

Registered number: 01616165

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018



NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

COMPANY INFORMATION

Directors	J S Davis G Dicken (appointed 1 November 2018) J E Preston (appointed 1 November 2018) J Withee
Company secretary	P Gauron
Registered number	01616165
Registered office	Appleton House 430 Birchwood Boulevard Birchwood Warrington Cheshire WA3 7WD
Independent auditor	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor 4 Hardman Square Spinningfields Manchester M3 3EB
Bankers	HSBC Bank plc P O Box 648 27 - 32 Poultry London EC2P 2BX
Solicitors	CMS Cameron McKenna Nabarro Olswang LLP 1 South Quay Victoria Quays Wharf Street Sheffield S2 5SY

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

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NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

Introduction

To comply with the Companies Act 2006, the company has provided below a review of the development and performance of the business during the year, including key financial performance indicators and a description of the principal risks and uncertainties facing the company.

The strategic review contains forward looking statements and opinions that involve risks and uncertainties. These risks and uncertainties could cause results to differ materially from expectations. The principal risk factors are discussed in more detail below.

Business review

The loss for the year, after taxation amounted to £27,657,306 (2017: £13,192,337).

The increase in loss year on year is attributable to an increase in both team and event sponsorship. Partially offset by growth of the UK wholesale and retail distribution channels in addition to continued ecommerce expansion across Europe. The generated loss was intentional as a result of a strategy of investing in football and the London Marathon.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks. Risks are formally reviewed by the Board and appropriate processes put in place to monitor and mitigate them. If more than one event occurs, it is possible that the overall effect of such events would compound the possible adverse effects on the company.

The key business risks affecting the company are set out below:

Pricing

The market remains sensitive to price increases borne out of increased import costs and foreign currency exposure. We continue to respond to such increases responsibly to maintain margin levels, whilst not impacting demand volumes.

Supply chain

Our Far East factories are managed by external companies leading us to rely on a third party to deliver some of our products. This process is monitored closely to ensure the output is of the quality expected by ourselves and our customers.

Foreign currency

New Balance continues to limit any foreign currency exchange risk where possible.

Brexit

Until a deal to exit the European Union has been agreed, or until such time as the UK exits the EU with no deal, the full extent of risks to New Balance cannot be quantified. However, New Balance has already made some changes to its supply chain to protect from the risks around import and export duties of both raw materials and finished goods. New Balance will continue to use the extension period of exiting the EU to ensure that solutions are in place to limit any impact operationally.

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

Financial key performance indicators

Turnover increase of 46.1% in 2018 versus 2017 mainly due to increased sales in the UK wholesale channel, along with increased intercompany sales.

Gross margin % deteriorated against 2017 at 25.2% in 2018 (2017: 29.5%) due to a higher proportion of intercompany sales at lower margin.

Other key performance indicators

There are no non-financial key performance indicators for the period.

This report was approved by the board on 4 September 2019 and signed on its behalf.



J Withee
Director

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their report and the financial statements for the year ended 31 December 2018.

Principal activity

The company's principal activities are the manufacture and distribution of footwear and apparel.

Results and dividends

The loss for the year, after taxation, amounted to £27,657,306 (2017: loss £13,192,337).

There were no dividends declared or paid in the year (2017: £Nil)

Directors

The directors who served during the year were:

J S Davis
G Dicken (appointed 1 November 2018)
J E Preston (appointed 1 November 2018)
F Allen (resigned 1 November 2018)
R DeMartini (resigned 1 November 2018)
J Withee

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic report, 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 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, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'). 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 and 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 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;
- 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.

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

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

Going concern

The financial statements have been prepared on a going concern basis.

The continuity of the company's activities is dependent upon the support of its ultimate parent company, New Balance Holding Inc. The directors have received assurances that the parent company will continue to support the company and for the foreseeable future. Additionally, the company meets its day to day working capital requirements through an overdraft facility and trade finance facility which was renewed post year end.

The company's forecasts and projections, taking account of reasonable changes in trading performance and foreign exchange volatility, show that the company should be able to operate within the level of its current overdraft facility and also through the use of intercompany facilities, maintaining current liquidity.

On this basis the directors consider that it is appropriate to prepare the financial statements on a going concern basis.

There has been risk sensitivity from some credit agencies and insurers given the continued losses of the company losses for the past number of years. However, we have always been able to provide supporting financial information to secure credit limits, with this not having an impact on operations.

Future developments

New Balance continues to invest in strategic sports categories such as running, football, cricket and tennis to promote the brand's athletic range, aligning with the brand's objective in building a top 3 global athletic brand. In 2019, we will continue to drive our presence in Europe through our direct to consumer channel, including growing ecommerce sales, and, expanding our current retail footprint.

Within UK, New Balance remains focussed on promoting domestic manufacturing and continues to invest in Research and Development to create highly desirable footwear and sports clothing.

Employee involvement

During the year, the policy of providing employees with information about the company has been continued through internal media methods. Regular monthly updates are held between local management and employees to allow a free flow of information about the company's performance.

Disabled employees

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions with any support needed and to provide training and career development and promotion to disabled employees wherever appropriate.

Qualifying third party indemnity provisions

There is a Directors and Officers insurance policy in place.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

Disclosure of information to auditor

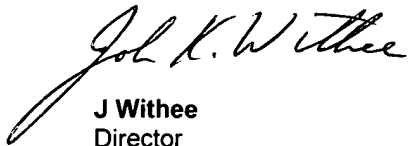
The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 4 September 2019 and signed on its behalf.



J Withee
Director



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

Opinion

We have audited the financial statements of New Balance Athletic Shoes (U.K.) Limited for the year ended 31 December 2018, which comprise the Statement of income and retained earnings, the Statement of financial position, the Statement of cash flows and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED (CONTINUED)

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEW BALANCE ATHLETIC SHOES (U.K.)
LIMITED (CONTINUED)**

Responsibilities of directors for the financial statements

As explained more fully in the Directors' responsibilities statement 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's report.

Use of our report

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.

Grant Thornton UK LLP

Carl Williams
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester

Date: 9/9/19

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

**STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 £	2017 £
Turnover	4	280,764,193	192,147,172
Cost of sales		(209,971,103)	(135,396,229)
Gross profit		70,793,090	56,750,943
Administrative expenses		(94,822,667)	(67,839,812)
Operating loss	5	(24,029,577)	(11,088,869)
Interest receivable and similar income	9	28,295	30,921
Interest payable and expenses	10	(3,762,429)	(2,134,389)
Loss before tax		(27,763,711)	(13,192,337)
Tax on loss	11	106,405	-
Loss after tax		(27,657,306)	(13,192,337)
Retained earnings at the beginning of the year		(29,237,041)	(16,044,704)
Loss for the year		(27,657,306)	(13,192,337)
Retained earnings at the end of the year		(56,894,347)	(29,237,041)

The notes on pages 13 to 29 form part of these financial statements.

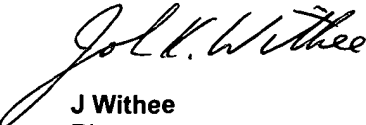
NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED
REGISTERED NUMBER:01616165

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 £	2017 £
Fixed assets			
Intangible assets	12	19,992	137,500
Tangible assets	13	9,997,000	9,191,380
		<u>10,016,992</u>	<u>9,328,880</u>
Current assets			
Stocks	14	69,480,753	49,035,027
Debtors: amounts falling due within one year	15	45,746,125	25,161,868
Cash at bank and in hand	16	57,907	151,357
		<u>115,284,785</u>	<u>74,348,252</u>
Creditors: amounts falling due within one year	17	(171,207,993)	(101,868,002)
Net current liabilities		<u>(55,923,208)</u>	<u>(27,519,750)</u>
Total assets less current liabilities		<u>(45,906,216)</u>	<u>(18,190,870)</u>
Creditors: amounts falling due after more than one year	18	(139,024)	(197,064)
Net liabilities		<u>(46,045,240)</u>	<u>(18,387,934)</u>
Capital and reserves			
Called up share capital	22	1,003	1,003
Share premium account	21	8,819,997	8,819,997
Other reserves	21	2,028,107	2,028,107
Profit and loss account	21	(56,894,347)	(29,237,041)
		<u>(46,045,240)</u>	<u>(18,387,934)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

4 September 2019


J Withee
 Director

The notes on pages 13 to 29 form part of these financial statements.

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018 £	2017 £
Cash flows from operating activities		
Loss for the financial year	(27,657,306)	(13,192,337)
Adjustments for:		
Amortisation of intangible assets	117,508	117,508
Depreciation of tangible assets	1,877,531	1,532,549
Loss on disposal of tangible assets	5,139	727
Interest paid	3,762,429	2,134,389
Interest received	(28,295)	(30,921)
Taxation charge	(106,405)	-
Increase in stocks	(20,445,726)	(12,409,574)
Increase in debtors	(7,329,554)	(5,578,018)
Increase in creditors	13,384,211	11,486,221
Increase in amounts owed to groups	12,981,126	24,785,204
Corporation tax received	108,071	253,859
Net cash generated from operating activities	(23,331,271)	9,099,607
Cash flows from investing activities		
Purchase of tangible fixed assets	(3,071,567)	(2,365,856)
Sale of tangible fixed assets	383,277	259,733
Interest received	28,295	30,921
Net cash used in investing activities	(2,659,995)	(2,075,202)

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

**STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018 £	2017 £
Cash flows from financing activities		
Repayment of/new finance leases	(42,673)	(46,236)
Interest paid	(3,762,429)	(2,134,389)
Net cash used in financing activities	<u>(3,805,102)</u>	<u>(2,180,625)</u>
Net (decrease)/increase in cash and cash equivalents	<u>(29,796,368)</u>	<u>4,843,780</u>
Cash and cash equivalents at beginning of year	(21,497,885)	(26,341,665)
Cash and cash equivalents at the end of year	<u><u>(51,294,253)</u></u>	<u><u>(21,497,885)</u></u>
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	57,907	151,357
Bank overdrafts	(51,352,160)	(21,649,242)
	<u><u>(51,294,253)</u></u>	<u><u>(21,497,885)</u></u>

The notes on pages 13 to 29 form part of these financial statements.

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. General information

New Balance Athletic Shoes (U.K.) Limited is a private company limited by shares and incorporated in England and Wales. It's registered office is located at Appleton House, 430 Birchwood Boulevard, Warrington, Cheshire WA3 7WD.

The company's principal activities are the manufacture and distribution of footwear and apparel.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The financial statements are presented in Sterling (£).

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Going concern

The financial statements have been prepared on a going concern basis.

The continuity of the company's activities is dependent upon the support of its ultimate parent company, New Balance Holding Inc. The directors have received assurances that the parent company will continue to support the company for the foreseeable future. Additionally, the company meets its day to day working capital requirements through an overdraft facility which was renewed post year end.

The company's forecasts and projections, taking account of reasonable changes in trading performance and foreign exchange volatility, show that the company should be able to operate within the level of its current overdraft facility which post year end, has been extended and also through the use of intercompany facilities.

On this basis the directors consider that it is appropriate to prepare the financial statements on a going concern basis.

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The key revenue streams are considered to be web sales, retail, and wholesale channels. Revenue is recognised at the point that the goods are dispatched to the customer. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

2.4 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. Website development is considered to have a useful economic life of three years, and is amortised over this life on a straight line basis.

2.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Leasehold Property	- Period of lease
Plant & machinery	- 10 - 50% p.a.
Motor vehicles	- 25% p.a.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of income and retained earnings.

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.6 Operating leases

An operating lease is defined as a lease in which substantially all of the risks and rewards of incidental ownership of the leased asset remain with the lessor.

Rentals paid under operating leases are charged to the Statement of income and retained earnings on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

The Company has taken advantage of the optional exemption available on transition to FRS 102 which allows lease incentives on leases entered into before the date of transition to the standard of 01 January 2014 to continue to be charged over the period to the first market rent review rather than the term of the lease.

2.7 Finance 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 in accordance with the above depreciation policies. Future installments 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 on a straight line basis, and the capital element which reduces the outstanding obligation for future installments.

2.8 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.9 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.10 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.11 Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of income and retained earnings.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.12 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.13 Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to the Statement of income and retained earnings at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the Statement of income and retained earnings in the same period as the related expenditure.

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.14 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

2.15 Finance costs

Finance costs are charged to the Statement of income and retained earnings over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.16 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of income and retained earnings when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of financial position. The assets of the plan are held separately from the Company in independently administered funds.

2.17 Interest income

Interest income is recognised in the Statement of income and retained earnings using the effective interest method.

2.18 Borrowing costs

All borrowing costs are recognised in the Statement of income and retained earnings in the year in which they are incurred.

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.19 Current and deferred taxation

Tax is recognised in the Statement of income and retained earnings, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.20 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of income and retained earnings in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Statement of financial position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of financial position.

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

3. Judgements in applying accounting policies and key sources of estimation uncertainty

Preparation of the financial statements requires management to make significant judgements and estimates.

The items in the financial statements where these significant judgements and estimates have been made include:

- Stock provisions - the stock provision is determined by ageing stock appropriately into specific categories based on management's knowledge and experience. An appropriate level of provision is then applied based on the mark down that management would expect to apply to sell the stock.

- Depreciation of tangible fixed assets - depreciation is charged on a straight line basis across the useful economic life of an asset. The useful economic life is applied by management, based on an estimation of the time period it is expected to be in revenue generating use.

4. Turnover

	2018 £	2017 £
Sale of apparel and footwear	280,764,193	192,147,172

Analysis of turnover by country of destination:

	2018 £	2017 £
United Kingdom	173,222,421	158,585,207
Rest of the world	107,541,772	33,561,965
	280,764,193	192,147,172

5. Operating loss

The operating loss is stated after charging:

	2018 £	2017 £
Depreciation of owned tangible fixed assets	1,877,531	1,532,549
Amortisation of intangible assets, including goodwill	117,508	117,508
Loss on disposal of fixed assets	5,139	727
Research and development	1,993,107	2,413,216
Other operating lease rentals	4,587,051	3,920,617

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

6. Auditor's remuneration

	2018 £	2017 £
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	68,000	55,000
Fees payable to the Company's auditor in respect of tax compliance	11,000	17,500
Other tax advisory services	67,126	45,100
	<u>68,000</u>	<u>55,000</u>

7. Employees

Staff costs, including directors' remuneration, were as follows:

	2018 £	2017 £
Wages and salaries	17,919,616	18,588,986
Social security costs	1,687,163	1,659,916
Cost of defined contribution scheme	1,569,944	1,465,285
	<u>21,176,723</u>	<u>21,714,187</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2018 No.	2017 No.
Production Staff	251	245
Distribution Staff	200	214
Administration Staff	166	140
	<u>617</u>	<u>599</u>

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

8. Directors' remuneration

	2018 £	2017 £
Directors' emoluments	507,911	335,341
Company contributions to defined contribution pension schemes	15,316	17,863
	<u>523,227</u>	<u>353,204</u>

During the year retirement benefits were accruing to one director (2017: one) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £507,911 (2017: £335,341).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £15,316 (2017: £17,863).

9. Interest receivable

	2018 £	2017 £
Interest receivable from group companies	<u>28,295</u>	<u>30,921</u>

10. Interest payable and similar expenses

	2018 £	2017 £
Bank interest payable	2,063,869	1,305,000
Loans from group undertakings	1,685,615	816,572
Finance leases and hire purchase contracts	12,945	12,817
	<u>3,762,429</u>	<u>2,134,389</u>

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

11. Taxation

	2018 £	2017 £
Corporation tax		
Current tax on profits for the year	(106,405)	-
Total current tax	<u>(106,405)</u>	<u>-</u>
Deferred tax		
Total deferred tax	<u>-</u>	<u>-</u>
Taxation on (loss)/profit on ordinary activities	<u>(106,405)</u>	<u>-</u>

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2017: *lower than*) the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	2018 £	2017 £
Loss on ordinary activities before tax	(27,763,711)	(13,192,337)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017: 19.25%)	(5,275,106)	(2,532,846)
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	352,117	178,747
Fixed asset differences	117,674	128,021
Adjustments to tax charge in respect of prior periods	(131,891)	-
Adjustment to opening/closing rate of deferred tax	507,354	260,899
Deferred tax not recognised	4,312,505	1,974,243
Foreign tax expensed	25,485	-
Income not taxable for tax purposes	(14,543)	(9,064)
Total tax charge for the year	<u>(106,405)</u>	<u>-</u>

Deferred tax of £4,708,581 (2017: £1,974,243) has not been recognised due to forecast position, in relation to the losses brought forward.

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

11. Taxation (continued)

Factors that may affect future tax charges

The Finance Act 2015 included changes which affect future tax charges. The rate of corporation tax has reduced to 19% from 1 April 2017 and will reduce to 17% from 1 April 2020. The rate changes will impact the amount of future cash tax payments made by the company.

12. Intangible assets

	Web development £
Cost	
At 1 January 2018	352,567
At 31 December 2018	352,567
Amortisation	
At 1 January 2018	215,067
Charge for the year	117,508
At 31 December 2018	332,575
Net book value	
At 31 December 2018	19,992
At 31 December 2017	137,500

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

13. Tangible fixed assets

	Leasehold Property £	Plant & machinery £	Motor vehicles £	Total £
Cost or valuation				
At 1 January 2018	2,070,087	14,213,300	12,375	16,295,762
Additions	80,444	2,991,123	-	3,071,567
Disposals	-	(661,616)	-	(661,616)
At 31 December 2018	<u>2,150,531</u>	<u>16,542,807</u>	<u>12,375</u>	<u>18,705,713</u>
Depreciation				
At 1 January 2018	1,167,303	5,924,704	12,375	7,104,382
Charge for the year on owned assets	48,224	1,829,307	-	1,877,531
Disposals	-	(273,200)	-	(273,200)
At 31 December 2018	<u>1,215,527</u>	<u>7,480,811</u>	<u>12,375</u>	<u>8,708,713</u>
Net book value				
At 31 December 2018	<u>935,004</u>	<u>9,061,996</u>	<u>-</u>	<u>9,997,000</u>
<i>At 31 December 2017</i>	<u>902,784</u>	<u>8,288,596</u>	<u>-</u>	<u>9,191,380</u>

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

14. Stocks

	2018 £	2017 £
Raw materials and consumables	1,895,006	1,825,156
Work in progress	95,507	44,929
Finished goods and goods for resale	67,490,240	47,164,942
	<u>69,480,753</u>	<u>49,035,027</u>

Stock recognised in cost of sales during the year as an expense was £194,279,956 (2017: £128,007,020).

An impairment loss of £780,323 (2017: £285,191) was recognised in cost of sales against stock during the year due to slow-moving and obsolete stock.

15. Debtors

	2018 £	2017 £
Trade debtors	25,535,993	20,161,252
Amounts owed by group undertakings	15,280,181	2,023,812
VAT recoverable	1,888,364	-
Prepayments and accrued income	2,902,148	2,835,699
Tax recoverable	139,439	141,105
	<u>45,746,125</u>	<u>25,161,868</u>

An impairment loss of £751,249 (2017: £50,938) was recognised against trade debtors.

16. Cash and cash equivalents

	2018 £	2017 £
Cash at bank and in hand	57,907	151,357
Less: bank overdrafts	(51,352,160)	(21,649,242)
	<u>(51,294,253)</u>	<u>(21,497,885)</u>

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

17. Creditors: Amounts falling due within one year

	2018 £	2017 £
Bank overdrafts	51,352,160	21,649,242
Trade creditors	46,663,719	33,525,236
Amounts owed to group undertakings	60,340,719	34,103,224
Other taxation and social security	397,856	2,034,995
Government grants received	54,919	51,059
Accruals and deferred income	12,398,620	10,504,246
	<u>171,207,993</u>	<u>101,868,002</u>

Secured loans

Bank loans and overdrafts are secured by a fixed and floating charge over all of the assets of the company.

18. Creditors: Amounts falling due after more than one year

	2018 £	2017 £
Net obligations under finance leases and hire purchase contracts	63,885	110,418
Government grants received	75,139	86,646
	<u>139,024</u>	<u>197,064</u>

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

19. Financial instruments

	2018 £	2017 £
Financial assets		
Financial assets that are measured at amortised cost	<u>40,874,081</u>	<u>22,336,421</u>
Financial liabilities		
Financial liabilities that are measured at amortised cost	<u>(171,479,862)</u>	<u>(99,833,007)</u>

Financial assets that are debt instruments measured at amortised cost comprise cash at bank, trade debtors, amounts owed by group undertakings and other debtors (excluding VAT).

Financial liabilities measured at amortised cost comprise bank overdrafts, trade creditors, amounts owed to group undertakings and accruals.

20. Financial risk management

The company has exposures to three main areas of risk- foreign exchange currency exposure, liquidity risk and customer credit exposure. To a lesser extent the company is exposed to interest rate risk.

Foreign exchange transactional currency exposure

The company is exposed to currency exchange rate risk due to a significant proportion of its purchases being denominated in non-Sterling currencies. Also, some customers also are invoiced and received in non-Sterling currencies. Non-Sterling bank accounts are maintained in order to reduce this risk exposure.

Liquidity risk

The objective of the company in managing liquidity risk is to ensure that it can meet its financial obligations as and when they fall due. The company meets its financial obligations through operating cash flows, credit facilities and the continuing support from its ultimate parent holding company.

Customer credit exposure

The company offers credit terms to some of its customers, which allow payment of the debt after delivery of the goods. The company is therefore at risk to the extent that a customer may be unable to pay the debt on the specified due date. This risk is mitigated by the strong on-going customer relationships and by credit insurance.

Interest rate risk

The company borrows from its bankers, HSBC, using either overdrafts or term loans. The tenure of these will depend on management's risk assessment of the direction of interest rates in the future and also future borrowing needs.

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

21. Reserves

Share premium account

The share premium account includes any premium received on the issue of share capital. Any transaction costs associated with the issue of shares are deducted from the share premium.

Other reserves

Other reserves represent capital contributions received by the company.

Profit & loss account

The profit and loss account includes all current and prior period retained profits and losses.

22. Share capital

	2018 £	2017 £
Allotted, called up and fully paid		
1,003 (2017: 1,003) Ordinary Share Capital shares of £1.00 each	1,003	1,003

There is a single class of ordinary shares. There are no restrictions on dividends and the repayment of capital.

23. Contingent liabilities

There are no contingent liabilities to disclose at the year end (2017 : £Nil).

24. Capital commitments

At 31 December 2018 the Company had capital commitments as follows:

	2018 £	2017 £
Contracted for but not provided in these financial statements	336,515	-

25. Pension commitments

The company operates a defined contribution pension scheme for the benefit of the directors and employees. The assets of the scheme are administered by trustees in a fund independent from those of the company. There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

NEW BALANCE ATHLETIC SHOES (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

26. Commitments under operating leases

At 31 December 2018 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2018 £	2017 £
Not later than 1 year	4,523,377	4,339,110
Later than 1 year and not later than 5 years	16,852,070	12,509,802
Later than 5 years	22,528,601	24,547,466
	<u>43,904,048</u>	<u>41,396,378</u>

27. Other financial commitments

There are no other financial commitments to disclose at the year end (2017: £Nil).

28. Related party transactions

As a wholly owned subsidiary of New Balance Holding Inc, the company is exempt from the requirement of FRS102 section 33 to disclose transactions with other members of the group.

29. Controlling party

The ultimate parent undertaking of the company is New Balance Holding Inc, which is incorporated in the United States of America. This is both the largest and smallest group of undertakings for which group accounts are drawn up.