Freedom Sportsline Limited

Directors' report and financial statements

Registered number 1779106

31 December 2008

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

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 objective is to grow the company's market share by "providing the most compelling 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 one store. For the year the turnover increased by 0.1% compared to 2007. The targeted operating margin was not achieved as a result of underperformance against the business plan set for the year.

For the year 2009 the company is planning to close one store and is anticipating a sales increase of 1.8% and expense control programs 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.

Its subsidiary, Foot Locker Realty Europe Limited, does not trade.

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 *(2007: £10,000,000)*.

Directors

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

RA Johnson	(American)
TP Mabbett	(British)

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.

Disclosure of information to auditors

The directors who held office at the date of 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 the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors' report *(continued)*

Charitable and political donations

During the year, no charitable or political donations were made by the company *(2007: £Nil)*.

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

RA Johnson
Director

363-367 Oxford Street
London
W1C 2LA

20 October 2009

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).

The financial statements are required by law to 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. 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
2 Cornwall Street
Birmingham
B3 2DL

Independent auditors' report to the members of Freedom Sportsline Limited

We have audited the financial statements of Freedom Sportsline Limited for the year ended 31 December 2008 which comprise the Profit and loss account, the Balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended;
- have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

20 October 2009

Profit and loss account
for the year ended 31 December 2008

	Note	2008 £000	2007 £000
Turnover	*1*	78,752	78,686
Cost of sales		(77,925)	(74,503)
Gross profit		827	4,183
Administrative expenses		(1,566)	(696)
Operating (loss)/profit		(739)	3,487
Interest receivable and similar income	*3*	313	321
Interest payable and similar charges	*4*	(641)	(385)
(Loss)/profit on ordinary activities before taxation	*2*	(1,067)	3,423
Tax on (loss)/profit on ordinary activities	*5*	163	(1,188)
(Loss)/profit on ordinary activities after taxation and (loss)/profit for the financial year	*15*	(904)	2,235

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 2008

	Note	2008 £000	£000	2007 £000	£000
Fixed assets					
Tangible assets	*8*		9,585		11,433
Investments	*9*		-		-
			9,585		11,433
Current assets					
Stocks	*10*	14,958		14,695	
Debtors	*11*	5,741		20,625	
Cash at bank and in hand		6,522		5,454	
		27,221		40,774	
Creditors: amounts falling due within one year	*12*	(19,427)		(21,345)	
Net current assets			7,794		19,429
Total assets less current liabilities			17,379		30,862
Provisions for liabilities and charges	*13*		(697)		(776)
Net assets			16,682		30,086
Capital and reserves					
Called up share capital	*14*		16,998		16,998
Share premium account	*15*		424		424
Profit and loss account	*15*		(740)		12,664
Shareholders' funds			16,682		30,086

These financial statements were approved by the board of directors on 20 October 2009 and were signed on its behalf by:

RA Johnson
Director

Registered number: 1779106

Reconciliation of Movements in Shareholders' Funds
for the year ended 31 December 2008

	2008 £000	2007 £000
(Loss)/profit for the financial year	**(904)**	2,235
Dividends on shares classified in shareholders' funds	**(12,500)**	-
Net movement in shareholders' funds	**(13,404)**	2,235
Shareholders' funds at beginning of year	**30,086**	27,851
Shareholders' funds at end of year	**16,682**	30,086

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 s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Advantage has been taken of the exemption in paragraph 3(c) of Financial Reporting Standard 8 in respect of the disclosure of transactions with other group undertakings.

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 or loss 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

	2008 £000	2007 £000
(Loss)/profit on ordinary activities before taxation is stated		
after charging/(crediting)		
Depreciation	1,931	2,199
Exchange losses/(gains)	397	(361)
Payments under operating leases:		
Land and buildings	13,987	14,175
Other	82	-
Auditors' remuneration:		
Audit of these financial statements	9	9

3 Interest receivable and similar income

	2008 £000	2007 £000
Bank interest	313	321

4 Interest payable and similar charges

	2008 £000	2007 £000
Bank interest	16	3
Interest payable to group undertakings	625	382
	641	385

Notes *(continued)*

5 Tax on profit on ordinary activities

(a) *Analysis of charge in period*

	2008 £000	£000	2007 £000	£000
UK corporation tax				
Current tax on income for the period		(53)		1,308
Adjustments in respect of prior periods		(31)		(3)
Total current tax		(84)		1,305
Deferred tax (see note 13)				
Origination of timing differences	(116)		(62)	
Adjustment in respect of prior years	35		-	
Effect of change in tax rate	2		(55)	
		(79)		(117)
		(163)		1,188

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

The current tax credit *(2007: charge)* for the period is lower *(2007: higher)* than the standard rate of corporation tax in the UK of 28.5% *(2007: 30%)*. The differences are explained below:

	2008 £000	2007 £000
Current tax reconciliation		
Profit on ordinary activities before tax	(1,067)	3,423
Tax thereon at 28.5% *(2007: 30%)*	(304)	1,027
Effects of:		
Capital allowances less than depreciation	116	62
Depreciation on ineligibles	169	190
Expenses not deductible for tax purposes	57	29
Utilisation of unrecognised capital losses brought forward	(91)	-
Adjustments to tax charge in respect of previous periods	(31)	(3)
Total current tax charge (see above)	(84)	1,305

With effect from 1 April 2008, the statutory rate of corporation tax changed to 28%. As a result, the standard rate of tax for the year ended 31 December 2008 was 28.5%, being 30% from 1 January 2008 to 31 March 2008 and 28% from 1 April to 31 December 2008.

6 Directors' remuneration

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

Notes *(continued)*

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 2008	2007
Sales	812	838
Administration	84	88
	896	926

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	9,228	9,377
Social security costs	841	660
	10,069	10,037

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	3,535	24,031	27,566
Additions	-	239	239
Disposals	(61)	(268)	(329)
At end of year	3,474	24,002	27,476
Depreciation			
At beginning of year	1,944	14,189	16,133
Charge for year	266	1,665	1,931
On disposals	(31)	(142)	(173)
At end of year	2,179	15,712	17,891
Net book value			
At 31 December 2008	**1,295**	**8,290**	**9,585**
At 31 December 2007	1,591	9,842	11,433

Notes *(continued)*

9 Investments

	Shares in subsidiary undertaking £000
Cost	
At beginning and end of year	161
Provision for impairment	
At beginning and end of year	(161)
Net book value	
At beginning and end of year	-

The company owns 100% of the issued share capital of Foot Locker Realty Europe Limited which is incorporated in Great Britain. The principal activity of the company until 3 February 2001 was the purchase and management of the European Real Estate of Foot Locker Inc. Since that date, the company's activities have ceased.

10 Stocks

	2008 £000	2007 £000
Goods for resale	14,958	14,695

11 Debtors

	2008 £000	2007 £000
Trade debtors	178	269
Amounts owed by group undertakings	-	15,044
Other debtors	48	132
Prepayments and accrued income	4,975	5,180
Corporation tax	540	-
	5,741	20,625

12 Creditors: amounts falling due within one year

	2008 £000	2007 £000
Trade creditors	158	250
Amounts owed to group undertakings	15,264	15,263
Corporation tax	-	816
Other taxes and social security	1,299	1,529
Accruals and deferred income	2,706	3,487
	19,427	21,345

Notes *(continued)*

13 Provisions for liabilities and charges

	Deferred taxation £000
At beginning of year	776
Credited to the profit and loss for the year	(81)
Effect of reduction in tax rate	2
At the end of year	697

Amounts provided for deferred taxation are as follows:

	2008 £000	2007 £000
Accelerated capital allowances	697	776

14 Share capital

	2008 £000	2007 £000
Authorised:		
17,036,477 *(2007: 17,036,477)* ordinary shares of £1 each	17,036	17,036
Allotted, called up and fully paid:		
16,997,860 *(2007: 16,997,860)* ordinary shares of £1 each	16,998	16,998

15 Reserves

	Share premium account £000	Profit and loss account £000
At beginning of year	424	12,664
Loss for the financial year	-	(904)
Dividends on shares classified in shareholders' funds	-	(12,500)
At end of year	424	(740)

Notes *(continued)*

16 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings	
	2008	2007
	£000	£000
Operating leases which expire:		
Within two to five years	**3,447**	2,922
After five years	**11,277**	13,597
	14,724	16,519

17 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 2008 were £44,975,639 *(2007: £33,440,797)*.

18 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 20-22 Bedford Row, London, WC1R 4JS.

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
10279
USA

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