

Company Registration No. 02472621

OFFICE DEPOT INTERNATIONAL (UK) LIMITED

Report and Financial Statements

Period ended 29 December 2012

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OFFICE DEPOT INTERNATIONAL (UK) LIMITED

REPORT AND FINANCIAL STATEMENTS 2012

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OFFICE DEPOT INTERNATIONAL (UK) LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M Horn
J Moore
D Collin (resigned 21 March 2012)
J O'Keeffe
J Hills
S Flynn
P Allen (resigned 22 February 2012)
M Johnson (appointed 22 February 2012)
J Grady (appointed 21 March 2012)

SECRETARY

J Hills

REGISTERED OFFICE

501 Beaumont Leys Lane
Leicester
LE4 2BN

BANKERS

Royal Bank of Scotland Plc
London Corporate Banking Centre
PO Box 39952
21/2 Devonshire Square
London Corporate Banking Centre
EC2M 4BA

SOLICITORS

Geldards LLP
Number One Pride Park Place
Pride Park
Derby
DE24 8QR

AUDITOR

Deloitte LLP
Chartered Accountants & Statutory Auditor
Nottingham, UK

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the 52 week period ended 29 December 2012

PRINCIPAL ACTIVITIES

The company's principal activity continues to be the distribution of office supplies by mail order and from telephone, internet and facsimile order

REVIEW OF THE BUSINESS

The directors are pleased with the underlying performance and financial results of the business despite difficult trading conditions in the current economic climate. The business has seen year on year revenue decline of 8.2%, however despite this reduction it has been able to increase its gross profitability and maintain broadly similar levels of operational results to prior year.

The reduction in revenues year on year is primarily driven by increased competition from "on-line" businesses and also by the continued negative impact on consumer confidence as a result of the ongoing uncertainty surrounding the economic environment. Despite the decline in revenues the gross profit margins have been maintained as a result of changes in category mix, through improved pricing strategies and continuous improvements in procurement activities.

The business continues to focus its efforts on enhancing the customer experience through investment in products, service offerings and through creation of multiple touchpoints to make the buying experience more enjoyable. During 2012 the business continued to invest significantly in its e-commerce business, making improvements to its business and consumer websites.

The benefits stemming from cost restructuring and more focused cost management in prior years continues to be realised.

During the year, the company made an impairment provision of £54,264,000 against one of its investments, Heteyo Holdings BV.

The company had sales of £252,242,000 for the period which was below prior period sales (2011 £274,792,000). Operating profit for the period was £14,038,000 (2011 £19,044,000).

The balance sheet on page 9 shows the company's financial position at the year end showing a decrease in net assets from the previous year to £467,040,000 (2011 £502,046,000).

DIVIDENDS AND TRANSFERS TO RESERVES

No dividend was paid during the period (2011 Nil). The loss for the period of £35,006,000 (2011 profit £83,484,000) has been transferred to reserves.

DIRECTORS

The directors who served during the period and subsequently are shown on page 1.

GOING CONCERN

The company manages its day to day working capital requirements through the utilisation of both short term external overdraft facilities and internal funding facilities provided within the wider Office Depot Inc group. The company and the wider group's actual results since the balance sheet date along with forecasts and projections for a period of at least 12 months from the date of approval of these financial statements show that the company is able to operate within the level of its current facilities. Additionally, in forming this opinion the directors have taken into account reasonably possible changes in trading performance which could flow from the current economic uncertainties, hence the directors believe that it is appropriate to prepare the financial statements on the going concern basis.

DIRECTORS' REPORT

FINANCIAL RISK MANAGEMENT

The company has the following financial risks

Interest rate risk

Where necessary the company finances its operations via short term external overdraft facilities at floating interest rates and internal group funding arrangements, with any internal facilities being created at contracted rates of interest

Liquidity risk

The Directors consider that the company's banking and internal funding facilities are adequate going forward Short-term flexibility is achieved by overdraft facilities

Credit risk

Credit risk arises on financial instruments such as trade receivables and short-term bank deposits Policies and procedures exist to ensure that the trade debtors have an appropriate credit history and provision is made for estimated bad debt amounts

DONATIONS

During the period the company made charitable donations of £7,676 (2011 £15,694)

SUPPLIER PAYMENT POLICY

The company agrees terms and conditions for its business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the terms of payment, and also by including the relevant terms in contracts where appropriate These arrangements are adhered to when making payments, subject to the terms and conditions being met by the supplier

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.

ENVIRONMENTAL STATEMENT

Office Depot's environmental strategy can be summarised in a simple statement, we commit to increasingly buy green, be green, sell green and tell green By implementing a broad range of initiatives under this global strategy, Office Depot has not only measurably improved our own environmental performance, but enabled our suppliers and customers to do the same

DIRECTORS' REPORT

ENVIRONMENTAL STATEMENT (CONTINUED)

It is important to Office Depot and our customers that our environmental performance is transparent and externally verified. We have taken the following steps to ensure that we continue to meet this requirement:

- **Be Green** Every site in the UK & Ireland region continues to be certified to EN ISO14001 2004, having successfully passed a series of internal audits by our environment team and external audits by Lloyd's Register Quality Assurance (LRQA)
- **Buy Green** As a member of the Trade Network, we are committed to progressively sourcing forest products from well-managed sources and openly publishing our progress, challenges and priorities. Chain-of-custody certificates from the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification Schemes (PEFC) evidence our commitment to using wood fibre from certified sources. External environmental consultants verify the claims we make about our wood-fibre sources, our increasing range of environmentally preferable products and our suppliers' environmental credentials
- **Sell Green** A study of our cargo cycle deliveries by University of Westminster has confirmed a 62% reduction of kgCO₂e per parcel delivered in central London. We continue to work actively with our customers to assist them in reducing their environmental impact and achieving their environmental objectives
- **Tell Green** We communicate details of our environmental performance annually in our global Corporate Citizenship Report

AUDITOR

Each of the persons who is a director of the company at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the company's auditor is unaware, and
- the 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 auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

Approved by the Board of Directors and signed on behalf of the Board on 19th September 2013



M Horn, Director

OFFICE DEPOT INTERNATIONAL (UK) LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 judgments and accounting 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 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.

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

We have audited the financial statements of Office Depot International (UK) Limited for the period ended 29 December 2012 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. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom 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, 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 29 December 2012 and of its loss for the period then ended,
- have been properly prepared in accordance with United Kingdom 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 period for which the financial statements are prepared is consistent with the financial statements.

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.

David Hall, FCA

David Hall FCA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Nottingham

19th September 2013

OFFICE DEPOT INTERNATIONAL (UK) LIMITED

PROFIT AND LOSS ACCOUNT

Period ended 29 December 2012

		Period ended 29 December 2012 £'000	Period ended 31 December 2011 £'000
	Note		
TURNOVER	1,2	252,242	274,792
Cost of sales		(160,889)	(186,464)
Gross profit		91,353	88,328
Distribution costs		(27,743)	(28,969)
Administrative expenses			
-Other administrative expenses		(49,572)	(43,945)
-Share of profits of subsidiary undertaking		-	3,630
Total Administrative expenses		(49,572)	(40,315)
OPERATING PROFIT	4	14,038	19,044
Profit on sale of investments		-	58,532
Amounts written off investments	10	(54,264)	-
Interest receivable and similar income	5	5,054	6,313
Interest payable and similar charges	6	(401)	(985)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(35,573)	82,904
Tax credit on profit on ordinary activities	8	567	580
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL PERIOD	16,17	(35,006)	83,484

OFFICE DEPOT INTERNATIONAL (UK) LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the period ended 29 December 2012

	Period ended 29 December 2012 £'000	Period ended 31 December 2011 £'000
(Loss)/Profit attributable to the members for the financial period	(35 006)	83,484
Currency translation (losses) on foreign currency investments	<u>-</u>	<u>(1,070)</u>
TOTAL RECOGNISED GAINS AND LOSSES SINCE LAST ANNUAL REPORT	<u>(35,006)</u>	<u>82,414</u>

OFFICE DEPOT INTERNATIONAL (UK) LIMITED
Company Registration No. 02472621

BALANCE SHEET
29 December 2012

			29 December 2012		31 December 2011
	Note	£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible fixed assets	9		9,704		11,695
Investments	10		145,872		200,136
			<u>155,576</u>		<u>211,831</u>
CURRENT ASSETS					
Stocks	11	311		678	
Debtors	12	336,466		322,713	
Cash at bank and in hand		32,830		22,179	
		<u>369,607</u>		<u>345,570</u>	
CREDITORS' amounts falling due within one year	13	(43,725)		(45,338)	
NET CURRENT ASSETS			<u>325,882</u>		<u>300,232</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			481,458		512,063
PROVISIONS FOR LIABILITIES	14		(14,418)		(10,017)
NET ASSETS			<u>467,040</u>		<u>502,046</u>
CAPITAL AND RESERVES					
Called up share capital	15		249,591		249,591
Share premium account	16		187,812		187,812
Capital contribution reserve	16		11,624		11,624
Profit and loss account	16		18,013		53,019
SHAREHOLDERS' FUNDS	17		<u>467,040</u>		<u>502,046</u>

These financial statements of Office Depot International (UK) Limited (company number 02472621) were approved by the Board of Directors and authorised for issue on 19th September 2013

Signed on behalf of the Board of Directors

M Horn

Director

NOTES TO THE FINANCIAL STATEMENTS

Period ended 29 December 2012

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The principal accounting policies adopted are described below and have been applied consistently in both the current period and prior period.

Accounting convention

The financial statements are prepared under the historical cost convention and on a going concern basis after due consideration of the principal risks and uncertainties as disclosed in the report of the directors, and in accordance with the Companies Act 2006.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation and provision for impairment.

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:

Short-term leasehold improvements	Over the term of the lease
Plant and machinery	Between 12.5% and 20% 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.

Taxation

The tax expense represents the sum of the corporation tax currently payable and the deferred tax.

The tax currently payable is based on taxable profit for the period and adjustments in respect of prior periods. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other periods and it further excludes items which are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax 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 income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that 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 divisions at the closing rate are reported in the statement of total recognised gains and losses. All other exchange differences are included in the profit and loss account.

Pensions

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

NOTES TO THE FINANCIAL STATEMENTS

Period ended 29 December 2012

1. ACCOUNTING POLICIES (continued)

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 provision for impairment

Share-based payment

The company has applied the requirements of 'FRS 20 'Share-based Payment'' In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2006

The company's ultimate parent company, Office Depot Inc, issues equity-settled share-based payments to certain employees of the company Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the company's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions

Fair value is measured by the Black-Scholes pricing model The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date for cash-settled share-based payments

Consolidation

The directors have applied the exemption from preparing group accounts under section 400 of the Companies Act 2006 as the company is an intermediate parent undertaking within the Group headed by Office Depot Inc, which prepares consolidated accounts for the Group which are publicly available The financial statements therefore present information about the company as an individual undertaking and not about its group

Cashflow statements

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

Related Party Transactions

Office Depot Inc has prepared consolidated financial statements for the period ended 29 December 2012 and therefore, as a wholly owned subsidiary of that company, the company has applied the exemptions contained within FRS 8 in respect of the disclosure of related party transactions

Onerous Lease Provisions

The onerous lease provisions are prepared on the basis of continuous review by management in consultation with external advisers The final provision calculation is based on managements' best estimate on the future liability during which the property remains vacant The provision includes liability for rent, rates, service charge and professional fees

Turnover

Turnover represents amounts (excluding value added tax) derived from the provision of goods and services to customers during the period, net of trade discounts, VAT and other sales related taxes Turnover is recognised at the point of delivery of goods and services

OFFICE DEPOT INTERNATIONAL (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 29 December 2012

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. The results below for France are for the period ending 24 June 2011 at which point assets and liabilities were disposed of to another group company.

Geographical analysis by location	Turnover		Operating profit		Net assets	
	Period ended	Period ended	Period ended	Period ended	Period ended	Period ended
	29 December	31 December	29 December	31 December	29 December	31 December
	2012	2011	2012	2011	2012	2011
	£'000	£'000	£'000	£'000	£'000	£'000
United Kingdom	252,242	273,013	14,038	18,946	467,040	502,046
France	-	1,779	-	97	-	-
	<u>252,242</u>	<u>274,792</u>	<u>14,038</u>	<u>19,043</u>	<u>467,040</u>	<u>502,046</u>

3 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Period ended 29 December 2012 £'000	Period ended 31 December 2011 £'000
Directors' emoluments	<u>1,037</u>	<u>1,106</u>
Highest paid Director		
Emoluments	331	359
Pension contribution	<u>21</u>	<u>21</u>
	<u>352</u>	<u>380</u>

No directors (2011: nil) exercised share options during the period.

Eight directors (2011: four) were members of the company's money purchase pension scheme. Total contributions during the period were £101,588 (2011: £61,186).

OFFICE DEPOT INTERNATIONAL (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 29 December 2012

3 INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

	Period ended 29 December 2012 No	Period ended 31 December 2011 No.
Average number of persons employed		
Distribution	507	496
Administration	537	524
	<u>1,044</u>	<u>1,020</u>
Staff costs during the period	£'000	£'000
Wages and salaries	29,538	28,180
Social security costs	3,097	2,923
Other pension costs	1,037	944
	<u>33,672</u>	<u>32,047</u>

4. OPERATING PROFIT

Operating profit is stated after charging:

	Period ended 29 December 2012 £'000	Period ended 31 December 2011 £'000
Depreciation	3,323	3,543
Rentals under operating leases	3,907	3,761
	1,762	1,497
Auditor's remuneration	74	55
	-	5
	<u>-</u>	<u>5</u>

Auditor's remuneration for audit fees represents fees payable to the company's auditor for the audit of the company's annual financial statements. Non-audit fees were incurred in the prior period for tax compliance assistance.

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	Period ended 29 December 2012 £'000	Period ended 31 December 2011 £'000
Group company loans	4,687	5,139
Exchange gains on loans	367	1,174
	<u>5,054</u>	<u>6,313</u>

OFFICE DEPOT INTERNATIONAL (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 29 December 2012

6. INTEREST PAYABLE AND SIMILAR CHARGES

	Period ended 29 December 2012 £'000	Period ended 31 December 2011 £'000
Bank interest	118	169
Group company loan	148	347
Exchange loss on loans	135	469
	<u>401</u>	<u>985</u>

7. SHARE BASED COMPENSATION

The company's ultimate parent undertaking, Office Depot Inc, operates a number of equity incentive plan schemes under the terms of which officers, directors and key employees of Office Depot International (UK) Limited can be granted options. These incentive plan schemes permit the issuance of stock options, stock appreciation rights, restricted stock and other equity based incentive awards in Office Depot Inc's capital. Stock options must be issued at the market price on the date of the grant unless an employee owns 10% or more of Office Depot Inc's outstanding common stock, in which case the option price must be at least 110% of the market price on the date of grant. Options granted under the plan become exercisable between one and five years of the grant date, provided that the individual is continuously employed with the company. All options granted expire no more than ten years following the grant date.

The costs associated with these equity incentive plan schemes are incurred by Office Depot Inc and recharged to the individual companies as the options are exercised. Office Depot International (UK) Limited therefore incurs the costs associated with the exercise of options granted to its employees as and when Office Depot Inc advises of the exercise. The cost incurred by Office Depot International (UK) Limited in relation to this recharge was £nil (2011: £nil).

During 2010, Office Depot Inc implemented a one-time voluntary stock option program that had been approved by the board of directors and the company's shareholders. The fair value exchange program resulted in the tender of 3.8 million shares of eligible options in exchange for approximately 1.4 million of newly-issued options. No additional compensation expense resulted from this value-for-value exchange. The new options have an exercise price of \$5.13, which was the closing price of Office Depot Inc common stock on the date of the exchange, and the majority of the options will vest over three years. The fair value of the exchanged shares was \$2.97 per share. The new options are listed separately in the tables below.

A summary of the activity in the Office Depot Inc stock option plans is presented below:

	2012		2011	
	Shares	Weighted average exercise price US\$	Shares	Weighted average exercise price US\$
Outstanding at beginning of period	19,059,176	6.90	20,021,044	7.49
Granted	82,000	3.22	3,680,850	4.53
Granted – option exchange	-	-	-	-
Cancelled	(4,512,372)	14.51	(3,567,513)	9.46
Cancelled – option exchange	-	-	-	-
Exercised	(2,050,733)	0.88	(1,075,205)	0.86
Outstanding at the end of the period	<u>12,578,071</u>	<u>5.25</u>	<u>19,059,176</u>	<u>6.90</u>

OFFICE DEPOT INTERNATIONAL (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 29 December 2012

7 SHARE BASED COMPENSATION (continued)

The weighted average fair value of options granted during 2012 was US\$1 86 (2011 US\$2 25), using the following weighted average assumptions for grants

	2012	2011
Risk-free interest	0.94%	1.97%
Dividend yield	0%	0%
Volatility	72-74%	67-77%
Expected lives (in years)	4.5	4.5

The options outstanding as at 29 December 2012 had a weighted average exercise price of \$5.25 and a weighted average remaining contractual life of 3.48 years

8. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	Period ended 29 December 2012 £'000	Period ended 31 December 2011 £'000
a) Analysis of credit in the period:		
Current tax		
UK corporation tax at 24.5% (2011 26.5%)	-	194
Overseas tax	-	2
Adjustments in respect of prior periods	(187)	(561)
	<u>(187)</u>	<u>(365)</u>
Deferred tax:		
Origination and reversal of timing differences	(691)	1,376
Effect of change in rate of deferred tax	299	244
Adjustments in respect of prior periods	12	(1,835)
	<u>(380)</u>	<u>(215)</u>
Total deferred tax	<u>(380)</u>	<u>(215)</u>
Tax credit on (loss)/profit on ordinary activities	<u>(567)</u>	<u>(580)</u>

NOTES TO THE FINANCIAL STATEMENTS

Period ended 29 December 2012

8 TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES (continued)

b) Factors affecting the tax credit for the period

The hybrid rate of tax, based on the average UK standard rate of corporation tax for the period is 24.5% (2011 26.5%). The actual tax credit for the current and previous period differs from the standard rate for the reasons set out in the following reconciliations:

	Period ended 29 December 2012 £'000	Period ended 31 December 2011 £'000
(Loss)/profit on ordinary activities before taxation	(35,573)	82,904
Tax on (loss)/profit on ordinary activities at hybrid rate	(8,720)	21,977
Effects of		
Permanent differences	41	(15,504)
Short term timing differences	12	(134)
Non-deductible impairment on investment	13,302	-
Differences between capital allowances and depreciation	665	(1,218)
Group relief surrendered without payment	(5,300)	(4,927)
Overseas tax	-	2
Adjustments in respect of prior periods	(187)	(561)
Total tax (credit) for the period	(187)	(365)

The UK Government announced a reduction in the standard rate of UK corporation tax from 26% to 24% effective 1 April 2012. This rate reduction became substantively enacted in March 2012. Accordingly, the company's profits for this financial year are taxed at an effective rate of 24.5%. A further reduction to 23% was enacted in July 2012, with effect from April 2013, and therefore has been reflected in the calculation of the deferred tax balances in the accounts as timing differences are not expected to reverse before that date.

The UK Government also proposed changes to further reduce the standard rate of UK corporation tax to 21% from 1 April 2014, and to 20% from 1 April 2015. As these rates were not substantively enacted at the balance sheet date, the rate reduction is not yet reflected in these financial statements in accordance with FRS 19, as it is a non-adjusting event occurring after the reporting period. These further rate reductions were substantively enacted on 2 July 2013.

OFFICE DEPOT INTERNATIONAL (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 29 December 2012

9 TANGIBLE FIXED ASSETS

Cost	Short-term leasehold improve- ments £'000	Plant and machinery £'000	Motor vehicles, Fixtures & fittings £'000	Total £'000
At 31 December 2011	7,346	43,703	1,335	52,384
Additions	35	1,439	32	1,506
Disposals	(2)	(9,717)	(43)	(9,762)
At 29 December 2012	<u>7,379</u>	<u>35,425</u>	<u>1,324</u>	<u>44,128</u>
Accumulated Depreciation				
At 31 December 2011	4,726	35,221	742	40,689
Charge for the period	184	2,991	148	3,323
Disposals	(2)	(9,544)	(42)	(9,588)
At 29 December 2012	<u>4,908</u>	<u>28,668</u>	<u>848</u>	<u>34,424</u>
Net book value				
At 29 December 2012	<u>2,471</u>	<u>6,757</u>	<u>476</u>	<u>9,704</u>
At 31 December 2011	<u>2,620</u>	<u>8,482</u>	<u>593</u>	<u>11,695</u>

Included in the plant and machinery balance are assets with a cost of £nil (2011 £396,896) that are not being depreciated as they have not yet been brought into use

OFFICE DEPOT INTERNATIONAL (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 29 December 2012

10. INVESTMENTS

	Shares in group undertakings £'000
Cost	
Balance as at 31 December 2011	234,269
Balance as at 29 December 2012	234,269
Provisions	
Balance as at 31 December 2011	34,133
Charge for the year	54,264
Balance as at 29 December 2012	88,397
Net book value	
As at 29 December 2012	145,872
As at 31 December 2011	200,136

During the year, the company made an impairment provision of £54,264,000 against one of its investments, Heteyo Holdings BV

A list of the investments is given in the table below

Investments	Country of incorporation	Main activity	Type of shares	Portion of shares held
Guilbert UK Holdings Limited	UK	Holding Company	Ordinary	100%
Reliable UK Limited	UK	Holding Company	Ordinary	100%
Heteyo Holding BV	Netherlands	Holding Company	Ordinary	43%

11 STOCKS

	29 December 2012 £'000	31 December 2011 £'000
Goods for resale	311	678

There are no material differences between the balance sheet value of stocks and their replacement cost

OFFICE DEPOT INTERNATIONAL (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 29 December 2012

12. DEBTORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	29 December 2012 £'000	31 December 2011 £'000
Trade debtors	23,781	26,310
Amounts owed by other group companies	297,804	284,415
Corporation tax	-	775
Deferred tax	3,436	3,056
Other debtors	6,210	3,984
Prepayments and accrued income	5,235	4,173
	<u>336,466</u>	<u>322,713</u>

Deferred tax balances are recognised on the basis the company is profitable and expectations are that it will remain profitable in the foreseeable future. The company has the option of utilising capital allowances and reversals of other timing differences against its taxable profits in future years.

Included in amounts owed by other group companies are loans of £222,234,000 (2011: £217,098,000) to group companies which are unsecured, bear market rates of interest and are repayable on demand.

	29 December 2012 £'000	31 December 2011 £'000
Deferred taxation asset		
Balance at the beginning of the period	3,056	2,841
Current year charge to profit and loss account	691	(1,376)
Prior year (charge)/credit to profit and loss account	(12)	1,835
Change in rate of deferred tax	(299)	(244)
Balance at the end of the period	<u>3,436</u>	<u>3,056</u>
Analysis of deferred tax balance		
Accelerated capital allowances	3,391	3,019
Other provisions	45	37
	<u>3,436</u>	<u>3,056</u>

A deferred tax asset of £3,436,000 (2011: £3,056,000) has been recognised in relation to capital allowances in excess of depreciation and short term timing differences as there is sufficient evidence within the wider UK Office Depot group that these will be realised.

OFFICE DEPOT INTERNATIONAL (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 29 December 2012

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	29 December 2012 £'000	31 December 2011 £'000
Trade creditors	11,657	12,355
Amounts owed to other group companies	28,147	29,032
Corporation tax	7	-
Other taxes and social security	1,104	980
Accruals and deferred income	2,810	2,971
	<u>43,725</u>	<u>45,338</u>

Included in amounts owed to other group companies are loans of £27,462,000 (2011 £28,419,000) from group companies which are unsecured, bear market rates of interest and are repayable on demand

14. PROVISIONS FOR LIABILITIES

	Contractual restoration of leased properties £'000	Onerous lease £'000	Total £'000
Balance at 31 December 2011	890	9,127	10,017
Charge to the profit and loss account	150	6,846	6,996
Utilised in the period	(578)	(2,272)	(2,850)
Unwinding of discount	-	255	255
Balance at 29 December 2012	<u>462</u>	<u>13,956</u>	<u>14,418</u>

The lease restoration provision relates to costs that will be incurred in restoring leasehold properties to their original condition, and is expected to be utilised within the next 15 years

The onerous lease obligation is in respect of vacant premises and represents the residual lease commitments, together with other outgoings, after taking into account existing or expected sub-tenant arrangements. The onerous lease provision is expected to be utilised within two years

15. CALLED UP SHARE CAPITAL

	29 December 2012 £'000	31 December 2011 £'000
Called up, allotted and fully paid		
1,366,057 A ordinary shares of £1 each	1,366	1,366
1,415,369 B Ordinary Shares of £1 each	1,415	1,415
246,809,449 Deferred Shares	246,810	246,810
	<u>249,591</u>	<u>249,591</u>

The 'B' ordinary Shares rank pari passu with the A Ordinary Shares unless approved by the directors by way of a special resolution. The holders of the Deferred Shares are not entitled to receive any dividend or other distribution. On a return of capital on a winding up, each holder of a Deferred Share shall be entitled to receive £0.01 per Deferred Share but only after the sum of £100,000 per Ordinary Share has been distributed amongst the holders of the Ordinary Shares.

OFFICE DEPOT INTERNATIONAL (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Period ended 29 December 2012

16 RESERVES

	Capital Contribution Reserve £'000	Profit and Loss account £'000	Share premium account £'000	Total £'000
Balance at 31 December 2011	11,624	53,019	187,812	252,455
Loss for the period	-	(35,006)	-	(35,006)
Balance at 29 December 2012	11,624	18,013	187,812	217,449

17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	29 December 2012 £'000	31 December 2011 £'000
(Loss)/Profit for the period	(35,006)	83,484
Other recognised (losses)	-	(1,070)
Net addition to shareholders' funds	(35,006)	82,414
Opening shareholders' funds	502,046	419,632
Closing shareholders' funds	467,040	502,046

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. Annual commitments under non-cancellable operating leases, including onerous leases already provided for (see note 14), are as follows

	Land and buildings		Plant, machinery and motor vehicles	
	29 December 2012 £'000	31 December 2011 £'000	29 December 2012 £'000	31 December 2011 £'000
Leases which expire				
Within one year	-	-	479	496
Within 2 to 5 years	74	75	437	532
After 5 years	4,364	5,738	-	-
	4,438	5,813	916	1,028

19. 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 £1,037,000 (2011 £944,000) represents actual contributions paid in the period. As at 29 December 2012, there were contributions for £197,064 payable to the scheme by the company (2011 £149,250).

OFFICE DEPOT INTERNATIONAL (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 29 December 2012

20. DERIVATIVES DISCLOSED AT FAIR VALUE

	Principal amount		Fair value	
	29 December 2012 £'000	31 December 2011 £'000	29 December 2012 £'000	31 December 2011 £'000
Forward foreign exchange contracts	16,833	-	17,182	-
	<u>16,833</u>	<u>-</u>	<u>17,182</u>	<u>-</u>

The company uses derivatives to hedge exposures to changes in foreign currency exchange rates arising from sales and purchases in foreign currencies

21. ULTIMATE PARENT COMPANY

The immediate parent company is Viking Finance (Ireland) Limited. At 29 December 2012, the directors regard Office Depot Inc, a company incorporated in the USA, as the ultimate parent undertaking and controlling party.

The largest and smallest groups in which Office Depot International (UK) Limited is consolidated are those headed by Office Depot Inc. Copies of the Office Depot Inc accounts can be obtained from 6600 North Military Trail, Boca Raton, FL 33496, USA.