

Freedom Sportsline Limited

**Directors' report and financial
statements**

Registered number 1779106

For the year ended 31 December 2011

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2011

Principal activities and business review

The principal activity of the company during the year was the sale of sports and leisure clothing, footwear and accessories through retail outlets in the UK. Objective is to grow the company's market share by "providing the most compelling sport performance and lifestyle fashion branded athletic footwear and apparel". This both for the shorter and longer term and with the support of the Foot Locker World Wide brand.

During the year the company closed three and opened five stores. For the year the turnover decreased by 0.4% compared to 2010. The targeted operating margin is achieved as a result of the expense monitoring programs and extraordinary income.

For the year 2012 the company is planning to hold the store base and is anticipating a sales loss of 1.0% for the existing stores, expense control programs will be continued to allow the operating profit to be at the targeted rate under the Limited Risk Distribution agreement signed with Foot Locker Europe B.V.

Exchange rate fluctuations could distort reported profits as a result of the product sourcing being based in EURO. In order to manage the risk currency hedges are entered into to allow the exchange rate to be controlled and forecasted.

The state of the company's affairs and its result for the year are as shown in the accompanying financial statements. Future developments are likely to be in the same field for the retail outlets.

Results and dividends

The directors do not recommend the payment of a dividend for the year (2010 GBP Nil).

Directors

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

LP Kimble	(American)	
RM van der Hoeven	(Dutch)	
JW Szumski	(American)	(appointed 23 December 2011)

Employees

The company gives equal consideration to applications for employment from disabled people having regard to their particular aptitudes and abilities. It is group and company policy wherever practicable to continue to employ, train and promote the career development of existing employees who become disabled.

Employee participation and involvement in matters which affect their interest continues to be developed through regular communications and meetings.

Charitable and political donations

During the year, no charitable or political donations were made by the Company.

Disclosure on information to auditors

The directors who held office at the date of the approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors' report *(continued)*

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be re-appointed and KPMG LLP will, therefore, continue in office

On behalf of the board



LP Kimble
Director

363-367 Oxford Street
London
W1C 2LA

23 August 2012

Statement of directors' responsibilities in respect of the directors' report and the financial statements

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Independent auditor's report to the members of Freedom Sportsline Limited

We have audited the financial statements of Freedom Sportsline Limited for the year ended 31 December 2011 set out on pages 6 to 14. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Freedom Sportsline Limited
(continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



GA Watts (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

23 August 2012

Profit and loss account
for the year ended 31 December 2011

	<i>Note</i>	2011 £000	2010 £000
Turnover	<i>1</i>	80,726	81,048
Cost of sales		(76,990)	(78,273)
Gross profit		3,736	2,775
Administrative expenses		(1,025)	(1,556)
Operating profit		2,711	1,219
Interest receivable and similar income	<i>3</i>	15	35
Interest payable and similar charges	<i>4</i>	(479)	(536)
Profit on ordinary activities before taxation	<i>2</i>	2,247	718
Tax on profit on ordinary activities	<i>5</i>	(616)	(316)
Profit on ordinary activities after taxation and profit for the financial year	<i>14</i>	1,631	402

The company has no recognised gains or losses other than those reflected in its profit and loss account for either the current or preceding financial year and all results are derived from continuing operations

There is no difference between the results as disclosed and the results on an unmodified historical cost basis

Balance sheet
at 31 December 2011

	<i>Note</i>	2011 £000	£000	2010 £000	£000
Fixed assets					
Tangible assets	8		8,057		7,871
Current assets					
Stocks	9	12,644		12,233	
Debtors	10	11,439		5,310	
Cash at bank and in hand		6,787		9,252	
		<u>30,870</u>		<u>26,795</u>	
Creditors: amounts falling due within one year	11	<u>(18,765)</u>		<u>(15,835)</u>	
Net current assets			<u>12,105</u>		<u>10,960</u>
Total assets less current liabilities			<u>20,162</u>		<u>18,831</u>
Provisions for liabilities and charges	12		<u>(201)</u>		<u>(501)</u>
Net assets			<u><u>19,961</u></u>		<u><u>18,330</u></u>
Capital and reserves					
Called up share capital	13	16,998		16,998	
Share premium account	14	424		424	
Profit and loss account	14	2,539		908	
Shareholders' funds			<u><u>19,961</u></u>		<u><u>18,330</u></u>

These financial statements were approved by the board of directors on 23 August 2012 and were signed on its behalf by



LP Kimble
Director

Registered number 1779106

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2011

	2011 £000	2010 £000
Profit for the financial year	1,631	402
Dividends on shares classified in shareholders' funds	-	-
Net movement in shareholders' funds	1,631	402
Shareholders' funds at beginning of year	18,330	17,928
Shareholders' funds at end of year	19,961	18,330

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards

Under Financial Reporting Standard 1 (Revised), the company is exempt from the requirement to prepare a cash flow statement as 90% or more of the voting rights of the company's shares are controlled by Foot Locker Inc. The consolidated financial statements of Foot Locker Inc, which include the company, are publicly available

The company has taken advantage of the exemption conferred by Section 400 of the Companies Act 2006 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

As the company is a wholly-owned subsidiary of Footlocker Inc, the company has taken advantage of the exemption contained in FRS 8 and has, therefore, not disclosed transactions or balances with wholly-owned subsidiaries which form part of the group.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods to customers during the year through retail outlets and relates wholly to the UK.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Fixed assets and depreciation

Depreciation is provided on the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Leasehold property	-	life of lease
Fixtures and fittings		
Expenditure on the acquisition of leasehold premises	-	life of lease
Other	-	20% per annum

Leases

Operating lease costs are charged to the profit and loss account on a straight line basis over the lease term. Premiums paid to take on certain leases are capitalised and written off over the term of the lease on a straight line basis.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Notes (continued)

1 Accounting policies (continued)

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard 19.

Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amounts charged in the profit and loss account represent the contributions payable to the scheme in respect of the accounting period. Employees may make contributions into the scheme. Under the terms of the scheme, the company does not make any contributions.

2 Profit on ordinary activities before taxation

	2011 £000	2010 £000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting)</i>		
Depreciation	1,909	2,046
Exchange losses	103	444
Payments under operating leases		
Land and buildings	13,836	13,722
Other	52	36
Auditor's remuneration		
Audit of these financial statements	9	9
	<hr/>	<hr/>

3 Interest receivable and similar income

	2011 £000	2010 £000
Bank interest	15	35
	<hr/>	<hr/>

4 Interest payable and similar charges

	2011 £000	2010 £000
Bank interest	1	-
Interest payable to group undertakings	478	536
	<hr/>	<hr/>
	479	536
	<hr/>	<hr/>

Notes (continued)

5 Tax on profit on ordinary activities

(a) Analysis of charge in period

	2011 £000	£000	2010 £000	£000
<i>UK corporation tax</i>				
Current tax on income for the period	861		507	
Adjustments in respect of prior periods	56		(94)	
	<hr/>		<hr/>	
Total current tax		917		413
<i>Deferred tax (see note 13)</i>				
Origination of timing differences	(115)		(104)	
Adjustment in respect of prior years	(175)		26	
Effect of change in tax rate	(10)		(19)	
	<hr/>		<hr/>	
		(300)		(97)
		<hr/>		<hr/>
		617		316
		<hr/>		<hr/>

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

The current tax charge for the period is higher (2010 higher) than the standard rate of corporation tax in the UK of 26.5% (2010 28%). The differences are explained below

	2011 £000	2010 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	2,247	718
	<hr/>	<hr/>
Tax thereon at 26.5% (2010 28%)	596	201
<i>Effects of</i>		
Capital allowances less than depreciation	115	104
Depreciation on ineligible	138	174
Expenses not deductible for tax purposes	11	28
Adjustments to tax charge in respect of previous periods	56	(94)
	<hr/>	<hr/>
Total current tax charge (see above)	916	413
	<hr/>	<hr/>

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

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively.

This will reduce the company's future current tax charge accordingly and further reduce the deferred tax liability at 31 December 2011 (which has been calculated based on the rate of 25% substantively enacted at the balance sheet date).

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liability accordingly.

Notes (continued)

6 Directors' remuneration

No director received any remuneration in respect of his services to the company in either the current or preceding financial year

7 Staff numbers and costs

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

	Number of employees	
	2011	2010
Sales	723	740
Administration	83	77
	<u>806</u>	<u>817</u>

The aggregate payroll costs of these persons were as follows

	£000	£000
Wages and salaries	9,308	9,309
Social security costs	759	675
	<u>10,067</u>	<u>9,984</u>

The company operates a defined contribution scheme into which employees may make contributions. Under the terms of the scheme the Company does not make any contributions.

The directors' pension schemes are funded by fellow members of the Foot Locker Group.

8 Tangible fixed assets

	Short leasehold property £000	Fixtures and fittings £000	Total £000
Cost			
At beginning of year	2,642	23,951	26,593
Additions	108	2,026	2,134
Disposals	(565)	(944)	(1,509)
Transfers	-	(18)	(18)
At end of year	<u>2,185</u>	<u>25,015</u>	<u>27,200</u>
Depreciation			
At beginning of year	1,891	16,831	18,722
Charge for year	169	1,740	1,909
On disposals	(565)	(923)	(1,488)
At end of year	<u>1,495</u>	<u>17,648</u>	<u>19,143</u>
Net book value			
At 31 December 2011	<u>690</u>	<u>7,367</u>	<u>8,057</u>
At 31 December 2010	<u>751</u>	<u>7,120</u>	<u>7,871</u>

Notes (continued)

9 Stocks

	2011 £000	2010 £000
Goods for resale	12,644	12,233

10 Debtors

	2011 £000	2010 £000
Trade debtors	316	3
Amounts owed to group undertakings	5,541	-
Other debtors	521	294
Prepayments and accrued income	5,061	5,013
	11,439	5,310

11 Creditors: amounts falling due within one year

	2011 £000	2010 £000
Trade creditors	142	260
Amounts owed to group undertakings	13,045	11,228
Other taxes and social security	2,693	2,094
Accruals and deferred income	2,885	2,094
Corporation tax	-	159
	18,765	15,835

12 Provisions for liabilities and charges

	Deferred taxation £000
At beginning of year	501
Credited to the profit and loss for the year	(115)
Effect of reduction in tax rate	(10)
Adjustment to tax charge in respect of previous periods	(175)
At the end of year	201

Amounts provided for deferred taxation are as follows

	2011 £000	2010 £000
Accelerated capital allowances	201	501

Notes (continued)

13 Share capital

	2011 £000	2010 £000
<i>Allotted, called up and fully paid:</i>		
16,997,860 (2010 16,997,860) ordinary shares of £1 each	16,998	16,998

14 Reserves

	Share premium account £000	Profit and loss account £000
At beginning of year	424	908
Profit for the financial year	-	1,631
At end of year	424	2,539

15 Commitments

Annual commitments under non-cancellable operating leases are as follows

	Land and buildings	
	2011 £000	2010 £000
Operating leases which expire		
Within one year	1,447	-
Within two to five years	5,005	5,166
After five years	7,968	8,423
	14,420	13,589

16 Contingent liability

The company has guaranteed certain lease commitments for stores owned by Foot Locker Inc group companies. The total lease commitments at 31 December 2011 were £31,869,179 (2010 £35,337,522).

17 Parent undertakings

The company's immediate parent undertaking is Foot Locker UK Limited, a company incorporated in England and Wales. The results of the company are included in the group financial statements of Foot Locker UK Limited, copies of which may be obtained from 363-367 Oxford Street, London, W1C 2LA.

The company's ultimate parent undertaking and ultimate controlling party is Foot Locker Inc, a company incorporated in the USA. The consolidated financial statements of Foot Locker Inc can be obtained from

112 West 34th Street
 New York
 NY 10120
 USA

The consolidated financial statements are also available on www.footlocker.com