		29,094
Investments	10		77,669		87,548
			111,719		116,642
CURRENT ASSETS					
Stocks	11	3,343		510	
Debtors	12	61,845		52,193	
Cash at bank and in hand		64,339		10,943	
		129,527		63,646	
CREDITORS: amounts falling due within one year	13	(160,057)		(109,667)	
NET CURRENT LIABILITIES			(30,530)		(46,021)
TOTAL ASSETS LESS CURRENT LIABILITIES			81,189		70,621
PROVISIONS FOR LIABILITIES AND CHARGES	14		(2,164)		(598)
NET ASSETS			79,025		70,023
CAPITAL AND RESERVES					
Called up share capital	15		1,366		1,366
Share premium account	16		52,457		52,457
Profit and loss account	16		25,202		16,200
SHAREHOLDERS' FUNDS	17		79,025		70,023

These financial statements were approved by the Board of Directors on

Signed on behalf of the Board of Directors

P Birks

Director

5/09/03

NOTES TO THE ACCOUNTS
Year ended 28 December 2002

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention
The financial statements are prepared under the historical cost convention.

Tangible fixed assets
No depreciation is charged on freehold land. Depreciation is provided on cost in equal annual instalments over the estimated useful lives of other fixed assets. The rates of depreciation are as follows:

Freehold buildings	5% per annum
Short-term leasehold improvements	Over the term of the lease
Plant and Machinery	Between 12.5% and 20% per annum
Computer equipment	33.3% per annum
Motor vehicles	33.3% per annum
Fixtures and fittings	20% per annum

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost represents invoice price and associated freight costs.

Deferred taxation

FRS 19 was adopted during the year. Deferred taxation is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not they will be recovered. Deferred tax assets and liabilities are not discounted.

Leases

Rentals on operating leases are charged to operating profit in the period to which they relate.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling when the transactions are entered into. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the Balance Sheet date. Resulting translation gains or losses are dealt with in the profit and loss account.
The financial statements of overseas divisions, who record their transactions in foreign currencies are translated into sterling at the closing rates of exchange and the difference arising from the translation of the opening net investment in subsidiaries at the closing rate is taken direct to reserves.

Pensions

Costs of the company's defined contribution pension scheme are charged to profit and loss in the period to which they relate.

Catalogue costs

Catalogue costs are written off to the profit and loss account in line with the expected period of income arising from each catalogue.

Investments

Investments held as fixed assets are stated at cost less provison for impairment.

NOTES TO THE ACCOUNTS
Year ended 28 December 2002

1. ACCOUNTING POLICIES (continued)

Consolidation

The company is exempt from the requirement to prepare and deliver group accounts under s228 of the Companies Act 1985. Group accounts are prepared for the immediate parent company, Viking Direct (Holdings) Limited.

Cashflow statements

The company has taken advantage of the exemption conferred by FRS 1 for subsidiary companies not to disclose a cashflow statement.

2. ANALYSES OF TURNOVER, OPERATING PROFIT AND NET ASSETS

Turnover derives from one class of business and represents goods sold to third parties at invoiced value and excludes value added tax.

	Turnover		Operating profit		Net assets	
Geographical analysis by location	**Year ended 28 December 2002 £'000**	**Year ended 29 December 2001 £'000**	**Year ended 28 December 2002 £'000**	**Year ended 29 December 2001 £'000**	**28 December 2002 £'000**	**29 December 2001 £'000**
United Kingdom	381,370	356,293	32,225	40,938	154,309	122,592
Spain	7,829	-	(6,481)	(369)	(7,465)	(369)
Portugal	241	-	(185)	-	(192)	-
France	2,118	1,458	(18,765)	(21,706)	(67,627)	(52,200)
	391,558	357,751	6,794	18,863	79,025	70,023

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Year ended 28 December 2002 £	Year ended 29 December 2001 £
Directors' emoluments	342,648	477,883
Highest paid Director		
Emoluments	178,088	194,442
Pension contribution	9,161	13,394
	187,249	207,836

No directors (2001: three) exercised share options during the period.

Three directors (2001: three) are members of the company's money purchase pension scheme. Total contributions during the period were £84,879 (2001: £33,326).

Average number of persons employed	**No.**	**No.**
Distribution	514	422
Administration	1,035	933
	1,549	1,355

NOTES TO THE ACCOUNTS
Year ended 28 December 2002

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

Staff costs during the period	**£'000**	**£'000**
Wages and salaries	30,827	24,937
Social security costs	3,409	2,330
Other pension costs	1,198	919
	35,434	28,186

4. OPERATING PROFIT

		Year ended 28 December 2002 £'000	**Year ended 29 December 2001 £'000**
Operating profit is stated after charging			
Depreciation and amortisation		5,095	4,162
Rentals under operating leases:	- plant and machinery	592	-
	- other assets	3,878	2,367
Auditors remuneration:	- audit fees	60	55
	- non audit fees	87	35

5. INVESTMENT INCOME

	Year ended 28 December 2002 £'000	**Year ended 29 December 2001 £'000**
Bank interest	1,678	720
Exchange gains on loans	82	-
Group company loan interest	19	19
	1,779	739

6. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 28 December 2002 £'000	**Year ended 29 December 2001 £'000**
Group company loan	5,696	5,119
Exchange loss on loans	-	60
	5,696	5,179

NOTES TO THE ACCOUNTS
Year ended 28 December 2002

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 28 December 2002 £'000	Year ended 29 December 2001 £'000
a) Analysis of charge in the period:		
Current tax		
UK corporation tax at 30% (2001 – 30%)	1,373	6,456
Adjustment in respect of prior years	(831)	176
Total current tax (note 7b)	542	6,632
Deferred tax		
Charge for timing differences arising in the year	244	-
Adjustments in respect of prior years	1,322	-
Total deferred tax	1,566	-
Tax charge on profit on ordinary activities	2,108	6,632

b) Factors affecting the tax charge for the year

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30% (2001 : 30%). The actual tax charge for the current and previous year differs from the standard rate for the reasons set out in the following reconciliations:

	Year ended 28 December 2002 £'000	Year ended 29 December 2001 £'000
Profit on ordinary activities before taxation	2,877	21,518
Tax charge on profit on ordinary activities at standard rate	863	6,456
Effects of:		
Permanent differences	762	765
Short term timing differences	116	-
Accelerated capital allowances	(368)	(765)
Adjustment in respect of prior years	(831)	176
	542	6,632

There has been no impact on the prior year and current year results on the adoption of FRS19. As such prior year figures have not been restated.

8. DIVIDENDS

	Year ended 28 December 2002 £'000	Year ended 29 December 2001 £'000
Dividend paid - £nil per share (2001 - £10.98 per share)	-	15,000

NOTES TO THE ACCOUNTS
Year ended 28 December 2002

9. TANGIBLE FIXED ASSETS

Cost	Freehold land and buildings £'000	Short-term leasehold improve-ments £'000	Plant and machinery £'000	Motor vehicles fixtures & fittings £'000	Total £'000
At 30 December 2001	12,568	5,336	21,521	1,866	41,291
Additions	3,166	1,220	5,812	388	10,586
Disposals	-	(90)	(503)	-	(593)
Reclassification	-	335	(383)	48	-
Translation differences	-	14	60	-	74
At 28 December 2002	15,734	6,815	26,507	2,302	51,358
Accumulated Depreciation					
At 30 December 2001	2,338	105	8,820	934	12,197
Charge for the year	557	233	3,967	338	5,095
Disposals	-	-	(4)	-	(4)
Translation differences	-	3	16	1	20
At 28 December 2002	2,895	341	12,799	1,273	17,308
Net book value					
At 28 December 2002	12,839	6,474	13,708	1,029	34,050
At 29 December 2001	10,230	5,231	12,701	932	29,094

NOTES TO THE ACCOUNTS
Year ended 28 December 2002

10. INVESTMENTS

	Shares in Group Undertakings £'000
Cost	
Balance as at 30 December 2001	120,552
Exchange difference	6,116
Balance as at 28 December 2002	126,668
Provisions	
Balance as at 30 December 2001	33,004
Share of losses for year	18,310
Exchange difference	(2,315)
Balance as at 28 December 2002	48,999
Net book value	
As at 28 December 2002	77,669
As at 29 December 2001	87,548

Additional information on the subsidiaries is given in note 19.

11. STOCKS

	28 December 2002 £'000	29 December 2001 £'000
Goods for resale	3,343	510

12. DEBTORS

	28 December 2002 £'000	29 December 2001 £'000
Trade debtors	48,925	40,058
Amounts owed by other group companies	1,459	7,269
Other debtors	4,346	800
Prepayments and accrued income	7,115	4,066
	61,845	52,193

NOTES TO THE ACCOUNTS
Year ended 28 December 2002

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	28 December 2002 £'000	29 December 2001 £'000
Trade creditors	15,534	8,614
Amounts owed to other group companies	141,587	100,989
Current corporation tax	(4,816)	(4,952)
Other taxes and social security	2,643	1,775
Other creditors	2,340	1,231
Accruals and deferred income	2,769	2,010
	160,057	109,667

Loans from group companies are unsecured, bear market rates of interest and are repayable on demand.

14. PROVISIONS FOR LIABILITIES AND CHARGES

	£'000
Deferred taxation	
Balance at 30 December 2001	598
Current period charge	1,566
Balance at 28 December 2002	2,164

There is no unprovided deferred taxation. The amounts provided for deferred taxation are set out below:

	28 December 2002 £'000	29 December 2001 £'000
Accelerated capital allowances	958	598
General provisions	(116)	-
Held-over gains	1,322	-
	2,164	598

15. CALLED UP SHARE CAPITAL

	28 December 2002 £	29 December 2001 £
Authorised		
1,500,000 ordinary shares of £1 each	1,500,000	1,500,000
Called up, allotted and fully paid		
1,365,957 ordinary shares of £1 each	1,365,957	1,365,957

NOTES TO THE ACCOUNTS
Year ended 28 December 2002

16. STATEMENT OF MOVEMENT ON RESERVES

	Profit and loss account £'000	Share premium account £'000
Balance at 30 December 2001	16,200	52,457
Retained profit for the period	769	-
Foreign exchange differences	8,233	-
Balance at 28 December 2002	25,202	52,457

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	28 December 2002 £'000	29 December 2001 £'000
Profit attributable to members of the company	769	14,886
Dividends	-	(15,000)
	769	(114)
Other recognised gains/(losses) for the period	8,233	(2,321)
Net addition to shareholders' funds	9,002	(2,435)
Opening shareholders' funds	70,023	72,458
Closing shareholders' funds	79,025	70,023

NOTES TO THE ACCOUNTS
Year ended 28 December 2002

18. COMMITMENTS

The company has continuing financial commitments in respect of leases. The rents payable on property are subject to negotiation at various intervals specified in the leases. The company pays all insurance, maintenance and repairs of leased properties. The annual rental payable under these leases in the forthcoming year is as shown below:

	Land and buildings		Plant, machinery and motor vehicles	
	28 December 2002 £'000	29 December 2001 £'000	28 December 2002 £'000	29 December 2001 £'000
Leases which expire:				
Within one year	-	-	348	84
Within 2 to 5 years	14	-	1,121	763
After 5 years	2,740	2,727	-	-
	2,754	2,727	1,469	847

19 ADDITIONAL INFORMATION ON SUBSIDIARIES

Subsidiary Undertakings	Country of incorporation	Main activity	Type of shares	Portion of shares held
Viking Direct SARL	France	Mail order Office Supplies	Ordinary	100%
Office Depot BSD SNC	France	Contract Office Supplies	Ordinary	100%
Office Depot NCL SAS	France	Logistics	Ordinary	99.6%
Office Depot VPC SAS	France	Call Centre	Ordinary	99.7%
Office Depot MSC SAS	France	Management Company	Ordinary	98.7%
Office Depot MDF SNC	France	Retail Office Supplies	Ordinary	92.5%
Centrales des Marques SA	France	Retail Office Supplies	Ordinary	96.8%
France Ameublement SA	France	Retail Office Supplies	Ordinary	97.3%
Office Depot France SNC	France	Retail Office Supplies	Ordinary	97.3%

20. PENSION SCHEME

The company operates a defined contribution pension scheme for selected employees. Contributions are held in a fund administered by a separate trustee. The profit and loss charge of £1,198,000 (2001: £919,000) represents actual contributions paid in the period. As at 28 December 2002, there were no contributions due to the scheme by the company.

21. ULTIMATE PARENT COMPANY

The immediate parent company is Viking Direct (Holdings) Limited, a company registered in England and Wales. Copies of Viking Direct (Holdings) Limited's accounts can be obtained from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

The ultimate parent company is Office Depot Inc., a company incorporated in the United States of America. Copies of Office Depot Inc.'s accounts can be obtained from 2200 Old Germantown Road, Delray Beach, FL 33445.

The company has taken advantage of the exemption given in FRS8 - Related Party Disclosures and not disclosed all transactions with other group companies.