Freedom Sportsline Limited

Directors' report and financial statements

Registered number 1779106

For the year ended 31 December 2012

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2012

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 The main 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 is both for the shorter and longer term and with the support of the Foot Locker world wide brand

During the year, the company closed six and opened five stores For the year the turnover increased by 6 8% compared to 2011 The targeted operating margin was not achieved as a result of the expense challenges faced

For the year 2013, the company is planning to net increase the store base and is anticipating a sales gain of 0 6% 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 euros 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 *(2011 £Nil)*

Directors

The directors who held office during the year were as follows

LP Kimble	(American)
RM van der Hoeven	(Dutch) (resigned 1 April 2012)
JW Szumski	(American)

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 *(2011 £Nil)*

Disclosure on information to auditor

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 auditor is 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 auditor is aware of that information

Directors' report *(continued)*

Auditor

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

On behalf of the board

LP Kimble
Director

25 North Row
London
W1K 6DJ

3 September 2013

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 2012 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 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 Financial Reporting Council's web-site at www frc org uk/auditscopeukprivate

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 2012 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

G A Watts

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

10th September 2013

Profit and loss account
for the year ended 31 December 2012

	Note	2012 £000	2011 £000
Turnover	*1*	**86,208**	80,726
Cost of sales		**(84,060)**	(76,990)
Gross profit		**2,148**	3,736
Administrative expenses		**(1,341)**	(1,025)
Operating profit		**807**	2,711
Interest receivable and similar income	*3*	**14**	15
Interest payable and similar charges	*4*	**(327)**	(479)
Profit on ordinary activities before taxation	*2*	**494**	2,247
Tax on profit on ordinary activities	*5*	**(159)**	(616)
Profit on ordinary activities after taxation and profit for the financial year	*14*	**335**	1,631

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 2012

	Note	2012 £000	£000	2011 £000	£000
Fixed assets					
Tangible assets	8		**10,699**		8,057
Current assets					
Stocks	9	**14,733**		12,644	
Debtors	10	**7,771**		11,439	
Cash at bank and in hand		**9,958**		6,787	
		32,462		30,870	
Creditors amounts falling due within one year	11	**(22,865)**		(18,765)	
Net current assets			**9,597**		12,105
Total assets less current liabilities			**20,296**		20,162
Provisions for liabilities and charges	12		**-**		(201)
Net assets			**20,296**		19,961
Capital and reserves					
Called up share capital	13		**16,998**		16,998
Share premium account	14		**424**		424
Profit and loss account	14		**2,874**		2,539
Shareholders' funds			**20,296**		19,961

These financial statements were approved by the board of directors on 3 September 2013 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 2012

	2012 £000	2011 £000
Shareholders' funds at beginning of year	19,961	18,330
Profit for the financial year	335	1,631
Shareholders' funds at end of year	**20,296**	19,961

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

	2012	2011
	£000	£000
Profit on ordinary activities before taxation is stated after charging		
Depreciation	**2,557**	1,909
Exchange losses	**164**	103
Payments under operating leases		
Land and buildings	**13,842**	13,836
Other	**75**	52
Auditor s remuneration		
Audit of these financial statements	**9**	9

3 Interest receivable and similar income

	2012	2011
	£000	£000
Bank interest	**14**	15

4 Interest payable and similar charges

	2012	2011
	£000	£000
Bank interest	**4**	1
Interest payable to group undertakings	**323**	478
	327	479

Notes *(continued)*

5 Tax on profit on ordinary activities

(a) Analysis of charge in period

	2012 £000	£000	2011 £000	£000
UK corporation tax				
Current tax on income for the period	**451**		861	
Adjustments in respect of prior periods	**18**		56	
Total current tax		**469**		917
Deferred tax (see note 12)				
Origination of timing differences	**(225)**		(115)	
Adjustment in respect of prior years	**(85)**		(175)	
Effect of change in tax rate	-		(10)	
		(310)		(300)
		159		617

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

The current tax charge for the period is higher *(2011 higher)* than the standard rate of corporation tax in the UK of 24 5% *(2011 26 5%)* The differences are explained below

	2012 £000	2011 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**494**	2,247
Tax thereon at 24 5% *(2011 26 5%)*	**121**	596
Effects of		
Capital allowances less than depreciation	**225**	115
Depreciation on ineligibles	**91**	138
Expenses not deductible for tax purposes	**14**	11
Adjustments to tax charge in respect of previous periods	**18**	56
Total current tax charge (see above)	**469**	916

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

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013 This will reduce the company's future current tax charge accordingly and reduce the deferred tax asset at 31 December 2012 (which has been calculated based on the rate of 23% substantively enacted at the balance sheet date)

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	
	2012	2011
Sales	**711**	723
Administration	**80**	83
	791	806

The aggregate payroll costs of these persons were as follows

	£000	£000
Wages and salaries	**9,557**	9 308
Social security costs	**690**	759
	10,247	10,067

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	2,185	24,959	27,144
Additions	175	5,163	5,338
Disposals	(227)	(2,068)	(2,295)
At end of year	2,133	28,054	30,187
Depreciation			
At beginning of year	1,496	17,591	19,087
Charge for year	152	2,405	2,557
On disposals	(225)	(1,931)	(2,156)
At end of year	1,423	18,065	19,488
Net book value			
At 31 December 2012	**710**	**9,989**	**10,699**
At 31 December 2011	689	7,368	8,057

Notes *(continued)*

9 Stocks

	2012 £000	2011 £000
Finished goods and goods for resale	**14,733**	12,644

10 Debtors

	2012 £000	2011 £000
Trade debtors	**222**	316
Amounts owed to group undertakings	**2,410**	5,541
Other debtors	**93**	521
Prepayments and accrued income	**4,937**	5,061
Deferred tax asset (see note 12)	**109**	-
	7,771	11,439

11 Creditors: amounts falling due within one year

	2012 £000	2011 £000
Trade creditors	**454**	142
Amounts owed to group undertakings	**15,482**	13,045
Other taxes and social security	**2,133**	2,693
Accruals and deferred income	**4,796**	2,885
	22,865	18,765

12 Provisions for liabilities and charges

	Deferred taxation £000
At beginning of year	201
Credited to the profit and loss for the year	(225)
Adjustment to tax charge in respect of previous periods	(85)
At the end of year (see note 10)	**(109)**

Amounts provided for deferred taxation are as follows

	2012 £000	2011 £000
Accelerated capital allowances	**(109)**	201

Notes *(continued)*

13 Share capital

	2012 £000	2011 £000
Allotted, called up and fully paid		
16,997,860 *(2011 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	2,539
Profit for the financial year	-	335
At end of year	**424**	**2,874**

15 Commitments

Annual commitments under non-cancellable operating leases are as follows

	Land and buildings 2012 £000	Land and buildings 2011 £000
Operating leases which expire		
Within one year	-	1,447
Within two to five years	7,977	5,005
After five years	8,012	7 968
	15,989	14,420

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 2012 were £29,533,457 *(2011 £31,869,179)*

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 34^{th} Street
New York
NY 10120
USA

The consolidated financial statements are also available on www footlocker com